Overview of the Use and Preservation of State Assets in 2006

Auditor General's summary of observations made during the year

NAO's report to the Parliament,
Tallinn, 2007

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Foreword by the Auditor General

This overview summarises a part of the work of the National Audit Office ("NAO") in auditing the state assets in 2006 and 2007. The overview presents a selection of problems associated with state assets and their management, which in the opinion of the NAO require special attention of the Parliament and the public. Specific information on the implementation of the 2006 budget, government accounting procedures and reporting can be obtained from the consolidated annual report of the state and the evaluation of this report by the NAO.

The examples provided in the Overview are presented to illustrate the problems. The report of the NAO includes only a small part of the observations made during the audits and the ministries should not use this as a comparison base in managing state assets. The audit reports underlying this overview are available in full on our web site www.riigikontroll.ee.

The aim of the NAO is to help the state to be a good manager. The independent information provided by the NAO helps the Parliament to enhance the efficiency of the parliamentary control. The need for parliamentary control has been also emphasised by the Parliament through the formation of a separate committee for cooperation with the NAO and the Government of the Republic.

The time and energy that become available as a result of decreased amount of legislative work could be increasingly used to inquire how the public funds have been used and whether these funds have produced the desired results.

Increasing the significance of the work of the audit committee of the Parliament would help to demonstrate to the public the actual work of the parliament and reduce the number of people who are sceptical about the parliament. It is a specific opportunity available to the audit committee to become the main driving force in the actual protection of the taxpayers' interests by the Parliament.

In order to provide the parliament with exactly the sort of information that would be helpful in decision-making, the NAO considers as its highest priority the audits to check whether the funds allocated to certain programmes have led to the results that were expected at the time of allocation of the funds.

Mihkel Oviir
riigikontrolör

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I. State assets and budget

For the purpose of the Consolidated Annual Report of the State, the "state" means consolidated public institutions, including subsidiaries and foundations controlled by the state.

1. The balance sheet total given in the Consolidated Annual Report of the State has grown by 9 % - to EEK 147 billion. The calculated result of the state's activities increased by 70 % - to EEK 7.6 billion. The state budget was implemented 101 % and the revenue exceeded the estimate by EEK 953 million. The budgetary expenditure was EEK 3.2 billion smaller than the revenue collected. The major categories of the state's current assets included cash at bank (11.7 billion) and securities (financial investments of 15.9 billion), and the major fixed asset category was tangible assets (71 billion). See Table 1.

Table 1. Assets on the state's balance sheet (in EEK million)

	2006	2005	Change	%
Current assets	**42 058**	**33 011**	**9 047**	**27**
Cash at bank and in hand	11 740	9 321	2 419	26
Financial investments	15 885	10 888	4 997	46
Receivables and prepayments	12 230	10 984	1 246	11
Inventories and other current assets	2 203	1 818	385	21
Fixed assets	**105 249**	**102 379**	**2 870**	**3**
Holdings in foundations and businesses	2 314	3 058	–744	–24
Financial investments	254	194	60	31
Other receivables and prepayments	2 025	1 783	242	14
Investments in real estate	1017	847	170	20
Tangible fixed assets	71 191	67 698	3 493	5
Intangible fixed assets	488	374	144	30
Biological assets	27 960	28 425	–465	–2
Total assets	**147 307**	**135 390**	**11 917**	**9**

Source: Consolidated Annual Report of the State 2006

Cash and securities

The cash at bank and securities have grown by EEK 7.4 billion

2. In 2006, the value of assets increased by 9 % or EEK 11.9 billion. Current assets experienced the largest growth – 27 % or EEK 9 billion – mostly due to increase in cash in hand and at bank, financial investments and tax claims. The cash at bank grew by 26 % (EEK 2.4 billion), mainly due to the increase in fixed-term deposits in public undertakings. The amount of funds invested in bonds for a short period increased by 46 % (EEK 5 billion).

Inventories

3. The state had inventories worth EEK 1.940 billion, whereof the armaments, ammunition, explosives, uniforms, heating fuels and lubricants etc of the Ministry of Defence accounted for 53 % or EEK 1.034 billion. The Ministry of the Interior had similar inventories worth EEK 87 million. The rest of the inventories are largely made up of the fuel stocks kept by Vedelkütusevaru Agentuur AS in Estonia (EEK 190 million) and the operation stockpiles of public undertakings, of foundations established by the state and of the Ministries. The state has invested EEK 10 million in mobilisation stockpiles (4 million) and medical equipment (6 million). In 2006, the inventories increased by 15 % or EEK 247 million, including 60 million in Eesti Energia AS, 144 million in Vedelkütusevaru Agentuur AS and 43 million in public institutions.

4. 92.4 % of the inventories of the Ministry of Defence are kept at the Logistics Centre of the Defence Forces which serves the purpose of providing logistical support to the Estonian Defence Forces and the National Defence League. The Logistics Centre has about 140 warehouses across the country. Their management, maintenance and security is complicated, mainly due to the large amount, specifics (e.g. explosives, military equipment) and location of inventories.

The stock accounting and inventory planning in the Ministry of Defence is problematic

5. The NAO audited the management of inventories at the Logistics Centre, incl. storage, de-stocking and accounting. The planning and management of the acquisition, storage, de-stocking, transfer of ownership and destruction of inventories of the Logistics Centre should be improved. The stock movement analysis is inadequate and therefore there is no information as to whether there are sufficient stocks at the warehouses. Plus, the assessment of the condition, useful life and merchantability of the existing stocks is superficial.

6. Also, the audit revealed that the warehouses for explosives and munitions of war are used without having them declared fit for use by an appropriate committee under the regulations of the Defence Forces. Thus, there is no assurance that the warehouses for explosives and munitions of war are safe.

7. Furthermore, there were problems with inventories sent to the Defence Forces in the form of foreign aid. Various stocks received as foreign aid have been recognised at the Logistics Centre with a delay of up to one year (incl. vehicles and medical equipment received from Sweden).

State holdings in companies

The number of state holdings has dropped and dividend income has grown

8. As at the end of 2006, the state had a holding in 43 companies, whereof 31 were solely owned by the state. During the year, the state sold its participating interest in 7 companies. In the autumn and winter of 2007, the state is planning to sell at least two more holdings. The Ministry of Economic Affairs and Communications is still the largest manager of holdings with 18 public undertakings in its government area. The second largest manager is the Ministry of Finance with 8 companies.

9. During the year, the amount of assets of subsidiaries and affiliates where the state has a participating interest had increased by 5.7 % or to EEK 48.2 billion. Compared to 2005, the state received 52 % or EEK 1.3 billion more dividends. The major contributor to this increase was AS Eesti Energia which paid the state EEK 500 million in dividends in 2006.

State supervision is not prudent

10. Given the importance of companies for the state, the NAO conducted an audit in 2006 to find out whether the state has been a good owner and supervised the activities of the companies. To this end, the functioning of supervision was audited in companies administered by the Ministry of Economic Affairs and Communications and the Ministry of Agriculture.

11. The audit revealed material deficiencies in the organisation of supervision which deprives the NAO of the assurance that the administration and supervision of public undertakings has been organised in a purposeful and effective manner.

State interests could be at risk

12. The NAO believes that, in addition to the reasons behind the participating interest, the strategic objectives of state participation should be laid down in each company. The strategic objectives should be included in the national development plans which would give the Ministries a clear basis for governing the companies and evaluating the effectiveness of holdings therein. The current development plans either lack such objectives or include random ones for individual activities or areas.

Administration of companies is neither measurable nor transparent

13. The legislator has entrusted the Minister with the right to guide the work of the companies' Supervisory Boards and to require the members of the latter to report on the work of the Supervisory Board and of the Management Board. Thereby, the Minister must give his guidelines in writing or in a format allowing reproduction in writing so that compliance with the guidelines could be checked later.

14. Unfortunately, the audit revealed that Ministries do not provide guidance to the Supervisory Boards. The absence of guidelines was also confirmed by interviews conducted with the Chairmen of the Supervisory Boards. Instead of communicating the viewpoints of the owner to the Supervisory Board via the Minister, the Ministries have generally communicated them directly to the Management Board.

15. According to the NAO, ignoring indirect guidelines and the Minister-Supervisory Board management chain upon guiding companies and carrying out surveillance is not reasoned as it reduces the transparency of management and disperses the responsibility of parties.

16. The Minister's activity cannot only be limited to appointing members to the Supervisory Board, but the Minister, as a representative of the state, should provide clear and measurable guidelines to the Supervisory Board regarding the state's interests in participating in the company or in fulfilling the objectives of the foundation as well as regarding the manner in which the Supervisory Board should carry out supervision over the activities of the Management Board.

Supervisory Board's supervision over the activity of the Management Board is uneven

17. Although governing the participating interest in companies is divided between separate Ministries, they are all owned by the state. As a good host the state should organise supervision over participating interest on the same terms. Unfortunately, the audit indicated that the state, as the owner of companies, has not clearly specified the Supervisory Board's tasks regarding supervision. Furthermore, the members of the Supervisory Board change often which is why supervision carried out by Supervisory Boards is uneven and of different level. The Ministry of Finance has noted that more detailed provision of supervision in legislation is not necessary and that Supervisory Boards should specify their own working principles according to their size and specialty.

18. The audit also revealed that Audit Committees who should have improved the Supervisory Board's supervision, have generally not fulfilled their task of acting as an adviser to the Supervisory Board upon carrying out supervision. Only in a few cases had Audit Committees had submitted written suggestions, assessments and recommendations regarding supervision. The NAO does not consider it correct that the substance of the supervision of the Supervisory Board is exposed as the tasks of the Audit Committee. Thus, a situation has developed, where the Audit Committee doubles the Supervisory Board in terms of supervision, and generated added value is small.

Buildings and land

Investments in fixed assets exceeded its depreciation

19. Total value of fixed assets (incl. buildings and land) has increased by 3 %, i.e. by EEK 2.9 billion. Tangible assets (land, buildings, equipment, etc.) form 68 % of fixed assets and increased by EEK 3.5 billion last year. Investments in tangible fixed assets amounted to EEK 8.4 billion, which is EEK 3.8 billion more than the depreciation calculated for the same period. Compared to the year 2005, the amount of investments increased by EEK 1.2 billion. Investments were mostly made in buildings and machinery and equipment. As of the end of the year, the value of unfinished objects amounted to EEK 6.3 billion.

20. As of 31.12.2006, the state owned 22,024 plots of land with a total area of 12,599 km^2 and estimated value of EEK 745 million. There were 6503 civil engineering works with a total value of EEK 2201 million. As of the end of the year, the state owned 5403 buildings, their effective total area was 2.5 million m^2, and 4378 premises for residential use (4264 apartments and 114 houses) with a total area of 239,000 m^2. During 2006, the state transferred 481 plots of land with 142 civil engineering works and 372 buildings.

Revenue from the transfer of immovable increased

21. Compared to the year 2005, the state's revenue from the sale of state assets increased considerably in 2006. While in 2005 revenue from the sale of state assets exceeded EEK 236 million, in 2006 the revenue from the sale of state assets exceeded already one billion. Most of the revenue was formed by the sale of plots of land, buildings and civil engineering works. Significant increase in revenue was mainly due to three facts:

- The 2006 State Budget Act motivated administrators of immovable to perform transactions of transfer in the terms favourable for the state, leaving the transferor of the assets with up to 2/3 of the value of the sold assets. Opportunity to use most of the sales revenue was an obvious incentive that forced administrators of state assets to better re-examine and implement their sale strategies.

- A lot of valuable immovable property (plots of land suitable for property development in the city of Tallinn, plots by the sea, places of natural beauty) was put on sale for which there was high demand on the real estate market.
- Real estate boom that had started in 2004 reached its peak in 2006, meaning that there were quite a few cases when the state's immovable property was sold for a significantly good price.

Biological assets

22. The biological assets of the state amounted to EEK 27.96 billion, which forms 19 % of the total of state assets. Of this, 98 % is state forest recognised on the Ministry of the Environment's balance sheet and administered by profit-making state agency State Forest Management Centre.

State forest reserve decreased

23. Compared to the previous year, the value of forests decreased by EEK 465 million on the balance sheet. According to the consolidated annual report of the state, this was due to the decrease in the market value of the forest. In the annual report 2006 of the Ministry of the Environment, the main reason provided for the decrease in state forest as biological assets is a decrease in the average selling price of timber. Likewise, partially responsible for the decrease (0.26 million cubic metres) is placing forest under protection and thus such forests were excluded from the state's balance sheet.

There are shortcomings in the accounting of state forest

24. According to the NAO, there are shortcomings in the accounting of state forest and the balance of the state's biological assets may not be accurate for the following reasons:

- The NAO audited the activities of State Forest Management Centre in the administration of state forest and came to a conclusion that there are significant shortcomings in the accounting of state forest. For instance, it was not possible to identify the amount of forest owned by the state and the reasons for its decrease.
- With the Forest Act that entered into force in 01.01.2007, new instructions for forest survey and management planning were adopted, which specified the models for calculating forest reserve, which is why the balance of biological assets must be adjusted in the next few years.

Accounting of assets and reporting

25. An overview of state assets is also provided in the consolidated annual report of the state. The NAO audited and assessed the accuracy of information presented in said report and found that the annual accounts of the state were mostly accurate. The NAO assessed the keeping of accounts in all Ministries in the volume necessary for providing an assessment on the consolidated annual report of the state.

26. The NAO found that all problems in the organisation of accounting are exactly the same as in previous years. Shortcomings were mainly identified in the organisation of inventories and accounting of fixed assets and claims. In spite of a few problems, the consolidated annual report of the state is mostly accurate.

Liabilities

27. Largest of the state's liabilities are loans taken (11 billion) and compulsory appropriations, e.g. for pensions (10 billion). A quarter of loan commitments is formed by loans repaid by the government, the rest of the loans have been taken by companies with state participation (See Table 2).

Table 2. Liabilities on state balance sheet (mln EEK)

	2006	2005	Change	%
Short-term liabilities	**17 449**	**13 875**	**3 574**	**26**
Payables, prepayments received and other	14 743	12734	2 009	16
Appropriations	504	452	52	12
Loan commitments	2 202	689	1 513	220
Long-term liabilities	**22 565**	**22 722**	**–157**	**–1**
Other liabilities and prepayments	4 284	2 581	1 703	66
Appropriations	9 476	9 109	367	4
Loan commitments	8 805	11 032	–2 227	–20
Total liabilities	**40 014**	**36 597**	**3 417**	**9**

Source: Consolidated Annual Report of the State 2006

Liabilities increased but there are no problems with meeting them

28. In 2006, the state's liabilities increased by 9 % (EEK 3.4 billion). Long-term liabilities have decreased by nearly EEK 200 million. Short-term liabilities, however, have increased by nearly EEK 3.6 billion, whereas the amount of loans repaid by the state in 2007, advance payments on taxes and the amount of tax arrears has increased the most. As of the end of last year, the state had enough money to ensure immediate payment for all short-term and long-term commitments.

29. Loan commitments (long-term and short-term) decreased by 0.8 billion in 2006, 1.6 billion worth of loans were repaid and 0.8 billion of new loans were taken. New loans were mainly taken by companies with state participation.

30. The largest amount of advance payments on taxes were made regarding value added tax and individual's income tax. Taxes to be passed on (e.g. to the Health Insurance Fund, Estonian Unemployment Insurance Fund, local governments) were recognised as tax arrears. Increase in liabilities is due to the increased receipt of taxes (due to expansion) as well as to the liability to pay fee on overstock to the European Commission.

31. In 2006, state reserves increased by 4.5 billion, mostly due to the increase of the emergency reserve of the pension register.

Revenue and expenditure of the state

Revenue increased more than expenditure

32. Revenue of the state (accrual basis of accounting) increased by 20 % or 14.7 billion in 2006. Increase was mostly due to the increase of taxes: revenue from taxes (social tax and value added tax) increased by 10.4 billion. Revenue from the sale of goods and services also increased by nearly 3 billion. See Table 3.

Table 3. Revenue and expenditure in the income statement of the state (in million EEK)

	2006	2005	Change	%
Operating revenue	**89 340**	**74 605**	14 735	20
Taxes and social security contributions	63 894	53 485	10 409	19
Sale of goods and services	18 343	15 434	2 909	19
Aid received	3 788	3 056	732	24
Other revenues	3 315	2 630	685	26
Operating expenses	**–81 584**	**–70 052**	**11532**	**16**
Aid granted	–32 232	–27 746	4486	16
Passed on taxes and other	–21 153	–17 608	3545	20
Labour expenses	–11 577	–10 484	1093	10
Management expenses	–10 061	–9 390	671	7
Depreciation and value adjustment of fixed assets	–5 449	–3 332	2117	64
Other expenses	–1 112	–1 492	–380	–25
Financial income and expenses	**–175**	**–158**	**17**	**11**
Interest expenses	–1 154	–1 069	85	8
Income from deposits and securities	1 059	393	666	169
Other financial income and expenses	–80	518	–598	–115
Total gain (loss)	**7 581**	**4 395**	**3 186**	**72**

Source: Consolidated Annual Report of the State 2006

33. Expenditure of the state (accrual basis of accounting) increased by 16.5 %, i.e. by EEK 11.5 billion. Most of the increase is calculated and due to the depreciation costs of fixed assets as well as to the change in value.

34. Of the total expenditure of the state, the expenditure of state authorities formed 88 % and compared to 2005, increased by 19 %, i.e. by EEK 11.4 billion. EEK 4.7 billion of this came from the increase in payment of benefits (social benefits and benefits for acquisition of fixed assets), taxes to be passed on increased by EEK 3.8 billion (Health Insurance Fund, local governments, etc.). The increase was the smallest in labour expenses and management expenses: 11 %.

State budget

35. The state budget was implemented in 101.4 %. In 2006, the revenue received by the state was EEK 953 million more than planned in the budget (and supplementary budget), i.e. EEK 67.86 billion. Expenditure from the state budget amounted to EEK 64.65 billion, that is EEK 3.2 billion less than received revenue. Taking into account the balance that was not used last year, EEK 4.5 billion were carried forward to the next year and EEK 1.5 billion to reserves.

Urmas Nemvalts, Postimees

36. Tax revenue formed 82 % of budget revenue or EEK 55.2 billion. Compared to 2005, tax revenue increased by one fifth. Non-taxable revenue formed EEK 12.7 billion, which is 30 % more than in the previous year.

Table 4. Implementation of the state budget (in million EEK)

2006	Budget	Implementation	%
Revenues	66 905	67 857	101
Expenses	66 626	64 653	97

Source: Consolidated Annual Report of the State 2006

Connection between the budget and the report on its implementation needs adjusting

37. In December 2005, the Parliament approved the 2006 state budget presented by the Government of the Republic. Two years later, the Government of the Republic has presented the consolidated annual report of the state to the Parliament for its approval. Substantially, these two documents are related: one provides authorization for the use of taxpayer's money and other provides a report on where and how said money has been spent.

38. The NAO has constantly criticised the Government for the compiled report not providing a sufficient overview and sufficient amount of information. However, in the past few years the development has been noticeable. The report, compiled in the Ministry of Finance, gives a professional a clear overview of the state's funds, liabilities, revenue and expenditure. Something one cannot find in the report is an answer to the question whether the taxpayer's money was spent on the purpose it was asked for. There is no clear connection between the promises given in both the state budget strategy and explanatory memorandum on the draft budget, and achieved results. However, the NAO believes that such overview is crucial; otherwise, all government reporting would lose its purpose.

There is no substantial overview of the implementation of budget

39. In the report the Ministry of Finance has included the reports on the implementation of by Ministries' plans of action by Ministries, but these have been drawn up in a manner that will not allow for the assessment of the budget's actual use of funds. It is not possible to form a connection between the report on the implementation of state budget provided in the same report, and the explanatory memorandum on the draft budget. Report on the implementation of state budget is part of the annual report of the state. Like the state budget, the report has been drawn up in a cost-oriented manner (operating expenses, investments, etc.). If the Government also presented an explanatory memorandum on the draft budget (i.e. a justification for where the funds are spent) to the Parliament prior to the approval of the state budget, it is not included in the report.

40. Many examples can be given as to the absence of connections between the budget and reporting. For instance, the report does not specify whether

- vocational educational institutions carried out the promised investments in the planned volume and amount of EEK 166 million; whether the desired 22 objects that were supposed to be completed during 2006, were actually completed;
- AS Vedelkütusevaru Agentuur performed its duty for 2006 to maintain a reserve corresponding to at least 25 days of average domestic consumption for which EEK 840 million was allocated.

Funds and activities cannot be interlinked

41. The situation is even more confusing when it comes to strategic and impact objectives. The same problem has also been mentioned by the Ministry of Finance. It is stated at the beginning of the consolidated annual report of the state that "there are no harmonised principles and techniques to observe the implementation of the budget through expenses made for achieving objectives, which is why it is not possible to regard [-] their accounting as sufficiently reliable".

42. Another problem the Ministry has drawn attention to and the NAO has also pointed out in the previous years, is that "reporting and report on the implementation of state budget" provided in the consolidated report "cannot be connected". As financial statements are drawn up using the accrual method of accounting and the report on the implementation of state budget is drawn up on cash basis, revenue and expenditure in these reports are not comparable. There is also no separate report to explain their differences.

Parliament is only minimally included in strategic planning

43. State budget strategy ("SBS") is the basis for drawing up the state budget. According to the State Budget Act, the approval of the SBS is the duty of the Government of the Republic. The NAO recognises the activity of the Ministry of Finance in developing the state budget strategy over the past few years. Pursuant to the State Budget Act, as wished by the Parliament, the preparation of the SBS is government-centric, the NAO is of the opinion that in order to reach as wide consensus as possible, it would be reasonable to more include other parties.

Ministry of Finance has planned relevant changes for the year 2010

44. The problems have been on the agenda for many years, but current practice is reluctant to change. The Ministry of Finance has initiated activities in order to make the budget accrual based and performance based, and reporting more transparent. This time it has promised to complete the budget reform by 2010.

45. The NAO supports the plans of making the budget more transparent in every way. Upon reading budgets and reports, every member of the Parliament should be able to understand where and for what the taxpayer's money is planned to be used and what it was actually used for. Once the Governments starts submitting systematic and understandable information, it can be audited substantially.

Legality of economic transactions

46. To give an assessment on the consolidated annual report of the state the NAO assessed the compliance of the economic transactions of the Ministries and the State Chancellery with the State Budget Act and the 2006 State Budget Act and the 2006 Supplementary State Budget Act, and examined the implementation of the Public Procurement Act.

47. According to the NAO, the economic transactions included in the sample were carried out in compliance with the State Budget Act, the 2006 State Budget Act and the 2006 Supplementary State Budget Act. At the same time, the State Budget Act was not complied with by taking unacceptable liabilities and making investments from economic expenses.

48. Similarly to previous years, the NAO found that government authorities had violated the Public Procurement Act, failing to conduct the mandatory public procurement procedures. The value of various goods and services purchased by the authorities without organizing public procurements amounted to at least EEK 76 million.

Public procurement had to be organised in 2006 when the estimated value of procurement contract without value added tax was
1) EEK 300,000 or more upon purchasing things or ordering services;
2) EEK 2 million or more upon ordering construction work.

