Economic activities of Rae Rural Municipality in 2006

Does the Rae Rural Municipality have internal controls in place, does the organisation of its accounting meet the standards and are its economic transactions legitimate?

NAO report to the Riigikogu, Tallinn, 13 November 2007

Summary of audit results

The NAO audited the functioning of internal controls put in place to ensure the purposeful and legitimate use of financial and material resources of the Rae Rural Municipality, the conformity of the organisation of accounting with the applicable accounting laws and guidelines, and the compliance of economic transactions with the relevant legislation. The purpose of the audit was not to assess the municipality's annual accounts for 2006, but to point out the significant observations in the audited areas as regards the functioning of internal controls, the organisation of accounting, and the legitimacy of transactions.

The NAO focused its audit on the management of public procurement, the processing of territorial plans, and the legitimacy of the municipality's transactions concerning fixed assets and short-term financial investments and their recognition in the accounts.

Taxpayers' money forms a major share of the municipality's budget revenue. In 2006, the total revenue of the municipality amounted to about EEK 175 million whereof individual income tax alone accounted for about EEK 72 million. The estimated revenue in the municipality's budget for 2007 is about EEK 226 million whereof individual income tax accounts for EEK 90 million.

The audit led the NAO to the conclusion that the accounting of the Rae Rural Municipality is well organised in general and that the internal controls of the municipality are largely functional, incl. administrative procedures are of good quality, the budget documents are understandable to the public and the required information has been disclosed in most part. Nevertheless, the NAO established the following:

- **Some internal controls need improvement to ensure the accuracy of financial accounting and the legitimacy of the activities of the municipality's Government.** For example, the Audit Committee of the municipality's Council does not exercise all the powers entrusted to it - there were some shortcomings in recognising the funds received from the state in the municipality's budget, complying with the municipality's budget and organising inventories of the municipality's assets. The NAO believes that improved internal controls would have allowed avoiding shortcomings in the asset accounts.
- **On several occasions, the Rae Rural Municipality had failed to organise the public tendering procedure.**
- The **adoption of the municipality's general plan** which accommodates the actual needs and serves as the basis for development activities **is delayed**. There are shortcomings in involving the public in the processing of detailed plans.

Reply from the audited entity: In their reply to the draft audit report, the Rae Rural Municipality Government and Council accepted several shortcomings identified in the draft. The Rural Municipality Government and Council advised that they are already implementing several recommendations made by the NAO.

The Rae Rural Municipality Government did not agree to the NAO's opinion on the management of public procurement, arguing that the municipality's Government has acted in accordance with the spirit of the Public Procurement Act. Furthermore, the municipality did not accept some of the NAO's recommendations to increase the openness of planning procedures.

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