

2004

TEN YEARS OF
ENLARGEMENT

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From Euphoria to Fuzzy Accountability and back to New Hope: a Bumpy Decade in an Enlarged EU

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The last decade of the enlarged EU has at the same time been an opportunity as well as a challenge for supreme audit institutions (SAI). In retrospective the accession of Estonia to the EU seems very natural and logical. The same applies to joining of the National Audit Office of Estonia (NAOE) to the community of EU SAIs. For the NAOE, now almost a 100 year old institution¹, this has been a rapid period of development in terms of organisation build-up but even more importantly in terms of expertise and capacity growth. The decade has been a journey for us that started with focusing more on domestic issues with finding the best solutions how the work of the NAOE can contribute to the development of Estonia, and continued with learning how the EU policy making processes and funding impact national politics as well as policy implementation.

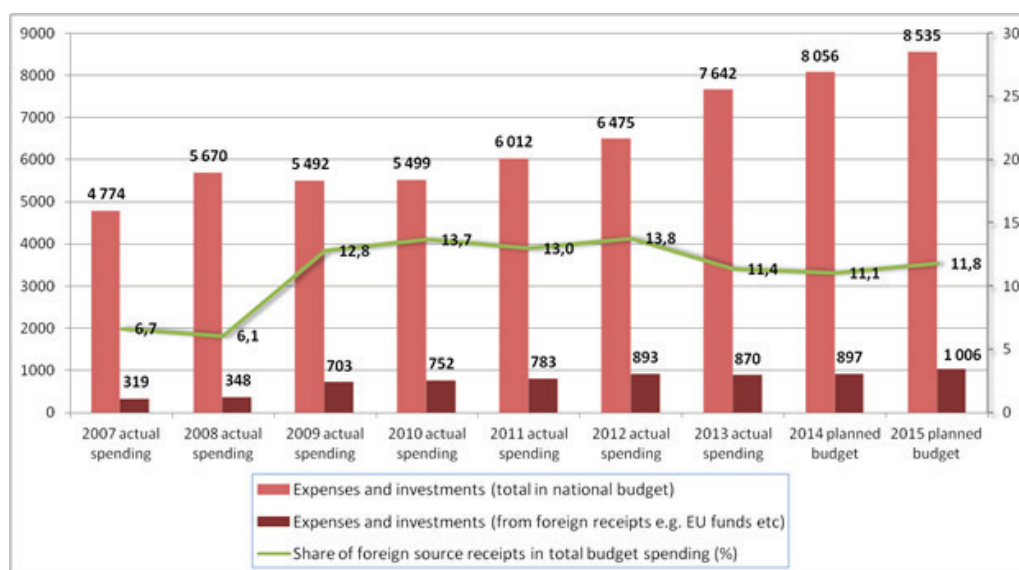
The NAOE primary focus regarding the EU related issues has commonly been on money and on the local context. For us it is important to question: how does EU affect the local taxpayer? Since day one of membership the EU money and so called "own" money was seamlessly integrated in Estonia at least in the context of budgeting. The strategic

¹ The National Audit Office was established in 1918, the same year the Republic of Estonia was declared. In 1940 the activities of the National Audit Office were interrupted due to Soviet occupation. In 1990 the activities of the National Audit Office were restored.

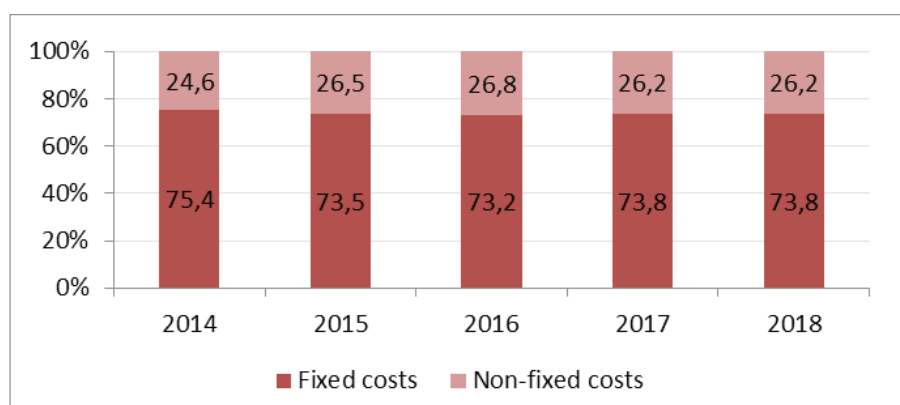
and operational planning along with budgeting considers all resources regardless of their origin as the means for achieving the fulfillment of government goals. This is so in theory. In reality the source of money along with the rules that apply to the use of those resources as well as the goals set for the use do have effect on outcomes and auditing.

