# Development of internal control in local governments in the example of Kohtla-Järve

*Has Kohtla-Järve developed its internal control so as to comply with accepted understandings of a local government internal control system and to reduce, among other things, the risk of corruption, and if so, how?*

Report of the National Audit Office to the Riigikogu
Tallinn, 22 April 2024

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## Summary of audit results

### Did you know that

The National Audit Office audited the internal control system of Kohtla-Järve in comparison with the optional guidelines for organisation of internal control systems of local governments, which summarise the accepted views on the internal control system of a local government.

The guidelines were commissioned by the Ministry of Finance in 2018. They are currently administered by the Ministry of Regional Affairs and Agriculture.

With respect to Kohtla-Järve's activities, the period from January 2022 to June 2023 was covered. The audit did not cover companies owned by the city.

**There are significant gaps in the internal control system of the City of Kohtla-Järve and the city administration has not developed the system so as to comply with accepted understandings of a local government internal control system. Neither has the functioning of the system been analysed of their own accord, so the city administration does not have a comprehensive overview of its shortcomings. However, management's awareness and supportive attitudes are one of the key prerequisites of an effective internal control system.**

**In Kohtla-Järve, the city government and its services conduct larger property transactions, but their activities have been subject to unjustifiably little scrutiny in the city. The focus of the inspectors has been almost exclusively on the administered agencies. At the same time, the managers of these administered agencies have not taken the results of inspections seriously for a long time, which is why the same mistakes are repeated over time.**

**There are also unused opportunities in Kohtla-Järve to promote competition in the city's public procurements and other property transactions in order to widen the range of tenders that benefit the city.**

Key observations:

- Compared to the internal control guidelines for local governments, Kohtla-Järve primarily has problems with the key elements of the control system, such as risk assessment, transparency of activities and control over them. There is essentially no risk assessment in Kohtla-Järve, without which an internal control system cannot be developed in a manner that is thought through.

- The city government's controllers and the city council's audit committee have carried out inspections during the period audited, but these have almost exclusively been in administered agencies. There has been no substantive analysis of the economic activities of the city government and its services, although major procurements are carried

out and most of the costs (e.g. 61% of management costs) are incurred there.

### Did you know that

the largest procurement for the audited period (01.2022-06.2023) concerned maintenance work in the Järve and Ahtme Districts, with a contract value of €12.5 million. The contract was entered into for five years.

The largest asset sales transaction was the sale of the registered immovable and movable property of Ahtme nursing home in the amount of around €0.6 million.

Both transactions were conducted in 2022.

- Internal inspections are mainly carried out by the city's controllers, but administered agencies often fail to take their suggestions into consideration. These suggestions are reportedly also discussed in the city government, but no concrete steps have been taken to implement the recommendations at city government level.
- There is little transparency in the procurement activities of the administered agencies, the city government could merge purchases across agencies and carry out central procurements through the public procurement register to attract more tenders. Currently, for example, the city's educational institutions (19) each buy food, office supplies and the like separately, although the content of the purchases is the same from one institution to another. In most cases, they have not examined the market beforehand, nor have they requested several tenders.
- Lack of competition in transactions concerning municipal assets is also a risk area more generally. In the case of the largest procurement (€12.5 million) and the largest sale of municipal assets (€0.6 million) in the period audited, only one tender was received in each case. Looking at the circumstances of the transaction, a reasonable question arises as to whether all necessary steps were taken to exploit competition.
- The leaders of the City of Kohtla-Järve have acknowledged that there are some problem areas in the city's internal control system, but no major changes have been made. The audit identified problem areas such as the mismatch between job descriptions and actual job duties, the lack of transparency in the selection process of managers of agencies, and the poor availability of information from the city government from the perspective of the member of the council.

## Recommendations of the National Audit Office

Problem areas that need to be improved in the internal control system of the City of Kohtla-Järve are related to risk assessment, the transparency of activities and the implementation of control measures where major transactions and other decisions on the use of funds are made, i.e. in the Kohtla-Järve city government and its services. At the same time, the National Audit Office is of the opinion that it would not be reasonable to tackle these problems one by one, but the system as a whole should be reviewed. A number of local governments have established their own internal control procedures which provide an opportunity to better understand the recommendations of the internal control guidelines for local governments in the light of their own specific characteristics. The National Audit Office recommends that the City of Kohtla-Järve develop a similar procedure.

The National Audit Office also made a recommendation to the Minister of Regional Affairs to collect feedback on the implementation practice of the 2018 internal control guidelines for local governments in order to obtain information for improving the guidelines. The National Audit Office believes that the guidelines can be implemented but there is a lack of more in-depth knowledge of how the guidelines have been taken up by local governments and what kind of problems have been encountered in their implementation.

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# Overview of the field

## Internal control system of local governments and its legal bases

**1.** According to the Local Government Organisation Act, a local government must have an internal control system. Its existence must be ensured by the rural municipality or city council, and the rural municipality or city government is responsible for its implementation and effectiveness.[1] The laws do not specify exactly what a local government has to do to set up and implement an internal control system, and this is left to each local government to decide.

**2.** The essence and objective of the internal control system of local governments was to be described in the amendment to the Local Government Organisation Act (626 SE), initiated in spring 2022, but the draft was not passed as a law at that time and was withdrawn from the proceedings in spring 2023 because the mandate of the Riigikogu expired. The Ministry of Regional Affairs and Agriculture re-launched the proceedings on the draft in January 2024.[2]

**3.** The draft defines the internal control system of a local government as a comprehensive set of measures to be implemented under the management of a rural municipality or city authority, which covers both the legality and expediency of activities and makes it possible to ensure:

- the inspection of compliance with and enforcement of legislation;
- the protection of assets against damage that could result from squandering, non-purposeful use, incompetent management and the like;
- the expediency of an authority's activities in carrying out its tasks;
- collection, storage and publication of truthful, updated and reliable information concerning the activities of the authorities.

**4.** The matters described in the draft correspond to generally accepted notions of an internal control system, as expressed, for example, in the optional guidelines for organisation of internal control systems of local governments commissioned by the Ministry of Finance in 2018. These guidelines were also taken as the basis when carrying out this audit.

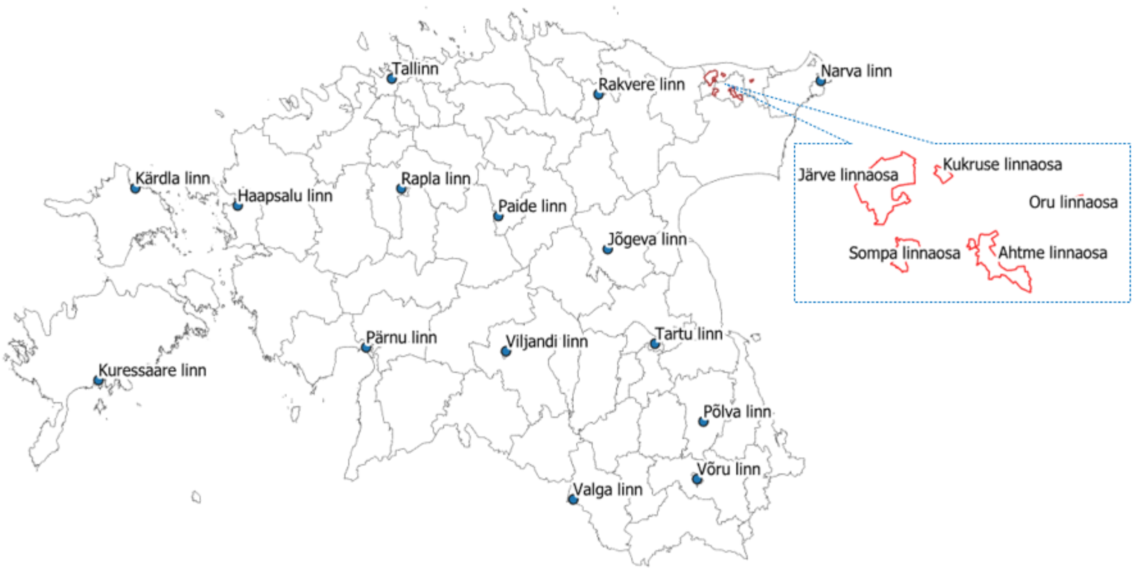
## Key indicators of Kohtla-Järve as a local government

**5.** Kohtla-Järve is an urban municipality in Ida-Viru County with 31,957 residents as of 1 January 2024. This makes it the sixth largest municipality in terms of its population in Estonia.

**6.** Compared to other local governments, Kohtla-Järve has an unusual geometry, as the city districts are fragmented, i.e. without a common boundary (see Figure 1). The largest districts are Ahtme and Järve, each with a population of around 15,000. The smallest district is Kukruse, which has around 500 residents. The administrative centre of the city is located in the district of Järve.

