riigikontroll
National Audit Office of Estonia

Accuracy of the annual accounts of 2023 and regularity of transactions of the state

Report of the National Audit Office to the Riigikogu

Tallinn, 30 August 2024

Summary of audit results

Opinion on the accuracy of the annual accounts

The annual accounts of the state 2023, which show the state's consolidated result to be €0.8 billion and consolidated assets as at 31 December 2023 to be €24.1 billion, present the state's financial position, financial performance and cash flows of the concluded accounting period fairly in all material aspects.

Opinion on the regularity of transactions

The economic transactions of the state have in all material respects been carried out in compliance with the State Budget Act, the 2023 State Budget Act and the Act Amending the 2023 State Budget Act. The National Audit Office inspected whether the constitutional institutions, the Government Office and the institutions in the area of government of the ministries have based their expenditure, investments and financing transactions on the budget granted to them by law.

In the opinion of the National Audit Office, the State Budget Implementation Report 2023, which specifies budget revenue to be €14.9 billion, expenditure €15.9 billion, investments €701.6 million and financing transactions €1.3 billion, provides reliable information on the revenue accumulated, expenses made, and investments and financial transactions carried out by the state, leaving out the qualification issued regarding the budget implementation report of the Ministry of Defence[1].

Qualification on the Budget Implementation Report

In the 2023 State Budget Implementation Report, the part concerning the Ministry of Defence shows overstated investments in the amount of €22.7 million and expenditure in the amount of €167.2 million and grant revenue in the amount of €24.3 million used for these purchases. The National Audit Office issued an qualification, because the Ministry of Defence recorded in the Budget Implementation Report a total of €189.9 million worth of defence-related assets (including the expenditure and investments referred to above) that they were planning to bring to Estonia, but which had not arrived in Estonia as at 31 December 2023 and the risks and rewards associated with the possession thereof had not been transferred from the seller to the buyer, i.e. the Ministry of Defence.

Main observations of the National Audit Office

Main audit observations

In 2023, around €3.2 billion was provided from the state budget for domestic grants. However, the explanatory memorandum to the

[1] Here and hereinafter, the Ministry of Defence has been addressed as a state accounting entity within the scope of its area of government. The Ministry of Defence's area of government includes the Defence Forces, the Defence League, the Centre for Defence Investment, the Defence Resources Agency, the Estonian Foreign Intelligence Service and the Estonian War Museum.

draft Budget Act does not make clear in which areas of activity, why and on what basis the grants were to be distributed. Annex 3 to the explanatory memorandum discloses only partial information on the legal entities receiving grants. According to the analysis of the National Audit Office, the actual amount of domestic grants given was almost four times higher than the amount stated in Annex 3. The distribution of domestic grants is not always transparent, as some institutions have no procedures for distributing domestic grants and money is also awarded without public competition. The institutions are often disinterested in ensuring targeted use of grants.

The Social Insurance Board performed a partial annual inventory of receivables and liabilities related to the pensions, social benefits and liabilities, which is why it was not possible to verify the accuracy of these balances. The National Audit Office has drawn attention to problems related to an inventory of receivables and liabilities and the importance of an inventory since 2018. Inventory is an important internal control measure, which provides assurance that pensions, social benefits and benefits are recorded comprehensively and correctly.

When following up on the observations and recommendations highlighted in previous audits, the National Audit Office identified that the problems have roughly remained the same.

- Similarly to previous years, the National Audit Office draws attention to the weaknesses in the internal control system of the Estonian Centre for Defence Investments and the Defence Forces, which affect the accounting of assets, expenses and receivables in both accounting and budget implementation.
- The increase in the Government of the Republic's reserve fund and the volume of unused budget surplus has stopped in 2023, but it will still take around half a year to determine the unused budget balances for the financial year.

Recommendations of the National Audit Office

As a result of the audit, the National Audit Office recommended that:

- the minister of defence proceed from the principles of the Estonian Financial Reporting Standard when recording purchases in the Budget Implementation Report, cooperate with the State Shared Service Centre to review the accounting of inventories and recording thereof in budget implementation and, in cooperation with the director general of the Centre for Defence Investment and the commander of the Defence Forces, continue to improve asset accounting, inventory and other work processes;

- the minister of finance review the principles of distributing domestic grants and establish clear rules for making decisions concerning the financial year ended;
- the minister of social protection ensure sufficient resources for a pre-inventory analysis and an inventory in the Social Insurance Board.

The ministers agreed with the recommendations of the National Audit Office.

The minister of defence promised to update the principles of recording transactions and continue to improve asset accounting, asset inventory and other work processes.

The minister of finance assured that they will improve the explanatory memorandum annex concerning grants, review the opportunities for more precise regulation of the distribution of domestic grants and tackle the bottlenecks related to the closing of the fiscal year in the amendment process of the base law.

The minister of social protection assured that an action plan will be developed in cooperation with the Social Insurance Board for inventories.

As a result of the audit, the National Audit Office has sent memoranda to the ministries and the Government Office with more detailed observations and recommendations.