EU is more than funds

In Estonia the EU funds count for about 12% of total government spending in 2015 (figure 1). This is not too much but when 75% of the total government revenue is already fixed with certain spending obligations and of the remaining 25% of revenues for flexible spending the EU funds count for nearly half, then the EU money becomes significant (figure 2). This phenomenon is also known in other smaller post-communist countries. In other words a lot of spending to boost the development of the country relies currently on EU funding. Then again the fixed spending in the budget is also designed to achieve certain policy goals and in this respect one tenth of the total spending is not too much. This consideration has risen and still raises a lot of questions for planning our audits. Administrative burden caused by the use of EU funding with heavily regulated application and usage procedures, with levels of local and external control and auditing starting from institution's own internal audit and ending with the ECA's audits is a very important issue especially for a small country like Estonia. The NAOE itself can also contribute to this burden by simply doing audits and that calls for very cautious approach when launching yet another audit to check the use of EU funds. For that reason the NAOE has positioned itself towards auditing of EU funds as provider of more complex view and usually the EU funding is dealt within the scope of a particular performance or a financial audit of an institution. Anyway, the accession to EU brought the EU funds to the picture and thus complicated the quest of supreme audit institutions to make users of public funds accountable.

Figure 1. Changes of foreign source receipts in national budget (million euro (left axis); % (right axis))²

Source: Estonian Ministry of Finance

Figure 2. Division of state budget expenditure between fixed and non-fixed funds (% of state budget)³

Source: State Budget Strategy for 2015-2018

The developmental impulses to the NAOE given by the accession of Estonia to the EU cannot certainly be underestimated and the effects keep emerging. Ten years ago nobody imagined how interlinked the EU member states' economies will be, especially during the recession. Nobody provided risk assessments to national parliaments about the fiscal behavior of another member state. It is now clear that often this is as great threat for national well being as a fraud or poor performance of domestic policy programs. Also those local problems of poorly performing policies affect everybody else in the union as well. Today this is a reality. This reality goes further than member states

just coordinating economic and employment policy or sharing competences with European Commission in the areas like transportation, agriculture or energy. A number of other policies like taxation, most of social affairs, education, healthcare etc. which are considered solely a national realm even according to new Lisbon treaty are today causing pan-European challenges. And very particular problems to member states like Estonia be it labour migration or financial obligations taken in the framework of ESM or making industry more competitive. These developments should make auditors in the EU to ask from ourselves how can we give fair and complete opinions when we only look at the part of the picture?

² Estonian Ministry of Finance, 2014, Explanatory Note to the draft 2015 National Budget Law, page 50

³ National Audit Office of Estonia, 2014, „Overview of the use and preservation of state assets in 2013-2014. Summary of Problems in the Development and Economy of Estonia by the National Audit Office“, page 12

Who is responsible?

A very simple question, a basic one for establishing accountability but in reality very difficult to answer. It is difficult in a domestic context let alone in the context of today's EU28 with multilayered structure of governance and parallel lines of accountability. The latest landscape review from the European Court of Auditors (ECA) on accountability stated that "In most policy areas covered by the EU treaties, the competences are shared between the EU and its Member States. For example, various EU policies depend in large part on Member State budget resources (the EU budget represents less than 1 % of GDP compared to 49 % of EU GDP spent by governments in 2017); achieving broad treaty objectives through strategies and targets (for example Europe 2020 targets) depends mainly on Member States' actions financed by their national budgets; the new EU fiscal and economic coordination arrangements cover the totality of public spending in the EU, but all actions in this area are subject to a complex system of cooperation. In such cases, coordinated action by the EU is required in order to achieve common objectives."⁴

The answer the NAOE has to the EU accountability puzzle is international co-operation with EU and other SAIs. Over the last decade there have been a number of successful undertakings in different forms where the NAOE has had an opportunity to participate. Among them were secondments of national experts at the ECA and various activities with EU member state SAIs like the Netherlands, United Kingdom, Denmark, Finland, Lithuania and many others or with countries like Canada, Norway, the United States, or Russian Federation. These undertakings have indicated the benefits as well as the bottlenecks of international cooperation projects. Most importantly, they have demonstrated that this is only the beginning of how the future audits will be done.

