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

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

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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.

What did we audit?

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 correctness 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.

Scope of audit

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.

Limitation of scope of audit

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 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.

Opinion of the National Audit Office

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.

Observations

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:

- The organisation of accounting in the Ministry of Economic Affairs and Communication and in the Ministry of Agriculture has deteriorated. 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 finds 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 considers it 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 of the opinion 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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Opinion on the accuracy of the Consolidated Annual Accounts of the State for 2011 and the legality of transactions

The Annual Accounts of the state are accurate in all material respects.

Accuracy of Annual Accounts

1. **The Annual Accounts of the state, which indicate that the state's consolidated result for 2011 is -83.4 million euros and its total consolidated assets amount to 10.7 billion euros as at 31 December 2011, give a true and fair view of the state's financial status, performance result and cash flow for the financial year ended in all material respects and in accordance with the Generally Accepted Accounting Standards of Estonia.**

Checking additional information

2. 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.

Management report of state

3. The National Audit Office did not audit the management report presented as a part of the Consolidated Annual Report of the State, but it did audit the correspondence of the figures given in the management report to those presented in the annual accounts.

No significant errors were found in the implementation of the State Budget Act

Legality of transactions

4. **According to the state's budget execution report, the actual budgetary revenue of the state in 2011 amounted to 5.887 billion euros and actual expenditure totalled 6.169 billion euros. The National Audit Office is of the opinion that the state's most significant economic transactions have been carried out in compliance with the State Budget Act, the 2011 State Budget Act and its amendment act.**

Limitation of scope of audit

5. The Annual Accounts of the state contain the financial indicators of public undertakings, foundations controlled by the state and profit-making state agencies. Their Annual Accounts were assessed by certified auditors, who audited the Annual Accounts but not the legality of transactions. A summary of the opinions of certified auditors is given in Notes 2 and 3.

Observations about state accountancy

6. Observations about the accounting of state accounting entities are given below. Although these observations do not have an impact on the accuracy of the state's Annual Accounts as a whole, they may lead to significant errors in state accountancy if no improvements are made, and refer to omissions in the internal control system and financial management.

7. The National Audit Office has given detailed explanations of the omissions found and recommendations on how to avoid them in the audit reports and memos sent to state accounting entities. An overview of the

results of the financial audits conducted by the National Audit Office is given in Note 1. The financial audit reports are available on the website of the National Audit Office.

Organisation of accounting has deteriorated in the areas of government of some ministries

Accounting of state accounting entities and units

8. The National Audit Office has consistently audited the level of organisation of accounting in ministries and the agencies in their areas of government. In the audit report on the state's Consolidated Annual Report prepared in the previous year, the National Audit Office noted that the organisation of accounting has improved over the years: there are less and less omissions in the organisation of accounting and stock-taking; there are still a few omissions in the accounting of tangible and intangible fixed assets; most agencies have their internal accounting policies and procedures, and they had been updated; and the chief accountants of ministries had coordinated accounting in the entire area of government more than before.

9. The project for combining all support services managed by the Ministry of Finance was launched in January 2010 and its goal is to introduce the same financial and personnel accounting software and operating model in all state agencies by 2015. Accounting in the areas of government of the following ministries will be or has already been centralised within the scope of the project launched in 2010: Ministry of Social Affairs, Ministry of Finance, Ministry of Justice, Ministry of Social Affairs (except the Social Insurance Board), Ministry of Economic Affairs and Communications and the Ministry of Agriculture (except PRIA and the Animal Recording Centre).

Reasons of deterioration of accounting

10. The audits completed in 2011 indicated that the level of accounting in the areas of government of the Ministry of Economic Affairs and Communications and the Ministry of Agriculture is still inadequate. There are several reasons for this:

- Centralisation has caused significant changes in the organisation of work in the ministries and their divisions, and the duties of their staff. The new organisation of work has dispersed duties and responsibility across ministries and divisions, but the internal control system has not been changed in the internal work procedures of the ministries or divisions. Also, the operating models of financial and personnel accounting are too general and fail to give an adequate description of the activities of employees and the inspections to be carried out.
- Centralisation was somewhat rushed and the earlier problems in the organisation of accounting had not been resolved. The timing of centralisation is also not the best: merging the accounting of different units in the middle of the year caused errors in accounting, made the inspection of asset accounting more difficult and resulted in duplication of work.
- Neither the Ministry of Finance nor the centralised ministries had thought the IT solutions through and prepared them properly. This resulted in a number of errors and duplication of work.

An internal control system – as a process developed by the management of an organisation also covers the organisation's action plans; the management's positions and orders; the work methods, procedures and other management and control methods implemented in the organisation; and the organisation's culture as a whole, which must guarantee reasonable assurance that the goals set for the organisation will be achieved with the implementation of optimal and relevant efforts.

Operating model of financial and personnel accounting – description of work processes (incl. persons who complete them, deadlines and activities), which the accounting unit and the agency that is obliged to keep financial and personnel accounting have agreed on for the purpose of carrying out accounting.

11. The Ministry of Finance and the Ministry of Justice were the only ministries with centralised accounting that had not encountered significant problems. The reason is that the organisation of accounting in the divisions of these ministries had been harmonised before the centralisation and they had practiced working on a common basis for several years. Also, the organisation of accounting in specific areas of accounting, such as tax accounting and accounting of the State Treasury's operations, did not change as a result of the centralisation.

Centralisation of accounting continued in 2011

TUTSE Project

Balance records represent the list of account combinations stipulated in the General Rules of State Accountancy and their balances listed according to the chart of accounts given in the annexes to the General Rules.

The support services consolidation project (TUTSE) is aimed at introducing a single information system for financial, personnel and payroll accounting in all state agencies and creating relevant service units in areas of government.

12. The Government of the Republic has discussed the centralisation of accounting on a number of occasions. Centralisation of accounting in the state was discussed for the first time in the cabinet session held on 15 February 2007. The decision made in the session was to decrease the number of balance records of state accounting entities and in the long term to cut it down to just one set of balance records per area of government of each ministry and the area of government of the Government Office.

13. The Ministry of Finance launched the support services centralisation project (TUTSE) in 2009. The goals of the project as set by the ministry are:

- transfer to a standarised and consolidated organisation of work;
- introduction of an electronic document management system, e-bills, web-based reporting and IT-based self-service solutions; and
- interfacing the information systems of the main activities of state agencies with the common financial and personnel accounting information system.

The reasons why the Ministry of Finance wanted to do this were to reduce administration expenses, make accounting more efficient and improve its quality, and standardize IT solutions.

Activities of Ministry of Finance

14. The activities carried out by the Ministry of Finance from 2010-2011 include the development and introduction of a web-based reporting environment and an environment for processing e-bills, and it has also started standardising financial and personnel accounting and updating the SAP software functionally.

15. The National Audit Office finds that the development of support centres, the introduction of common IT solutions in the state, and the centralisation of accounting in the areas of government of ministries is practical.

Realised risks

16. However, centralising accounting in the first ministries has not been easy. The results of the financial audits carried out by the National Audit Office indicate that:

- delays in the development of IT solutions have resulted in duplication of work (correction entries and duplication of information, incl. in parallel information systems), and larger amounts of manual work;

- excessive standardisation has resulted in the lack of information required for management decisions, or caused the need for extra work to create this information;
- centralisation has caused significant changes in the internal control system relating to accounting, reporting and budget execution, which may no longer guarantee substantive control and responsibility, thereby causing the quality of accounting to deteriorate; and
- the administration expenses or the number of officials have not yet decreased as a result of the centralisation.

Establishing of the Shared Service Centre of the State of Estonia

17. In the end of 2011 the Minister of Finance made the Government of the Republic the proposal to establish the Shared Service Centre of the State of Estonia on the basis of the Accounting Centre of Courts in the area of government of the Ministry of Justice, and the Government agreed. The purpose of the centre according to the explanatory memorandum of the draft was to establish a national agency that provides financial, personnel and payroll accounting services.

Centralisation of accounting means, above all, the transfer of accounting processes into a common database.

18. The National Audit Office has said earlier that rushing the establishment of a shared service centre is not right. We also pointed out that the practicality of establishing the shared service centre and bringing the officials to the same location must be separately considered after the solutions to the substantive details of the centralisation of accounting (such as the creation of a common database on the basis of common software and integration of document management, budgeting, etc. and accounting). Some of these issues have not been resolved yet.

19. Accounting, which covers bookkeeping, budgeting and cost accounting, is a complete process. Breaking this process may disperse responsibility between the centre, the ministry and its divisions. Managers must realise that irrespective of the manner in which accounting is organised, they will still be responsible for the accuracy of the annual accounts. The State Assets Act stipulates that the administrators of state assets are responsible for the purposeful, expedient, sustainable and prudent use of state assets, which means that they must have substantive control over the use and preservation of the assets.

20. Concentrating state accountancy into one centre is possible, but should not be goal in itself. The National Audit Office finds that the objective for which the centre is established is unclear: what are the reasons and shortcomings that hinder development that are best resolved with the establishment of the centre? It is also unclear how agencies are going to guarantee competency and sufficient resources for inspecting the accuracy of reports and the quality of the centre's work without duplicating some of the work done in the centre. The National Audit Office is still of the opinion that the standardisation of IT solutions etc. is also possible without the shared service centre and that accounting should first of all be centralised to the level of state accounting entities.

Transfer of accounting to Shared Service Centre of the State of Estonia

21. According to the operating model implemented in the Shared Service Centre state agencies will keep financial staff who enter the required information on source documents, and the Shared Service Centre will employ the people who enter data in the SAP programme. The National

Audit Office finds that centralisation can only be considered successful if the employee who enters data in the Shared Service Centre is able to understand the transactions of state agencies and their possible nuances, as this guarantees that a transaction is recognised correctly and according to law. Reverse control, where state agencies can check the work of the Shared Service Centre, should also be guaranteed. Otherwise, the chain of internal control, where subsequent activities are also used to check previous activities, may be broken and the level of accounting may decline.

22. The Ministry of Finance must consider the principles of the centre's activities carefully (especially the content of services and division of responsibility) and disclose them, so that other ministries can decide whether to transfer their accounting to the centre and what it would bring about. The National Audit Office supports the centralisation of accounting into ministries first of all. Specific fields of accounting should be left in the areas of government when services are centralised into the centre, as the large number of agencies included in the centre does not allow the latter to consider the specific features of the activities of ministries.

