Structure of the internal control system, organisation of accounting (incl. disclosure of financial information) and the legality of transactions in the Rural Municipality of Rakke in 2004 and 2005

Audit report No. OSV-2-6/06/79 of 29 August 2006

Summary

The purpose of the audit was to assess the compliance of the accounting of the Rural Municipality of Rakke with accounting legislation and instructions, the compliance of the economic transactions with relevant legislation and the operativeness of the internal control system applied for ensuring the targeted and lawful use of the funds of the Rural Municipality. During the audit annual accounts 2004 and 2005 were not assessed. Instead, the audit points out the main observations regarding the organisation of accounting, the legality of the transactions performed in the audited areas and the operativeness of the internal control system.

According to the National Audit Office, the internal control system of the Rural Municipality of Rakke needs serious improvement in order to ensure the lawfulness and purposefulness of the economic transactions of the Rural Municipality, to avoid mistakes in annual accounts and harmful transactions, etc. There are deficiencies in the organisation of the accounting of the Rural Municipality of Rakke, which have led to serious errors in annual accounts. The legislation of the state or the Rural Municipality has not been complied with upon performance of economic transactions.

Main observations

- There are serious deficiencies in the internal control system of the rural municipality. For example:
    - The provisions of the state and Rural Municipality legislation have not been adhered to upon budgeting and implementation of the budget, records management, asset and liability accounting, organisation of inventory checks and public procurement, disclosure of documents and data, etc.
    - The rules regulating the internal work organisation of the Rural Municipality of Rakke have not been brought into compliance with the legislation serving as the basis for the internal work organisation and they do not correspond to the actual organisation and division of work in the Rural Municipality.
    - The Government of the Rural Municipality of Rakke has made decisions regarding granting use of and transferral of the property of the Rural Municipality, used budget funds, entered into other economic transactions, and entered into contracts in the name of the Rural Municipality without proper authorisation. The Rural Municipality Mayor has personally made decisions, which belong within the competence of the Government of the Rural Municipality.
    - The Rural Municipality of Rakke has repeatedly used the budget funds of the Rural Municipality for a purpose other than the prescribed purpose, failed to adhere to the prescribed amount of expenses, and used the reserve funds allocated for incidental expenses for increasing the sums specified in the budget (e.g. payment of salaries and wages) without applying to the Council of the Rural Municipality for permission to amend the budget.
    - The Rural Municipality has repeatedly made support payments without a proper procedure and used budget funds not allocated for such purpose in the budget of the Rural Municipality.
    - Upon maintenance and disclosure of the document register, the Public Information Act has not been complied with.
    - The supervision exercised by the Audit Committee over the activities of the Government of the Rural Municipality has been poor.

- There are deficiencies in the organisation of the accounting of the Rural Municipality of Rakke, which have led to serious errors in accounting the fixed assets, receivables and appropriations. For example:
    - The accounting of the fixed assets is not all-inclusive and fixed asset transactions have not been accounted pursuant to their economic substance (among other things, the let premises have not been accounted as real estate investments). The depreciation rates used in accounting fixed assets are not based on the actual useful life of the assets. The results of the inventory check of the fixed assets are not all-inclusive or objective.
    - The results of the inventory check of the receivables are not all-inclusive, the receivables are not assessed periodically and the write-down of uncollectible accounts is insufficient.
    - The appropriation pertaining to the closure of a landfill belonging to the Rural Municipality has not been accounted.
- The leaders of the Rural Municipality have participated in making decisions, which affected their own economic interests or created a conflict of interests.

Main recommendations

To the Council of the Rural Municipality of Rakke

- To improve the work of the Audit Committee of the Council in order to ensure systematic supervision over the Rural Municipality of Rakke and the agencies administered by the latter.

To the Rural Municipality of Rakke

- To improve the internal control system, incl.:
    - To bring the rules regulating the internal work organisation of the Rural Municipality of Rakke into compliance with the legislation serving as the basis thereof and the actual work organisation.
    - To bring the procedure for possession, use and disposal of the assets and property of the Rural Municipality of Rakke (incl. the decision-making capacity) into compliance with the actual needs of the Rural Municipality and to ensure adherence to the procedure.
    - To establish the principles of records management.
    - To improve supervision over performance of the budget and contracts.
    - To organise thorough inventory checks of the assets and liabilities.
    - To fulfil the requirement established by the Public Information Act to disclose relevant information on the website of the Rural Municipality.
    - To ensure timely communication of relevant information to the Accounting Department.
- To bring the accounting policies and procedures into compliance with the underlying legislation. In accounting, to follow the legislation of the state and the Rural Municipality and the internal procedures of the Rural Municipality.

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The Council of the Rural Municipality of Rakke and the Government of the Rural Municipality of Rakke agreed with the recommendations set out in the report of the National Audit Office and submitted further explanations.

The Council of the Rural Municipality of Rakke intends to revise the procedures for allocation of support, provision of social services and making payments, the procedure for disposal of the reserve funds, the statutes of the agencies administered by the Rural Municipality and bring them into compliance with legislation. The Council of the Rural Municipality of Rakke also intends to prevent the participation of the members of the Council of the Rural Municipality in making decisions, which could create a conflict of interests and to review the contracts of provision of the transportation service by the Mayor and Deputy Mayor of the Rural Municipality upon drafting the budget for 2007. The Council of the Rural Municipality of Rakke will obligate the Audit Committee to develop a work plan in order to ensure systematic supervision over the Government of the Rural Municipality and the agencies administered by the latter.

The Government of the Rural Municipality of Rakke is planning: to submit budget amendment proposals to the Council of the Rural Municipality of Rakke; to submit public procurement declarations in compliance with the Public Procurement Act and, in the case of tenders, to hold negotiations with at least three tenderers, if possible; to disclose the legislation of the Rural Municipality of Rakke pursuant to the procedure prescribed by law; to establish a single document register; to bring registration and write-off of the fixed assets and depreciation accounting in order; to register land units which have been transferred into municipal ownership; to account let premises under real estate investments; to account the assets of public utilities agency Rakke Kommunaalasutus in its balance sheet; to enter into contracts of material liability with all the persons who are liable for the assets and property of the Rural Municipality.

According to the National Audit Office the Government of the Rural Municipality of Rakke should form an appropriation in connection with the closure of the landfill belonging to the Rural Municipality of Rakke regardless of the fact that there is no expert assessment of the emergence of foreseeable expenses.

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