National Audit Office's opinion on the annual accounts 2010 of the Baltic Defence College

Report of the National Audit Office for the Commandant of the Baltic Defence College and the Ministerial Committee, Tallinn, 7 October 2011

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Summary of audit results

What did we audit?

The Baltic countries have signed the “Memorandum of Understanding on the operation, administration and financing of the Baltic Defence College”. According to the Memorandum, the National Audit Office is obliged to audit the annual accounts of the Baltic Defence College on an annual basis and provide its opinion thereon.

The National Audit Office audited the accuracy of the annual accounts 2010 evaluating whether they have been drawn up in accordance with the generally accepted accounting principles and the Accounting Act and whether all the important information has been disclosed, providing a true and fair overview of the financial status and performance results of the Baltic Defence College.

Furthermore, the National Audit Office also reviewed whether there is a functioning internal control system in place that provides conditions for the purposeful use of money allocated to the Baltic Defence College.

The budgetary expenditure of the Baltic Defence College for 2010 amounted to 23.9 million kroons, with a return for 2010 of -1.3 million kroons and a balance sheet total as of 31.12.2010 of 21.6 million kroons.

What did we find and conclude based on the audit?

The main conclusions of the National Audit Office are the following:

- The annual accounts of the Baltic Defence College give a true and fair view of the College’s financial status and performance results of the financial year just ended in all material respects.
- No major shortcomings were found in the organisation of accounting of the Baltic Defence College.
- In the case of the money allocated to the Baltic Defence College no non-purposeful use was found in the audited scope.

Response from the Commandant of the Baltic Defence College The Commandant of the Defence College confirmed in his response that the data about the Baltic Defence College presented in the audit 2010 of the National Audit Office are true.

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Accuracy of the annual accounts 2010 of the Baltic Defence College

Accuracy of the annual accounts

The annual accounts of the Baltic Defence College are accurate in all material respects

1. **The annual accounts of the Baltic Defence College according to which the return for 2010 amounts to -1 293 482 kroons, with a value of assets as of 31.12.2010 of 21 650 459 kroons, give a true and fair view of the College's financial status and performance results of the accounting period then ended in all material respects.**

Organisation of accounting

No major shortcomings were found in the organisation of accounting of the Baltic Defence College

2. At the end of 2010 the updating of the procedure regulating accounting and the supplementation of the internal control system started.

3. The National Audit Office is of the opinion that the updating of the procedures has provided conditions for good functioning of the organisation of accounting and no major shortcomings were identified in the organisation of accounting of the Baltic Defence College in 2010.

Use of budget

No non-purposeful use of money allocated to the Baltic Defence College was found

4. **The budgetary expenditure of the Baltic Defence College in 2010 totalled 23 928 220 kroons.** The National Audit Office audited whether the organisation of work and the internal control system of the College provide an adequate basis for the purposeful use of the allocated money and audited the functionality thereof on a random basis.

5. At the end of 2010 the updating of the internal control system started. The National Audit Office is of the opinion that conditions have been provided for good functioning of the internal control system and in the case of the money allocated to the Baltic Defence College no non-purposeful use was found in the audited scope.

Implementation of previous recommendations

The Baltic Defence College has implemented the recommendations made last year

6. In the audit of 2009 the National Audit Office made recommendations about the functioning of the internal control system, the classification of expenses, the compliance between revenue and expenses, making prepayments and the acquisition of assets. The internal auditors of the Ministry of Defence have also made recommendations for improving the internal audit system. During the audit the auditors checked the implementation of the recommendations made last year and examined the new accounting policies and procedures.

7. Based on the recommendations made by the National Audit Office, at the end of 2010 the Baltic Defence College started making important amendments both to the organisation of accounting as well as to the functioning of the

internal control system.

8. Functioning of the internal control system – last year the National Audit Office made the following recommendations: appointment of expense managers who would audit purposeful use of the budget should be considered; limits should be established on economic expenses and adherence thereto should be ensured; budgetary resources should also be planned for purchasing fixed assets and the minimum limit should be established as from which price offers should be asked from at least three undertakings; revenue and expenses should be recorded in the period when the transactions are conducted and their compliance should be ensured.