23. Recommendations of the National Audit Office to the Minister of Finance:

- continue with the centralisation of financial, personnel and payroll accounting into ministries, and the development and implementation of common IT solutions; and
- prepare the action plan of the Shared Service Centre of the State of Estonia, which would describe the content of the provided services and the division of responsibility between the centre and the ministry. The accounting of any other ministries should not be centralised before the model has been developed.

Response of the Minister of Finance: Support services are consolidated according to the resolutions of the Government of the Republic. The Ministry of Finance recently introduced the results of the support service consolidation project and further activities to the Government of the Republic in May 2012. The Government of the Republic agreed with the Ministry of Finance's proposal to continue with the project. Its goal is to centralise financial, personnel and payroll accounting in all areas of government and to continue with the development of common IT solutions. Areas of government are also given the option to transfer the provision of centralised accounting functions to the Shared Service Centre of the State of Estonia (hereinafter the Centre).

It is a surprise for us that the substantive goal of the establishment of the Centre has remained unclear for the National Audit Office. We have justified the need to create the Centre since 2009 (centralisation of accounting into one national centre has been our plan since the very beginning). We have prepared all kinds of materials about this, which explain our goals, activities, division of responsibility, risk management, etc. We developed sample operating models in 2009 and displayed them on our website. They have been specified for each area of government and used as the basis of the centralisation in practice.

We find that the operating models are very detailed and define the division of responsibility by single activities. The operating model does not change simply because a centralised unit is brought to the Centre, because the centralised unit serves agencies (irrespective of location) in the manner agreed with the agencies. We have never planned to transfer to a single nationwide operating mode, but we intend to continue serving each area of government in the Centre on the basis of operating models adapted for the specific area of government, as there are specific features in every area of government that need to be considered in the operating model. We have planned the structure by area of government to ensure that processing source documents according to the content of transactions continues in the Centre. We also appoint a chief accountant for each area of government and a contact person for each agency in the Centre. The operating model also requires the appointment of contact persons by agencies. We have also implemented and intend to continue with the principle that accounting of specific fields will be left in agencies if this is supported by the principal activity information system in the agency.

We also plan to form the supervisory board of the Centre, which consists of managers appointed by each ministry served by the Centre.

Centralisation has allowed you to obtain more perfect information (from a central service unit and a common accounting software), which has given you the opportunity to raise more issues. Some shortcomings in accounting kept at the level of agencies have gone unnoticed by you in previous year. They became evident as a result of the support service project.

The reason why centralisation has proved to be more difficult in some areas of government does not lie in information systems or centralisation as a method, but in earlier omissions and the organisers' lack of resources or inability to carry out the changes. Centralisation makes it possible to improve the quality of accounting and accounting staff, but it requires experienced centralisation leaders who keep in close contact with the agency. Cooperation with agencies in areas of government where centralisation resulted in dispersion of responsibility was insufficient. Although the division of work and responsibility between agencies and centralised units was defined with operating models, they were not fully understood. This means that the issues of responsibility and division of work must be discussed with agencies again.

We agree with your observation that delays in IT solutions are a problem. We have failed to adhere to deadlines despite our efforts. This is certainly a serious reason why there is still a lot of manual work and paperwork, correction entries and duplication of information in accounting, and why centralisation has not saved significant amounts of money so far. At the same time, we can be proud that the developments we have made so far have been a success, as this is underlined by the positive feedback received from agencies.

Giving information and discussions with state agencies are an important link in the support service consolidation project. This is why we agree with the National Audit Office's suggestion to publish the Centre's action plan on the website of the Ministry of Finance in the nearest future so that it can be reviewed by the National Audit Office as well as the areas of government that have so far not requested to join the Centre.

National Audit Office disagrees about the accounting policies and procedures used to recognise state forest

Dissenting opinion of National Audit Office about methods of state forest accounting

24. The National Audit Office wrote in the 2010 audit report about the annual accounts of the state that the principles used for state forest accounting had been changed. The methods used comply with international practice and accounting is arithmetically correct. However, the National Audit Office does not have the assurance that the conditions for implementation of these accounting policies and procedures have been met. The Minister of the Environment did not follow the recommendation of the National Audit Office to review the accounting policies and procedures last year, so the National Audit Office hereby repeats its earlier observation.

Only the revenue expected from the sale of cut forest is disclosed in the report since 2010 instead of forest as a state asset in its entirety

25. The book value of state forest as at 31 December 2011 is 0.8 billion euros. The book value of state forests in the end of 2009 was 1.8 billion euros. The decrease in value was caused by the changes in accounting policies and procedures made in 2010.

Changing the previously used accounting policies and procedures was not justified

26. All of the managed forest, which was administered by the profit-making state agency State Forest Management Centre (SFMC), was recognised in the balance sheet of the Ministry of the Environment until the end of 2009. Forest that was not managed was recognised off the balance sheet. Only forest intended for cutting (or more specifically, the timber obtained from this), which is found as an average for ten years on the basis of forecast data, is recognised in the balance sheet of the SFMC since 2010. This means that recognition of monetary value based on actually existing state forest was replaced with the recognition of the revenue obtained from sales of timber at its net present value. **The National Audit Office is not convinced that discarding earlier accounting policies and procedures is justified, especially considering the fact that the conditions of the currently used model have still not been met after two years.**

27. The National Audit Office is of the opinion that recognising only the value of the forest planned to be cut in the annual accounts of the state does not reflect the actual content of state assets (incl. value as a whole, division according to forest type and tree species), or the changes that occur in the asset. The value of the state forest as a whole may change considerably depending on whether the forest left growing as a result of forest management has big or small reserves, whether they are coniferous or deciduous forests, etc.

28. Although the National Audit Office finds that the methods established with the General Rules of State Accountancy and introduced in the SFMC for finding the value of forest intended for cutting comply with international practice in principle, there are several conditions that need to be met before the methods can be implemented. Use of the model means that the value of the state forest is calculated on the basis of the prescribed cut that can be eternally preserved, and that the diversity of species and perfection of the forest does not change significantly over decades. The methodology also assumes that the average sale price of timber for ten years remains stable.

The conditions for use of state forest accounting policies and procedures have not been met

29. The National Audit Office checked in 2010 whether the preconditions for the implementation of the model exist and found that using such accounting policies and procedures in the current market situation for forests where age division is uneven does not give correct results due to the lack of preconditions.. The National Audit Office advised the Minister of the Environment to make sure that the preconditions for the accounting methods used in regard to forest planned to be cut (incl. cutting volumes) actually exist.

The auditor who audited the report of the SFMC also pointed out that the accounting policy and procedure used for biological assets many not produce an accurate result

30. The certified auditor who audited the Annual Accounts 2011 of the SFMC issued a statement without remarks, but did point out that the principle of determining the fair value of biological assets does comply with the General Rules of State Accountancy, but may give an inaccurate result, as the model contains too many default conditions and simplifications.

31. When the National Audit Office audited the accuracy of the Annual Accounts 2009 of the Ministry of the Environment and the legality of transactions, it found that both the state forest and the land under the state forest must be recognised in the balance sheet of the Minister of the Environment, as the latter is the administrator of state assets. However, forest land was transferred to the SFMC in 2010 and both the state forest and the land under the state forest have been recognised in the balance sheet of the SFMC, not the Ministry of the Environment, since 31 December 2010. The Minister of the Environment disagreed with the National Audit Office and found that both the forest and land under the forest must be recognised in the balance sheet of the SFMC. The Ministry of the Environment recognises profit-making state agency State Forest Management Centre in its balance sheet under holdings in subsidiaries and affiliates in the amount of 1.2 billion euros.

Did you know that

state forest and land under forest are recognised in the balance sheet of the SFMC. Use of the consolidation principle means that state forest and the land under forest are not recognised under separate entries in the ministry's balance sheet, but among other holdings under holdings in subsidiaries and affiliates. This is why no information about the value and accounting policies and procedures of this asset group has been disclosed in the notes to the ministry's annual accounts.

32. The opinion of the National Audit Office is that state forest is an important asset group under the administration of the ministry and the annual accounts of the Ministry should contain information about the value of the forest as well as of its quantities. Changing the principle of consolidating the annual accounts of the SFMC in the accounts of the Ministry of the Environment should be considered, as the General Rules of State Accountancy do not require recognition of state forest and the land under state forest in the balance sheet of the Ministry of the Environment. The change means that the annual accounts of the SFMC should be added using the line-by-line consolidation principle similar to the accounts of the other state agencies governed by the ministry. In this case the annual accounts of the Ministry of the Environment would contain information about the value and accounting principles and procedures of state forest.

In **line-by-line consolidation**, the balances of the same account combinations of the entities to be consolidated are added on a line-by-line basis and the balances of account combinations that recognise the receivables, payables, revenue and expenditure between the entities are not considered.

33. Suggestion made by the National Audit Office to the Minister of Finance: Change the procedure of recognising the annual accounts of the State Forest Management Centre in the accounts of the ministry in such a manner that the Centre's accounts are consolidated in the annual accounts of the Ministry of the Environment on a line-by-line basis like state agencies, not as holdings in subsidiaries and affiliates.

Response of the Minister of Finance: The manner in which the State Forest Management Centre operates makes it more similar to companies than state agencies. The State Budget Act does not apply to it (like it applies to other state agencies) and it does not belong to the government sector. As ministries do not consolidated companies in its accounts on a line-by-line basis, then we cannot find a reason why we should make an exception in respect of the Ministry of the Environment and the State Forest Management Centre. The fact that the forest to be sold by the state and land under the forest are recognised in the balance sheet of the State Forest Management Centre is not a valid reason for line-by-line consolidation- The state has important asset groups (electrical structures, ports, etc.) in other companies as well. The net assets of all companies are recognised in the accounts of ministries as holdings, which means that state forest is also indirectly recognised in the accounts of the Ministry of the Environment. The Ministry of the Environment has also given detailed information about the quantity and value of state forest in its annual report.

The new accounting policies and procedures that were implemented in 2010 give a more transparent estimate of the forest's value. It was impossible to check the data with the earlier accounting policies and procedures (irrespective of the entity in whose forest is recognised), which is why they cannot be reintroduced.

