riigikontroll
National Audit Office of Estonia

Accuracy of the State's Financial Statements for 2025 and Regularity of Transactions

Report of the National Audit Office to the Riigikogu
Tallinn, 27 August 2026

Summary of audit results

Qualified opinion on the financial statements

The State's financial statements for 2025, which report a consolidated result of €0.4 billion and consolidated assets of €27.5 billion as at 31 December 2025 (excluding the amount referred to in the section "Basis for the qualified opinion: inventory balance"), present fairly, in all material respects, the State's financial position, financial performance and cash flows for the year ended 31 December 2025.

Basis for the qualified opinion: inventory balance

The National Audit Office was unable to verify the accuracy of the Ministry of Defence's[1] inventory balance of €1.2 billion as at 31 December 2025 and €0.8 billion as at 31 December 2024, recognised under "Inventories" in the State's consolidated and unconsolidated balance sheets, because there are significant deficiencies in the Defence Forces' inventory accounting and it is unclear which inventories are recognised in the balance sheets, in what quantities and at what value, and which have been unjustifiably omitted from them.

Opinion on the regularity of transactions

The financial transactions of the state have in all material respects been carried out in compliance with the State Budget Act, the 2025 State Budget Act, the 2025 Supplementary Budget Act and the 2025 Second Supplementary Budget Act. The National Audit Office examined whether the constitutional institutions, the Government Office and the institutions within the ministries' areas of government incurred expenditure and made investments and financing transactions in accordance with the budgets allocated to them by law.

In the opinion of the National Audit Office, the State Budget Implementation Report for 2025, according to which budget revenue is €18.3 billion, expenditure €18.1 billion, investments €1.0 billion and financing transactions €0.2 billion, provides reliable information on the revenue collected, expenditure incurred and investments and financing transactions carried out by the state.

Main observations of the audit

Main observations of the National Audit Office

Significant shortcomings remain in the financial management of the Estonian Centre for Defence Investments and the Defence Forces. There are also significant deficiencies in the institutions' internal controls, which affect the accounting for assets, expenses

[1] Here and below, references to the Ministry of Defence as a state accounting entity include its entire area of government. The Ministry of Defence's area of government includes the Estonian Defence Forces, the Estonian Centre for Defence Investments, the Defence Resources Agency, the Estonian Foreign Intelligence Service and the Estonian War Museum.

and receivables in both financial accounting and budget implementation. The National Audit Office identified problems in contract management and in monitoring contract performance, verifying the conformity and receipt of goods, and recognising the goods in both the inventory accounting system and the accounts. These deficiencies indicate a risk that the institutions do not have a complete and reliable overview of the composition of their inventories, of when and whether goods specified in contracts have been received, or of whether the goods received comply with the contract terms. Inventory shortages, poor condition, expiry or misuse may also not be detected in time.

The Ministry of Defence has assumed potential obligations for Estonia arising from the intermediation of funds for the acquisition of defence equipment and supplies for the target countries of EU defence cooperation, which have not been taken into account in the state budget. The 2025 State Budget Act authorises the Ministry of Defence to act as an intermediary for funds needed to acquire defence equipment and supplies for those countries. The authorisation was based on the assumption that the intermediation would not expose the state budget to any risks and that the Ministry of Defence's budget would not be used for this purpose.

During 2025, the Ministry of Defence received €138.4 million in advance payments of support funds intended for intermediation (€531.9 million in 2024). On the basis of the contracts reviewed in the audit, the National Audit Office is of the opinion that the Ministry of Defence has exposed the state budget to the risks associated with normal procurement activities and ensuring that support funds are used for their intended purpose. Some suppliers had not fulfilled their obligations by the date of this report, and there is a risk that costs of around €70 million may have to be covered from the Estonian state budget.

The limit on the assumption of financial obligations (hereinafter the limit) is the maximum amount of financial obligations that state authorities within a ministry's area of government may assume, with the minister's authorisation, for upcoming budgetary years.

The limit means that, in any upcoming budgetary year, the total amount of financial obligations to be performed by the area of government must not exceed 50% of the funds with limits in the financing scheme for that year.

Source: § 60 (4) of the State Budget Act.