49. Most common violations of the Public Procurement Act were as follows: failure to submit public procurement declarations or their submission with a delay; failure to accept tenders from at least three bidders; public procurement was divided into parts. Often, the sum agreed upon as a result of the public procurement was exceeded significantly and in many cases there was no supplementary procurement documentation (e.g. received tenders, instruments of delivery and receipt, contracts of purchase and sale).

Use of European Union support in 2004–2006

50. In 2004–2006, Estonia has had the opportunity of using a total of approximately EEK 20 billion of support from the European Union (EU) funds. In the new financial period (2007–2013) this amount shall increase to almost 65 billion.

51. Information on the use of the EU support has been disclosed in Estonia in various documents, each of which has been drawn up to fulfil a certain purpose. Due to different methods and versatility of provided information, these documents separately do not give a clear overview of the planning and use of support.

52. For this reason, the NAO prepared a special report so as to get an overview of the use of support paid to Estonia by the European Union during the first financial period following accession. As a result of the analysis of materials, the NAO wished to find out whether Estonia is ready to declare to the European Commission that the management and control systems implemented in Estonia are functioning and that the EU support has been used pursuant to established rules.

The NAO consolidated all assessments and opinions regarding the EU funds

53. The report was drawn up on the basis of materials mostly available to the public (e.g. legislation, overviews of foreign aid, monitoring reports, assessment reports, reports of the European Court of Auditors, auditing yearbooks of the EU Structural Funds). Some audits carried out by the NAO were also used.

54. The analysis allowed for the following main conclusions:

Formal requirements for the use of funds were well complied with

- Relying on the opinions and conclusions of the Ministries and their sub-units, monitoring committees and external assessors it can be said that judging by formal criteria, Estonia used the EU support in the period of 2004–2006 generally well.

Cost-effectiveness of the use of funds is not known as it has not been assessed

- However, the cost-effectiveness the use of support and stability of results has still not been sufficiently analysed, i.e. whether Estonia has actually used the support of the taxpayers of other states in a way that benefits arising from this are permanent, whether it has enabled Estonia to catch up with other more developed countries.

“Retrieving” of the EU funds has improved

55. After Estonia became a member of the European Union, the use of so-called European funds pursuant to plans has been improving every year, meaning that Estonia has managed to spend more and more of the available funds. As of 2006, Estonia managed to spend 73 % of the European funds provided in the budget.

56. By the end of 2006, Estonia had not used 7 %, i.e. EEK 1.4 billion of the amount we could use. To save this money, not used in the previous financial period, we must currently engage in both settling old projects as well as new ones and this lays an additional burden on the Ministries during the next year or two.

Financial management and administrative capacity need improving

57. So that it would be possible for Estonia to use all the money allocated to us, financial management and administrative capacity must be seriously improved. Staff turnover has a great influence: people stay at their jobs for a short time and cannot find their way in complicated EU rules. Likewise, people change in the course of one project, disrupting the consistency of memory related to the project.

Form is preferred to substance

Mostly only management and control systems are assessed

58. All audits, overviews, etc. on the use of the European funds mostly only assess the functioning of management and control systems and accuracy of expense receipts. In other words – papers, procedures and systems are examined. The NAO is of the opinion that only the examination and approval of the rules of procedure does not ensure their actual implementation.

59. Monitoring reports indicate that among the approved projects there are some that were not fully eligible, that is, justified to receive money even pursuant to formal criteria.[1] So it can happen that management and control systems for the support funds exist and the established systems are in the material part in compliance with the requirements of the European Commission, but in reality the money may go to waste.

60. The NAO states that the formal approach is unfortunately supported by the fact that the European Commission pays less attention to achieving objectives set with the support than to the compliance with formal criteria. This is why Estonia also focuses on complying with the formal rules of the support, as non-compliance can lead to the recovery of support. This can happen even when the actual behaviour has been reasonable and substantial objectives have been met.

61. Also confusing is the fact indicators or meters established for measuring the cost-effectiveness of financed activity are not always suitable for measuring or are too general and leave much room for interpretation. This conclusion was reached in assessment reports.[2]

62. According to the NAO, the state must follow both compliance with the rules for the use of the European funds and assess the attainment of desired objectives.

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[1] Estonian National Development Plan for the Implementation of the EU Structural Funds – Single Programming Document for 2004–2006: Monitoring reports for 2004, 2005, 2006

[2] Estonian National Development Plan for the Implementation of the EU Structural Funds – Single Programming Document for 2004–2006: Assessment of priority 1. Ernst&Young, 30.06.2006; Estonian National Development Plan for the Implementation of the EU Structural Funds – Single Programming Document for 2004–2006: Assessment of implementation. PricewaterhouseCoopers, 12.12.2005

II. Duties and services of the state

Quality of public services in the information society

63. The NAO audited the improvement of availability of public services and their compliance with the principle of good administration, taking into account the wider spread of means of information and communications technology (ICT).

According to the principle of good administration, people should be able to use their rights and perform their duties as quickly and comfortably as possible

64. Pursuant to the Administrative Procedure Act, administrative procedure is carried out purposefully and effectively, also in as simple and quick manner as possible, avoiding excessive expenses and unpleasant situations for individuals. Upon interpreting the Act, the Supreme Court's position is that the state and local government must avoid unreasoned burdening of people. According to the NAO, failure to implement ICT solutions in a situation where their implementation is possible and reasoned should also be regarded as excessive burdening.

Did you know

Last year, in 2006, only ~ 29 % of people in the 16–74 age group used the Internet for communicating with public authority (getting information from the websites of the public sector, downloading forms, submission of completed applications).

65. In Estonia, 2/3 of the population use the Internet, nearly all Estonia is covered with Internet and a necessary infrastructure for the provision of e-services has been established. ID card, which is a mandatory primary identity card and enables the remote ID of a person as well as digital signature, equalized with regular signature, creates sufficient prerequisites for the implementation of the electronic administrative procedure. However, transfer of public services into electronic form is not citizen-centred enough, which is also indicated by the fact that means and opportunities of e-governance are used by a much smaller part of population than could be expected taking into consideration the established prerequisites.

66. Already for years, development of public e-services in Estonia has been recognised in national strategic documents for information society and information policy. Of these, one of the main objectives of "General Principles of Information Policy 2004–2006" was to introduce e-services all across the public sector in the period of 2004–2009. "Estonian Information Society Development Plan until 2013" stresses the need for providing user-friendly public services.

The NAO assessed the compliance of the provision of public service with the principle of good administration

67. Public services can be divided into two large groups:

- firstly, the adoption of concessionary administrative acts (e.g. granting benefits) and creating an environment for the use of rights (e.g. voting at elections) and performance of duties (e.g. declaration of taxes);
- secondly, the so-called real public services such as waste handling, water and power supply, public support, medical care, etc.

68. For auditing the NAO chose the most used services provided by both the state and local governments[3], analysing:

- Availability of information related to said services;
- Opportunity to apply for a conducive administrative act (e.g. granting childbirth allowance) or perform one's duty (e.g. submission of the notice of residence for the registration of residence) via the Internet, using digital signature if necessary;
- Operations carried out in state authority or local government authority for the provision of service and justification for requiring people to submit documentation or for them to appear personally at the authority.

Fame of Estonia as a successful e-state relies on solutions of long ago

Urmas Nemvalts, Postimees

Availability of information is problematic

69. Information on the terms for the exercise of rights or procedure for performance of obligations is generally made available to people. While the information portal (www.eesti.ee) provides forms necessary for communicating with state authorities and different information on public services, the websites of local governments do not often provide all information in the same place and in an easily understandable manner. Service application form and helpful information regarding its completion, submission and the procedure for a receipt of a reply is also often provided separately from the information related to a certain service, or altogether absent.

Generally, one can read about the childbirth allowance only from the Regulation

70. For instance, one can read about the basis and procedure for applying for the childbirth allowance paid by local government from the regulation

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[3] Services selected for auditing included registration of residence, registration of birth and death, application for childbirth allowance and death grant paid by local government, establishment of design criteria and application for and issuance of building permit, registration as building contractor and travel operator, submission of the income tax return of a natural person in e-Tax Board, submission of statistical reports via the eStat environment, application for state family benefit, parental benefit, survivor's pension, write-off of a study loan upon the birth of a child, registration as unemployed and application for employment subsidy, registration of temporary and permanent residence of an EU citizen, application for and extension of a residence permit for a foreigner for working, application for a visa invitation and changing entries in commerical register via the business remote administration portal.

on social benefits made available to the public on the website, but in most cases the website does not provide an application form for the allowance and further information on application procedure.

Forms for notice of residence are hard to find

Advanced reference – reference that does not point to the homepage but to a section of a certain website.

71. Instead of referring people to the specific form for the notice of residence, most of the observed local governments had provided a reference to the information portal or its page for forms, where people should find the necessary form from a long list of forms on their own. In some cases the website of a rural municipality or a city included an advanced reference to the website of AS Andmevara, where the form for the notice of residence was no longer available during the audit and referred the visitor to the homepage.

References to similar services of the state and local governments are insufficient

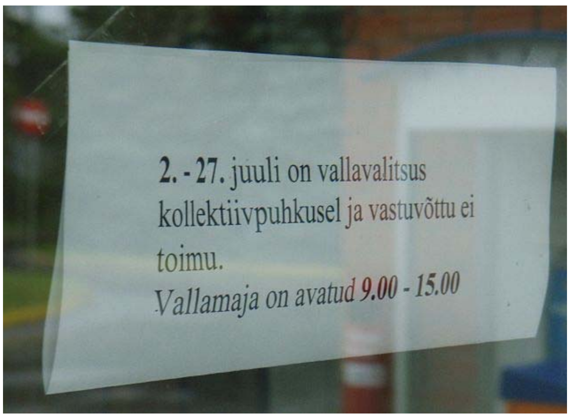
72. Often, the same type of allowance is provided by both the state and local government (e.g. childbirth allowance and death grant). Unfortunately, the websites of only a few local governments include information on the service provided at both levels, although it should be in the interest of the local government to provide people with information that is useful and necessary regarding important events in their lives.

Web information is different in Estonian and Russian

73. The website of the Citizenship and Migration Board (CMB) offers a thorough description of services. However, the descriptions of some services are different in Estonian and a foreign language. For instance, Russian and English versions of the application for the approval of a visa invitation do not mention the option of submitting the application electronically and via mail, although foreigners with a residence permit and foreigners permanently staying in Estonia also have a right to submit a visa invitation.

It is difficult for a working individual to find time to visit the authorities as the authorities only admit visitors during daytime. In summertime it is not possible to get any help at all in some local governments.

Photo: National Audit Office of Estonia



74. Absence of information or its complicated availability can provide an individual with an incomplete or biased perception of his rights and duties. Furthermore, it burdens both officials who spend more time on referring people to information and applicants who must visit the authority in person during admission hours due to the complexity of electronic procedure.

75. The NAO made a recommendation to gather all information related to a certain service in one place, accompanying it with a simple and detailed explanation describing the procedure of applying for and receiving the service, incl. the application form for the service and instructions for its completion and receipt.

Opportunities have been created for using digital signature but they are uncomfortable in practice

Rica Semjonova, PR Manager for the Estonian Informatics Centre, encourages everyone to use the options of the ID card.

Photo by: Toomas Huik/Postimees/Scanpix

76. Pursuant to the Digital Signatures Act, digital signature has the same legal consequences as a hand-written signature. Pursuant to § 5 of the Administrative Procedure Act, electronic operations are be equal to written operations. Legal acts and authorisation documents may be issued in electronic form in the cases provided by an Act or regulation. Pursuant to § 14 (4) of the Administrative Procedure Act, a digital signature must be added to an application for allowance or other legal act; § 25 and § 27 allow for the electronic delivery of a legal act or other document.

77. It is not reasonable to provide all public services without requiring personal appearance or submission of documentation on paper, in some cases it is even impossible. For instance, it is obviously reasonable that a person should appear before the authorities upon the first-time application for an identity document or residence permit, most likely also upon the use of employment service. Most of the time, however, electronic communication between the provider of public service and the applicant is possible, as is the possibility of acquiring data from databases that is necessary for the provision of service and thus it is also required pursuant to the principle of good administration.

Submission of a digitally signed application necessary for the provision of service is generally possible, but in many cases the websites do not provide an electronically completed form or the form's saving procedure and submission after digitally signing it is overly complicated

78. Analysis of forms available at the authorities' websites revealed that said forms are often provided so that it is only possible to print out an empty form or it is possible to fill in the form in the computer but not save it without the help of special software. However, it is necessary to save the completed form in order to sign it digitally and submit it electronically.

79. For example, the website of the CMB recommended software for a fee and freeware for saving the completed form, but upon trying the latter did not allow to save the application form in a way that the data entered in it would be legible.

80. The fact that makes the procedure more inconvenient for the officials is that most authorities do not allow people upon applying for a service electronically to enter data in the electronic form in a manner that would enable to directly transfer them to the authority's database. In most cases, this requires a separate form and because of this the official who receives the application must manually enter the data provided by the applicant in the authority's database.

81. Therefore, it would be more convenient both from the viewpoint of the official and the applicant for the service to use electronic forms, as the official would not have to enter data separately and the applicant would not have to use specific software. One of the examples of a user-friendly solution is the electronic application form for childbirth allowance, available at the citizen website of the City of Tartu.

Citizen is required to submit data that already exists in databases

82. According to the principle of good administration it is not allowed to require people to visit one authority after another without a reason. For instance, there is no reason for the requirement for submitting a marriage certificate on paper when reliable data regarding the person's marital status is available in the population register. The electronic completion and submission of the application should be enough, accuracy of the applicant's statements can be and must be checked using the databases the state and local government.

Upon making decisions regarding a person's rights or duties, the authorities do not acquire data from the databases of the state or local governments and burden people with the requirement to submit various supporting documents

83. The NAO surveyed whether services are provided to the user via the Internet and whether necessary databases are included in the provision of service. It became clear that all necessary databases are not used electronically during the provision of service in the case of 8 of the 20 services in the sample. During the procedure, paper documents that are usually asked from the user of the service are used simultaneously. 7 (35 %) out of 20 surveyed services are electronically available for the user, so that it is not necessary to visit an authority. Thus, a bit less than half of the services in the sample are available electronically.

84. **Upon registering the birth of a child** in a vital statistics office people still need to submit a birth certificate. Currently only two maternity hospitals communicate data on births to the population register via the health care institutions' information system and assign the personal identification code electronically. In these cases the parent coming to register the birth of his child should not be asked for the birth certificate and thus it would be possible to register births electronically, without appearing before the official of the vital statistics office. Birth certificate is still required later upon applying for several state and local government services. Said document should not be required if respective data can be acquired from the population register. Implementation of the register for causes of death, developed by the Ministry of Social Affairs, would lose the need for submitting a medical death certificate on paper when registering the death in the vital statistics office.

Did you know

Pursuant to § 6 of the Population Register Act, **data entered in the register** are informative and statistical, but also have legal effect in cases prescribed by law.

If the data of a person is used upon performance of public duties, whose data is entered in the population register, such activity must always **be based on** the data of the population register**.**

Data entered in the population register under vital records drawn up by Estonian vital statistics offices since 1 January 2006 have the **same legal effect** as the entry of the vital record.

85. **Write-off of state educational loan upon the birth of a child** is currently carried out through the mediation of banks. Although it is not the bank itself that adopts the decision to write off a loan and only communicates the data to a competent authority, it still requires the submission of documents on paper from the applicant. Said documents on paper along with the application shall be communicated to an authority that has access to the same data in the register. By now, Estonian Informatics Centre has begun to simplify the write-off process of an educational loan.

86. Upon a recurring application for a document, the customer service office of the CMB still makes a copy of the applicant's identity document, although the CMB itself has issued it and all data pertaining to it is available in the CMB registers.

87. **Upon registering as unemployed and receiving employment subsidy** the applicant must visit the Labour Market Board and submit paper documents. While the activation of an unemployed person and his personal appearance are justified in the interest of the effectiveness of employment services, the Labour Market Board should as much as possible, instead of requiring documents, use the data available in state registers and not require the unemployed person to submit documents on paper.

Payment of the state fee must be proved with a document

88. In order to receive many public services the user has to pay the state fee, but there is no central electronic solution at state level which would enable to pay the state fee during the provision of service and receive feedback on the payment of the fee in real time without cancelling the procedure. In the course of the audit payment of the state fee during the procedure and control of it was only possible through the business's remote administration portal upon changing the entries in commercial register. In other cases, people are still required to present a copy of the payment order or other proof of paying the state fee.

Acquisition of electronic administrative act from authorities is problematic

89. Generally, it is not possible to acquire digitally signed administrative acts from authorities and applications do not provide a section for expressing such a wish.

90. Even though local governments included in the sample exclusively claimed that, if stated so in the application or required separately, it is possible to electronically receive a note for the provision of service or the administrative act in question, the application did not provide a section for expressing such a wish. Neither did most applications ask for the applicant's e-mail address.

91. There are also examples, where the state is not obliged to inform the individual of the adoption of an administrative act. For instance, the Register of Economic Activities Act does not require the the registrar to inform the applicant of registration.

There are many obviously unnecessary administrative procedures

92. Upon analysing the operations in providing public services, the NAO found that unnecessary procedures are implemented in some cases.

Reception of childbirth allowance required separate certification of the birth of the child and parents' place of residence

93. Although the population register recognises the fact of the birth of the child and the parents' place of residence, parents in most of the surveyed local governments must submit a separate application for **childbirth allowance**. However, it would be possible to free the recipients of the allowance from an unnecessary burden. If an already identified fact, e.g. the birth of a child to parents whose place of residence is registered in a certain rural municipality or city, is the basis for the allowance and it is not necessary to check other circumstances, it would be possible to grant the allowance without requiring an application, finding a more convenient manner for the person to receive the allowance.

94. Information on the event is generated in the database which the authority has access to and electronic notification of the official of the addition of a new entry as well as checking this information by said official is not overly burdensome. In the case of monetary benefits, it is necessary to identify the recipient's account number and for that there are several ways that are more convenient for people. For example, the authority could ask on its own initiative which is the recipient's preferred account for receiving childbirth allowance. In this case, an individual should only submit an application if he wishes to waive the right for the benefit.

Attitude towards public services should focus on citizens not officials

95. Initiation of such a change would imply a fundamental change in the attitude towards public services: an individual would no longer be the one who should contact an authority and ask for a service or benefit, but it would be the official's task to guide the individual who has acquired a right for it due to a certain event, to the service. Naturally, this does not prevent people who do not wish to receive said service from refusing the service. The described approach would call for a more efficient use of existing information technological solutions. As it is not possible for all 227 local governments to create separate solutions, nor is it sensible, this calls for cooperation at county level.

96. The second example concerns the citizens of the European Union, who, upon settling in Estonia, must first **register their place of residence** in the local government, then visit the CMB and apply for an identity document. Neither can foreigners with a residence permit apply for the **extension of the residence permit** via electronic channels, although there are no technical impediments for this and such opportunity has been created for Estonian citizens for the recurring application for a passport and ID card.

Urmas Nemvalts, Postimees

Information is required that is not necessary for the provision of service

97. Additionally, from the viewpoint of the provision of service many forms are overburdened with unnecessary data, which can be of a statistical value at best. Need for such data should be analysed both from the viewpoint of expediency and data protection. Authorities should not create databases without serious need, where they preserve information that is already available in the principal registers of the state. The authority must rely on the data available in the principal registers of the state and collect supplementary data, if necessary, connecting it with data in the principal register.

At times, use and cross-usage of databases is impossible

98. Use of various registers and databases upon the provision of public services is often impossible because of their structure and quality of data. As non-use of databases has been explained, among other things, by the statement that the use of database is not possible or data it contains is not reliable, the NAO, on the basis of a sample, also analysed the system for ensuring quality of data in databases and organisation of the use of databases.

There is lack of so-called semantic interoperability, i.e. ability of the software systems to adequately use data received from other information systems

99. One of the main problems for both the users of service and officials providing the service upon creating more user-friendly solutions is insufficient information technological semantic interoperability of databases. Development of semantic interoperability is still in the beginning phase although it would facilitate integration of different information systems, mapping and effective and unambiguous exchange of information.

100. For instance, the information system POLIS of the police and TäitIS information system of bailiffs do not allow for a mutual exchange of data, which is why bailiffs must enter the information on decisions regarding misdemeanours again TäitIS, although said data has already been entered in the database of the police. The police in turn do not have a current overview of received fines and of the violations said fines have been received for. All in all, the absence of databases' semantic interoperability forces people to perform doubling duties and does not allow to adopt management decisions based on statistical analyses.

101. Likewise, it became clear that the Labour Market Board has still not organised exchange of data with the population register and register of taxable persons, whose data is relevant upon registration as unemployed and granting unemployment subsidy and thus the applicants are required to submit documentation on paper.

102. Upon the provision of public services audited by the NAO, the population register was the most needed and most used database. Data of the population register was necessary for 16 out of 20 services and the register was used for 13 services (81 %).

Data lacks quality

103. The officials were not satisfied with the quality of data in the population register. Most common comment was that it is not possible to rely on the address details of the place of residence as it is often impossible to contact a person on the basis of said details. However, said data has legal effect both at elections and upon granting social benefits and the authority must rely on the data entered in the population register.

Use and quality of databases can be improved

In the case of data on residence, only data of the population register must be relied on

104. The NAO finds that in order to organise data on residence only data of the population register should be taken into account for services that require the provision of data on residence, and abandon the requirement for doubling data on residence and preserving it in other databases. Additionally, for services that require a person to provide data on residence, it should be made possible for the user to update data on residence on the spot in said authority without having to visit another authority for that purpose.

A person's contact address (postal address and e-mail address) should be established in the population register

105. Furthermore, population register should promote the use of contact address. This would be a postal address or e-mail address provided by the person through which the authorities providing public services could communicate with said person. Use of contact address would enable authorities to better communicate with people with several places of residence or who simply prefer electronic communication.

106. In the case of e-mail there is a great opportunity to use the official e-mail address that is assigned to every Estonian resident with a personal identification code (legal persons registered in the commercial register also have a similar address) and that can be redirected by the user to another, more frequently used e-mail address of said user.

Everyone should have a personal online citizen account

107. In a long-term perspective, the state could think of opening a so-called online citizen account for every individual. This would be the place for the state (e.g. when the driving licence is about to expire, deadline for paying land tax is near, fine is to be paid for misdemeanours, in the case of a possibility to write off education loan upon the birth of a child) and local government (e.g. when a new detailed plan is to be adopted in the neighbourhood, allowance accompanies the birth of a child, implementation of a new procedure for transport of waste) to send notices and letters to. Information on the receipt of a new notice would be sent to the person's official e-mail address and upon logging into his citizen account said person could read the notice in question. For procedures where the delivery of the notice is of significant importance the person can at first also be notified via the same channel, and if it is impossible to confirm that said person has read the document sent to him, it shall be sent to him later by registered mail.

Most important information systems necessary for local governments upon providing services should be developed by the state

108. When the state assigns a duty for the local government (e.g. organisation of waste handling, performance of construction surveillance, maintenance of registers), the state should also ensure the information systems necessary for such duty. Central creation of a register is a significantly cheaper and more reliable solution that its separate development in all 227 local governments. Similar set-up of the system and equal availability in all local governments would be significantly more convenient for users. Although the state cannot require local governments to use a specific information technological solution, the state should nevertheless make them available so that local governments with smaller resources would also be able to provide people with quality service.

