

Audit of the accuracy of the Annual Accounts 2006 and legality of transactions of the Ministry of Defence for the purpose of assessing the consolidated annual report of the state

Report of the National Audit Office to the Riigikogu; Tallinn, 18 July 2007

Assessment of the National Audit Office on the accuracy of Annual Report 2006 and legality of transactions

The annual report is accurate in all material respects.

1. According to the assessment of the National Audit Office the balances of the checked categories of transactions reported in the annual report of the Ministry of Defence as of 31 December 2006 are accurate in all material respects.

2. During assessment of the accuracy of the indicators of the annual report of the Ministry of Defence, the National Audit Office assessed only the compliance of the categories of transactions which are important from the point of view of the consolidated annual report of the state (see table on page 13) to the Accounting Act, the respective regulations of the Minister of Finance and generally accepted accounting principles.

3. During the audit, several observations regarding accounting were made but as the amounts were insignificant these did not affect the assessment of the National Audit Office on the accuracy of the annual report; these will be in a separate memorandum sent to the Ministry of Defence.

4. The National Audit Office draws special attention to the accounting and arrangements regarding stock. The stock in the area of administration of the Ministry of Defence as of 31 December 2006 amounts to 1.038 billion Estonian kroons, including 0.959 billion kroons of the Logistics Centre of the Defence Forces, i.e. 92.4% of the total amount. The Logistics Centre has more than 140 warehouses of various kinds.

5. The Logistics Centre which has to ensure the Defence Forces with logistical support has not been able to implement the modern stock accounting programme in the planned extent although it was launched in 2005. The warehousing service has vacancies as compared to the list of staff and there are few accountants who deal with stock accounting.

Response from the Minister of Defence: The launch of the stock accounting module (WMS) of the MAS-Axapta information system devised under the leadership of the Logistics Centre of the Defence Forces is the highest priority of the project right now and it is planned to be completed by the end of 2007. The first warehouses have been included in the new information system and they are using the old stock accounting programme as well. As regards the rest of the warehouses, preparation work is under way and transfer will take place in accordance with annual stock-takings. The confidentiality requirement regarding the databases of armament and ammunition warehouses and the lack of human resources are hindering the process right now.

High staff turnover is the reason for the lack of accountants who deal with stock accounting and for the understaffing of warehouses. At the moment, approval of amendments to the staff tables, which include additional positions for fulfilling added duties, is underway.

6. The National Audit Office is of the opinion that the Logistics Centre of the Defence Forces has not been able to analyse stock movement or assess whether there is adequate stock in the warehouses. The assessment of the condition, useful life and realisation suitability of the existing stock is superficial. Due to the above shortcomings one cannot be sure that the stock has been reported at accurate value in the balance sheet.

Response from the Minister of Defence: The lack of adequate sorting and assembly space, especially in the case of large quantities, has been one of the reasons for the problems in warehousing stock. The Logistics Centre of the Defence Forces has started mapping the condition of stock and the respective needs. Re-warehousing of the stock has begun as well as destruction of unnecessary supplies and

supplies which are unfit for use. A task force for planning the expenses on the life cycle of supplies in the Defence Forces has been formed in cooperation with the Logistics Department of the Headquarters of the Defence Forces.

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