Overview of implementation of the most significant recommendations made in local government audits

Have the recommendations made in local government audits been complied with?

Summary of overview results

What did we investigate?

In the course of preparing this overview, we checked the most significant recommendations made by the National Audit Office to local authorities and the state during the local government audits carried out from 2006-2015, and identified the problems highlighted in the audits that have been solved or that still need to be solved. The overview also contains a summary of the audited local authorities, fields and observations made.

There were 226 local authorities in Estonia in 2006, but as a result of voluntary mergers, their number has decreased to 213 by the start of 2016. Approximately 80% of local authorities have fewer than 5000 residents. 46 municipalities and towns have fewer than 1000 residents.

Why is this important to taxpayers?

The amendment to the National Audit Office Act that gave the National Audit Office the competence to audit the use of local government assets entered into force on 1 January 2006. This gives the taxpayer an overview of the regularity of the use of all public funds in local authorities via external audits.

Local government is closest level of public authority to people. People want the services provided by local authorities to be accessible and good, and that taxpayers' money is used for this purpose honestly and transparently.

What did we find and conclude on the basis of the audit?

The Local Government Audit Department of the National Audit Office has completed 64 audits and other works over a period of ten years. The audits have covered all of the main areas of activity of local authorities.
In the course of the audits, the auditors visited the majority (*ca* 86%) of local authorities and in many works the National Audit Office analysed information about all local authorities. Two-thirds of the most important recommendations made by the National Audit Office about the development of local authorities have been fully or partly complied with, and one-third have not.

The main observations and conclusions made by the National Audit Office are as follows:

- The audits of the accounting, regularity of transactions and information disclosure of local authorities have indicated that a large number of local authorities have not acknowledged the necessity of implementing internal control procedures. Local authorities have not established the kind of work organisation that would prevent misuse of taxpayers' money and give them the reassurance that the decisions about the use of money are made honestly and transparently. The quality of accounting in local authorities is often poor and their annual reports do not give local government leaders the kind of information that would benefit them in making management decisions. The activity of external auditors helps local authorities, but they must be able to identify the mistakes in their activities and prevent risks by themselves.

- Smaller local authorities are unable to provide many of the services (social and education services, local roads) and perform the other functions (spatial planning, financial management, public procurement) assigned to them at the required level of quality. The reason of this inadequate capability of local authorities is the fact that one person often has to cope with tasks in several different fields. Hiring a specialist for every field would not be sensible in many local authorities, as they are too small to offer a sufficient workload to even one person.

- Such selective performance of functions does not characterise smaller local authorities alone. The audits carried out by the National Audit Office indicate that the largest and wealthiest towns and municipalities in Estonia also systematically fail to perform some functions. Primarily, this concerns the accessibility of nursery school places, quality of local roads and the obligation of local authorities to supervise spatial planning, construction and other fields that have an impact on people's living environment. The level of contribution to supervision work indicates that local authorities do not acknowledge their role in guaranteeing a better and safer living environment for people.

- The conclusions made in the audits of the National Audit Office indicate that the reasons of many problems are deeper than the weaknesses or failures of one local authority. Often, these shortcomings have depended on the activity of the state in creating conditions for local authorities that help them cope better, the extent to which local authorities have been able to take advantage of the existing opportunities for making changes and how much people themselves have demanded all this from the local authority. As the reasons of the problems have often been of the kind that the local authorities themselves cannot eliminate, the National Audit Office has aimed many of the recommendations made in the audits at the state, i.e. the ministers who could initiate the necessary solutions. The biggest number of recommendations in ten years have been made to the Minister of Finance and the Minister of Regional Affairs.

- The ministers have also failed to immediately implement the most important recommendations, which in the opinion of the National Audit Office would generally improve the activity of local authorities. Practice has shown that the majority of the problems highlighted by the National Audit Office are solved in a couple of years after the recommendation was made: two-thirds of the recommendations have been fully or partly complied with by now. However, there are still fields where changes have to be made or where local authorities simply need support and guidance from the relevant ministry. For example, it would really help if the Minister of Economic Affairs and Infrastructure was more active in looking for solutions to the issues raised by the National Audit Office.

- Even more important than the recommendations is the fact revealed by the analyses carried out by the National Audit Office that local authorities, which have remained unchanged for years, have not coped and will not cope with the functions assigned to them unless the state carries out the administrative reform that has been postponed for years due to indecisiveness.
  The goal of the activities of the National Audit Office is to help the Riigikogu make the decisions that would allow new local authorities to become stronger so they can perform the functions assigned to them, and that the state and local authorities were good partners.