Databases cannot be brought into accordance with security and quality requirements by set deadline

109. Pursuant to amendments made into the Public Information Act, entering into force on 1 January 2008, a database is a set of information processed in the information system of the state, local government or another person in public law, or private persons performing public duties, which is used for the performance of duties assigned by law or legislation issued on the basis of law.

Did you know

Regulation No. 273 of the Government of the Republic of 12.08.2004 established a **3-level standard security system for information systems** (ISKE) which is a set of measures necessary for attaining and preserving the security of data.

Urmas Nemvalts, Postimees

110. As of 1 January 2008, a more modern regulation included in the Public Information Act shall apply to databases. Former statutes for maintenance of state registers, established in accordance with the Databases Act, and databases kept on the basis of said statutes as well as other databases of the state and local governments must be brought into accordance with this Act within six months following the date when the Databases Act is repealed (i.e. by 1 July 2008).

111. This means that by 1 July 2008 almost all databases of the public sector should be reviewed and brought into accordance with security and quality requirements.

112. Upon analysing the databases[4] necessary for the provision of services in the sample, the NAO found that of 22 studied databases security class had been determined for only 11 and said activity had been started in four cases. As the regulation establishes that the latest deadline for determining security classes for databases and implementing respective security measures is 01.01.2008, several responsible officials of databases may not be able to meet these requirements by set deadline.

113. Taking into account that ISKE is mandatory to ensure the security of information systems and related information assets used for maintaining both state and local government databases, observation of most used databases does not convey an actual picture of measures implemented to ensure the security of all used databases. At the same time, the state does not have an overview of the amount of databases and authorities affected by this obligation and what is the extent of already started activities.

It is not checked whether officials use databases expediently

114. In the course of supervisory control it must be checked whether the official used the data from databases upon making decisions regarding the person's rights and obligations, i.e. does not require the person to submit the document that forms the basis for the register entry and does not make a decision on granting a benefit without confirming from the database the person in question has a right for said benefit.

Danger of unjustified inquiries is especially grave in local government authorities

115. On the other hand, it should also be checked that the inquiries are justified. In addition to the danger that the official burdens the person with unnecessary demands, the absence of control systems may also lead to a situation where inquiries are made without really having a reason for them. This could jeopardize the inviolability of the person's family and private life the protection of which must be ensured by the state.

Although most authorities have electronic channels for submitting applications, the number of people using said channels is often marginal

116. The NAO found that only a few larger cities and rural municipalities randomly check whether the inquiries made by officials are justified. From the viewpoint of protection of personal data this should be done by all local governments, likewise, a person should be able to see the inquiries made about him by officials (it is partially possible through the citizen website), so as to ask about the reasons for said inquiries, if necessary. This would enable both the authority and the individual to check whether the inquiries made by officials are justified and whether they are related to the professional duties of said official.

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[4] Provision of public services included in the sample is related to the following databases: population register, register of taxable persons, commercial register, state pension insurance register, punishment register, health insurance database, register of construction works, Estonian Information System for Education (EHIS), online land register, unemployment insurance database, state register of Estonian citizens liable to service in the Defence Forces, database of statistics and decisions of courts of first instance and courts of appeal, database of the decisions of the Supreme Court, CMB database, database of crossing of frontiers, information system POLIS, state register of state and local goverment agencies, land cadastre, medical birth record, register of professions, technical supervision information system, register of economic activities.

E-services cannot be regarded as functioning on the basis of only a few positive examples

117. Only 15 % of potential users have joined the eStat solution, established for legal persons by the Statistical Office for the submission of data. Similarly, among economic entities whose administrative burden is the largest when it comes to submitting data, the percentage of electronically submitted reports of all reports submitted to the Statistical Office is only *ca* 30 %. There are many reasons for the scant use of electronic channel, one of them lies definitely in the fact that there is no solution for automatic transfer of the data existing in the business's accounting or personnel software onto the report forms.

118. 24 of the 25 local governments included in the sample assured that they can accept digitally signed applications but there are not many people who use this opportunity. For example, 17 of them did not receive any electronic notices of residence in 2006.

119. The NAO has noticed an alarming tendency: provision of e-services in the social field often lags behind the e-solutions of other fields in terms of its development activities and ease of use. However, the ease of use of such services that are used for allocating money to people should also be improved, it is not reasonable to focus only on services that are used for collecting money from taxpayers.

Citizenship and Migration Board's customer service hall on Lastekodu Street in Tallinn

Photo: National Audit Office of Estonia

The entire e-services sector has much room for improvement

120. Absence of application forms completed in advance with existing data, complicated availability of information, use of forms that cannot be completed electronically, need for specific software upon saving documents and many authorities asking for the same data has definitely not promoted the wider use of electronic solutions that would save the time of both customers and officials.

121. In a situation where media constantly broadcasts the relatively low productivity of Estonia and there are concerns about the shortage of workers, it is unjustifiable that people are forced to appear in the state and local government authorities and wait for their turn, especially as in very many cases the time of admission is only once or twice a week and almost always during daytime.

State's preparedness for emergency

122. The NAO assess Estonia's preparedness for coping in emergency due to the increased risk of flu pandemic in the world and cases of marine and coastal pollution in Estonia. Preparedness for emergency is an important aspect of internal security which, however, tends to be excluded from priorities in this field that is low on resources. Prior to the actual generation of emergency it is an abstract problem and spending time and money on finding a solution for it seems to be happening on the account of other problems.

Preparedness for emergency requires proper prevention activity and a clear plan possible to implement

123. The state is prepared for emergency fairly well if

- all potential emergencies and their causes have been identified,
- probability of plausible emergencies and extent of potential damages have been assessed accurately,
- measures that would enable to prevent the accident causing an emergency or at least reduce the extent of damages, have been identified and implemented as much as possible,
- there is a flawless plan for activities during an emergency situation that incorporates all people and activities necessary for eliminating the emergency,
- specific people know the duties assigned to them and are able to perform them,
- management of an emergency and cooperation between parties has been practised in training exercises,
- necessary personal protective equipment, medicines, equipment, etc. is existent for the implementation of the plan of action during emergency or available if need requires.

124. Accurate assessment of the probability of emergencies and gravity of consequences is extremely important already because the taxpayer's money must be used in a sustainable manner and only for attaining important objectives. There is no point in making plans that cannot be implemented due to the lack of resources.

Resources are limited and this must be taken into account

125. However, in the case of probability of a rather large emergency and/or gravity of consequences it is more sensible to make expenses for preventing the emergency and damages arising from it and taking into account preventive measures, also make expenses for the preparation of activity in emergency. Limited state budget forces to accept risks in certain extent, this is inevitable.

126. The NAO assessed preparedness for four emergencies, the probability of which is big and/or the consequences of which grave. These emergencies are

- fowl plague,
- flu pandemic,

- extensive marine pollution,
- transport accident involving dangerous chemicals.

127. **In spite of the Ministries' serious and commendable efforts, Estonia is currently not ready to protect people, property and the environment at the required level in case of an emergency of fowl plague, flu pandemic, extensive marine pollution or transport accident involving dangerous chemicals.** (See also Table 4)

Table 4. Summary of preparedness for emergencies

Criterion	Infectious animal disease	Pandemic	Marine pollution	Hazardous load
Risk assessment	+	+	+/–	+/–
Plan	+	+/–	+/–	–
Implementation of plan	+/–	+/–	+/–	–

128. With the help of little effort and within a short time it is possible to achieve preparedness for the emergency of fowl plague at the required level. The work done to improve the preparedness for the emergency of flu pandemic must also be noted, but reaching the required level needs more efforts and takes more time.

129. In spite of the fact that a national marine pollution abatement plan was drawn up in the audited period, it must be stated at the end of the audit that Estonia is still not ready for the emergency of extensive marine pollution at the required level. The level of preparedness for emergency of transport accident involving dangerous chemicals is clearly insufficient.

Prevention of the emergency of fowl plague is efficient but there are certain shortcomings in the preparation of emergency

Did you know

One form of fowl plague is called **bird flu**, which humans can get from birds infected with the A/H5N1 virus strain.

So far, fowl plague has not been diagnosed in Estonia, Latvia and Lithuania

130. Fowl plague is an acute and very pathogenic virus disease of birds that spreads quickly and is one of the especially dangerous infectious animal diseases. Fowl plague can be carried from a bird to both birds and animals. The possibility of fowl plague carrying over from a bird to a human is quite small and risk group covers mostly poultry farmers.

131. First and foremost, fowl plague threatens birds (more than 200 million birds have been killed in the world in order to limit the spread of the disease). Birds mainly migrate to Estonia through the Netherlands, where there have been no cases of fowl plague. Another important route of migration crosses the Balkan Peninsula, Delta of Danube and coast of the Black Sea. Last year, fowl plague reached the Member States of the European Union (Germany, Austria, Italy, Greece, Bulgaria, Denmark and Sweden). At the beginning of 2007, outbreaks were also identified in Great Britain and Hungary, but in Estonia, Latvia and Lithuania no cases of fowl plague have been diagnosed so far.

132. According to the NAO, the main shortcomings that impede the preparedness for fowl plague are as follows:

- the law and plan do not recognise the functioning of disease control centres as crisis management teams, which is why it remains unclear who shall be in charge during emergency;
- trainings and training exercises on fowl plague have not been organised in all counties, which is why the preparedness of involved parties at required level is not ensured.

133. The NAO's recommendations to the Minister of Agriculture mainly concerned supplementing the Infectious Animal Disease Control Act and supplementing the contingency plan for control of infectious animal disease as well as organising trainings and training exercises.

Preparation for burying sick chickens in India 20.02.2006

Photo AP/Scanpix

Estonia is not ready for the emergency of flu pandemic

134. Pandemic is an epidemic that spreads extensively across state borders, is accompanied by illness of many people and large mortality. Outbreak of a flu epidemic in the states neighbouring Estonia or elsewhere in Europe is regarded as a risk for flu pandemic.

135. There is a risk for flu pandemic if

- A new, unknown influenza virus enters circulation,
- It is confirmed that the virus actively spreads from human to human and
- The new virus has a great ability to cause illnesses.

Did you know: the biggest flu outbreaks in the world:

- **Spanish** flu H1N1 (1918–1919), 25–30 % of population was infected;
- **Asian** fluH2N2 (1957–1958), 30–80 % of population was infected;
- **Hong Kong** flu H3N2 (1968–1969), 15–40 % of population was infected;
- **Russian** flu H1N1 (1977–1978), 9 % of population was infected.

136. Especially the viruses of influenza A are of pandemic potential. It has been identified that in case of a flu pandemic *ca* 25 % of the population may fall ill during 8 weeks (98 % of the sick need outpatient and the 2 % who are seriously ill need hospital care) and *ca* 0.37 % of the population might die.

137. In addition to the absence of a comprehensive plan for activities during the emergency of a flu pandemic that incorporates all offices and people, the audit also revealed that in a single case of flu that might lead to pandemic it is not possible to establish quarantine and implement other measures preventing the generation of a pandemic.

Due to an absent Act, measures necessary to avoid the spread of flu can only be taken once the flu pandemic has already broken out in Estonia and damage has already been done or cannot be avoided

138. In order to solve this problem, the Ministry of Social Affairs has prepared the necessary draft Act but this has got stuck in the arguments over the of the draft Act's compliance with the Constitution. As pursuant to § 28 (1) of the Constitution everyone has the right to the protection of health and second sentence in § 34 allows to restrict the freedom of movement also in the case of an infectious disease, the NAO is of the opinion that restriction of fundamental rights for the purpose of preventing serious damage to humans is in compliance with the Constitution. According to the NAO, the state has failed to perform its duties pursuant to the Constitution when all options possible in the state based on the rule of law for avoiding a flu pandemic have not been prescribed.

Plan for the activity during pandemic only covers the field of health

139. Plan for the preparedness for flu pandemic does not cover the tasks of all offices and persons involved in handling the emergency of flu pandemic. The plan with clear division of tasks and organization of management only covers the field of health, but taking action only in the field of health during a flu pandemic is not enough for finding a solution for the emergency.

140. To ensure preparedness for the emergency of flu pandemic a cross-field preparedness plan must be drawn up and the activity of involved parties must be organised. It is necessary to establish and implement restrictions for movement, ensure the protection of health, transport, catering, etc. of involved persons. The audit also revealed that the amount of personal protective equipment and anti-flu medicines provided for the persons belonging in the risk group and performing duties of operative and strategic importance is not sufficient.

Funeral of a youth who died of fowl plague in Turkey 05.01.2006

Photo: Reuters/Scanpix

141. By ensuring the existence and availability of resources and organisation of trainings and training exercises first prerequisites have been created in the field of health for the implementation of the plan for activity in emergency. However, not all counties have organised trainings and training exercises on flu pandemic, which is why the preparedness of involved parties at required level is not ensured.

Both the Ministry of Social Affairs and Ministry of the Interior significantly improved their level of preparedness already in the course of the audit

142. It is commendable that as a result of mutual cooperation, the Ministry of Social Affairs and Ministry of the Interior significantly improved their level of preparedness for the emergency of flu pandemic already in the course of the audit.

143. The NAO's recommendations to the Minister of Social Affairs mainly concerned supplementing the Communicable Diseases Prevention and Control Act to improve the preparedness for the emergency of flu pandemic, supplementing the plan for the preparedness for flu pandemic and acquisition of missing stock.

There is a great danger of an extensive marine pollution

144. Marine pollution in this audit is oil pollution at sea that can reach the coast, whereas an extensive marine pollution is damages the marine environment or coast of the Baltic Sea and economic consequences are grave and long-term. Oil pollution of level 2 and level 3 described in the national marine pollution abatement plan was regarded as an extensive marine pollution.

145. Scientists have called an extensive oil pollution a catastrophe whose consequences are irreversible for the marine environment of the states surrounding the Baltic Sea. Due to this, the International Maritime Organisation (IMO) considers the Baltic Sea an especially sensitive region. The states surrounding the Baltic Sea have the right to establish additional requirements for oil transit, incl. requirements for the quality of ships and competency of the crew.

146. In 2004, 110 million tons of oil was transported via the Gulf of Finland, to that end tanker vessels made a total of 1700–1800 trips in full cargo in 2005, 977 of them in Estonian waters. Biggest oil tankers moving on the Baltic Sea are of a capacity of *ca* 150,000 tons, which can be compared to Exxon Valdez or Torrey Canyon, ships that caused major catastrophes. The general capacity of tankers moving in the Gulf of Finland, however, is 30,000–50,000 tons. According to the estimate, the total volume of transport shall increase to 190 million tons by 2010.

Tanker Alambra that in 2000 caused the gravest marine pollution Estonia has recently seen, when nearly 300 tons of crude oil leaked into the sea in the port of Muuga.

Photo Küllike Rooväli/Postimees/Scanpix

Preparedness for the emergency of extensive marine pollution is insufficient

147. Neither the law nor the marine pollution abatement plan have appointed the Ministry of the Interior to be in charge for the preparedness for the emergency of extensive marine pollution and finding a solution for the problem, which is why it is uncertain if the Ministry of the Interior really shall perform the duties of a leading Ministry.

148. Prevention of the emergency of extensive marine pollution is not effective as a comprehensive risk assessment has not been carried out on the planning of preparedness for the emergency of extensive marine pollution and monitoring is insufficient for the early detection of extensive marine pollution.

149. Preparedness for the emergency of extensive marine pollution in insufficient mostly due to lack of resources. Optimal requirement for resources has been established with the minimum requirements of the recommendations of the Helsinki Convention (HELCOM). There is no systematic overview of existing and missing resources, organisation of the acquisition of missing resources is not expedient.

In the course of the audit, the Ministry of the Interior significantly improved its level of preparedness for the emergency of extensive marine pollution

150. National marine pollution abatement plan was drawn up in the course of the audit, unfortunately there are still no prerequisites for the implementation of said plan. Estonia's pollution abatement capacity is not in compliance with the minimum requirements of the Helsinki Convention.

State's preparedness for the emergency of extensive pollution arising from a transportation accident involving dangerous chemicals is insufficient

151. Transportation accident involving dangerous chemicals was a road or railway accident involving a chemical that, due to its qualities, can damage health, environment or property. For instance, level 1 railway accident may include an extensive fire, extensive environmental pollution, loss of lives and a long-term interruption of rail transport.

152. Consequences of a transportation accident involving dangerous chemicals could be very serious. Upon the explosion of a 60-ton wagon of ammonium nitrate the explosion can cause serious damage, injuries to and death of unprotected humans in 150 metre radius. Danger zone may extend up to 850 metres from the epicentre. Upon the explosion of a tank of ammonium nitrate up to 50 % of unprotected people in the 850 metre radius may die. Danger zone may extend up to 5,000 metres from the epicentre.

Rail transport is dangerous in Harju, Järva, Lääne-Viru, Ida-Viru, Jõgeva, Tartu, Põlva, Valga and Võru Counties

153. In 15 years, Estonia has not seen any serious railway accidents involving dangerous chemicals. Smaller accidents from recent history include the combustion of a pile of old sleepers by the railway branch of Ülemiste freight depot in 2004, which caused a huge fire and fur to the unfavourable direction of the wind the heat and flames almost reached oil trains. Additionally, recent history has seen the derailment of two tanks of heavy fuel oil and leakage in the vicinity of Ülemiste station: leakage of heavy fuel oil on the branch of the port of Muuga (54 t), derailment of a tank of propane near Peterburi Road in Lasnamäe.

Road transport of chemicals is also potentially dangerous

154. Road transport of dangerous substances also poses a potential risk. Biggest risks may be realised on Estonia's main roads and level crossings located on them. Especially dangerous are road tankers in gas stations in areas of dense settlement during the filling of tanks.

Liquidation of a major accident caused by the derailment of a train transporting yellow phosphorus in the Ukraine in 16 July 2007. Toxic cloud covered dozens of villages, forcing authorities to evacuate hundreds of people.

Photo: Reuters/Scanpix

155. A leading Ministry to be responsible for the prevention of an extensive pollution caused by a transportation accident involving dangerous chemicals and for the preparation of such accident has not been appointed. There is no comprehensive plan for eliminating the emergency of extensive pollution caused by a transportation accident involving dangerous chemicals that would specify the roles of included parties and would include all resources necessary for eliminating the emergency. Among other things, thought has not been given to the organization of people in the danger zone and management of related risks (e.g. protection of property without surveillance).

Specially equipped rescue workers still eliminated the consequences of the derailment of a train transporting yellow phosphorus in the Ukraine this summer when almost a week had passed from the accident.

Photo: Reuters/Scanpix

156. In addition to the above-mentioned, prevention of an extensive pollution caused by a transportation accident involving dangerous chemicals is inefficient due to the following facts:

- comprehensive risk assessment has not been carried out on the planning of preparedness for the emergency, and among other things, the current assessment does not include the analysis of the necessity to evacuate;
- all risks that need addressing have not been managed, the transport of sufficiently hazardous loads is not observed, operators’ minimum obligatory liability insurance does not allow to cover potential damages;
- organisation of state supervision of hazardous loads is inefficient as the mutual division of tasks of competent authorities is unclear and inspection (incl. checking marking) is not carried out to a sufficient extent.

157. Assessment of preparedness for the emergency caused by a transportation accident involving dangerous chemicals revealed the following problems:

- comprehensive plan for activities during the emergency has not been drawn up, and among other things, the current plan does not include the evacuation of people;
- the existence and availability of resources necessary for the elimination of the emergency has not been ensured, i.e. there is no comprehensive overview of existing and missing resources and an approved acquisition of resources has not been organised;
- the number of organised trainings and training exercises on pollution abatement has not been sufficient to ensure the preparedness of involved parties.

Organisation of ensuring preparedness for emergency is inefficient

The main issue upon ensuring preparedness for emergencies is an approach that would cover all Estonia instead of focusing on just one office

158. Elimination of emergency is only possible in the cooperation of several state and local government authorities, non-governmental authorities and individuals. Therefore, action during emergencies cannot be planned by authorities: the plan must include the tasks of all persons and authorities involved and the establishment of prerequisites for the performance of tasks (existence of personal protective equipment, availability of necessary equipment, joint training exercises, etc.).

159. It is inevitable to change the organisation of preparation for emergencies so that a responsible Ministry should be appointed for each emergency (or the Ministry of Interior appointed as responsible for all emergencies), who has the rights needed for the performance of duties assigned to it.

Compliance with compulsory school attendance

160. Studying is compulsory for children of school age to the extent laid down in the Basic Schools and Upper Secondary Schools Act. In Estonia, school attendance is compulsory for all children in the age group of 7 to 17, for whom school attendance has not been deferred and who have not acquired basic education.

161. Both Estonia and the European Union have stated that provision of at least basic education is one of their strategic objectives. The Lisbon Strategy of the European Union and Estonian general education system development plan emphasise that education system must allow for the acquisition of at least basic education. One of the EU education objectives for 2010 is to ensure that at least 85 % of people belonging to the 20 to 24 age group have acquired at least secondary education. In 2005, the percentage of 22-year-olds in Estonia who have acquired at least secondary education has dropped from 83.6 % to 80.9 % compared to the year 2000.

Did you know

In 2006

- **persons without basic education** formed 4.6 % of all working age population;
- **unemployment rate was 16.7 % among persons without basic education**. At the same time, the average unemployment rate was 5.9 %;
- **average gross wages among persons without basic education** formed 62 % of average gross wages;
- **persons without basic education** formed **20 % of all imprisoned persons and 16 % of all probationers**.

Statistical Office, Ministry of Justice

162. Acquisition of education is important both from the viewpoint of an individual and of the state. Acquisition of basic education provides an opportunity to continue studies in an upper secondary school or vocational institution and thus acquire an even better position on the labour market. For instance, labour market statistics show that finding a job is harder for persons without basic education and unemployment rate among them is many times above average. Likewise, the income of persons without basic education is considerably smaller.

Urmas Nemvalts, Postimees

163. With its audit “Re-entry of Basic School Dropouts into the Education System” in 2003, the NAO examined the relations between the level of education and crime and found that a low level of education is also a relevant risk factor for crime. Percentage of persons without basic education among imprisoned persons is significantly higher than their percentage of all population.

The definition of (non)compliance with compulsory school attendance is still unspecified

It is unclear whether a child must only be on the register of a school or must attend school as well

164. The Basic Schools and Upper Secondary Schools Act does establish limits when and for how long the child should attend school, but does not specify the definition school attendance. Central definition of (non)compliance with compulsory school attendance is necessary in order to specify the students' duties and provide instructions as to the requirements the students are expected to meet. It would also enable different parties (school, local government) take timely measures to help students who have run into difficulties in acquiring basic education. Additionally, it enables to collect information from the state on the extent of students who are in the risk group in terms of not acquiring basic education.

165. Currently it is legally unclear whether it would suffice for compliance with school attendance if the student is entered into a register of a school, or whether it is also important for the said student actually attend school and participate in studies. Generally, schools have regulated in their internal rules that participation in lessons is compulsory and the student can be absent from school up to 3 days upon presenting a permit written by a parent, and from there on only under a medical certificate.

166. Already in its 2002 audit "Ensuring Compliance with School Compliance" the NAO recommended to the current Minister of Education to specify the definition of non-compliance with school attendance. So far, the Ministry of Education and Research has not done so.