It is not clear whether ministries' areas of government comply with the limit on the assumption of financial obligations laid down in the State Budget Act, because neither the Ministry of Finance nor the ministries' areas of government monitor compliance with the limit. Consequently, the Ministry of Finance has no overview of how much of the state budget is tied up in long-term contracts and other financial obligations, or whether the limit has been exceeded in any area of government. Monitoring compliance with the limit is important so that financial obligations assumed in the past do not unreasonably restrict the budgetary choices of the current and future governments or reduce the Riigikogu's substantive scope for decision-making on the state budget. Furthermore, the Ministry of Finance does not have a uniform methodology for determining which types of financial obligations, to what extent and from which funding sources, should be taken into account when calculating the limit. During the National Audit Office's audit, the Ministry of Finance began drafting guidelines on the assumption of multi-year financial obligations.

Ministries' areas of government have not complied with the requirements of the State Budget Act and the rules on the carry-over of unused budget funds when carrying over and using those funds. In 2025, a total of €1.8 billion was carried over to 2026, approximately 8.3% of the final budget for 2025. A continuing problem was that the purpose, agency or economic content of the funds carried over was changed after the carry-over decisions had been made, or the funds were used in excess of the amount provided for in the relevant budget line. Such a practice reduces the transparency of the state budget and makes it impossible to verify that unused funds were carried over to the following year solely for the purpose for which they were originally allocated.

The Government's practice of repeatedly changing the activities funded from the earmarked reserve during the budgetary year reduces the transparency of the state budget. In 2025, €211.4 million was allocated to the Government's reserve. Of the funds distributed from the reserve, 92% was earmarked for activities previously approved by the Government. Although the need for activities funded from the earmarked reserve is known and approved in advance at government level, the current practice reduces the transparency of the state budget because the list of activities funded from the reserve may be amended by decisions of the Government of the Republic. These changes are not publicly traceable. In 2025, the Government of the Republic discussed amendments to the list of activities funded from the earmarked reserve on at least 14 occasions.

Recommendations of the National Audit Office

As a result of the audit, the National Audit Office made several recommendations to the Minister of Defence and the Minister of Finance.

According to the Government of the Republic Act, a minister must ensure the implementation of the internal control system in the ministry's area of government. The Minister of Defence must take measures to improve financial management and ensure that financial transactions are recognised in accordance with the Estonian financial reporting standard. In cooperation with the Director General of the Estonian Centre for Defence Investments and the Commander of the Defence Forces, the Minister of Defence must address the problems identified in asset accounting, stocktaking and other work processes.

The National Audit Office recommends that the Minister of Finance establish and implement a uniform methodology and a centralised reporting and monitoring system for accounting for financial obligations in upcoming budgetary years, and strengthen controls over the carry-over of unused budget funds to ensure compliance with the rules and the use of the funds carried over for the same purpose for which they were allocated in the state budget. The National Audit Office also recommends abolishing the earmarked reserve and incorporating activities known in advance into the budgets of the relevant areas of government or, if the earmarked reserve is retained, ensuring that allocations from the reserve and any changes to them are transparent and traceable.

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

The Minister of Defence confirmed that vigorous efforts to improve the organisation of the Ministry of Defence's area of government must continue. In cooperation with the Defence Forces and the Estonian Centre for Defence Investments, a comprehensive, long-term action plan has been drawn up for the area of government to improve asset accounting, stocktaking and the monitoring of contract performance. In addition, the Ministry plans to assess more broadly the measures needed to mitigate risks to the state budget.

The Minister for Finance promised to examine whether the Estonian Centre for Defence Investments has the authority to enter into contracts that may entail financial obligations for the state budget. The Minister also promised to analyse the need for and feasibility of implementing centralised reporting on the financial obligations of all ministries for upcoming budgetary years. The Minister of Finance did not agree with the National Audit Office's recommendation to abolish the earmarked reserve, but promised to consider publishing a summary table of allocations from the earmarked reserve and explanatory notes on changes on the Ministry's website to make it easier to track changes over time. The Ministry of Finance also plans to consider how to strengthen the link between the carry-over of unused budget funds and performance reporting, update the guidelines on the carry-over of

unused budget funds and clarify how over- and under-execution of budget lines should be treated.