Grants of the Ministry of Culture, the Cultural Endowment of Estonia and the Gambling Tax Council to concert and performance activities

Is the distribution of grants from the state budget through three sources justified and efficient and does control guarantee that the money is used lawfully and expediently?

Report of the National Audit Office to the Riigikogu; Tallinn, 28 January 2010

Summary of audit results

The National Audit Office audited how the Ministry of Culture, the Cultural Endowment of Estonia and the Gambling Tax Council support concert and performance activities through project grants and activity support. The goal of the audit was to assess whether the system for distribution of allocations is easy to monitor and clear, and whether or not the state has guaranteed control of the expedient and lawful use of the allocations.

In comparison to other ministries, the **Ministry of Culture** is one of the biggest distributors of allocations from the state budget. 1.8 billion kroons in allocations was distributed in 2008 and almost one-third of it was used to support performance and concert activities. In 2008 the area of theatre received 227.7 million kroons and music 217.4 million kroons (49% or 105.8 million kroons of this was support for the Estonian National Opera). Another 13.8 million kroons was distributed to the areas of music and theatre as project grants.

The support distributed through the music and performing arts endowment of the **Cultural Endowment of Estonia** in 2008 totalled 49 million kroons. 26 million kroons of this was distributed through the music endowment and 23 million kroons through the performing arts endowment. 2230 applications in total were submitted to the two endowments and 1429 of them were satisfied.

The support granted to cultural projects through the **Gambling Tax Council** in 2008 amounted to approximately 7.4 million kroons, incl. 1.5 million kroons to projects associated with performance and concern activities. 75 theatres and concert organisations were supported in total.

However, the system for allocation of support is not transparent and gives no overview of where the money is actually spent. The internal control systems applied do not guarantee that the state's money is used lawfully and expediently. Financing of concern and performance activities is fragmented and there are no valid reasons for maintaining three separate systems. The National Audit Office is of the opinion that the current arrangement is neither economical nor efficient.

Main observations

- The goals of funding that have been set are very generic, which makes the assessment of the results of different allocations difficult. It is therefore even more important to establish procedural rules that guarantee that the allocation of support is lawful and transparent and that such rules are observed. However, the National Audit Office found that there are several important omissions in the manner that allocation of support for performing arts and music is organised.

- The Ministry of Culture does not observe the Performing Arts Institutions Act when allocating support for theatres and concern organisations. The vases stipulated by law are not observed in funding, and the procedural requirements are also not observed when concert activities are supported. The law stipulates that funding is based on the number of productions/concert programmes and visitors, but actual support is allocated on the basis of labour and administration expenses.

- The persons who decide on the allocations and at the same time check how the money is used are predominantly the same in all three sources. Conflicts of interest in decision-making can be seen in many cases.

- The programmes of the Ministry of Culture, the Cultural Endowment of Estonia and to a smaller extent also the support granted by the Gambling Tax Council are partially used as additional financing for national performing arts institutions. A system like this makes it impossible to see how is actually spent on maintaining the performing arts institutions that are financed from the state budget. Private performing arts institutions and creative persons in the areas of music and performing arts compete with state-financed performing arts institutions in unequal conditions in a situation where most of the decision-makers as representatives of the state must make sure that national performing arts institutions are doing well. This arrangement is in contravention to the goals of the cultural policy, which stipulate that the continuity and stability of cultural activities as well as their ability to be innovative and varied should all be guaranteed at the same time.

- Equal treatment of the persons applying for money is not guaranteed when decisions are made. The lawfulness and expediency of the decisions cannot be assessed as the bases and justifications of the decisions are not documented. The Ministry of Culture allocates grants also to those applicants whose applications are incomplete or who have not submitted reports.

- The internal control system of the Ministry of Culture and the Gambling Tax Council does not manage the risks arising from the allocation process. The principle of separation of obligations is not observed and systematic control is not performed. The expediency of the use of money is not assessed or even cannot be assessed on the basis of reports on the use of money.

- The system for distributing the funds through three sources is not justified, because their goals, target groups, supported activities and decision-makers are overlapping. This causes fragmentation and unnecessary duplication.