Accounting of children obliged to attend school is incomplete

167. The main prerequisite for compliance with school attendance is that the child in question has been entered into the register of a school. Pursuant to the Basic Schools and Upper Secondary Schools Act, the accounting of children who are obliged to attend school and surveillance of compliance with school attendance is the duty of local governments. Every city and rural municipality must have an overview of all children who are obliged to attend school, including those who have not been entered in the register of any schools. As of 2004, Estonian Information System also keeps account of students.

Estonian Information System for Education (EHIS) – state register that collects data on students, teachers, educational institutions, curricula and education licences and documents certifying education.

Neither local governments nor the state know the number of children who should attend school but do not

168. Interviews with the representatives of local governments and comparison of data of the population register and EHIS indicated that local governments do not have a comprehensive overview of said topic. First and foremost, this problem affects children who have never attended school but have gone abroad or whose location has remain unknown due to his transfer from one school to another. If the child in question has started studies in a school of another local government the local government can check this from EHIS as of the spring of 2007. But if the student has started studies in a school abroad without notifying his school or the population register of this fact, or has not started studies in any school, it is very hard for the local government to identify the actual location of the child.

169. Representatives of local governments regarded the incomplete data on residence in the population register as a problem, although pursuant to the Population Register Act it is mandatory to the register the place of residence. The data of population register revealed that 2763 (i.e. 1.9 %), of persons who are obliged to attend school had not provided information on their place of residence.

The state cannot ensure the school attendance of all children

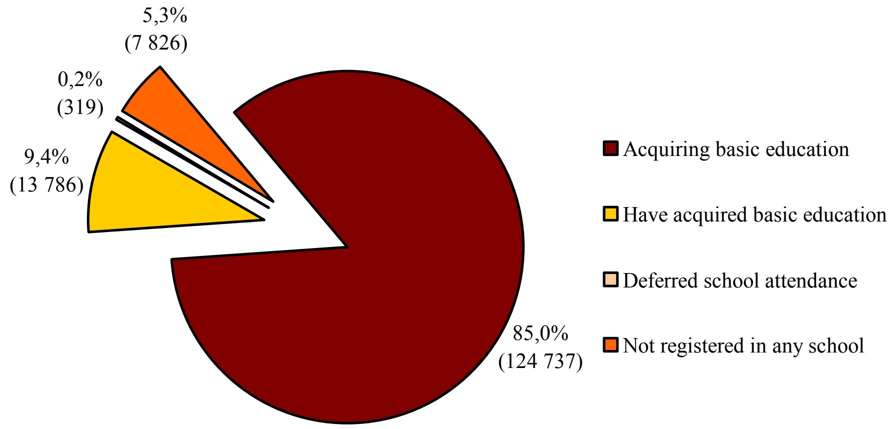
7826 children are not registered in any school

170. Neither does the state as a whole have an overview of whether all children who are obliged to attend school actually do it. In order to identify this, the NAO surveyed how many children who were supposed to be attending school as of 01.01.2007, were not registered in any schools. According to the population register the number of persons who are obliged to attend school was 146,668. The number of such persons of school-attending age who should have been attending school but were not registered in any schools was 7,826 (See Figure 1).

Half of the children who are not registered in any school study or live abroad

171. Nearly half of the children who were obliged to attend school but were not registered in any schools had settled abroad. Additionally, 70 children are not registered in any schools due to changing schools, having left one school and not having started their studies in a new one. Subtracting the number of students who have settled abroad and are changing schools from the number that is not registered in any schools leaves us with 3847 persons. From the viewpoint of compliance with school attendance, these persons can be considered missing.

Figure 1. Persons who are obliged to attend school, by status



Source: Population register; EHIS; materials of counselling committees; NAO's calculations

172. According to the population register, 53 % of these missing children have a place of residence in Estonia and for 47 % there was no data on residence in the register. According to the explanations of the representatives of the Ministry of the Interior, the persons whose data on residence is not recognised in the population register may be persons with dual nationality who do not actually live in Estonia.

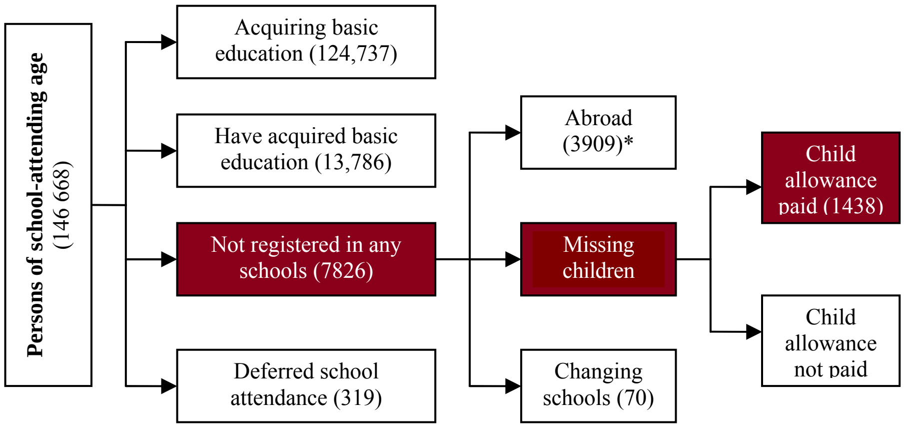
The number of so-called missing children is 3847 and child allowance is paid for 1438 of them

173. An inquiry submitted to the Social Insurance Board revealed that child allowance has been paid for some of the missing children (1438). Although payment of child allowance and compliance with school attendance are not mutually related, the data on the payment of child allowance indicate that the persons in question are likely to live in

Missing children – the definition is used for children who, according to the population register, are of school-attending age, live in Estonia or whose place of residence is not provided, whose school attendance has not been deferred and who, according to EHIS, are not acquiring or have not acquired basic education.

Estonia. Those, for whom the state does not pay child allowance, are not likely to live in Estonia (See Figure 2).

Figure 2. NAO's calculations scheme for finding the children not complying with school attendance

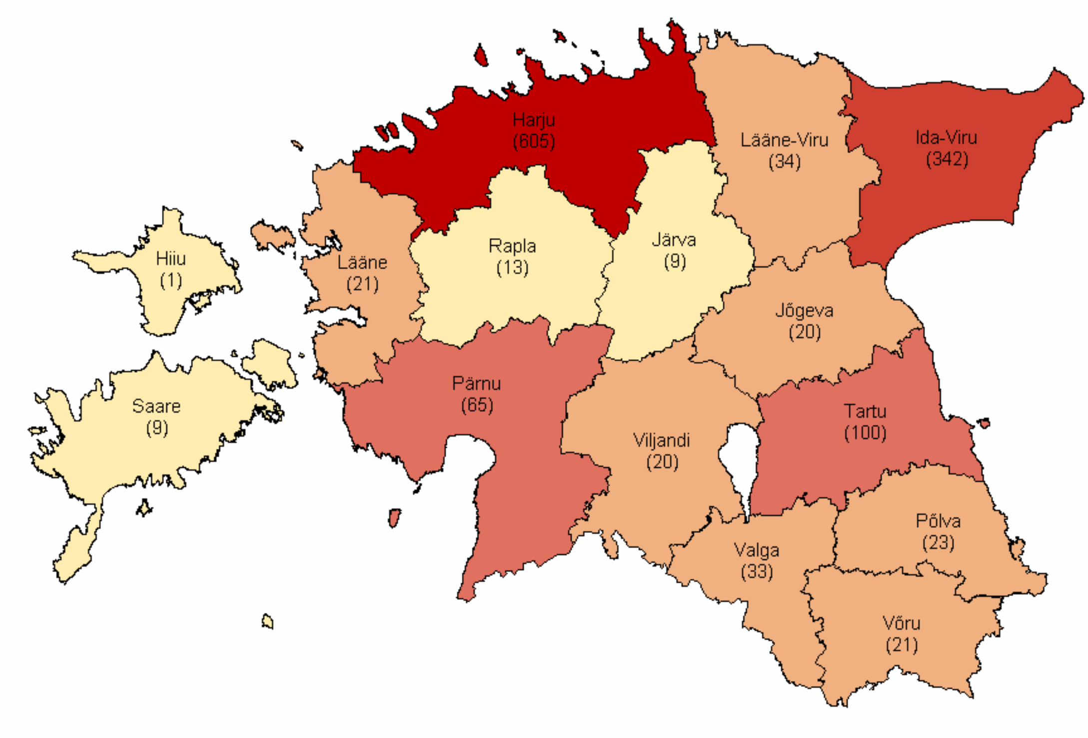


*Includes persons whose address according to the population register was abroad or whose acquisition of basic education was interrupted due to settling abroad.
**It is likely that these persons do not live in Estonia.
Sources: Population register, EHIS, Social Insurance Board; NAO's calculations

174. To sum it up, there are 1438 children of school-attending age in Estonia for whom child allowance was paid (as of 01.01.2007) but who are not registered in any schools and have not acquired basic education. For 1316 of them an Estonian address is given in the population register as their place of residence, for the place of residence of 122 there is no information. Most of these children are Estonian citizens (1054), followed by persons with Russian citizenship (254), citizenship was not specified for 97 children in the population register. The percentage of boys and girls in this group is the same (51 % and 49 %, respectively). By age, all age groups are represented.

175. County-level overview of children who were not registered in any school, lived in Estonia and received child allowance has been given on Figure 3. The number of missing children is the biggest in in Harju County (605, whereof 495 in Tallinn) and Ida-Viru County (342, whereof 189 in Narva), the percentage is significantly smaller in other counties.

Figure 3. Division by counties of such persons obliged to attend school and not registered in any schools, whose place of residence was registered in Estonia and for whom child allowance was paid (as of 01.01.2007)



Source: Population register, EHIS, Social Insurance Board; NAO's calculations

More than 2 % of students are absent from school without a reason for a long time

The problem of absence from school deepens

176. In addition to children who are obliged to attend school and are not registered in any schools, there are many students who do not comply with school attendance due to absence from school. According to the representatives of schools and local governments students' absence from school is a permanent and even deepening problem.

The state does not have an overview of students' absence from school

177. Information on students' absence from school is collected by schools. However, the state does not have an overview of students' absence from school and thus it is unknown how many students may have problem with complying with school attendance. As of the 2006/2007 school year information on long-term absence from school without a reason was to be submitted to EHIS, but as of 01.12.2006 only six schools had met with this requirement.

E-school– private Internet-based study information system that connects all parties related to studies and where accounting is kept of lessons, absence from school, grades, homework, etc.

178. Upon analysing absence the NAO relied on the data of e-school. Nearly one third of schools use e-school in their everyday work, and among other things that enables to keep account of the student's absence from school. E-school is mostly used in larger schools, by the amount of students covered e-school is presentable (40 % of all students in basic school), but larger schools and city schools may be represented more in comparison with small schools and schools located in the country.

179. On the basis of the statistical overview submitted to the NAO by e-school it became clear that in the 2005/2006 school year the 53,087 basic school students of schools using e-school were absent for a total of more than 4.8 million lessons. Most students had been absent from at least one lesson during the school year. On the average, each student was absent from 10 % of lessons during school year, third of these cases were without a reason. The older the class the more the students are absent from school and the higher the percentage of absence without reason.

180. According to a 2005 audit of the National Audit Office of Great Britain, the ratio of unjustified and justified absences was 1:6. In Estonia, the respective ratio is 1:2.5 (2.5 justified absences per one unjustified absence). Therefore, in Estonia the percentage of absence from school without reason of all cases is high.

181. The NAO asked from schools how many students had been absent without reason from more than 20 % of lessons during a quarter of academic year. It became clear that in the 2005/2006 school year 2.3 % of students were absent without reason from more than 20 % of lessons during a quarter of academic year. If we extend this result on all students acquiring basic education during the 2005/2006 school year in daytime study, nearly 3100 students were absent from school for a long time without a reason. Absence without reason is problematic as of the 6th grade, where the students who were absent from school for a long time without a reason formed 2 % of students. However, the most critical is the 8th grade, where the percentage of long-term absence without a reason was more than 5 %.

182. Comparing the data of e-school and results of the NAO's survey it can be seen that absence from school is related to many students and is thus a serious problem from both the viewpoint of acquisition of basic education and of the state's expenses. Absence of students means indirect expenses for the state as students do not use the opportunity to participate in studies for the taxpayer's money. Therefore, more attention should be paid to absence and problems arising from it and if necessary, support students in participating in studies. It is unlikely that the rate of absence could be reduced to zero in practice, but the number of absence cases must certainly be decreased as absence is the main reason for lagging behind in studies and generation of later problems.

Did you know that in the 2005/2006 school year

- **94 % of students were absent from at least one lesson, 82 % were absent from at least one lesson with a reason** and 69 % of students without a reason;
- **each student was absent from school of an average of 3 weeks,** 2 weeks with a reason and 1 week without a reason;
- **an average of 2.5 % of students were absent from each lesson held,** 1.8 with a reason and 0.7 without a reason.

Source: E-school; NAO's calculations

Did you know that in the 2005/2006 school year

- the state paid the teacher an **average of EEK 12 of wages** for per each student, i.e. if the student is absent from the lesson the state pays EEK 12 for a service the student does not consume;
- the state spent **nearly EEK 150 million** a year on lessons the students were absent from (taking into account that a total of 137,033 students studied at schools and that each students was absent for an average of 91 lessons a school year).

The data provided above only includes the wages of teachers from the budget equalisation fund and does not take into account allowance paid for the acquisition of textbooks, investments, free school meals, management costs, etc.

Source: data of the Ministry of Education and Research and e-school, NAO's calculations

Many students have difficulties with making progress in studies

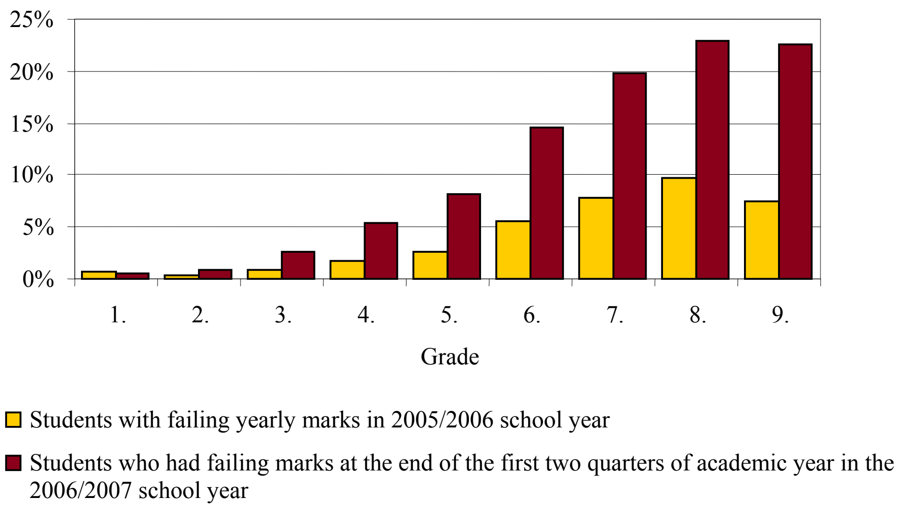
183. Students' study results are also a relevant indicator upon acquisition of basic education. Failure to make progress in studies usually leads to a situation where the student does not acquire the knowledge and skills prescribed by the curriculum and leaves basic school without basic education.

184. Improvement of students' progress is also one of the objectives in the general education system development plan for 2007–2013. Progress indicators are failing marks per student. While in the 2003/2004 school year the respective indicator was 0.18, a goal has been set for the year 2010 to decrease the ration of the number of failing yearly marks per the total number of students in daytime study to 0.14a and by the year 2013to 0.1. The percentage of failing yearly marks per person in basic school in the 2003/2004 school year was a total of 0.21, being the biggest in 8th grade (0.45).

5 % of students have failing yearly marks

185. In order to get an overview of students having problems with making progress in studies, the NAO asked the schools how many students had had failing marks at the end of the school year or quarter of academic year. The survey revealed that in the 2005/2006 school year 5 % of students had failing marks. Just like long-term absence without reason, failing yearly marks also become more problematic as of 6th grade, here the number of students with failing yearly marks was already more than 5 %. The most problematic is 8th grade, where students with failing yearly marks formed nearly 10 %. The situation is even more alarming regarding failing marks for a quarter of academic year (See Figure 4).

Figure 4. Percentage of students with failing marks at the end of school year and quarter of academic year of all basic school students



Source: Survey by the National Audit Office

The number of school dropouts is still high

Nearly 1000 students drop out of school every year

186. Many students acquiring basic education drop out of school (See Table 5). The number of dropouts without basic education is the highest in the third stage of school.

187. Data on the interruption of studies is recognised in EHIS. However, said data can be inaccurate which is why the number of dropouts is not certain, neither is the reason for their actions. For instance, in some cases the time of interruption has been given but not the reason. Also, it is likely that some schools have erringly submitted inaccurate data to EHIS and in order to delete said inaccurate data, the respective student has first been excluded from school, which is why said student is recognised as a dropout, and then re-entered in the school register using accurate data.

Table 5. Number and share of dropouts in all pursuers of basic education, school years 2000/2001 to 2005/2006*

School year	Grade 1 to 9		Grade 7 to 9	
	Number of persons without basic education who interrupt their studies	%	Number of dropouts	%
2000/2001	1 025	0,57	901	1,45
2001/2002	907	0,52	758	1,18
2002/2003	1 145	0,69	1 005	1,54
2003/2004	959	0,59	867	1,34
2004/2005	No reliable data is available due to a change in calculation principles			
2005/2006	946	0,69	853	1,48

* As of 2006, the Ministry of Education and Research started using the term “persons without basic education who interrupt their studies”, before that the term “dropouts” was used.
Dropouts from grades 7 to 9 are persons who interrupt their studies in the daytime study of general education in grade 7 to 9.

Source: Ministry of Education and Research; general education system development plan for 2007–2013

Implementation of measures supporting compliance with school attendance increases but problems do not decrease

188. Schools and local governments as operators of schools have created several support services, forms of study, curricula, etc. in order to support school attendance and progress in studies, both on their own initiative and with the help of the state. It is not possible to provide a comprehensive list of implemented measures as basically every activity carried out with the purpose of supporting or ensuring school attendance can be regarded as such.

189. The audit indicated that schools generally use measures that are available to them. Based on this, schools’ options are very different. The most common measure is long day group which in the last school year was implemented by 77 % of schools. The schools themselves regard the opportunity class, boarding school facilities and class for children with behavioural problems as the most efficient, but these were only implemented by 6 to 9 % of schools.

190. Other measures used by schools to influence students include the opportunity to require students to appear before the board of trustees and teacher’s council, and have a conversation with a parent or the student. Several schools have created separate internal measures, like education committee, support network, the so-called “disciplining class-room”, etc.

Implementation of measures has not lead to an improvement in compliance with school attendance

191. All sources of information analysed by the NAO show that implementation of measures, incl. on clearly problematic children, has increased significantly. Every year more money is allocated to these measures from the state budget. However, in spite of this, the indicators of compliance with school attendance such as persons without basic education who interrupt their studies, failing marks at the end of school year and quarters of academic year as well as the number of absence cases have improved greatly.

192. The schools justified the increase in the implementation of measures with the increase in the number of problematic children. Various new reasons causing absence from school and failure to make progress in studies have been identified over the past few years. For example, recently there have been more cases where basic school students do not attend school because they go to work. Likewise, the schools are of the opinion that the parents' indifference towards their children's school attendance has also increased, which is the reason why many children do not attend school.

193. The schools also mentioned that none of the measures have been helpful when some students are concerned. In spite of the implementation of several measures, certain children still have to attend the same class again or drop out of school. Students' problems often reach outside school and in this case neither the school nor local government is generally able to help the student.

Liability of the child and of the parent for compliance with school attendance has not been established

The problem begins at home

194. In the case of students who have run into difficulties upon complying with school attendance, a serious problem is that the parents of children do not often properly understand and assess the substance of complying with school attendance. Schools' practice shows often parents' indifference towards their children's school attendance. The school can influence the student but not his or her parents and situation at home. Most of the representatives of local governments admitted that in case of students who do not comply with school attendance, the reasons can usually be found at home, in many cases one of the parents or even the entire family is in need of assistance. Parents' indifference towards their children's school attendance was also apparent in the interviews conducted with students.

195. However, schools and local governments are often not able to influence parents. Legal measures for influencing parents are insufficient. Although the Basic Schools and Upper Secondary Schools Act establishes that parents are required to create favourable conditions at home for children to study and fulfil the obligation to attend school, this provision does not have any effect as there are no sanctions for cases when parents fail to fulfil said requirement.

196. As a result of the audit the NAO made a recommendation to the Minister of Education and Research to update the legislation regulating general education, improve collection of information on compliance with school attendance and develop county-level remedial education centres that should ensure better availability of support measures for problematic children and their parents.

197. In the letter of reply the Minister of Education and Research promised to improve accounting of children who are obliged to attend school and collection of data on indicators for compliance with school attendance and implemented measures to ensure that all children shall attend school and participate in studies as required. The Ministry is preparing amendments to the Basic Schools and Upper Secondary Schools Act, which shall specify the tasks of the school and local government upon providing support measures. A working group is planned to be established in cooperation with the Ministry of the Interior so as to specify the tasks of local governments in search for the so-called missing children. The Minister also promised to discuss the issue of implementation of support measures and parents' liability with the Ministry of Social Affairs and Ministry of Justice.

Sustainability of agriculture

Sustainability of agriculture is not ensured

198. In spite of agricultural refunds and support for rural development, more than 2/3 of current agricultural holdings shall face serious difficulties in the years to come. If supports were reduced, only 1/5 of professional agricultural producers would be able to carry on. To prevent difficulties, many producers should diversify their sources of income in over the next few years.

The state spends 26 billion on enhancing competitiveness

199. The state has made and continues to make great expenses to improve the competitiveness of the agricultural sector and balanced development of rural life. In 2007–2013 a total of 26 billion of European Union direct aid and support for rural development and agricultural refunds shall be paid pursuant to the rural development plan, this makes an average of EEK 4 billion per year.

200. Although over 400,000 people live in the country the prevalent share of support for rural development and agricultural refunds is meant for the 27,000 engaged in agriculture. 6700 of them are professional farmers.

More than 2/3 of farmers may be facing difficulties

Supporting current activities may not be enough

Farmers of today need more than just one pig to feed themselves.

Photo: Margus Ansu/Postimees/Scanpix

201. Although the support reaching to billions is reflected in investments, land use and increasing added value, the NAO's audit showed that supports paid in the financial period of 2007–2013 do not improve the productivity of agricultural producers in a way that they could compete with other farmers in the EU. Nearly 70 % of currently active agricultural holdings shall encounter serious difficulties in the next few years. If supports were reduced, only 1/5 of professional agricultural producers would be able to carry on.

202. Many small and medium-sized producers shall be facing difficulties already in the next few years. An analysis that covered all size groups of agricultural holdings indicated that the producers' problems shall be alleviated by supports until the year 2010, after that more than half of producers, mostly small and medium-sized producers cannot continue competing with other agricultural holdings.

Competitiveness is poor

203. The overall competitiveness of the agricultural sector is poor. By performance indicators (yield, productivity, generation of added value) Estonia is far behind the old Member States of the European Union (so-called EU-15). Only large operators can produce effectively.

204. Workforce productivity is also very small in Estonian agriculture: 10 times less than in the Netherlands and 5 times less than the EU-15 average (as of 2004). Compared to other EU Member States Estonia's workforce productivity only exceeds that of Latvia and Lithuania.