[1] Subsections $48^1$ (1) and (2) of the Local Government Organisation Act
[2] https://eelnoud.valitsus.ee/main/mount/docList/345b8b87-0431-4aaa-ad59-6f0e7112fd8b

**Figure 1. Districts of Kohtla-Järve on the map of Estonia**




Source: Land Board

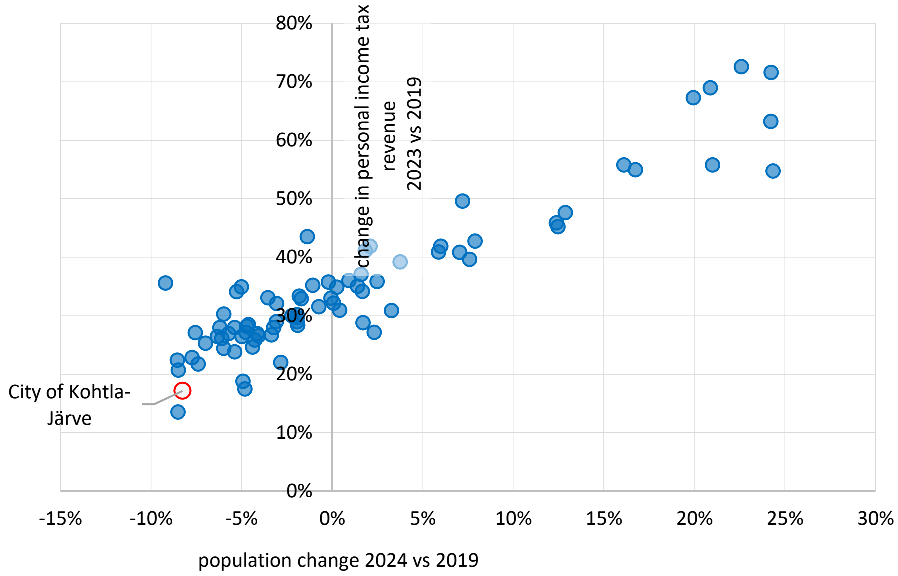
| | |
|---|---|
| Kärdla linn | City of Kärdla |
| Rapla linn | City of Rapla |
| Haapsalu linn | City of Haapsalu |
| Pärnu linn | City of Pärnu |
| Kuressaare linn | City of Kuressaare |
| Narva linn | City of Narva |
| Rakvere linn | City of Rakvere |
| Kukruse linnaosa | Kukruse District |
| Järve linnaosa | Järve District |
| Oru linnaosa | Oru District |
| Sompa linnaosa | Sompa District |
| Ahtme linnaosa | Ahtme District |
| Paide linn | City of Paide |
| Jõgeva linn | City of Jõgeva |
| Viljandi linn | City of Viljandi |
| Tartu linn | City of Tartu |
| Võru linn | City of Võru |
| Valga linn | City of Valga |

**Did you know that**

The budget revenue of Kohtla-Järve in 2023 was €51.3, of which tax revenue accounted for around 50%. While Kohtla-Järve ranks sixth among Estonian municipalities in terms of population, it is 75th among 79 municipalities in terms of total revenue.

**7.** The population of Kohtla-Järve has been declining relatively rapidly in recent years – compared to five years ago, for example, the city currently has about 9% fewer residents, putting it in third place in terms of population decline rate among municipalities. This trend has also impacted the revenues of the city budget and the growth indicator for personal income tax revenue puts the city at the bottom of the ranking among municipalities (see Figure 2). Compared to e.g. 2019, income tax revenue has increased, but at a rate about two times slower than the average for local governments.

**Figure 2. Kohtla-Järve in comparison with the rest of the local governments, taking into account the extent of change in population and personal income tax revenue over the last years**




Source: https://riigiraha.fin.ee

## Did you know that

as part of the model of service levels, people's satisfaction with governance is also evaluated. While the average satisfaction index in local governments in 2022 was around 48 (on a scale of 0 to 100), it was only 19 in Kohtla-Järve. Only one local government had a lower value.

An **audit committee** is a committee set up for the period during which the rural municipality or city council is in office and it consists of at least three members.

The committee's task is to verify and assess the lawfulness, expediency and productivity of the activities of a rural municipality or city government, the agencies of a rural municipality or city government and private companies under the control of the rural municipality or city, and the purposeful use of the rural municipality's or city's assets.

Source: subsection 48 of the Local Government Organisation Act

**8.** According to the model of service levels managed by the Ministry of Regional Affairs and Agriculture, Kohtla-Järve is in the lower half of the scale in most areas. In the area of governance, the overall score is mediocre, but the basic level was not reached on internal control issues in 2022, which means that the local government has not assessed the performance of its internal control. In addition to the basic level, it is also possible to reach the advanced and excellent levels in this assessment.[3] However, there is nothing peculiar about not reaching the basic level, as that is the situation of most local governments (42). Based on the model of service levels, internal control is at an excellent level in only five local governments.

**9.** A 25-member city council and a four-member city government have been established to govern Kohtla-Järve as a local government. There are six committees at the council, including the audit committee, and nine at the city government. The city has 32 institutions under its administration and holdings in several private companies, the largest of which are the Ida-Viru Central Hospital and the utility company OÜ OSK Grupp.

**10.** As an administrative agency, the city government has a total of 102 positions or places of service, around 90 of which have been filled, including the positions of chief controller and senior controller.

**11.** In total, around 1,500 people are employed in the city's institutions, 2/3 of whom are employed in educational institutions.

# Scope of audit and findings

[3] Advanced level: the local government employs an internal controller or has outsourced the service (a non-accredited specialist). Excellent level: the local government employs an internal auditor or has outsourced an internal audit service.

## Scope of the audit

12. The audit analysed the activities of the city administration of Kohtla-Järve when organising the internal control system and assessed the compliance of these activities with the optional guidelines for internal control systems of local governments. It also looked at what the city administration has done to develop its internal control system during the period examined in the audit.

### Did you know that

in addition to the issues covered in the audit, check lists on the allocation of grants, the processing of applications, decision-making and the preparation and monitoring of the execution of the budget are included in the optional guidelines for organisation of the internal control of local governments.

13. The audit did not cover the entire guidelines, instead focusing on parts of the guidelines related to procurement, property transfers and granting the use of property, since cases that have come to the attention of the general public in Kohtla-Järve have raised questions about the functioning of internal control measures especially in these types of transactions. The more detailed questions of the audit focused on the following checklists prepared to accompany the guide:

- general internal control system checklist;
- execution of procurements checklist;
- use of assets checklist;
- making of payments checklist.

14. The structure of the internal control system was assessed during the period of the audit activities being carried out, the performance of the system was tested on the basis of the activities and transactions (procurements, transfer and granting of use of property) from January 2022 to June 2023.

15. The activities of city-owned companies (e.g. the city is one of the two founders of the Ida-Viru Central Hospital, which employs *ca* 1300 people) were not analysed in the audit.

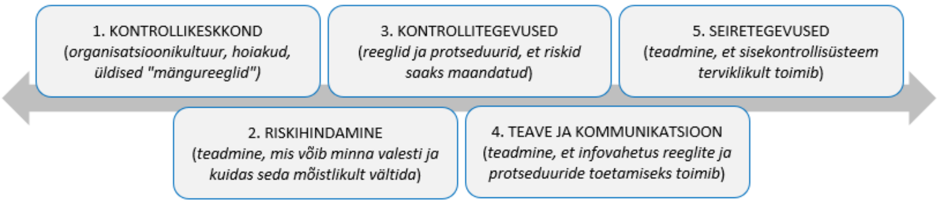
16. In the following, the National Audit Office outlines the most important shortcomings and problem areas of the internal control system in Kohtla-Järve compared to the recommendations of the internal control guidelines for local governments. A more detailed overview of compliance with the guidelines, by checklists used in the audit, is provided in Annex A to the report.

## There are significant gaps in the structure of Kohtla-Järve's internal control system

### Conclusions concerning the overall structure of the internal control system

17. The optional guidelines for organisation of the internal control systems of local governments (*hereinafter referred to as the internal control guidelines for local governments*) describe the main elements of the system (see Figure 3) and provide guidance on how local governments can ensure that these elements are in place and functioning in practice. All the key elements are critical and interdependent, so the absence of one or the other affects the system as a whole. For example, a reasonable set of rules in a written working procedure may leave a good impression of the local government on the outside world, but this image can be deceptive if real life does not follow the rules, if compliance with the rules is not checked within the local government, or if errors identified during inspections are ignored. This shows that the internal control system is not actually working.

