



National Audit Office's report to Parliament on its activities for fiscal year 2008

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To Parliament

The National Audit Office's report on its activities is submitted to Parliament on the basis of section 6 of the Act on the National Audit Office (676/2000).

The report presents the conclusions that have been drawn on the basis of audit results concerning the management of central government finances and the current state of administration from the viewpoint of Parliament together with summary information on the most important audit findings for Parliament as well as observations regarding the implementation of positions taken on the basis of reports issued by the Parliamentary Audit Committee. The report also presents a survey of the National Audit Office's activities and their effectiveness in fiscal year 2008.

Key audit results are presented for finan-

cial audits that were completed in spring 2009 concerning fiscal year 2008. The report covers performance audits that were completed between the end of August 2008 and the end of September 2009. A summary of audit findings and a survey of the management of central government finances and the current state of administration is presented, broken down according to the most important strategic risk areas for the management of central government finances and the effectiveness of the central government's activities as well as essential issues from the viewpoint of good governance.

The National Audit Office issued a separate report to Parliament on the audit of the final central government accounts for 2008 and the Report on the Final Central Government Accounts on 18 May 2009.

Helsinki, 10 September 2009

Auditor General Tuomas Pöysti

Assistant Auditor General Vesa Jatkola

Main content

The National Audit Office's report on its activities has followed the implementation of positions approved by Parliament on the basis of reports issued by the Parliamentary Audit Committee. On the basis of a position taken by Parliament concerning the need to avoid excessive borrowing from the viewpoint of liquidity and the state's cash management, as an indispensable measure the 2009 Budget included a provision according to which, if the central government's liquidity permits, a budgeted loan in an item does not have to be withdrawn to the extent that revenues accumulated in other budget items exceed the corresponding budgeted estimates. The legal framework of the state's cash management is being evaluated in connection with an overall reform of legislation concerning the budget. A draft report on an international comparison that was conducted to prepare a new basic study concerning tax subsidies as required by Parliament was completed in May 2009. In future attention should be paid to improving information regarding tax subsidies. As a result of the financial crisis and growing public debt as well as the lack of sustainability, it will be necessary in future to consider the expansion of the tax base, and the new study concerning tax subsidies is even more timely in order to prepare for this.

Devoting attention to productivity in the central government, and more broadly to the development of productivity in the public sector, is extremely important for the functioning of the economy in the current economic situation. The central government and general government face a developing sustainability gap that amounts to roughly 5% of GDP. For economic and fiscal policy reasons and

owing to the ageing of the population and the related decline in the supply of labour as well as the need to prepare for climate and environmental change, the systematic improvement of productivity and efficiency in public administration and service production must continue. In the National Productivity Programme and efforts to improve efficiency and effectiveness in the public sector in general, greater attention must be paid to efficiency as a whole, which means managing more clearly the economy and overall productivity of activities, the return on capital and other dimensions of productivity besides labour productivity. Improving energy and environmental efficiency should be made an important area of productivity and efficiency work in the public sector as well. Improving economy and productivity requires the skilful management of change. Ministries' steering and management particularly need to be strengthened. The productivity objectives that are approved by ministries as an essential part of performance management have gaps. Productivity objectives were set for only 40 per cent of government agencies in result agreements. Evaluating the current state of performance management on the basis of the setting of result objectives concerning economy and true and fair information in final accounts concerning these objectives, essential changes did not take place in performance management compared with past years.

In 2008 auditing the quality of legislation as part of central legislation in the field of welfare services and concerning central government transfers to local government. On the basis of audits, challenges for the quality of legislation in the field of welfare servic-

es result from the fact that legislation is both broad and vague and also incoherent and fragmented. This weakens policy effectiveness, cost-effectiveness and the evaluation of cost impacts. From a financial viewpoint using legislation to address shortcomings is not always an appropriate way to resolve problems in the audited services. Clear and sufficiently detailed legislation is necessary to ensure the implementation of equality, as guaranteed in the Constitution. In legislation, including grounds, the adequacy of economic resources, local self-government and citizens' equal opportunities to receive services should be prioritised more clearly in relation to one another in matters where policy-makers wield discretionary power. Policy effectiveness and cost-effectiveness in arranging health-care services are clearly weakened by the present multichannel financing system. Data protection provisions in special legislation also needs to be clarified. Although the preparation of the reform of central govern-

ment transfers to local government, which entered into force at the beginning of 2006, was found to be well implemented as a rule, in the audit attention was drawn to the vague nature of evaluations of effectiveness and the understandability of legislation. The content of legislation is ultimately up to the legislator's political judgment. Legally and from the viewpoint of carrying out Parliament's will, the reform cannot be reproached. Viewed from a long-term economic perspective, however, the approved policies cannot be considered prudent in all respects. Future reforms of central government transfers to local government should, in the opinion of the National Audit Office, strive more strongly to apply principles regarding good state aid, particularly to the clearly calculatory nature of central government transfers and other central government funding on the basis of standard costs and to seeing that the financing system encourages efficient activities.

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1 Purpose of the report and basis for findings

The report is based on the National Audit Office's performance audits, financial audits and expert activities. Financial audit and performance reports as well as key statements are available on the National Audit Office's website (<http://www.vtv.fi>). Annual financial audits are conducted for 87 agencies that must prepare final accounts containing financial statements according to section 63 of the State Budget Decree ("accounting agencies") as well as 32 other agencies that are not required to prepare financial statements but must submit a review of operations according to section 65 of the State Budget Decree.

Between the end of August 2008 and the end of September 2009 reports were issued on 23 performance audits and 12 follow-up audits.

Chapter 2 monitors the implementation of positions approved by Parliament on the basis of reports issued by the Parliamentary Audit Committee if these have called for the Government to report on the matter or if audit activities have focused on related matters. The implementation of positions has also been discussed in the National Audit Office's separate report to Parliament on the audit of the final central government accounts for 2008 and the Report on the Final Central Government Accounts.

Chapters 3–6 present important audit findings regarding central government finances and activities broken down according to strategic theme areas. The selection of themes has been guided by the strategic theme areas

specified in the National Audit Office's strategy for 2007–2012 as well as the operational and audit plan and the special focuses in the risk analyses underlying the plan. The specification of strategic theme areas is based on questions regarding matters that are important for the effective and high-quality management of central government finances identified on the basis of audit findings and risk analysis performed by the National Audit Office.

Chapter 3, in theme area A: Productivity, economy and delivery in public activities, discusses findings obtained in performance audits, financial audits, and information technology and system audits regarding the administrative courts, the relocation of the Police IT Management Agency, the Shared Service Centre of the Ministry of the Interior and changes in financial administration in ministries and agencies.

Chapter 4, in theme area D: Quality legislation, deals with the quality of legislation in welfare services, the quality of legislation concerning central government transfers to local government and the quality of legislation in regulating infrastructure and discretionary financing for rural businesses. The discussion is based on performance audits dealing with occupational health care and the prevention of alcohol-related problems, medical rehabilitation, the steering and funding system for basic education, the formula-based government grant system for social and health services, Nordic cooperation in electricity emergency preparedness, main-

taining waterways and discretionary support systems in the administrative sector of the Ministry of Agriculture and Forestry. Follow-up reports were completed on preventing young people's exclusion and monitoring private social welfare services.

Chapter 5, in theme area F: Good management of central government activities and assets, discusses audits of the management of financial assets, central government debt management and the steering and administration of off-budget funds.

Chapter 6, in theme area G: An efficient and effective European Union and taking advantage of the possibilities it offers at the national level, deals with rural development and agriculture policy on the basis of an audit concerning discretionary support systems in the administrative sector of the Ministry of Agriculture and Forestry and regional and

structural policy on the basis of an audit that examined the impacts of regional development programmes.

Chapter 7 evaluates the current state of central government finances and administration on the basis of financial audit and performance audit findings.

Chapter 8 presents key findings and conclusions by administrative sector from the financial audits and performance audits on which the summary is based.

Chapter 9 reviews the National Audit Office's strategy and key information on performance and development in 2008. A more detailed description of finances and operational performance is contained in the National Audit Office's annual report and financial statements, which are available on the Internet (www.vtv.fi/julkaisut).

2 Monitoring of the implementation of positions taken by Parliament

2.1 Positions monitored by the National Audit Office

The National Audit Office monitors the implementation of positions approved by Parliament on the basis of reports issued by the Parliamentary Audit Committee if these have called for the Government to report on the matter or if audit activities have focused on related matters. Positions taken by Parliament concern important matters in which achieving change is often slow. For this reason the National Audit Office monitors such matters over the longer term if necessary. New audits also pay attention to monitoring regarding positions taken by Parliament in the past.

In parliamentary communication 11/2008 Parliament called for the Government to report on the implementation of the following measures in the Report on the Final Central Government Accounts for 2008:

- 1 Parliament calls for the Government to prepare the necessary legislation to increase the effectiveness of the state's information management, specifying the Ministry of Finance's steering power and other necessary matters.
- 2 Parliament calls for the Government to take measures to correct shortcomings and problems regarding electronic identification and officials' certificate services and present legislative solutions and other necessary measures regarding them.
- 3 Parliament calls for compliance with good governance and openness in implementing the National Productivity Programme. The Government must report the real productivity benefits of measures

in its spending limits calculations and not only reductions in personnel.

In parliamentary communication 21/2008 Parliament called for the Government to report on the implementation of the following measures in the Report on the Final Central Government Accounts for 2008:

- 4 Parliament calls for the Government to provide Parliament an account of development policy lines for the state's cash management and the need to amend legislation regarding the budget.
- 5 Parliament calls for the Government to take measures to ensure the compatibility of public administration's and first of all health care's information systems, shared application services and open interfaces for the smooth exchange of information between information systems.

In parliamentary communication 25/2007 Parliament called for the Government to report on the implementation of the following measure in the Report on the Final Central Government Accounts:

- 6 Parliament calls for the Government to prepare a study of tax subsidies examining the principles in the Government's tax policy, particularly the principle of neutrality and the handling of tax subsidies as part of the spending limits and budget procedure and to supply Parliament an account of its measures in the Report on the Final Central Government Accounts.

2.2 Implementation of monitored positions

Reporting on monitored positions

The implementation of the positions in points 1 and 2 was discussed in the National Audit Office's separate report to Parliament on the audit of the final central government accounts for 2008 and the Report on the Final Central Government Accounts. That report also touched on the implementation of the National Productivity Programme under point 3. Chapter 3 of this report also deals with central government productivity.

With regard to points 4–6 the National Audit Office has made the following findings in its monitoring:

The state's cash management (point 4)

In its audit of the state's cash management the National Audit Office concluded that the budget-covering requirement does not impose a strict obligation to borrow more than is required to maintain the cash position. In the opinion of the National Audit Office, greater attention could be paid to liquidity in borrowing. In practice this means that it should not be necessary to withdraw a loan on the grounds of complying with the budget unless this is required to maintain liquidity. Short-term borrowing in excess of what is required to maintain liquidity, which takes particularly around the end of the year, is pointless and costly. The National Audit Office recommended that, in order to increase the economy of cash management and reduce risks associated with cash, budgeted loans should not be withdrawn insofar as they are not necessary for central government finances.

The Action Report on the Budget, which is part of the Report on the Final Central Government Accounts, described factors and challenges regarding the development of cash management to which attention was drawn in the audit report and noted that, in connection with the reform of budget legislation that is being prepared by the Ministry of Finance, measures needed to achieve objectives regarding cash management and the effects of such measures will also be evaluated.

As a direct measure the 2009 Budget was revised so that, if liquidity allows, the total amount of a loan budgeted in an item does not have to be withdrawn if accumulated revenues in other revenue items exceed the corresponding budgeted figures.

Compatibility of health care information systems (point 5)

The National Audit Office has not audited the compatibility of information systems in the field of health care. The poor compatibility of information systems has often been observed in audits, however. Development in this matter has been slow and not always positive.

The Government's stand of 6 March 2009 on accelerating the development of the information society and e-services is a clear expression of will to resolve the matter. The Government's stand notes the need to make systems in the entire field of public administration more compatible. This includes both central government and local authorities, and compatibility is particularly important when it comes to information systems

in health care. Implementing the proposed changes will be exceptionally challenging, but the benefits that can be achieved in economy and delivery are also considerable.

In autumn 2009 the National Audit Office will complete a performance audit concerning information system projects being conducted by the Ministry of Social Affairs and Health. This audit will also deal with information systems in health care.

Tax subsidies (point 6)

In the Report on the Final Central Government Accounts for 2007 the Government announced that it would launch a new study of tax subsidies. The project was supposed to prepare an international comparison of tax subsidies and compile international experiences by the end of 2008. In 2009 the intention is to conduct a research project on tax subsidies in Finland and in this connection draw conclusions and make recommendations for the future budget process regarding tax subsidies.

The preparation of the international comparison is behind schedule. A draft report was completed in May 2009, however.

In principle Finland has strived for a broad tax base and through this lower tax rates. In spite of this new tax subsidies have been approved recently. When the 2009 Budget was drafted, the maximum household deduction was increased and tax rates on earnings from timber sales were cut. The Ministry of Finance estimates that together these will reduce tax revenues by 185 million euros. Tax subsidies are problematic from the viewpoint of the budget process. They are not considered in central government spending limits, although both the cases mentioned above, for example, clearly involve support that is meant to have impacts on people's behaviour paralleling normal appropriations. Increasing tax subsidies does not fit well with the goal of a broad tax base and low tax rates. After a long decline in the number and total amount of tax subsidies, these have now turned up slightly.

In future attention still needs to be paid to improving information on tax subsidies. As a result of the financial crisis and growing debt, expanding the tax base will require serious thought. The preparation of a new study of tax subsidies is increasingly timely.

3 Productivity in central government

The development of productivity in the public sector has received increasing attention because the workforce is shrinking by about 1.5 per cent a year as a result of the ageing of the population. If the rate of employment, labour input and labour productivity cannot be clearly raised, the shrinking of the workforce will significantly curb economic growth and thus erode the financial foundations of the welfare state. Another threat is that the demand for labour in the public sector will put an excessive strain on the age cohorts entering the labour market in the future.

As a result of the international financial crisis and recession, the public sector's share of the economy is growing in Finland as well. This is due to the functioning of automatic stabilisers when the business cycle worsens, since these increase without the need for separate decisions in a downturn. With regard to policy, a more active approach to business cycles and a bigger role for the central government in business life also tend to increase the public sector's share of the economy. In Finland the public sector's share of GDP has traditionally been quite high on account of the Nordic welfare state model and a broad system of public services. Taking care of the efficiency of a broad – and in some respects expanding – public sector and public finances is thus extremely important for the proper working of the economy.

The emphasis on improving efficiency in public finances and public activities is also grounded on the increasing pressure that is being placed on care and welfare services as a result of the ageing of the population and growth in expenditure on these services.

Raising productivity is one way to prepare for the rise in pensions and age-dependent care and welfare expenditure without causing excessive restrictions on welfare and growth for the economy.

The international recession and financial crisis place efficiency in Finland's public sector and as part of this the need to improve productivity in a new framework. Central government debt is already growing sharply in 2009, and in the next few years it is expected to double both in euro terms and in relation to GDP. Interest costs on central government debt, even with interest rates on a low level, will restrict room for manoeuvre in public finances in a more significant way than before.

It appears that a sustainability deficit on the order of 5% of GDP is developing in central government finances and general government finances. The rising debt burden and budget deficits will limit the economy's and society's risk-taking ability in a substantial way. In the near future tax rates will have to be increased, which is not necessarily expedient from the viewpoint of economic growth and structural change.

The sustainability deficit and pressure to raise tax rates can be managed to some extent by substantially improving efficiency and productivity in public activities and in the opinion of the National Audit Office, there is clearly a need to improve the policy effectiveness and cost-effectiveness of public activities. The National Audit Office views improving policy effectiveness and cost-effectiveness as one of the key challenges in preparing the budget in the near future¹.

¹ Fiscal policy risks and certain key challenges in the coming years are discussed in Chapter 5 of the National Audit Office's separate report to Parliament on the audit of the final central government accounts for 2008 and the Report on the Final Central Government Accounts, see R 12/2009 vp, pp. 32–44.

The economic consequences of climate and environmental change are another factor that essentially influences the need to improve efficiency and productivity in public activities. On the basis of a risk analysis, the National Audit Office has specified the management of climate and environmental change as a significant risk area for our society and central government finances as well as the management of central government finances.

The National Audit Office is participating in international cooperation in which one aim is to evaluate how successfully different nations and their governments are managing risks associated with climate and environmental change and how effective measures in this area are. In connection with this international cooperation and the National Audit Office's own strategic planning and risk analysis as well as audits conducted on this basis, information has been compiled concerning the scale of the economic effects of climate and environmental change.

The most recent research data that have been collected on the international level, for instance in the assessment reports issued by the Intergovernmental Panel on Climate Change, indicate that climate change appears to be proceeding so that with regard to scenarios describing the economic impacts of climate change, research data point to a scenario in which broader economic impacts can be expected. The potential risk and threat to the economy and central government finances as a result of climate and environmental change in scenarios in Finland as well would be at least on the same order as what we can expect as a result of the ageing of the population and the change in the population structure.

Climate change is not just a factor that will restrict economic growth; managing risks

associated with climate change will also require changes in the structure of the economy and public activities. Improving energy efficiency will be one very important measure of the effectiveness of public activities and publicly funding activities. In addition to this, climate and environmental change will also lead to more broadly to the need to improve productivity and efficiency in public activities. Raising productivity is a way to adjust to necessary change and its economic impacts. Improving efficiency in public finances and activities will economic room for manoeuvre for the investments that are needed to mitigate climate warming and respond to environmental risks.

Over the longer term the economic impacts of climate and environmental change may lead to a situation in which economic development and welfare are measured not in terms of GDP but in terms of how the quality of the living environment improves while economic prosperity remains unchanged. In future this will require improving efficiency in public activities and overall productivity as one expression of this.