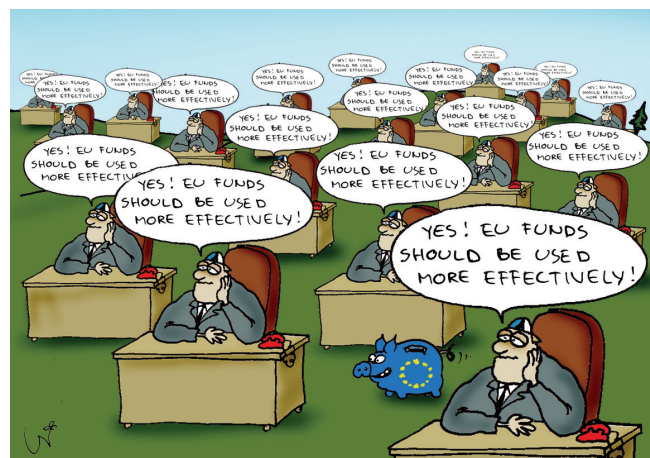
Very clearly and undisputedly the problems of natural environment, which have acquired the growing attention of the international audit community, have been a priority also to the NAOE. The nature does not stop at the borders and neither does the NAOE. This has driven our commitments

⁴ European Court of Auditors, "Landscape Review: Gaps, overlaps and challenges: a landscape review of EU accountability and public audit arrangements", 2014, page 20

in chairing the INTOSAI Working Group on Environmental Auditing (WGEA) and most recently in taking the lead in the EUROSAI WGEA. It only remains to be seen whether the issues of social security or health care or education or taxation will also gain such a prominence as to call for more coordinated actions from EU SAIs. The level of European integration is most of all the expression of political will and not a technical exercise. So, SAIs cannot lead the way here but we can be ready when that happens. The NAOE does that in coming years by allocating extra funding for international cooperation and trying to internalize international relations amongst the auditors as a norm in the standard process of auditing.

Do more with less, paperless!

The first part of this slogan is the very nature of performance improvement everywhere. The NAOE has often called Estonian public administration to do just that. But in return the NAOE itself must provide a good example. The big challenge for SAIs is that audit environment is becoming more complex and complicated but at the same time the funding of SAIs in many EU countries is negatively affected by austerity policies. The answer the NAOE has to those developments is technology – IT technology. All the vast amounts of data that are created digitally by the government are a resource for us. We need to understand it and we must be able to process it. In this way we can achieve a saving in audit costs as well as improve the accuracy of our input data. The NAOE has made very good progress in making financial auditing paperless and increased significantly the use of e-solutions in performance and compliance auditing as well.



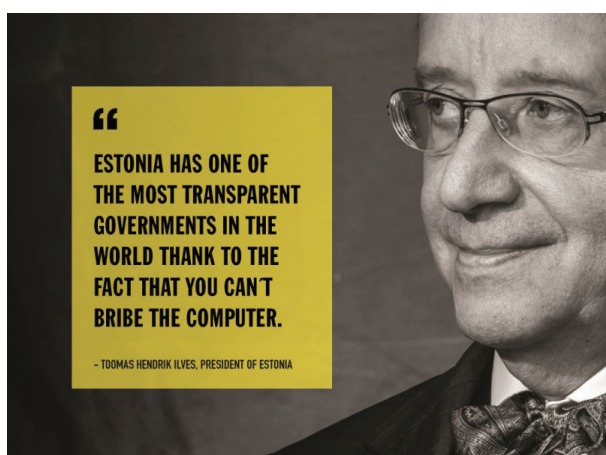
Author: Urmas Nemvalts from "Postimees"

Our ambition to introduce paperless audit goes further than merely introducing audit software and preparing working papers and audit reports electronically. In the NAOE, paperless audit is understood as intelligent use of all advantages of digital society.