### Figure 3. Key elements of an internal control system according to the optional guidelines for organisation of the internal control systems of local governments




Source: National Audit Office on the basis of the internal control guidelines for local governments

| | |
|---|---|
| 1. KONTROLLIKESKKOND (organisatsioonikultuur, hoiakud, üldised "mängureeglid") | 1. INSPECTION ENVIRONMENT (organisational culture, attitudes, general 'rules of the game') |
| 2. RISKIHINDAMINE (teadmine, mis võib minna valesti ja kuidas seda mõistlikult vältida) | 2. RISK ASSESSMENT (knowing what can go wrong and how to reasonably avoid it) |
| 3. KONTROLLTEGEVUSED (reeglid ja protseduurid, et riskid saaks maandatud) | 3. INSPECTION ACTIVITIES (rules and procedures to ensure that risks are mitigated) |
| 4. TEAVE JA KOMMUNIKATSIOON (teadmine, et infovahetus reeglite ja protseduuride toetamiseks toimib) | 4. INFORMATION AND COMMUNICATION (knowing that the exchange of information to support rules and procedures is working) |
| 5. SEIRETEGEVUSED (teadmine, et sisekontrolli-süsteem terviklikult toimib) | 5. MONITORING ACTIVITIES (knowing that the internal control system is fully functioning) |

**18.** The relevant checklist of the internal control guidelines for local governments formulates a total of 30 principles concerning the general structure of the system, covering the expected key elements of the above system. Based on the National Audit Office's assessment, Kohtla-Järve's system does not comply with 12 of these principles (see Annex A, section 1).

**19.** There are shortcomings in all key elements, but one of the biggest problems is the fact that Kohtla-Järve has essentially no risk assessment as described in the guidelines. No organised activities have been carried out to identify risks, let alone to document risks or analyse existing working practices in the light of identified risks to see whether significant risks have been mitigated. This prevents the development of a comprehensive understanding of gaps in work organisation and the differentiation of the relevant from the irrelevant when it comes to eliminating them.

**20.** Risk assessment may seem to be an abstract and bureaucratic exercise at first sight, but the experience of some other local governments suggests that, if done in a thought through and consistent manner, local governments find it useful.

**21.** In addition to the lack of risk assessment, the overall functioning of the internal control system has not been assessed in Kohtla-Järve. According to the internal control guidelines of local governments, audits, reviews, etc. should be carried out at regular intervals or reporting should be established to gain assurance that all key elements of the system are still in place and work as required (see Figure 3 for monitoring activities).

### Did you know that

There are local governments in Estonia that have established working arrangements for systematic risk assessment, e.g. [Viimsi](), [Lääne-Nigula](). According to the operational model of internal control used in Viimsi, risks are assessed annually, covering all institutions and companies. There is a standard format for describing risks by sector, outlining the circumstances referring to the risk, the likelihood of occurrence, mitigation measures, etc.

**Did you know that**

the planned amendments to the Local Government Organisation Act are intended to obligate local governments to carry out a comprehensive assessment of their internal control system in the form of an internal audit at least once every four years.

**22.** In Kohtla-Järve, both the city government's controllers and the audit committee have carried out inspections (see the following sub-chapter), but the functioning of internal control has not been addressed as a separate topic. Nor has information on the functioning of the system been obtained in any other way. At the same time, this shortcoming is specific to local governments more generally – based on the data collected in the above-mentioned local governments' service levels project for 2022, according to the local governments themselves, more than half of them have not assessed the functioning of their internal control system.

**23.** Furthermore, the set of rules established in Kohtla-Järve to mitigate corruption risks is lacking in comparison to the internal control guidelines for local governments. For example, there are no rules in the city's internal procedures specifying how to avoid delegating a decision or an action to a subordinate in the case of a conflict of interest, or how to avoid a situation in which an employee performs an important task alone, is not supervised, and is not assigned a substitute because he or she rarely takes leave. There is also no procedure for reporting violations (so-called whistleblowing) and although declarations of interests are collected, the financial interests of decision-makers in specific transactions are not checked.

## Conclusions on the planning and conduct of inspections

### Inspections are not carried out in a systematic manner and the city government has not been subject to substantive inspection.

**24.** According to the internal control guidelines for local governments, the audit committee of a city or rural municipality council should operate on the basis of a risk-based work plan. The same presumption applies to the internal auditor, if such a position has been created in the local government. The idea behind a risk-based approach is to ensure that important areas are covered when carrying out inspections and that limited inspection resources are used where a potential violation would lead to significant damage. A risk-based approach is also important for other structures and positions responsible for carrying out inspections or monitoring in the local government. In Kohtla-Järve, for example, this is the role of the city government's controllers.

**Did you know that**

an internal auditor is a specialist who has obtained a professional certificate in accordance with the Auditors Activities Act and who follows international standards in their professional activities. Therefore, the position of a controller, internal controller, etc. cannot automatically be equated with that of an internal auditor.

**25.** The audit committee of the Kohtla-Järve City Council had a work plan for both 2022 and 2023. In addition to other topics (reviews of draft legislation by the council, etc.), inspections of some agencies or activities were also provided in the plans. The work plan for 2022 was more concrete, with a deadline for inspections, and these were actually carried out in three out of four agencies. The work plan for 2023, on the other hand, had no deadlines and was more vague in terms of the choice of the subject matter of inspections. In 2023, the committee carried out one inspection (accounting of official trips by administered agencies).

**26.** According to the last chairman of the audit committee (J. Saltõkov) at the time of the audit activities, a conscious choice was made to carry out fewer inspections on their own and to concentrate more on supporting the work of the controllers of the city government (request explanations from the recipients of recommendations on the implementation of the recommendations, etc.). Achieving better performance in the work of the controllers of the city government is undoubtedly important, all the more so as there have been problems with the implementation of recommendations in the past, but it must also be ensured that the committee does not stop carrying out audits on its own. This would not be in line with the objective of the audit committee as laid down by law.

**27.** The audit also found that when the audit committee had planned inspections, the subject matter to be inspected had been selected on the basis of current issues. This concerns in particular the last composition of the audit committee (see previous section). The National Audit Office did not find that this was preceded by a more in-depth analysis, which would look at the set of potential audited agencies and subjects as a whole and consider alternatives. The same can be broadly said about the planning of the work of the city government's controllers.

**28.** During the period covered by the audit, the controllers of the city government carried out an average of two inspections per quarter, covering both the activities of specific institutions (e.g. basic school, sports centre, museum) and the organisation of certain areas in general (e.g. activities of long day groups at schools, activities of nurseries, use of official cars). The National Audit Office considers the documents prepared about the results of the inspection to be thorough, with a number of shortcomings identified and recommendations provided. While in 2022 the inspections were based on a quarterly work plan reflecting the controllers' preferences based on previous inspection experience, in 2023 the preparation of plans was abandoned and inspections were carried out in the agencies and on the topics selected by the mayor. The chief controller could not explain the more precise reasoning behind the choices made and whether alternatives were also considered. According to the National Audit Office, this practice does not comply with the recommendations of the internal control guidelines for local governments.

**Supervisory control** is control exercised by the rural municipality or city government over the legality and purposefulness of the activities of rural municipality and city administrative agencies and of their officials, and of the agencies under the administration of rural municipality and city administrative agencies and of their managers.

Source: section 66[1] of the Local Government Organisation Act.

**29.** In addition to the work of the council's audit committee and controllers, the inspection activities in the period audited include five supervisory control proceedings initiated by the so-called content departments of the city government (e.g. the education and culture departments). While the controllers primarily focused on financial and economic issues, those performing supervisory control checked compliance with sectoral legislation. According to the chief controller, there is no cooperation with the persons carrying out supervisory control, although the controllers have sometimes addressed issues concerning substantive organisation in the field. In addition, in 2022, two agencies were inspected at intervals of a few months, both for supervisory control and for an audit. In the opinion of the National Audit Office, the lack of cooperation between different inspection activities sooner or later leads to unjustified duplication and waste of inspection resources.

**30.** Another weakness in the organisation of inspections is the lack of clear rules on how to deal with errors identified by controllers and how to ensure that errors are corrected. The explanations given during the audit indicate that the managers of the administered agencies have not taken the controllers' recommendations seriously for a long time, which is why the same mistakes recur over time. Some of these managers have also been members of the city council at the time of the inspection. The controllers have presented summaries of their work to the mayor, formerly the deputy mayor for finance, and these summaries have reportedly been discussed, but no concrete steps have been taken to enforce the recommendations at the city government level.

**31.** In the opinion of the National Audit Office, it is positive that internal controls are carried out within the system in Kohtla-Järve, and they were conducted on several occasions in the period covered by the audit. At the same time, their planning is not in line with the internal control guidelines for local governments, the statutory rights of the audit committee are used too little and there is a lack of synergy between the various inspections.

