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

Audit report No. OSV-2-1.4/07/5 of 9 February 2007

Summary

The purpose of the audit was to assess the operation of the internal control system applied for the purpose of ensuring purposeful and lawful use of the funds of the City of Mustvee, the compliance of the organisation of accounting in the City of Mustvee with accounting legislation and instructions, and the compliance of the economic transactions with applicable legislation. During the audit annual accounts 2004 and 2005 of the City were not assessed. Instead, the audit points out the main observations regarding the operativeness of the internal control system, the organisation of accounting, and the legality of the transactions.

According to the National Audit Office, the internal control system of the City of Mustvee (incl. the procedures regulating work organisation) need considerable improvement, in order to ensure purposeful use of the budget funds, legality of the economic transactions of the City, and to avoid making mistakes in the annual accounts, the risk of entering into harmful transactions, etc. There are serious deficiencies in the organisation of the accounts in the City of Mustvee, as a result of which the assets and liabilities of the City have not been fully covered in the annual accounts. Legislation has not always been complied with upon performance of economic transactions.

Main observations

- There are serious deficiencies in the internal control system of the City of Mustvee. For example:
    - The procedures regulating the work organisation (the statutes of the City, the procedure for management of the assets of the City, the accounting policies and procedures of the City Government, and the procedure for records management) are outdated and in conflict with legislation.
    - The provisions of the state and City legislation have not been adhered to upon using the budget funds (incl. the reserve fund), organisation of inventory checks, records management, disclosure of documents and data, etc.
    - The supervision exercised by the Audit Committee over the activities and accuracy of the accounts of the City Government and the agencies administered by the latter has been insufficient.
- There are serious deficiencies in the organisation of the accounts of the City of Mustvee. For example:
    - Some of the assets of the City are not indicated in the accounts of the City, incl. the roads of the City or their renovation or the City assets used by third persons have not been registered in the accounts; furthermore, none of the apartments transferred to third parties by the City during the audited period had been registered in the accounts.
    - Documentation of accounting operations (e.g. cash transactions, inventory checks) had not always been as required.
    - Bank transactions had been made by unauthorised persons.
- The City Government of Mustvee has paid support for the granting of which no procedure has been established by the City Council.
- The City Government of Mustvee has not taken into account various observations made by the certified auditor Ille Randjärv regarding deficiencies in the organisation of the accounts or the recommendations of the Jõgeva County Archives regarding archiving the documents of the City Government, leaving the organisation of the accounts and archives not amended.

Main recommendations

To the Council of the City of Mustvee

- To update and bring into compliance with legislation the statutes of the City of Mustvee not later than by 30 June 2007 and the procedure for management of the assets of the City of Mustvee not later than by 31 August 2007. Also, to bring the procedure for disposal of the reserve fund of the City budget into compliance with the general principles of the reserve fund and to establish procedures for granting support by the City of Mustvee.
- To improve the work of the Audit Committee of the Council in order to ensure systematic supervision over the City Government, the agencies administered by the latter, and the accuracy of the accounts. If necessary, to involve experts in the work of the Audit Committee.

To the City Government of Mustvee

- To develop the internal control system, incl. to adhere to legislation upon drafting and implementing the budget, to improve records management (incl. to register the contracts and agreements made by the City in the document register), to carry out the required inventory checks, to bring the job descriptions and the actual work organisation into compliance, to disclose all the required information.
- To update the procedure for records management of the City Government of Mustvee and bring it into compliance with legislation not later than by 30 June 2007.
- To improve the organisation of the accounts, incl. to train the accountants so they register all the City's assets in the accounts of the City and so the accounts of the City do not include the assets of third parties as the assets of the City.

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In their reply to the draft audit report the Council and the Government of the City of Mustvee declared that they take the deficiencies pointed out by the National Audit Office very seriously and have started to eliminate the deficiencies.

The Council of the City of Mustvee will bring the statutes of the City and the procedure for management of the assets of the City into compliance with legislation by the deadline given by the National Audit Office. The Council will also bring the procedure for disposal of the reserve fund into compliance with the overall principles of the reserve fund and draw up procedures for granting the support paid by the City.

The Council of the City of Mustvee approved the work plan of the Audit Committee in February 2007. The Audit Committee is prepared to involve specialists in its work where necessary.

The City Government of Mustvee will approve the accounting policies and procedures and the procedure for records management in the first half of 2007. The contracts and agreements made by the City of Mustvee will be registered pursuant to the legislation of the state and the City not later than by 31 March 2007. Also, the job descriptions will be brought into compliance with the actual duties.

In order to improve the accounting level of the City Government of Mustvee the amount formerly allocated in the City budget to train the accountants will be increased. The City Government takes into account the recommendations made by the National Audit Office regarding improvement of accounting the fixed assets and will carry out a thorough inventory check of the tangible assets in 2007.

The Government and the Council of the City of Mustvee will make certain that the legislation of the state and the City is adhered to upon approval of the City budget in the future.

The letter of reply of the Council and the Government of the City of Mustvee has been enclosed with the audit report.

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