Productivity is low and material basis weak

205. Material basis of many producers is weak. Used assets are out of date. According to the Rural Economy Research Centre, in 2005 half the buildings were older than 20 years and 70 % of machinery and equipment had been obtained over 10 years ago. Thus it is not possible to compete with producers of other states. Due to the smallness of area under cultivation it is not purposeful to obtain machinery for cultivation of land with great productivity, small number of animals requires rather high expenses per production unit.

206. In the last years, large producers have made big investments, medium-sized and small producers have invested only a little. Mostly because of the investments of large producers, the cost of assets owned by one producer increased nearly twice in 2001–2005, i.e. up to EEK 2.1 million. At the same time, the average value of assets owned by small producers in 2005 was only EEK 0.5 million. Nearly a quarter of large producers made no investments in 2001–2005.

Supporting only agriculture is not enough for rural development

Rural development must be regarded as a whole

207. After the decrease in the European Union direct agricultural aid the state has to decide whether to direct billions of kroons of Estonian taxpayers' money to the inefficient part of agricultural production that is not sustainable, or observe rural development from a wider perspective, support people's retraining, increase in labour productivity, contribute in the preservation of the form of rural life as such. The European Commission has also emphasized the need for looking at rural development from a wider perspective.

208. The NAO does not consider it right that the Ministry of Agriculture regards the state's rural development policy first and foremost as agricultural policy. Due tot his, the Ministry organises the use of the money of the European Agricultural Fund for Rural Development, without relating it to other directions of development implemented on the basis of money received from other EU funds.

209. According to the NAO, rural development must be seen as a whole, starting from infrastructure and ending with problems with education and health. In the course of the audit the NAO noticed that one of the institutions thoroughly assess the comprehensive impact of the measures planned by the state on the socio-economic development of rural areas. Currently, different Ministries rely on the priorities of their own area and do not use the opportunity to comprehensively develop rural life through the joint impact of different measures. Likewise, the Ministry of Agriculture whose duty it is to create conditions for the sustainable and versatile rural development has not been able to systematically shape rural life.

210. Although the state has dozens of regional development plans on rural development, they are not sufficiently related to each other. Therefore, the impact of measures planned by the state on the socio-economic development of rural areas cannot be complexly assessed.

211. Supporting only agriculture is not enough for balanced rural development, but it is necessary to ensure good and always accessible road network, supply with quality energy, communications and telecommunications services as well as available and quality general education, health, cultural service.

One of the solutions is diversification of activity

212. It is inevitable that some producers must diversify their activities outside agriculture in order to receive additional income. However, in the country there are few people who would agree to develop other types of production instead of traditional production. There has not been any market information available for producers and the notification activity of the Ministry has been poor in this field.

213. The NAO also recommends implementing other measures so that people released from agricultural production would find jobs as close to home as possible. To promote working further from home the condition of roads as well as access to public transport must be improved. Attention should also be paid to the retraining of people released from production and elimination of social problems accompanying the changes in people's lives.

Huge contrasts: crumbled cowshed in Järva County...

Photo: Lauri Kulpsoo/ Postimees/Scanpix

... and an example of entrepreneurship and clever management – ultra modern farm of Vändra OÜ Sõõrike in Vändra Rural Municipality in Pärnu County.

Photo: Henn Soodla/ Pärnu Postimees/Scanpix

214. The Ministry of Agriculture has not submitted specific recommendations to the Government which would provide the Ministry with greater authority to further influence the relevant work of other Ministries, the Government has not required the Ministry to do so.

215. One of the important objectives of the NAO audit was to promote discussion in the society, Parliament and Government on the subject of the future of agriculture and rural life before the direct impact of great problems in four or five years.

Establishment of sewage treatment systems

Estonia cannot comply with the promises given to the EU and the objective set for the year 2010

This picture cannot be seen in Estonia in 2010.

Photo: Henn Soodla/Pärnu Postimees/Scanpix

216. To comply with environmental requirements, Estonia must improve the quality of purification of both drinking water and sewage. By the end of 2010, sewage must be collected and purified in all settlements.

217. To this end, the European Union has prescribed support to Estonia of the amount of EEK 2.6 billion from the Cohesion Fund for the period of 2004–2006. In 2007–2013 the EU support to Estonia shall increase more and EEK 7 billion shall be allocated for Estonia for the renewal of sewage system.

218. In its audit "Development of waste water treatment in rural areas with the support of the Cohesion Fund's projects" the NAO assessed the success of the preparation and instigation of projects funded by the Cohesion Fund and the sustainability of the water management systems developed as a result. Three projects were audited: those for the Western islands, the Matsalu ecological reserve and the Emajõgi and Võhandu Rivers.

219. The audit revealed that Estonia is unable to ensure sufficient sewage treatment in all settlements by 2010**,** which may result in infringement proceedings by the European Union. Establishment of sewage treatment supported through the Cohesion Fund's projects has not been organised in a sustainable fashion, with the price of water and sewerage not incorporating all costs and there being lingering uncertainty regarding the future administration of new structures.

Funding of sewage treatment needs fast decisions

Estonia lacks at least EEK 6 billion

220. According to the calculations of the Ministry of the Environment, it will cost EEK 18 billion to bring sewage management in all settlements into conformity with European Union regulations between 2007 and 2013. Currently only EEK 12 billion is planned for the development of water management and sewage treatment in this period (including Cohesion Fund and state and local government funding).

221. The rise in building costs has delayed the implementation of current sewage projects and additional funding must be found to complete them. By today, two out of nine projects funded through the EU have been completed. Construction work has been started for the rest or procurement has been cancelled due to very expensive tenders.

Even additional funds do not cover the overall increase in the cost of projects

222. Although the state has allocated nearly EEK 975 million for financing the transport and environmental sector projects of the Cohesion Fund, it is not enough for completing the unfinished sewage projects. According to the Ministry of Environment, as of August 2007, another EEK 2.7 billion was needed for the completion of unfinished sewage projects. As the rise in projects' cost cannot be covered only by increasing local government funding and from the budget of the Environmental Investment Centre, the projects must be funded from the state budget.

223. As the funds of the Cohesion Fund allocated for the projects in 2004–2006 cannot be moved between projects and cancellation of project would bring along the loss of funds allocated to them from the Cohesion Fund, the Ministry of Environment sees a solution in changing the scope of projects and division of projects into different stages. The Ministry of

Environment has submitted such a proposal also to the European Commission.

224. In order to enhance competitiveness the Ministry of Environment suggests to include smaller building contractors and divide procurements into smaller parts or organise smaller procurements. According to the NAO the planned measures may reduce the cost of unfinished projects but the time spent on their implementation shall further extend the deadline for the completion of projects.

Modern sewage treatment plant in Kösti in Viljandi was opened two years ago.

Photo: Elmo Riig/Sakala/Scanpix

Local governments play a central role upon the regulation of sewage systems

Local governments are not capable of participating in projects

225. In addition to the lack of necessary funds, implementation of sewage projects has also been impeded by problems related to involving local governments. If for some reason the local government is not interested in participating in the project, the Ministry of the Environment currently has no means of forcing it to accept. Several local governments cannot participate in the project as their opportunity to finance the project (incl. through a loan) is very small. Some local governments were poorly prepared for the participation in the project; among other things they lacked the development plan for public water supply and sewerage.

Projects are not sustainable as the price of water and sewerage is too low

226. Neither are local governments interested in establishing such prices for sewerage that would ensure the sustainable management of sewage systems. Water and sewerage rates have not been sufficiently increased in many local governments already for years and these do not cover the actual expenses made on the provision of the service. Thus, the revenue from rates is not enough for the future renovation and renewal of the system – not for the structures constructed prior to the Cohesion Fund's project, nor for those that are constructed in the course of the project. This may lead to a situation where upon the depreciation of equipment, state has to cover their replacement costs as local governments and water undertakings have not saved up a sufficient amount of money.

Preservation of cultural monuments

The state has not done enough to fulfil its constitutional task in ensuring the preservation of cultural heritage

227. The National Heritage Board has contributed significantly to the fulfilment of its tasks in recent years and tried to rectify any shortcomings as it has proven able, but a number of organisational problems and previous omissions continue to both jeopardise the preservation of monuments and hinder effective operations within the field.

228. The NAO audited the activities of the National Heritage Board in the protection of cultural monuments in order to assess whether important heritage property is under protection and protected against damage and destruction. Upon providing the assessment the NAO relied on the following criteria:

- The state must have an overview of its monuments and their condition;
- All objects and sites, and only those objects and sites which have cultural value, have been placed under protection;
- The owners of the monuments must be aware of their rights and obligations;
- Supervision will ensure the detection and prevention of infringements;
- The measures to be implemented for the prevention of infringements, the restoration of the state that existed previously or the punishment of offenders are effective.

Owners are responsible for the preservation of cultural monuments

229. There are over 25,000 cultural monuments in Estonia (see Table 6). In order to guarantee the preservation of monuments, the state has placed restrictions on ownership and maintenance obligations on owners which make the upkeep of monuments (particularly architectural monuments) expensive for the owners. The main duty of the state (National Heritage Board) is to ensure that objects which have cultural value have been placed under protection; carry out supervision over monuments and heritage conservation areas; provide counsel to the owners regarding the upkeep and use of monument. In 2007 the Estonian state will be spending EEK 54.8 million on the activities of the National Heritage Board, of which almost EEK 39 million will be used for supporting owners of monuments.

Table 6. Overview of cultural monuments

Type of monument	Number of monuments
Architectural monuments	5 236
Historical monuments	1 245
Archaeological monuments	6 606
Artistic monuments	12 607
Technological monuments	34
Total	25 596*

* The total amount of the types of monuments is not equal to the sum in "Total" as one monument can belong to several types.
Source: Register of cultural monuments, 01.04.2007

There is no systematic overview of preserved cultural heritage

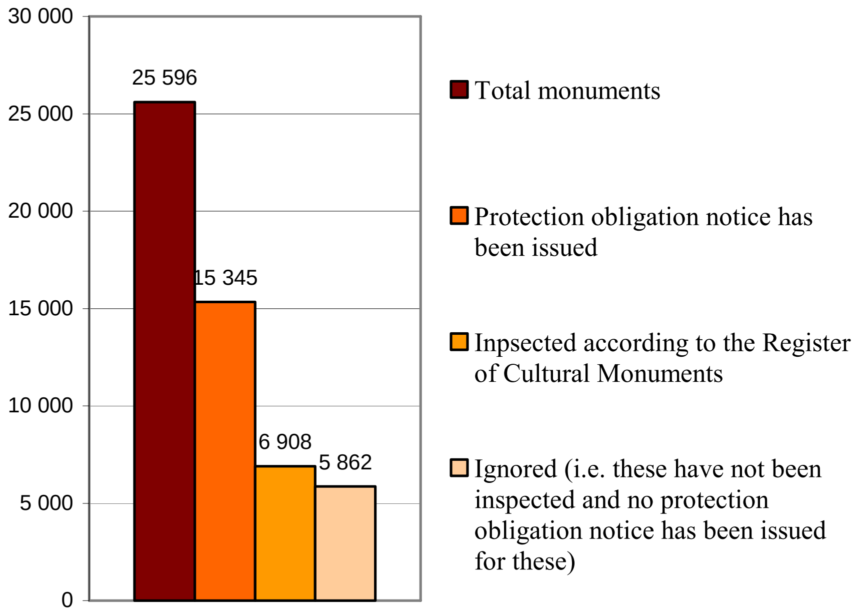
Surveys must be carried out to get an overview of preserved cultural heritage

230. Surveys are the basis for deciding on what, how and to what extent should be preserved as cultural heritage. Currently the state does not have a systematic overview of the heritage of different periods in history as surveys have only been conducted partly and the exact plan for surveys is yet to be developed.

231. Most monuments were placed under protection in the period of 1997–1999 when the lists of Soviet monuments were taken over. Then the monuments were only partly examined, compliance with the criteria for qualifying as a monument of buildings (architectural monuments and some historical monuments) was not assessed and even by today they have not been systematically examined.

232. The information collected during the audit also confirmed that many cultural monuments have not yet been addressed: protection obligation notice has not been drawn up for nearly 40 % of monuments; according to the register of cultural monuments, 6908 monuments have been inspected, i.e. 27 % of monuments; absolutely no attention has been paid to 5862 monuments, i.e. 23 % of monuments have not been inspected and for which the protection obligation notice has not been drawn up (See Figure 5).

Figure 5. Overview of preparation of protection obligation notice for and inspection of monuments



Sources: National Register of Cultural Monuments, NAO analysis

Monuments in very different condition are under protection

233. As there is no overview by topics of preserved cultural heritage, the objects of questionable or lost characteristics of a monument are kept under protection instead of terminating their national protection. There are monuments that are still regarded as monuments although it was mentioned already in entries for inspections from 2 or 3 years ago that the respective monument has more or less perished and it would be necessary to terminate protection. However, upon placing monuments under protection the National Heritage Board tries to keep their number from increasing significantly as they are experiencing difficulties regarding the administration of current monuments from their scant resources. Interviews conducted with the employees of the National Heritage Board revealed that an object has been placed under protection when it became clear that they could perish, at the same time valuable well-kept building cannot be placed under protection.

234. The NAO recommended that the National Heritage Board develop fundamental methods for placing an object under protection and terminating its protection and carry out planned surveys. The Board replied that their development plan for 2008–2011 prescribes the preparation of a conception for placing an object under protection and continuing activity towards the performance of surveys and expert analyses in order to identify heritage.

Information provided in the register of cultural monuments is incomplete

235. Account of cultural monuments is kept in the national register of cultural monuments. However, many prescribed data fields have not been filled in, this even when the National Heritage Board already has such data or county inspectors are familiar with it.

New data cannot consistently be entered in the information system

236. Failure to enter data hinders the activity of the National Heritage Board as non-entered data must be looked up by other employees (e.g. a new employee) and uncompleted data field can be interpreted in the wrong way. For instance, the information system does not have reliable information regarding the condition and inspection of a significant number of monuments. Inspection data is often entered in the register when several months have passed, or are not entered at all.

237. Availability to the public of sufficient and timely information on monuments is another significant shortcoming. All heritage restrictions have not been entered in the land cadastre which creates confusion among the owners and buyers of property.

238. The NAO recommended that the National Heritage Board enter all new information in the register of cultural monuments in a timely manner and make plans for the digitalisation of older information. The Board replied that a goal has been set in its development plan to enter the descriptive information of 50 % of monuments in the register by 2009 and all restrictions in the land cadastre by 2011.

Owners of monuments are not always aware of their obligations

239. An important task of the state upon the preservation of cultural heritage is notification of owners and the public of the existence of the monument and current requirements. Relevant measures include drawing up a protection obligation notice for owners or holders and marking of monuments. Awareness of owners is also one of the prerequisites upon the preservation and valorisation of cultural heritage.

240. 17 % of owners of architectural monuments responding to the NAO's survey are completely unaware of the fact that they own a monument. 47 % of respondents noted that they are not familiar with the obligations of a owner of a monument. The National Heritage Board has not drawn up a protection obligation notice for most of them (80 %).

National Heritage Board admitted that with current resources, it would take another 10 years to draw up protection obligation notices for all monuments and deliver them to owners

241. Owners' unawareness of the restrictions on repair and construction work accompanying the monument has caused damages for many monuments. This is also indicated by the results of the survey conducted by the NAO among the owners of architectural monuments, where nearly 38 % of owners of architectural monuments unaware of their obligations noted that they had carried out renovation work on their monuments without first consulting the National Heritage Board.

242. The NAO recommended that the National Heritage Board ensure the delivery of protection obligation notices to owners of all monuments and their protection zones in the next few years. The reply of the Board indicated that the organisation of preparation of notices shall be made more efficient and effective but based on the 2007 resources of the Board in is stated that it shall take at least another 10 years to draw up protection obligation notices for all owners of monuments.

Architectural monuments are at the greatest risk

243. Architectural monuments are subject to the greatest risk posed by violations and perishing (crumbling due to negligence, repair and construction work damaging the monument, fires). According to known data, a total of 1 156 or 26.3% of all architectural monuments are in poor or very poor condition and urgently require maintenance or renovation.

244. Heritage conservation inspectors also focus mostly on the inspection of architectural monuments that are being renovated, have changed hands or in relation to which information of violation has been received from third parties. The smallest amount of time is spent on the inspection of interiors, but the NAO's survey revealed that 67 % of owners of architectural monuments unaware of their obligations had carried out repair work on the interior. Thus it is likely that many violations shall remain unidentified.

Architectural monument in a very poor condition – main building of Kirna manor in Järva County, private property.

Photo: National Audit Office of Estonia

Monuments located on state land have been neglected

Unreformed state land – land that has not been returned, privatised, given into municipal ownership or left in state ownership.

245. Several cultural monuments located on unreformed state land, mostly buildings or structures, have perished or are in a very poor condition as local governments and state authorities do not wish to accept responsibility of and administer monuments located on unreformed state land because the ownership of a monument brings along heritage conservation obligations, the building is in a poor conditions, unfit for use and finding a function for it is complicated and would require a huge investment.

246. Pursuant to legislation on ownership reform[5] the persons on whose balance sheet the assets are recognised are responsible for the preservation of assets to be reformed as far as assets have not been returned or privatised. As it is unclear on whose balance sheet monuments located on unreformed state lands should be recognised, there

[5] E.g.§ 18 (2) to of Principles of Ownership Reform Act; § 6 of Privatisation of Dwellings Act

currently no one is responsible for the preservation of the monument. National Heritage Board does not know whom to drawn up a protection obligation notice to and whom to issue a receipt in order to force the owner or holder to comply with the duties assigned to him by the Heritage Conservation Act. Currently there is no solution for the problem of upkeep and preservation of monuments on unreformed state land.

247. The NAO recommended that the National Heritage Board identify in cooperation with other state authorities the owners-holders of assets which have value in terms of heritage protection and draw up protection obligation notices for them. National Heritage Board promised to address other state authorities in 2007 (Ministry of Finance, Ministry of Economic Affairs and Communications, etc.) so as to specify the amount and condition of objects of cultural value administered by them and inform owners of their rights and obligations.

Most monuments are not marked

248. Marking is important from the viewpoint of ensuring the preservation of monuments and informing the public of cultural heritage. Heritage Conservation Act imposes duties on the National Heritage Board to fully mark all monuments. Currently the National Heritage Board does not have an exact overview of the number of marked monuments.

249. It is known that most monuments are unmarked. According to the register of cultural monuments a total of 16 % of archaeological, historical and architectural monuments have been marked. Pursuant to an administrative agreement, in three cities the task of marking monuments has been imposed on the local government. Local governments have marked only architectural monuments. The City of Tallinn has marked approximately 130 monuments. The total number of monuments in the City of Tallinn is 767. The City of Tartu has marked 20 out of 252 architectural monuments. The City of Haapsalu has marked most of its 32 architectural monuments

Unmarked monuments cannot be found

250. The NAO's survey revealed that inspectors of National Heritage Board provide lack of time, lack of technical aid and workforce, limited number of marks as reasons for not marking monuments. They also mentioned that marking is not a priority and it is inappropriate to mark a monument in a very poor condition. A significant shortcoming of the failure to mark also became clear from inspection entries, where almost one fourth of cases the inspectors mentioned the fact that the monument could not be found during inspection as a reason for its poor condition.

251. The NAO recommended that the National Heritage Board organise the marking of all monuments and that the Minister of Culture consider the need for and possibility of marking movable monuments. The Board replied that cooperation is planned with local governments and National Defence League for the better organization of marking. The Minister of Culture promised to take into account of establishing a derogation necessary for marking movable monuments upon preparing the draft Act to amend the Heritage Conservation Act.

Bases for the allocation of support are not transparent

252. Owners of monuments have a right to apply through the National Heritage Board for support from the state budget for the maintenance of monument, including installation of security and alarm system, conservation of monument, restoration or creation of optimal preservation of conditions. Interviews conducted in the course of the audit revealed that allocation of grants from the state budget is carried out on the basis of certain priorities, although not officially approved. Priority is given to monuments whose condition is the poorest, buildings in use whose condition complicates their use, and more important monuments.

More than half the owners are unaware of the fact that they could apply for support from state for the upkeep or renovation of monument

253. Some employees of National Heritage Board noted in interviews that due to the scarceness support funds (a little over EEK 1 million per county) the Board does not widely advertise the support, but prefers to notify of the possibility of support such owners whose chances in receiving support are better according to the abovementioned priorities.

254. At the same time, in 2007 Valga County did not allocate support for any monuments in very poor condition, even though there were several such monuments in the list of applications. The Parliament did however allocate additional funds from the budget (1.32 million) to a monument – building of Riidaja manor, which is not in a very poor condition.

255. Instead of National Heritage Board the allocation of support in Valga County was decided by the Parliament, and on the basis of the Finance Committee of the Parliament the Minister of Culture approved the allocation in the budget of his area of government. Likewise, the Parliament decided in 2007 to divide, without taking into account the opinion of the National Heritage Board, the support of EEK 1.4 million meant for Pärnu County between the main building of Koonga manor, school building at Nikolai 26, Pärnu, building No. 1 of the woollen cloth factory in Sindi and inn building of Voltvet.

256. The NAO recommended that the National Heritage Board approve and disclose priorities for support and ensure that all owners would be aware of the possibility to apply for support. Allocation of support should first and foremost be based on the objective of support, irrespective of the distribution of monuments by counties.

Penalties for monument-related infringements are not always efficient

National Heritage Board does not issue a precept to the owner if the Board cannot prove that the owner is aware of the existence of the monument

257. If the Board has failed to perform its duty and has not drawn up a protection obligation notice for the owner (40 % of owners of monuments have not received the notice) or there exists no other written proof that the owner of monument has been notified of the status of monument of his assets and related rights and obligations, a precept is not issued to the owner, fines are not imposed and penalty payments applied upon infringements.

258. National Heritage Board has a right to apply penalty payment or monetary fine if the owner does not fulfil its duties to ensure the preservation of monument imposed on him by law. For failure to comply with one obligation, National Heritage Board has set the size of penalty payment at EEK 3000 to 5000. One precept may contain several obligations but the maximum limit for penalty payment is EEK 10,000.

259. Application of coercive measures has generally been efficient, with the exception of owners of monuments located in larger cities. In Tallinn, obligations established by the precept have not been met in almost half the cases and most owners have had to pay penalty payments. The most peculiar is a case in the heritage conservation area in the old town of Tallinn, where 6 precepts have been issued to the owner in 2 years, and no changes have been made. The owner has paid all penalty payments prescribed by the precept.

Penalty payment is not efficient in larger cities

260. Of the people interviewed during the audit, the heritage conservation employees of Tallinn and also of Pärnu saw a problem with the efficiency of the maximum size of penalty payment (EEK 10,000) especially compared to current real estate prices. The problem of credibility and efficiency of terms of punishment and penalty payments in the area of construction has also been mentioned by the Chancellor of Justice already in his overview of the activities of 2005.

261. According to the statement of State Treasury, only a total of EEK 97,524 of fines and penalty payments were paid in 2006. National Heritage Board does not keep separate accounts of penalty payments imposed for misdemeanours and thus it is unknown whether all imposed penalty payments and fines have been received.