Comment by the National Audit Office: The National Audit Office is of the opinion that comparing the State Forest Management Centre (SFMC) with state-owned companies is not appropriate, because the SFMC is a profit-making state agency that operates as state forest manager in the area of government of the Ministry of the Environment and on the basis of the Forest Act.

The principles of forming provisions in public sector entities are inadequately regulated

Accounting principles and procedures of provisions

Discounting – assessment of the net present value of future financial income and expenses

34. The General Rules of State Accountancy stipulate that the principles described in Guideline 8 of the Accounting Board must be observed in the recognition of provisions. The General Rules stipulate that provisions are recorded as short- and long-term provisions based on the estimate of their realisation deadlines, and long-term provisions are discounted at the rate of 6% per year.

35. Different acts stipulate that compensation must be paid when certain authorisations or official relationships end. Compensation must be paid to members of the Riigikogu on the basis of the Status of the Members of the Riigikogu Act, to ministers on the basis of the Government of the Republic Act, to judges on the basis of the Courts Act and to many other officials on the basis of special acts.

36. The Generally Accepted Accounting Principles of Estonia do not deal with the issues relating to the leaving compensation of employees directly, but Guideline 8 of the Account Board 'Provisions, Contingent Liabilities and Contingent Assets' does stipulate that a provision must be recognised in the balance sheet if the accounting entity has either a legal or factual liability, the realisation of the liability is probable, and the amount of the liability can be reliably measures. Recognition of termination benefits has also been mentioned in International Public Sector Accounting Standard (IPSAS) 25 'Employee Benefits'.

37. It became evident in the course of the audit that no provisions had been formed to cover the benefit payable for the termination of an official relationship according to law. The relevant accounting policy and procedure have not been included in the General Rules of State Accountancy either. The National Audit Office finds that the need to recognise termination benefits in accounting must be analysed, and policies and procedures must be established for the formation of a provision to cover these benefits.

38. The General Rules are currently very general about the formation of provisions. The National Audit Office is of the opinion that more detailed policies and procedures should be established in the General Rules for the formation and evaluation of other provisions as well (e.g. environmental provisions), and for their recognition if necessary.

39. **Suggestion made by the National Audit Office to the Minister of Finance:** Update the accounting policies and procedures concerning the formation of provisions in the General Rules of State Accountancy.

Response of the Minister of Finance: We agree to update the guidelines that concern the accounting policies and procedures that are applied to the formation of provisions in order to explain how provisions for the benefits payable upon the termination of authorisations or official relationships should be calculated.

Observations on the state budget implementation report and the legality of transactions

40. Below are our observations on the state budget implementation report and the most common errors in the legality of transactions. The National Audit Office has given detailed explanations of the omissions found and recommendations on how to avoid them in the audit reports and memos sent to state accounting entities.

The principles of state budget drafting and reporting on budget implementation still need streamlining

State budget implementation report

Cash-based accounting is recognition of economic transactions only when payment is received or made.

41. One of the main reports submitted as a part of the state's annual report is the state budget implementation report (hereinafter also the SBIR) that contains the revenue, expenditure and financing transactions of state agencies (except the State Forest Management Centre). The SBIR is prepared on the basis of the State Treasury's data on a cash basis. The requirement to prepare and submit the SBIR arises from the Accounting Act pursuant to which the SBIR is prepared at least to the extent set out in the state budget for each item of the budget classification in force at the time of the adoption of the state budget.

42. According to International Public Sector Accounting Standard IPSAS 24 ‘Presentation of Budget Information in Financial Statements’, the budget adopted by the parliament, the final budget and the data of actual implementation of the budget must be presented in a manner that is comparable to the adopted budget. The level of detail of the budget act must thereby be assessed and, if necessary, the information must be submitted more concisely than in the act in order to facilitate reading. The reasons of any significant differences in the planned budget and the actual budget must also be explained. The purpose of submitting the information is to increase transparency of the financial statements of the public sector.

State budget and state budget implementation report are not fully comparable

43. Since 2009 the National Audit Office has drawn the attention of the Minister of Finance to the manner of presentation of the state budget implementation report submitted as a part of the Annual Report of the state, where the figures given and the manner in which they are presented differs from the State Budget Act adopted for the budgetary year by the Riigikogu (SBIR vs. image of law).

44. The main reason of the differences is that the principles of state budget drafting, the execution of state budget payments and the preparation of accounting reports are different, and the state budget implementation report is presented in a manner that differs from the law. For example, not all of the revenue and expenditure is planned in the annual State Budget Act: expenses are incurred on the account of subsidies and revenue generated by economic activities according to actual receipt of revenue; estimated expenses are planned in the budget in approximate amounts; the expenses transferred from the previous year to the next, money allocated from reserves and income directed into reserves are missing from the budget. However, the actual revenue and expenditure of the budgetary year are considered in preparation of the SBIR.

45. In addition to these circumstances the National Audit Office would like to point out some substantive problems, which occur in the preparation of the budget and in reporting on the implementation of the budget:

All revenue and expenditure items are only recorded once in the **consolidated report;** the transactions concluded between agencies have been omitted.

- The budget implementation report is based on unconsolidated data, which is why transactions between state agencies have been recorded twice under both revenue and expenditure. It is impossible to not consider such transactions due to technical reasons. The figures of the consolidated budget have also been highlighted in the annual State Budget Act, but they are not accurate, as calculations about the transactions concluded between state agencies are approximate.

- Not all expenditure in the annual State Budget Act is planned for the agencies that pay out the money. However, the SBIR has been prepared on the basis of the State Treasury's data and it cannot be compared with the annual State Budget Act.

- In the annual State Budget Act, budgetary revenue is predominantly planned according to the persons who collect the revenue pursuant to law, but in the SBIR some revenue has been transferred to the entities in whose bank account it is received. For example, the recipient of the environmental fees according to the Act is the Ministry of the Environment, but in the state budget implementation report it is indicated as revenue of the Ministry of Finance, as it is paid to the Tax and Customs Board.

46. The National Audit Office is of the opinion that in order to guarantee the comparability of the State Budget Act and the state budget implementation report the Ministry of Finance has to adjust the budget drafting principles to guarantee compliance with the State Budget Act and the 'image' of the annual State Budget Act, and update the technical solutions of monitoring state budget implementation (e.g. e-State Treasury), with the submission of a report about the consolidated budget implementation set as the goal.

47. The National Audit Office is of the opinion that the duties assigned to the ministry by law, the money allocated for their performance and the revenue earned as a result of operations must be considered in the preparation of the state budget implementation report. This means that revenue must be recognised in the budget and the budget implementation report of the area of government of the particular ministry that is obliged to collect certain revenue by law and that prescribes the expenses required for the collection of such revenue. This means the ministry that is responsible for planning, controlling and receipt of the revenue.

48. Suggestion made by the National Audit Office to the Minister of Finance: Adjustment of the budgeting principles must continue, and the observations made by the National Audit Office should thereby be considered.

Response of the Minister of Finance: There are plans to start using harmonised accounting principles in budgeting and accounting in 2013 in order to improve the quality of financial planning and broaden the options of using financial reports. Harmonising the budgeting and accounting principles means, among others, that:

- the same terms and classifiers will be used in various financial management activities in the future; and
- accounting reports are also budget implementation reports, which helps avoid the submission of financial reports that cannot be linked to each other and guarantees options for more efficient budget control.

The State Budget Act for 2013 will be submitted in a new format. The previous format will be replaced with blocks placed under each other and the amounts in the budget will be presented in one column. This makes it easier to compare the budgets of different years to each other and with the budget implementation report.

The state budget for 2013 will be prepared on the principle of a consolidated report, which means that significant revenue, expenditure, investments and financing transactions inside the consolidation group will be eliminated. The budget will be planned for the agency or group of agencies where the money moves (as the state budget is cash based).

The term 'transferable tax' will be introduced to the state budget – this includes the taxes, fees, fines and other encumbrances (hereinafter referred to as tax) that the tax collector transfers to the beneficiary defined in legislation.

The applicable principles will be set forth with the amendments made to the regulation of the Minister of Finance 'Budget Classifier and Rules for Execution of State Budget Payments. The guidelines for using the budget classifier will be published on the website of the Ministry of Finance.

Budget planning

Budget planning in ministries still needs improvement

49. Similar to previous years, the results of the financial audit prepared by the National Audit Office for 2011 indicated that ministries and the agencies in their areas of government have not always adhered to the requirements set forth in the State Budget Act. For example:

Management expenses are expenses incurred in the daily operations of an agency.

Investments made from budget are acquisition and renovation of tangible and intangible assets.

- Pursuant to the State Budget Act, state agencies have the right to incur expenses only if money has been allocated for this in the budget. Similar to previous years, the National Audit Office found in 2011 that state agencies have used the budget funds allocated for management expenses to make investments and used the money allocated for investments to cover management expenses. The National Audit Office found breaches in the Ministry of Agriculture, the Ministry of Defence, the Ministry of Education and Research, the Ministry of Culture and the Ministry of the Environment. However, the number and amount of the errors is smaller than in previous years.

  The National Audit Office is of the opinion that such breaches reduce the transparency of the state budget and must therefore be condemned. The National Audit Office has emphasised in its audits that an agency should apply for amendment of the Annual State Budget Act for the sake of the clarity and comparability of budget reporting if the agency finds that it is necessary to spend its money differently than initially planned.

Capital lease is a lease where all significant risks and benefits related to the ownership of the asset in question are transferred to the lessee. The ownership may but need not transfer in the end.

Long-term payable is a debt,
- which emerged as a result of a past event,
- the release from which is likely to require giving up resources in the future, and
- which will be repaid over a period that is longer than one year.

Financing transaction is a transaction aimed at covering the difference between state budget revenue and expenditure, which recognises changes in financial assets and liabilities. Financial assets are deposits, loans granted, securities purchased and other similar assets. Liabilities are loans taken, securities issued and other similar liabilities.

- The State Budget Act prohibits state agencies to take loans, use capital lease and enter into other long-term liabilities, unless this is prescribed in the state budget. If a state agency wants to perform such transactions and enter into contracts, they must be prescribed as financing transactions when the annual budget is drafted. Otherwise, the performance of such transactions is in contravention to the State Budget Act.