The European Union has already decided on measures that will place new requirements on efficiency and productivity in public activities as well. The Energy Services Directive (2006/32/EC) contains general requirements concerning end-use efficiency, which also apply to the public sector. In future the public sector will have a broader role in promoting energy efficiency by showing a good example. For example, by making efficient use of premises and through new office plans and working and travel arrangements, public services can help meet objectives regarding higher end-use efficiency. Solutions aimed at improving energy efficiency in public activities are in line with improving productivity and procedures in modern public activities.

Public administration's response to productivity development and the need to improve efficiency in central government activities is the National Productivity Programme. The programme was launched by Prime Minister Vanhanen's first Cabinet. Prime Minister Vanhanen's second Cabinet has continued implementing the programme. The programme's objectives were first outlined clearly in a strategy document that was approved by the Government on 25 September 2003. The objective is planned and verifiable growth in productivity and efficiency in public administration and services and the utilisation of productivity benefits. This requires the structural and operational reform of administration.

The National Audit Office will report to Parliament in 2011 on audit findings concerning the conditions, management and effectiveness of the National Productivity Programme. The National Audit Office has also conducted audits that look at the theme of productivity from different perspectives. The following paragraphs describe key findings of these audits for Parliament.

Measuring productivity is problematic and has gaps

Since 1996 Statistics Finland has developed the measurement of productivity in public services. Central government productivity statistics describe changes in accounting agencies' outputs and labour and overall inputs as well as changes in labour and overall productivity calculated on this basis. Statistics are not comprehensive, however. They do not include unincorporated state enterprise, for instance.

At the beginning of 2005 Statistics Finland launched a project in which productivity cal-

culations are prepared for different administrative sectors, in addition to calculations for central government at the aggregate level. Within the framework of this project Statistics Finland has started cooperation projects with different administrative sectors in which the objective is to devise productivity indicators that are suitable for the agencies in each administrative sector. This objective has not been achieved in every administrative sector, however.

According to section 11 of the State Budget Decree, a ministry must approve the breakdown of budgetary accounts and performance objectives without delay after Parliament has approved the budget. The performance criteria stipulated in the State Budget Act and State Budget Decree include operational efficiency, which according to budget legislation comprises productivity and economy. According to budget legislation performance objectives must be set for economy and productivity, among other things. The State Budget Act also requires ministries and other government agencies to provide true and fair information on their performance. This includes the obligation to report true and fair information on economy and productivity.

Financial audits conducted by the National Audit Office have evaluated the operational efficiency objectives set by ministries in terms of their scope and whether true and fair information has been provided on economy and productivity as required by budget legislation.

On the basis of financial audits, the objectives that have been approved by ministries concerning productivity, which are an essential part of performance management, have gaps. Productivity objectives were set for only 40% of agencies in performance agreements.

The information that was presented on productivity was considered true and fair in 80 agencies. This is 67% of all agencies. Information on productivity was considered fair in 78% of agencies and true in 73% of agencies.

The current state of performance management on the basis of the objectives that have been set for operational efficiency and reported information on this subject is evaluated in greater detail in Chapter 7 below.

There is still clearly room for substantial improvement in reporting on productivity and economy. Since true and fair information on economy and productivity as required by budget legislation can be reported considerably more often than the objectives that have been set, however, problems have more to do with steering and gaps in management than measurement by itself.

Properly measuring productivity in public activities in a way that is meaningful for steering and management is quite difficult. The productivity indicator that has been developed for the public sector by Statistics Finland on the basis of budget legislation and the objectives in it is not sufficient in itself to describe the operational efficiency of public activities as a whole.

The challenges involved in preparing productivity indicators and evaluating productivity are reflected by an audit of the administrative courts that was conducted by the National Audit Office. The expansion of the administrative courts' jurisdiction and the increasing volume of cases have led to longer processing times and backlogs as well as large variations in processing times and efficiency between different administrative courts and case categories. Indicators that would take into account large differences between case categories and decisions are not in use in the administrative courts'

performance management. The productivity indicator that is used, decisions/person-years, does not describe real productivity very well. The indicator is too simple and can even be misleading, since it does not take into account the case structure, cases' degree of difficulty or the structure of personnel.

The National Audit Office has called for the Ministry of Justice to study what factors have a real influence on the administrative courts' productivity and differences in productivity. Can better labour productivity be achieved in the administrative courts by developing the structure of posts, procedures and management? Such a study is needed as a basis for evaluating performance and the quality of activities and for allocating resources.

An audit concerning the district courts noted similar problems in measuring productivity as in the audit of the administrative courts. Problems were also observed in the use of weighting coefficients for cases. Since differences in the volume of work have always been a problem in the lower courts, the Ministry of Justice, in order to achieve comparability and to neutralise variations between the district courts and the nature of cases, has set different weighting coefficients for different types of cases.

A particular problem with coefficients concerns matters that can be delegated to office personnel. On the one hand, in courts where the volume of cases is not sufficient to employ two judges, judges must decide what cases can be delegated to someone else. This is partly responsible for small courts' high productivity figures, which in turn legitimises the continued operation of units that are too small: resources are thus allocated inefficiently.

Relocation and productivity

Relocation refers to the shifting of central government activities from the Helsinki region to other part of Finland. This will result in a decrease in civil service jobs in the Helsinki region and a corresponding increase in jobs elsewhere.

The purpose of an audit concerning the relocation of the Police IT Management Agency was to examine the operational, financial and personnel impacts of the relocation of the Police IT Management Agency on the agency as well as regional impacts on the Rovaniemi region. The audit viewed the nontransferrability of tacit knowledge as a key problem. From the viewpoint of labour productivity, the loss of employees' expertise should be minimised.

The relocation of the agency's head office required the large-scale recruiting of new personnel. This is in conflict with the National Productivity Programme.

A decision to relocate activities or the deferral of such a decision and resulting uncertainty about jobs have negative effects on employees and well-being at work, occupational health and motivation – and consequently labour productivity.

The National Audit Office called for more emphasis to be placed on preliminary studies before activities are relocated. Verifying the real impacts of relocation requires systematic monitoring. Central government finances have to bear additional costs as a result of pay and pensions for employees who must be replaced by recruiting new employees for the relocated unit. These matters should be taken into account in estimating the impacts of relocation on central government finances and productivity.

Service centres as increasers of productivity

The term service centre refers to an arrangement in which functions, expertise and infrastructure supporting core activities are concentrated in a single place while core activities remain in the original organisation. A service centre is intended to provide economies of scale. A government service centre produces support services for government agencies. A service centre is formed by combining financial and personnel management tasks previously operating in ministries and agencies in the service centre's locality and other areas into one organisation. An agency relinquishing in-house support functions outsources them to a service centre. In a project concerning the establishment of a service centre, it was estimated that service centre activities could yield productivity benefits of up to 40% in the efficiency of financial and personnel administration tasks.

An audit concerning service centres that was conducted by the National Audit Office found that the general objective of increasing productivity by 40% in financial and personnel administration services was set before detailed cost-benefit analyses had been performed in different administrative sectors. The National Audit Office concluded that, in order to keep objectives realistic, the starting situation should have been analysed as thoroughly as possible and only then should objectives have been set.

The audit focused on the activities of the Shared Service Centre of the Ministry of the Interior. On the basis of the audit, the establishment of the Shared Service Centre of the Ministry of the Interior succeeded reasonably well as a whole. The Shared Service Centre was set up on a relatively fast timetable, considering the requirements of relocation poli-

cy. An increase in productivity was observed. The Shared Service Centre has managed to improve the efficiency of the financial and personnel administration services it produces by increasing productivity in the handling of bills and payroll accounting, among other things.

The audit noted that shifting to service centre activities always requires a transition stage and the adoption of a new way of operating. Consequently the total number of person-years required for some processes may temporarily rise. From the viewpoint of productivity it is essential during the transition stage to start planning job descriptions and tasks for employees who have previously worked in the production of financial and personnel administration services and are staying in customer agencies so that overall productivity objectives for financial and personnel administration tasks can be achieved.

The customer-service centre relation corresponds to an orderer-producer model. The aim is regulation, productivity benefits and cost-effectiveness. In the opinion of the National Audit Office, further measures to improve the efficiency of financial and personnel administration should focus on large-volume processes and parts of processes. Processes can be simplified by planning and reorganising them, so that better results can be achieved from automating processes compared with automating existing processes as they are. Process owners' role and responsibilities should be clearly defined and proper conditions and incentives should be created for owners to achieve results.

On the basis of service centre audits and an audit of changes in the financial model, the National Audit Office has noted that the reform of support services for financial and personnel administration so far has not produced the kind of benefits that have been

expected, and there have been problems in practical implementations. Carrying out changes in two stages, with several separate service centres being established in the first stage, has tied administration's resources and delayed their focusing on other important development measures. If a single shared service centre had been established to begin with, without an interim stage, the uniformity of administrative sectors' procedures could have been better ensured in information systems' early introduction stage. It would thus have been possible to prevent the establishment of different procedures in service centres and to achieve better cost-effectiveness in financial and personnel administration at an earlier stage.

Productivity benefits of the development of information technology

Developing information technology applications and information management systems has been viewed as a significant factor in raising central government productivity. The National Audit Office has conducted several information technology and system audits. These have not directly evaluated the productivity effects of the measures that have been taken but have focused on evaluating project management and economy in development projects. Audits have found, among other things, that development projects have exceeded planned costs and have fallen behind schedule and that the coordination of projects has been weak. Another problem has involved shifting from the old information system to the new one and system compatibility so that activities can be performed efficiently during the transition stage.

The audit concerning the Shared Service Centre of the Ministry of the Interior noted

that information systems have caused overlapping activities, such as the need to record billing data twice, in service centres and customer agencies. On the other hand the audit drew attention to electronic solutions that increased productivity. For example, many financial administration reports are still printed out for end-users even when electronic reporting would be possible. The audit noted that electronic signing, billing and budget drafting, for instance, are areas for development.

Conclusions

It is easy to reach agreement on the need to improve productivity, but finding practical management tools to achieve a genuine and sustainable improvement in productivity is substantially more difficult. This is a fundamental risk for the steering and management system, and its materialisation has substantial economic impacts. On the basis of audits and the audit summaries prevented above, the National Audit Office presents the following conclusions and recommendations.

One of the most important challenges in preparing the budget and in financial and administrative policy in the coming years is keeping a tight rein on expenditure, ensuring the sustainability of public finances and improving the social effectiveness and cost-effectiveness of public activities.

For economic and fiscal policy reasons and owing to the ageing of the population and the related decline in the supply of labour, the systematic improvement of productivity

and efficiency in public administration and service production must continue.

The National Productivity Programme has focused too much attention on labour productivity and reducing person-years.

In the National Productivity Programme and efforts to improve efficiency and effectiveness in the public sector in general, greater attention must be paid to efficiency as a whole. This means steering and managing more resolutely the economy and overall productivity of activities, the return on capital and other dimensions of productivity besides labour productivity, as well as energy efficiency.

The ministries do not steer and manage the economy of public activities in a way that is adequate to respond to economic and fiscal policy challenges. Serviceable indicators exist to steer and evaluate economy and productivity. The problem is that objectives are not set and there are gaps in management.

Economy and productivity can only be improved through disciplined, professional and patient management. Ministries' approach to steering and management particularly needs to be strengthened. Operational units require more professional and long-term management and especially management of change. This can also be supported by disseminating good examples and practices more effectively and by strengthening management's incentives to develop innovations, economy and productivity.

Public acceptance of effectiveness and productivity work must be improved by increasing open discussion and by setting clearer objectives together with justifications.

4 Quality legislation as part of central government decision-making

4.1 The quality of legislation in welfare services

The significance of better regulation in welfare services

Social and educational rights were included in the reform of basic rights (or fundamental rights) in 1995. The content of the reform of basic rights was written into the Constitution of 2000 practically without change.

According to the Constitution (section 19:3), public authorities must guarantee everyone adequate social and health services, as provided in an Act of Parliament, and promote the health of the population. This places an obligation on Parliament to enact legislation providing for adequate social and health services. The provisions in section 19:3 of the Constitution do not give individuals subjective rights but place an obligation on public authorities. The obligation to implement basic rights requires public authorities to take measures to implement these rights. It is up to Parliament to decide what kind and level of social and health services are adequate and how the health of the population should be promoted.

The Constitution guarantees everyone a subjective right to basic education free of charge (section 16). Local authorities have a special obligation to arrange services that are based on subjective rights and a general obligation to arrange other services based on ordinary legislation.

In practice responsibility for social and

health services and basic education mostly concerns tasks that have been assigned to local authorities. According to section 121 of the Constitution, provisions governing tasks assigned to local authorities must be laid down by an Act of Parliament. Arranging social and health services and basic education is a local authority's statutory task, and it must allocate resources to arrange this task. The central government participates in financing basic services through transfers to local government for social and health services and basic education. In connection with the basic rights reform, it was emphasised that when normal legislation obliges local authorities to perform tasks, it is important to ensure local authorities' real conditions to perform tasks.

Since citizens have a statutory right to certain social benefits and services, the legislative perspective is highlighted in ensuring services. Implementing good regulation principles in welfare services is essential to implement individuals' basic rights.

All the economic, social and educational rights prescribed in the Constitution are in practice spelled out in ordinary legislation. This legislation also decides to what extent the constitutional principle of equality is put into practice in welfare services and to what extent the content of welfare services is left up to democracy at the municipal level as part of local self-government. The Constitu-

tion requires that everyone should be treated equally and have equal access to services based on legislation, regardless of where people live. Insofar as the content of welfare services is intentionally left up to local authorities in important respects, the services received by citizens in different parts of the country and in different municipalities vary. There is nothing improper about this as long as there are acceptable reasons for differences in the arrangement and availability of services or the matter concerns services that are arranged voluntarily by local authorities. If real variations in the availability and level of services are remarkably large in different municipalities, the situation is problematic in view of the constitutional principle of equality. Basic rights that are prescribed as subjective rights in the Constitution, in welfare services notably the right to basic education free of charge (section 16) and the right to receive indispensable subsistence and care (section 19:1), must be ensured equally nationwide. Ensuring equality is also important in basic economic, social and educational rights whose concrete content is prescribed in ordinary legislation as Parliament sees fit. For example, section 16:2 of the Constitution requires public authorities to ensure, as prescribed in legislation, everyone's equal opportunity to receive other educational services besides basic education in accordance with their ability and special needs as well as the opportunity to develop themselves without being impeded by economic hardship. Equality in this connection means, among other things, that everyone must be guaranteed opportunities to receive education and to develop themselves, as provided in legislation, regardless of where they live.

The Government's Better Regulation Programme mentions citizens' expectations concerning legislation and its quality. The

essential thing is for the objectives and impacts that are intended in legislation to be implemented in practice. Legislation that is clear, understandable and predictable from citizens' viewpoint is a basic requirement of good regulation. The Better Regulation Programme reconfirms the principle that Parliament should enact provisions that ensure a real and effective opportunity to take advantage of rights as a criterion of good legislation. In legislation regarding social and health services, implementing this principle is challenging, particularly in services that are regulated by framework acts.

The Better Regulation Programme mentions that a principle for better regulation is that legislation must be transparent. The principle of transparency can also be deemed to include the requirement that legislation as well as preparatory documents clearly indicate what matters Parliament genuinely wishes to leave up to the local level and to what extent a different level of service availability and quality as a result of this can be considered socially acceptable legally and from the viewpoint of discretion as to what is opportune. In health care, for instance, legislation concerning guaranteed access to treatment and the Government Decree on child health clinics, school and student health care and children's and young people's oral health care contain provisions aimed at ensuring the equal availability and content of services regardless of where people live.

Legislation should explain the reasons behind value judgments and the setting of priorities between different objectives that can ultimately be traced to the Constitution or other socially acceptable objectives. If the content of welfare services is intentionally left up to local authorities in important respects, from citizens' viewpoint it is necessary to ensure that citizens can evaluate the

quality of welfare services on the basis of easily available information and thus participate in decision making at the local level in a knowledgeable way.

The transparency of legislation also includes the implementation of the constitutionally derived principle of adequate financing when local authorities are given obligations to arrange welfare services. In drafting legislation greater attention should be paid to local authorities' real conditions to meet statutory obligations in a way that ensures equality nationwide. According to the principle of adequate financing, the central government and ultimately Parliament as the exerciser of legislative and budgetary power must allocate sufficient funds to local authorities so that they have real preconditions to produce services that are prescribed in legislation. The economic burden and reduction in production potential resulting from the ageing of the population, the widely varying development of the population structure in different municipalities and regions, and the deepening sustainability deficit in public finances as a result of the international financial crisis and recession together with the drop in public tax revenues will severely test the application of the principle of adequate financing in welfare services in the coming years.

One principle of better regulation is that regulation should promote legal security and confidence. Legislation that prescribes subjective rights to welfare services should be sufficiently clear and together with the financing of welfare services and other steering should provide real preconditions to implement basic rights and other statutory rights in practice. Another important principle of better regulation is that legislation should lead to the intended impacts. If rights have been prescribed as subjective rights in

welfare services, the real implementation of these rights should also be possible in practice. Qualitative criteria applying to public welfare services prescribed in legislation and access to services should be put into practice in the manner intended in legislation. Otherwise the law is an empty promise, which in the longer run erodes citizens' trust in the law and society in general.

Implementing welfare services and thus citizens' statutory rights in practice often requires many other measures in addition to legislation. Legislation in itself is seldom sufficient to lead to the intended impacts. Some problems regarding the quality of services and access to services may be due to social, structural and economic matters that legislation concerning welfare services and supplementary steering on the part of public authorities can do little to resolve. The limits of legislation and supplementary steering should be evaluated and presented openly.

