

# Auditing economic instruments in environmental performance audits

NAO of Estonia's decade of experience

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### **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.





#### 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 Els – audit scope didn't presume it or the Els 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**

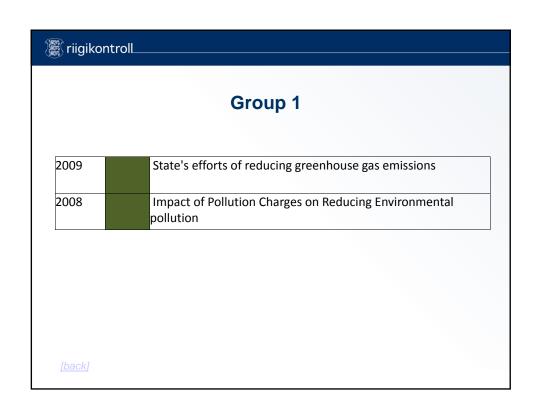
- MBIs are environmental policy tools among the other ones
- Map the instruments in preparatory phase
- What is the aim of the instrument?
- Experts' involvement sometimes needed
- Instruments have "historical" background
- Risk for fraud, but it is very difficult to identify it
- Private companies involved



# Thank you!

Paper available in 17th INTOSAI WGEA Assembly Meeting Compendium

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2010	Effectiveness of collection and recovery of packaging waste
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2008	Financing of environmental projects through the Environmental Investment Centre Foundation
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