9. As from December 2010 expense managers are project officers who are responsible for inviting guest lecturers to the College and monitor the adherence to the budget. Requirements for incurring expenses and the limit of economic expenses are established before incurring the expenses on a form that is approved by the head of the department, the director of the support staff and the directive is approved by the Commandant of the College. Each case of economic expenses is reviewed and approved separately depending on the nature of the expenses. If the economic expenses exceed that approved before, the person who incurred the expenses will submit a justification about the exceeded part of the economic expenses that is reviewed and approved by the director of the support staff and thereafter by the Commandant of the College. Any unjustified overhead is covered by the person who incurred the expenses.

10. **Classification of expenses** – the National Audit Office recommended that it should be determined on which principle expenses are classified into operating expenses and expenses of targeted financing and the consistent implementation of the established principle should be ensured. The principle applicable in the Defence College is that there is a separate budget about targeted financing and a separate budget about students and according to that the calculation of expenditure also takes place. During the audit the National Audit Office found that in 2010 the College has adhered to the recommendation made by the National Audit Office, except where this was not possible (e.g. representation expenses are both operating expenses as well as expenses of targeted financing).

11. **Compliance between revenue and expenses** – the National Audit Office recommended that principles of accounting revenue should be specified in the accounting policies and procedures. As from 2010 the College has adhered to the principle that targeted financing is recorded without VAT both under revenue as well as expenses and that the principles of recording revenue are described in detail in the new accounting policies and procedures (enters into force retroactively as from the beginning of 2011).

12. **Making prepayments** – the National Audit Office recommended that agreements that presume prepayments in large amounts should be avoided. During the audit the National Audit Office found that prepayments have reduced by 33% and a search for more favourable opportunities for the Baltic Defence College has started.

13. **Acquisition of assets** – the National Audit Office found that in the future lease contracts should be recorded according to their economic content. The College has implemented the recommendation and the National Audit Office has also checked this.

14. The National Audit Office is of the opinion that by September 2011 the

Baltic Defence College has completed the amendments both to the organisation of accounting as well as to the functioning of the internal control system that started at the end of 2010 and previous recommendations made by the National Audit Office have been implemented.

/signed digitally/

Ines Metsalu
Director of Audit, Financial Audit Department

Response from the Commandant of the Baltic Defence College to the report of the National Audit Office

As a result of the audit, the National Audit Office did not make any recommendations to the Commandant of the College as the identified errors are not important from the point of view of giving an opinion on the accuracy of the annual accounts of the Baltic Defence College. On 30 September 2011 the Commandant of the Baltic Defence College, Brigadier General Meelis Kiili, sent his response to the report.

Response from the Commandant of the Baltic Defence College

Response from the Baltic Defence College to the National Audit Office’s opinion on the annual accounts 2010

The National Audit Office audited the accuracy of the annual accounts 2010 of the Baltic Defence College and reviewed the internal audit system in place and found that:

1. The annual accounts of the College give a true and fair view of the organisation’s financial status and performance results of the financial year just ended in all material respects.
2. No major shortcomings were found in the organisation of accounting.
3. The money allocated has been used purposefully.

The Baltic Defence College confirms that the data presented by the National Audit Office in the audit 2010 of the Baltic Defence College are true and the College thanks the specialists of the National Audit Office for thorough and professional cooperation.

Overview of the Baltic Defence College

The Baltic Defence College has been established on the basis of an agreement concluded between the Government of the Republic of Estonia, the Government of the Republic of Latvia and the Government of the Republic of Lithuania on 12 June 1998. The main aims of the College are to increase the interoperability of the countries through improving the training of staff officers and leading personnel of the Defence Forces and the Ministries of Defence, support the development of the staff officers' corps and contribute to further introduction of democratic management principles in the armed forces and development of national concepts of total defence.

The financing, accounting and auditing principles of the College have been laid down in the Memorandum of Understanding concluded by the Baltic countries. Proceeding from the Memorandum, the College organises its accounting according to legislation of the Republic of Estonia, a more detailed specification and supplementation of the accounting is provided in the accounting policies and procedures of the College.