Framework acts and legislation setting broad objectives are used extensively in regulating and steering welfare services. Framework acts and legislation setting broad objectives are also used partly as a compromise between welfare state objectives, which concern access to welfare services and the development of their content, and economic realities. Framework acts and legislation setting broad objectives do not give citizens actual rights but are meant to steer local authorities and other producers of welfare services in arranging service activities. With this type of regulation, it is often difficult to implement one principle of better regulation, which is that legislation should lead to the intended impacts. One of the risks of framework acts is that, if conflicts between tight financial resources and objectives concerning welfare services are not resolved and if different objectives are not placed in order of real im-

portance, framework acts and supplementary information steering may be used as a sort of compromise. If framework acts and supplementary information steering are used as a regulatory model, one must recognise that this model does not necessarily lead to anything even approaching an equal level of service quality or access to service. On argument in favour of framework acts, on the other hand, is that they provide room for manoeuvre and possibilities to arrange services in the best way according to regional and local circumstances. In this case the impacts and quality of services, evaluated from the perspective of users and citizens, are better than what could be achieved with strict and uniform norms applying to the entire nation. On the basis of audit findings made by the National Audit Office concerning health care, education and related financing, and preventing exclusion, however, broad norms together with supplementary recommendations and other information steering cannot ensure the implementation of the principle of equality as required by the Constitution. Opting for framework acts and legislation setting broad objectives over clear and precise provisions amounts to compromising on equality.

Quality legislation has economic dimensions, which have been emphasised in the Government's Better Regulation Programme. Good legislation and a good regulatory environment create proper conditions for economic growth and competitiveness as well as higher productivity and efficiency. A key objective of the welfare state is to ensure a minimum level of welfare, increase equality and strengthen the economic base. These also support the achievement of temporally and environmentally sustainable economic growth. Basic and welfare services that are prescribed in legislation or guided by legis-

lation account for a significant share of the economy and central government expenditure.

According to national accounts data for 2007, health care and social service outputs produced by central government and local government units accounted for about 8 per cent of GDP and educational service outputs produced by central government and local government units accounted for about 4.8 per cent of GDP. According to calculations concerning the sustainability of public finances that were prepared using a method approved by the European Commission, expenditure on health care and extended care is expected to increase clearly in relation to GDP. As far as welfare services are used to maintain and develop competence and participation in working life, funds spent on welfare services in fact amount to investments in the economy.

The economic impacts of legislation concerning welfare services, including the impacts of legislation on public spending as well as the economic and social benefits of services together with legislation's possibilities and limits when it comes to developing the efficiency of public service production are a very important question for the economy. Also essential is how well legislative steering can support the lengthening of employment at both ends. Owing to the challenges facing Finland's economy and public finances in the coming years and decades, legislation concerning welfare services must pay greater attention to the following principles of better regulation as outlined in the Better Regulation Programme:

- Legislation must support the accrual of competence and promote good working conditions and well-being at work.
- Legislation must promote access to the market and productivity.

- Legislation must play its part in the sustainability of public finances over the medium and long term.

Performance audits concerning the quality of legislation and its steering effect and audit perspectives

Performance audits examine the implementation of objectives that have been set in legislation (social effectiveness) and evaluate the economy of activities as well as any problems that may hamper effectiveness and economy.

The clarity of objective setting is one of the most important perspectives in performance audits. Clearly set objectives are indispensable for the transparency of legislation and as a general precondition for legislation to achieve objectives and for these objectives to be evaluated.

Detailed legislation does not always resolve problems related to welfare services but can even lead to more fragmented services. A key feature influencing the quality of legislation, particularly in times of scarce resources, is also that broad legislation intentionally gives actors room for interpretation regarding the scope, level and targeting of services. Detailed legislation does not resolve problems regarding the financing of the system of services or tight public resources. Legislation and financing, the availability of the necessary personnel to produce services and other conditions for the actual production of services must therefore be examined as a whole.

Performance audits that have been conducted by the National Audit Office during the past year have drawn attention to the quality of legislation and its steering effect in mental health services, occupational

health care, medical rehabilitation and basic education. An audit concerning occupational health care and the prevention of alcohol-related problems (177/2008) sought to determine how well the way in which occupational health care is arranged meets the objectives in legislation and whether occupational health care helps prevent alcohol-related problems. An audit concerning medical rehabilitation (193/2009) particularly examined whether the steering and organisation of medical rehabilitation ensures access to rehabilitation services. An audit on the effectiveness of legislation steering mental health services (194/2009) looked at whether current instruments can be used to steer the production of services properly. An audit of the steering and funding system for basic education (192/2009) asked whether the steering and funding system for basic education forms a clear and coherent whole. An audit concerning the formula-based government grant system for social welfare and health services (181/2009) focused on transparency. Follow-up reports were completed on preventing young people's exclusion (146/2007) and supervising private social services (101/2005).

Conclusions

Challenges regarding the quality of legislation in welfare services have to do with the fact that legislation is broad and vague on the one hand and incoherent and fragmented on the other. Both of these weaken the steering, effectiveness, organisation and cost-effectiveness of activities and the evaluation of cost effects. From the viewpoint of recipients, variations regarding equal access to services stand out. Variations in access to services may not have been presented openly, with legislation giving higher pri-

ority to local decision-making for instance, or by stating openly enough from citizens' viewpoint that the availability and quality of services has been left up to local authorities to decide in the details – or in some cases even in essential aspects – depending on their financial and operational possibilities to arrange services.

In the opinion of the National Audit Office and with regard to the audited services, dealing with individual problems in service production by legislative means is not always the most expedient way to resolve problems from the perspective of public finances. More detailed legislation is generally not a solution to problems concerning real gaps in pre-conditions for financing and arranging services when there is a sustainability deficit in public finances. Emphasizing detailed legislation could even increase the fragmentation of services, the inadvisable allocation of resources and hard-to-predict problems in different parts of welfare service production. Instead, legislation should pay more attention to clearly delimited wholes, which would improve the transparency of services and their costs. On the basis of audit findings, clear and precise legislation that is framed from the viewpoint of service users and covers the entire chain of activities leading to outputs in its field of application is an effective means to promote equality in the availability and content of services.

According to the opinion that was formed in the audits that were conducted by the National Audit Office, legislation concerning welfare services and the regulatory environment as a whole as well as supplementary information steering should be evaluated in the Better Regulation Programme from the viewpoint of implementing better regulation principles as well as the effectiveness and functioning of the service system. Better regula-

tion principles should also be used broadly enough in preparing legislation concerning welfare services and to some extent in public authorities' recommendations concerning quality.

The audits on the basis of which conclusions were drawn are discussed below, together with key findings.

Consequences of framework acts

Many provisions regarding social services and health care are loosely formulated and do not specify precisely in what scope and on what level services should be provided. This makes it difficult to apply coherent and established norms. The terms used in legislation are not always sufficiently clear and focused. Many norms concerning an adequate level of social and health services differ considerably in how precise and binding they are. Regulation as a whole is therefore unwieldy, although differences of this kind may be justified in individual cases. In the education sector, legislation steering basic education and supplementary norms are based on the premise that public authorities have extensive freedom in arranging education in practice.

Broad legislation has a weakening effect on the steering of activities, creates numerous interpretation problems and endangers equal access to services.

Provisions allow differing interpretations

Audits indicated that legislation leaves authorities a lot of room for interpretation both in mental health services and in medical rehabilitation. Broad legislation can also mean

that essential forms of services are left out of legislation. This shortcoming was observed in mental health legislation. With the reduction in institutional psychiatric care, housing and rehabilitation services intended for mental health patients have increased. For example, legislation regarding mental health services does not define what is meant by "housing services", "assisted living", "part-time care" or "day-hospital care" in connection with social rehabilitation, even in the commentary. Thus patients in rehabilitation may receive similar services although their mental condition may vary considerably. Differences in the definition of terms also make it difficult to monitor the number of patients receiving services and the cost of services.

Local authorities or joint authorities have the right to decide the amount that is charged for part-time care, which means that charges may vary considerably in different parts of the country, since legislation pertaining to patient charges does not mention day-hospital care or part-time care. According to legislation, outpatient services provided by a psychiatric unit are free, but services can also be provided by a social welfare unit or a health clinic staffed by general practitioners. In practice it is unclear whether "day-hospital care" means short-term institutional care provided by a psychiatric unit, for which a patient can be charged, or daytime outpatient care, which must be provided free of charge. The audit findings suggest that local authorities can interpret legislation pertaining to patient charges in different ways. This is in conflict with the idea of equal treatment, which is written into legislation pertaining to patient charges. Whether treatment is free of charge depends on how services are organised rather than services.

In medical rehabilitation broad legislation does not steer local authorities well and al-

lows different interpretations concerning the dimensioning of rehabilitation services. An audit concerning this subject found that actors are not always sure what legislation actually requires of local authorities. This means that key principles of better regulation – that legislation must be predictable and promote legal security – are not implemented. The way in which local authorities arrange medical rehabilitation varies considerably. On the basis of the audit as well as statistics regarding local authorities' productivity and interpretations of the results of productivity studies, variations in the way medical rehabilitation is arranged cannot be attributed to local innovation that could lead to the more effective and cost-effective arranging of services. In practice problems exist regarding the equal availability and content of services. The Primary Health Care Act and the Act on Specialised Medical Care contain general provisions requiring local authorities to arrange medical rehabilitation. Local authorities must see that medical rehabilitation services are arranged so as to meet local needs in terms of content and scope. According to audit findings, legislation allows different interpretation concerning what services, counselling or other measures related to rehabilitation should be provided in health care. Furthermore, if a municipality's finances are tight, this can lead to stricter interpretations. Access to rehabilitation and the content of services depend largely on where a person lives.

In preventing young people's exclusion, the emphasis is on proactive services. Up to now child health clinics have been steered by the Primary Health Care Act and recommendations. The Government Decree on child health clinics, school and student health care and dental care for children and young people was issued in May 2009. The decree calls

for a broad health check at the end of the comprehensive school in which a pupil's special needs are evaluated with an eye to the choice of an occupation and further education. The goal is to help young people avoid exclusion from education and working life. The decree shows how broad framework legislation has been supplemented with regard to proactive services for children and young people.

Problems in the equal availability of services

The audit findings indicate that there are large regional differences in the availability of mental health services. In some municipalities there are practically no "low-threshold" services and patients must be referred to a hospital via an outpatient clinic. This considerably increases the total costs of treatment.

Broad legislation and resulting problems in the equal availability of services were in the background when legislation guaranteeing access to treatment was prepared. This legislation has been in force for nearly four years. The latest information concerning access to psychiatric treatment (December 2008) indicates that the guarantee has been implemented only partially in adult psychiatry. In the worst case a patient with mental problems must wait about one year to receive an appointment with a psychiatrist. In specialised medical care, long waiting times are visible to some extent in increased visits to outpatient clinics. From the viewpoint of guaranteed access to treatment, there is no queuing: patients are simply offered the treatment that is available.

The audit found regional differences in the availability of medical rehabilitation. The

availability of rehabilitation is partly due to the shortage of trained personnel, which is also reflected in outsourcing. Rehabilitation services are generally more available in the southern parts of the country.

There are also large regional and unit-based differences in the quality and availability of occupational health care. The supply of services is wider in population centres, cities and the Helsinki metropolitan area. In sparsely populated areas where there are no alternative service providers, the occupational health care arranged by a municipal health centre plays a key role in ensuring services. Occupational health care clients are generally satisfied with the service they receive, particularly from private providers.

Smaller firms are less likely to offer occupational health care. Only 55 per cent of persons working for companies with fewer than 10 employees were covered by occupational health care in 2006. All in all some 1.8 million persons receive occupational health care, and services include hospital care for over 90 per cent of these.

Equal access to services is also a key objective in basic education. Attention was focused on equality when legislation was reformed in this field. According to section 2:3 of the Basic Education Act, the aim is to secure adequate equity in education throughout the country. With the weakening of municipal finances and the increase in regional and local differences, some local authorities have poorer possibilities to fulfil pupils' right to a safe learning environment that is equal and uniform in quality compared with other parts of the country. Section 29 of the Basic Education Act nevertheless states that pupils are entitled to a safe learning environment, and this should not depend on where pupils live. On the basis of audit findings, this clause is not clearly worded, since it involves

a basic service that has been prescribed as a subjective right. Furthermore, support services in basic education are guided by social welfare and health legislation, so the functioning of services is influenced by cooperation between different administrative departments and the resources at their disposal.

In steering basic education, the trend in recent years has been to make wide use of information steering. In some cases this has even been considered an alternative to normal steering. Information steering cannot be considered a very effective instrument, however, if the aim is to ensure equity in basic education services throughout the country.

Prevention and rehabilitation secondary to treatment despite emphasis in legislation

Social and health problems require more preventive work and early intervention. This is especially true in the area of mental health and substance abuse. The aim has also been to integrate rehabilitation in the service system and make rehabilitation an established part of social and health services. One aim in legislation governing social and health services has been to promote the health and working capacity of the population. Although legislation places emphasis on prevention and rehabilitation, the desired effects on operating models have not always been achieved.

For example, the Occupational Health Care Act (1383/2001), which was reformed in 2002, places strong emphasis on preventive health care. According to the commentary, the idea is to make preventive health care in particular more effective with new and to some extent old operating models. The objective has been to allocate more resources

to studying working conditions and other activities in workplaces.

On the basis of an audit that was conducted by the National Audit Office, the Occupational Health Care Act is clear and provides a good framework for activities. The way in which occupational health care is currently arranged does not meet the objectives in legislation in every respect, however. In practice occupational health care is slanted towards treatment, which accounts for 60% of the cost of occupational health care. Patients have over a million check-ups performed and make nearly five million other visits in occupational health care each year. Occupational health care is one of the most effective and highly valued parts of the entire publicly supported health care system. Legislation gives businesses a noteworthy financial incentive to conduct preventive work. Preventive work has not increased according to expectations, however. This has contributed to a sharper rise in the costs of the occupational health system than had been projected. Providers of occupational health care generally offer comprehensive treatment services, and these are often the most profitable part of providers' activities.

Increased alcohol-related problems following the lowering of alcohol taxes in 2004 are visible in occupational health care as well as workplaces. The direct costs of production losses due to alcohol consumption come to about half a billion euros a year. According to audit findings, occupational health care does not intervene in alcohol-related problems adequately or in time. Few heavy drinkers receive information and counselling in occupational health care. The negative effects of alcohol consumption on health and the economy are so large in Finland that they should be reduced using every means that has been found to be effective. Drawing attention to

patients' lifestyle is part of quality occupational health care. The role of occupational health care in promoting health should be clarified.

According to audit findings, local authorities' preventive substance-abuse work faces several difficulties that weaken possibilities to prevent alcohol-related problems among the working-age population. Local authorities' resources are directed towards necessary remedial work, nor are adequate resources available for preventive work even in municipalities where promoting health is a high priority.

The Mental Health Act talks about prevention, but in practice mental health services focus on people who are already ill or displaying symptoms. Social welfare and health policy has long emphasised that measures in other administrative sectors also have effects on citizens' mental health. The audit findings indicated, however, that in matters related to the mental health of the adult population, attention is still mainly on treating disorders, at the expense of prevention. Health centres, for example, have quite limited possibilities to engage in preventive work. Meanwhile mental health expertise has been shifted from health centres to outpatient units in specialised medical care.

Occupational health care can deal with mental health problems in connection with check-ups, but possibilities to prevent problems from becoming more severe depend on the scope of the occupational health care contract that has been concluded with the employer. According to audit findings, persons with mild mental health problems often go without proper care, which could prevent problems from becoming more severe.

On the basis of audit findings, rehabilitation does not have an established place as part of health care. This can be attributed to

tight resources and inadequate information on rehabilitation.

The effects of fragmented legislation on services

Normal steering of welfare services leads to special requirements regarding the coordination of legislation. Although social welfare and health legislation is comprehensive, on the whole it is fragmented and complicated. Provisions have been laid down over a long period of time. One principle of better regulation, that regulation should be manageable and understandable, is not put into practice as well as it could be.

Legislation governing mental health services can be characterised as fragmented and complicated, with provisions concerning mental health services as part of local authorities' tasks contained in the Mental Health Act, the Primary Health Care Act, the Act on Specialised Medical Care and the Social Welfare Act. Since local authorities can also purchase services from private providers and organisations, the Act on Private Health Care and the Act on the Supervision of Private Social Services also affect mental health services. A significant part of Finnish health services is produced in occupational health care, so the Occupational Health Care Act likewise affects what mental health services are available. In this way the Health Insurance Act also has significance in mental health services. Furthermore, the Act on the Restructuring of Local Government and Services affects the way in which local authorities organise social and health services, including mental health and medical rehabilitation services.

Similarly medical rehabilitation is governed by several acts. There are provisions concerning local authorities' tasks with re-

gand to medical rehabilitation in the Primary Health Care Act, the Act on Specialised Medical Care and the Decree on Medical Rehabilitation. Another important piece of legislation guiding activities is the Act on Cooperation on Client Services within Rehabilitation. In addition to local authorities, the Social Insurance Institution is a key actor in medical rehabilitation. Therefore the Act on the Rehabilitation Benefits and Rehabilitation Allowance Granted by the Social Insurance Institution and the Decree on Rehabilitation Arranged by the Social Insurance Institution are key as well. Keeping up with legislation regarding rehabilitation requires special expertise and is a challenging task for individual health centre physicians, for instance.

Complicated legislation regarding welfare services has multiple dimensions. If service legislation is very fragmented, it leads to the fragmented organisation of services and a wide assortment of production models. This also has consequences for cooperation among different actors. Cooperation problems are then reflected in clients' care and service chains. Systems should, however, function so as that citizens who fall within different categories are provided the services to which they are entitled in an efficient way.

Current legislation results in fragmented services

One key objective of the restructuring of local government and services is to strengthen local authorities' preconditions to take care of social and health services by reforming service structures.

