



# **Performance Auditing of the CAP in Finland**

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## Outline

- ▶ Quick history of the Finnish SAI
- ▶ Our mandate
- ▶ CAP auditing in general
- ▶ Completed CAP-related audits in 2001-2010
- ▶ About performance audit methodology
- ▶ Example: our latest CAP audit
- ▶ CAP theme report 2010



## Milestones of the National Audit Office of Finland

- ▶ 1824: Earliest predecessor established
- ▶ 1948: Office gets its present name *Valtiontalouden tarkastusvirasto*, but is still operating under the Ministry of Finance
- ▶ 1993: Separate financial and performance audit units created
- ▶ 2001: Office began operating in connection with Parliament
- ▶ Current staff about 150, headquarters in Helsinki



## Mandate

- ▶ Act on the National Audit Office (14 July 2000), Section 1:
- ▶ The task of the State Audit Office shall be to ensure the *legality* and *effectiveness* of the state's financial management and *compliance with the budget*. The State Audit Office's tasks shall not include auditing the financial management of Parliament, funds for which Parliament is responsible, the Bank of Finland or the Social Insurance Institution.
- ▶ The State Audit Office's right to audit the transfer of funds between Finland and the European Union shall be covered by separate legislation.



## Continued

- ▶ Act on the Right of the National Audit Office to Audit Certain Credit Transfers between Finland and the European Communities (17 March 1995), Section 2:
- ▶ The National Audit Office shall have the right to *audit the credit transfers* referred to in section 1 and *the use and controlling thereof*, as well as, to the extent required for auditing, *the finances and operations* of an intermediary, the grantor, the recipient and the payer of a credit transfer or a person to whom the recipient has transferred the resources he has received.



## Auditing the Common Agricultural Policy

- ▶ The Common Agricultural Policy (CAP) was adopted in Finland as we became a member of the European Union in 1995
- ▶ In 1995-98 we had not adequate resources to conduct agricultural performance audits; these began in the late 1990's as new recruits joined the staff
- ▶ During 2001-2010 we have had 2-3 performance auditors in the sector of the Ministry of Agriculture and Forestry



## Completed performance audits in 2001-2010

- ▶ 3/2001 Developing the structure of agriculture
- ▶ 6/2001 Information on farmers' retirement support in budget bills
- ▶ 12/2001 Relief worker services for farmers
- ▶ 37/2002 Objectives and effects of agricultural support - evaluation of budget justifications and the effectiveness of income support
- ▶ 24/2002 Negligent farming - problems in monitoring good agricultural practice
- ▶ 31/2002 The Ministry of Agriculture and Forestry's natural resource strategy and reindeer herding
- ▶ 63/2003 Support for farm construction and machinery purchases



## Continued

- ▶ 91/2004 Support for organic farming
- ▶ 113/2005 Agri-environmental support for special measures
- ▶ 133/2006 Measures to restrict poultry production
- ▶ 175/2008 Reducing nutrient emissions from agriculture
- ▶ 190/2009 Discretionary support systems in the administrative sector of the Ministry of Agriculture and Forestry
- ▶ 199/2009 Monitoring of the profitability of agriculture





## On performance audit methodology

- ▶ There is no one formula for performance auditing the CAP
- ▶ ‘Simple’ approach: Do we have enough relevant information on policy objectives and measures in the state budget proposals?
- ▶ ‘Complex’ approach: Has the policy in question achieved those objectives, controlling for other confounding factors?



## Continued

- ▶ Econometric methods can be used to control confounding factors when evaluating the effectiveness of a particular policy
- ▶ However, it is somewhat challenging to find a CAP-related audit topic where utilising econometric methods is unproblematic
- ▶ We have used these methods on couple occasions, but mostly our agricultural audits have been of the 'simple' variety