In the audited period the Commandant of the Baltic Defence College was Brigadier General Gundars Abols and as from 17 December 2010 Brigadier General Meelis Kiili commenced work as the Commandant. The persons responsible for drawing up the accounts and for accuracy of the information therein are the Commandant of the College Meelis Kiili and the chief accountant Jana Lundblad.

Characterisation of audit

Purpose of audit

The purpose of the audit is to express an opinion about the accuracy of the annual accounts 2010 of the Baltic Defence College. The annual accounts of the Defence College consist of the balance sheet as of 31.12.2010, income statement, cash flow statement and statement of changes in owners' equity for the financial year, a summary of the accounting policies and procedures used in preparing the annual accounts and other explanatory notes.

Assessment criteria

In expressing its opinion on the annual accounts, the National Audit Office relied on the following criteria:

- the assets and liabilities exist as of 31.12.2010;
- the assets and liabilities belong to the College as of 31.12.2010;
- the transactions were conducted or the events took place in 2010;
- all assets, liabilities, transactions and events have been recorded and the indicators have been disclosed;
- the assets and liabilities have been recorded in the correct value;
- the transactions or events have been recorded in the correct amount and the revenue and expenses have been entered in the correct period;
- the indicators have been disclosed, classified and described in accordance with the generally accepted accounting principles;
- the numerical information arising from the annual accounts and specified in the management report has been recorded in correct amounts.

Scope and focus of audit

In providing an assessment of the accuracy of the annual accounts 2010 of the Baltic Defence College the National Audit Office assessed the compliance of the annual accounts with the accounting principles generally accepted in Estonia and the Accounting Act.

The National Audit Office performed the audit in accordance with the auditing standards of the International Organisation of Supreme Audit Institutions (INTOSAI). These standards require that an audit be planned and performed in a manner that allows the financial statements to be decided with sufficient assurance that they are free of material misstatements. During the audit evidence was collected about the numeric data presented and information disclosed in the annual accounts. To plan relevant audit operations, the National Audit Office took into account the internal control system introduced to draw up and present true and fair annual accounts, but not in order to express an opinion on the efficiency of the internal control. During the audit the relevance of the used accounting principles, the justification of the accounting assessments made by the management and the general manner of presentation of the annual accounts was also assessed. The National Audit Office is of the opinion that the audit provides a sufficient basis for expressing an opinion on the annual accounts.

Time of completion of audit

The audit was completed in September 2011.

Audit team

The audit team consisted of senior auditor Alina Undrits and auditor Marlen Pärmann.

Contact information

For additional information on the audit, please refer to the Communication Services of the National Audit Office:
phone +372 640 0704 or +372 640 0777, e-mail riigikontroll@riigikontroll.ee.

An electronic copy of the audit report (PDF) is available at www.riigikontroll.ee.

A summary of the audit report is also available in English.

The number of the audit report in the record management system of the National Audit Office is 2-1.8/11/60043/5.

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Previous financial audits conducted by the National Audit Office in the Baltic Defence College

11.11.2010 – National Audit Office's opinion on the annual accounts 2009 of the Baltic Defence College

16.09.2009 – National Audit Office's opinion on the annual accounts 2008 of the Baltic Defence College

25.09.2008 – National Audit Office's opinion on the annual accounts 2007 of the Baltic Defence College

22.08.2007 – National Audit Office's opinion on the annual accounts 2006 of the Baltic Defence College

24.08.2006 – National Audit Office's opinion on the annual accounts 2005 of the Baltic Defence College

10.08.2005 – National Audit Office's opinion on the annual accounts 2004 of the Baltic Defence College

02.08.2004 – Follow-up audit of the annual accounts 2003 of the Baltic Defence College

28.04.2003 – Audit of the annual accounts 2002 of the Baltic Defence College

24.05.2002 – National Audit Office's opinion on the annual accounts 2001 of the Baltic Defence College

05.06.2001 – Economic activities of the Baltic Defence College in 2000

All reports are available on the website of the National Audit Office at www.riigikontroll.ee.