262. The NAO recommended initiating a legislative amendment in order to raise the maximum limit of penalty payment. The Minister of Culture responded that he will, along with National Heritage Board, analyse the need for changing penalty payments and rates of fines and prepares a draft amendment act if necessary.

Preservation of museum items

263. The last time the NAO audited the accounting, preservation and use of museum items was in 2004. As the audit identified significant problems the NAO assessed in 2007 whether the situation had improved.

264. By the end of 2006 there were 59 state museums, including branches, in Estonia (See Table 7). Compared to 2005 this number remained the same: KUMU was opened as well as Ilon Wonderland in Haapsalu and the Knighthood building and exhibition hall in the Salt Storage were closed. The number of museums and their branches owned by foundations and public limited companies founded by state was 11; Viru-Nigula Museum of Local History was included in the administration of Museums of Virumaa Foundation.

Table 7. Main indicators of museum assets and museums in 2006

	State museums		Foundations and public limited companies with state participation	
	Total in 2006	Change compared to 2005, n (%)	Total in 2006	Change compared to 2005, n (%)
Number of museum items (preserved items), incl.	3 991 110	6 273 (0,2)	374 063	255 317 (215,0)
▪ scientifically described	3 521 835	81 069 (2,4)	265 430	201 583 (315,7)
▪ exposed	61 496	2 445 (4,1)	1 845	–801 (30,3)
Total area of museums (m²), incl.	1 084 750	–4 606 (0,4)	720 314	130 302 (22,1)
▪ area for expositions	44 211	–1 563 (3,4)	4 931	557 (12,7)
▪ area for repositories	21 245	561 (2,7)	647	7 (1,1)
Number of visitors	1 072 972	142 730 (15,3)	159 932	31 982 (25,0)
Total number of exhibitions	538	–53 (9,0)	55	18 (48,6)
Revenue of museums (EEK), incl.	247 931 000	45 570 000 (22,5)	19 442 000	5 441 000 (38,9)
▪ from state	181 292 000	24 818 000 (15,9)	7 388 000	44 000 (0,6)
▪ from local governments	944 000	151 000 (19,0)	338 000	38 000 (12,7)
▪ from donations and funds	7 481 000	–9 229 000 (55,2)	565 000	565 000
▪ from paid services, incl. ticket sales	35 176 000 18 598 000	9 945 000 (39,4) 8 435 000 (83,0)	8 344 000 3 823 000	1 987 000 (31,3) –2 520 000 (39,7)
Running costs (EEK), incl.	208 029 000	38 977 000 (23,1)	17 871 000	1 856 000 (11,6)
▪ staff costs	3 514 000	204 000 (6,2)	1 314 000	1 129 000 (610,3)
Investments (EEK)	28 628 000	4 211 000 (17,2)	3 581 000	954 000 (36,3)

265. One of the most significant cultural events in Estonia in 2006 is the opening of the new building of the Estonian Art Museum (KUMU) on 18 February. 12 years passed between the first planning and opening of KUMU.

Own revenue increased thanks to attendance

Attendance has increased

266. The year was characterized by a significant increase in the attendance of museums and revenue, greatly influenced by the opening of KUMU, but the attendance of other museums (e.g. in Museums of Virumaa Foundation) and own revenue (e.g. in Estonian Open Air Museum, Estonian History Musem, Estonian Maritime Museum) have also increased. Increase in the number of foreign tourists has significantly affected the attendance and revenue of museums.

Moment from KUMU art hall.

Photo: Toomas Huik/Postimees/ Scanpix

The number of museum items has increased

More money is allocated for replenishment of collections

267. In 2006, the collections of state museums increased by 6273 museum items (by 15 %). In addition to the annual EEK 1.9 million allocated from the state budget for the acquisition and maintenance cost of museum items, an additional EEK 1.5 million were allocated in 2006 for the collection of art.

268. Collections of foundations and public limited companies founded by state increased by 255,317 museum items, 26,502 preserved items of those formed the stamp collection acquired for the Estonian Postal Museum.

269. In 2006, 329 museum items were excluded from museum collections. The most exclusion was made by the Tartu Museum of Art (195), the majority of this number was formed by assets returned to student corporations.

Management of inventories is problematic for museums

It is not known whether all museum items have preserved as inventory cannot be taken on them

270. In the audit of museum assets completed in 2005 the NAO found that all museums had not been able to take inventories as required and thus it is not sure whether all collected museum items had been preserved. Neither had all museums managed to carry out scientific description of all museum items in the collection. By the end of 2006, scientific description had been provided for 88.2 % of collections belonging to state museums and 71 % of collections of museums with state participation.

271. Likewise, the museums have failed to comply with the requirement that inventory be taken in all collections at least once in five years. In

2006, state museums took inventory of 41,379 museum items (i.e. a little over 1 % of the total amount of museum items).

Absence of a common information system

MUIS has not been implemented

272. Museum information system MUIS, currently under development, should improve the accounting of museum items and availability of information for both employees of museums and the public, but its implementation is delayed. Initially, MUIS was planned to be tested in museums in 2005, the test version was supposed to be implemented in certain museums by the end of 2006. According to current plan, entry of data shall begin in 2007.

Absence of a common collection policy

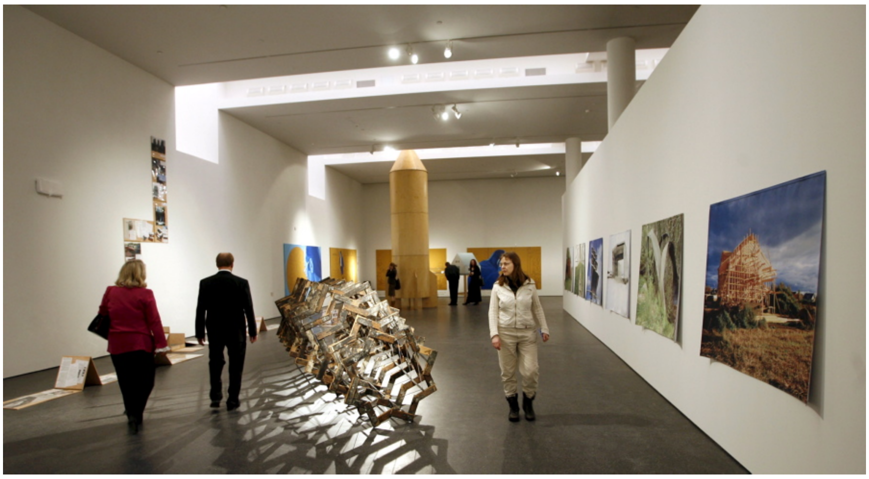
Collection policy is still being shaped

273. In 2005, the NAO stated that all Estonian museums did not possess a clear collection policy, which should cover the principles of replenishment of collections and establish the conditions and limits for acquisition of new property. Also, a common collection policy had not been developed on state level, which would ensure the coordination of the museums' collection activities. By now, many museums have developed their collection policies but there is no common collection policy, as it is not known what this policy should comprise. Instead, the Ministry plans to explain the principles of collections in the Museums Act better than before. The Ministry wishes to begin the procedure for the amendment in the next year, in 2008.

The problem with the lack of space shall not be solved in the near future

Lack of space and preservation conditions are still among the problems

274. The NAO's audit of 2005 pointed out that lack of space is a major problem for museums, both in terms of storage facilities and areas for expositions. Neither are the preservation conditions in compliance with requirements. In 2006, the total area of museums decreased but at the same time, museums have moved to more suitable conditions.



Opening exhibition of modern art "Scale shift" in KUMU.

Photo: Peeter Langovits/Postimees/Scanpix

275. According to the estimates, the completion of KUMU should solve the Estonian Art Museum's problems with storage facilities for at least the next 10 years. The area for exhibitions is 5000 m^2 in KUMU and area for preserving collections is 1700 m^2. The storage problem of other state museums located in Tallinn (e.g. the problem is especially serious in the Estonian Theatre and Music Museum) should be alleviated by the completion of the Tallinn joint storage facility in the territory of Estonian Open Air Museum. The competition for ideas for the storage facility has ended by now. A total of 6500 m^2 of storage facility shall be constructed and during the first state of construction 3800 m^2 shall be built.

276. As of 2005, the museums in Tallinn needed approximately 9500 m^2 of storage space. This need shall be satisfied with new high rooms where museum items can be stored in different levels.

277. Procurement for construction of the new complex of the Estonian National Museum (ERM) shall be announced in autumn 2009. For the time being, storage facilities for the museums of Tartu County shall not be built in Raadi, but buildings have been included in the detailed plan for that purpose. Preservation conditions of museum items in county museums have not improved significantly. Reconstruction projects for the Pärnu Museum Barn and Mahtra Museum are still on the shelf as the museums have not found resourced for the implementation of said projects. According to the information provided by the Ministry, museums themselves must find money from Structural Funds and the Ministry shall support museums in cost-sharing. There is an idea of building storage facilities in Võru and Paide but analysis has not been carried out for the identification of needs.

278. Taking into account that the number of museum items increases constantly, but the area for expositions has decreased and storage space has increased modestly, the problem with lack of space in museums has not been solved.

Rehabilitation, including medical rehabilitation for disabled persons

279. In 2006, the NAO audited the organisation of rehabilitation and medical rehabilitation for disabled persons. The audits revealed that the problems in providing rehabilitation and medical rehabilitation are more or less the same.

Rehabilitation enables faster recovery

280. Rehabilitation is aimed at restoring a disturbed function, its preservation or adjustment with disability. In other words, the aim of rehabilitation is to help the sick or traumatised patient to get back on his feet as quickly as possible, so that the patient would return to his normal way of life.

Due to the provision of rehabilitation service the society should gain more of it later as the absence of timely rehabilitation can annul the results of a previous active treatment

281. Relying on international surveys and assessments of local experts the NAO assumed that timely provision of rehabilitation service reduces the expenses of the individual and/or of the state in the future or increases the income compared to the patients who did not receive rehabilitation service. The hypothesis of the audit was partly proved. For one patient group (cardiology) it could be said that later expenses (medical treatment expenses, to be exact) were smaller for persons who had received rehabilitation service. However, it can certainly be stated that rehabilitation improves the people's quality of life (incl. coping with self).

282. The number of rehabilitation cases in 2005 and 2006 was 43,598 and 52,350, respectively. Rehabilitation expenses in the health insurance budget for these years formed EEK 65.0 million and EEK 78.5 million, respectively. Structure of rehabilitation services partially changes in April 2006.

Rehabilitation of disabled persons helps to cope better

Despite their different goals both systems partially provide same services

283. Rehabilitation service is a social service provided by a rehabilitation team with the objective to improve the independent coping, employment and social inclusion of a disabled person. The service includes a preparation of a personal rehabilitation plan for disabled persons, provision of services described in the plan and instruction of an individual to implement activities listed in the rehabilitation plan.

Did you know

The following have the right to receive rehabilitation services

- a child applying for a degree of severity of a disability or a disabled child or adult;
- persons of 16 years of age until attaining the pensionable age, provided that they have a mental disorder and their percentage of loss of capacity for work is at least 40 ;
- juvenile offender on the basis of the decision of a juvenile committee.

Source: Social Welfare Act

284. Wider provision of rehabilitation service began in 2005 when the circle of provided services increased and the funds prescribed for them in the state budget also increased significantly. In 2005 and 2006, rehabilitation service was provided to less than 8000 and less than 12,000 persons, respectively. There are over 110,000 disabled persons in Estonia. During these years, EEK 28.2 million and EEK 62.7 million were spent on rehabilitation services. In 2007, the budget for services increased to EEK 86.7 million.

Availability of services is poor

285. In its audit the NAO assessed the availability of rehabilitation service in three patient groups and came to a conclusion, relying on the data of the first months of 2004 that rehabilitation service was provided to only 19 % of persons who needed it only half of them received it in a timely manner.

Rehabilitation is also provided as a medical rehabilitation service

286. Services provided in the course of rehabilitation are mostly physiotherapeutic (exercise therapy and exercises in water). Similar services are provided to disabled persons as medical rehabilitation. The NAO found that in 2005 physiotherapeutic services formed the majority of provided rehabilitation services. One of the reasons for this can be the poor availability of rehabilitation services from the health insurance budget, which is why this service is provided to disabled persons under the name of medical rehabilitation.

Rehabilitation service is provided to only 10 % of persons who need it

287. However, rehabilitation service itself is not easily accessible either. The NAO's audit showed that in 2005, these services were only provided to 7 % of persons in the target group, in 2006 the number of persons receiving the service increased a little but barely exceeded 10 %. On the basis of its nature and establishment of goals, rehabilitation is a long process requiring consistency. Thus an individual should receive the service over many years until his condition is re-examined. The NAO found that in a situation where only one tenth of the target group receives services within one year, rehabilitation does not ensure the obtainment of its goals.

Happy pensioners in Rakvere exercising and taking care of their health.

Photo: Tairo Lutter/Virumaa Teataja/ Scanpix

Rehabilitation service is provided rather in cities than in the country

288. The availability of service is uneven due to the current location of institutions providing rehabilitation service. The NAO's analysis showed that rehabilitation service was provided mostly to persons living in big cities or in those smaller local governments where rehabilitation service was provided. As in many cases outpatient rehabilitation treatment is sensible if the patient's condition does not require him to stay in hospital 24 hours a day, there are mostly problems with the availability of outpatient service. Namely, the infrastructure does not ensure the opportunity for a person to visit rehabilitation procedures every day, when the institution providing rehabilitation service is not located near his home. The analyses also showed that due to the poor availability of outpatient rehabilitation treatment , some patients have been provided with inpatient service instead of outpatient service, thus reducing the opportunity for treatment of persons who need inpatient service because of their serious medical condition.

The number of persons in need of rehabilitation service exceeds the amount of resources

289. The main reason for the poor availability of rehabilitation service is the size of the target group and funds allocated from the state budget have been scant. Just as the rehabilitation network, the providers of rehabilitation service are also unevenly located and service provided for a certain target group may not be available everywhere. As medical rehabilitation is generally provided in cycles and as inpatient service, quite a large portion of rehabilitation funds is spent on accommodation expenses, e.g. in 2005, 13.75 % of all rehabilitation funds.

There is shortage of therapists

290. In the course of the rehabilitation audit the NAO also analysed the number of specialists in the respective field – physiotherapists and occupational therapists – and concluded that only by implementing ideal scenarios can the goals set in development plans for the number of specialists employed in said fields be met. However, these development plans have not taken into account that the medical rehabilitation sector is also in need of persons with the same qualifications.

Quality of services has not been provided

Service standards are missing

291. Service standards should form the basis for ensuring the quality of services. Preparedness to comply with said standards should be the basis when beginning operation as a rehabilitation institution and compliance with standards should be checked. Only then is it possible to ensure that all persons completing rehabilitation have received equal services in different institutions. Unfortunately, the state has still not been able to develop standards and this has lead to a situation where free tickets to swimming pools have been distributed to persons under the name of physiotherapy service.

292. Currently, requirements for ensuring the quality of service have only been established for the members of the rehabilitation team, but the audit indicated that persons outside the team have also provided services or the team does not include all necessary specialists and the Social Insurance Board has paid for said services. Thus, the NAO did not consider the Social Insurance Board's supervision over the providers of service sufficient.

293. Rehabilitation budget mostly finances physiotherapeutic services. As the concept of physiotherapy is relatively wide, enabling the provision of various services in its framework, even services the medical reasons for which are not very serious, but that are liked by patients due to their nature (so-called sanatorium services), the NAO finds that the Health Insurance Fund should pay more attention to the services provided in the framework of physiotherapeutic services.

294. Another possibility for checking and improving the quality of rehabilitation is to start using measuring scales, which on the one hand would improve the quality of services and provide an opportunity to prefer the best providers of service upon choosing partners, and on the other hand would provide the opportunity of receiving rehabilitation for those patients who most need it.

Everything done to improve the situation solves the problems only partially

Funding of provision of services has increased

295. The Ministry of Social Affairs plans to develop standards for providing services. Also, the amount of money prescribed for rehabilitation in the 2007 state budget has increased, money for the rehabilitation of children is prescribed separately. The Ministry as also planned to amend the Social Benefits for Disabled Persons Act so that disability is no longer determined for persons in the age of retirement and thus this part of the target group would be excluded from the applicants for rehabilitation service.

296. The Estonian Health Insurance Fund considers development of rehabilitation its priority. Thus, the volume of rehabilitation in the health the insurance budget has increased more than the health the insurance budget in general. Health Insurance Fund also supports the idea of improving the availability of services, but can only enter into contracts with persons who wish to provide the service. Furthermore, it is of the opinion that guaranteeing the quality for rehabilitation services is also important and if possible, shall carry out a clinical audit of the medical reasons for services in 2008.

297. In 2007 one of the objectives of the Social Insurance Board was to bring the rehabilitation service completely into conformity with the requirements of law.

There is shortage of specialists and waiting lists are still too long

298. Therefore, the Ministry of Social Affairs, Estonian Health Insurance Fund and Social Insurance Board have all considered the improvement of the availability and quality of services important. Several measures have been taken and specific activities planned. However, two relevant problems still remain:

- The network of rehabilitation service providers and shortage of specialists does not allow for a significant improvement in the availability of service. Thus the NAO recommended that the Ministry of Social Affairs take into account whether to assign the right of providing physiotherapeutic services also to family practices.
- The circle of persons eligible for the provision of rehabilitation service and objective of rehabilitation are not in compliance with each other. This has lead to a situation where the person has to spend a long time on the waiting list before receiving service and this in turn does not ensure the sustainability of rehabilitation. In order to improve the availability of rehabilitation service the NAO proposed an opportunity to restrict the circle of persons eligible for service.

III. Accounting and reporting of local governments

299. In 2006, the NAO audited 9 local governments (LG): Saare, Rakke, Vormsi, Toila and Häädemeeste Rural Municipalities and Cities of Kiviõli, Kuressaare, Paldiski and Mustvee. Similarly to the observations made in the previous year, the NAO has to note that problems identified in all nine local governments resemble the problems pointed out by the NAO in the previous year.

300. The NAO also examined the 2005 annual reports of all rural municipalities and cities, audited the planning of investments and their compliance with development plans as well as the use of administrative and government budget in 30 local governments.

Internal control system of all audited local governments is in need of significant improvements

Audit committee does not perform its duties

301. Local Government Organisation Act provides for an establishment of an audit committee of the council that shall control the activities of the local government and shall work pursuant to either a work schedule or single tasks provided to it. According to the observations of the NAO, the audit committees failed in to achieve the objective specified by the law and their role was mostly formal.

302. None of the councils of audited local governments had approved a work schedule for the audit committee. Mostly the task of audit committees has only comprised providing an assessment to the annual report. In some cases the audit committee has been somewhat more active and has carried out random inspections pursuant to the single tasks provided by the council.

Violations of law are often identified upon remuneration of officials

303. Scant inspection has lead to a situation where the NAO identified unlawful payments of wages and other benefits for Rural Municipality Government and City Government in the case of 2/3 of audited cities and rural municipalities. In several cases assignation of wages for self were also identified. Unlawfully paid wages in audited local governments amounted to EEK 1.6 million, the size of payments varied from EEK 4,000 to 800,000 depending on auditees.

304. Insufficient work of audit committees of councils is first and foremost lack of necessary competence and experience and disregard of democratic principles of governance upon establishing the committee. Furthermore, the members of local government councils and leaders of local government do not pay attention to the role of the audit committee and relevance of functions.

305. The NAO is of the opinion that local governments should consider join collection and development of control-related know-how, e.g. by establishing a support function for the county's local government association so that audit committees of councils could receive supporting counsel in their work. Audit committees could also consider the inclusion of necessary experts and specialists if possible.

Disclosure of information is not carried out in a required volume and manner

Budget information was mostly disclosed in an incomplete manner

306. Significant shortcomings were identified in all audited local governments regarding the disclosure of information that must be made available to the public pursuant to the Public Information Act and Local Government Organisation Act. Most had not disclosed information on the budget and its implementation, also information related to public procurement and officials' job descriptions. Important and substantial shortcomings were identified also upon the disclosure of document register.

307. Accessibility and transparency of the activities of the local government is one of the most important principles in ensuring democratic organisation of state. According to the NAO, local governments have significantly failed to comply with this principle.

Established procedures are not followed or the procedures are out of date

308. Pursuant to the Local Government Organisation Act the competency of the council comprises establishment of several procedures regulating the activities and operations of local government. In most local governments shortcomings were identified regarding the establishment of and compliance with said procedures. A common problem seems to be the failure to update said procedures which is why they are not in compliance with current legal and economic environment.

309. The NAO is of the opinion that absence of relevant procedures, their incompliance and failure to follow them has brought along extension of jurisdiction of the leaders of local governments, inexpedient use of public funds and lack of overview on the local government's assets.

Budgeting and execution of budget are not always in compliance with law

Budgeting level is poor

310. Draft budgets of some local governments lacked explanatory memorandums and budgets did not provide an overview of actual planned expenses. Non-transparent budget does not allow for the public to find out what the money shall be spent on, and later assess whether money was used for the planned purpose.

Failure to comply with the approved budget

311. When incurring expenses, the appropriations prescribed in the budget are not always used purposefully. There are expenses the budget has not prescribed money for or for which the appropriations of the approved budget are not enough.

312. Relevant problems were identified regarding the use of the reserve capital of the budget. The aim of said reserve capital is generally to cover unexpected and mostly one-off costs. In several cases the reserve fund had been used for increasing the remuneration fund and covering operational expenses that were not unpredictable.

Attitude towards budget regulations is formal rather than substantial

313. It is regrettable that most violations are due to the attitude of local government leaders towards established rules that are often regarded as unnecessary formality.

314. Failure to comply with legislation upon the preparation and execution of budget leads to the non-transparency of the use of money by city and rural municipality, unauthorised use of money and risk for misapplication of funds. It is extremely relevant for local government leaders to acknowledge the importance of lawful and transparent use of public funds and to take measures to ensure that.

General level of accounting and its organisation is insufficient

Knowledge and skills are insufficient

315. As a result of its audits the NAO concluded that the local government's general level of accounting is very low. The amount of shortcomings identified in accounting was unacceptably large, said shortcomings are mostly due to the insufficient use of resources of the local government upon employing and training competent accountants. Accountants are either not familiar with or do not apply in their work the requirements accompanying amendments to Acts, the accountants' skills in using accounting programs are insufficient and there is also no effective user support on the spot.

Leaders are not aware of their responsibility

316. It must also be noted that rural municipality mayors and city mayors are not aware of their responsibility for the organisation and accuracy of accounting, which is why both the entire field in question and accountants have been deprived of necessary support.

Often there is no overview of all assets

317. Biggest shortcomings were identified in the accounting of fixed assets. Fixed assets form *ca* 80–90 % of the assets of local government and thus accurate accounting of fixed assets is extremely important. Many local governments do not have an overview of their assets and their value and their reports do not accurately recognise the local government's financial status and total net gain of economic activities.

State support for cities-rural municipalities is inevitable

318. However, it is not plausible that the internal control systems and accounting of all local governments would reach good level without the support of the state. According to the NAO, the majority of local governments are in a situation where they lack sufficient economic and intellectual resources for an effective performance of all their duties and providing public services of good quality to people. The NAO recommends for the Government of Republic to consider the opportunities for providing state support to local governments, e.g. by allocating money through a specific measure or developing relevant instructions.

