Audit to check accuracy of the Annual Accounts 2006 and legality of transactions of the Ministry of the Environment for the purpose of assessing the consolidated report of the state

Report of the National Audit Office to the Riigikogu; Tallinn, 10 August 2007

Assessment of the National Audit Office on legality of transactions and accuracy of reporting as regards checked classes of transactions in the annual report, the respective comments and observations

There are mistakes in reporting the checked classes of transactions in annual accounts.

1. Taking into account the effect of comments presented in points 3 to 5, the National Audit Office was not able to assess the accuracy of reporting of biological assets in the Annual Accounts 2006 of the Ministry of the Environment. According to the assessment of the National Audit Office, the balances of the rest of the checked classes of transactions in the Annual Accounts of the Ministry of the Environment as of 31 December 2006 have been reported accurately in all material respects if not to take into account the comment in points 6 to 8.

2. During assessment of the accuracy of the indicators of the annual report of the Ministry of the Environment, the National Audit Office assessed only the compliance of the classes of transactions which are important from the point of view of the consolidated annual report of the state (see table on page 15) to the Accounting Act, the respective regulations of the Minister of Finance and generally accepted accounting principles.

The National Audit Office does not form any opinion on the accuracy of reporting biological assets.

3. The National Audit Office does not assess whether the biological assets with the value of 27.9 billion kroons as of 31 December 2006 have been reported accurately in the Annual Accounts of the Ministry of the Environment.

4. According to the General Accounting Regulations of the state, the State Forest Management Centre (RMK) shall determine the fair value of the forests they manage and the Ministry of the Environment shall enter it in the books.

5. The National Audit Office did not check the forest register which is managed by the RMK and whose data is the basis for reporting on state forests in the Annual Accounts of the Ministry of the Environment. The National Audit Office planned to base its assessment of the accuracy of reporting of biological assets on the work of sworn auditors. After inspecting the work of the sworn auditors, the National Audit Office reached the conclusion that it cannot take their work as a basis because they also have not checked whether the data used for determining the value of state forests are correct or not. Thereafter, the National Audit Office did not have time to carry out the additional auditing activities.

Response of the Minster of the Environment: The assessment methodology for biological assets was developed in 2004. It was analysed and both forest specialists and auditors evaluated it and thus we are of the opinion that the value of the forests determined using this methodology is accurate. If the National Audit Office finds that the methodology needs amending, thorough expert assessment will have to be carried out with the involvement of financial and forest experts (see explanations to points 10 and 11). However, we would like to draw your attention to the fact that no methodology can determine the value of standing forests with 100 percent accuracy. This is indirect calculation which does not determine the actual state of the asset with the help of physical inventory-taking. Therefore we are of the opinion that as the National Audit Office draws our attention to such problems for the first time when auditing the Annual Accounts of the Ministry of the Environment, it cannot be used as a justification for not issuing an assessment on the Annual Accounts of the Ministry of the Environment or questioning the whole of the accounting. Therefore we would like you to clarify this point, taking into account the above.

Tarmo Olgo
Chief Auditor, 4th Audit Department