

SUPERVISION FEES COLLECTED BY AUTHORITIES FROM SUPERVISED ENTITIES

The point of departure in official supervision is society's supervision interests and the derived need for supervision. The supervision provided by state agencies and enterprises is financed either with public tax funds from the state budget or with fees collected by authorities, which are generally paid by supervised entities themselves. As a rule supervision fees are based on cost price, according to the Act on Criteria for Charges Payable to the State.

If supervision is financed with supervision fees, one might assume or suspect that revenues from fees guide the scope of supervision activities especially in situations where supervised entities pay the supervising authority directly for supervision.

The present audit strove to determine whether supervision fees collected by authorities from supervised entities tend to guide supervision activities. The audit focused on three supervision functions performed by the Plant Production Inspection Centre, which comes under the Ministry of Agriculture and Forestry, and three supervision functions performed by the Finnish Communications Regulatory Authority, which comes under the Ministry of Transport and Communications. The Plant Production Inspection Centre has subsequently been made part of the Finnish Food Safety Authority, which was established on 1 May 2006. The audit examined the grounds for charging supervision fees, factors influencing the scope of supervision activities and the economic significance of supervision fees.

In the audit no serious problems were observed in applying the Act on Criteria for Charges Payable to the State, but shortcomings were found in cost pricing. State agencies and enterprises do not have a consistent and uniform policy regarding supervision fees. Studies of policies in different administrative sectors provide a good basis for continuing the development of principles and procedures concerning supervision fees as part of agencies' and enterprises' fee

policy strategy, however. In the opinion of the State Audit Office, it is important to draft policies and principles regarding supervision fees that apply to all state agencies and enterprises, under the direction of the Ministry of Finance. Clarification would require principles concerning the criteria for evaluating the need for supervision and the financing of supervision. This includes above all determining what part of the supervision system should be financed with tax funds and what part with supervision fees and also how fees should be budgeted.

According to audit observations, three out of the five paid performances examined in the audit had clear economic significance for the relevant official unit at the supervising authority, but the significance for the entire authority was smaller. The scope of supervision is not always based directly on society's supervision interests but may depend on a calculatory factor based on the levying of supervision fees, for example. In this case there is a risk that revenues from supervision fees may in certain circumstances tend to guide the scope of an authority's supervision activities. Although the audit did not observe any conscious increasing of fee revenues on this basis, from the viewpoint of the supervised entity - particularly if it also pays fees - there may be some suspicion that revenues from fees guide the scope of supervision activities. This could have a negative effect on the credibility of the supervising authority if activities produce a surplus, for instance as a result of cost cutting.

In these situations the State Audit Office emphasizes the appropriate ministry's position and responsibility in directing supervisory activities in its administrative sector. It is particularly important to see that the grounds on which supervision fees are based are presented in an open and transparent way.

The State Audit Office believes that in preparing provisions concerning supervision fees it is necessary to ensure that the scope of supervision can be decided on the basis of the need for supervision.