The quality of local governments' annual reports is poor

319. The annual report of cities and rural municipalities is one of the main sources of information. The aim of the report is to provide a topical, relevant, objective and comparable overview of the local government's financial status, economic results and cash-flow, relevant events in the financial year and estimated trends of development in the next financial year. Among other things, the annual report must give an overview of the sources for funds necessary for the activities of the local government and of how said funds have been used.

320. Annual report is drawn up by the rural municipality government/city government which submits it to the council for approval. The council must approve the annual report by 30 June of the year following the accounting year. Approved annual report along with the auditor's report must be presented to the county government and also to the Ministry of Finance if it has not been made public on the website.

None of the annual reports of local governments were in compliance with requirements

321. The NAO analysed and audited the 2005 annual reports of all local governments. The purpose of the audit was to determine whether the annual reports 2005 of cities and rural municipalities comply with legislative provisions as to data presentation and format. As a result of the audit the NAO found that none of the 2005 annual reports of local governments complied with the requirements of presentation and format.

Absence of required information

322. For instance, more than half the annual reports lacked one or several mandatory sections of report, management reports of 95 % of local governments did not include required information on the activities of local government, nearly one fifth of annual accounts lacked relevant and necessary data on the local government's financial data and status, whereas in most annual accounts at least one main report did not comply with the requirements of data presentation and format.

Auditors could have brought more attention to problems

323. Although none of the annual reports of cities and rural municipalities complied with the requirements of data presentation and format, sworn auditors have brought attention to shortcomings identified in the annual accounts of local governments only in a few cases.

Local governments are not obliged to make the report public on their website

324. In addition to relevant shortcomings in data presentation and format, the availability of annual accounts is poor are. Currently, cities and rural municipalities are not obliged to make their annual report public on their website and many have not done so.

There are many reasons for the poor quality of reports

325. According to the NAO the reasons for the poor quality of annual reports are as follows:

- Rural municipality and city are not aware of their responsibility for the preparation of the annual report and the level of local government accountants is low.
- The legislation governing the drafting of annual reports has not made sufficient provision for the characteristics of LGs. Local governments must draw up their annual report pursuant to the Accounting Act, however, requirements of the Accounting Act are directed mostly at companies and do not take into account the characteristics of a legal person governed by public law.
- The legislation concerning the drafting of annual reports has changed considerably, but the LGs are unaware of the changes or unable to implement these.
- Some auditors auditing LGs lack knowledge of the public sector, neither are they very experienced in auditing the public sector.
- Interest in LGs annual reports is minimal, which is why LGs have no incentive for drawing up a quality report. Neither are the auditors motivated to critically assess the annual accounts.

Specification of regulations and training of accountants and auditors would improve current situation

326. According to the NAO the following measures should be taken in order to improve the situation:

- Norms regulating the drafting of annual reports should be specified based on the characteristics of LG.

- Accountants' qualification must be improved. Also, the Ministry of Finance must perform its supervisory duties more systematically and comprehensively, that mostly through the development of relevant guidelines and positions and harmonisation of partly very different practices.

- The qualification of auditors auditing LGs must be improved. Likewise, the Board of Auditors must enhance supervision over the work of auditing auditors and compliance with auditing rules.

- Principles and manners for disclosure of LGs annual report must be given a lot of thought, taking into account the fact that the reports could be easily found by the public and the procedure of their disclosure would be as quick and simple as possible.

Planning of investments requires relevant improvement in order to ensure the consistent development of cities and rural municipalities

327. According to their reports, Estonian cities and rural municipalities made investments in a total of nearly EEK 4 billion in 2006, nearly EEK 1.2 billion of which was received as investment aid for specific purposes from outside local government. Additionally, there were investments that are implemented through financial schemes upon the use of which the investment is not recognised in reports.

328. Due to the increase in support allocated to Estonia during the next European Union budget period (2007–2013), the volume of investments made by LGs shall increase significantly in the near future. To ensure investment in areas where it is most needed, and to ensure that LG would not encounter financial difficulties in the future, investments must be based on the development plans allowing for their planning.

No overview of priorities and planned investments

329. In its audit "Investments of local governments" the NAO reached a conclusion that both the city and the public lack an overview of LGs priorities and planned investments.

Development plans are not mutually comparable

330. Planning of investments in cities and rural municipalities is based on development plan. However, development plans cannot be compared in terms of investment planning, as only formal not substantial requirements have been established for the by law. Furthermore, in addition to the general development plan LGs have also established several development plans for certain fields and municipal agencies, where the volume of investments planned for the field does not comply with that prescribed in the general development plan, but which is used for applying for investment aids from various sources.

331. According to the NAO, local governments should significantly improve their financial planning. Currently, it is unclear for both the state and the public whether LG is capable for implementing planned investments.

Investments are not distinguished from other expenses

332. The NAO also found that nearly half the budgets of cities and rural municipalities do not transparently distinguish investments from other expenses. Investments by objects should be listed either in the explanatory memorandum for the budget or in an annex to the budget and made public in LGs website.

333. Poor planning of investments at local level is also ensured by the non-transparency of the allocation of state investment aid. There are no common criteria for the allocation of such aid and it is not possible to get an overview of the amount of investment aid received by cities and rural municipalities.

There is no overview of the actual amount of expenses related to officials

334. In 2006, management expenses of cities and rural municipalities formed an average of 9 % of total expenses. Although the percentage of money spent on management is not the larges in the budget, the relative volume of management expenses of one LG or another is a relevant indicator when it comes to the assessment of the efficiency of management of said LG.

335. As a result of its audit “The use of administration and government budgets of cities and rural municipalities” the NAO found that there is no reliable and comparable information on the actual size of administrative and governing expenditure. Thus, it is not possible to find out how much administration and government of local governments actually costs.

Problems shall be eliminated in the near future

336. For the elimination of problems the Ministry of Finance has proposed new legislation and amendments to existing legislation. For instance, the Local Governments’ Financial Management Draft Act and Local Governments’ Insolvency Draft Act prepared by the Ministry have been submitted for approval to different parties.

IV. Other observations

337. In addition to the problems discussed above in more detail, this chapter also presents some other conclusions and observations from the audits completed in 2006-2007. Reasons for certain conclusions are provided as brief descriptions and more detailed descriptions of problems are included in audit reports. For simplification purposes, the issues to be highlighted are presented separately for each ministry.

Ministry of Education and Research

Education opportunities of children with special needs must be improved

338. The NAO investigated the educational opportunities of children with special needs in order to assess whether the created opportunities take the special needs of the children into account and allow them to manage in life later.

Children with special needs form 15 % of students

339. In the academic year 2005/2006 the number of students with special needs was 25,711, i.e. nearly 15 % of all students acquiring general education. In 2006 EEK 215 million was allocated from the state budget for state schools for children with special needs schools. In 2006 EEK 53.3 million was allocated from the state budget for teaching children with special needs in municipal and private schools.

Problems are addressed too late

340. The shortcomings identified in the course of the audit upon accounting children with special needs, dealing with children and providing them with conditions for studying referred to relevant shortcomings in administrative arrangement. The NAO found that as there is no agreement on which children to consider as children with special needs and the exact number of these children is unknown, it is not possible to plan necessary resources.

341. It also became clear that a large portion of children with special needs is not dealt with at the right time and necessary support systems are implemented too late for many children. Teaching aids for the children with special needs are also insufficient; there is a lack of required specialists and the study environment in most schools needs adjustment.

Many do not continue their studies after basic school

342. The analysis of the efficiency of teaching system created for children with special needs assessed the children's life after graduating from basic school. It was found that a third of the graduates of a special needs school or class have not continued their studies and a third of those who have continued their studies have broken off the studies. A fifth of the people having the capacity for work, who have obtained basic education at a special needs school or class, do not study or work. 42 % of the persons who could potentially work had not gone to work after acquiring basic education, neither had they continued their studies or had broken off their future studies.

343. Studying in a special needs school and a special class of an ordinary school has produced similar results in terms of the fate of the students after the basic school. In more serious cases (children with a moderate or severe mental disability) the special needs schools have achieved better results and children with standard intellect have achieved the best results in an ordinary class of an ordinary school.

344. In the general education system development plan for 2007–2013, approved by the Government of the Republic in January 2007, the Ministry of Education and Research has drawn attention to many bottlenecks pointed out by the NAO and taken into account the NAO's recommendations. Changes are planned for the counselling system of both students and teachers, the problem of teaching aids for the children with special needs is dealt with, and necessary diagnostic and methodological guidelines shall be developed. 8 schools for children with special needs have been transferred to Government Real Estate Ltd for renovation.

345. A new financing model for general education system is being prepared. In May 2007 the Ministry of Education and Research organised a round table discussion with the participation of different parties in order to discuss problems identified in the NAO's audit and the Ministry continues to work towards finding solutions. The Ministry of Education and Research and the Ministry of Social Affairs are currently drafting several legislation with the purpose of improving the counselling system of children with special needs as well as organisation of studies, health and rehabilitation.

Internal control system and organisation of accounting need strengthening

Inventories were incomplete and all fixed assets were not registered

346. Internal control system and organisation of accounting of agencies in the area of government of the Ministry of Education and Research need further strengthening. In several agencies of the area of government the internal control system does not function in a way that it would ensure preservation of assets as well as comprehensive and accurate accounting and recognition in financial reports. There were some cases where inventories were made inadequately or accounting data had not been adjusted according to inventory data; some fixed asset items were not recognised in the accounts, and some items were inadequately classified as real estate investments, etc. Shortcomings were also identified in the accounting of operating revenue, personnel expenses and management expenses.

A ship was bought even though there was no money for it in the budget

347. In 04.07.2006 the Minister of Education and Research concluded an agreement with the Naval Forces of Denmark for the purchase of a minesweeper worth EEK 6.6 million for the Estonian Maritime Academy. However, the 2006 State Budget Act had not prescribed for such transaction, neither are funds planned for it in the 2007 budget. Public procurement was not carried out for purchasing said ship. According to the NAO, the Minister of Education and Research, upon signing said agreement, assumed a commitment of EEK 6.6 million for the state, without having any money for that purpose. Failure to comply with the commitment in timely manner may bring about a fine for delay.

Failure to comply with the Public Procurement Act

348. The audit revealed that in many cases agencies in the area of government of the Ministry of Education and Research did not comply with the Public Procurement Act. In some cases, the public procurement procedures had not been applied for the purchase of products and services although their annual cost exceeded the limit specified in the Public Procurement Act. In some cases tenders were not accepted from at least three bidders and public procurement declaration was not submitted to the public procurement register.

349. To eliminate shortcomings, the NAO recommended that the Minister of Education and Research require the agencies in its area of government to comply with accounting principles and internal control system so as to ensure the preservation of fixed assets and comprehensive and accurate accounting. The NAO also recommended that the Minister find a solution for the issue of paying for the ship bought from the state of Denmark as quickly as possible in order to reduce the expenses for the state accompanying the payment of fines.

Shortcomings were identified in economic activities of Tallinn University

350. As a result of its audit "Economic activities of Tallinn University" the NAO concluded that the University's economic activities were mostly well organised. However, several observations indicated that the internal control system does not function in a sufficient manner to ensure accurate and reliable accounting and preservation of material values and expedient and lawful use of funds.

Value of fixed assets does not correspond to the actual situation

351. The University had failed to revaluate fixed assets to their just value. Expert assessment was ordered for the specification of fair value of revaluated buildings, but the cost of said buildings recognised in the University's accounting was several times less than this value. Also, there were not enough documented reasons and opinions of Management, considered as the basis for the change in cost provided in the expert assessment.

No overview of the use of assets

352. The University did not possess documented aggregated information on how many fixed assets are used by the University, how many are given to the use by of other persons (incl. equipment and appliances) and how large is the amount of empty space. In most cases, Tallinn University had not organised public tenders to find lessees.

Actually, it is possible to receive more income from rent

353. In some cases concluded rental contracts included unfavourable conditions for the University; neither had the University used the opportunity of increasing rental income on previously concluded rental contracts. In some cases the University had not submitted invoices in the manner established in contracts and thus fees receivable had not been received in time.

Failure to comply with the Public Procurement Act

354. In some cases the University had not organised public procurement, thus violating the requirements of the Public Procurement Act. In some cases the good practice of public procurement had not been followed and in the case of public procurements whose estimated procurement contract value without value added tax is smaller than limits provided in the Pubic Procurement Act, the University had not conducted negotiations with at least three bidders if possible.

Shortcomings in cash registration

355. Internal control system that should ensure accurate and reliable accounting and preservation of cash as well as recognition of all bank transactions in accounting in a timely and comprehensive manner did not always function well. For example, some structural units did not submit cash sales reports by set deadlines and did not transfer the entire amount of money received in the previous period to the University's funds.

356. In several cases, organisation of accounting of operating expenses did not comply with the Accounting Act, generally accepted accounting principles, general accounting rules and requirements of the University's own accounting policies and procedures.

357. In the draft audit report the NAO made several recommendations to the Council and Rector of the University for regulating financial management and keeping of accounts. During its meeting the Council of the University discussed the draft audit report of the NAO and adopted a decision to plan measures necessary for getting a better overview of the University's economic activities and eliminating shortcomings identified in the course of the audit. In its letter of reply the University concurred with the recommendations of the NAO.

Ministry of Justice

Good accounting quality

358. Auditing the keeping of accounts and economic transactions of the Minister of Justice the NAO reached a conclusion that relevant balances in the annual report had been properly recognised. In addition, the transactions included in the sample were effected in compliance with the relevant legislation governing such transactions.

Ministry of Defence

Level of the organisation of accounting has improved

359. As a result of auditing the accounting of the Ministry of Defence the NAO found that observed balances in the annual report were mostly accurate. In the course of the audit the NAO made several observations regarding keeping of accounts but due to the irrelevance of sums these did not have any effect on the final assessment of the report.

Management of stock is problematic

360. In addition to auditing the annual report the NAO also carried out a separate audit to assess the stock of the Ministry of Defence. Said audit identified several shortcomings in the management of Ministry of Defence's stock, incl. its storage, de-stocking and registration.

There are errors in determination of and accounting of remuneration

361. The audit on the annual report revealed that salary grades have been established in several institutions and units of the Defence Forces that are not in compliance with the State Public Servants Official Titles and Salary Scale Act. Determination of employees' salary grades is based on salary grades established for the State Chancellery, Ministry and the Office of the Chancellor of Justice[6], although it should be based on the

[6] § 10 (6) of the State Public Servants Official Titles and Salary Scale Act

salary grades established for other agencies[7]. Arising from this the salary grades established for employees in some institutions of the Defence Forces are higher than the required standard.

Violation of the Public Procurement Act and State Assets Act

362. Just like in 2005, several institutions of the Defence Forces purchased goods and services without organising a public procurement. Furthermore, they did not submit some of the public procurement declarations, or submitted them later than required. Some of the assets are inaccurately recognised or not recognised at all in the state assets register.

Errors in taking inventory

363. In 2006 significant shortcomings were identified also in the organization of inventories, incl. documentation of results, preparation of concluding documents, submission of proposals for the write-off of stocks, etc.

Ministry of the Environment

Keeping of accounts in the State Nature Conservation Centre and accounting of forest need organisation

364. As a result of auditing the keeping of accounts of the Ministry of the Environment it became clear that the organisation of accounting in the State Nature Conservation Centre was incomplete and did not ensure the provision of proper overview of the authority's financial status, economic results and cash-flow.

There were still problems with the accounting of forest

365. The audit also revealed that methods used by the State Forest Management Centre for assessing the value of state forest as a biological asset, do not allow for the determination of its fair value as its according to said methods the calculation of the fair value of state forest does not take into account the annual increment of forest.

South Estonian Collection Centre for Hazardous Waste was not established in the most favourable way

366. According to the NAO, the South Estonian Collection Centre for Hazardous Waste with the cost of EEK 23.2 million, was not established in the most favourable way for the state and under the best possible conditions as the collection centre is built on the registered immovable of another legal person and the terms and conditions of the contract of the right of superficies are not favourable for the state. The Ministry of the Environment and the Information and Technology Centre (ITC) did not consider any other options for the establishment of the collection centre for hazardous waste, e.g. building the centre on a state-owned land or finding an undertaking to build the centre.

Centre is not built on a registered immovable of the state and payment for a right of superficies is too high

367. Terms and conditions laid down in the contract of the right of superficies on the payment for a right of superficies, term for the right of superficies and benefits received upon its termination, are unfavourable for the state. For the two million kroons paid by the state as the remuneration to the owner in the period of ten years, the state could purchase a registered immovable larger than the one currently used by the collection centre for hazardous waste. Benefit received from the owner,

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[7] § 10 (8) of the State Public Servants Official Titles and Salary Scale Act

however, does not take into account the actual value of the collection centre. The Ministry of the Environment has made preparations to commercially lease the collection centre.

Organisation of environmental monitoring must be based on the need for data

Organisation of monitoring is not based on environmental problems

368. The planning of environmental monitoring is not based on environmental problems, which complicates interpreting and using the results. Furthermore, there is no long-term plan for environmental monitoring and opportunities for the more purposeful organisation of monitoring have not been used, e.g. it would be reasonable to monitor slow environmental changes at a multi-annual interval.

369. There is still no monitoring program required by the Environmental Monitoring Act. The Minister of the Environment approves the national environmental monitoring subprograms, their budgets and implementers annually on the basis of applications.

Use of the results of environmental monitoring is complicated

370. Environmental review must be available to both environmental officials and all citizens, but currently even officials employed in the respective field complain about the availability of data. Data on environmental monitoring is scattered over approximately 40 databases of different authorities. The most comprehensive information on the environmental state is provided by the Monitoring Collection, which is published by the Environment Information Centre every four years. Currently, the Centre has undertaken to develop the Environmental Register. Although national environmental monitoring has been carried out for more than a decade, databases covering long periods have not been created in most respects. It is very difficult to use the available data collected in the preceding decade, because most data is on paper or on electronic media which have become obsolete.

Ministry of Culture

Most problems in keeping of accounts concerned accounting of fixed assets

371. Auditing the keeping of accounts of the Ministry of Culture revealed that examined balances in were mostly accurately recognised in the Ministry's annual report.

There were shortcomings in the management of inventories and fixed assets had not been recognised

372. It was also established that the internal audit system does not ensure preservation of the assets in some institutions in the area of government. There were cases where the organisation of inventories did not comply with the general accounting rules of the state and requirements of the accounting policies and procedures of the Ministry's area of government, some of the fixed assets were not registered, etc. In some authorities in the Ministry's area of government the recognition of accounting og unfinished construction works was based on the purpose for the use money prescribed in the budget not on the economic substance of expenses.

Failure to comply with the Public Procurement Act

373. There were also cases where the Public Procurement Act was not complied with. Public procurement had not been organised upon the purchase of goods and services although their annual cost exceeded the limit specified in the Public Procurement Act. Failure to submit public procurement declarations to the public procurement register was also identified.

374. In order to eliminate the shortcomings, the NAO recommended the Minister of Culture to improve the internal audit system and demand adherence to the established procedures to ensure correct accounting of the assets, and order the data in the state assets register.

There were shortcomings in the economic activities of the National Opera

375. As a result of auditing the economic activities of the National Opera the NAP found that the organisation of the economic activities of the National Opera needs to be improved, as the internal control system that should ensure the lawfulness of transactions and a correct and reliable accounting of material values is not functioning adequately.

All revenue and expenditure are not recognised in the accounts

376. The National Opera used two different approaches to the recognition of contracts and agreements signed with sponsors, supporters and cooperation partners. Some of the transactions concluded under the contracts and agreements were treated as exchange of services and the sales revenue earned as a result of these transactions was recognised in the fair value of goods or services received pursuant to the generally accepted accounting principles. However, some services received under the contracts and agreements were not recorded as revenue in the fair value of the services. The NAO is of the opinion that such a practice of recognising cooperation and barter agreements in accounting may cause mistakes in financial statements. Financial statements prepared in accordance with such a practice fail to indicate the actual volume of revenues and expenses.

Failure to comply with the Public Procurement Act

377. As regards the organisation of public procurements, the Public Procurement Act was ignored on several occasions. On one occasion the procurement contract was signed on conditions that differed from the conditions set out in the invitation-to-tender documents. On one occasion the procurement was divided into parts so as to avoid organising a public procurement tendering procedure. In the case of several procurements of goods or services, negotiations were not conducted with at least three bidders, while the values of the goods and services were lower than the value threshold established with regard to public procurements and while there were many bidders.

378. The Articles of Association of the National Opera, as approved by the supervisory board of the National Opera, provide for the possibility of having holdings in companies, even though the laws only permit the National Opera to establish a foundation to support its activities.

379. The draft audit report of the NAO was discussed at the meeting of supervisory board of the National Opera approved an action plan for elimination of shortcomings suggested by the Director General. According to the response received from the National Opera, the supervisory board intends to focus on strengthening and improving the internal control system.

Ministry of Economic Affairs and Communications

The quality of accounting in the Ministry is good

Of operating expenses, investments worth EEK 21.8 million did not comply with law

380. According to the NAO, the keeping of accounts of the Ministry of Economic Affairs and Communications is good. Upon assessing the lawfulness of transactions the NAO made a comment regarding the compliance with the State Budget Act. Several road offices in the area of government of the Road Administration had not always complied with the 2006 budget when making expenses, and funds allocated for operating expenses were used for the acquisition of fixed assets and for investments of EEK 21.8 million.

Failure to comply with the Public Procurement Act

381. Road offices also failed to comply with the Public Procurement Act: procurements were divided into parts, public procurement tendering procedures were not organised, mistakes were made in the selection of a public procurement tendering procedure, offices did not submit public procurement declarations, or submitted them later than required.

382. In the audit carried out in the previous year, the NAO made several recommendations, some of which had not been implemented by the Ministry. There were still differences in the financial account of authorities in the Ministry's area of government and data entered in the state assets register.

The budget does not prescribe for all revenues

383. Just like in 2005, the budgets of the Road Administration and its sub-offices for 2006 did not recognise all of the estimated revenues from economic activities and the expenditure to be covered by these revenues. The NAO retained its opinion that proper planning of own revenue and expenses made from them must be ensured in the budgets of the Road Administration and its sub-offices, relying on estimated revenue and estimated expenses.

Ministry of Agriculture

Keeping of accounts in the Ministry's area of government was not sufficiently coordinated

Level of keeping of accounts in the Ministry's area of government is uneven

384. The audit of keeping of accounts in the Ministry of Agriculture revealed that the level of keeping of accounts of authorities in the Ministry's area of government is uneven and in need of organisation. Instruction of authorities' accountants by the Ministry is also insufficient. Common accounting policies and procedures apply in the Ministry's area of government but the authorities interpret it differently and this leads to differences in the principles for the accounting of assets, revenue and expenses, etc.

Keeping of accounts of land improvement bureaus could be centralised

385. The NAO also identified several shortcomings in the recognition of economic transactions in accounts of the regional land improvement bureaus in the area of government of the Ministry of Agriculture and in the lawfulness of transactions. As the principal activity of land improvement bureaus is similar and their balance sheet total amounts to nearly 1.3 % of the balance sheet total for the area of government, the NAO is of the opinion that the keeping of accounts of such authorities should be consolidated in order to avoid errors arising from the organisation of accounting.

