

## **Auditing economic instruments in environmental performance audits**

### **NAO of Estonia's decade of experience**

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*17<sup>th</sup> Assembly Meeting of INTOSAI WGEA  
24–27 October 2016, Jakarta, Indonesia*

### **Questions**

- *In which audits were the economic instruments audited?*
- **What kind of conclusions were made in relation to economic instruments?**
- *What audit methods have been used?*
- **What has been the impact of auditing economic instruments?**

## What did we do?

- *Review of 29 environmental performance audit reports (2005–2016)*
- *Focus on:*
  - *environmental resource use and pollution charges (taxes)*
  - *environmental service fees*
  - *emission trading schemes*
- *Audits covering management of natural resources and pollution, waste and water management, nature protection, environmental monitoring, etc.*

Year	SI audited	Audit title
2016	Green	Activities of local municipalities and the state in municipal waste management
2016	Green	Impact of European Fisheries Fund subsidies to aquaculture
2015	Red	State activities in nature conservation management to guarantee the preservation of semi-natural communities
2015	Green	Processing of hazardous and radioactive waste
2015	Green	Activities of state in organising treatment of oil shale mining and processing waste
2014	Green	Actions of the state in directing the use of oil shale
2013	Green	Sustainability of the state developed drinking water and waste water infrastructure and its impact on achieving environmental goals
2013	Red	Maintenance and development of information systems in area of government of Ministry of the Environment
2012	Green	Measures for electricity production
2012	Green	Effectiveness of measures for improving the status of Lake Peipus
2011	Red	Simulation of timber felling and sold from state forests
2010	Green	Dispersion over use of pesticides and mineral fertilisers
2010	Red	Sustainability of management of state forest
2010	Green	Effectiveness of collection and recovery of packaging waste
2009	Green	State's efforts of reducing greenhouse gas emissions
2009	Red	Complex reduction of pollution in larger farms
2009	Green	National arrangement of mining mineral resources used in construction
2009	Red	Control of fisheries in the Baltic Sea
2009	Green	Activities of the state in achieving energy conservation
2008	Green	Impact of Pollution Charges on Reducing Environmental Pollution
2008	Green	Financing of environmental projects through the Environmental Investment and the Foundation
2008	Red	Observation of valuable forest habitats in areas of the Natura 2000 network
2007	Green	Construction Activities in Coastal and Shoreline Areas
2007	Green	The planning of tree-cutting at the State Forest Management Centre
2007	Green	The development of sewage treatment in rural areas by means of Cohesion Fund projects
2007	Red	The efficiency of the organisation of environmental monitoring
2007	Red	The establishment of the Southern Estonia Hazardous Waste Collection Centre
2006	Red	Handling of hazardous waste at intermediate depositories and garbage incineration
2005	Green	Utilisation of peat resources

## Have we audited economic instruments?

Out of 29 audits 17 incorporated auditing of economic instrument (EI), which can be divided:

1. **2 audits:** Audit's main focus (incl. main question) is on the instrument and its impact. Audit conclusions and recommendations are dedicated to improving the whole system of implementing the instrument(s).
2. **10 audits:** Audit pays significant attention to the instrument – one of the audit report's sub-questions/sub-chapter is dedicated to instrument's design, enforcement and/or impact. Conclusions and recommendations are made in relation to the instrument.
3. **5 audits:** There is information about the instrument in the report, but no conclusions or recommendations are made in relation to it.

12 reports didn't involve auditing EIs – audit scope didn't presume it or the EIs didn't play a significant role in the audited area.

## Conclusions in audits

### Environmental taxes/charges

- *Impact on the environment, but also socio-economic aspects (incl. impact to the competitiveness of enterprises) is not assessed before imposing the tax.*
- *Justification of tax rates (also tax exceptions) is weak, e. g. tax rates on pollutants are not in correspondence with their hazardousness.*
- *Pollution and resource taxes are too low to cause behavioural changes, e. g. investments into new technologies.*
- *Environmental taxes should be supported by the legislation/ other tools.*
- *Indirect calculation methods for pollution or resource use are not adequate and fair.*
- *Governmental institutions do not verify properly the accuracy of data. Therefore there is a risk that the resource use and the pollution load are bigger than reported and accordingly, less tax is paid.*

## Impact of audits

- *Environmental charges have been revised*
- *Supervision has improved (> more taxes collected)*
- *Ministry of the Environment is developing a method for evaluating environmental externalities of resource use and pollution*
- *Working groups have been founded to solve the problems*
- *GHG verification is improved*
- *Infringement procedures by supervising authorities*

## Lessons learnt/ tips

- *MBIs are environmental policy tools among the other ones*
- *Map the instruments in preparatory phase*
- *What is the aim of the instrument?*
- *Experts' involvement sometimes needed*
- *Instruments have "historical" background*
- *Risk for fraud, but it is very difficult to identify it*
- *Private companies involved*

**Thank you!**

*Paper available in 17th INTOSAI WGEA Assembly Meeting  
Compendium*

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## Group 1

2009		State's efforts of reducing greenhouse gas emissions
2008		Impact of Pollution Charges on Reducing Environmental pollution

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## Group 2

2016		Activities of local municipalities and the state in municipal waste management
2016		Impact of European Fisheries Fund subsidies to aquaculture
2015		Activities of state in organising treatment of oil shale mining and processing waste
2014		Actions of the state in directing the use of oil shale
2013		Sustainability of the state developed drinking water and waste water infrastructure and its impact on achieving environmental goals
2010		Effectiveness of collection and recovery of packaging waste
2009		National arrangement of mining mineral resources used in construction
2008		Financing of environmental projects through the Environmental Investment Centre Foundation
2007		The development of sewage treatment in rural areas by means of Cohesion Fund projects
2005		Exploitation of peat resources

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### Group 3

2015		Processing of hazardous and radioactive waste
2012		Alternatives for electricity production
2010		Supervision over use of pesticides and mineral fertilisers
2009		Activities of the state in achieving energy conservation
2007		The planning of tree-cutting at the State Forest Management Centre

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