**32.** In addition, the focus of the inspectors has been almost exclusively on the administered agencies. The activities of the city government and its services had been inspected only a couple of times, and these had been extraordinary inspections: the audit committee of the city council checked a property sales transaction (the registered immovable of the Ahtme nursing home) during its execution in 2022, and city government's controllers inspected the use of the city government's official cars at the beginning of 2023 at the request of the mayor. Considering that major financial transactions are primarily carried out at the level of the city government and its services,[4] the National Audit Office does not consider such limited control over their activities in comparison with other agencies justified. Errors have a significantly larger financial impact at this level of management and this should be taken into consideration in the selection of the subject matter to be inspected.

## There are unused opportunities to increase transparency and market competition in procurement and asset sales practices

### Conclusions concerning the organisation of procurements

**33.** The internal control guidelines for local governments set out a total of 14 principles for procurement (see Annex A, section 2), covering the planning of purchases, allocation of responsibilities and documentation of the process. Against the background of these principles, the National Audit Office analysed the organisation of procurements in Kohtla-Järve and the acquisition of fixed assets and management costs in the period from January 2022 to June 2023. The activities of Kohtla-Järve complied with most of the principles (9/14), but the National Audit Office also found shortcomings with respect to a number of important issues.

**34.** The National Audit Office did not assess the compliance of specific procurements with the requirements of the Public Procurement Act or the city's internal procedures, as the internal control guidelines for local governments cover the principles of procurement.

**35.** Kohtla-Järve has a single procurement procedure, but the city government as an administrative agency and its administered agencies act as separate contracting agencies. As noted in the report above, major property transactions are mostly carried out by the city government together with its services. The city government's procurements are managed by the public procurement committee headed by the Deputy Mayor of Economic Affairs which carried out around 60 procurement procedures during the year and a half covered by the audit, resulting in contracts worth around €17 million. The majority of the city government's procurement procedures (75%) are organised through the

The **simple procurement threshold** is €30,000 in the case of a supply contract or a services contract, and €60,000 in the case of a public works and services contract.

Source: section 14 of the Public Procurement Act

[4] For example, in the period audited (January 2022 to June 2023), around 62% of the management costs were incurred by the city government and its services.

public procurement register. In the case of purchases below the simple procurement threshold, preference was given to publishing the contract notice on the city's website. Major purchases were also mostly included in the city government's procurement plan.

**36.** At the same time, the National Audit Office noted that in the procurement practice of Kohtla-Järve, the merging of purchase requests with the same content into a single procurement, as recommended in the internal control guidelines for local governments, is relatively rare. This is particularly true in the case of the city's educational institutions, where such purchases of food, office supplies, etc. are common.

**37.** An analysis of the food purchases of 11 schools and nurseries examined in more detail in the audit revealed that different institutions had the same partners with whom each institution had entered into a contract separately and, as the cost did not exceed the simple procurement threshold, no procurement procedure was carried out. However, in 2022, for example, the total amount of such purchases for these institutions was around €320,000. This is not a breach of public procurement rules, as each authority is a separate contracting authority, but at the same time, the internal control guidelines for local governments recommend the centralisation and joint procurement of similar purchases (see Annex A, section 2, principle 11). This is a good way to encourage market competition for better tenders and to achieve greater control over the use of budget funds.

**38.** Furthermore, in the case of food purchases, educational institutions had generally not requested comparative quotes (9/11 institutions), which is also in conflict with the recommendations of the general principles of public procurement[5] and the recommendations of the internal control guidelines for local governments. According to the guidelines, comparative quotes must be documented and retained.

**39.** At the same time, promoting competition for the city's orders needs attention more broadly. The largest tender in terms of value in the period audited was for the maintenance of green areas and streets in the Ahtme and Järve Districts, covering the period 2022 to 2027. The procurement was carried out by the city government and the estimated contract value was €12.5 million. The tender procedure started in the spring of 2022 and although six companies registered for the procurement, the only company that submitted a tender belonged to the same business group as the city's previous partner for such work. The National Audit Office focused on compliance with the guidelines of the internal control system of local governments in its audit and did not assess the legality of specific procurements, but given the high cost of the transaction and its impact on the city budget, the National Audit Office deems it necessary to point out certain circumstances:

[5] Section 3 of the Public Procurement Act.

### Did you know that

in order to encourage the business activity of small and medium-sized enterprises, the Public Procurement Act includes a guideline for dividing a procurement into lots within a single procedure, where possible. If this is not done, the reasons for this must be explained in the public procurement documents.

Source: subsection 27 (2) of the Public Procurement Act

- based on the data in the public procurement register, in the context of the practice of other local governments, it is rather unusual to procure the maintenance of green areas and streets as a single object. This requires specific skills and experience on the part of the provider, which narrows down the circle of potential interested parties. However, it is not forbidden, and Kohtla-Järve argues that it was done for reasons of expediency, as it is easier to manage contracts this way (an explanation is also given in the public procurement documents);
- where the aim is to make better use of competition, similar procurements have been divided into lots based on regions within the same procedure in other local governments[6]. However, in the procurement of Kohtla-Järve in question, two districts without a common border were defined as a single service area;
- compared to similar procurements by other local governments, the requirement concerning the tenderer's previous turnover was set relatively high in this procurement (several times higher than in similar procurements in e.g. Tallinn's districts).

**40.** All such conditions and requirements, including the definition of the subject matter of the procurement, raise the threshold for participation in the procurement, which in turn limits the circle of potential tenderers. If there is a desire to stimulate competition for the orders of the city, the administration of the city must think about how to set procurement conditions in the future. This is also directly linked to the functioning of the internal control system, as the attitudes, rules and processes developed in the city must ensure the prudent management of municipal assets,[7] including the achievement of the best possible result with budget funds.

## Conclusions on the granting of use and transfer of municipal assets

**41.** There are 24 principles for the management of the assets of the city and the rural municipality in the internal control guidelines for local governments (see Annex A, section 3). Similarly to procurements, these mainly concern the allocation of tasks and responsibilities, as well as the documentation of activities, but also asset accounting and the transparency of the decision-making process. The National Audit Office primarily focused on issues related to the granting of use and transfer of municipal assets, and based on the information gathered in the audit, it can be concluded that the organisation of asset management in Kohtla-Järve is generally in compliance with the guidelines. However, the number of transactions for the granting of use and transfer of assets during the period covered by the audit (from January 2022 to June 2023) was relatively low – 15 in total.

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[6] In the context of the division into lots, it is important to underline the difference compared to the food purchases of educational institutions described above, where there was no 'joint procurement', but where this would be a possibility. The current practice of purchasing food is not equivalent in terms of results to a situation where a procurement is divided into lots according to the Public Procurement Act. Such division can only take place within the same procurement procedure and where the rules applicable to the procedure are selected on the basis of the total estimated cost of the different lots.

[7] The obligation to manage city assets in a prudent manner stems from Kohtla-Järve's regulations concerning municipal assets.

**Did you know that**

in addition to the sale of the registered immovable of the nursing home in Ahtme, one of the major transactions in the period covered by the audit was the transfer of the assets of Järve Basic School to the state free of charge so that the school could continue its activities as a state school.

**42.** The assets transferred or made available for use included mostly real estate (primarily apartments owned by the city), and this was done by auction. In terms of the value of assets, the largest transaction in the period under review was the sale of the registered immovable and movable property of the nursing home for the elderly in Ahtme in 2022. The total amount of the transaction was approximately €600,000. The building was allegedly in need of renovation, for which the city had no money, so the desire to sell was understandable. At the same time, in the opinion of the National Audit Office, the process also showed signs of unjustified haste and unused opportunities for making sure that their interest in selling reaches a larger number of potential buyers.

**43.** The audit revealed that there had been unsuccessful attempts to sell the registered immovable of the nursing home in previous years, but in the summer of 2022, they wished to sell it again, as interested parties had allegedly emerged. In this case, the notice of sale was published on the city's website two days before the decision to start the sale transaction was taken by the relevant committee. The reasons for this could not be explained in the audit. One offer was received from a real estate company registered in Jõhvi, to whom they decided to sell the registered immovable.

**44.** The transaction raised questions in the audit committee of that time, which felt that the buyer should have been found through a pre-negotiated tender process, as this would have increased competition. As it had attracted the audit committee's attention, the committee that had carried out the procurement competition tried to annul the auction because it found errors in the notice of sale,[8] but the city government disagreed with both committees and confirmed the results of the auction, explaining its arguments in detail in its order to that effect.

**45.** As in the case of procurements, the National Audit Office does not take a position on the legality of the sale, but points out that some other larger local governments (for example Pärnu) have established a requirement in their asset management procedures that auctions of municipal assets be organised in a public electronic auction environment. Kohtla-Järve could also consider a similar practice when transferring municipal assets, as it ensures better visibility for the advertisement in the public information space and creates better preconditions for competition.