Shortcomings were still identified in the ARIB's organisation of inventories

386. Agricultural Registers and Information Board (ARIB) has significantly improved its internal control systems for accounting and organisation of keeping of accounts, but shortcomings were still identified in the organisation of taking inventory. The ARIB had also recognised on its balance sheet claims of EEK 13.8 million that should have been regarded as unlikely to be covered or considered irrecoverable.

Assets are leased in an unfavourable manner and Public Procurement Act is not complied with

387. Like in previous years, the Ministry of Agriculture and its subordinate institutions permitted the use of state assets under unfavourable conditions and public procurement procedures were not applied on some occasions.

A large part of animal waste is not handled in the required manner

Animal waste is hazardous to the environment, causing groundwater pollution and spread of parasites

388. Animal waste is the main source for the spread of infectious animal diseases. Upon rendering harmless the suspect animal in an unsatisfactory manner the contamination can infect health animals and cause large-scale outbreaks of the disease. Infecting of humans is also not completely out of question. For instance, in the 1990s over a hundred people died in the United Kingdom as a result of an extensive outbreak of mad cow disease that killed millions of animals.

A large part of waste remains unhandled and surveillance is not sufficient

389. The audit revealed that in 2006, 12 % of carcases of bovine animals, 65 % of carcases of sheep and 60 % of carcases of goats were not handled in the required manner. Some of them was most likely fed to pets or disposed of in another way. The situation is especially complicated in Hiiu County where 72 % of perished bovine animals are not handled. Surveillance over compliance with requirements of animal waste handling is insufficient. Veterinary and Food Board that carries out surveillance over the compliance with requirements has failed to inspect all units of the course of handling, incl. in animal holdings and handling facilities in an equally efficient manner.

The state does not know how much animal waste is generated and what amount of it is actually handled

390. Although state databases contain necessary data on several farm animals, said data is not used to identify perished and utilised animals. Either partially of fully, the state lacks an overview of perished pigs, horses and animal food waste generated upon international transport of passengers.

The animal waste treatment facility built by the state does not solve the problem

391. Infrastructure established by the state is not developed for the purpose of handling animal waste. Although the state has spent nearly EEK 100 million on the establishment of an animal waste handling facility, it does not provide solutions for the required incineration of handling residue. Thus, the secure disposal of the facility's handling residue (meat-and-bone meal and industrial fat) is not ensured. The capacity of the animal waste handling facility owned by state has been exhausted by now and if the volume of waste should increase or the facility should break down for a longer period of time, there are no alternative options for the disposal of animal waste in the required manner.

Provision of state support does not comply with the EU rules

392. As a prerequisite for supporting animal waste handling, the European Union requires the state to possess a long-term plan for secure disposal of perished animals. The Ministry of Agriculture has allocated state aid without possessing the required plan. Preferring the animal waste handling facility Loomsete Jäätmete Käitlemise AS to producers upon allocating state aid has impeded generation of competition and stabilisation of the price of service, which is why support from the state budget is constantly increasing.

Ministry of Finance

The quality of accounting in the Ministry is good

393. As a result of the audit of the accounting of the Ministry of Finance the NAO concluded that audited transaction classes have generally been recognised well in the annual report. The economic transactions have been effected in accordance with the State Budget Act and the 2006 State Budget Act and Supplementary Budget Act. However, the NAO observed that the Ministry and Tax and Customs Board have failed to organise public procurement upon purchasing travel services.

Part of the interest claims amounting to EEK 1 billion must be written off

394. Additionally, shortcomings were identified in the register of taxable persons, which in turn affect the accuracy of accounting information. For instance, the NAO found that due to technical shortcomings of the register of taxable persons the balance sheet of the Ministry of Finance has recognised interest claims of EEK 1 billion which have been regarded as unlikely and are partially expired pursuant to the Taxation Act, but that have not been excluded from the balance sheet. The exact size of the error cannot be determined as it is not allowed by the register of taxable persons. Although it does not affect the annual declaration of the Ministry, it implies a need for supplementing the register of taxable persons. The NAO also found that the accounting principles of tax claims and other claims need harmonisation.

Ministry of the Interior

There are still shortcomings in accounting

Revaluation of fixed assets is partially not carried out

395. The audit of the accounting of the Ministry of the Interior identified that as of 31.12.2006 the revaluation of fixed assets had been only partially organised. Some fixed assets have not been revaluated in the agencies administered by the Rescue Board and in county governments and their subordinate agencies. At the beginning of the preceding year, the Rescue Board administered 15 rescue services, which in 2006 were merged into 4 rescue centres, but revaluation had been omitted in 9 services.

There were shortcomings in the inventories of fixed assets

396. In some agencies governed by the Ministry of the Interior, the said general rules and the Ministry's relevant guidelines were ignored in fixed asset inventory checks. In addition, fixed asset improvements have been expensed, instead of adding to the building's acquisition cost.

Failure to comply with the Public Procurement Act

397. The Public Procurement Act was violated. For example, in December 2006, the Rescue Board acquired 24 floating pumps from Tamrex Ohutus Plc in two consignments with a total cost of EEK 589,056 (including

VAT) without invitation to tender. In addition, many agencies in the government area have repeatedly ignored § 2 of the Public Procurement Act, which requires the contracting authority to submit a contract award notice to the national register of public procurement within 10 from the entry into the procurement contract, if the value of the procurement contract net of value added tax is EEK 100,000 or more upon purchasing of goods or contracting for services.

Buildings belonging to county governments have not been recognised at their accurate value and a large part of them are not necessary for the principal activity of county governments

398. Pursuant to the general accounting rules of the state, state authorities had to revalue their fixed assets by 31 December 2005 at the latest. According to the state assets register, the total acquisition cost of county buildings is EEK 715 million as of 7 September 2006.

2/3 of buildings have not been revaluated and a wrong method has been used for 1/4 of revaluated buildings

399. The audit revealed that 32 % of county buildings had been revaluated as of 7 September 2006 and mistakes had been made during revaluation. A wrong evaluation method has been used in the case of about 27 % of revaluated assets. Inappropriate revaluation methods do not allow for the determining of the fair value of buildings and thus do not ensure accurate and reliable financial information. In revaluating buildings using a mass evaluation method, mistakes have been made in 23 % of cases. Therefore, the book value of the buildings in the sample is EEK 7.45 million smaller than their fair value.

Half the buildings not revaluated are recognised at a value less than EEK 10,000

400. The National Audit Office is of the opinion that about 40 % of the county buildings not yet revaluated meet the preconditions for compulsory revaluation. Half of the buildings not revaluated are entered in the books at a value less than EEK 10,000 which the National Audit Office considers to be significantly different from their fair value. In most cases the buildings were not revaluated because these were recognised off balance sheet, there were no reliable data, a wrong evaluation method was used or the evaluation method was used incorrectly.

A third of buildings are recognised on the wrong line in the report

401. In addition to the fact that county buildings were entered in the books at a lower value than their actual value, 32 % of county buildings were entered in wrong accounts, e.g. on the structures account, or recognised off balance sheet. Incorrect recognition distorts the accounting information on the composition and value of fixed assets and may cause mistakes in further revaluation of fixed assets as well as in calculating their depreciation.

20 % of buildings have been rented out and 20 % remain unused

402. About 40 % of county buildings are not used in the principal activity or for public purposes. More than a half of these buildings have been rented out (in many cases for lower rates than the market prices) but the rest of these remain unused. The buildings used for the principal activity of county governments and institutions in their area of government or for any other public purpose and the utilities of such buildings are in a condition which ensures their preservation and long-term use. Preservation of the principal structures of the buildings which are not in use is not ensured and the poor state of the utilities in the buildings increases their maintenance costs.

Received rent is insufficient

403. The NAO is of the opinion that the buildings and residential premises rented out by county governments do not meet the criteria of profit-making. The audit revealed that the rents for such buildings and premises were on average 77 % lower than the market prices.

Ministry of Social Affairs

There were shortcomings in the accounting of assets and use of funds

404. The audit of the accounting of the Ministry of Social Affairs revealed that functioning of the internal control system of the Ministry of Social Affairs is not sufficient in order to ensure the preservation of assets governed by the Ministry and a comprehensive and accurate accounting and recognition in financial reports.

Accounting of fixed assets was problematic

405. Some of immovable property had not been recognised in its fair value and some were not classified as real estate investments, and fixed assets unfit for use were recognised as fixed assets. However, due to misleading information on fixed assets timely planning of the assessment for the need for acquisition of new assets is impossible, just as an assessment on the necessity for the authority of acquired assets.

Inventories were incomplete

406. There were cases where inventories had been organised in an incomplete manner or accounting information had not been brought into conformity with the data of inventories. Shortcomings in the organization of inventories, however, question their reliability and thus it is not certain whether all assets have been preserved, whether they are fit for use and necessary.

407. The audit revealed that some assets subject to registration in the state assets register had not been registered; some written-off or transferred assets were not deleted from the register. Thus, it was not possible to get reliable information from the state assets register and the efficient use and monitoring of preservation of the state assets was not ensured.

Budget was not always used expediently

408. It was identified in the course of the audit that funds from the state budget were not used expediently and economically in several cases. Unjustified advanced payments were made; several expenses were made on the account of money allocated for other expenses. In some cases the medicines had been purchased in huge batches which led to the expiration of medicines prior to their issuance to patients, or there is a risk of medicines expiring before they are used and they must be written off.

Failure to comply with the Public Procurement Act

409. The Ministry of Social Affairs and authorities in its area of government had not always complied with the Public Procurement Act. Goods were purchased without organising a public procurement, declarations to the public procurement register were submitted later than required or not submitted at all.

410. For the elimination of shortcomings the NAO recommended that the Minister of Social Affairs require the Ministry's officials and authorities in its area of government to comply with established accounting principles and procedures in order to ensure the preservation of fixed assets and comprehensive and accurate accounting and organise the data in the state assets register. The NAO also recommended organising training periods for the leaders of authorities in its area of government

and other employees which would focus on the need to appoint persons materially responsible for the preservation of state assets and required inventory of assets.

Safe working environment must be further ensured

411. The NAO audited the activities of the Ministry of Social Affairs and the Labour Inspectorate in ensuring a safe work environment in order to ascertain whether the state has done everything necessary to improve the work environment and avoid work accidents.

The exact number of accidents at work is not known

412. The audit revealed that although the number of accidents at work in Estonia is smaller than in the old EU Member States, the number of fatal accidents at work is twice the respective average in the old EU Member States. This indicates that all accidents at work are not registered in Estonia and thus the state does not have an overview of the exact number of accidents at work.

Lack of insurance against accident at work and occupational disease insurance

413. The state has not developed a common strategy for making the working environment safe and in the period for over ten years the state has failed to implement insurance against accident at work and occupational disease insurance which would motivate the parties of labour market to make the working environment safer and on the other hand, motivate people to register accidents at work and cases of occupational diseases.

Information activities have been insufficient

414. The NAO also found that the state has not paid enough attention on notification and explanation activities, focusing mainly on surveillance over working environment as part of prevention activities. At the same time information necessary for the performance of surveillance is incomplete and there are basically no statistics of accidents at work and (occupational) diseases and thorough analysis of the results of surveillance, both of which would form a basis for surveillance activities.

Compliance with precepts is not checked

415. Upon auditing the Labour Inspectorate it became clear that compliance with the precepts made during surveillance is often not checked. Information from employers that precepts have been followed is often considered enough, although the reality may be that the working environment has not been made safer. As compliance is only checked on site in the case of a small number of precepts, the sanctions for failure to comply with a precept are applied rarely.

416. As a result of the audit the NAO made a recommendation to the Minister of Social Affairs to devise, in cooperation with social partners, a work environment policy and initiate the implementation of insurance against accident at work and occupational disease insurance.

Supervision over health care providers does not have a clear purpose

417. All people in Estonia have some sort of contact with healthcare providers and health services. The total amount estimated to pass through the Estonian healthcare sector in 2007 is over EEK 12.4 billion.

418. The NAO audited the activities of the Health Care Board, the Estonian Health Insurance Fund and county governors regarding supervision over health care providers. The purpose of the audit was to assess whether the existing supervision system provides adequate feedback on whether health care providers and health services meet the applicable requirements, whether health insurance funds are used purposefully and whether supervision supports quality development in the health care system.

Supervision does not focus on relevant problems

419. The risk assessment on which the supervision is based is currently inadequate. The areas over which supervision is performed are chosen quite randomly and it is not clear what the inspection results should be. On the basis of the lack of risk assessments, analysis of supervision and inspection reports and assessment of service providers, it may be concluded that supervision activities do not focus on the areas with some of the most important problems that influence the quality of health services and the (mis)use of finances the most.

420. A large part of supervision focuses on the formal aspect of health services. Therefore the nature of supervision mostly comprises reaction to problems, and is not proactive. For service providers, supervision with no purpose means additional work. As the most important areas that need improving in health care supervision do not involve just one supervisory institution, it is important that the Ministry of Social Affairs acknowledge and fulfil its role in the management of national supervision system better.

Formal requirements are assessed, not the result

421. Currently, supervision does not assess the substantial quality of healthcare. Too much focus is on inspection of inputs (whether infrastructure and personnel meet requirements) and the output (result) is assessed very little. The overall trend in the world is for supervision to focus more on output. The service providers interviewed also thought that the part of supervision which assesses the content and output of the services is the best.

Different performers of supervision assess compliance with the same requirements

422. The work of the supervision institutions is not coordinated. This has resulted in a situation where the Health Care Board, the Estonian Health Insurance Fund and the county governor may inspect one family practitioner three times regarding the same aspect. There is no cooperation regarding planning supervision or exchange of the results. However, all parties agree that better cooperation is required. About one third of the family practitioners interviewed were of the opinion that supervision, mostly by the Estonian Health Insurance Fund and the county governor, is overlapping.

Requirements for the activity licence are not always complied with during the provision of services

423. In issuing the right to provide heath services (activity licence), the Health Care Board does not check adequately whether the health care provider starts its activities within the required time period or whether the health care personnel specified in the application for the activity licence starts work at all. The analysis of the NAO showed that some of the 252 health care providers who received an activity licence in 2005 did not necessarily start their activities and at least 8 % of the health care professionals mentioned in the applications for an activity licence did not start work for that particular service provider. In the light of the increasing shortage of health care personnel this may mean that several service providers who have received an activity licence are not able to provide quality services to their patients.

424. Furthermore, the register of health care professionals kept by the Health Care Board is unreliable because many health care providers may not provide correct and up-to-date data on the work of health care professionals.

Ministry of Foreign Affairs

The quality of accounting in the Ministry is good

425. The audit of the Ministry's accounts indicated that, in the material part, the examined transaction classes were recognised correctly in the annual report. The economic transactions have been effected in accordance with the State Budget Act and the 2006 State Budget Act and Supplementary Budget Act.

Organisation of public procurement has improved

426. Last year the NAO made several observations regarding the organisation of public procurement. Although smaller shortcomings were identified, the NAO is of the opinion that organisation of public procurement in the Ministry has improved in comparison to last year: amendments have been made to Ministry's internal procedures and the number of shortcomings has decreased. However, the NAO identified that the Ministry had failed to organise public procurement upon purchasing travel services.

Organisation of inventories needs improving

427. Functioning of the internal controls system must be improved in terms of organising inventories and recognising accounting on of inventories. Terms and conditions of concluded rental contracts must also be reviewed and their recognition in accounting adjusted, if necessary.

State Chancellery

The quality of accounting in the Chancellery is good

428. The audit of the Chancellery's accounts indicated that, in the material part, the examined transaction classes were recognised correctly in the annual report.

There were nonconformities with the State Budget Act

429. However, in some cases the economic transactions had not been in compliance with the State Budget Act. For instance, State Chancellery and National Archives had concluded contracts with long-term commitments, and that is in conflict with the State Budget Act. Also, investment expenses had been made from economic expenses. In addition to everything else, the NAO identified that State Chancellery had failed to organise public procurement upon purchasing mobile communications and travel services.

430. The Ministry of Finance has started preparing for the amendment of the State Budget Act, which should specify the principles and requirements for taking long-term commitments.

431. Accounting needs improving and functioning of internal control system enhancing in terms of recognising both intangible and tangible fixed assets and organising inventories.

V. Observations and recommendations of the previous year

432. The NAO presents to the Parliament not only the annual list of problems, but also makes recommendations to improve the situation. Even though these are only recommendations, the Government has discussed them in the previous years, has described its position and given promises.

433. Unfortunately it must be state again that of recommendations made in the past few years only a few have been fully implemented. The following overview is compiled on the basis of the recommendations made in the NAO's reports in the previous years, which the government has accepted and undertaken to implement, but are still pending. The NAO finds that all the recommendations pointed out are still valid.

The government still lacks a clear real estate policy

434. In order to benefit more from investments in buildings and prevent future losses from unused real estate, the NAO recommended that the government develop a real estate policy of the state, incl. determine the rights and obligations of different parties (the ministries, the Ministry of Finance, and Government Real Estate Ltd – "GRE") in its implementation.

In three years the Ministry of Finance has not managed to develop a new State Assets Act

435. The government assigned to the Minister of Finance the task of supplementing the principles of the real estate policy and the rights and obligations of the Ministry of Finance in the Government of the Republic Act. In addition, the government had already (on 7 October 2004) assigned to the Minister of Finance the task of drafting the new State Assets Act by 31 December 2006 and an action plan for the management of buildings by 12 November 2004. As the Ministry failed to meet these deadlines the Minister of Finance was assigned the task of bringing the topic of real estate policy up in a Cabinet meeting in 1 February 2007. The Ministry of Finance submitted the "State real property development strategy" for the Government only in September 2007 and it was approved by the Cabinet of Ministers in 27.09.2007. The new State Assets Act should be developed on the basis of this strategy.

Buildings are still empty and crumbling

436. All this means that the situation of buildings owned by state is exactly the same: unfavourable rental contracts, buildings and structures that remain unused and are crumbling, there are no requirements for the size and terms and conditions for working premises, etc. Transfer activities have become more common as the Ministries have been granted an opportunity to spend some of the received revenue just as they please, but all Ministries have still not drawn up the list of buildings necessary for principal activity as well as the plan of action for them. The role and further status of Government Real Estate Ltd is also obscure.

State assets register causes problems

437. Almost every year the NAO has drawn attention to problems related to the state assets register. The main problem is the inaccuracy of data and lack of a related comprehensive overview. Neither does the public register provide an overview of conducted transactions nor is it possible to match the land and buildings related to a certain real estate item on the basis of the register.

438. To simplify accounting and improve control over state assets, the NAO recommended that the state assets register be brought up to date with the actual situation and that the public authorities be required to enter all buildings, facilities and land (registered as cadastral units) in the land register within a couple of years. The buildings and facilities should be also entered in the register of construction works. The government undertook to organise the state assets register by the end of 2005 and to include in the new State Assets Act the deadlines for entering data in the land register and the register of construction works. As there is no new Act, this has not yet been carried out and in its audits the NAO still found shortcomings regarding the data of state assets register.

439. The initiative of the Ministry of Finance to close down the state assets register also created some confusion. In 2003, the Ministry approved the closing of state assets register with the administrators of assets but the register was not actually closed.

No recommendations have been made regarding amendments to the State Budget Act

440. In the past three years, the NAO has recommended to specify § 29 (3) of the State Budget Act which prohibits the public authorities from taking loans, using a financial lease and assuming other such liabilities. Pursuant to § 31 of the same Act the assumption of liabilities seems to be permitted in a certain extent.

The Ministry of Finance did not submit recommendations by set deadline

441. In the meeting of the State Budget Control Committee of the Parliament in 23.10.2006 the Minister of Finance promised to representatives of all factions that the Ministry of Finance shall communicate the respective amendments along with other proposals concerning the State Budget Act to the Government of the Republic by 30.06.2007. This has still not been done.

442. In addition to specifications mentioned above, the State Budget Act needs other amendments. The NAO has made a recommendation to replace the current deadline for the annual reports of the state with an earlier deadline. The NAO has also drawn attention to the fact that it is hard to find a connection between the budget and the report on its implementation (consolidated annual report of the state). The NAO wishes to connect management reporting and reporting on the implementation of the budget and give them an equal position with the budget planning documents.

443. According to the Minister of Finance the state's financial management development conception is being drawn up in cooperation with other Ministries that shall focus on the need of a comprehensive approach to financial management, budgeting directed at results, appointing responsibility for the use of state budget funds, systematic ensuring of the financial interests of state. Draft State Assets Act was supposed to be submitted to the Government of the Republic in the third quarter of 2007 but this was not done. The Ministry of Finance suggests the first half-year of 2008 as the new deadline.

Problems with local governments' financial management and insolvency have not been eliminated

444. The NAO has often mentioned problems regarding the liabilities assumed by local governments that will later be taken over by the state. To eliminate the problems the Minister of Finance promised to draw up draft acts addressing financial management and insolvency and submit said draft acts to the Government by 1 October.

Draft act was submitted for approval in August 2007

445. On 23 October 2006 the Minister, appearing before the State Budget Control Committee of the Parliament, admitted that the Ministry is still dealing with the draft acts and promised to submit the act(s) to the Government of the Republic for approval in February 2007. State Budget Control Committee of the Parliament expressed a wish to the Minister that said Act should be adopted before the elections in March 2007. Draft act was submitted for approval in August 2007.

Internal auditors certification system and system for assessing the quality of their work is delayed

Qualification requirements for internal auditors should be developed by the end if year

446. The NAO has recommended to pay more attention to the quality of the work of internal auditors and to consider certification of their skills. The Minister of Finance promised to develop said quality criteria by 30 April 2005. This did not happen. In May 2006, the Cabinet of Ministers discussed the concept of internal audit development submitted by the Ministry of Finance. As a result of the discussion the Ministry of Finance made a promise to the NAO to develop the professional qualification system for internal auditors by the end of 2007.

Land reform is not completed

State's land reserve has not been determined

447. The NAO recommended completing the prolonged land reform, to determine the extent of the state land reserve in the process and, thereafter, decide whether the remaining land should be sold or transferred to municipal ownership. The government assigned to the Minister of the Environment the task of drafting the legislation for the completion of the land reform and submitting to the government the results of determination of the land reserve. By now, the deadline for the completion of land reform has not been set and a plan of action developed for that purpose.

448. The Ministry of the Environment has promised to determine the principles for the establishment of land reserve by September 2007 at the latest and the need of state for land reserve by the second quarter of 2008. To ensure the completion of the land reform, the Ministry plans to submit a draft act for amending the Land Reform Act to the Government of the Republic by the end of 2010.

Problems with administration of companies have not been solved

449. To improve the management of companies with state participation the NAO has often suggested that the purposes for the participation and dividend expectations of the state should be determined regarding all companies with state participation, and consider using debt finance instead of equity funding upon financing.

Purposes for participating in companies have not been determined

450. The government decided that state participation in a company is justified only if this yields significant financial revenue for the state, the company is a natural monopoly, or the company performs public functions. The government assigned to the ministries the task of establishing the objectives of participation in the companies by 31 May 2006 and determining the optimal share of equity and external capital in the year 2009. The Minister of Finance was required to include in the new State Assets Act a provision on the principles and procedures of determining the objectives of state participation.

451. However, the Ministries did not comply with the decision of the Government, or complied only partially. Thus the Government was forced to repeat its decision in 2006, establishing the spring of 2007 as a new deadline for Ministries. Although certain steps have been taken towards the compliance with the Government's decision, problems are still identified in some Ministries.