  The audits conducted by the National Audit Office indicated that many state agencies enter into capital lease contracts to lease office equipment and vehicles, which is not permitted by law. In recent years, entering into lease contracts that cannot be terminated has become widespread, which means that the state agencies cannot terminate the contracts early without having to pay all of the outstanding lease payments, the residual value of the leased object as at the expiry of the lease contract and the financing costs to the lessor. Note a 30 to the Unconsolidated Annual Report of the State indicates that the state's lease obligations that cannot be terminated total 315 million euros.

  The obligations assumed with contracts entered into under capital lease terms must be added to financing transactions when the budget is drafted. The opinion of the National Audit Office is that any obligations to be assumed with lease contracts that cannot be terminated must also be separately set forth in the budget and these contracts may not be signed unless otherwise provided for in the State Budget Act. Since such contracts are usually (according to past practice) not terminated early, then it is important that the long-term obligations assumed with these contracts are clearly distinguished in the budget.

50. As the National Audit Office already stated in its audit report for the previous year, the omissions in budgeting are probably caused by insufficient analysis in the planning stage and unclear budgeting (incl. budget amendment) principles.

51. The National Audit Office advised the Minister of Finance to specify the content of financing transactions must be specified in the annual directive on the terms and deadline for drafting the budgets of ministries. The National Audit Office also advised to distinguish the money required for servicing lease contracts that cannot be terminated in the budget, and to permit entering into such contracts only if money is allocated for this purpose in the budget. The Minister of Finance agreed with the proposals made by the auditors and promised to make a decision about further organisation in the course of the preparation of the budget for 2013. However, this has not been done, which is why the National Audit Office reiterates its earlier recommendations.

52. **Suggestion made by the National Audit Office to the Minister of Finance:** The content of financing transactions must be specified in the annual directive on the terms and deadline for drafting the budgets of ministries. The money required for servicing lease contracts that cannot be terminated must be distinguished in the budget and entering into such contracts must be permitted only if money is allocated for this purpose in the budget.

Response of the Minister of Finance: We agree with the proposal to specify the content of financing transactions in the terms and conditions of preparation of the draft budgets of ministries. We will define the term ‘lease contracts that cannot be terminated’ in the guidelines on the use of the budget classifier that will be prepared in 2012, and we will establish rules for planning funds in the state budget on the basis of said contracts from 2014.

The organisation of acquisition and use of assets in ministries is good

Acquisition and use of assets in ministries

53. The auditors of the National Audit Office participated in the stocktaking organised by ministries on random basis. They reviewed the procedures that regulate stocktaking and the documents of the stocktaking organised in the end of 2011. The auditors also checked the acquisition and sale of assets, and reviewed the valid lease contracts. On the basis of the above, the National Audit Office finds that the organisation of acquisition and use of assets in ministries is at a good level irrespective of a few omissions. Constitutional institutions, the Government Office and ministries with the agencies in their area of government, however, have transferred relatively large quantities of assets required and not required for main activities to Riigi Kinnisvara AS, which has reduced the quantity of assets in management.

Adherence to the Public Procurement Act is improving state agencies

Organisation of public procurements in state agencies

Pursuant to the Public Procurement Act effective in 2010, a **public procurement** had to be organised if the expected cost of the procurement contract without VAT was

1) 400,000 euros in the case of a procurement contract for objects and services, and design contests; and
2) 250,000 euros or more in the case of construction works or public works concession.

54. Similar to the previous year the National Audit Office audited whether the Public Procurement Act had been adhered to in all ministries, constitutional institutions and the Government Office in respect of acquisitions. The National Audit Office thereby focussed on the internal control system that concerns the public procurement procedure, and assessed whether the procurements in certain selected transactions complied with the Public Procurement Act and the internal work procedures of the agencies.

55. The Public Procurement Act had generally been followed in the audited acquisitions, but there were also several breaches. The number of breaches was the highest in the areas of government of the Ministry of the Interior, the Ministry of the Environment and the Ministry of Economic Affairs and Communications. The most common errors were as follows:

- No public procurement was proceeded, when necessary, although it was required by law. This error was identified in the Ministry of Education and Research, the Ministry of Culture, the Ministry of Economic Affairs and Communications, and the Ministry of the Interior.
- The incorrect type of public procurement procedure was sometimes selected. This error was identified in the Ministry of Economic Affairs and Communications, and the Ministry of the Interior.
- The procedural rules stipulated in the Public Procurement Act were breached and the process of public procurements was not documented as required. This error was identified in the Ministry of the Environment, the Ministry of Finance and the Ministry of Economic Affairs and Communications.
- Procurement reports were not submitted for procurements below the limit, or they were submitted with delays. This error was identified in the Ministry of Education and Research, the Ministry of Economic Affairs and Communications, the Ministry of Culture, the Ministry of Justice, the Ministry of Agriculture, the Ministry of Finance, the Ministry of the Interior and the Ministry of the Environment.
- No procurement procedure had been prepared, or the procedure was in need of updating. This error was identified in the Ministry of Finance, the Ministry of Economic Affairs and Communications, the Ministry of Defence and the Ministry of Foreign Affairs.

According to the Public Procurement Act valid in 2011, a public **procurement report** had to be submitted to the Public Procurement Register for purchases of things and services from 10,000 euros and for construction work from 30,000 euros (without VAT) within 20 days of entry into the procurement contract, and an annex to the public procurement report had to be submitted after the end of the procurement.

56. The breaches of the Public Procurement Act, the majority of which occurred in divisions operating in the areas of government of ministries, suggest that the system for planning, processing and supervision of public procurements is weak. The National Audit Office finds that the development and establishment of public procurement procedures is a part of a division’s internal control system, which must be created by the management of the agency and the ministry.

The **procurement rules** regulates, among others:

1) planning of a public procurement, preparation and approval of an annual procurement plan;

2) appointment of persons responsible for the public procurement, incl. for the performance of the procurement contract;

3) organisation of public procurements whose cost is below the limit; and

4) organisation of services ordered by simplified procedure.

57. The requirement of the Public Procurement Act, which made the establishment of internal procurement rules obligatory for agencies/contracting agencies if the estimated total cost of the public procurements for things and services planned in one budgetary year exceeds 80,000 euros and if the estimated total cost of public procurements for construction work planned for the same period exceeds 500,000 euros, entered into force in 2012.

58. The National Audit Office finds that the requirement established in the Public Procurement Act, which states that the procurer must guarantee that public procurements are transparent and can be controlled, is justified in the contest of both external and internal control. The existence of a procurement procedure is necessary for the (procurement) specialists, who have to work with procurements on a daily basis, and also for the people who have to plan the expenses for the activities of their structural units (heads of departments). The absence of a procurement procedure also creates the risk that when a new employee joins the agency, all of the existing procurement knowhow will be lost when the former specialist leaves.

Organisation of public procurements in foundations and companies

59. The National Audit Office is currently auditing the organisation of public procurements in foundations and companies controlled by the state. The audit has three goals:

- to explain whether all of the companies and foundations controlled by the state have defined themselves as contracting agencies for the purposes of the law and if this has not been done, then what is the reason and whether it is acceptable in the opinion of the National Audit Office;
- to assess whether foundations and companies controlled by the state have created an adequate internal control system regarding procurements and whether the Public Procurement Act has thereby been adhered to; and
- to assess, in selected entities, whether procurement procedures have been organised for procurements that exceed the public procurement limit and whether the established internal control system and the Public Procurement Act have been adhered within the scope of the audited procurements.

Observations on the organisation of public financial management and internal audits

Internal audit priorities in the state have not been defined

The documents that regulate the organisation of internal audits are dated

60. The Regulation of the Government of the Republic ‘General Internal Audit Rules of Authorities of Executive Power’ was adopted in 2005. The regulation stipulates the general basis on which an internal audit is organised, and it is currently being updated. In 2006 the Ministry of Finance prepared the document ‘Concept for Development of Internal Audits of Authorities of Executive Power’. Several important issues were analysed in the concept: the role of the Ministry of Finance in analysing the implementation of internal control systems in government agencies, in methodological counselling and in the organisation of relevant training in order to strengthen and harmonise the competency of internal auditors. Shortcomings were highlighted and suggestions were made on how to overcome them. Discussed topics included reorganisation of internal audits and improving the quality of internal audits. No summary of the results of implementation of the concept has been published. The Ministry of Finance has worked on the creation of conditions for improvement of the quality of internal audits, which includes translation and establishment of the international professional standards of internal auditors, creation of the foundation of a quality assurance system and preparation of the professional examination system.

Changed environment sets new goals to internal audits

61. Several changes, which also affect internal audits, have occurred in the legal framework and the external environment in recent years. The most important changes are the amendment to the Public Procurement Act, which released the person responsible for internal audit from the obligation to audit the accuracy of the annual accounts of the area of government, and the amendment to the Government of the Republic Act, which assigned internal auditors the obligation to submit the internal auditor's report before the annual report is approved by the minister or the State Secretary, in which they give an opinion on the implementation and performance of the internal control system, and adoption of the Auditors Activities Act pursuant to which the internal auditors of the state must be certified. The Institute of Internal Auditors emphasises that recession has set new challenges to the activities of internal auditors. Although the objectives and tasks of the state's internal audit have been changed, the internal audit concept has not been reviewed or updated, which is required due to the changes in the environment. The strategic objectives and priorities of the state's internal audit in the scope of the tasks set forth by law are therefore unclear.

Achievement of goals is generally not evaluated in internal audits

62. The audit 'Activities of Government of the Republic in Evaluating the Impact of Its Work and Reporting on Results' indicated that internal auditors did perform systematic evaluations of the achievement of goals in any of the five audited ministries. They have also not created control systems for monitoring the achievement of goals and drawing the attention of the management or responsible departments to problems. Heads of the internal audit department pointed out that internal audits focus mainly on auditing the lawfulness and expedience of the use of money (which the National Audit Office also deals with), and they do not have the resources required for auditing performance. The statutes of internal audit departments, however, require them to analyse and evaluate the compliance of their activities with established goals.

63. Suggestion of the National Audit Office to the Minister of Finance: determine the strategic goals and priorities of the state's internal audit.

