Memorandum of the National Audit Office about the audit 'Impact of the vehicle lease contracts of local governments and their undertakings on debt burden'

The National Audit Office audited 123 organisations in total, incl. 83 local governments and 40 entities depending on them. The following conclusions were made during the audit:

- <u>The obligations arising from 43% of the audited vehicle lease agreements are not recognised in the calculation of the net debt burden of local governments and/or their accounting units. The calculation of the debt burden of 27 local governments and 39 local government accounting units is therefore incorrect.</u> The main reasons of this are the mistakes made in the classification of lease agreements – they have not been recognised in accounting as assets, capital lease payables or obligations that cannot be cancelled. The obligations arising from 123 agreements have not been included in the net debt burden as at 31 December 2015; the obligations arising from 84 of these agreements amount to an estimated 1.23 million euros.

- <u>The impact of vehicle lease agreements on the government sector's debt burden has not been considered.</u> One of the reasons are the mistakes made in classifying the agreements as operating and capital lease agreements. In addition to this, the long-term obligations that cannot be cancelled recognised in the off-balance sheet account have not been considered as part of the government sector's debt, as Statistics Estonia only considers balance sheet accounts.

The National Audit Office finds that the audited local governments and the Ministry of Finance must revise and streamline everything concerning lease agreements, so that the correct data for calculating the net debt burden of local governments as well as the debt burden of the government sector are guaranteed.