Internal control system and economic activities of the City of Kohtla-Järve in 2006

Are internal control measures in place, does the organisation of accounting conform to requirements and are economic transactions lawful in the City of Kohtla-Järve?

Report of the National Audit Office to the Riigikogu; Tallinn, 10 January 2008

A summary of audit results

The National Audit Office examined the existence and operation of internal control measures applied for the purpose of ensuring purposeful and lawful use of financial and tangible resources of the City of Kohtla-Järve, the compliance of the organisation of accounting in the City of Kohtla-Järve with accounting legislation and instructions, and the compliance of economic transactions with applicable legislation. The audit was not aimed at assessing the rationality, economy, efficiency or effectiveness of using the funds of the City, as the National Audit Office lacks that competence under law. Nor was the aim of the audit to assess the annual accounts of the City for 2006, but to highlight the most important findings in the areas audited, i.e. the existence and operation of internal control measures, the organisation of accounting and the lawfulness of transactions.

A local government as a public sector entity is predominantly funded out of tax revenues. Therefore, it is of the utmost of importance to ensure that the funds received are used understandably for taxpayers and in compliance with effective legislation. Independent control of local governments provides the public at large with objective feedback on whether the leaders of local governments have acted as described above when organising the activities of the local government. In 2006, the tax revenues of the City of Kohtla-Järve amounted to EEK 170 million. In addition, state support in the amount of EEK 236 million was received.

Concluding the audit results, the National Audit Office makes the following principal conclusions:

- **There are spheres in the internal organisation of work in the City of Kohtla-Järve that need to be improved.** The internal control system of the city cannot be regarded as fully operational. It is noteworthy that members of the city's audit committee represent exclusively the election coalition that currently exercises power in the city, and the general practice of democratic societies of also engaging the representatives of the opposition in the audit committee is ignored in Kohtla-Järve. The statutory right of the audit committee to exercise supervision over the activities of the city government is used to a rather limited extent. Major shortcomings were also detected in budget issues and in carrying out stocktaking as well as in the accounting of municipal assets.
- **The financial accounting of the City of Kohtla-Järve generally conforms to requirements.** As regards the audited classes of transactions, the National Audit Office did not detect any major deviations from requirements arising from accounting legislation and instructions.
- **The use of funds in 2006 has generally been lawful in Kohtla-Järve.** Notwithstanding the general assessment, it must be stated that there are still problems with the organisation of public procurements, which the Public Procurement Office has also highlighted, and the scope of competence has been exceeded as regards the payment of benefits to the Mayor, Deputy Mayors and the Chairman of the City Council.

Responses from the City Government and City Council of Kohtla-Järve: In their responses both the City Council and City Government expressed willingness to implement the suggestions of the National Audit Office in their future activities.

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