The use of administration and government budgets of cities and rural municipalities

Has the money given to city governments and rural municipality governments for administrative and government purposes been transparent and legal?

Report of the National Audit Office to the Riigikogu; Tallinn, 27 August 2007

Summary of audit results

The aim of the audit was to assess whether the transactions of city and rural municipality governments reported under government and administrative expenses for 2006 have been lawful, whether the councils have an overview of how the budgetary resources earmarked for these expenses were used and whether the information on government and administrative expenses has been publicised as required. For the purpose of finding an answer to these questions a sample of 30 rural municipalities and cities were chosen and they were used as a basis for describing the problems in this area.

Another aim of the audit was to find solutions as to whether and how it is possible to improve an overview of administrative and government expenditure by distinguishing this clearly from other expenditure, increasing the level of detail in the budget and ensuring better access to information on the activities of city and rural municipality governments.

Public interest in purposeful and legal use of the money earmarked in the city and rural municipality budgets is big. However, governing, i.e. management of the local government, is the part of the activities of city and rural municipality governments which is only partially connected to the quality and volume of public services provided to the population and companies and the expenditure on which is not reflected as positive changes in the local living environment. Therefore, local people have no cognitive associations between the expenditure and its result and this in turn limits the opportunities to assess whether the expenditure was justified and limits the inspection possibilities of the public as well.

The limited awareness of the public increases the risk of unlawful use of the money earmarked for governing and this reduces the credibility of local governments. The likelihood of this occurring is smaller if the administrative and government expenditure is made more transparent: more information allows local people to assess the activities of authorities and express their attitudes towards their activities at local elections, which would be a disciplining factor for the authorities.

The governing expenditure of city/rural municipality governments accounted for 9 percent of their total expenditure in 2006. Although the share of governing expenditure is not the biggest in the budget, the relative share of such expenses of different local governments is an important indicator for assessing their efficacy of management. However, the fact that governing expenditure is scattered in the budgets and its extent and content is handled in a different way does not allow adequate information to be obtained in order to make that decision.

Concluding the audit results, the National Audit Office makes the following principal conclusions:

- **Right now it is not possible to answer the question as to how much administration and government of local governments actually costs.** There is no reliable and comparable information on the actual size of administrative and governing expenditure, information which various stakeholders could base their decisions on.
- **Legal acts have been violated in remunerating the work of mayors/rural municipality mayors or city/rural government members.** The fact that lawful powers as regards remuneration were exceeded in the case of a large percentage of auditees indicates that the problem is widespread in cities and rural municipalities. In several cases, the remuneration was allocated to the person himself. The total amount of unlawful remuneration paid in local governments amounted to 1.6 million kroons and the individual amounts varied from 4,000 to 800,000 kroons.
- Information users have no overview of **the content of administrative and government expenditure because the expenses are not detailed enough in the budget and budget discharge reports and the information is not publicised on webpages.**
- **The measures taken by councils to obtain an overview of the administrative and government expenditure are not always adequate.** In several cases where it turned out

that the budget is more general than detailed, the content of administrative and government expenditure was not explained to the council members even in the explanatory letter of the draft budget. In addition, it could be observed in several cases that budget discharge reports are submitted to councils rarely, no minutes have been taken of discussions of councils as regards budget discharge, and audit committees of councils usually do not check administrative and government expenditure.

- **The conditions for using official cars have not been regulated in several local governments and in some places there is no accounting of trips taken in official cars.** In the public sector the principle that free use of official cars for personal purposes is to be avoided should apply. Specific rules and accounting are important prerequisites for implementing this principle.
- **There were several good examples as regards transparency of activities where the presentation of expenditure in the budget is clear and easily understood or where webpages provide important additional information whose publication is not yet required by law.** In the opinion of the National Audit Office this is very positive and indicates the desire of the local governors to be reliable partners for the community.

Responses from the Minister of Finance and the auditees:

In his reply to the suggestions made in the audit report, the Minister of Finance stressed the importance of the quality of reporting by local governments and mentioned that instruction materials will be improved and training events are planned in order to achieve more accurate reporting of expenditure. In addition, the Minister of Finance promised to create a user-friendly IT solution on the webpage of the Ministry of Finance as regards balance data collections on the basis of financial data gathered in the information system for preparing reports and to make additions to the content requirements for the explanatory letter of a budget.

A total of 26 audited local governments sent their positions regarding the observations, assessments and suggestions in the audit. Among these were Alajõe, Halinga, Helme, Karksi, Misso, Pöide, Ridala, Roosna-Alliku, Kambja, Pala, Tartu, Võru, Tarvastu and Koeru Rural Municipalities and the Cities of Põlva, Rakvere and Narva whose responses included those of their council and their government. Vändra Town and Maardu City submitted the positions of their councils and Iisaku, Kareda, Tõlliste, Juuru, Valjala, Keila and Rapla Rural Municipalities submitted the positions of their governments.

The suggestions to the auditees to put the information on their activities that is available on their webpages in order and make additions to public information were generally supported by the auditees who responded to the suggestions. Suggestions regarding further regular budget discharge discussions in councils and regulation of the use of official cars were also promised to be followed up by most of the auditees who responded, or they promised to make the respective decisions in the councils in the near future.

Several auditees in whose activities the National Audit Office found the exceeding of powers in remunerating mayors/rural municipality mayors or council members considered it necessary to make additions to their internal procedures in order to avoid further conflicts with the law, and some had already made the respective additions. However, some auditees found that the remuneration has been paid lawfully. This was particularly the case as regards holiday benefits.

Refunding of remuneration received unlawfully during the audited period was generally not considered to be justified.

Due to the positions of the auditees the National Audit Office added points 41, 42, 45 and 46 to the chapter on the lawfulness of administrative and governing expenditure.

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