Response of the Minister of Finance: the Ministry of Finance developed the professional qualification system of internal auditors and the general regulation for its implementation by the end of 2009 in order to achieve high quality in the professional activities of internal auditors. Said system regulation is based on the recommendations, requirements and principles of the Institute of Internal Auditors (hereinafter the IIA), and the international framework principles of professional activities.

We rely on the following three pillars in developing the professional activities of internal auditors:

1) implementation of international professional standards in the professional activities of internal auditors;

2) preparing and launching the system of professional examinations of internal auditors; and

3) establishing the regulation of the quality assurance system.

The Auditors Activities Act was adopted in the beginning of 2010. The Act stipulates requirements for internal auditors, the legal basis of their activities, their right to professional activities and the basis of supervising the quality of the professional activities of internal auditors.

The following lower level regulations of the Auditors Activities Act entered into force in 2011:

1) professional examination programme;

2) professional examination procedure;

3) the format of the internal auditor's activity report and the procedure for its preparation and submission;

4) criteria for evaluation of the result of an examination similar to the sub-part of the special internal auditor part of the professional examination, and for evaluation of the professional qualification of internal auditor acquired abroad;

5) procedure for practicing under the guidance of a certified or recognised internal auditor and fir proving that the person has acted as an internal auditor; and

6) professional standards of internal auditors.

Successful implementation of the professional qualification system of internal auditors required a broader streamlining of the legal framework that regulates the professional activities of internal auditors. The State Budget Act was amended for this purpose (the person responsible for internal audit was released from the obligation to audit the accuracy of the area of government's annual accounts), and the internal control and internal audit provisions of the Government of the Republic Act (e.g. the internal audit manager is obliged to give their opinion on the implementation and performance of the internal control system, and to submit it before the approval of the annual report) were also amended.

The General Rules of Internal Audit have to be updated due to the legal amendments and we are currently working on it.

The conceptual framework of internal audit is stipulated in the Auditors Activities Act and the Regulation of the Minister of Finance 'Establishment of Professional Standards of Internal Auditors', which internal auditors are obliged to adhere to in managing an internal audit unit, planning their professional activities, performing their work and reporting on the results of their work. Implementation of the standard requires the internal audit unit to try and perfect its organisation of work. Reorganisation of the professional activities of internal auditors and quality assessments have started in many areas of government (see the information given in the Consolidated Annual Report of State). Decisions on the reorganisation of internal audit work must be made in the ministry and its area of government by 1 July 2013.

As for the issue of giving an opinion on the internal control system (monitoring the achievement of goals in your report), we would like to note that the purpose of such a provision is to give systematic feedback about the use of public sector funds to those whose duty it is to govern, which tells them whether risks have been managed, whether activities correspond to resolutions, and whether goals are achieved. The first such opinion was given by internal audit managers on the 2011 financial year. We have noted in the management report that internal audit managers usually gave limited opinions on the implementation and performance of internal control systems. The Ministry of Finance is planning to organise a seminar in autumn this year in order to level the knowledge of internal audit managers on the basis of the sample methods of giving such opinions.

We agree with the recommendation that determining the strategic goals and priorities of internal control should be the next step.

We will gather the information required for this via the internal auditor's activity report established with the Auditors Activities Act, the internal control division's activity report to be stipulated with the general rules, and the internal control system assessment report. Information received about external evaluations is also important. Once the external evaluations of the quality of internal audit divisions have been completed, we will be able to prepare an overview of the results of the qualification system's implementation.

National reserves have decreased for three years in a row

64. The state budget implementation report submitted as a part of the state's annual accounts indicates that actual budget expenditure exceeds actual budget revenue. Reserves were used to cover the expenditure that exceeds revenue.

65. In 2011 the state continued using reserves, causing the total value of reserves to decrease by 219 million euros to 997 million euros. The liquidity reserve of the state budget thereby decreased by 244 million euros. The stabilisation reserve increased by 12.7 million euros to 333 million euros in 2011. The financial income earned on the investment of the reserve comprised more than 7.3 million euros of this and the money raised from privatisation of land exceeded 5.4 million euros.

State's group account – accounts opened in banks that service the state budget, belong to the State Treasury and are used for the state's settlements,
Return on state's liquidity reserve – revenue earned on successful investments of the liquidity reserve in bonds, deposits and other financial instruments as a percentage.

66. The reserves of the Estonian Health Insurance Fund and the Estonian Unemployment Insurance Fund were consolidated with the state budget on the basis of a resolution made by the Riigikogu. The Ministry of Finance entered into deposit contracts with the Health Insurance Fund and the Unemployment Insurance Fund to add their reserves to the state's group account. According to the contracts the bank accounts of the Health Insurance Fund were added to the state's group account in December 2011 and the bank accounts of the Unemployment Insurance Fund in

January 2012. It was also agreed that the interest paid on the reserves of the Health Insurance Fund and the Unemployment Insurance Fund is equal to the return on the state's liquidity reserve. The State Treasury bought the bonds in the reserves of the Health Insurance Fund and the Unemployment Insurance Fund for their market price and they will now be recognised in the liquidity reserve, which explains the increase in the liquidity reserve as at 31 May 2012. The money invested in term deposit was added to the group account after the expiry of the deposit terms in January and February 2012.

67. The amount of clients' money kept in the State Treasury increased by 162 million euros in 2011 and reached 334 million euros. This was the result of bringing the cash of the state's foundation to the State Treasury pursuant to the requirement of the State Assets Act. In the future, the state's foundations will use the State Treasury for their settlements like other state agencies. The money of foundations will be kept together with the other money managed by the State Treasury. According to the cooperation contracts entered into between the ministry and foundations, foundations are paid interest on the average monthly balance of the money kept in the State Treasury at a rate that equals the deposit facility rate. Two foundations, the Environmental Investment Centre and Archimedes, had opened two intragroup term deposits in 2011, which amounted to 35 million and 22 million euros, respectively.

Deposit facility rate – the interest rate paid by the central bank on the money deposited with them, which is generally the minimum limit of the money market interest level

Table 1. Changes in reserves administered by State Treasury (euros)

Name of reserve	Market value				
	31.12.2008	31.12.2009	31.12.2010	31.12.2011	31.5.2012
Stabilisation Reserve Fund	459 988 889	301 796 661	320 228 595	332 978 128	343 219 072
Liquidity reserve of state budget assets, incl.	528 615 343	903 924 808	683 295 477	604 891 317	968 518 398
liquidity reserve of state budget + available funds	137 884 431	623 125 380	483 778 406	239 913 956	496 494 241
legal reserve for ownership reform	27 254 409	27 874 381	28 234 218	31 253 115	33 093 414
legal reserve of National Pension Fund	305 777 274	118 758 219	0	0	0
funds of State Treasury's clients	57 699 228	134 166 827	171 282 853	333 724 246	438 930 743
Legal reserve of Health Insurance Fund*	30 925 856	52 781 577	53 562 530	6 210 104	0
Cash reserve of Health Insurance Fund*	189 917 195	146 842 693	136 905 933	27 369 866	0
Legal reserve of Unemployment Insurance Fund**	19 438 907	21 301 395	21 693 427	25 548 509	0
TOTAL STATE TREASURY	**1 228 886 189**	**1 426 647 133**	**1 215 685 961**	**996 997 923**	**1 311 737 470**

* The legal reserve and cash reserve of the Health Insurance Fund were added to the state's group account in December 2011.
** The legal reserve of the Unemployment Insurance Fund was added to the state's group account in January 2012.

Source: State Treasury Department of the Ministry of Finance

Liabilities of the state

State's unconsolidated balance of loans payable – the sum of the state's loans payable, which covers ministries, the State Treasury and constitutional institutions.

68. The loans payable by the state include loans assumed, bonds issued and obligations assumed with capital lease contracts. The state's unconsolidated balance of loans payable as at 31 December 2011 was 281 million euros, which increased by 14.6 million euros in comparison to the previous reporting period. The state issued no bonds and entered into no new loan contracts in the reporting period, but it did increase its capital lease payables.

69. A loan agreement for borrowing 550 million euros was entered into with the European Investment Bank in 2009 on the basis of a resolution of the Government of the Republic. 165 million euros of this was drawn down in 2009 and this amount will be repaid by the end of 2022. No additional money was drawn down from the loan amount agreed with the EIB in either 2010 or 2011. The EIB loan can be drawn down until the end of 2014. The loan from EIB was taken for specific projects and the entire loan amount has therefore not been drawn down. There are plans to draw down the remaining amount of the loan either in the end of 2012 or in the first quarter of 2013. Repayment of the loan would start in 2013 as agreed in the loan agreement. Interest payments on the drawn down amount started immediately and the interest so far paid on the EIB loan totals 4.9 million euros, incl. the 2,9 million euros paid in 2011. The interest paid on borrower amounts in the previous year totalled 3.3 million euros and loan principal repayments amounted to 3.8 million euros.

70. State guarantees granted to loans as at 31 December 2011 totalled 27 million euros. The balance of the loans guaranteed by the state increased by 20 million euros in comparison to the previous year. The loans taken by the North Estonia Medical Centre and the Credit and Export Guarantee Foundation KredEx became guaranteed loans in 2011 on the basis of the order of the Government of the Republic. The Republic of Estonia has also entered into guarantee contracts with the Nordic Investment Bank on the basis of which Estonia guarantees project-based investment loans and securities of up to 13.1 million and environmental investment loans and securities of up to 2.2 million euros.

European Financial Stability Fund (EFSF) – a private legal entity that is owned by members of the eurozone. The EFSF may grant loans to eurozone members to support economic reforms. The EFSF borrows the funds required for granting loans from the financial market using the guarantees given by the owners.

European Stability Mechanism (ESM) – an organisation to be created on the basis of the Treaty on European Union, whose owners are members of the eurozone. The ESM may grant loans to eurozone members to support economic reforms. The ESM borrows the money required for granting loans from the financial market.

71. In 2011 Estonia joined the European Financial Stability Fund (EFSF), and the state of Estonia had a guarantee obligation of 1.98 billion euros to the EFSF as at 31 December 2011. This means that the Government of the Republic had granted guarantee obligations in the amount of 2.02 billion euros by the end of 2011. Estonia's part in the debt obligation of the EFSF including the support programme for Greece that was added in March 2012 amounted to 358 euros, and the off-balance sheet balance of the guarantee obligation amounted to 1.64 billion euros. Estonia's share according to the contract to join the planned European Stability Mechanism (ESM) is 1.3 billion euros.

