Audit of the accuracy of the annual accounts 2006 and the legality of the transactions of the State Chancellery for the purpose of assessment of the consolidated annual report of the state

National Audit Office's report to the Riigikogu, Tallinn, 11 July 2007

The National Audit Office's assessment, comments and observations of the accuracy of the audited transaction classes in the annual accounts and the legality of transactions

The audited transaction categories in the annual accounts have been accounted correctly in all material aspects

1. According to the National Audit Office, the balances of the audited transaction categories have been accounted accurately in all material aspects in the annual report of the State Chancellery as of 31.12.2006.

2. In the course of assessment of the accuracy of the indicators of the annual accounts of the State Chancellery the National Audit Office assessed the compliance of only those transaction categories that are of importance from the point of view of the consolidated annual report of the state (see Table 9) with the Accounting Act, relevant regulations of the Minister of Finance and the accounting principles generally accepted in Estonia.

Making investments from economic expenditure

3. In 2006 the State Chancellery had its Pärnu Guest House redecorated for EEK 976,993 and façade repairs of the building at Rahukohtu 3 made for EEK 403,560.

4. The redecoration of the Pärnu Guest House was necessary because of the storm in January 2005, which flooded the ground floor. According to the State Chancellery, as a result thereof the floors of the ground floor were completely ruined and the wiring was in hazardous condition. The rooms on the ground floor also needed redecoration. The façade of the building located at Rahukohtu 3 facing the street was repaired (cleaning and mending) and windows, sub-sills and gutters were replaced.

5. According to the National Audit Office, the costs have been registered in the accounts accurately. At the same time the National Audit Office would like to note that the costs have been incurred out of the administrative costs of the budget of the area of administration of the State Chancellery, not out of the investment costs. According to the National Audit Office, in the interests of the transparency of reporting and budgeting long-term acquisitions must not be made out of the operating expenses, but they must be made out of the costs of acquisition and renovation of fixed assets. According to the National Audit Office, the State Chancellery has given misleading information in its cash execution report about administrative, fixed asset acquisition and renovation expenses, indicating smaller expenses of acquisition of fixed assets and renovation and bigger administrative expenses.

6. The National Audit Office's recommendation to the State Secretary: to identify the need for actual investments already upon planning the budget and to account long-term acquisitions as investment properties, not as operating expenses in budgeting the following periods. If costs different from those planned need to be made during the budgetary year, it must be applied for amendment of the budget.

Reply of the State Secretary: in reply to the proposals made in section 6 of the draft audit report I declare that according to the State Chancellery, the expenses incurred upon repairing the Pärnu Guest House and the façade of the building located at Rahukohtu 3 are expenses which restored the initial value of the assets and allow for further use of the assets with the initial quality. According to subsection 43 (1) of the General Rules for State Accounting, the expenses arising from restoration of the initial value of property are not an investment.

Comments of the National Audit Office: the National Audit Office made the observation regarding execution of the budget, not accounting. The National Audit Office is of the opinion that the given transactions have been correctly accounted. However, such long-term acquisitions should have been made in the budget out of investment expenses.

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