The bases for paperless auditing are possible mostly because of the government's IT development projects over the last 20 years. Many of which were supported from EU funds. These projects created the main building-blocks of e-services in Estonia e.g. decentralized IT-system linked with a unique X-road solution and electronic identification based on e-ID cards. Through offering e-services the state collects data about its activities and transactions. This data is also used by state agencies to understand the financial impact of its conduct and by the NAOE for auditing purposes.

The "toolbox" of e-s

The service called e-Tax is Estonia's most popular e-service and important register for gathering information about the state's tax revenues. The information saved in the register of taxable persons creates the basis for online accrual data about tax revenues. The electronic system for declaring taxes means changes and improvements for the NAOE in checking tax revenues in financial audits. On one hand, it makes life easier since we know that the completeness of the data is embedded to the system and the accuracy of the data collected cannot be manipulated. On the other hand, there is a new task - we must get assurance that IT systems are working properly and without systematic errors.



Another important tool for us is e-Procurement. In e-Procurement all phases starting with preparing the contract documents, submitting the contract notice, submitting the tenders, processing the tenders and signing the procurement contract are taking place electronically without presenting any papers. In 2012 only 15% of all procurements taking place in the public sector were carried out as e-Procurements. In 2013 approximately 50% of all public procurements were taking place in the e-Procurement environment. It is a powerful database for auditing the use of public money including EU funds. Thanks to the e-Procurement the NAOE can get detailed information about all procurements done by public sector entities. This leads to better planning of audits and more cost effective auditing since we have more precise information about the expenditure and investments of state agencies and local governments.

Along with the IT systems there are IT-driven government initiatives that enable paperless accounting and auditing. One of them is centralized accounting. It means that all public sector institutions are using a unified reporting system and accounting software. The use of common accounting software SAP by auditees has direct effect to our financial audits. The NAOE has access to the SAP data that allows us to monitor both accounting and budgeting, on transaction as well as on reporting level. This means that a number of audit procedures can be carried out from distance without leaving the audit or home office.

A part of paperless accounting is the electronic processing of invoices. An e-invoice is not an invoice which has been scanned as a pdf-file but a complete system for automatic processing of billing information. The system was introduced in 2011 and by now around 50% of state agencies are processing their invoices not on the paper but using the e-invoice system. The e-invoice system has also made the work of auditors more efficient, as the accounting source documents can be now audited by using the access to e-Invoices.

Last but not least, the financial reporting process is unified through a web-based database. All public sector accounting entities prepare reports that are based on the common chart of accounts and are inserted to the database in the form of a special unified report on monthly basis. For auditors this

database simplifies the conduct of audits as we have access to financial reports on the detailed level of all audited entities as well as to the consolidated reports of different sectors.

These improvements in making the auditing cheaper, use of public funds more transparent and financial behaviour of civil servants more responsible, are real life examples of what is possible and not only in "test-site" Estonia. These experiences could be utilized also in EU wide context. Being a part of the EU is not just redistribution of development funding. It is also an integration of intellectual potential of every person of every member state.

Conclusion: e-State Charter⁵ for e-citizens and e-auditors

In order to improve the situation with the development and implementation of Estonian e-services, the NAOE decided to write down the principles of delivering good public services in digital environment. The document is called the e-State Charter and it is aimed to be used as a national standard for e-services. Using the charter people can assess whether their rights have been considered in the provision of digital public services. More than this, the charter can also be used as a set of criteria for conducting audits in the field of e-services.

We, at the NAOE, look forward to the next decade with enthusiasm. There are still opportunities in the context of EU integration which we have not fully realised and utilized. Integrated and prudent use of e-data collected on the European as well as member state level for improving the auditing is certainly one of those. Building on the work of INTOSAI and EUROSAI IT working groups and co-operation framework of the Contact Committee should more actively deal with the issues of IT and e-data use in audits. This means solving the problems of cross border data sharing between EU SAls, access to EU databases, using pan-European Big-data opportunities for auditing and development of paperless auditing in all areas of auditing. The free movement of data between EU

SAls is a viable alternative to joint or parallel audits when we must ensure to our constituencies full and fair judgements on the issues that have significant pan-European connotations. The NAOE would like not only to promote this idea but to take real steps in the Contact Committee framework to implement those ideas and thus improve auditing the EU related issues.

⁵ Full text of the charter in English can be downloaded from the NAOE web: <http://www.riigikontroll.ee/Riigikontrollipublikatsioonid/Muudpublikatsioonid/tabid/113/language/en-US/Default.aspx>