72. The largest permitted loan balance pursuant to the 2011 State Budget Act was 1.47 billion euros for the budget loan and 447 million euros for the cash loan. Without consideration of the guarantees granted by the state, the loans taken as at 31 December 2011 did not exceed the limits established with the State Budget Act.

/digitally signed/

Mihkel Oviir
Auditor General

Recommendations made by National Audit Office and responses of the Minister of Finance

On the basis of the audit, the National Audit Office gave several recommendations to the Ministry of Finance. The minister sent his response to the recommendations made by the National Audit Office on 27 July 2012.

General comments of the Minister of Finance on the audit report
The audit report of the National Audit Office on the Consolidated Annual Report of the State gives an opinion on the level of financial management in the state. In earlier years, we have usually agreed with the recommendations made by the National Audit Office and the National Audit Office has supported our plans in its recommendations. Unfortunately, the opinions of the National Audit Office on some issues have started to differ from the positions of the Ministry of Finance in the last couple of years. For example, when it comes to this audit report, we do not agree with the National Audit Office's position that the organisation of accounting has deteriorated in the areas of government of some ministries. We also find that continuing with the centralisation by transferring centralised divisions from the areas of government to the Shared Service Centre of the State of Estonia is the correct and logical continuation of the centralisation process. This allows us to improve the quality of accounting, to release other areas of government from the development of accounting staff and the information systems used by then, and deepen cooperation between areas of government, which we should also strive to achieve in the performance of many other support functions of the state. We would like to thank the National Audit Office for its work and hope that our constructive cooperation will continue in future periods.

Recommendations of the National Audit Office	Response of the Minister of Finance
Centralisation of accounting **23. Recommendations to the Minister of Finance:** continue with the centralisation of financial, personnel and payroll accounting into ministries, and the development and implementation of common IT solutions; and prepare the action plan of the Shared Service Centre of the State of Estonia, which would describe the content of the provided services and the division of responsibility between the centre and the ministry. The accounting of any other ministries should not be centralised before the model has been developed. **(items 12-22)**	**Response of the Minister of Finance:** Support services are consolidated according to the resolutions of the Government of the Republic. The Ministry of Finance recently introduced the results of the support service consolidation project and further activities to the Government of the Republic in May 2012. The Government of the Republic agreed with the Ministry of Finance's proposal to continue with the project. Its goal is to centralise financial, personnel and payroll accounting in all areas of government and to continue with the development of common IT solutions. Areas of government are also given the option to transfer the provision of centralised accounting functions to the Shared Service Centre of the State of Estonia (hereinafter the Centre). It is a surprise for us that the substantive goal of the creation of the Centre has remained unclear for the National Audit Office. We have justified the need to create the Centre since 2009 (centralisation of accounting into one national centre has been our plan since the very beginning). We have prepared all kinds of materials about this, which explain our goals, activities, division of responsibility, risk management, etc. We developed sample operating models in 2009 and displayed them on our website. They have been specified for each area of government and used as the basis of the centralisation in practice. We find that the operating models are very detailed and define the division of responsibility by single activities. The operating model does not change simply because a centralised unit is brought to the Centre, because the centralised unit serves agencies (irrespective of location) in the manner agreed with the agencies. We have never planned to transfer to a single nationwide operating mode, but we intend to continue serving each area of government in the Centre on the basis of operating models adapted for the specific area of government, as there are specific features in every area of government that need to be considered in the operating model. We have planned the structure by area of government to ensure that processing source documents according to the content of transactions continues in the Centre. We also appoint a chief accountant for each area of government and a contact person for each agency in the Centre. The operating model also requires the appointment of contact persons by agencies. We have also implemented and intend to continue with the principle that accounting of specific fields will be left in agencies if this is supported by the principal

Recommendations of the National Audit Office	Response of the Minister of Finance
	activity information system in the agency. We also plan to form the supervisory board of the Centre, which consists of managers appointed by each ministry served by the Centre. Centralisation has allowed you to obtain more perfect information (from a central service unit and a common accounting software), which has given you the opportunity to raise more issues. Some shortcomings in accounting kept at the level of agencies have gone unnoticed by you in previous year. They became evident as a result of the support service project. The reason why centralisation has proved to be more difficult in some areas of government does not lie in information systems or centralisation as a method, but in earlier omissions and the organisers' lack of resources or inability to carry out the changes. Centralisation makes it possible to improve the quality of accounting and accounting staff, but it requires experienced centralisation leaders who keep in close contact with the agency. Cooperation with agencies in areas of government where centralisation resulted in dispersion of responsibility was insufficient. Although the division of work and responsibility between agencies and centralised units was defined with operating models, they were not fully understood. This means that the issues of responsibility and division of work must be discussed with agencies again. We agree with your observation that delays in IT solutions are a problem. We have failed to adhere to deadlines despite our efforts. This is certainly a serious reason why there is still a lot of manual work and paperwork, correction entries and duplication of information in accounting, and why centralisation has not saved significant amounts of money so far. At the same time, we can be proud that the developments we have made so far have been a success, as this is underlined by the positive feedback received from agencies. Giving information and discussions with state agencies are an important link in the support service consolidation project. This is why we agree with the National Audit Office's suggestion to publish the Centre's action plan on the website of the Ministry of Finance in the nearest future so that it can be reviewed by the National Audit Office as well as the areas of government that have so far not requested to join the Centre.
Principles of recognising state forest **33. Recommendation to the Minister of Finance:** Change the procedure of recognising the annual accounts of the State Forest Management Centre in the accounts of the ministry in such a manner that the Centre's accounts are consolidated in the annual accounts of the Ministry of the Environment on a line-by-line basis like state agencies, not as holdings in subsidiaries and affiliates. (items 24-32)	**Response of the Minister of Finance:** The manner in which the State Forest Management Centre operates makes it more similar to companies than state agencies. The State Budget Act does not apply to it (like it applies to other state agencies) and it does not belong to the government sector. As ministries do not consolidated companies in its accounts on a line-by-line basis, then we cannot find a reason why we should make an exception in respect of the Ministry of the Environment and the State Forest Management Centre. The fact that the forest to be sold by the state and land under the forest are recognised in the balance sheet of the State Forest Management Centre is not a valid reason for line-by-line consolidation- The state has important asset groups (electrical structures, ports, etc.) in other companies as well. The net assets of all companies are recognised in the accounts of ministries as holdings, which means that state forest is also indirectly recognised in the accounts of the Ministry of the Environment. The Ministry of the Environment has also given detailed information about the quantity and value of state forest in its annual report. The new accounting policies and procedures that were implemented in 2010 give a more transparent estimate of the forest's value. It was impossible to check the data with the earlier accounting policies and procedures (irrespective of the entity in whose forest is recognised), which is why they cannot be reintroduced. **Comment by the National Audit Office:** The National Audit Office is of the opinion that comparing the State Forest Management Centre (SFMC) with state-owned companies is not appropriate, because the SFMC is a profit-making state agency that operates as state forest manager in the area of government of the Ministry of the Environment and on the basis of the Forest Act.
Accounting principles and procedures of provisions **39. Recommendation to the Minister of**	**Response of the Minister of Finance:** We agree to update the guidelines that concern the accounting policies and procedures that are applied to the formation of provisions in order to explain how provisions for the benefits payable upon the termination of authorisations or official relationships should

Recommendations of the National Audit Office	Response of the Minister of Finance
Finance: Update the accounting policies and procedures concerning the formation of provisions in the General Rules of State Accountancy. (items 34-38)	be calculated.
Budget implementation report **48. Recommendation to the Minister of Finance:** Adjustment of the budgeting principles must continue, and the observations made by the National Audit Office should thereby be considered. (items 41-47)	**Response of the Minister of Finance:** There are plans to start using harmonised accounting principles in budgeting and accounting in 2013 in order to improve the quality of financial planning and broaden the options of using financial reports. Harmonising the budgeting and accounting principles means, among others, that: the same terms and classifiers will be used in various financial management activities in the future; and accounting reports are also budget implementation reports, which helps avoid the submission of financial reports that cannot be linked to each other and guarantees options for more efficient budget control. The State Budget Act for 2013 will be submitted in a new format. The previous format will be replaced with blocks placed under each other and the amounts in the budget will be presented in one column. This makes it easier to compare the budgets of different years to each other and with the budget implementation report. The state budget for 2013 will be prepared on the principle of a consolidated report, which means that significant revenue, expenditure, investments and financing transactions inside the consolidation group will be eliminated. The budget will be planned for the agency or group of agencies where the money moves (as the state budget is cash based). The term 'transferable tax' will be introduced to the state budget – this includes the taxes, fees, fines and other encumbrances (hereinafter referred to as tax) that the tax collector transfers to the beneficiary defined in legislation. The applicable principles will be set forth with the amendments made to the regulation of the Minister of Finance 'Budget Classifier and Rules for Execution of State Budget Payments. The guidelines for using the budget classifier will be published on the website of the Ministry of Finance.
Budget planning **52. Recommendation to the Minister of Finance:** The content of financing transactions must be specified in the annual directive on the terms and deadline for drafting the budgets of ministries. The money required for servicing lease contracts that cannot be terminated must be distinguished in the budget and entering into such contracts must be permitted only if money is allocated for this purpose in the budget. (items 49-51)	**Response of the Minister of Finance:** We agree with the proposal to specify the content of financing transactions in the terms and conditions of preparation of the draft budgets of ministries. We will define the term 'lease contracts that cannot be terminated' in the guidelines on the use of the budget classifier that will be prepared in 2012, and we will establish rules for planning funds in the state budget on the basis of said contracts from 2014.
Organisation of internal audit of state **63. Recommendation to the Minister of Finance:** determine the strategic goals and priorities of the state's internal audit. (items 60-62)	**Response of the Minister of Finance:** the Ministry of Finance developed the professional qualification system of internal auditors and the general regulation for its implementation by the end of 2009 in order to achieve high quality in the professional activities of internal auditors. Said system regulation is based on the recommendations, requirements and principles of the Institute of Internal Auditors (hereinafter the IIA), and the international framework principles of professional activities. We rely on the following three pillars in developing the professional activities of internal auditors: 1) implementation of international professional standards in the professional activities of internal auditors; 2) preparing and launching the system of professional examinations of internal auditors; and 3) establishing the regulation of the quality assurance system. The Auditors Activities Act was adopted in the beginning of 2010. The Act stipulates requirements for internal auditors, the legal basis of their activities, their right to professional activities and the basis of supervising the quality of

