Administration of Supplies in the area of government of the Ministry of the Defence

Does the Ministry of the Defence know how much supplies with what value it has?

Report of the National Audit Office to the Riigikogu, in Tallinn on 2 November 2007

Summary of Audit Results

The aim of the audit was to provide an overview of and an assessment on the accounting, storing, issuing, etc., of the supplies under the management of the Ministry of the Defence.

The further objective of the audit was to assess the functioning of the internal audit as regards accounting for supplies and make suggestions for improving the situation.

The auditee was the Logistics Centre of the Defence Forces (hereafter "the Logistics Centre").

According to the consolidated annual accounts, the value of supplies as of 31 December 2006 was 1.94 billion kroons 1.038, i.e. 53.5%, of which was in the area of government of the Ministry of the Defence. The supplies account for 20% of the balance sheet total of the Ministry of the Defence.

The value of supplies of the Logistics Centre which amounts to 959 billion kroons accounted for 49.4% of the supplies of the state and 92.4% of the supplies of the Ministry of the Defence as of 31 December 2006.

As the supplies of the Logistics Centre account for a considerable part of the balance sheet total and cost of the supplies of the Ministry of the Defence, incorrect accounting and reporting as regards the supplies may distort the financial information on the Logistics Centre and the Ministry of Defence. This in turn may result in inaccurate consolidated annual report of the state.

The lack of a proper overview of the composition, value, need and use of supplies may result in serious financial damage to the state. For example, storing too much and/or unnecessary supplies may incur significant additional costs on warehousing and guarding. Getting rid of old supplies that need replacement is difficult and expensive, too.

Therefore, it is important that the state have a clear overview of what supplies are necessary for the state and what their optimum volume is.

According to the National Audit Office, the Ministry of the Defence does not have a comprehensive and current overview of the composition and cost of the supplies of the Logistics Centre. The functioning of the internal audit of the Logistics Centre needs to be improved in order to ensure accurate accounting for and preservation of the supplies.

The National Audit Office made the following most important observations during the audit:

- The internal audit system of the Logistics Centre needs improvement. The Head of the Logistics Centre issues directives and written orders but often there is no surveillance whether these are followed and followed on time. The people responsible for the shortcomings in the governance are the Minister of Defence who has to ensure implementation of the internal audit system in his area of government and the Head of the Defence Forces whose direct subordinate the Logistics Centre is.
- The Logistics Centre who has to provide logistics support to the Defence Forces has not been able to implement the modern stock accounting programme in the planned extent although the implementation began in 2005.
- The Logistics Centre assesses the state, useful life and suitability for realisation of the existing supplies superficially.
- The Statutes of the Logistics Centre had not been approved; the Warehouse Services did not have internal regulations or job descriptions.
- The Warehouse Services does not have enough personnel and the number of accountants engaged in stock accounting is inadequate as well.
- The arrangements for delivery and receipt of tangible assets are inadequate.

- There are some shortcomings in organising stocktaking. At the same time, the management did not react upon stocktaking results and did not launch investigations for identifying the causes for the surplus/deficit.
- The Guidelines for Providing the Clothing of Members of the Defence Forces into Their Use, for Warehousing, Maintaining, etc. These have not been approved and the clothing which has been written off will not be destroyed until the guidelines are approved.
- Some of the requirements in the agreement on arranging guard services which has been approved in the directive of the Head of the Defence Forces have not been fulfilled as of March 2007 and the guarding contracts have not been amended.
- The warehouses for explosives and ammunition are in use but the respective committee has not declared these to be fit for use and these do not have the required warehouse passport.
- The supervisors of the Warehouse Services of the Logistics Service have not responded to the comments in the Financial Audit Report of the Headquarters of the Defence Forces 2005 by the due time (1 March 2007) and they have not eliminated the shortcomings.
- The supplies which have been received as aid are recorded in the accounts up to a year later which violates the accrual basis of accounting.
- The comparison of the supplies issued from and received at the Logistics Centre against those of other institutions in the area of government is inadequate.

Responses from the Minister of the Defence, the Head of the Defence Forces and the Head of the Logistics Centre:

The Minister of Defence submitted his positions about the draft audit report on 3 October 2007. In that letter he does not agree to most of the opinions and comments of the National Audit Office as regards supplies being mistakenly recorded under expenses and other accounting matters. The Minister of the Defence informs us that the Ministry is planning an analysis which would provide an overview of problems in various areas, including in accounting and storing supplies. The analysis would also include proposals on how to perform the tasks related to supplies in the area of government of the Ministry of the Defence in a more efficient way.

The heads of the Defence Forces and the Logistics Centre submitted a joint response where they agreed to most of the recommendations made by the National Audit Office and informed us of the activities planned to implement the recommendations.

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