Accuracy of the Annual Report 2011 and the legality of the transactions of the state

Report of the National Audit Office to the Riigikogu, Tallinn, 27 August 2012

Summary of audit results

The State Budget Act assigns the National Audit Office the obligation to audit the accuracy of the Annual Accounts of the State and the legality of transactions.

In addition to the state's Annual Accounts 2011 the National Audit Office audited the accuracy of the Annual Accounts of the state accounting entities and the legality of its transactions with legislation that regulates the use of the state budget. The obligation to audit the accuracy of the Annual Accounts and the legality of the transactions of the state accounting entities arises from the State Budget Act. It was an obligation of the internal auditors of ministries until 2010.

The Annual Accounts of the state contain the financial indicators of public undertakings, foundations controlled by the state and profit-making state agency in addition to the indicators of the state accounting entities. The National Audit Office considered the opinions of certified auditors when expressing its opinion of the Annual Accounts of the state.

The certified auditors who gave their opinions of the Annual Accounts of public undertakings, foundations and profit-making state agency did not assess the legality of transactions. The National Audit Office has not carried out any additional audit procedures to assess the legality of transactions, which means that the scope of the audit is limited in this regard.

The National Audit Office did not carry out audit procedures to check additional information (Annual Accounts) about local authorities, the public sector and the government sector disclosed in the Consolidated Annual Report of the State.

The National Audit Office is of the opinion that the Consolidated Annual Accounts of the State for 2011 gives a true and fair view of the state's financial status, performance results and cash flow for the period ended in all material respects and in accordance with the Generally Accepted Accounting Principles of Estonia.

The National Audit Office is of the opinion that the state's most significant economic transactions were performed according to the State Budget Act, the 2011 State Budget Act and its amendment act.

The National Audit Office also made observations, which did not affect the National Audit Office's opinion of the Annual Accounts and the legality of transactions, but refer to shortcomings in the internal control system and financial management.
The main observations are as follows:

■ Deterioration of the organisation of accounting in the Ministry of Economic Affairs and Communication and in the Ministry of Agriculture. The reasons observed by the National Audit Office are failure to eliminate earlier shortcomings and intensification of problems due to the centralisation of accounting.

■ The National Audit Office is on the position that the development of support services and introduction of common IT solutions is practical. However, the National Audit Office also observes several problems that need to be paid more attention than before. The IT developments must be completed, a functioning internal control system must be created and centralised units must be guaranteed sufficient management information.

■ The Shared Service Centre of the State of Estonia was created as an agency in the area of government of the Ministry of Finance, and there are plans to transfer the financial accounting of all ministries to that centre. However, it is unclear what problems the creation of the centre should resolve, what the centre's action plan is and how responsibility is divided between the centre and the agencies that order its services. The National Audit Office supports the centralisation of accounting, but it also believes it to be important that the financial accounting of agencies in the area of government is kept by ministries.

■ The annual state budget adopted by the Riigikogu and the State Budget Execution Report cannot be compared, because the principles on which the report is prepared differ from the principles of budgeting. The National Audit Office is of the opinion that the Ministry of Finance should streamline the budgeting principles and the structure of the annual state budget act, update the technical solutions of monitoring budget execution and set the presentation of a consolidated budget execution report as the goal.

■ Similar to previous years, the National Audit Office found errors in the manner ministries plan their budgets. The National Audit Office is on the position that planning the state budget must improve and the Ministry of Finance should keep a closer eye on planning: when creating their annual budgets, ministries have to be more thorough in their analysis of the total budgeted revenue from financing transactions, investments and economic activities on the basis of the obligations entered into with contracts signed for several years, and contracts to be entered into.

■ Adherence to the Public Procurement Act has generally improved in state agencies.

■ Irrespective of the changed economic and legal environment, the strategic goals and priorities of the state's internal audit have still not been determined.

Response of the Minister of Finance: The minister did not agree with the National Audit Office's opinion that the level of the organisation of accounting had deteriorated in the areas of activity of some ministries. The minister also disagreed with the National Audit Office's recommendation to consolidate the State Forest Management Centre in the Annual Accounts of the Ministry of the Environment according to the same principles as state agencies. The minister agreed with all other recommendations.

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