Recommendations of the National Audit Office	Response of the Minister of Finance
	the professional activities of internal auditors. The following lower level regulations of the Auditors Activities Act entered into force in 2011: 1) professional examination programme; 2) professional examination procedure; 3) the format of the internal auditor's activity report and the procedure for its preparation and submission; 4) criteria for evaluation of the result of an examination similar to the sub-part of the special internal auditor part of the professional examination, and for evaluation of the professional qualification of internal auditor acquired abroad; 5) procedure for practicing under the guidance of a certified or recognised internal auditor and fir proving that the person has acted as an internal auditor; and 6) professional standards of internal auditors. Successful implementation of the professional qualification system of internal auditors required a broader streamlining of the legal framework that regulates the professional activities of internal auditors. The State Budget Act was amended for this purpose (the person responsible for internal audit was released from the obligation to audit the accuracy of the area of government's annual accounts), and the internal control and internal audit provisions of the Government of the Republic Act (e.g. the internal audit manager is obliged to give their opinion on the implementation and performance of the internal control system, and to submit it before the approval of the annual report) were also amended. The General Rules of Internal Audit have to be updated due to the legal amendments and we are currently working on it. The conceptual framework of internal audit is stipulated in the Auditors Activities Act and the Regulation of the Minister of Finance 'Establishment of Professional Standards of Internal Auditors', which internal auditors are obliged to adhere to in managing an internal audit unit, planning their professional activities, performing their work and reporting on the results of their work. Implementation of the standard requires the internal audit unit to try and perfect its organisation of work. Reorganisations of the professional activities of internal auditors and quality assessments have started in many areas of government (see the information given in the Consolidated Annual Report of State). Decisions on the reorganisation of internal audit work must be made in the ministry and its area of government by 1 July 2013. As for the issue of giving an opinion on the internal control system (monitoring the achievement of goals in your report), we would like to note that the purpose of such a provision is to give systematic feedback about the use of public sector funds to those whose duty it is to govern, which tells them whether risks have been managed, whether activities correspond to resolutions, and whether goals are achieved. The first such opinion was given by internal audit managers on the 2011 financial year. We have noted in the management report that internal audit managers usually gave limited opinions on the implementation and performance of internal control systems. The Ministry of Finance is planning to organise a seminar in autumn this year in order to level the knowledge of internal audit managers on the basis of the sample methods of giving such opinions. We agree with the recommendation that determining the strategic goals and priorities of internal control should be the next step. We will gather the information required for this via the internal auditor's activity report established with the Auditors Activities Act, the internal control division's activity report to be stipulated with the general rules, and the internal control system assessment report. Information received about external evaluations is also important. Once the external evaluations of the quality of internal audit divisions have been completed, we will be able to prepare an overview of the results of the qualification system's implementation.

Overview of the Consolidated Annual Report of the State

The Consolidated Annual Report of the State has been prepared pursuant to the State Budget Act and the Generally Accepted Accounting Principles of Estonia. The Consolidated Annual Report of the State comprises the state's annual accounts with the state budget implementation report (i.e. the state's consolidated and unconsolidated report), additional information about local governments, the public sector and the government sector.

The accounts of 17 state accounting entities with the agencies in their areas of government, the State Forest Management Centre, 59 foundations under the control of the state and 34 companies are consolidated into the consolidated annual accounts of the state. Additional information is given about 226 local authorities, and the indicators of the foundations, non-profit organisations and subsidiaries under their control are also included. On top of the above, additional information about the government sector and public sector also contains legal entities in public law and entities under their direct or indirect control (see Figure 1).

The Minister of Finance is responsible for the preparation of the Consolidated Annual Report of the State and state accountancy is organised by the State Accounting Department of the Ministry of Finance.

Figure 1. Entities consolidated in the Consolidated Annual Report of the State

<table>
<tr><td colspan="4">Consolidated Annual Accounts of Public Sector (additional information)</td></tr>
<tr><td colspan="3">Consolidated Annual Accounts of Government Sector (additional information)</td><td></td></tr>
<tr>
<td>Consolidated Annual Accounts of teh State

State accounting agencies (ministries with areas of government, Government Office and constitutional institutions)

Profit-making state agency

Subsidiaries of the state (companies)

Foundations controlled by the state</td>
<td>+ Local authorities</td>
<td>+ Public legal entities</td>
<td>+ Bank of Estonia

Guarantee Fund

Chamber of Notaries

Estonian Board of Auditors

Estonian Bar Association

Estonian Development Fund</td>
</tr>
</table>

Characterisation of audit

Reason and objective of audit

Pursuant to the State Budget Act, the National Audit Office must give its opinion of the accuracy of the Annual Accounts of the State and the legality of transactions.

The objective of the audit is to express an opinion on the accuracy of the Consolidated Annual Accounts of the State for 2011 and the legality of transactions. The Annual Accounts of the State contain the balance sheet of consolidated and unconsolidated assets and liabilities as at 31 December 2011, the consolidated and unconsolidated income statement, report on changes in net assets and cash flow statement for the financial year ended on 31 December 2011, a summary of the accounting policies and procedures used in preparing the annual accounts and other explanatory notes. The Annual Accounts contain the state budget implementation report as an additional report.

Principles of expressing an opinion

The opinion of the National Audit Office on the accuracy of the annual accounts of the state and the legality of transactions means that

- the annual accounts are correct if they were prepared according to the Generally Accepted Accounting Principles and the Accounting Act, and disclose all of the significant information that gives a true and fair view of the state's financial status; and

- transactions are legal if performed in compliance with the State Budget Act, the 2011 State Budget Act and the 2011 State Budget Act Amendment Act.

Observations made in the report are findings which due to the irrelevance of the amounts and the circumstances related to the appearance thereof did not affect the opinion of the National Audit Office as regards the accuracy of the annual accounts and the legality of transactions, but which could result in significant errors in the annual accounts or legality of transactions in the case of different conditions.

An observation is deemed significant if being aware of it has an impact on the user of the Annual Accounts. Significance depends on the content of the observation and its monetary amount, and it is evaluated against the background of the surrounding conditions. The monetary value of significance is found as a percentage of the assets calculated on the basis of the data given in the Consolidated Annual Accounts of the State.

The report does not include minor audit findings, which appeared in ordinary circumstances and whose impact is not significant. The attention of the auditee was brought to the need to remove such shortcomings either in a memo sent to them or during the audit.

Scope of audit

In the course of giving an opinion on the accuracy of the state's 2011 annual accounts, the National Audit Office evaluated the compliance of the annual accounts with the Generally Accepted Accounting Principles of Estonia. The Generally Accepted Accounting Principles are based on internationally recognised accounting policies and procedures (EU directives on accountancy, international standards of financial accounting and international standards of state accountancy) and their main requirements are established in the Accounting Act of the Republic of Estonia, which are supplemented by the guidelines issued by the Accounting Standards Board as well as the requirements set out in the General Rules of State Accountancy.

In order to express an opinion on the legality of transactions, the National Audit Office audited whether or not the transactions of state agencies have been performed in accordance with the State Budget Act, the

2011 State Budget Act and the 2011 State Budget Act Amendment Act in all material respects. For this purpose the National Audit Office focussed on the expediency and transparency of state budget implementation by checking the expedient use of the investments and labour expenses of state agencies, their adherence to the budget, and the justification of prepayments and expenses.

In addition to expressing an opinion on adherence to the State Budget Act the National Audit Office paid attention to adherence to the main principles of the Public Procurement Act and the State Assets Act when auditing legality. For this purpose it checked, on a random basis, whether the procedure stipulated in the Public Procurement Act was followed in the case of acquisitions that exceeded the limit and whether the main principles of public procurements had been adhered to in respect of smaller acquisitions, and evaluated whether assets had been used, preserved and transferred prudently.

Limitations of the scope

The Annual Accounts of the state contain the financial indicators of public undertakings, foundations controlled by the state and profit-making state agencies. The Annual Accounts of companies, foundations and profit-making state agency were audited by certified auditors. The National Audit Office has not performed any additional audit activities in these 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 foundations, companies and profit-making state agencies did not assess the legality of their transactions. The opinions of the certified auditors of foundations owned 100% by the state and companies where the state has no holding are given in Notes 2 and 3.

The National Audit Office does not give an opinion on the management report presented as a part of the Consolidated Annual Report of the State. The figures presented in the management report, which arise directly from the Annual Accounts, where checked.

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.

Use of the work of others

In order to give an opinion of the 2011 Consolidated Annual Report of the State, the National Audit Office conducted audit activities in transaction classes that are important from the viewpoint of the consolidated report either itself or on the basis of the work of certified auditors.

The accuracy of the annual accounts of foundations established by the state, public undertakings, profit-making state agencies, legal entities in public law and local authorities was audited by certified auditors. The National Audit Office proceeded from the opinions of certified auditors when expressing its opinion on the Consolidated Annual Report of the State.

Focus of audit

The National Audit Office performed the audit in accordance with the Audit Standards of the International Organisation of Supreme Audit Institutions, which regulate auditing financial statements as well as the legality of transactions within the scope of auditing financial statements. These standards require that an audit be planned and performed in a manner that allows the auditor to decide with sufficient assurance that the financial statements are free of any material misstatements and that transactions comply with the aforementioned legislation in all material respects. During the audit evidence was collected about the figures presented and the information disclosed in the Annual Accounts as well as about the legality of transactions. To plan relevant audit operations, the National Audit Office took into account the internal audit system introduced to prepare true and fair Annual Accounts and to observe the legality of transactions without expressing an opinion on the efficiency of the internal audit. The relevance of the accounting principles and procedures used, the justification of the accounting assessments made by the management and the general manner of presentation of the annual accounts were also assessed in the course of the audit.

The National Audit Office is of the opinion that the audit provides a sufficient basis for expressing an opinion on the accuracy of the Annual Accounts and the legality of transactions.

Time of completion of audit

The audit was completed in July 2012.

