Audit of the accuracy of the annual accounts 2006 and the legality of economic transactions of the Ministry of Economic Affairs and Communications for the purpose of providing an assessment on the government's consolidated annual report

Report of the National Audit Office to the Riigikogu, Tallinn, 17 July 2007

Assessment, comment and observations of the National Audit Office on the accuracy of the reporting as regards checked transaction categories in the annual report and the legality of transactions

The checked categories of transactions have been reported in the annual report accurately in all material respects.

1. According to the NAO, the balances of audited transaction categories have been reported correctly in material respects in the annual report of the Ministry of Economic Affairs and Communications as of 31.12.2006.

2. In the course of assessing the accuracy of indicators in the Ministry's annual report, the NAO examined conformity with the Accounting Act, the relevant Regulations of the Minister of Finance and the generally accepted accounting principles for only those transaction categories (see table on page 10) having relevance for the government's consolidated annual report. In most cases, the transactions have been effected legitimately

3. The economic transactions in the sample have been effected in accordance with the State Budget Act and the 2006 State Budget Act and Supplementary Budget Act, except for the comment on the violation of the State Budget Act in point 4. Violations of the State Budget Act detected

4. According to § 25 (2) of the State Budget Act, the purpose of expenditure as determined in the state budget can be changed only by amending the state budget. The agencies in the Ministry's government area have not always respected the 2006 budget in effecting expenditure. For example:

- On the account of funds allocated from the state budget for management costs, the Tartu Road Office had paid loss of work capacity benefits, extraction charges, Road Office building renovation costs and expenses related to the acquisition of fixed asset in the course of renovation in the total amount of EEK 2,576,126.
- On the account of operating expenditure, the Kagu Road Office had paid building renovation costs in the amount of EEK 5,074,480. Furthermore, on the account of funds allocated for operating expenditure, the Office had paid social assistance benefits to compensate for the employees' occupational diseases and occupational accidents, whereby the transfers were made from the National Treasury and classified as "Salaries of employees". A total of EEK 286,136 was spent in this manner.
- On the account of funds allocated for operating expenditure, the Saarte Road Office had acquired fixed assets in total value of EEK 471,600.
- On the account of 2006 operating expenditure, the Pärnu Road Office had made investments in the amount of EEK 13,740,496.

5. NAO recommendation to the Minister of Economic Affairs and Communications: to ensure correct assessment of the nature of envisaged expenditure during the drafting of the agency's budget. If the need to effect expenditure in a manned different from the initial plan arises during the financial year, to request amendments to the budget.

Reply from the Minister of Economic Affairs and Communications: for 2007, the budget of the Road Administration includes investments in the construction and renovation of buildings, which should preclude the need to pay for the construction and renovation on the account of management expenses.

In addition, as from 2007, the Road Administration has allocated to the Road Offices specific funds from the investment budget for improvement works on the roads.

In the 2008 draft budget, the Road Administration has applied for appropriations for the payment of occupational disease benefits to be included in the budget.

In planning its budget, the Road Administration has made provision for the emerging needs and solved certain problems to establish the necessary preconditions for the agencies for complying with the State Budget Act, but this process takes time. The change of purpose of budgetary expenditure has been requested, but the length of this process (requests are submitted in spring and the budget amendments are made in December) has lead to the failure to implement the budget and carry-over of funds to the next financial year, because all the necessary road works could not be carried out at the end of the year.

In 2007, the budget amendment process has been enhanced, which should allow more flexible adjustment of the budget in the future.

The agencies have been required to follow the State Budget Act more precisely.

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