## Conclusions on the development of Kohtla-Järve's internal control system so far

### The need to develop the internal control system is recognised, but no fundamental changes have been made

**46.** The National Audit Office also looked at what had been done in Kohtla-Järve to develop the internal control system during the period covered by the audit. Information was collected from the last mayor of the audited period (V. Linder), as well as the chairman of the council (E. Odinets), the chief controller (L. Tarassevitš) and the chairman of the audit committee (J. Saltõkov). It became evident that the need to develop the internal control system is perceived in a fairly similar way, but more fundamental changes have not been made. The unstable political situation

[8] The error found by the committee in the notice of sale later concerned the fact that the notice did not state the date of payment of the sale price. The city government, for its part, found that there was no practical need for that, as the deadline would be determined by order of the city government when approving the results of the auction.

following the last local elections, which has led to several changes in the city government, was stated as the reason. In addition, the city's difficult financial situation has required attention.

**47.** As noted above in the audit, there is no comprehensive overview of the deficiencies in the internal control system in Kohtla-Järve, as no such analysis has been carried out. In general, the opinions of the persons interviewed in the audit revealed that the following are identified as problem areas: the mismatch between official and actual tasks, unclear working arrangements of controllers and the fact that the city government is left out of the inspection area of the controllers, lack of transparency in the selection process of managers and employees of agencies, as well as the lack of information from the members of the council and poor accessibility of information in the city government (documents marked as 'for internal use' without justification, etc.).

**48.** Some of these problem areas were also confirmed in the course of the audit activities, such as the circumstances related to the work of the city government's controllers or, for example, the mismatch between job descriptions and actual tasks, which became evident in the processing of payments and cash accounting (see Annex A, section 4). The remaining problem areas mentioned were outside the scope of the audit.

**49.** According to those interviewed in the audit, the problem areas have been addressed to some extent in the city government. For example, the controllers were brought under the direct supervision of the mayor to increase their independence. Rules of procedure for controllers are being prepared. In order to get an overview of the actual tasks of officials, an analysis was carried out in the largest structural unit of the city government (Development and Economic Service). There is also an alleged policy of only selecting managers of agencies by means of a competition in the future, as was done to find the heads of a number of educational institutions during the period covered by the audit. The accounting of administered agencies, including current accounts and payments, was also centralised in the city government.

**50.** In the opinion of the National Audit Office, the development of the system in Kohtla-Järve has been moving in the right direction, but the activities undertaken during the audited period are still not sufficient to ensure that the city's internal control system complies with the generally accepted understanding of the internal control system of a local government.

## Recommendation of the National Audit Office to the Kohtla-Järve City Council

**What does the National Audit Office recommend for the development of internal control in Kohtla-Järve?**

**51.** One of the essential prerequisites for the functioning of an internal control system is a clear understanding of the nature of the system, with respect to which the internal control guidelines for local governments have brought new knowledge and clarity. At the same time, a number of local governments have also established their own internal control procedures (operating models), which provide an opportunity to better understand the recommendations of the guidelines in the light of their own specific characteristics and to find the right place for the elements of the system in their own work organisation. This is the case, for example, in Viimsi, Saku and Lääne-Nigula Rural Municipality where you can find practical examples of local governments trying to put the theory of internal control into practice. There are more specific separate procedures for carrying out inspections within the system for example in the rural municipalities of Rapla, Rae and Jõhvi.

52. The main problem with Kohtla-Järve's internal control system is the lack of key elements of the system or their failure to function. In the opinion of the National Audit Office, it is not wise to tackle this problem one element or activity at a time, but to review the system as a whole. A good way to do this is to develop an operating model for internal control and to establish it as a legal act, as is the case with some other local governments. This would also provide the internal control system with a solid structure and practical meaning.

53. **Recommendation of the National Audit Office to the Kohtla-Järve City Council:** To initiate the development of an operating model for internal control in the City of Kohtla-Järve in 2024, in order to introduce the generally accepted principles of the internal control system of local governments in Kohtla-Järve by 2025 at the latest, and to ensure compliance with them.

**Response from Kohtla-Järve City Council:** Based on the problems described in the draft audit report and the recommendations made, we have already mapped the problems, identified possible solutions and prepared a timetable for their implementation in cooperation with the city government (see Annex B). This is currently a working document, which will be discussed at a joint round table of the city government and city council in April 2024, specified and then used as a basis for further action. We would also like to make these roundtables a regular event, so that we can monitor the progress of planned activities and make any necessary changes to the plans. As the most important activity, the city council and the city government plan to initiate the process of developing the operating model of internal control in the City of Kohtla-Järve in the spring of 2024, in order to introduce the generally accepted principles of the internal control system of local governments in Kohtla-Järve by 2025 at the latest, and to ensure compliance with them.

## Recommendation of the National Audit Office to the Ministry of Regional Affairs and Agriculture

### What does the National Audit Office recommend in relation to the internal control guidelines for local governments?

54. The internal control guidelines for local governments were completed at the end of 2018 at the request of the Ministry of Finance, after which all local governments were informed by e-mail. In order to introduce the guidelines, training sessions were held in 2019 and 2021, with the participation of the representatives of 46 local governments. The 2021 training was recorded, it is publicly available on the website of the Ministry of Regional Affairs and Agriculture and can be watched on demand.

#### Did you know that

A representative of the City of Kohtla-Järve also participated in the training organised to introduce the internal control guidelines for local governments in 2021.

55. The guidelines are currently managed by the Ministry of Regional Affairs and Agriculture, which, according to a representative, plans to supplement the guidelines if the Riigikogu adopts the planned amendments to the Local Government Organisation Act, formulating the

essence of the internal control system of local governments and introducing the obligation of carrying out an internal audit.

**56.** The National Audit Office considers the guidelines to be usable and a good tool for the self-assessment of local governments. However, they also include instructions that could be clarified. For example, the principles formulated in the checklists of the guidelines focus mostly on the existence of rules and less on obtaining assurance that these rules are actually being followed. Some of the principles also directly repeat legal requirements (e.g., *"When entering into employment relationships, the local government complies with all the restrictions set out in legislation (e.g. Local Government Organisation Act, Civil Service Act, Child Protection Act, Anti-corruption Act) and does not enter into employment relationships with persons to whom these restrictions apply"*), but do not provide guidance for their practical implementation. There are also principles for which the adequacy of compliance is relatively difficult to measure (e.g. *"There is an obligation to report and the users of reports have been determined"*).

**57.** The audit also revealed that the Ministry does not really know whether and how the guidelines have been implemented in the local governments. In the procedures of local governments, there are occasional references to the guidelines, but there is no good overview of their use. It is also not known what kind of problems have arisen in implementing the guidelines. In the opinion of the National Audit Office, the ministry could collect such information on a regular basis in order to receive feedback on the relevance of the guidelines. This will help to keep the guidelines meaningful as a practical tool.

**58.** **Recommendation of the National Audit Office to the Minister of Regional Affairs:** To collect feedback from rural municipalities and cities in 2024 on the implementation practice and problems of the optional guidelines for organisation of internal control systems of local governments prepared in 2018, and specify the guidelines, taking into consideration both the feedback from local governments and the observations made in the audit of the National Audit Office (see section 56).

**Reply from the Minister of Regional Affairs:** we announce that by the end of 2024, we will review the checklists of the guidelines in the light of the observation made in the audit, with a view to including practical self-assessment questions where possible. We will also collect feedback on the guidelines from rural municipalities and cities.

Digitally signed

Ines Metsalu-Nurminen
Director of Audit, Audit Department

# Recommendations made by National Audit Office and responses of the auditees

On the basis of the audit, the National Audit Office made recommendations to the Kohtla-Järve City Council and the Minister of Regional Affairs who sent their response to the recommendations of the National Audit Office on 2 April 2024.

