Organisation of the internal control system and accounting and the legality of the economic transactions in the Rural Municipality of Toila in 2004 and 2005

Audit report No. OSV-2-6/06/87 of 24 October 2006

Summary

The purpose of the audit was to assess the compliance of the accounting of the Rural Municipality of Toila with accounting legislation and instructions, the compliance of the economic activities with relevant legislation and the functionality 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 operativeness of the internal control system, and the legality of the transactions performed in the audited areas.

In the audited transaction classes the National Audit Office did not identify any considerable deficiencies in the legality of the economic transactions pertaining to the fixed assets or in the accounting of cash at bank and in hand, long-term financial investments, targeted financing received, in the accounts of loan obligations or in the legality of the economic transactions performed therewith or in the legality of the support payments.

According to the National Audit Office, there are deficiencies in the organisation of the accounting of the Rural Municipality of Toila, which have led to serious errors in annual accounts. The economic transactions performed, except remuneration of the work of the officials of the Rural Municipality, are largely in compliance with laws and local legislation. More effective operation of the Rural Municipality's internal control system is hindered primarily by the inactiveness of the Audit Committee of the Council of the Rural Municipality.

Main observations

- The Audit Committee of the Council of the Rural Municipality of Toila is not a part of the effective internal control system, because it uses only a small portion of the possibilities provided for in the Loan Government Organisation Act for exercising its audit competence (assessment of the annual report and implementation of the budget).
- The Rural Municipality of Toila has unregistered fixed assets in the amount of EEK 415,085 and the accounting of the depreciation of the fixed assets does not comply with their useful life in several instances.
- In conflict with the terms and conditions provided for in the Local Government Organisation Act the Rural Municipality of Toila has paid additional remuneration, bonuses and compensation to the Rural Municipality Mayor in the amount of EEK 138,500.

Main recommendations

- To plan the work of the Audit Committee of the Rural Municipality of Toila pursuant to the established work plan or the single tasks given by the Council in such a manner than the audit competence given to the Audit Committee in the Local Government Organisation Act would be covered to a greater extent.
- To adjust the accounting of the vehicles, which have been actually leased by way of financial lease, but treated as vehicles leased by way of operational leasing, in the amount of EEK 415,085 and pay more attention to the suitability of the depreciation method applied upon registration of the fixed assets.
- To avoid a conflict with laws upon remuneration of the work of the officials of the Rural Municipality or upon payment of compensation to them.
- To consider the reasonableness of the additional remuneration, bonuses and compensations paid by the Government of the Rural Municipality of Toila to the Rural Municipality Mayor through 2004-2005.

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The Council of the Rural Municipality of Toila and the Government of the Rural Municipality of Toila agreed with the assessments set out in the report of the National Audit Office, giving additional explanations and expressing the intention to eliminate the deficiencies. According to the Chairman of the Council of the Rural Municipality of Toila and the Mayor of the Rural Municipality of Toila, some deficiencies, which the National Audit Office pointed out in its report, have already been eliminated. For example, the leasing relationship of the KIA automobiles has been registered in financial accounting on the basis of its nature as financial lease and the money received from OÜ Foronte under the sales contract made in July 2005 has been accounted as a down payment for the fixed assets sold.

The Chairman of the Council of the Rural Municipality of Toila and the Mayor of the Rural Municipality of Toila certify the following in their written reply to the audit report of the National Audit Office: the Rural Municipality of Toila will transfer the acquisition cost of the fa?ade and lighting installations of the Pühajõe Church off the fixed assets of the Rural Municipality; in the future the Rural Municipality will draw up the draft budget in the form of a letter of explanation, which creates a better basis for monitoring the implementation of the budget and the costs incurred; the Rural Municipality will ensure that the depreciation accounting of the fixed assets is in line with the useful life of the assets; the Rural Municipality will proceed from the accrual method of accounting upon accounting economic transactions; the Rural Municipality will disclose the entire required information about the activities of the Rural Municipality as a local government unit and adhere to the good practice of public procurement upon implementation of tenders falling below the threshold of public procurement. The work of the Audit Committee will also be made more effective, considering the competence provided for in the Local Government Organisation Act and bring the Statutes of the Rural Municipality of Toila into compliance with the Local Government Organisation Act by the end of 2006.

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