

Accuracy of the annual accounts of 2021 and regularity of the transactions of the state

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Summary of audit results

Opinion on the accuracy of the annual accounts

The 2021 Annual Accounts of the State, which show the state's consolidated result to be –274.28 billion euros and consolidated assets as of 31 December 2021 to be 19.43 billion euros, present the state's financial position, financial performance and cash flows of the concluded accounting period fairly in all material aspects, apart from the qualification on the balance of tangible fixed assets.

Qualification on the balance of tangible fixed assets

The National Audit Office makes a qualification on the fixed assets of the Defence Forces as presented under the entry "Tangible fixed assets" in the consolidated and unconsolidated balance sheet in the amount of 419.05 million euros as at 31 December 2021.

The accounting for the assets of the Defence Forces, and the mistakes in the accounting, do not allow making sure or verifying that the balance of tangible fixed assets in the state's consolidated and unconsolidated balance sheet is correct. One of the unavoidable operations for ensuring the accuracy of the accounting balance is the comparison of data from accounting and the analytical register of the Defence Forces' fixed assets as at 31 December 2021, which the Defence Forces have not done.

In 2021, the Defence Force transferred the fixed asset accounting to the Defence Forces fixed asset accounting module in Axapta, but by the time this audit report was prepared, the Defence Forces had not been able to verify the physical existence of some of the assets accounted for and their actual state and location.

Opinion on the regularity of transactions

For your information,

the transactions are legal within the extent of the state's annual accounts if carried out in accordance with the State Budget Act, the State Budget Act 2021, the State Supplementary Budget Act 2021, and the State Budget Act Amendment Act 2021. The basis for verifying compliance is the budget allocated to the specific constitutional institution, the Government Office or the area of governing.

The National Audit Office finds that the economic transactions of the state have in all material aspects been carried out in accordance with the State Budget Act, the State Budget Act 2021, the State Supplementary Budget Act 2021, and the State Budget Act Amendment Act 2021. The National Audit Office checked whether the constitutional institutions, the Government Office and the government agencies 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 report on the implementation of the state budget of 2021, which specifies budget revenue to be 12.43 billion, expenditure to be 12.78 billion, investments to be 584.73 million and financing transactions to be 477.92 billion euros, provides reliable information on the revenue

accumulated, expenditure made, and investments and financing transactions carried out by the state.

The main observations of the National Audit Office:

The main observations in the audit

The summary parts of the State Budget Act 2021, the State Supplementary Budget Act 2021, and the State Budget Act Amendment Act 2021 were accurate. Similarly to last year, the National Audit Office identified minor errors in the budget lines of the ministries with regard to the State Budget Act 2021 and the State Budget Act Amendment Act 2021.

From the explanatory memorandum of the 2022 state budget bill submitted to the Riigikogu, it is not clear what the money is used for. The comparability of the periods is also not ensured, there are arithmetic errors and misleading texts.

The share of government reserves in the total volume of the state budget has increased over the years. In the years 2020-2021, the increase in government reserves was justified by the need to cover the additional costs caused by the COVID-19 pandemic, however, when drafting the State Budget Act the Ministry of Finance must analyse how the continuing growth trend will affect the Riigikogu's role in deciding on the budget.

At the same time, the Ministry of Finance is reviewing the principles of budgeting and developing a new budget information system. **If the changes to the budgeting framework are not agreed upon before the development of the new information system, there is a risk that the budgeting methodology will have to be adjusted based on the capabilities of the information system.**

Based on the audit results, the National Audit Office gave recommendations to the Minister of Defence to improve the asset accounting process and to the Minister of Finance to develop budgeting methodology and control measures and to introduce a new budget information system.

Responses of the auditees:

The ministers agreed with the recommendations by the National Audit Office. The Minister of Defence promised to continue reviewing the processes related to material accounting. The Minister of Finance confirmed that the activities related to the reviewing of the budgeting methodology and the development of the new information system are in line with the recommendations by the National Audit Office.