Main recommendations

- The **Minister of Culture** should make the allocation of activity support for performing arts institutions comply with the Performing Arts Institutions Act: support should be allocated on the bases stipulated by law, applications with the required annexes should be demanded when support is applied for concern organisations and the required committee should be formed for decision-making. If organisation of activities on the basis of the effective act is impossible, then a draft amendment act of the relevant act should be prepared for approval by the Government of the Republic and submission to the Riigikogu, which would create the basis for funding performing arts institutions that is suitable and lawful.

- The **Minister of Culture** should prepare the Draft Performing Arts Institutions Act Amendment Act for approval by the Government of the Republic and submission to the Riigikogu, which would specify the bases used to select the theatres and concert organisations that receive support from the state budget.

- The **Minister of Culture** should guarantee that the terms and conditions of support programmes are adhered to when money is distributed, reports on the use of support are demanded and competently checked, and money that has not been used expediently is reclaimed and new support is not granted to institutions that have failed to submit reports. The functions of allocation and control (approval of reports) of grants must be separated.

- The **Gambling Tax Council** should proceed from the declared priorities when granting support. Otherwise, the public is given incorrect information and the applicants are misled. If the priorities that have been set are not sufficient or relevant, then the public should also be informed of the actual bases on which decisions are made.

- The **Minister of Finance and the Council of the Cultural Endowment of Estonia** should prepare the amendments to the Cultural Endowment of Estonia Act for approval by the Government of the Republic and submission to the Riigikogu, which would specify the bases on which the supervisory boards of the endowments are formed.

- The **Minister of Finance, the Council of the Cultural Endowment of Estonia and the Gambling Tax Council** should update their procedures of taking minutes of their decisions in such a manner that the motives of the decisions are also recorded in addition to the voting results in order to guarantee that the Administrative Procedure Act is adhered to, their decisions are transparent and can be checked, and that all applicants are treated equally.

- The **Minister of Finance, the Council of the Cultural Endowment of Estonia and the Gambling Tax Council** should amend the reporting procedure in such a manner that the costs of entire projects can be checked either by submission of cost documents and/or (on the basis of contracts) in the applicant’s accounting records.

- The **Minister of Culture and the Minister of Finance** should prepare amendment acts for approval by the Government of the Republic and submission to the Riigikogu, which would help to achieve the following goals:

    - to merge the support allocated to the areas of performing arts and music through the Gambling Tax Council with the grants distributed by the Cultural Endowment of Estonia. The money distributed by the Gambling Tax Council to fine arts is meant for the same purposes as the cultural endowment and merging them would help to save on the costs of distributing the grants. The administration and control of the distribution of grants would improve and the administrative burden of the Ministry of Culture would decrease;

- to separate supporting of national performing arts institutions and private performing arts institutions clearly. The purpose of this is to guarantee that funding is transparent, all applicants are treated equally, the goals of the cultural policy are met and any conflicts of interest are avoided. The following possibilities should be considered for this:

    - allocating activity support and project grants to national performing arts institutions could be placed in the competency of the Ministry of Culture and the Cultural Endowment of Estonia could be made responsible for supporting private performing arts institutions;

      or

    - the measures used to support national performing arts institutions should be clearly separated from the programmes and funds aimed at supporting private performing arts institutions in the Ministry of Culture.

Response of the Minister of Culture: The Minister did not agree with the opinion of the National Audit Office that there are conflicts of interest in the distribution of funds and checking their use and that the system is not balanced. The Minister does not think that changing the system of distributing funds and checking their use is necessary. The Minister did find that some of the recommendations made by the National Audit Office were relevant and promised to implement them as soon as possible.

Response of the Ministry of Finance: The Minister of Finance agreed with the comments and recommendations made by the National Audit Office and expressed his readiness to help resolve the problems.

Response of the Chairman of the Council of the Cultural Endowment of Estonia: The Cultural Endowment of Estonia has already started to carry out some of the recommendations made by the National Audit Office or promised to deal with them in the nearest future. The Chairman of the Council did not think it was necessary to amend the procedure pursuant to which membership candidates are presented to endowments.

Response of the Chairman of the Gambling Tax Council: The Gambling Tax Council promised to implement most of the recommendations, but found that approved priorities are not the only basis on which support is granted.

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