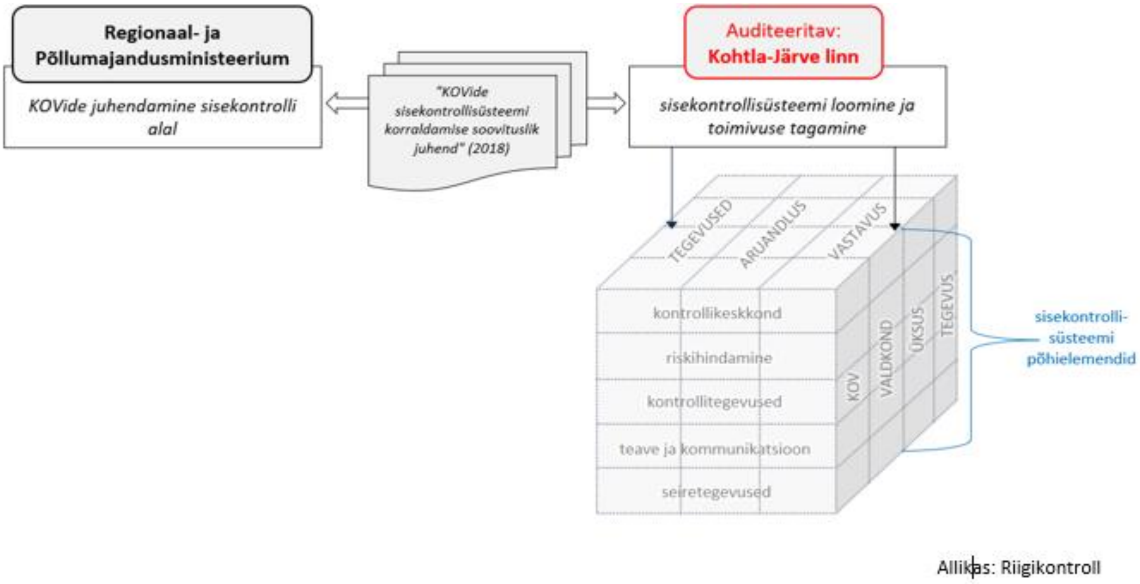
| Recommendations of the National Audit Office | Responses of auditees |
|---|---|
| **Development of the internal control system of the City of Kohtla-Järve**<br><br>**53. Recommendation of the National Audit Office to the Kohtla-Järve City Council:** To initiate the development of an operating model for internal control in the City of Kohtla-Järve in 2024, in order to introduce the generally accepted principles of the internal control system of local governments in Kohtla-Järve by 2025 at the latest, and to ensure compliance with them.<br><br>**(sections 17-52)** | **Response from Kohtla-Järve City Council:** Based on the problems described in the draft audit report and the recommendations made, we have already mapped the problems, identified possible solutions and prepared a timetable for their implementation in cooperation with the city government (see Annex B). This is currently a working document, which will be discussed at a joint round table of the city government and city council in April 2024, specified and then used as a basis for further action. We would also like to make these roundtables a regular event, so that we can monitor the progress of planned activities and make any necessary changes to the plans. As the most important activity, the city council and the city government plan to initiate the process of developing the operating model of internal control in the City of Kohtla-Järve in the spring of 2024, in order to introduce the generally accepted principles of the internal control system of local governments in Kohtla-Järve by 2025 at the latest, and to ensure compliance with them. |
| **Updating the optional guidelines for internal control in local governments**<br><br>**58. Recommendation of the National Audit Office to the Minister of Regional Affairs:** To collect feedback from rural municipalities and cities in 2024 on the implementation practice and problems of the optional guidelines for organisation of internal control systems of local governments prepared in 2018, and specify the guidelines, taking into consideration both the feedback from local governments and the observations made in the audit of the National Audit Office.<br><br>**(sections 54-57)** | **Reply from the Minister of Regional Affairs:** we announce that by the end of 2024, we will review the checklists of the guidelines in the light of the observation made in the audit, with a view to including practical self-assessment questions where possible. We will also collect feedback on the guidelines from rural municipalities and cities. |

# Description of audit

## Audit objective

The objective of the audit was to analyse the activities of the authorities of Kohtla-Järve when organising the internal control system and to assess the compliance of these activities with the optional guidelines for organisation of internal control systems of local governments prepared by the Ministry of Finance. It also gave an overview of what the City of Kohtla-Järve has done in recent years in terms of its internal control system and whether it is sufficient and appropriate. In addition, it was established what the Ministry of Regional Affairs and Agriculture had done to implement the guidelines and develop internal control in local governments following the development of the internal control guidelines for local authorities.

**Figure 1. Key elements of the internal control system of local governments and the distribution of roles in developing the internal control**




| | |
|---|---|
| Regionaal- ja Põllumajandusministeerium | Ministry of Regional Affairs and Agriculture |
| KOVide juhendamine sisekontrolli alal | Providing guidance to local governments on internal control |
| „KOVide sisekontrollisüsteemi korraldamise soovituslik juhend“ (2018) | Optional guideline for organisation of the internal control systems of local governments (2018) |
| Auditeeritav: Kohtla-Järve linn | Auditee: City of Kohtla-Järve |
| sisekontrollisüsteemi loomine ja toimivuse tagamine | establishing an internal control system and ensuring its functionality |
| TEGEVUSED | ACTIVITIES |
| ARUANDLUS | REPORTING |
| VASTAVUS | COMPLIANCE |
| kontrollikeskkond | inspection environment |
| riskihindamine | risk assessment |
| kontrollitegevused | inspection activities |
| teave ja kommunikatsioon | information and communication |
| seiretegevused | monitoring activities |
| KOV | Local government |
| VALDKOND | DOMAIN |
| ÜKSUS | ENTITY |
| TEGEVUS | ACTIVITY |
| sisekontrollisüsteemi põhielemendid | key elements of the internal control system |
| Allikas: Riigikontroll | Source: National Audit Office of Estonia |

## Audit questions

Main question of audit: Has Kohtla-Järve developed its internal control so as to comply with accepted understandings of a local government internal control system and to reduce, among other things, the risk of corruption, and if so, how?

There were three key questions, the first two focused on the activities of Kohtla-Järve and the last one on those of the Ministry of Regional Affairs and Agriculture.

Key questions:

1. Does the internal control system of the City of Kohtla-Järve comply with the recommended guidelines for the internal control systems of local governments (Ministry of Finance, 2018) in the transaction types selected for audit? (see sections 17–45 of the report)

The criteria used were the principles formulated in the following checklists attached to the guidelines: a) general internal control system, b) execution of procurements, c) use of assets and d) making of payments. Kohtla-Järve's compliance with these is indicated in Annex A.

2. What changes, if any, did the City of Kohtla-Järve make to the city's internal control system in 2022-2023 in order to more effectively mitigate the risk of corruption? (see sections 46–50 of the report)

3. Following the development of the internal control guidelines for local authorities, what has the Ministry of Regional Affairs and Agriculture done to implement the guidelines and develop internal control in local governments? (see sections 54–57 of the report)

## Scope and focus of audit

The audit activities on key questions 1 and 2 did not address the governance system of the City of Kohtla-Järve as a whole, but were limited to the council, the city government and administered agencies. The activities of city-owned companies were not analysed in the audit.

In addition, the audit did not cover the entire optional guidelines for setting up an internal control system for local governments, but focused on the parts concerning procurement, the transfer of assets and granting the use of assets.

The first key question assessed the structure of the internal control system at the time of the audit activities. The system's functionality was tested in the period from 01.2022 to 06.2023 on the basis of the activities and transactions carried out in connection with procurements, the transfer and granting of use of assets. With respect to the second key question, information was collected about the activities of the City of Kohtla-Järve in the years 2022–2023. The third key question focused on the activities of the ministry starting from 2019.

**Completion date of audit:** The audit activities were carried out from October to December 2023.

**Audit team:** auditors Reet Rutus, Ines Vali, Anneliis Arm, Audit Manager Tambet Drell.

## Contact information

Further information on the audit is available from the Communication Unit of the National Audit Office by telephone at +372 640 0777,
email: riigikontroll@riigikontroll.ee

An electronic copy of the audit report (PDF) is available online at www.riigikontroll.ee.

A summary of the audit report is also available in English.

The number of the audit report in the record management system of the National Audit Office is 80091.

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# Annex A. Compliance of Kohtla-Järve's internal control system with the internal control guidelines for local governments, by topics covered in the audit

1) General internal control system checklist (see). **NB!** The conclusions of the National Audit Office apply to the management of municipal assets.

| Principle | Yes | No | N/A | Problem (in case of 'no') | Comment |
|---|---|---|---|---|---|
| 1. The organisation's processes have been defined and described (either as guidelines or flow charts). The descriptions also map out important internal control measures. | X | | | | |
| 2. Policies and procedures in place are regularly reviewed and updated as necessary to ensure that they function correctly and in a timely manner. | | X | | There are no policies or practices for analysing the appropriateness of processes regularly. | |
| 3. The division of labour and responsibilities are clearly determined. | X | | | | |
| 4. The division of labour and responsibilities are reviewed periodically. | X | | | | |
| 5. Long- and short-term objectives are formally determined (at the level of the local government and, where necessary, at the level of structural units). | | | X | | The audit focused on internal control in the management of municipal assets. Principles 5 and 6 of the guidelines are not properly applicable in this perspective, as no concrete and quantifiable objectives for municipal asset management can be found in the practice of local governments. The general objectives of asset management (prudence, sustainability, etc.) are laid down in the city's internal procedures. |
| 6. The achievement of objectives (including timeliness) is measured and checked, with clear reporting lines in place. | | | X | | |
| 7. The implementation of the decisions taken is checked – situations where the decisions taken have not been implemented are highlighted. | X | | | | |
| 8. A code of ethics/code of conduct has been established for the level of the council, city/rural municipality government and organisations. | X | | | | There is no code of ethics as such. Guidelines on how to avoid conflicts of interest and other risks of corruption have been provided, for example, in the public procurement procedure, the procedure for implementing the Anti-Corruption Act and the rules of procedure of the city council. |
| 9. There is an obligation to report and the users of reports have been determined. | | | X | | See comment at principles 5 and 6. The same conclusion applies in principle to reporting. |
| 10. Policies are in place for the flow of information to all necessary levels. | X | | | | |
| 11. The rights, obligations and responsibility of each employee are clearly defined (job descriptions). | | X | | | Job descriptions are mostly in place, but the explanations provided by the audit and the analysis commissioned by the city indicate that some of the tasks in the job descriptions do not correspond to the reality. |

