Support paid out of gambling tax

Audit report no. 2-5/04/24 of May 7, 2004

Executive summary

The state budget proceeds from gambling tax in 2002 were EEK 166.4 million, and in 2003, EEK 173.3 million. Of this amount, 46 per cent is allocated to the Cultural Endowment of Estonia, 3.9 to Estonian Red Cross, 12.7 to supplement the investments of the regional programmes related to children, young people, families, senior citizens and people with disabilities, and 37.4 to support welfare projects related to sports, sciences, education, culture, children, young people, families and medicine, and projects related to senior citizens and people with disabilities. The present audit focused on the latter 37.4 per cent of the proceeds from the Gambling Tax. The Gambling Tax Council composed of the members of the Parliament and other high officials, decides on the allocation of the support amounts.

Main findings

The formulation of priority fields is not sufficiently clear

The vague formulation of priority fields by the Gambling Tax Council invites many applications of support but most of them receive a refusal for the scarcity of funds – even in the cases when applications concern a priority field. The State Audit Office is of the opinion that it would be more rational to limit the priority fields on the basis of the purpose of supports and specify the priority fields annually. This would allow for more flexibility and make decision-making easier both for the officials of the Ministries and the members of the Council. It will also urge the applicants to think whether their applications correspond to the priority fields.

The roles of the Council and the Ministries while deciding on the applications are not clearly defined

Although the Ministries have to present a written opinion on each application, the Council does not always take them into account. Often the Council decides to support an application, on which the Ministry has passed a negative decision, or to refuse to support a project, which received a firm approval from the Ministry. Such decisions should either be substantiated or the Ministries should be approached for additional information.

The requirements for the applicants are not clearly defined

It is not clear whether self- and/or co-financing are obligatory. The extent of self- and/or co-financing is likewise not determined. The SAO does not consider it sufficient if self- and/or co-financing is indicated only in passing. Often the amounts and sources of financing are indicated but the guarantee letter is not appended to the application; likewise, upon concluding a contract the documents of co- and/or self-financing are usually not required and in the reports did not indicate to show whether any co- or self-financing was altogether used.

While reducing the amount of support the aim of the projects was not taken into account

The Ministries present their opinions on the amount of support to the Gambling Tax Council, who makes a decision on granting, amount, or refusal to grant the support. The SAO is of the opinion that in case of the reduction of the amount of support, the recipient should be required to present a more specified budget in order to see how the reduced funds would help achieve the aims of the project. The audit revealed that usually this was not done. As the Ministries do not usually require a new budget in the case of the reduction of support, they actually do not know what expenses the support was used to cover. The reduction of the amount of support may also mean that the applicant has to completely reschedule or cancel the planned activities.

Reporting and supervision are not properly arranged

The Ministry that has concluded a contract with an applicant must check if the support was used for the intended purpose and according to the conditions of the contract. all the Ministries had some reporting and supervision problems: often the recipients had not presented a report on the use of the support; the documentation of expenses was usually not required; the format of the report did not presume a detailed analysis of the expenses. The Ministries did not carry out any audits on the spot, although they have the

right to do it. The supervision was limited to reading the reports and in some cases, requiring more specified information. The SAO revealed that at least one recipient of a support did not use it for the intended purpose.

Main proposals

Proposals to the Gambling Tax Council

- Determine specific priority fields for each year.
- While reducing the amount of support, take into the account whether a given aim can be achieved with the reduced budget, and in case of the reduction of the amount, indicate the expenses reduced accordingly and the activities that are modified.

Proposals to the Minister of Education and Research, the Minister of Culture and the Minister of Social Affairs

- Develop and adopt the procedure for the evaluation of applications and inspection of the use of the support.
- Prior to conclusion of a contract, require a more specified project description and budget subject to the approval by the Ministry.

Proposal to the Gambling Tax Council, the Minister of Education and Research, the Minister of Culture and the Minister of Social Affairs

- Develop a common practice of evaluating the applications in the Ministries and clearly define a format in which the Ministries should present their opinions

Proposals to the Minister of Finance

- In cooperation with the Ministries that process the applications, develop and annex to their regulations the forms for contracts, which would contain the indication of responsibility, obligations, inspection opportunities and sanctions for both parties, and also the forms for project descriptions and for the presentation of full budgets of the projects.
- Make the regulation more specific with respect to the existence and extent of the self and co-financing.

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In his response the Chairman of the Gambling Tax Council informed the SAO that the Council developed and adopted its new Regulations at the beginning of this year. According to the new Regulations, the projects are divided into large-, medium- and small-scale ventures. This will determine the extent of co- and/or self-financing. The Regulations contain the required information for the summary table of applications presented to the Council by the Ministries, and the order in which the applications should appear in the summary table. It is intended to establish a working group of the members of the Council and representatives of the Ministries to discuss the proposals of the audit report.

The Ministers generally agreed with the proposals. In the opinion of the Minister of Education and Research, all the Ministries should have a uniform procedure for the processing of applications, but the main responsibility should lie with the Ministry of Finance. However, the latter found that as the procedure of applying for and granting of the support is established by the Government of the Republic, the establishment of the bases and conditions for receiving the support might exceed the limits of a Ministry’s authority.

Jüri Kõrge
Chief Auditor of the Operational Risk Audit Department