Organisation of the internal control system and accounting and the legality of the economic transactions in the City of Kiviõli in 2004 and 2005

Audit report No. OSV-2-6/06/95 of 11 December 2006

Summary

The purpose of the audit was to assess the compliance of the accounting of the City of Kiviõli with accounting legislation and instructions, the compliance of the economic activities of the City with relevant legislation and the operativeness of the internal control system applied for ensuring the targeted and lawful use of the funds of the City. 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 financial investments, targeted financing received, accounting of loan obligations or the legality of the economic transactions performed therewith, or the legality of the economic transactions performed with tangible assets.

According to the National Audit Office, there are deficiencies in the organisation of the accounting of the Rural Municipality of Kiviõli, which have led to serious errors in annual accounts. The economic transactions performed, except remuneration of the work of the officials of the City and authority being exceeded upon transfer of assets, are largely in compliance with laws and local legislation. There are areas in the internal control system of the City, which require development.

Main observations

- There are deficiencies in the internal control system of the City of Kiviõli, i.e. the inactiveness of the Audit Committee, the non-transparency of the budget and the failure to disclose the required information.
- The City of Kiviõli has fixed assets in the amount of EEK 526,869, which have not been registered and a large number of apartments belonging to the City have been shown incorrectly in financial accounting.
- In several instances the regular inventory checks of the fixed assets and receivables of the City of Kiviõli do not comply with the established rules.
- The City of Kiviõli has, in conflict with the Local Government Organisation Act, paid additional remuneration, holiday pay and support to the members of the City Government and the Mayor in the amount of EEK 92,000.

Main recommendations

- To develop the internal control system of the City of Kiviõli. To that end, to plan the activities of the Audit Committee of the Council of the City of Kiviõli in such a manner that the audit competence of the Audit Committee as provided for in the Local Government Organisation Act would be covered to a larger extent; to make the budget more transparent, opening the substance of its revenue and expenditure in a letter of explanation, and to publish all the required information on the website of the City.
- In the future, to avoid breaching the law upon remuneration of the work of the City officials and a conflict with the restrictions stipulated in the legislation of the City of Kiviõli upon performance of economic transactions with the assets of the City.
- In the future, to carry out inventory checks pursuant to the established rules.
- The Council of the City of Kiviõli must take a position regarding payment of the additional remuneration, holiday pay and support to the Mayor and members of the City Government.

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The Council and Government of the City of Kiviõli submitted their positions regarding the observations and recommendations made in the audit report by the National Audit Office. According to their positions, the statutes of the City of Kiviõli will be modified in such a manner that the requirements for publication of annual reports are amended; publication of information will be brought into compliance with the Public Information Act, introducing a new website solution in 2007; the letter of explanation of the draft budget of 2007 will contain a section explaining the contents of the budget and the Council will take a position regarding the payment of the remuneration to the Mayor and the members of the City Government without a legal basis. They also confirm that the acquisition cost of the fixed asset object will be adjusted to the extent of the cost of the windows installed in the First Secondary School of Kiviõli; apartments, which are not used in the activities of the City, will be indicated under real estate investments; inventory checks will be carried out in compliance with the established rules and the principles provided for in the guidelines of the Estonian Accounting Standards Board will be observed upon reflecting the sale of the fixed assets.

In the written opinion it is also mentioned that unlike in the audited period, the Audit Committee of the Council of the City of Kiviõli is now acting on the basis of a 12-month work plan and the Council will also guide the activities of the Audit Committee through additional tasks. The National Audit Office has also pointed out in the report that it is positive that the work of the Audit Committee has been more active in comparison with the audited period in 2006.

The Government of the City of Kiviõli does not agree with the observation of the National Audit Office regarding accounting the lease relationship of vehicles. Unlike the National Audit Office, the City Government finds that it is an operational lease and the changes suggested by the National Audit Office will not be made to the financial accounts.

Krista Aas
Director of Audit
Audit Department V