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| 12. The rights, obligations and responsibility of each employee are reviewed periodically. | | X | | | See previous comment. |
| 13. Rules have been developed for the transfer of public service provision to the private or non-profit sector and for monitoring the quality of services. | | | X | | Not directly related to the management of municipal assets. |
| 14. Compliance with the limits of authority (of managers, employees, partners, etc.) is regularly checked (e.g. during audits). | | X | | | The selection of the subject matter of audits by municipal controllers and the audit committee of the city council is not systematic. Furthermore, the city government as an authority has essentially been outside of their control. |
| 15. Risks are regularly identified and assessed (including corruption risks). Where necessary, additional risk mitigation measures are implemented. | | X | | | There is no risk assessment as a specified work process. |
| 16. The functioning of the internal control system is assessed periodically (e.g. internal audit, other audits and reviews). | | X | | | The functioning of the internal control system as a whole has not been assessed in the form of audits, reviews or similar work. |
| 17. The shortcomings in internal control have been identified and referred to the parties responsible for rectifying them at the right time. | | X | | | See previous comment. |
| 18. Areas and activities have been determined where the four-eyes principle is applied (i.e. review/inspection of activities by several persons). These activities include all activities where decisions are made about the use of public money. | X | | | | |
| 19. Areas and activities have been determined where the separation of duties is applied (i.e. activities are divided between several persons). | X | | | | |
| **Avoiding conflicts of interest and corruption** | | | | | |
| 20. When entering into employment relationships, the local government complies with all the restrictions set out in legislation (e.g. Local Government Organisation Act, Civil Service Act, Child Protection Act, Anti-corruption Act) and does not enter into employment relationships with persons to whom these restrictions apply. | | | X | | The principle is not related to internal control over the management of municipal assets which was the subject of the audit. |
| 21. Procedures are in place to identify and avoid conflicts of interest. These procedures also extend to administered bodies, companies where the local government has a dominant influence, foundations and NGOs. | X | | | | |
| 22. Rules on gifts and benefits have been agreed on and made public at the level of the local government (based on the good practice on gifts and benefits related to duties). | | X | | | There are no agreements on these issues. |

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| 23. The local government organises training aimed at preventing conflicts of interest for all officials of the local government. | X | | | | |
| 24. Officials (persons who have an official position within the meaning of the Anti-corruption Act) have been identified and defined. | X | | | | |
| 25. All members of the council, employees of the local government, of an authority, of a company, an NGO or a foundation administered by it declare any conflict of interest with respect to a decision or action and refrain from making the decision or taking action, and it will be recorded in the minutes. | | | X | | Compliance with the principle was not checked in the audit. |
| 26. The persons who are required to submit declarations of economic interests have been determined. | X | | | | |
| 27. Delegation of a decision or action to a subordinate is not allowed in the case of a conflict of interest. | | X | | | There are no such rules in Kohtla-Järve. |
| 28. It is compulsory for all employees to take annual leave and to delegate their duties to a substitute during this time. | | X | | | |
| 29. In the case of financial allocations and procurements/purchases, the local government checks the financial interests of persons involved in the decision-making process (e.g. through the commercial register), starting from an amount of x. | | X | | | |
| 30. Whistleblowing procedures are in place to receive and process both internal and external reports. The whistleblower should not be subject to sanctions in the case of a report made in good faith. | | X | | | |

2) Execution of procurements checklist (see).

| Principle | Yes | No | N/A | Problem (in case of 'no') | Comment |
|---|---|---|---|---|---|
| 1. The bases for planning and carrying out procurements have been established by law. | X | | | | |
| 2. The procurement plan is approved and published on the website. | X | | | | |
| 3. Removal and notification principles have been established for the prevention of a conflict of interest. | X | | | | |
| 4. A person responsible for the planning and lawfulness of procurement has been appointed, who, among other things, checks that procurements are not divided into parts. | X | | | | |

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| 5. The persons responsible for procurements and the deadlines of procurements have been determined. | X | | | | |
| 6. The principles for the purchase of goods and services below the simple procurement threshold are set out. | X | | | | |
| 7. When purchasing goods and services below the simple procurement threshold, the justification for the chosen tender must be provided. | | X | | For food purchases, the educational institutions managed by the city had generally not asked for comparative quotes (9/11 of the institutions). | |
| 8. Comparative quotes are documented and retained. | | X | | See previous. | |
| 9. The grounds for the formation of procurement committees have been set forth in legislation. | X | | | | |
| 10. Procurements are documented and retained. | X | | | | |
| 11. Purchases of the same type (e.g. stationery) are centralised and procured jointly by the local government and its organisations. | | X | | In Kohtla-Järve's procurement practice, purchase requests of the same type from administered agencies are not merged into a single procurement. | |
| 12. Persons involved in procurements have received training. | X | | | | It is difficult for an external evaluator to measure compliance with the principle. According to the explanation, the chief procurement specialist of the city government has attended the training. |
| 13. There is a clear overview of procurement contracts to ensure the sustainable availability of goods and services. | | X | | There are many contracts, but there is no good tool for monitoring contract deadlines according to the explanations in the audit. It has happened that the expiry of a contract is only noticed after it has expired. | |
| 14. The errors/problems in procurement are analysed and processes are improved on the basis of such analyses. | | X | | The public procurement committee allegedly discusses the problems that have arisen, but these discussions are informal and no minutes are taken. The errors identified by the controllers, including errors in public procurement, are also allegedly discussed at city government level. There are a number of mistakes, but there is no evidence of processes having been improved as a result. | |

### 3) Use of assets checklist (see)

| Principle | Yes | No | N/A | Problem (in case of 'no') | Comment |
|---|---|---|---|---|---|
| 1. A procedure for the management of the local government's assets has been adopted. | X | | | | |
| 2. The purposes for which the assets of the local government may (and may not) be used have been specified. | X | | | | |

| | | | | | |
|---|---|---|---|---|---|
| 3. It has been determined who can be managers of the assets of the local government. | X | | | | |
| 4. The obligations of the managers of the local government's assets have been determined. | X | | | | |
| 5. Records are kept of all the assets of the local government. | X | | | | |
| 6. A responsible person has been assigned to each asset of the local government. | X | | | | |
| 7. Actual inventory checks of assets are carried out, the results of which are used to adjust the accounts of the local government's assets. | X | | | | Inventory checks have been carried out. It is difficult to assess their meaningfulness in hindsight. |
| 8. It has been determined when the acquisition, transfer, grant of use or encumbrance of assets falls within the exclusive competence of the council (including financial limits). | X | | | | |
| 9. It has been determined when the acquisition, transfer, grant of use or encumbrance of assets falls within the exclusive competence of the city or rural municipality government (including financial limits). | X | | | | |
| 10. Where necessary, it has also been determined when the acquisition, transfer, disposal or encumbrance of assets falls within the competence of another body (including financial limits). | X | | | | |
| 11. Any granting of the use of the local government's assets (starting from an amount of × €10) is subject to a contract. | X | | | | |
| 12. All decisions on the granting of use, encumbrance and transfer of assets of the local government are made public. | X | | | | |
| 13. Use of assets is usually granted, assets are encumbered and transferred by auction. | X | | | | |
| 14. Auctions are open to the public. If an auction is not open to the public, the reasons for the use of the non-public procedure are set out in the explanatory memorandum or cover letter of the decision and approved before the start of the procedure. | X | | | | |
| 15. The initial prices for the granting of use or transfer of assets are determined either on the basis of their known market value or an expert valuation. The expert valuation must be performed by an independent party from the amount specified. | X | | | | |
| 16. If assets are transferred or the use of assets is granted by discretionary decision, the decision or its cover letter/explanatory | X | | | | |

