Internal control system and economic activities of the City of Võru 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 Võru?

Report of the National Audit Office to the Riigikogu. Tallinn, 27 February 2008

A summary of audit results

The National Audit Office audited the operation of the internal control system and economic activities of the City of Võru in 2006. The aim of the audit was to evaluate the internal control measures taken in the City of Võru to ensure that the City's assets are used legitimately and according to their designated purpose, the conformity of the organisation of the City's accounting to legislation and instructions regulating accounting, and the compatibility of business transactions with the relevant legislation. The audit did not aim at evaluating the Annual Accounts of the City for 2006.

During the audit, the National Audit Office focused on budget-related procedures and the legality and disclosure of transactions involving the non-current assets of the city, as well as the quality of preparation of the City's Annual Report for 2006.

The budgetary revenue of a local government consists predominantly of taxpayers' money. In 2006 the revenues of Võru amounted to approximately 180 million kroons, incl. personal income tax in the amount of approximately 64 million kroons. In the budget of the City of Võru for 2007, the receipts of personal income tax were planned to amount to ca. 74 million kroons.

The National Audit Office made the following conclusions on the basis of the findings of the audit.

The Võru City Council has failed to use all the opportunities provided by law to ensure the legitimacy of the activities of the City Government. The work of the City's audit committee has been insufficient, city officials have failed to always adhere to the prescribed procedures, and the City Council has not fully exercised its decision-making authority in using budgetary funds.

The Võru City Government has not organised the accounting of the City's non-current assets in a manner that would provide accurate data for making decisions and preparing financial reports. The City lacks an accurate overview of its assets; stocktaking and revaluations are not carried out as required. Internal control measures relating to the accounting of non-current assets need to be amended.

The internal control measures of the City Government are generally operational in other regards: the work of the internal controller is used comprehensively, administrative procedures are of a high level and most of the requisite information is published.

Transactions concluded by the City of Võru have generally been legitimate, to the extent audited. It must be noted, however, that problems still occur in the organisation of procurements – the City Government has failed to take any measures to improve the situation notwithstanding its earlier promise. Also the Public Procurement Office has drawn attention to the shortcomings ascertained.

Response of Võru City Council and Võru City Government: In their response to the draft Audit Report, both the Võru City Council and Võru City Government agreed with most of the suggestions of the National Audit Office. The permanent Audit Committee of the Võru City Council admitted its fault in that audit results had not been published or approved in the City Council. The Võru City Council has acknowledged the recommendations of the National Audit Office and will act on them starting from the commencement of proceedings for formulation of the budget for 2008. The Võru City Government has amended its internal rules of procedure as regards the publication of documents. In the course of carrying out the stocktaking of assets in 2007, measures were taken to arrange the database of non-current assets with the aim of obtaining an overview of the locations and sets of assets for which the city is responsible. To ensure timely and accurate recognition and disclosure of assets, the relevant rules of procedure of the City Government are being revised and amended. The Võru City Government is currently working on the procedure for organising public procurements which will specify procedural acts and the liability of officials in relation to procurements.

Airi Mikli
Audit Director of V Audit Department