On the basis of the Act on the Restructuring of Local Government and Services, local

authorities have had to submit plans for implementing restructuring to the Government. According to audit findings, these plans have not always met expectations regarding how to resolve problems involving the local authorities' preconditions for providing services. Implementation plans were quite general and did not deal adequately with individual services but with service packages. Actors providing mental health services were described in a comprehensive way in only a few plans. There were also lots of overlapping structures in local authorities' plans. A broad framework Act has allowed different models to be built in providing health care. This kind of freedom in itself can provide possibilities to arrange services in a way that is best suited to local needs and to act innovatively. The constant rise in local authorities' costs and personnel together with considerable variations in productivity between local authorities suggest that the possibility to innovate is left unused in practice. There is also a great deal of overlapping development work in health care and other welfare services.

The way in which mental health services are arranged varies considerably from one region to another. Services have been fragmented among many different providers. Outpatient services are still inadequate although these should have been increased as following cuts in hospital places. The biggest shortage concerns "low-threshold" places, which generally hampers access to services. The fragmented nature of services is highlighted among patients with multiple problems. The mental health service system is being restructured and must find new forms.

In medical rehabilitation fragmented legislation has resulted in fragmented services. The service system consists of a number of fairly autonomous subsystems and respon-

sibility for rehabilitation is divided among several actors. Since rehabilitation consists of services and benefits provided by various actors, in practice it is necessary to interpret multiple benefit systems. Issues regarding responsibility are to some extent unclear, although there is a strict division of labour in arranging rehabilitation, for example between local authorities and the Social Insurance Institution. The audit found that responsibility for the rehabilitation process and rehabilitation services as a whole is not always clearly assigned.

Certain parts of medical rehabilitation have been designated as the responsibility of the Social Insurance Institution in legislation. The Social Insurance Institution is responsible for the medical rehabilitation of persons with severe disabilities under the age of 65 and for discretionary rehabilitation (such as psychotherapy) within the framework of funds appropriated annually by Parliament. The audit observed that the way in which rehabilitation is currently organised into primary health care, specialised medical care and the responsibility of the Social Insurance Institution is not appropriate functionally, nor is it always appropriate financially.

Practical problems were observed in the medical rehabilitation of persons with severe disabilities, for example. Different interpretations of what the term means have led to uncertainty regarding who is responsible for rehabilitations. Problems arise when a person with severe disabilities turns 65, after which responsibility for rehabilitation is shifted to the local authority. In many cases services for elderly persons with severe disabilities weaken, since local authorities do not have the same resources as the Social Insurance Institution. A positive matter is that medical rehabilitation services for persons with severe disabilities can be ensured na-

tionally by the Social Insurance Institution, which lightens the economic and functional responsibility of local authorities. Looking at the overall development of rehabilitation, it is nevertheless inappropriate for rehabilitation services to be administered and financed by many subsystems without proper steering and coordination.

Fragmented service system weakens effectiveness

If the health care service system is fragmented, the number of actors tends to be large. This presents special challenges for efficient cooperation among different parties. Successful cooperation is a precondition for effective service, and cooperation problems are a direct indication of obstacles to effectiveness. In rehabilitation activities statutory client cooperation is particularly important. According to audit findings, it works best in client cooperation groups at the municipal level, which are familiar with local needs and conditions. At the hospital district level, evaluations of client cooperation committees varied.

In medical rehabilitation gaps in information concerning cooperation partners' activities and resources led to the preparation of unrealistic rehabilitation plans, which the other party was unable to implement. From the viewpoint of clients, poor cooperation can lead to delays in starting necessary rehabilitation.

In mental health services developing cooperation between outpatient care and hospitals is important, since the role of hospitals in psychiatry is being reduced. Closer cooperation between social and health services is viewed as a means to promote the formation of seamless care and service chains. In men-

tal health matters cooperation between social and health services does not always function in an optimal way. The audit findings indicated that in matters regarding the mental health of the adult population, cooperation between primary health care, social services and occupational health care has been quite meagre. Furthermore, findings suggest that reorganisations that have been carried out by local authorities together with new operating procedures have weakened access to mental health services and cooperation between social and health services.

Cooperation problems were also observed in specialised medical care, which was criticised for failing to consult other actors. Psychiatric units seldom ask other parties to participate in planning treatment. A lack of communication in psychiatric care does not promote seamless care and service chains or good treatment for patients. The flow of information is also problematic in services for children and young people. Fragmented and overlapping legislation whose content is sometimes hard to understand hampers cooperation between different categories of personnel in schools, health care and social services. The confidentiality and data protection provisions in other legislation besides the Personal Data Act and the Act on the Openness of Government Activities as a whole are hard to interpret and understand and can present obstacles to effective cooperation. In counselling school pupils, for example, confusing confidentiality provisions can lead to delays in taking measures that are key for a pupil's welfare.

A further challenge in developing cooperation is the increasing use of "temp doctors" in health care. Problems were observed in both mental health services and medical rehabilitation. In mental health services and medical rehabilitation doctors should take a broader

and long-term approach, which is difficult if employment is temporary.

Existing information systems considerably hamper cooperation in social and welfare services. The audit findings indicated that different organisations' systems do not exchange information. Information is not shared with other actors in the care and service chain in real time. This weakens the quality and effectiveness of treatment and other services, since data have to be fed into different systems over and over again.

Cooperation problems weaken the effectiveness of care chains

Gaps in cooperation are also reflected in clients' and patients' care chains. The importance of seamless service chains was emphasised in the government proposal for the Health Care Act. By tightening coordination between social and health services and removing barriers between different occupational groups and organisations, one can combine the services received by a patient or client into a single flexible chain or whole regardless of what unit is responsible for organizing or providing services. Seamless service chains can also reduce overlap, inefficiency and treatment costs.

With regard to mental health services, one finding was that numerous care chains have been formed, but they were fragmented and applications varied. It was also hard to say whether care chains included specialised medical care, primary health care or social services. Social housing services and health services have not been combined in treatment and service chains for mental health patients.

The functioning and continuity of treatment chains also faces special challenges in

occupational health care if the occupational health care agreement covering an employee is quite narrow. If this is the case, an employee with mental health problems, for example, may be told to seek help at a municipal health centre. According to audit findings, treatment chains do not work as planned in medical rehabilitation either. In the two-tiered service system, when a patient moves between primary health care and specialised medical care there are often gaps in the flow of information and uncertainty regarding responsibility for care.

Financial impacts

The fragmented service system in mental health services and medical rehabilitation also affects the costs of services and easily encourages different actors to minimise their own costs. From patients' viewpoint this means that they do not always receive treatment where it would be most effective or that the start of rehabilitation is delayed.

In mental health services, as a result of shortcomings in primary care, hospital emergency rooms have become the channel through which patients get access to specialised medical care. Findings indicated that most patients who enter hospital-level psychiatric care arrive via the emergency room. Consequently patients may not necessarily receive treatment that is in line with recommendations and suited to their own needs.

It is also contrary to sound financial management for local authorities to have insufficient outpatient services in primary care. If local authorities fail to provide preventive and "low-threshold" services, this results in a greater demand for services in specialised medical care, which is much more expensive. At worst, delayed access to treatment

and long illnesses can lead to a patient's permanent exclusion from working life and retirement on disability pension.

Mental health services' sheltered and assisted living units nowadays provide care for most of the people who used to receive treatment in mental hospitals for chronic patients. The goal of sheltered and assisted living should be to rehabilitate patients. This includes the idea that patients should move from one level of rehabilitation to another according to their mental health or condition: from a hospital to intensive sheltered living, to sheltered living, to assisted living and eventually to private or rented housing if possible. According to audit findings, this idea does not work in principle. Some patients had lived in the same unit for as much as 12 years and the unit had become home for them. The audit found that the placement of patients is guided more by where space is available than by whether a placement meets the patient's rehabilitation needs.

Housing services for mental health patients in rehabilitation are produced almost exclusively by private service providers. According to audit findings, service providers may not have an interest in shifting lucrative clients to assisted housing, which costs less. Since local authorities do not actively monitor the rehabilitation of mental health patients who have been placed in sheltered and assisted living units, it is possible that patients will receive care in a unit that more expensive than their condition would require.

Cost monitoring in mental health services has gaps both nationally and at the local level. For example, one cannot obtain a reliable picture of the cost of outpatient services, because statistics on mental health visits vary considerably in municipalities. Differences in the way that services are arranged and produced make it difficult to harmonise statistics.

The audit findings indicated that the problem in local authorities' application of resources to mental health work was not so much the amount of resources, but rather the proper allocation of financial resources. Placing greater emphasis on primary health care and prevention reduces the use of expensive specialised medical care. A similar problem regarding the effective allocation of resources was also found in medical rehabilitation. Financial resources were allocated to more expensive institutional rehabilitation rather than outpatient services.

On the basis of audit findings, the main structural problem with regard to financial impacts and effectiveness is multi-channel financing for welfare services and particularly health care. In its present form the multi-channel financing system leads to the inexpedient allocation of resources and a weakening of the effectiveness of services.

Shortcomings in legislation concerning the supervision of social and health services

The reduction in the number of places in psychiatric institutions has been reflected in the rising number of service accommodation units produced by private service providers. The residents of service accommodation units are long-term patients who are in poor condition and in whose treatment drugs play a significant role. According to legislation a service accommodation unit should in this case have both a social welfare licence and a health care licence (double licence). The audit findings showed, however, that few private service providers who operate service accommodation units had a double licence. The share of double licenses in service accommodation units producing normal serv-

ice accommodation was nearly as high as in intensive service accommodation units. Private service providers that produce normal service accommodation are only required to submit a written notice concerning the start of activities to the social services department in the municipality where a service accommodation unit is located, however. The audit findings with regard to double licences suggest that residents of both types of service accommodation unit are in similar condition to some extent.

Attention has been drawn to the matter of double licences and a proposal has been made to the Ministry of Social Affairs and Health that the Act on Private Health Care and the Act on the Supervision of Private Social Services should be integrated in a single Act. This would make it easier for service users, sources of finance and service providers to keep track of legislation.

The supervision of private social services was audited in 2005. One finding was that the openness to interpretation of key concepts in the Act on the Supervision of Private Social Services (603/1996) and the vagueness of criteria has caused confusion in the division of labour among supervising authorities and in practical work. Shortcomings were also observed in the planning and steering of supervision.

One assumption was that a planned revision of the Act on the Supervision of Private Social Services (603/1996) would resolve the problems that had come to light. A follow-up audit (2008) found that this was not true, since a new Act has yet to be drafted. The Ministry of Social Affairs and Health has said that the main reason for the delay is current reforms of supervision and regional administration. According to studies regarding these reforms, the entire field of supervision and the way in which supervision is organised

are in a state of flux. The National Supervisory Authority for Welfare and Health went into operation at the beginning of 2009 and a decision on regional administration models is meant to be reached in connection with the Regional Administration Reform 2010 project.

Pressure to reform the Act has existed since the beginning of the 2000s, but it still

has not been rewritten. Supervision problems largely have to do with outdated legislation and resulting gaps in steering. Without a new Act the ministry has not been able to address problems in the division of labour among supervising authorities, the definition of concepts or unclear distinctions regarding licence and notification procedures.

4.2 The quality of legislation on government grants

The National Audit Office has conducted two audits that evaluated the functioning of the legislative base for resource steering. One audit concerned the transparency of the formula-based government grant system for social welfare and health services while the other concerned the steering and funding system for basic education in the education and culture sector. The audits took different approaches but a connecting thread in both was the quality of legislation. The transparency of the formula-based government grant system for social welfare and health services was examined specifically from this angle. With regard to basic education the focus was broader, covering the entire steering system.

The audit of the transparency of the formula-based government grant system for social welfare and health services found that current legislation on government grants gives a disjointed picture of the formula-based system as a whole. Through the government grant system a considerable number of changes, arrangements and compensations have been made regarding the division of labour between local authorities and the state as well as financing, and these have complicated the criteria in the formula-based system. In most cases it is difficult to trace solutions regarding changes and the grounds for their use to legislation or related drafting documents.

The audit investigated the views of office holders responsible for local authorities' financial management concerning the clarity and understandability of the government grant system. The majority of those responsible for local authorities' financial management consider the government grant sys-

tem's criteria technically complicated and legislation linked to the system disjointed. According to local authorities the structure of the system and the factors determining the amount of government grants should be simplified so that principles regarding the amount of government grants are understandable and can be applied in planning individual municipalities' finances and activities. The numerous changes that have been made in the system have also hampered local authorities' financial planning and made it more difficult to compare government grants in different years.

The audit also evaluated the preparation of the government grant reform that entered into force at the beginning of 2006. Although the broad government proposal linked to the reform (88/2005) was found to be well drafted as a rule, some shortcomings were also observed. These primarily involved the inadequacy of the grounds for some changes in factors. From the viewpoint of government grants as a whole, particularly changes in the remoteness and archipelago factors in general government grants have weakened the system's clarity and understandability. Some of the factors that are included in legislation regarding government grants cannot be justified with a consistent and economy-promoting government grant theory. Multilayered factors clearly weaken legislation's understandability. All the solutions in the government grant reform have not been justified in accordance with the principles of good legislative drafting. Another problem was the vague nature of effectiveness evaluations related to the proposal. This is because the reform was intended to ensure different local

authorities' and joint authorities' financing, so that some factors look more like an artificial attempt to keep grants on the same level as before or political compromises that were made when legislation was prepared. The content of legislation is ultimately up to the legislator's political judgment, so legally and from the viewpoint of carrying out Parliament's will, the reform cannot be reproached. Viewed from a long-term economic perspective, however, the approved policies cannot be considered prudent in all respects. Future reforms of central government transfers to local government should, in the opinion of the National Audit Office, strive more strongly to apply principles regarding a good state aid system, particularly a clearly calculatory system on the basis of standard costs, and to seeing that the financing system encourages efficient activities.

Government grants for basic education have clearly retained features of a cost-based financing system. This can weaken incentives to economic efficiency and productivity. Financing and financed activities are strong-

ly linked. Recently the education administration has strived to exercise government grant steering of basic education down to details, although this is contrary to the fundamental logic of the calculatory and general-purpose government grant system. The most recent example of this type of steering attempt has been for the purpose of reducing class size.

All in all the system of government grants for education has met the objectives that have been set for it in different connections quite well. Although the way in which unit prices are calculated can be considered somewhat complicated, arrangers of basic education can estimate their future government grants fairly well. The predictability of financing is hampered by the fact that changes have often been made in the system's details (coefficients and scaling factors). The continuing reduction in the government grant percentage and the resulting growth in the financing that must be provided by local authorities has nevertheless weakened the legitimacy of the financing system.

4.3 The quality of legislation in regulating infrastructure and in discretionary support for rural industries

Legislation concerning business and infrastructure and its functioning from the viewpoint of public finances have been dealt with in three audit reports (Lights on in the Nordic countries – Nordic cooperation in electricity emergency preparedness 176/2008, Maintaining waterways 182/2009 and Discretionary support systems in the administrative sector of the Ministry of Agriculture and Forestry 190/2009).

The audits found that the objectives set out in legislation have not provided a firm basis for preparing the channelling of public funds to activities. The vague wording of objectives has also made it difficult to evaluate whether support has been allocated and used effectively in the way intended by Parliament.

With regard to maintaining waterways, legislation has given actors much room for interpretation. The options this allows in allocating funds have not been spelled out as detailed objectives in budget proposals. The general objectives that have been presented in legislation have been repeated word for word in budget proposals. Since objectives have not been operationalised, more information on the expected level of maintenance has not been available at the stage in which the use of central government funds is steered more concretely than in the preparation of legislation. In addition to the way objectives are set out, the audit drew attention to the need for legislation to prescribe more clearly financial liabilities for public waterways and harbours.

The audit of discretionary support systems in the administrative sector of the Ministry of Agriculture and Forestry examined the clarity of the criteria for discretionary support in

legislation. In some support systems objectives have not been presented or they were too vague for the effective allocation of support. On the other hand, the audit found that discretion concerning the allocation of support has been restricted by naming beneficiaries in legislation. This improves the predictability and clarity of support. The audit also found that, in preparing legislation, insufficient use has been made of experts in different areas covered by objectives. Nor has sufficient attention been paid to connections between different support systems. The information base used in preparing legislation should be improved.

Nordic cooperation in electricity emergency preparedness was examined in a parallel audit. The audit found that electricity emergency preparedness and emergency planning are regulated more lightly in Finland than in the other Nordic countries, particularly with regard to the grid. Finnish legislation does not contain specific objectives concerning national preparedness for emergencies in electrical supply and emergency planning. The audit found that power companies do not have the same statutory obligation to prepare for emergencies as telecommunications companies, for instance. In Finland the conscious goal has been to maintain preparedness within a voluntary framework and through agreements. Other steering instruments besides regulation have thus been used extensively. The audit nevertheless considered that electricity networks are part of critical infrastructure and some degree of tightening of legislation is needed, even if agreement-based arrangements have so far sufficed to ensure the operational reliability of the grid.

5 Good management of central government assets

5.1 Management of central government financial assets

The National Audit Office has examined the management of central government financial assets from different perspectives in the past year. Audits have focused on central government debt management (179/2008) and the steering and administration of off-budget funds (184/2009). The National Audit Office also included findings regarding the state's cash management in its previous report to Parliament, and during the past year it has followed up the implementation of Parliament's positions concerning cash management.

On the basis of audits, the National Audit Office considers that reporting on central government financial assets as a whole – and particularly the cash position – does not currently give a true and fair view. With respect to funds and financial assets, providing true and fair information to Parliament requires the substantial development and harmonisation of reporting.

The audits drew attention to risk management, which was found to be properly arranged. Both the current economic situation and structural changes in the economy underline the constant need to place emphasis on risk management.

The audit of central government debt management indicated that, by international standards, the management of net debt is arranged properly and well.

Central government debt management

A performance audit that was conducted on the subject of central government debt management evaluated whether the approved debt management strategy is implemented by the State Treasury and whether true and fair information is produced on debt management for planning, monitoring and supervision purposes. The selection of central government debt management as an audit topic was based on the financial significance of central government debt management and associated risk. The nominal value of central government debt was about 61.3 billion euros on 31 March 2009.