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| memorandum state the reasons for the public interest that allows the assets to be made available by way of a discretionary decision. | | | | | |
| 17. When acquiring, transferring or granting the use of assets, a document is always drawn up stating the condition of the assets (to avoid any subsequent unjustified claims). | X | | | | With regard to the transfer of assets, sale transactions in the period audited mostly concern real estate, in the case of which the preparation of a document concerning the transfer of property seems unnecessary, since the buyer confirms that they are aware of the condition of the property in the sales contract. |
| 18. Rules have been drawn up for writing off the local government's assets. | X | | | | |
| 19. A document is prepared with regard to the assets written off, containing at least the description of the assets written off, the reason for the write-off and the method of destruction or disposal. | X | | | | |
| 20. If a claim is written off, a limit must be determined, so that the council decides on the write-off of claims exceeding it. | X | | | | |
| 21. The rules on the use of assets also apply to administered bodies (limits of amounts are identical to those for the city or rural municipality government). | X | | | | |
| 22. Periodic (e.g. annual) reports on the use of the local government's assets (purchase, sale, revenue generated) are prepared and made public. | | X | | There is no separate reporting on asset management to the extent described in the principle. There is the usual reporting on financial statistics as a whole (annual accounts, balance records, etc.). | |
| 23. If the assets belong to a company, foundation or NGO owned by the local government, similar rules apply to them. | | | X | | The audit did not look at the management of the city's companies. |
| 24. There are (financial) limits for transactions within the competence of the board of directors, the supervisory board and the person exercising the right of ownership. | | | X | | |

## 4) Making of payments checklist (see)

| Principle | Yes | No | N/A | Problem (in case of 'no') | Comment |
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| 1. The principles for carrying out transactions are established by law. | | X | | In practice, however, the procedure described in legislation is not always followed. The requirements for the making of payments are regulated by the internal rules on accounting and financial accounting, but both the interviews and on-site observations revealed that in some cases these requirements are not respected (e.g. cost | |

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| | | | | managers do not add all the information required by the internal rules to the information system when approving payments, cash settlements are reported less frequently than required under the procedure, the daily cash limit in the administered agencies is higher than allowed by the rules). | |
| 2. Incoming invoices are registered and processed in an electronic system. | X | | | | |
| 3. Financial software (Omniva, Fitek, etc.) is used to keep records of transactions. | X | | | | |
| 4. Automatic approval rounds are set up in the electronic system for the confirmation of purchase invoices. | X | | | | |
| 5. Prior to the confirmation of purchase invoices, the documents on which the purchase is based (comparative quotes, contracts, etc.) are checked. | X | | | | |
| 6. Financial transactions are carried out at least on the basis of the four-eye principle. | X | | | | |
| 7. There are limits on the amount of payments that can be made. | | X | | Not regulated by internal rules. At the same time, the preparation and execution of payments are separate tasks, and the person preparing payments cannot execute them. | |
| 8. Cash payments are avoided. | X | | | | |
| 9. A sufficient audit trail has been ensured for cash payments. | | X | | There are no rules on who and how decides on the use of cash. Reporting is required on a weekly basis, in reality it is done once a month. In their inspections carried out in 2023, the controller of the city government pointed out that there is no systemic control of ticket sales in the city (duplicate tickets have been printed, tickets from another institution have been used). At the same time, the amount of cash transactions generally is small in the city. | |
| 10. The person responsible for the budget regularly checks bank statements. | X | | | | |
| 11. The implementation of the budget is regularly compared to the plans. | X | | | | |
| 12. The errors/problems that have occurred when making payments are analysed and processes are improved on the basis of such analyses. | X | | | | |

# Annex B. Action plan for the development of internal control in the City of Kohtla-Järve, submitted by Kohtla-Järve City Council together with the response to the audit report

| Problem identified | Possible solutions | Time of implementation | Responsible party |
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| Absence of key elements of control systems, such as risk assessment, transparency of activities and control over them. | 1. drafting of internal control rules and/or an internal control operating model based on the example of Viimsi or Rae Rural Municipality;<br>2. carrying out a risk assessment according to the operational model as part of the substantive analysis of the city government and its services (see next section);<br>3. regular preparation, approval and monitoring of the controllers' work plan. | April 2024 – January 2025. | Mayor, chief controller, senior controller, heads of services, council. |
| Lack of substantive analysis of the economic activities of the city government and its services. | Implementing supervisory control of the city government and identifying shortcomings in existing city procedures. Recording the economic risks (including corruption risks) arising from the activities of employees in the context of supervision. A further analysis of the size of the structure, distribution of work and workload of the city government's services. | July 2024 – December 2025. | Mayor, chief controller, senior controller, HR manager, heads of services, city secretary. |
| The administered agencies do not take the controllers' suggestions into consideration and concrete steps are not taken. Poor management of the handling of errors identified by controllers. | 1. carrying out a follow-up inspection after the deadline for remedying the shortcomings indicated in the check list;<br>2. setting up an incentive system for administered agencies that remedy the shortcomings indicated in the checklist by the deadline;<br>3. obligating the managers of administered agencies to report on the progress made in remedying the shortcomings indicated in the checklist with a certain frequency. | Changes to the organisation of supervision: April – December 2024.<br>Implementation of the follow-up inspection/reporting system: until December 2025. | Mayor, chief controller, senior controller, city secretary, lawyers, council. |
| There is a lack of transparency in the procurement activities of the administered agencies. | 1. amending the procurement procedure to introduce the requirement of centralised procurements for administered agencies. Also the introduction of framework contracts, whereby partners are selected to provide services or goods and a specific provider is selected through mini-competitions;<br>2. conducting centralised procurements at least once a year for all the administered agencies. Gathering information on the needs of the administered agencies and, on this basis, organising the procurement (by the Development and Economic Service). | Changes to the procurement procedure: April – December 2024.<br>Conducting centralised procurements: from 2025 onwards. | Deputy Mayor of Development and Economics, procurement specialists, lawyers. |
| Lack of competition in transactions concerning municipal assets. | Changes to the municipal asset management procedure to introduce the requirement of organising a public auction on common auction platforms and/or delegation of | Changes to the procedure: April – December 2024. | Deputy Mayor of Development and Economics, civil servants, council. |

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| | the sale to bailiffs as part of official services in the case of the sale of assets worth over €1000.<br>A good example: Pärnu's procedure for the management of movable property, procedure for electronic auctions. | Implementation of the procedure: from January 2025. | |
| Mismatch between job descriptions and actual job duties. | Conducting a review of the job descriptions of all officials and employees and drafting/updating job descriptions where necessary, based on job duties. | Audit of job descriptions: April – December 2024.<br>Updating and/or drafting job descriptions: June 2024 – December 2025. | Mayor, heads of services, HR manager, HR specialist. |
| Lack of transparency in the selection process of the managers of institutions. | Supplementing the procedure for the recruitment and selection of civil servants of Kohtla-Järve's municipal authorities and establishing a procedure for the selection of the heads of all administered agencies, using the procedure for holding a competition to fill the vacant position of the head of an educational institution under the administration of Kohtla-Järve's city government as an example. | April – December 2024. | HR manager, city secretary, lawyers, council. |
| Poor access to information from the city government for members of the council. | 1. reviewing the document management system to check the type of information available to members of the council and, where necessary, making available any information they need;<br>2. developing the information security system and implementing the Estonian Information Security Standard. | Review of the document management system: April – December 2024.<br>Review and development of information security and IT systems: April – December 2024 | City secretary, chairman of the council, IT manager, data protection specialist. |
| Little management of conflicts of interest. | 1. regular verification of declarations of interest by the committee responsible for such verification. The inclusion of a relevant obligation in the committee's work plan;<br>2. introducing regular information days and training on the prevention of conflicts of interest and the implementation of the Anti-corruption Act;<br>3. verification of the absence of conflicts of interest by the city controller or the HR manager before a transaction involving municipal assets is carried out. | April – December 2024. | Audit committee of the city council, committee for the verification of declarations of interest, controllers, chairman of the council. |
| Lack of whistle-blowing possibilities and procedures. | 1. setting up a whistleblowing procedure or integrating it into an existing one;<br>2. creating a whistleblowing channel and ensuring the protection of whistleblowers. | Setting up a procedure for reporting violations: May 2024 – December 2025.<br>Setting up a whistleblowing channel: September 2024 – January 2025. | Mayor, HR manager, IT manager, council. |
| Lack of cooperation with controllers and persons carrying out supervisory control. | Involvement of controllers in carrying out supervisory control. | April 2024 – December 2024. | Chief and senior controller, HR manager, heads of services. |
| Lack of awareness among the city government's civil servants of the ethics of public officials (including the acceptance of gifts and benefits). | Establishing a code of ethics or a document concerning good practice for members of the city government and council and city government's civil servants, defining criteria for inappropriate behaviour and | April 2024 – December 2025. | City secretary, mayor, heads of services, council. |

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| | determining the procedure for accepting benefits and gifts. | | |
| Lack of principles and procedures for the training of civil servants. | Drawing up principles and procedures the training of civil servants.<br>A good example: Principles and procedures for the training of civil servants at the Saue Rural Municipality Government. | April – December 2024. | HR manager, city secretary, lawyer, council. |
| Absence of limits on financial liability or failure to define them. | Establishment of rules on payments, limits and the handling of cash and their integration into the relevant procedures, in particular the internal accounting rules. | April – December 2024. | Head of financial service, city secretary, lawyer, council. |