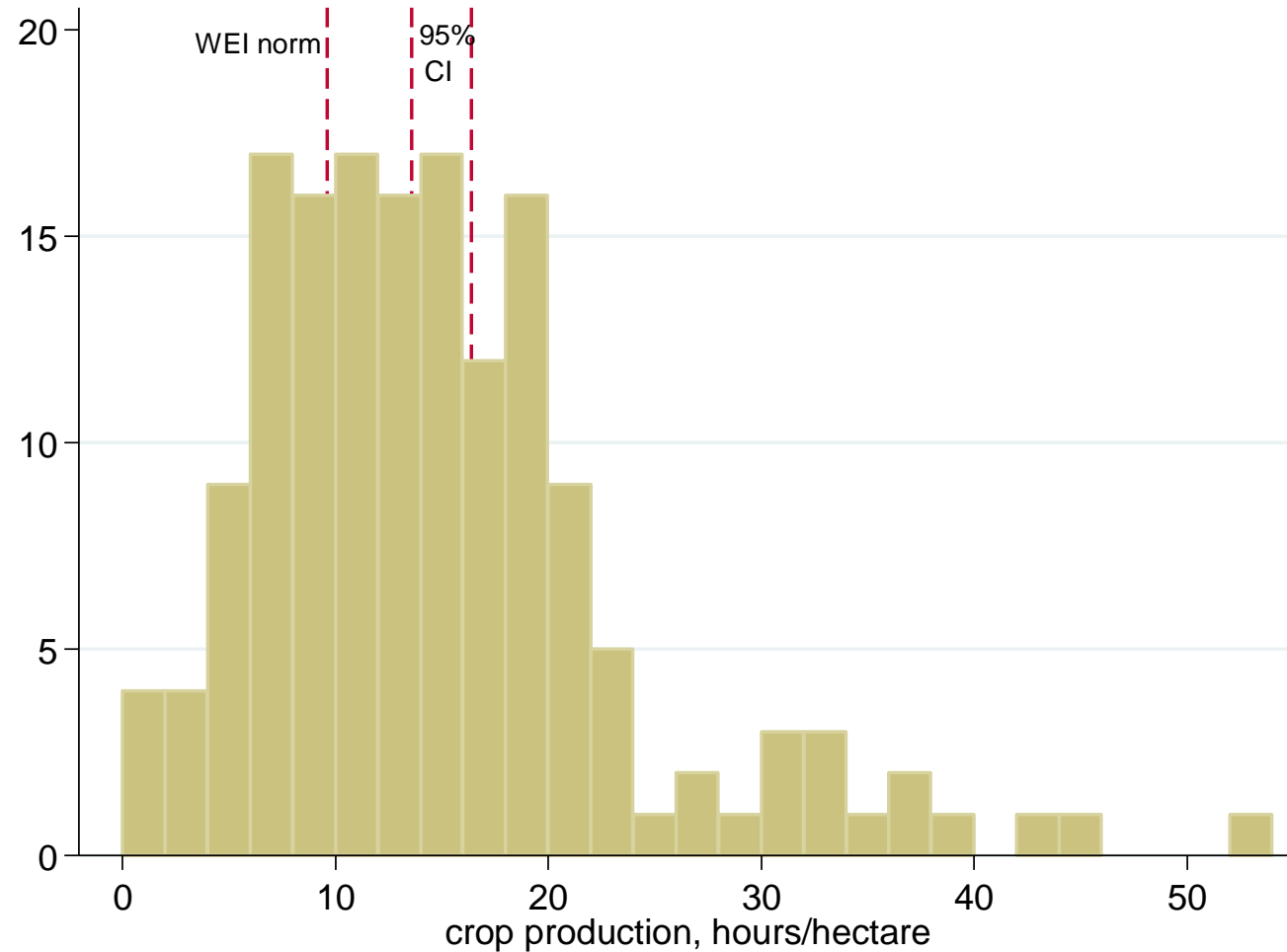


## Example: Monitoring the profitability of agriculture (2009)

- ▶ Our objective was to find out whether official profitability figures (€/h, ROE) are reliable
- ▶ There exists lots of evidence which indicates that agriculture may not be so unprofitable as official figures show
- ▶ We used data collected from 955 bookkeeping farms, and compared their recorded working hours to work norms published by the Work Efficiency Institute (WEI)



## Crop production hours in middle-sized dairy farms (40-80 hectares)





## Continued

- ▶ The WEI norm 9,6 h/ha is the *average of actual crop production hours*, collected on the spot from similar private farms as the bookkeeping farms
- ▶ Hence the average from the bookkeeping farms should be quite close to the norm, allowing for sampling variation
- ▶ Bookkeeping mean = 15,0, which means that either these farms are unusually inefficient or recorded hours are exaggerated
- ▶ Either way, official figures may underestimate the true profitability of agriculture



## Theme report *Effectiveness of CAP Support*

- ▶ Combined the results of our three latest agricultural audits
- ▶ Included in this year's National Audit Office's report to Parliament
- ▶ Main conclusions:
  - Agri-environmental support is used inefficiently, as a flat payment
  - We questioned the need for this extra income support
  - Agriculture could do more in protecting the environment.



Thank you for your attention!

Further information can be found in

<http://www.vtv.fi/en>

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