The amount of debt and related cash flows are significant from the viewpoint of the budget economy. The materialisation of even a small risk can result in major financial threats or losses. The principles and strategic objectives of debt management have been outlined in the debt management strategy for the budget economy, which is approved by the Ministry of Finance.

The audit indicated that the Finance Division of the State Treasury has operated according to approved debt management guidelines and within the risk limits defined in them, and the Government has produced true and fair information on central government debt and debt management as well as

its effect on central government finances in the Report on the Final Central Government Accounts. The audit found that the internal control of central government debt management and risk management had been arranged expertly. A tight group of experts takes care of central government debt management in a cost-effective manner. In view of the nature of the operating environment, the proper implementation of internal control requires that the organisation meets requirements concerning the segregation of duties and independence and the provision of adequate personnel resources.

Although the National Audit Office considers that the internal control of central government debt management and risk management produce true and fair information on debt management, it should be noted that financial markets and debt management needs change constantly. For this reason knowledge and expertise concerning risks associated with fund management situations and fund management tools should be constantly maintained throughout the central government debt management organisation.

The steering and administration of off-budget funds (184/2009)

The Finnish state has 11 off-budget funds, which had total assets of about 26 billion euros at the end of 2008. Funds' activities differ widely.

The State Pension Fund, the State Nuclear Waste Management Fund and the State Guarantee Fund are primarily buffer or contingency funds. Their accumulated assets can be used to cover or spread out anticipated or potential costs.

The Development Fund for Agriculture and Forestry, the Agricultural Intervention

Fund, the Fire Protection Fund, the State Television and Radio Fund and the Oil Pollution Fund mainly focus on financing particular activities.

The Housing Fund of Finland and the Government Guarantee Fund exist to manage assets. The Security of Supply Fund acts as a guarantee fund, and its main task is to prevent shortages and safeguard activities.

In general performance objectives have not been set for funds and performance agreements have not been concluded with them. One exception is the State Pension Fund. The lack of steering constitutes a risk, insofar as off-budget funds may receive less attention than budget funds and the use of off-budget funds may not be monitored as efficiently from the viewpoint of performance.

Legislation concerning funds' management as well as the composition and tasks of the executive board or board of directors, personnel, remuneration, assets, final accounts and audit differs considerably according to the fund. The central government accounting reform has not been taken into consideration in all the funds, nor have steering and management systems been reformed in all cases.

The National Audit Office has considered that legislation concerning funds should be revised according to the recommendations of the Working Group on Central Government Accounting and Accounts as presented in the relevant government proposal (56/2003). The central government accounting reform should also be taken into consideration in funds, and steering and management systems should be reformed. Clear and measurable performance objectives should be set for funds or the responsible organisations so that the supervising ministry must conclude a performance agreement with funds or responsible organisations. Procedures for

approving funds' budgets and operational plans should also be harmonised.

On the basis of the audit, regarding funds whose finances and activities generate significant guarantee liabilities, interest support or other central government liabilities, the operational and financial plan for the administrative sector has not as a rule analyzed financial risks associated with liabilities or their effects on public finances or the fund's finances.

The Government has not taken advantage of the possibility to supply supplementary information in the Report on the Final Central Government Accounts, which therefore

has not provided Parliament information on the basis of which it could form a true and fair view of off-budget funds. An analysis of off-budget funds' final accounts should be included in the Report on the Final Central Government Accounts as recommended by the Working Group on Central Government Accounting and Accounts. Off-budget funds form such a significant whole financially that the ministries responsible for steering funds should consider issuing a joint report concerning funds' activities to Parliament each year. This could be part of the Report on the Final Central Government Accounts.

6 An efficient and effective European Union and taking advantage of the possibilities it offers at the national level

6.1 Rural development and agricultural policy

The bulk of European Union funding goes to agriculture. In 2007 and 2008 Finland received slightly less than 1.3 billion euros a year from the EU. Agriculture accounted for about 800 million euros of this total. Rural development also receives significant support, with EU funds earmarked for this purpose totalling about 50 million euros a year. The National Audit Office has conducted audits dealing with support systems for rural development and agriculture in recent years. These have dealt with national support as well as support at the Community level. One perspective in audits has been taking advantage of Community support systems in Finland and particularly systems' compatibility with national objectives.

The main findings in an audit of discretionary support systems in the administrative sector of the Ministry of Agriculture and Forestry (190/2009), namely problems in coordinating objectives and the primary importance of verifying the use of funds, were in line with the results of previous audits. The

audit found that coordinating different support systems is all the more difficult because connections between these systems have not been identified. Effective policy would require the improvement of the information base used in preparing legislation in every subarea.

Coordinating different objectives has proved particularly problematic regardless of the support system. This concerns the coordination of the Community policy with national objectives as well as the coordination of different national objectives. Regardless of the support system, the primary role of income and production objectives has in some cases led to a situation in which a system has not promoted the achievement of other objectives that have been set for support systems². The achievement of other objectives may consequently be quite poor or a support system can have impacts that are undesirable. Special attention should be paid to support systems' transparency in this respect.

² 133/2006 Measures to restrict poultry production
113/2005 Agri-environmental support for special measures
175/2008 Reducing nutrient emissions from agriculture

6.2 Regional and structural policy

In addition to agriculture, regional and structural policy is another area in which Community funding plays a major role. During the programming period 2000–2006 Community funding exceeded 300 million euros a year.

Several performance audits have focused on activities receiving support from structural funds and the implementation of regional development programmes in recent years, and the National Audit Office has also participated in a parallel audit in this area. In 2008 findings were also compiled in an audit on the impacts of regional development programmes. Audits have particularly concerned programmes' impacts, with emphasis on employment impacts. Audits have also looked at project administration and implementation and the steering effects of financial instruments. The most recent audits concerned environmental projects in the Objective 2 programme and services for enterprises co-financed from the European Social Fund.

With regard to regional and structural policy a key audit finding was that impacts and particularly employment impacts are smaller than expected. Effectiveness expectations and objectives have been high. Support has not prevented or even significantly slowed the concentration of economic activities, however. Impacts on employment have also been small for the most part and mainly involve the preservation of existing jobs. In project administration the problem has been reflected in unreliable monitoring. Information in the monitoring system concerning employment impacts has been exaggerated, and monitoring and evaluating results

on this basis has been pointless. Monitoring is also disconnected and the same impacts can be reported as results in more than one programme.

Some problems and gaps in planning and implementing Finland's structural funds programmes are similar to those found in other EU member states. A parallel audit on the performance (output/effectiveness) of the structural funds programmes in the area of employment during the programming period 2000–2006 found gaps in planning measures and in formulating selection criteria for projects in several of the countries that were covered by the audit. All the member states could not show that the structural funds' main objectives were the main criteria in selecting measures. Shortcomings that were observed with regard to goal-oriented application procedures mainly concerned the inability to evaluate projects' cost-effectiveness reliably in advance. Shortcomings were also observed in award procedures, but in general these were considered sufficient to support the implementation of measures and projects in an appropriate manner.

Environmental projects in the Objective 2 programme

In the Objective 2 programmes for Southern and Western Finland during the programming period 2000–2006, support at least for environmental projects mainly went to local authorities and enterprises owned by local authorities. The same finding was made in other audits. During the programming period

od 2007–2013 project activities should strive more actively to involve businesses and civil society as well. Project financing should also be directed towards more innovative environmental protection measures. Furthermore, regional environmental programmes should be developed so that they give a better picture of objectives' emphases and priorities as a basis for decision-making concerning project financing.

The Regional Environment Centres have particularly financed different environmental and infrastructure projects in the Objective 2 programme. In Finland no economic or socio-economic cost-benefit calculations have been made concerning such projects. Evaluating projects in money terms is difficult because all the effects of projects are not visible in the market price mechanism. In the field of economics, however, different methods have been developed to take into consideration effects that fall outside the market mechanism. The Ministry of the Environment should promote research on the basis of which it would be possible to evaluate the economic and socio-economic benefits of different environmental projects better.

Services for enterprises co-financed from the European Social Fund

An audit the implementation of ESF projects aimed at promoting the development of electronic business found that at the national level authorities have not steered the selection of projects supporting the development of electronic business or the focusing of related objectives. The lack of national policies and steering has resulted in inefficiency and modest results. Shortcomings were also observed in Employment and Economic Development Centres' and State Provincial Offices' activities as aid authorities. The Ministry of Employment and the Economy should take measures to ensure the best possible use of structural funds in terms of overall economy, minimise project overlap and study the need to support projects better.

The audit observed problems in regional aid authorities' decisions allowing the extension of ESF projects. As the administrative authority for EU structural funds, the Ministry of Employment and the Economy should prepare guidelines for aid authorities concerning the grounds on which project timetables can be extended, supplementing earlier guidelines and setting clearly tighter limits on the number of extensions that can be granted.

7 The current state of central government finances and administration

7.1 Compliance with the budget and key provisions regarding it

The National Audit Office submitted financial audit reports for 119 agencies for fiscal year 2008. This included 87 agencies that must prepare final accounts containing financial statements according to section 63 of the State Budget Decree (“accounting agencies”) as well as 32 other agencies that are not required to prepare financial statements but must submit a review of operations according to section 65 a of the State Budget Decree. The latter are operationally significant agencies for which a ministry has set performance objectives and which are directly accountable to a ministry with regard to budget implementation and their operational performance.

Financial audits for fiscal year 2008 revealed improper procedures in 36 accounting agencies and five other agencies that by themselves or together with other procedures were considered contrary to the budget or key provisions concerning it to such a degree that a qualified opinion on regularity was included in the financial audit report. In 2007 a qualified opinion on regularity was included in the financial audit report for 42 accounting agencies and 12 other agencies.

The total number of agencies receiving a qualified opinion on regularity fell compared with 2007. This was due mainly to a drop in the number of qualified opinions on regular-

ity with regard to the information presented on operational performance and the arranging of performance accounting.

The largest number of qualified opinions on regularity still concerned shortcomings in arranging performance accounting and in presenting annual results for paid activities. Cautions were issued to 11 agencies concerning the monitoring of the profitability of paid activities or the presentation of annual results for paid activities. Shortcomings in other information concerning operational efficiency and the arrangement of performance accounting were the reasons for cautions to 22 agencies. Arranging performance accounting is the precondition for presenting information concerning operational performance in final accounts.

Another significant category consisted of errors concerning the use of funds appropriated in the budget. Cautions regarding such errors were included in 14 audit reports. Since cautions concerned different matters, the total number of errors was nearly 30. The most significant errors involved the exceeding of appropriations in two transferable appropriation items. According to section 85:1 of the Constitution of Finland, a transferable appropriation may not be exceeded. Other cautions in this category concerned errors in the purpose for which funds were intended or

errors in allocating expenditure to the fiscal year, which in fact also signified the lengthening of appropriations' period of use. Errors in the exercising of an authorisation and shortcomings in the monitoring of authorisations led to a qualified opinion on regularity in the financial audit reports for 4 agencies. Shortcomings generally concerned confirming the use of an authorisation and the period of use as well as related accounting.

The National Audit Office also drew attention to certain shortcomings regarding the handling of payment traffic and accounting that were observed during the audit of certain agencies that can also be consid-

ered essential and exceptional gaps in internal control. This has involved procedures regarding the management of central government funds that could also present a substantial risk for the use of funds if they continued. Shortcomings have concerned depositing cash in financial institutions, accounting procedures regarding funds paid to a bank account that are contrary to the budget and section 5 a of the State Budget Decree, the verification of transactions and the sale of movable property on financially unsound grounds using a payment schedule contrary to the budget.

7.2 Obligation to provide information on measures taken as a result of remarks in an audit report

According to section 5:1 of the Act on the National Audit Office, an auditee and the ministry in whose sector the auditee is included must inform the National Audit Office regarding what measures have been taken as a result of the remarks presented in an audit report.

Financial audit reports specify the remarks that require information on measures together with a deadline for providing information. The adequacy of measures is examined in connection with the next audit. Qualified opinions on regularity generally imply such an obligation, but information on measures can be required even if remarks have not led to a qualified opinion on regularity.

Table 1 presents the breakdown of remarks requiring information on measures by administrative sector over a three-year period.

The number of such remarks fell from 24 the previous year to 16. Shortcomings in arranging performance accounting and in presenting information on operational efficiency led to remarks requiring information on measures in 11 financial audit reports (17 in 2007). Essential gaps in internal control led to remarks requiring information on measures in 6 financial audit reports.

In connection with financial audits for 2008, an evaluation was made concerning the effectiveness of remarks requiring information on measures in audit reports for the previous year. Financial audit reports for 2007 required 24 agencies to provide such information. In ten cases the obligation to provide information on measures was renewed in full or in part with regard to 2008.

TABLE 1: REMARKS IN FINANCIAL AUDIT REPORTS REQUIRING INFORMATION ON MEASURES FOR FISCAL YEARS 2006-2008

Administrative sector	Financial audit reports	Remarks requiring information on measures		
		year 2006	year 2007	year 2008
Office of the President of the Republic	1			
Prime Minister's Office	1			
Administrative sector of the Ministry of Foreign Affairs	1	1		1
Administrative sector of the Ministry of Justice	2	2		
Administrative sector of the Ministry of the Interior	13			
Administrative sector of the Ministry of Defence	4	2	2	2
Administrative sector of the Ministry of Finance	13	1	2	2
Administrative sector of the Ministry of Education	28	17	15	7
Administrative sector of the Ministry of Agriculture and Forestry	9	2		1
Administrative sector of the Ministry of Transport and Communications	10	3	2	2
Administrative sector of the Ministry of Employment and the Economy	27	6	2	1
Administrative sector of the Ministry of Social Affairs and Health	7	2	1	
Administrative sector of the Ministry of the Environment	3			
	119	36	24	16

7.3 Budget procedures

The Ministry of Transport and Communications and the Ministry of Education were cautioned about budget procedures in 2008. Remarks concerned the allocation of state aid expenses to the fiscal year and informa-

tion concerning authorisations presented in the budget. Cautions concerning budget procedures were issued in three financial audit reports in 2007 and two financial audit reports in 2006.

7.4 Accounting agencies' financial statements

Table 2 presents information on remarks in financial audit reports concerning financial statements over a three-year period. According to section 63 of the State Budget Decree, government agencies acting as accounting agencies must prepare final accounts for each budget year.

The budget implementation statement contains information on budget appropriation and expenditure as well as information on authorisations and their use. Remarks regarding budget implementation statements were issued to 21 accounting agencies on the basis of financial audits for 2008, which is 12 less than the figure for 2007.

In 2008 authorisations were in use in 43 agencies. Remarks concerning the presentation of information on authorisations or the use of authorisations were included in 12 financial audit reports. These mainly concerned accounting procedures.

Five accounting agencies were cautioned concerning their income and expenditure statement and six concerning their balance sheet. Final accounts were approved substantially later than normal for two accounting agencies and in one case final accounts had still not been approved when the financial audit report was issued.

Five accounting agencies were cautioned about shortcomings in notes to financial statements. Financial audits particularly drew attention to information in notes that can be regarded as supplementing the information presented in financial statements in

an essential way, most importantly information concerning state securities and guarantees and other commitments.

The requirement in section 21 of the State Budget Act that in their final accounts and reviews of operations compiled in order to implement accountability, government agencies must provide true and fair information on their compliance with the budget, their revenues and expenditure and their financial position also applies to agencies that do not act as accounting agencies and are not required by the State Budget Decree to prepare final accounts containing financial statements but must prepare a review of operations under section 65 a of the State Budget Decree.

Information presenting the implementation of the budget is particularly important. A budget implementation statement was prepared by 23 of the 32 agencies in this category. Since the form of presentation has not been prescribed, there has usually been room for improvement. Financial audit reports issued cautions to only five agencies, however. The agencies covered by section 65 a did not present an income and expenditure statement or a balance sheet in their review of operations. Information concerning income and expenditure items or financial position was not examined for these agencies.

In guidelines and steering, attention should be drawn to ensuring that all agencies provide adequate information on matters regarding finances as required in section 21 of the State Budget Act.

TABLE 2: ACCOUNTING AGENCIES CAUTIONED ABOUT FINANCIAL STATEMENTS

	Number of remarks		
	2006	2007	2008
Budget implementation statement	34	33	21
Income and expenditure statement	5	1	5
Balance sheet	8	4	6
Notes to financial statements	10	10	5
Examination of financial statements	1		
Approval of final accounts			3

7.5 Objectives concerning agencies' operational performance and related reporting

Setting of objectives

According to the State Budget Decree, the justifications given in the budget proposal must present performance objectives for social effectiveness and operational performance. Performance objectives have significance as the point of departure for the Government's performance management and for Parliament in deciding on appropriations and evaluating whether objectives have been achieved.

According to section 11 of the State Budget Decree, after Parliament has approved the budget, ministries must approve the breakdown of budgetary accounts and performance objectives without delay. The State Budget Act requires that government agencies must provide true and fair information on operational performance in their final accounts and reviews of operations. According to the State Budget Act and the State Budget Decree, operational performance includes operational efficiency, outcomes and quality management, with consideration also being given to delivery.

In connection with financial audits the National Audit Office has evaluated the scope of the operational performance objectives

approved by ministries. Attention has been focused particularly on objectives regarding operational efficiency. The scope of objectives regarding performances and public goods as well as delivery has also been evaluated, however. The setting of objectives regarding paid activities and information presented on this subject are discussed in section 7.6.

The National Audit Office has evaluated the information received by Parliament in connection with the budget and the Report on the Final Central Government Accounts in separate audits concerning the administrative sectors of the Ministry of Justice and the Ministry of Social Affairs and Health. Summaries of these audits are presented in the National Audit Office's separate report to Parliament on the audit of the final central government accounts for 2008 and the Report on the Final Central Government Accounts (R 12/2009).

