Economic activities of Saku Rural Municipality in 2006

Are internal control measures in place, does the organisation of accounting conform to requirements and are economic transactions lawful in Saku Rural Municipality?

Report of the National Audit Office to the Riigikogu. Tallinn, 26 February 2008

A summary of audit results

The National Audit Office audited the operation of internal control measures taken in Saku Rural Municipality to ensure that the Municipality's assets are used lawfully and according to their designated purpose, the conformity of the organisation of the Rural Municipality's accounting to legislation and instructions regulating accounting, and the compatibility of business transactions with the relevant legislation. The audit covered the year 2006. The National Audit Office did not aim at evaluating the Annual Accounts of the Rural Municipality for 2006, but intended to highlight key observations concerning the operation of internal control measures in the audited spheres, the organisation of accounting and the lawfulness of transactions.

The National Audit Office paid more attention to the organisation of public procurements, support given to non-profit activities, and the legality and disclosure of transactions involving non-current assets of the Rural Municipality.

The activities of a local government as a public sector entity are financed primarily out of tax revenues. Therefore, it is important that the funds so received be used in a manner understandable to taxpayers and lawfully. In 2006 the revenues of Saku Rural Municipality amounted to approximately 114 million kroons, incl. personal income tax in the amount of approximately 72 million kroons, which means that the tax revenue of Saku Rural Municipality was one of the largest among local governments in Estonia. In the budget of Saku Rural Municipality for 2007, revenues were planned to amount to ca. 125 million kroons, incl. income tax in the amount of ca. 84 million kroons.

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

- **The internal control system is operational and the internal organisation of work is of a high level in Saku Rural Municipality.** Some shortcomings were ascertained in the organisation of stocktaking and records management, as well as in the presentation of budgetary information. The Rural Municipality Government has not always observed the procedure established by the Council when spending budgetary funds.
- **The transactions concluded by Saku Rural Municipality were generally legitimate.** However, on several occasions the Rural Municipality Government failed to file with the Public Procurement Register the declaration required under the Public Procurement Act.
- **The organisation of accounting of non-current assets is not compatible with the generally acceptable accounting principles in all respects.** Problems were ascertained in the initial recognition of non-current assets and in recording sales revenue.

Response of the auditee: In their response to the draft Audit Report, both Saku Rural Municipality Government and Saku Rural Municipality Council expressed willingness to take into account most of the suggestions of the National Audit Office in their work in the future. Saku Rural Municipality Government explained that all roads registered with the state register of roads are not recognised as non-current assets of the Rural Municipality, because there are no budgetary resources for assessment of the roads. The Rural Municipality intends to compile an off-Balance Sheet list of the roads.

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