Audit team

Auditors of the Financial Audit Department took part in the audit, and it was managed by Audit Manager of the Financial Audit Department Krista Zibo.

Contact information

For further information on the audit contact the Communication Service of the National Audit Office on +372 640 0704 or +372 640 0777, or by e-mail on riigikontroll@riigikontroll.ee.

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

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

The number of the audit report in the internal records system of the National Audit Office is 2-1.8/12/60044/11.

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Earlier audits of the consolidated annual report of the state by the National Audit Office

15 August 2011 – **Audit Report of the National Audit Office on the 2010 Consolidated Annual Report of the State**

31 August 2010 – **Audit Report of the National Audit Office on the 2009 Consolidated Annual Report of the State**

28 August 2009 – **Audit Report of the National Audit Office on the 2008 Consolidated Annual Report of the State**

28 August 2008 – **Audit Report of the National Audit Office on the 2007 Consolidated Annual Report of the State**

28 August 2007 – **Audit Report of the National Audit Office on the 2006 Consolidated Annual Report of the State**

29 August 2006 – **Audit Report of the National Audit Office on the 2005 Consolidated Annual Report of the State**

30 August 2005 – **Audit Report of the National Audit Office on the 2004 Consolidated Annual Report of the State**

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

Note 1. Results of the audit of ministries and state agencies

Ministry/Agency	Total assets as at 31.12.2011 (thousand euros)	Opinion of the National Audit Office
Riigikogu	20 210	Audit report without remarks
President of the Republic	5219	Audit report without remarks
Chancellor of Justice	69	Audit report without remarks
Supreme Court	1869	Audit report without remarks
Government Office	13 255	Audit report without remarks
Ministry of Education and Research	427 392	Audit report without remarks
Ministry of Justice	116 735	Audit report without remarks
Ministry of Defence	410 723	Audit report without remarks
Ministry of the Environment	1 635 832	Audit report with a remark
Ministry of Culture	231 922	Audit report without remarks
Ministry of Economic Affairs and Communications	3 882 725	Audit report without remarks
Ministry of Agriculture	217 532	Audit report without remarks
Ministry of Finance	2 134 720	Audit report without remarks
Ministry of the Interior	342 887	Audit report without remarks
Ministry of Social Affairs	226 648	Audit report without remarks
Ministry of Foreign Affairs	84 994	Audit report without remarks

Note 2. Results of the audit of 100% state-owned foundations

Foundation	Total assets as at 31.12.2011 (thousand euros)	Auditor	Opinion
Enterprise Estonia	64 476	BDO Eesti AS	Opinion without remarks
Credit and Export Guarantee Foundation KredEx	196 616	KPMG Baltics OÜ	Opinion without remarks
State Infocommunication Foundation	5 652	Ernst & Young Baltic AS	Opinion without remarks
Estonian Accreditation Centre	246	Grant Thornton Rimess OÜ	Opinion without remarks
Eesti Information Technology Foundation	7 002	Grant Thornton Rimess OÜ	Opinion without remarks
Sports Training and Information Foundation	848	Villems & Partnerid OÜ	Opinion without remarks
Innove Foundation	26 234	AS Deloitte Audit Eesti	Opinion without remarks
Estonian Qualifications Authority	347	ANTIMAR Audiitorid OÜ	Opinion without remarks
Archimedes Foundation	91 309	Grant Thornton Rimess OÜ	Opinion without remarks
Estonian Science Foundation	5 313	1st Audit OÜ	Opinion without remarks
AHHAA Science Centre	13 822	Audiitorbüroo ELSS AS	Opinion with a remark
Tiger Leap Foundation	810	Grant Thornton Rimess OÜ	Opinion without remarks
Estonian Film Foundation	843	Rödl & Partner Audit OÜ	Opinion without remarks
Estonian Song and Dance Celebration	841	KMRA Audiitorbüroo OÜ	Opinion without remarks
Museum Building Foundation	3 440	KMRA Audiitorbüroo OÜ	Opinion without remarks
Estonian National Museum Construction Foundation	1 037	PKF Estonia OÜ	Opinion without remarks
Estonian Drama Theatre	14 239	Rödl & Partner Audit OÜ	Opinion without remarks
Cultural Publications	604	Ann Närep Audiitorühing OÜ	Opinion without remarks
UNESCO Estonian National Committee	26	ANTIMAR Audiitorid OÜ	Opinion without remarks
Russian Theatre	12 498	KMRA Audiitorbüroo OÜ	Opinion with remarks
Jõulumäe Recreation Centre	2 986	OÜ Allika Audiitor	Opinion without remarks
Integration and Migration Foundation Our People	2 502	Grant Thornton Rimess OÜ	Opinion with a remark
Ugala Theatre	4 731	OÜ Kivistik Consult	Opinion without remarks
Environmental Investment Centre	196 616	Grant Thornton Rimess OÜ	Opinion without remarks
Rural Development Foundation	41 653	KPMG Baltics OÜ	Opinion without remarks
Estonian Foundation for Disabled Persons	89	KMRA Audiitorbüroo OÜ	Opinion without remarks
Haapsalu Neurological Rehabilitation Centre	2 372	OÜ Probatus	Opinion without remarks
North Estonian Medical Centre	135 422	AS Deloitte Audit Eesti	Opinion without remarks
Viljandi Hospital	7 662	OÜ Hüva Nõu	Opinion without remarks
Sillamäe Drug Rehabilitation Centre	123	Grant Thornton Rimess OÜ	Opinion without remarks
University of Tartu Hospital	114 624	Grant Thornton Rimess OÜ	Opinion without remarks

Estonian e-Health Foundation	1 704	KMRA Audiitorbüroo OÜ	Opinion without remarks
Jõgeva Hospital	1 417	Audiitorbüroo ELSS AS	Opinion without remarks
Hiiumaa Hospital	2 465	OÜ TEHE	Opinion without remarks
Koeru Care Centre	1 927	KMRA Audiitorbüroo OÜ	Opinion without remarks
Private Forest Centre	957	Grant Thornton Rimess OÜ	Opinion without remarks
Estonian Cooperation Assembly	56	TPMM Nordic OÜ	Opinion with a paragraph stating a fact but without a remark
President of the Republic Cultural Foundation	16	KMRA Audiitorbüroo OÜ	Opinion without remarks
International Centre for Defence Studies			Audit not completed

Source: auditeeritud 2011. a majandusaasta aruanded

Note 3. Results of the audit of public undertakings

Undertaking	Holding (%)	Total assets as at 31.12.2011 (thousand euros)	Auditor	Opinion
Eesti Kaardikeskus AS	100%	467	Audiitorbüroo Silvia Sirel OÜ	Opinion without remarks
Eesti Geoloogiakeskus OÜ	100%	1 323	HLB Expertus KLF OÜ	Opinion without remarks
Eesti Keskkonnauuringute Keskus OÜ	100%	5 365	BDO Eesti AS	Opinion without remarks
AS Eesti Metsataim	60%	2 812	AS Deloitte Audit Eesti	Opinion without remarks
Eesti Energia AS	100%	2 036 500	AS PricewaterhouseCoopers	Opinion without remarks
A.L.A.R.A. AS	100%	1 179	Rödl & Partner Audit OÜ	Opinion without remarks
Elering AS	100%	486 378	AS PricewaterhouseCoopers	Opinion without remarks
AS Eesti Loots	100%	18 604	Rödl & Partner Audit OÜ	Opinion without remarks
AS Eesti Post	100%	41 009	Ernst & Young Baltic AS	Opinion without remarks
AS Eesti Raudtee	100%	309 493	KPMG Baltics OÜ	Opinion without remarks
AS Eesti Vedelkütusevaru Agentuur (OSPA)	100%	146 667	Rödl & Partner Audit OÜ	Opinion without remarks
Elektriraudtee AS	100%	23 011	KPMG Baltics OÜ	Opinion without remarks
AS Estonian Air	90%	116 049	AS Deloitte Audit Eesti	Opinion without remarks
AS Levira	51%	31 366	Ernst & Young Baltic AS	Opinion without remarks with a paragraph stating a fact, financial year from 1 April 2011 to 31 March 2012
AS Metrosert	100%	1 598	KMRA Audiitorbüroo	Opinion without remarks
Pärnumaa Teed AS	100%	5 416	Audiitorbüroo Roy Vaimand OÜ	Opinion with a paragraph stating a fact but without a remark
Saaremaa Teed AS	100%	3 308	Audiitorfirma KLEA OÜ	Opinion without remarks
AS Saarte Liinid	100%	55 893	Ernst & Young Baltic AS	Opinion without remarks
AS Tallinna Lennujaam	100%	140 207	AS PricewaterhouseCoopers	Opinion without remarks
AS Tallinna Sadam	100%	513 480	Ernst & Young Baltic AS	Opinion with remarks
Tartumaa Teed AS	100%	3 975	Kagu-audit OÜ	Opinion without remarks
Kredex Krediidikindlustus AS	100%	32 597	KPMG Baltics OÜ	Opinion without remarks
Teede Tehnokeskus AS	100%	2 649	Baker Tilly Baltics OÜ	Opinion without remarks
Virumaa Teed AS	100%	2 892	Ülase Raamatupidamisteenused OÜ	Opinion without remarks
Võrumaa Teed AS	100%	4 788	Kagu-audit OÜ	Opinion without remarks
Lennuliiklusteeninduse AS	100%	23 656	KPMG Baltics OÜ	Opinion without remarks
AS Vireen	100%	5 163	OÜ Pluss Kümme	Opinion without remarks
AS Eesti Loto	100%	9 499	KMRA Audiitorbüroo	Opinion without remarks

Riigi Kinnisvara AS	100%	326 980	AS PricewaterhouseCoopers	Opinion without remarks
AS Andmevara	100%	1 299	KMRA Audiitorbüroo OÜ	Opinion without remarks
AS Hoolekandeteenused	100%	21 548	OÜ Audiitorbüroo RKT	Opinion without remarks
AS Ökosil	35%	427	Ernst & Young Baltic AS	Opinion without remarks
AS Eesti Vanglatööstus	100%	1 186	OÜ Villems ja Partnerid	Opinion without remarks
State Forest Management Centre	100%	1 193 631	AS Deloitte Audit Eesti	Opinion with a paragraph stating a fact but without a remark