Key summary information on the setting of operational performance objectives over a three-year period have been compiled in Table 3.

On the basis of financial audits for fiscal year 2008, the performance objectives that have been approved by ministries, which

TABLE 3: SETTING OF OBJECTIVES IN 2006-2008, PER CENT OF AGENCIES

Year	Economy	Productivity	Delivery	Performances and public goods
2006	29 %	17 %	40 %	61 %
2007	30 %	23 %	53 %	58 %
2008	32 %	40 %	56 %	59 %

are an essential part of performance management, still contain gaps with regard to objectives concerning economy and productivity. Objectives that comprehensively covered essential aspects of economy had been approved for only 32 per cent of agencies. Although the situation with regard to productivity objectives was considerably better than the year before, these had only been set for 40 per cent of agencies in performance agreements.

Evaluating objectives concerning economy and productivity in terms of normal operating costs, economy objectives covered 39 per cent and productivity objectives 53 per cent of government operations.

Financial audits indicated that objectives had been set for 56 per cent of agencies concerning delivery and 59 per cent concerning public goods (53% and 58% in 2007).

Information concerning operational efficiency in final accounts

The State Budget Act and the State Budget Decree contain provisions on government agencies' final accounts. Accounting agencies and those agencies for which a ministry has set performance objectives must provide true and fair information concerning performance in their review of operations. According to the State Budget Decree, the review of operations must present information on opera-

tional performance using appropriate indicators and a comparison with objectives.

Financial audits have strived to determine whether true and fair information has been presented on operational efficiency. This includes an evaluation of the information that has been presented on economy, productivity, the profitability of paid activities and jointly finance activities as far as giving a true and fair view is concerned.

Table 4 contains a breakdown of true and fair information on economy over a three-year period.

Information on economy or corresponding information on costs were judged to be true and fair in 83 agencies or 70 per cent of the agencies for which a financial audit report was issued for 2008 (75 agencies or 64% in 2007, 53 accounting agencies or 54% in 2006). To meet this requirement, presented performance information must give a true and fair view of performance.

Information on productivity was judged to be true and fair in 80 agencies or 67 per cent of agencies (75 agencies or 64% in 2007, 47 accounting agencies or 47% in 2006). Information on productivity was judged to be fair in 93 agencies (93 agencies or 79% in 2007, 66 accounting agencies or 67% in 2006) and true in 87 agencies (81 agencies or 69% in 2007, 56 accounting agencies or 57% in 2006).

Evaluating information on economy and productivity on the basis of agencies' nor-

TABLE 4: TRUE AND FAIR INFORMATION ON ECONOMY IN FINAL ACCOUNTS, PER CENT OF AGENCIES

Year	True information	Fair information	True and fair information
2006	62 %	72 %	54 %
2007	69 %	78 %	64 %
2008	73 %	81 %	70 %

mal operating costs, true and fair information on economy covered 53 per cent and true and fair information on productivity 52 per cent of government operations (42% and 41% in 2007).

The ministries have presented information on economy mainly in the form of cost information by result area or broken down in some other way. Even bearing this in mind, the information provided by Ministry of Defence, the Ministry of Employment and the Economy, the Ministry of Finance and the Prime Minister's Office could not be considered to give a true and fair view. It should be pointed out that the Ministry of Employment and the Economy only went into operation at the beginning of 2008.

Of the 78 agencies that presented cost-covering statements for jointly financed activities, 43 agencies or 55 per cent (33 agencies or 41% in 2007, 24 accounting agencies or 40% in 2006) presented true and fair information on cost-covering. 77% of the agencies in question presented fair information (60% in 2007, 75% in 2006). A key problem in preparing statements and in the comprehensiveness of statements was defining and handling jointly financed activities particularly when funds are obtained by recording expenditure directly as the application of an appropriation administered by the provider of funds.

Examining the information presented on operational efficiency as a whole, information was judged to be true and fair in 74 agencies or 62% of the agencies for which a financial audit report was issued in 2008 (67 agencies or 57% in 2007, 46 accounting agencies or 46% in 2006).

Information on outcomes and quality management in final accounts

With regard to information on outcomes and quality management, financial audits examined information concerning performances and public goods as well as delivery.

The fairness of the information that was presented on performances and public goods was examined in 118 agencies. Information was judged to be fair in 95 per cent of agencies (93% of agencies in 2007, 98% of accounting agencies in 2006). Audits examined true and fair information in 80 agencies and the information provided by 79 agencies or 99 per cent was judged to be true and fair (81 agencies or 91% in 2007, 62 accounting agencies or 97% in 2006).

The fairness of information concerning delivery was examined in 58 agencies and information was judged to be fair in 53 of these (54 agencies or 85% in 2007, 42 accounting agencies or 93% in 2006). Audits examined true and fair information in 33 agencies and the information provided by 91 per cent was judged to be true and fair (26 agencies or 77% in 2007, 16 accounting agencies or 89% in 2006).

Financial audit reports do not contain opinions concerning information presented on social effectiveness. With regard to social effectiveness ministries' accountability is highlighted. Independent external evaluations also have their own importance. In the past five years external evaluations of effectiveness have been conducted in 39 agencies (37 agencies in 2007, 32 accounting agencies in 2006).

7.6 Paid activities

According to section 15:2 of the State Budget Act, the monitoring of the profitability of paid activities must be arranged so that annual results can be presented in connection with the final accounts unless paid activities are minimal. According to section 65 of the State Budget Decree, the review of operations must present information on the profitability of paid activities and a comparison with objectives. The criteria for true and fair information have been spelled out by the State Treasury in an order that requires the presentation of cost-covering calculations by type of performance.

According to central accounting, paid activities produced revenues totalling 1.3 billion euros (likewise 1.3 billion euros in 2007). Performances under public law produced 0.3 billion euros, commercially priced performances 0.7 billion euros and performances on the basis of special legislation 0.3 billion euros.

In 2008 paid activities as referred to in section 15 of the State Budget Act were provided by 96 agencies (95 in 2007). Ministries had set performance objectives concerning paid activities for 72 agencies or 75% of agencies engaged in paid activities (69 agencies or 73% in 2007).

Table 5 contains a breakdown of opinions concerning information on paid activities over a three-year period.

Audits found that 79 agencies had presented true and fair information on paid activities and annual results for paid activities. The corresponding figures the year before were

66 agencies or 69% of the 95 agencies engaged in paid activities.

Evaluating information on paid activities on the basis of revenues from paid activities, true and fair information covered 85 per cent of paid activities (82% in 2007).

With regard to the presentation of information in final accounts on paid activities, as a whole the situation has improved compared with previous years. Qualified opinions on regularity as a result of gaps in the monitoring of paid activities and the presentation of annual results were issued to only 11 agencies (22 agencies in 2007, 21 accounting agencies in 2006). The key reasons for gaps in the presentation of annual results for paid activities concern the arrangement of performance accounting and the allocation of work costs.

The demand for and supply of performances under public law are based on legislation, and authorities or agencies have generally been given exclusive rights to produce performances. Preparing a proper cost-covering statement ensures legal protection for those who are required to pay charges, so that charges are not higher for customers than the general grounds in legislation allow. Special attention should also be paid to monitoring paid activities and annual results when government agencies compete with actors that operate in the private sector.

Audits of paid activities revealed some situations in which commercially priced performances produced a significant deficit.

TABLE 5: TRUE AND FAIR INFORMATION ON PAID ACTIVITIES IN FINAL ACCOUNTS, PER CENT OF AGENCIES ENGAGED IN PAID ACTIVITIES

Year	True information	Fair information	True and fair information
2006	61 %	90 %	61 %
2007	71 %	94 %	69 %
2008	83 %	92 %	82 %

7.7 The current state of performance management on the basis of operational efficiency

Performance management requires that ministries set appropriate performance objectives for agencies and that agencies present true and fair information on their activities in their final accounts.

In performance management it is essential to match resources and objectives concerning outputs. One task of performance management is to coordinate the development of effectiveness and delivery with the management of costs. Objectives and information regarding economy are thus a key part of good performance management. They also provide a basis for evaluating effectiveness, delivery and the economy of activities as a whole.

Figure 1 describes the functioning of performance management from the perspective of steering and reporting regarding economy. The coverage of performance objectives set by ministries concerning economy and the information presented by agencies in their review of operations have been used as criteria. Percentage shares in 2006 are based on the number of accounting agencies that were audited, while in 2007 and 2008 shares are based on the total number of agencies for which financial audit reports were issued.

Evaluating the current state of performance management on the basis of the setting of performance objectives and true and fair information concerning them, it appears that

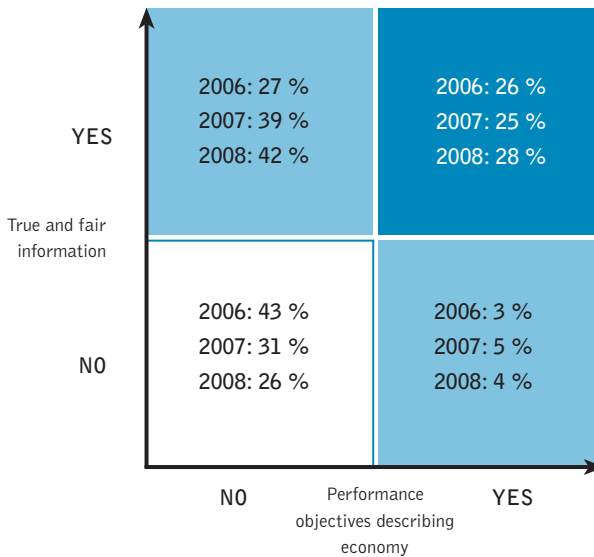


Figure 1: Performance objectives describing economy and information in final accounts

no substantial changes have taken place in performance management compared with previous years. The share of agencies that have been steered with adequate objectives concerning economy and have reported true and fair information is still quite small, amounting to 28 per cent of agencies (25% of agencies in 2007, 26% of accounting agencies in 2006). Evaluated on the basis of normal operating costs, this covered only 27 per cent of government operations (17% in 2007).

With regard to the presentation of true and fair information on economy, the situation has improved in the past three years. True and fair information on economy was presented by 70 per cent of agencies in their review of operations. The corresponding figure was 64 per cent in 2007 and 54 per cent in 2006.

Performance objectives regarding economy had been set for 38 agencies or 32 per cent of all agencies. True and fair information was presented by 33 of these or 87% (83% in 2007, 90% in 2006). Among the agencies for which economy objectives had not been set (81 agencies), only 50 or 62% presented true and fair information (55% in 2007, 39% in 2006).

If in evaluating the current state of performance management one combines the setting of objectives concerning economy and productivity and the presentation of true and fair information on them, the share of agencies that have been steered with adequate objectives and have presented true and fair information is only 17 per cent. Agencies that have not been set adequate economy and productivity objectives by the ministry and have not presented true and fair information on economy and productivity made up 31 per cent of agencies.

Implementing performance management and accountability requires measures by ministries and agencies to develop performance objectives and related monitoring so that they are in line with the principles laid out in the State Budget Decree. Ministries should together with agencies study how objectives are set for performance, taking into consideration different subareas of performance, and what information needs to be presented in the review of operations to give a true and fair view of performance.

7.8 The current state of internal control and risk management

Internal control has been evaluated in financial audits conducted by the National Audit Office using risk analysis and has been examined in connection with the audit of accounting, the monitoring of authorisations and performance accounting both in the course of audits and separately in connection with other audits. Performance audits conducted by the National Audit Office have evaluated risks associated with administrative steering systems and operational chains and how these are managed as well as internal control particularly from the perspective of activities' social effectiveness and the presentation of a true and fair view of performance and economy and activities as a whole. Shortcomings that have been observed in steering, operational and reporting systems are also shortcomings in internal control and risk management at the government and ministerial sector levels.

The transfer of funds between Finland and the European Union and the use of such funds is also examined as part of financial audits. In this area audits have drawn attention not only to the correctness of accounting and regularity but also to the steering of activities as well as questions concerning the man-

aging of funds and the arranging of internal control. Audit positions have been reported to the accounting agencies that have been covered by audits or are responsible for correcting shortcomings.

Table 6 describes the current state of internal control in administration.

With regard to internal control, on the basis of the number of agencies that have been cautioned in this matter, the situation appears to have improved from the previous year as far as accounting is concerned. No essential shortcomings were observed in the internal control of accounting in 78 per cent of agencies (73% in 2007, 67% in 2006). Essential shortcomings in the internal control of accounting that required corrective measures were observed in 15 per cent of agencies (19% of agencies in 2007, 28% of accounting agencies in 2006). Judging from the number of qualified opinions on regularity, some agencies apparently had to be cautioned about more than one matter.

Turning to the monitoring of authorisations, essential shortcomings in internal control that required corrective measures were observed in 30 per cent of agencies (36% of agencies in 2007, 39% of accounting agen-

TABLE 6: INTERNAL CONTROL IN FISCAL YEAR 2008, PER CENT OF AGENCIES (AUTHORISATIONS IN 44 AGENCIES)

	Accounting	Monitoring of authorisations	Performance accounting	Other internal control
a) no essential shortcomings	78 %	66 %	69 %	67 %
b) essential shortcomings, but corrective measures taken	7 %	5 %	10 %	5 %
c) essential shortcomings that required corrective measures	15 %	30 %	21 %	28 %

cies in 2006). These mainly concerned accounting procedures.

Key provisions concerning performance accounting are section 15:2 and section 16 of the State Budget Act. More detailed provisions are contained in section 55 of the State Budget Decree, which requires that an agency must arrange performance accounting along with other accounting so that it produces the essential information required for the external steering of the agency as well as the information required in the agency's final accounts and review of operations.

With regard to performance accounting the situation in administration from the perspective of internal control appears to be roughly the same as the previous year. Financial audits observed essential shortcomings in this subarea of accounting on the basis of which audit reports called for corrective measures in 21 per cent of agencies (23% of agencies in 2007, 35% of accounting agencies in 2006). A key shortcoming in the administration of performance accounting remains the allocation of work costs. Accounting is also a critical factor for the presentation of true and fair information on economy, productivity, the profitability of paid activities and cost-covering for jointly financed activities in most cases.

The financial rules that are prescribed in section 69 b of the State Budget Decree are a key tool in arranging accounting agencies' internal control. Financial audits for 2008 found that financial rules were adequate in 95 per cent of accounting agencies (79 accounting agencies or 94% in 2007, 89 accounting agencies or 90% in 2006).

According to section 65 of the State Budget Decree, the review of operations must contain an assessment of the regularity and adequacy of internal control and risk management together with a statement on the current state of internal control and essen-

tial development needs in this respect. Financial audit reports addressed remarks on this statement to 4 agencies (12 agencies in 2007, 13 accounting agencies in 2006). Remarks concerned the scope and preparation of the statement. Management has generally focused attention on the development and evaluation of internal control and risk management. Audits indicated that there are essential differences in procedures among agencies, however. On the basis of audits, attention was drawn to the need for statements to cover the current state of internal control and not only areas being developed. Management's responsibility for internal control should be underlined in statements. In statements and background memoranda, attention should be paid to continuity from year to year.

System audits

The main purpose of the system audits that are conducted in connection with financial audits was to ensure that key internal control procedures and data security linked to systems and their operating environment were arranged in an appropriate manner.

System audits primarily examined financial administration systems and systems producing information for them as well as systems linked to their operating environment. Audits focused on seven large or fairly large accounting agencies and two service centres. Nine system audits were conducted in 2008. One of these was a follow-up audit.

Key matters that were examined in audits included risks associated with the use of systems and related management, controls, user rights, other internal control procedures and the arranging of data security. If necessary, outsourced functions and services linked to

the use of systems and related management as well as data security were examined more closely to ensure the regularity of arrangements and procedures.

Key audit findings concerned the segregation of duties and the division of labour (especially potential conflicts of interest); the management and supervision of user rights;

the need to clarify responsibilities and monitoring procedures; documentation, including contracts, data security documents, descriptions of procedures and logs; and logical protection. Audits also observed problems resulting from delays in the completion of systems. Audit findings were reported in connection with financial audits.

7.9 Internal audit

According to section 70 of the State Budget Decree, the management of a government agency must arrange internal audit if there are grounds for this in view of the internal control procedures required in sections 69 and 69 a of the same decree. The purpose of internal audit is to allow management to determine whether internal control is appropriate and adequate and to perform the audit tasks specified by management. The arranging of internal audit must be in line with general standards and recommendations. Internal audit procedures and internal audit's status in the organisation are prescribed in internal audit guidelines.

According to financial audits for 2008, internal audit was arranged by 70 agencies or 59 per cent of agencies (64% of agencies in 2007, 67% of accounting agencies in 2006).

Internal audit required about 102 person-years in total (114 person-years in 2007, 107 person-years in 2006), of which about 15 person-years was outsourced (15 person-years in 2007 and in 2006). The requirement in the State Budget Decree that general standards and recommendations must be taken into consideration in arranging internal audit underlines the need for quality, professionalism and independence in this work. Among the agencies that had internal audit in 2008, the input in internal audit using the agency's own personnel was roughly one person-year or less in 29 agencies (33 agencies in 2007).

Internal audit guidelines were considered appropriate in 67 agencies or 96 per cent of agencies that had internal audit (91% of agencies in 2007, 85% of accounting agencies in 2006).

7.10 Current state of the management and supervision of EU funds in Finland

According to the principle of equal protection, as part of performance audit and financial audit the National Audit Office examines the management and supervision of EU funds in the same scope and according to the same principles and procedures that apply to national funds on the basis of the International Standards of Supreme Audit Institutions (ISSAI), which have been endorsed by INTOSAI. Many activities receiving EU funds also involve the allocation of national funds, so the National Audit Office does not focus special attention on EU funds based on separate monetary unit sampling.

In addition to the regularity of accounting and the legality of activities, audits conducted by the National Audit Office pay attention to appropriate steering and particularly questions regarding the management of funds and the arranging of internal control.

