National Audit Office's opinion on the accuracy of the annual report and the legality of the transactions of the Chancellery of the Riigikogu during the 2006 financial year

National Audit Office's report to the Riigikogu, 31 May 2007, Tallinn

Opinion of the National Audit Office regarding the accuracy of the annual report and the legality of the transactions during the 2006 financial year

The annual report is accurate in material respects.

1. The Annual Report of the Chancellery of the Riigikogu, according to which the cash register costs of the Chancellery of the Riigikogu amount to EEK 220,522,644, gains before settlements with the state budget to EEK -246,221,641, and the balance sheet total to EEK 249,131,854 as of 31 December 2006 accurately accounts for the financial status of the institution, the cash register costs and the economic performance in the reporting period in material respects.

2. Observations concerning the accounting are given below. Due to the irrelevance of the sums, they did not affect the assessment of the National Audit Office of the accuracy of the annual report.

The accounting of construction costs is wrong.

3. As a result of the audit it became evident that the construction costs amounting to EEK 1.2 million have not been added to the cost of fixed assets, but written off as repair costs in the accounts of the Chancellery.

4. According to generally accepted accounting principles, all costs directly incurred in connection with acquisition must be indicated under acquisition costs of fixed assets. Costs required for bringing assets into working condition are considered costs directly related to acquisition. The National Audit Office finds that all expenses related to construction, without which further construction work and the achievement of the desired result are impossible, must be capitalised as fixed assets (incl. rent and installation of scaffoldings).

5. **Recommendation of the National Audit Office**: to account the construction work under the fixed assets. In the future, upon planning construction work, to identify, based on the established criteria, whether this is renovation or regular repairs. In the case of renovation, to collect, by objects of construction, all expenses relating to the object in the account of construction in progress, from design to supervision. Upon termination of work, to indicate the cost of liquidation of the old fixed assets, if this can be assessed reliably and amounts to a significant sum.

Reply of the Director of the Chancellery of the Riigikogu: Upon accounting the construction costs, the Chancellery of the Riigikogu has proceeded from subsection 43 (2) of the General Rules for State Accounting, according to which possible disassembly and demolition work arising from improvements must be written off, not added to the cost of fixed assets. Hence, the direct costs arising from construction work (e.g. the cost of using scaffolding and removal of demolition waste) must be written off. The Chancellery of the Riigikogu shall consider the possibilities of clarifying the criteria of the differences of renovation and regular repairs in the accounting policies and procedures.

The transactions have been made mostly in compliance with laws.

6. The economic transactions of the Chancellery of the Riigikogu included in the sample were in conformity with the State Budget Act and the State Budget and Supplementary Budget of 2006 Act in material respects.

7. However, the Chancellery has not always adhered to the State Budget Act and State Assets Act. The respective observations are given in sections 9-15.

Juhani Lemmik
Director of Audit of Audit Department I