Internal control system and legality of economic activities of the City of Narva in 2006

Are internal control measures in place and are economic transactions lawful in the City of Narva?

Report of the National Audit Office to the Riigikogu. Tallinn, 23 April 2008

A summary of audit results

The National Audit Office audited the existence and operation of internal control measures designed to ensure that the financial and tangible assets of the City of Narva are used legitimately and according to their designated purpose, and evaluated the compatibility of business transactions with the relevant legislation. The aim of the audit was not to assess whether the City's finances are used rationally, economically, effectively and efficiently, because the National Audit Office does not have that kind of auditing authority under law, but to highlight key findings concerning the operation of internal control measures in the audited spheres and the legality of transactions.

As the activities of a local government are financed primarily out of tax revenues, it is most important that the funds so received are used in a manner understandable to taxpayers and in accordance with law. Independent control over local governments provides objective feedback to the public at large on whether the local governments have acted in the manner described above when organising their activities. The tax revenues of the City of Narva amounted to approximately 242 million kroons in 2006. In addition, support was received from the state in the amount of ca. 311 million kroons.

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

- **All of the existing mechanisms for improving the operation of the internal control system have not been utilised in the City of Narva.** There are some areas in the internal organisation of work of the City's agencies which need more attention so as to avoid mistakes and mitigate risks. The weak control system for identification of officials' economic interests must be emphasised in this context as the system fails to preclude the entry into transactions involving conflicts of interests. Shortcomings were also detected in budget-related procedures and, as in the case of the rural municipalities and cities audited by the National Audit Office, the input of the City's audit committee must be increased in the internal control system of the City of Narva.
- **All in all, the economic activities of the City of Narva, to the extent audited, can be regarded as legitimate with the exception of disbursement of allowances.** The audit revealed that the City Government has disbursed allowances regarding the payment of which the City Council had not established a relevant procedure. In addition, the procedure established with regard to the administration of municipal assets has not always been observed. More attention must be paid to the planning of procurements; procurements with similar objects should be grouped, and common rules must be established to ensure adherence to generally acceptable practices.

Response of the Narva City Council and Narva City Government: the Narva City Council and Narva City Government delivered in writing their positions regarding the suggestions made in this audit report and, in principle, expressed willingness to take into account the observations and suggestions of the National Audit Office in their work in the future.

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