Financial audits expressly concerning the transfer of EU funds in 2008 dealt with projects and aids to business co-financed from the Rural Development Fund at the Employment and Economic Development Centre for Satakunta and the Agency for Rural Affairs. An audit of the administration of European Social Fund projects focused on the Ministry of Employment and the Economy and the Employment and Economic Development Centre for Ostrobothnia.

The performance audits conducted by the National Audit Office focus on the effectiveness of measures financed entirely or partly with EU funds. Performance audits have examined support systems for rural development and agriculture as well as activities receiving structural funds. Performance audits concerning support systems for rural development and agriculture have approached the

subject from the perspective of taking advantage of Community support systems in Finland and particularly systems' compatibility with national objectives. Performance audits concerning activities receiving structural funds have paid special attention to programmes' impacts and particularly impacts on employment.

On the basis of financial and performance audits conducted by the National Audit Office, the system for managing and monitoring EU funds provides adequate assurance of the regularity of measures in view of essentiality. However, the system for managing and monitoring EU funds has not paid adequate attention to evaluating effectiveness so as to ensure that EU funds are utilised in an effective and responsible manner.

The complicated nature of the system for managing and monitoring EU funds hinders the efficient operation of the system and increases its costs. The complicated nature of the system and its consequences were highlighted in an audit concerning the Ministry of Employment and the Economy, in which attention was drawn to statements issued by the auditing authority for structural funds at the Ministry of Finance that have concerned risks associated with the managing of EU funds and the complicated management of structural funds, among other things. In its review of operations the Ministry of Employment and the Economy has not mentioned the risks cited by the auditing authority or measures taken in response to them. The Ministry of Employment and the Economy has, however, appointed a working group to propose measures aimed at simplifying the system for managing structural funds.

7.11 Current state of the administration and control of state aids and support

State aids are a major expense category in the budget, and provisions concerning the granting, payment and application of state aids are contained in various acts. The function of internal control is to ensure the regularity of state aid procedures.

In connection with financial audits the National Audit Office examined state aid procedures in 31 agencies. Findings regarding the internal control of state aids were as follows:

	Year 2006	Year 2007	Year 2008
a) no essential shortcomings	67%	14%	45%
b) essential shortcomings, but corrective measures taken	11%	14%	0%
c) essential shortcomings that required corrective measures	22%	71%	55%

In 2008 financial audits focusing on state aids were conducted in four ministries, the Employment and Economic Development Centres, the State Provincial Offices and seven other agencies. On the basis of the audits that were conducted in 2007 and 2008, it would appear that the situation regarding the internal control of state aids has weakened substantially. Data are significantly influenced, however, by the number and type of agencies in which audits are conducted and what state aids are involved. The results for 2008 and 2007 can be attributed partly to

joint audits of all 15 Employment and Economic Development Centres. In 2008 the audit of the Employment and Economic Development Centres examined the administration process for aids to business and employment training procurements recorded as state aids. Several follow-up audits were also conducted. Audits generally noted some shortcomings in internal control, which the Employment and Economic Development Centres should address. In employment training procurements there is a risk that the state will finance part of the shared costs of training twice, since government transfers for education and culture are granted for training leading to similar qualifications.

The audits of the other 16 agencies in 2008 concerned aids for maritime traffic, agricultural support for farms, government transfers to social welfare and health departments in the State Provincial Offices and local cooperation funds. These audits found essential shortcomings in two agencies with regard to the arranging of internal control.

On the basis of the financial audits that were conducted, agencies have paid attention to administrative procedures regarding state aids. Shortcomings typically involve the checking of grounds for granting state aids and the control of state aids.

Performance audits concerning state aids and support were discussed in Chapters 4 and 6 above.

7.12 Current state of central government procurement

According to the information in the central government accounts, central government procurements totalled about 8.3 billion euros in 2008, including 2.4 billion euros in procurements of fixed assets. The National Audit Office has strived to correct shortcomings in procurement activities by focusing audits on procurements of both goods and services and by examining all stages of the procurement process.

Financial audits examined compliance with the joint procurement procedure referred to in the State Budget Act as well as procurement procedures in 53 agencies (20 agencies in 2007, 28 accounting agencies in 2006). Findings regarding the internal control of procurements were as follows:

	Year 2006	Year 2007	Year 2008
a) no essential shortcomings	79%	85%	55%
b) essential shortcomings, but corrective measures taken	11%	5%	4%
c) essential shortcomings that required corrective measures	11%	10%	42%

On the basis of financial audits, it would appear that the current state of central government procurement has weakened sub-

stantially. Shortcomings requiring corrective measures were found in 42 per cent of the agencies in which the current state of procurement was examined in financial audits. One factor influencing this result, however, is that audits in 2008 examined compliance with the joint procurement obligation referred to in the State Budget Act in a broader scope than before.

Compliance with the joint procurement obligation was examined in 24 agencies, and shortcomings in procurements involving framework agreements were observed in 21 of these.

With regard to procurements not covered by the joint procurement obligation, agencies have essentially complied with the provisions in procurement legislation in repetitive purchases. Procedures regarding one-off or occasional purchases include shortcomings and are open to interpretation. The riskiest areas with regard to compliance with procurement legislation are considered to be expert and research services, furniture and equipment purchases and building services. Owing to shortcomings in procurement procedures, procurements co-financed from structural funds may present a risk concerning eligibility for support.

7.13 Complaints regarding the management of central government finances and abuses

Complaints

The National Audit Office received 41 complaints regarding the management of central government finances in 2008. The figure the previous year was 57. Complaints regarding the management of central government finances were submitted by private citizens and organisations, in whose opinion a body falling within the National Audit Office's mandate has acted irregularly or improperly. Complaints were broken down fairly evenly between different sectors that fall within the National Audit Office's mandate. They concerned government agencies, recipients of state aids, state-owned companies and the application of EU funds.

In investigating complaints, the National Audit Office has requested a statement or further information from the authority in question in about half of cases. In decisions regarding complaints that were issued last year, the National Audit Office noted in about one-fifth of cases that the matter had been examined or would be examined in connection with an audit. In about one-fifth of cases the authorities in question said they would take measures to correct observed shortcomings when the matter was brought up. In a further one-fifth of cases the National Audit Office called for an agency to take measures to correct an irregularity or shortcoming. Roughly 10 per cent of complaints were handed over to another body, often a ministry, to resolve, and about 10 per cent of complaints did not warrant measures on the National Audit Office's part. About one-fifth of complaints concerned matters that do not

fall within the National Audit Office's mandate.

Sale of Kemira's fertilizer business to a foreign company

The following is a summary of one decision issued by the National Audit Office regarding a complaint that required more extensive handling than is normally required. It involved the Government's decision to sell Kemira's fertilizer business to a foreign company. Two written questions were submitted to Parliament on this matter in 2008, requiring a response from the Government.

The complaint received by the National Audit Office drew attention to the sale of Kemira GrowHow Oyj to Yara International ASA of Norway. The National Audit Office requested a statement from the Ownership Steering Department at the Prime Minister's Office regarding the complaint. In studying the matter the National Audit Office also had access to a ruling by a court of arbitration as well as documents pertaining to the transaction.

In the opinion that it issued on the complaint, the National Audit Office considered that the decisions leading to the sale in question were made following adequate preparation on the basis of the best knowledge that was available in view of economic and political realities at the time. In the opinion of the National Audit Office, in connection with the sale of Kemira GrowHow and from the viewpoint of central government finances, the Government and the Prime Minister's Office

acted within the scope of their authority in a reasonable manner. The National Audit Office also drew attention to the fact that it was in the interests of Finnish food production for the Finnish Government to have a say in who would become Kemira GrowHow's long-term owner.

The transaction was approved by the European Commission and the terms of sale were altered to meet EU requirements before the sale was finalised.

Reports of abuses

According to section 16 of the Act on the National Audit Office, an authority must immediately report any offence involving state funds or property which it manages or for which it is responsible to the National Audit Office. If an auditee has not reported an offence involving funds or property which it manages or for which it is responsible, the National Audit Office can report any offence it has observed in audit activities.

On the basis of reports as well as other information that comes to light in audits, the National Audit Office monitors and considers abuses in administration together with their consequences for central government finances and measures to prevent abuses. On the basis of the monitoring of abuses, the threshold for authorities to report an offence or request an investigation concerning abuses involving their own activities can in some cases be considered too high. Requests for an investigation and other appropriate measures after abuses have been observed should be viewed as part of efficient internal control.

In 2008 government agencies filed 28 reports concerning abuses as required by law (36 in 2007). Government agencies also submitted 13 other reports of abuses to the Na-

tional Audit Office in 2008 (7 in 2007). These involved abuses that agencies are not required by law to report to the National Audit Office, but which agencies chose to report nonetheless. These cases have generally concerned abuses by recipients of state aids. The largest category of reports concerned the improper use of credit cards by government employees. Other reports fell into various categories.

The Ministry of Employment and the Economy and the Agency for Rural Affairs, which administer EU aids, also submit copies of their reports to the European Union on the monitoring of aids under Commission Regulation (EC) No 1681/94, amended by Commission Regulation (EC) No 2035/05, to the National Audit Office. Reports are made for each structural fund quarterly. The National Audit Office received 64 such reports for 2008 (108 for 2007). The figure includes both new and follow-up reports.

The Ministry of Employment and the Economy has submitted reports to the National Audit Office on irregularities involving the European Regional Development Fund and the European Social Fund.

The National Audit Office received 18 reports concerning the European Regional Development Fund (16 for 2007), including 13 new and 5 follow-up reports. The amount of funds in question ranged from 18,256 to 259,454 euros (9,345 to 124 576 euros for 2007). All 18 reports thus involved more than 10,000 euros (13 for 2007).

The National Audit Office received 24 reports concerning the European Social Fund (41 for 2007), including 11 new and 13 follow-up reports. The amount of funds in question ranged from 3,071 to 633 511 euros (3,523 to 672,752 euros for 2007). The number of reports involving more than 10,000 euros was 20 (28 for 2007).

The Agency for Rural Affairs submitted 22 reports to the National Audit Office for 2007 (51 for 2007) on the basis of the above Regulation and Regulation (EC) No 1848/2006. The figure includes both new and follow-up reports. The amount of funds in question ranged from 6,514 to 280,736 euros (4,400 to 863,259 euros for 2007). The number of reports involving more than 10,000 euros was 19 (40 for 2007).

Reports of abuses reflect shortcomings in internal control. The aim is to prevent abuses by emphasising the importance of internal control in agencies. According to section 65 of the State Budget Decree, an accounting agency's review of operations must include a statement regarding the assessment of internal control and essential developmental needs in this area. It must also include information on errors and abuses in summary form.

8 Key audit findings by administrative sector

8.1 Office of the President of the Republic

The Office of the President of the Republic operates as an accounting agency.

According to the financial audit report, the Office of the President of the Republic has complied with the budget and key provisions regarding it.

The information presented in the review of operations was considered true and fair.

No performance audits were conducted concerning the Office of the President of the Republic.

8.2 Prime Minister's Office

The Prime Minister's Office operates as an accounting agency.

A qualified opinion on regularity that was included in the financial audit report concerned the arranging of performance accounting.

The Prime Minister's Office did not set objectives regarding economy and productivity, nor could the information presented in the final accounts be considered true and fair in this respect.

No performance audits were conducted concerning the Prime Minister's Office.

In spring 2009 the National Audit Office followed up an audit regarding the state's associated companies and the state as a minority shareholder (128/2006). Attention was focused on the state's minority holdings, ownership steering arrangements and key changes in the state's ownership policy and legislation regarding state-owned companies, as well as the implementation of the recommendations that were made in the audit.

Currently the state's ownership activities are based on the State Shareholdings and Ownership Steering Act (1368/2007). The main difference compared with the earlier Act on State-owned Companies (740/1991) concerns provisions on decision-making authority and norms applying to ownership arrangements, nor did the new act signify changes in the state's ownership steering or operating principles in this regard. In approving the State Shareholdings and Ownership Steering Act, no decisions were made concerning the sale or reduction of state holdings. Under the new act ownership limits in some companies changed, however, since parliamentary authorisation is required

in only two cases and ownership limits were adapted to these.

The Government resolution on the state's ownership policy serves as a guideline and sets out key principles and operating practices regarding state ownership. The most recent Government resolution, issued on 7 June 2007, differs only slightly from the previous resolution, which was issued on 19 February 2004. It places clearer emphasis on market-based operations and the avoidance of special liabilities on the part of the state. The introduction points out that decision-making on ownership policy is up to the relevant authorities while decision-making on business issues is up to companies' own organs.

The state's ownership steering was centralised on 1 May 2007, when the ownership control of state-owned companies operating on market terms was shifted to the Ownership Steering Department at the Prime Minister's Office. The department's basic functions are ownership strategy work together with supporting analysis and monitoring. The ownership steering of state-owned companies that have been assigned special tasks was left up to the appropriate ministries.

At the end of 2008 state holdings in non-strategic listed companies were transferred to Solidium Oy as a capital contribution. Parliament approved the matter in connection with the third supplementary budget for 2008. Solidium is a fully state-owned holding company whose object is to acquire shares in companies that are considered to have value for society and to maintain or gradually reduce shares in existing holdings. Solidium is an new ownership policy tool that allows a more active approach to portfolio manage-

ment and greater flexibility in selling and acquiring holdings. The state subsequently transferred its entire holding in Elisa Oy (a telephone operator) to Solidium as a capital contribution in June 2009 and now has minority holdings in nine listed companies through Solidium. These are the state's most important minority holdings, with a value of roughly 7.1 billion euros in mid-August.

Meeting in full session on 5 February 2009, the Government decided that Solidium Oy should be split into two limited companies,

with Solidium Oy handling securities trading and Governia Oy real-estate business. The latter company was established on 30 April 2009.

The recommendations that were made in the audit, which concerned the definition of a state-owned company, the transfer of listed shares to centralised ownership steering, the centralisation of unlisted telephone shares and participations, and the maintaining and updating of the list of the state's associated companies have been implemented.

8.3 Administrative sector of the Ministry for Foreign Affairs

The administrative sector of the Ministry for Foreign Affairs operates as an accounting agency.

A qualified opinion on regularity that was included in the financial audit report concerned the recording of certain revenues, the allocation of expenses to the fiscal year, the carrying over of an appropriation and certain practices regarding payment traffic and accounting.

The Ministry for Foreign Affairs did not set objectives regarding economy and productivity. The ministry's final accounts described economy and productivity in terms of the breakdown of person-years and costs

by task. The information that was presented regarding operational efficiency was considered true and fair for the most part.

Shortcomings were observed in internal control in the administrative sector of the Ministry for Foreign Affairs, and the ministry should take measures to correct them. Shortcomings mainly concerned the allocation of expenses to the fiscal year and certain practices regarding payment traffic and accounting, as mentioned above.

A performance audit was conducted concerning the procurement of expert and research services at the Ministry for Foreign Affairs.

8.4 Administrative sector of the Ministry of Justice

Accounting agencies in the administrative sector of the Ministry of Justice are the ministry and the Criminal Sanctions Agency.

Objectives regarding productivity were set for the ministry and the Criminal Sanctions Agency, but objectives regarding economy were considered adequate only for the ministry. In financial audits, the information that was presented in final accounts by both regarding operational economy and productivity was considered true and fair.

The following performance audits were conducted in the administrative sector of the Ministry of Justice:

- The supervision of party subsidies
- The steering system in the administrative sector of the Ministry of Justice

The audit of the steering system in the administrative sector of the Ministry of Justice is described in the National Audit Office's separate report to Parliament on the audit of the final central government accounts for 2008 and the Report on the Final Central Government Accounts (R 12/2009 vp).

The audit of the supervision of party subsidies sought to determine whether party subsidies have been granted and used in a regular manner and whether the Ministry of Justice has supervised the use of party subsidies as required by legislation.

The audit found that party subsidies were granted in a regular manner in 2007 and that parties receiving subsidies complied with conditions regarding their use. Parties and associated women's organisations and local chapters submitted approved final accounts and other documents required by the Ministry of Justice. In the opinion of the National Audit Office, the Ministry of Justice has issued guidelines for and supervised the use of party subsidies as required by legislation.

On the basis of the audit, the National Audit Office does not see any reason to maintain a separate state aid system for party subsidies. Procedures according to the Act on Discretionary Government Transfers should be applied to party subsidies and related practices. The transparency of parties' use of funds is promoted by the publicity of the use of funds. Consideration should be given to the publication of parties' final accounts by the Ministry of Justice. The National Audit Office also considers that, as part of supervising parties' use of funds, the Ministry of Justice should audit bookkeeping down to the receipt level. The Ministry of Justice could take advantage of the possibility provided in the Act on Political Parties to appoint an outside auditor approved by the Central Chamber of Commerce for this task.

8.5 The administrative sector of the Ministry of the Interior

At the beginning of 2008 the State Provincial Offices and the Population Register Centre were transferred to the administrative sector of the Ministry of the Interior. The Ministry of the Interior as an accounting agency includes all the agencies in its administrative sector. The ministry and the Border Guard have the greatest significance in money terms. The National Audit Office also issued financial audit reports on all 12 agencies for which the ministry had set performance objectives and which were therefore required to prepare a review of operations according to section 65 a of the State Budget Decree.

The financial audit of one of the agencies in the administrative sector of the Ministry of the Interior, namely the ICT Service Centre, contained a qualified opinion on regularity concerning the arranging of performance accounting.

Information on economy was considered true and fair in nine agencies and information on productivity in ten agencies. Information on paid activities was considered true and fair for all the agencies in the administrative sector that were engaged in paid activities.

The objectives regarding economy and productivity that were set by the Ministry of the Interior were considered adequate for the most part. The economy objectives approved by the ministry were considered adequate in

the ministry and eight agencies and objectives regarding productivity in eight agencies.

Evaluating the current state of performance management in the administrative sector of the Ministry of the Interior on the basis of the setting of performance objectives regarding economy and the presentation of true and fair information in final accounts in this respect, six agencies received adequate supervision and supplied true and fair information on economy. The objectives that the ministry set for its own activities were also considered adequate and the information that the ministry presented in this respect was considered true and fair.

In the administrative sector of the Ministry of the Interior, nine agencies were found to have shortcomings in internal control that require corrective measures. These concerned the arranging of performance accounting.

The following performance audits were conducted in the administrative sector of the Ministry of the Interior:

- The relocation of the Police IT Management Agency
- The Shared Service Centre of the Ministry of the Interior
- Changes in financial administration in ministries, agencies and units

These audits are discussed in Chapter 3.

8.6 The administrative sector of the Ministry of Defence

Accounting agencies in the administrative sector of the Ministry of Defence are the ministry, the Defence Forces, the Construction Establishment of the Defence Administration and the Shared Service Centre of the Defence Administration.

A qualified opinion on regularity that was included in the financial audit report for the Ministry of Defence concerned failure to comply with the budget in applying funds and the arranging of performance accounting. The ministry was also required to supply information on measures to correct shortcomings in the arranging of performance accounting.

A qualified opinion on regularity that was included in the financial audit report for the Defence Forces concerned failure to comply with the budget in applying funds, the monitoring of authorisations, the arranging of performance accounting, and the monitoring of the profitability of paid activities and the presentation of annual results for paid activities. The Defence Forces were also required to supply information on measures to correct shortcomings in the arranging of performance accounting.

Financial audits found that adequate objectives regarding economy had been set

for the ministry, the Construction Establishment of the Defence Administration and the Shared Service Centre of the Defence Administration. Productivity objectives were considered adequate for the Defence Forces and the Shared Service Centre of the Defence Administration.

Evaluating the current state of performance management in the administrative sector of the Ministry of Defence with regard to the setting of performance objectives and the supplying of true and fair information in final accounts in this respect, the Construction Establishment of the Defence Administration and the Shared Service Centre of the Defence Administration received adequate supervision and supplied true and fair information on economy.

One financial audit in the administrative sector of the Ministry of Defence found shortcomings in internal control concerning the monitoring of authorisations and two financial audits found shortcomings in internal control concerning the arranging of performance accounting that require corrective measures.

No performance audits were conducted in the administrative sector of the Ministry of Defence.

8.7 Administrative sector of the Ministry of Finance

The administrative sector of the Ministry of Finance includes eight accounting agencies as well as the ministry. Among these the National Board of Taxes and Customs are key collectors of central government revenues. Other agencies in the administrative sector are the State Treasury, Statistics Finland, the Government Institute for Economic Research and the State Provincial Office of Southern Finland. The National Audit Office also issued financial audit reports on four State Provincial Offices for which the ministry had set performance objectives and which were therefore required to prepare a review of operations according to section 65 a of the State Budget Decree.

A qualified opinion on regularity that was included in the financial audit report for the Ministry of Finance concerned the monitoring of the profitability of paid activities and the presentation of annual results for paid activities as well as the arranging of performance accounting. The ministry was also required to supply information on measures to correct shortcomings in this respect.

A qualified opinion on regularity that was included in the financial audit report for Customs concerned the monitoring of the profitability of paid activities and the presentation of annual results for paid activities as well as the arranging of performance accounting and balance sheet specifications verifying the final accounts. The financial audit report required Customs to supply information on inconsistencies between the general ledger and balance sheet specifications, the preparation of balance sheet specifications and the arranging of performance accounting.

A qualified opinion on regularity that was included in the financial audit report for the State Treasury concerned the exceeding of two transferable appropriations and the carrying over of a net-budgeted appropriation to the following year.

On the basis of financial audits, the National Audit Office concluded that the Ministry of Finance has approved adequate objectives regarding economy for the National Board of Taxes, Customs and Statistics Finland. Objectives regarding productivity were considered adequate for Customs, the National Board of Taxes, the Government Institute for Economic Research and Statistics Finland.

Information on economy was considered true and fair for the State Treasury, the National Board of Taxes, the State Provincial Office of Southern Finland and Statistics Finland. Information on productivity was considered true and fair for all the accounting agencies in the administrative sector with the exception of the Population Register Centre, the Government Institute for Economic Research and the State Provincial Office of Åland. The Ministry of Finance again failed to supply true and fair information on economy or productivity with regard to its own activities.

Evaluating the current state of performance management on the basis of the setting of performance objectives regarding economy and the presentation of true and fair information in final accounts in this respect, only two agencies in the administrative sector of the Ministry of Finance received adequate supervision and supplied true and fair information on economy, namely Statistics Finland and the National Board of Taxes.

In the administrative sector of the Ministry of Finance, two financial audits found shortcomings in financial rules. In addition to the ministry, seven agencies were found to have shortcomings in internal control that require corrective measures. These mainly concerned the managing and arranging of performance accounting. Financial audits observed shortcomings that require corrective measures in the internal control of accounting in two agencies and in the monitoring of authorisations in three agencies.

The following performance audits were conducted in the administrative sector of the Ministry of Finance:

- Central government debt management
- The steering and administration of off-budget funds
- Vehicle taxation

The audits of central government debt management and the steering and administration of off-budget funds are discussed in Chapter 3.

The audit of vehicle taxation looked at operational and financial problems in the levying of vehicle tax, particularly on used vehicles. The Ministry of Finance is responsible for preparing vehicle taxation, while the practical implementation of vehicle taxation is the responsibility of Customs. Vehicle tax revenues total about 1.2 billion euros a year, with new vehicles accounting for nearly 90 per cent of the figure in 2007.

The audit found that levying tax on used vehicles is very expensive: costs are in fact thirty times higher in relation to tax revenues compared with taxes on new vehicles. The taxation of used vehicles has also raised a number of difficult EU legal questions. On the basis of EU legal practice, it has been necessary to amend legislation, even retroactively. Adjusting vehicle taxation to EU legislation has largely been left up to individual citizens' activeness, since the Ministry of Finance has only taken measures when required to do so by judgments of the Court of Justice. The situation has led to an unusually large number of appeals and caused unnecessary costs. This phenomenon together with long processing times may have eroded citizens' trust in the fairness of the tax system.

On the basis of the audit, the National Audit Office considers that vehicle taxation particularly with regard to used vehicles has not been conducted in a cost-effective manner and in line with the principles of good governance. According to preliminary evaluations, the new vehicle tax system based on specific carbon dioxide emissions that was introduced at the beginning of 2008 appears to be working so as to meet environmental objectives. It cannot solve the legal problems mentioned above, however. Changes in the appeal process regarding vehicle taxation and in the transparency of tax assessment are steps in the right direction.

8.8 The administrative sector of the Ministry of Education

In addition to the ministry, the administrative sector of the Ministry of Education includes 27 accounting agencies, 20 of which are universities.

A qualified opinion on regularity was included in the financial audit reports for the ministry and 18 accounting agencies in the administrative sector of the Ministry of Education. Although the arranging of performance accounting has developed particularly with regard to the allocation of working time, Qualified opinions on regularity in the case of universities most often concerned shortcomings in the arranging of performance accounting and the presentation of information on operational efficiency. Other reasons for Qualified opinions on regularity were failure to comply with the budget in applying funds or the allocation of expenses to the fiscal year as well as substantial shortcomings in the handling of payment traffic and accounting.

Seven accounting agencies were required to supply information on measures to correct shortcomings concerning the internal control of accounting, the development of performance accounting and the collection of receivables.

According to financial audits, the Ministry of Education still has not set adequate objectives regarding economy and productivity for the accounting agencies in its administrative sector. The ministry and 11 accounting agencies supplied true and fair information on economy. Information on productivity was considered true and fair in 11 accounting agencies. Only six universities presented information on economy and productivity that was considered true and fair in financial au-

aits. The information that was presented on paid activities and annual results for paid activities was considered true and fair in 19 accounting agencies. A key shortcoming in the arranging of performance accounting in universities remains the allocation of working time and related cost accounting. Although procedures have been improved, they still did not produce true and fair information in final accounts for 2008 in all respects.

Evaluating the current state of performance management in the administrative sector of the Ministry of Education on the basis of the setting of performance objectives regarding economy and the presentation of true and fair information in final accounts in this respect, performance management has not been implemented in the administrative sector.

The ministry and 16 other accounting agencies in the administrative sector of the Ministry of Education were found to have shortcomings in internal control that require corrective measures. These mainly concerned the managing and arranging of accounting, payment traffic and performance accounting. Financial audits found shortcomings in the internal control of accounting that require corrective measures in 10 agencies.

The following performance audits were conducted in the administrative sector of the Ministry of Education:

- The steering and funding system for basic education
- Developing relevance for working life at universities of applied sciences

The audit of the steering and funding sys-

tem for basic education is discussed in Chapter 4.

The audit on developing relevance for working life at universities of applied sciences examined how universities of applied sciences take the needs of working life and business into consideration. The audit focused on two key education programmes, building technology and nursing.

The audit found that concrete operational plans to deepen cooperation with working life are needed to achieve the general goals described in the strategies adopted by the universities of applied sciences. The audit also revealed that the content of syllabuses varies considerably not only between universities of applied sciences but also between different units at the same university of applied sciences.

In the opinion of the National Audit Office, practical training should be linked more closely to education in syllabuses and the connection between teaching and practical training should be improved. Teachers should also be encouraged to take time off to participate in working life so as to avoid an overly theoretical approach. In order to develop connections with working life, universities of applied sciences should be given

greater responsibility for arranging practical training.

In spring 2009 the National Audit Office conducted a follow-up audit on preventing young people's exclusion (146/2007). The audit approached the broad subject of preventing exclusion through two types of measures, pupil welfare services and young people's workshops. On the basis of the follow-up, the evaluation of the effectiveness of measures aimed at preventing exclusion is still inadequate. Information regarding the economic significance of preventing exclusion is fragmented and cannot be used to evaluate the costs of measures. Preventing exclusion and related measures have received considerable attention since the audit was completed. Recently an attempt has been made to coordinate projects aimed at preventing exclusion, but cross-sectoral cooperation involving professionals in different fields still needs to be improved. Fragmented and overlapping legislation hinders the flow of information and can delay intervention in the case of individual children or young people. Resources are still focused on costly remedial services rather than preventing problems in the first place.

8.9 The administrative sector of the Ministry of Agriculture and Forestry

The administrative sector of the Ministry of Agriculture and Forestry includes six accounting agencies as well as the ministry. In addition to these the National Audit Office issued financial audit reports on the Agency for Rural Affairs and the Information Centre of the Ministry of Agriculture and Forestry, for which the ministry had set performance objectives and which were therefore required to prepare a review of operations according to section 65 a of the State Budget Decree.

The National Audit Office evaluated objectives approved by the ministry regarding economy for six agencies and regarding productivity for five agencies. The information that was presented on economy was considered true and fair in financial audits for the ministry as well as all the agencies in the administrative sector. Information on productivity was likewise considered true and fair in all the financial audits in the administrative sector with the exception of the Finnish Forest Research Institute and the Information Cen-

tre of the Ministry of Agriculture and Forestry.

Evaluating the current state of performance management on the basis of the setting of performance objectives regarding economy and the presentation of true and fair information in final accounts in this respect, the agencies in the administrative sector of the Ministry of Agriculture and Forestry received adequate supervision and supplied true and fair information with the exception of the National Food Administration and the Agency for Rural Affairs. It should be pointed out that these agencies were established in 2006 and 2007.

Financial audits found shortcomings in the internal control of accounting that require corrective measures in seven agencies in the administrative sector of the Ministry of Agriculture and Forestry.

A performance audit was conducted concerning discretionary government transfers in the administrative sector of the Ministry of Agriculture and Forestry. This audit is discussed in Chapters 4 and 6.1.

8.10 The administrative sector of the Ministry of Transport and Communications

The administrative sector of the Ministry of Transport and Communications includes nine accounting agencies as well as the ministry.

Remarks in financial audits led to a qualified opinion on regularity for the Finnish Civil Aviation Authority, the Finnish Maritime Administration, the Finnish Rail Administration, the Finnish Rail Agency and the Finnish Road Administration. Qualified opinions on regularity concerned the allocation of expenses to the fiscal year and the monitoring of authorisations.

The Ministry of Employment and the Economy was required to supply information on measures to correct shortcomings. This concerned the administration and monitoring of authorisations and the arranging of performance accounting.

The ministry set objectives regarding economy for four agencies and regarding productivity for 20 agencies. Objectives regarding economy and productivity were not set for the Employment and Economic Development Centres, and among accounting agencies objectives regarding economy and productivity were set only for the National Board of Patents and Registration, the Geological Survey of Finland and the Finnish Funding Agency

for Technology and Innovation. Information on economy was considered true and fair in 24 agencies and information on productivity in 23 agencies.

Evaluating the current state of performance management in the administrative sector of the Ministry of Employment and the Economy on the basis of the setting of performance objectives regarding economy and the presentation of true and fair information in final accounts in this respect, four agencies received adequate supervision and supplied true and fair information on economy.

Shortcomings in the internal control of accounting that require corrective measures were found in 17 financial audits in the administrative sector of the Ministry of Employment and the Economy. This mainly concerned joint audits of internal control in the Employment and Economic Development Centres, on the basis of which attention was drawn to the proper arranging of internal control.

One performance audit was conducted in the administrative sector of the Ministry of Employment and the Economy: Lights on in the Nordic countries - Nordic cooperation in electricity emergency preparedness. This audit is discussed in Chapter 4.

8.11 The administrative sector of the Ministry of Social Affairs and Health

The administrative sector of the Ministry of Social Affairs and Health includes six accounting agencies as well as the ministry.

Remarks in financial audits led to a qualified opinion on regularity for the ministry and the National Public Health Institute. Qualified opinions on regularity concerned the monitoring of the profitability of paid activities and failure to comply with the budget in applying funds.

The National Audit Office considered that the Ministry of Social Affairs and Health set adequate objectives regarding economy for five agencies. Productivity objectives were not set for the agencies in the administrative sector.

The ministry and all the agencies in the administrative sector presented true and fair information on economy and productivity.

Evaluating the current state of performance management in the administrative sector of the Ministry of Social Affairs and Health on the basis of the setting of performance objectives regarding economy and the presentation of true and fair information in final accounts in this respect, five agencies received adequate supervision and supplied true and fair information on economy.

Shortcomings in the internal control of ac-

counting that require corrective measures were found in three financial audits in the administrative sector of the Ministry of Social Affairs and Health. These concerned performance accounting and the internal control of accounting.

The following performance audits were conducted in the administrative sector of the Ministry of Social Affairs and Health:

- Occupational health care and the prevention of alcohol-related problems
- The transparency of the formula-based government grant system for social welfare and health services
- Medical rehabilitation
- The effectiveness of legislation steering mental health services
- The steering system in the administrative sector of the Ministry of Social Affairs and Health

These audits are discussed in Chapter 4 and the steering system in the administrative sector of the Ministry of Social Affairs and Health is discussed in the National Audit Office's separate report to Parliament on the audit of the final central government accounts for 2008 and the Report on the Final Central Government Accounts (R 12/2009 vp).

8.12 The administrative sector of the Ministry of the Environment

The administrative sector of the Ministry of the Environment includes three accounting agencies: the ministry, the Finnish Environment Institute and the Housing Finance and Development Centre of Finland.

Performance objectives regarding economy were set for the ministry, the Finnish Environment Institute and the Housing Finance and Development Centre of Finland. Objectives regarding economy were considered adequate for the ministry. The information

that was presented regarding economy and productivity was considered true and fair for the ministry and the other accounting agencies in the administrative sector.

One performance audit was conducted in the administrative sector of the Ministry of the Environment, concerning the regional environment centres as implementers of the Objective 2 programme. This audit is discussed in Chapters 3 and 6.

9 The National Audit Office's effectiveness and operations in 2008

9.1 Basis of activities

Constitutional task and position

Section 90 of the Finnish Constitution calls for an independent National Audit Office in connection with Parliament to audit the financial management of the state and compliance with the budget.

According to section 1 of the Act on the National Audit Office (676/2000), the National Audit Office's task is to ensure the legality and effectiveness of the financial management of the state and compliance with the budget.

As Finland's Supreme Audit Institution the National Audit Office sees that the Government and subordinate administration comply with legislation, regulations and the principles of good governance as well as decisions and objectives approved by Parliament in a socially effective and financially sound way. The National Audit Office serves as the conscience of the state economy.

Goal and objectives

The National Audit Office's ultimate goal is to promote the effectiveness and quality of the financial management of the state.

By performing external audits the National Audit Office supports Parliament in the exercise of its legislative, budgetary, fiscal and oversight power under the Constitution.

The National Audit Office works to produce objective, timely, useful and reliable control and audit information on the financial management of the state, compliance with the budget and the regularity of central government finances and activities for Parliament, the Government and subordinate administration, which Parliament and the Government can use in decision-making and oversight.

Vision

The National Audit Office's vision is to be an internationally and nationally respected expert in its field. The National Audit Office is respected for its deep expertise concerning the financial management of the state and administration.

This requires

- qualitatively and quantitatively sufficient competence and expertise for audit and expert tasks,
- clear criteria for focusing audits based on the National Audit Office's tasks,
- effective planning, implementation and monitoring processes and
- clear and timely reporting.

The National Audit Office fulfils its vision by conducting audits that produce value for Parliament, the Government, government

agencies and off-budget funds, openly informing citizens of audit findings and providing a motivating and respected work community for personnel.

Mandate and scope of audits

The National Audit Office's audit mandate includes:

- the Government and ministries,
- the Office of the President of the Republic,
- government agencies,

- state aids,
- off-budget funds,
- unincorporated state enterprises and state-owned companies,
- credit institutions taking care of central government payment traffic and
- the transfer of funds between Finland and the European Union.

The National Audit Office's mandate covers about one-fourth of Finland's GDP. Figure 2 outlines the National Audit Office's mandate and the audit of central government finances.

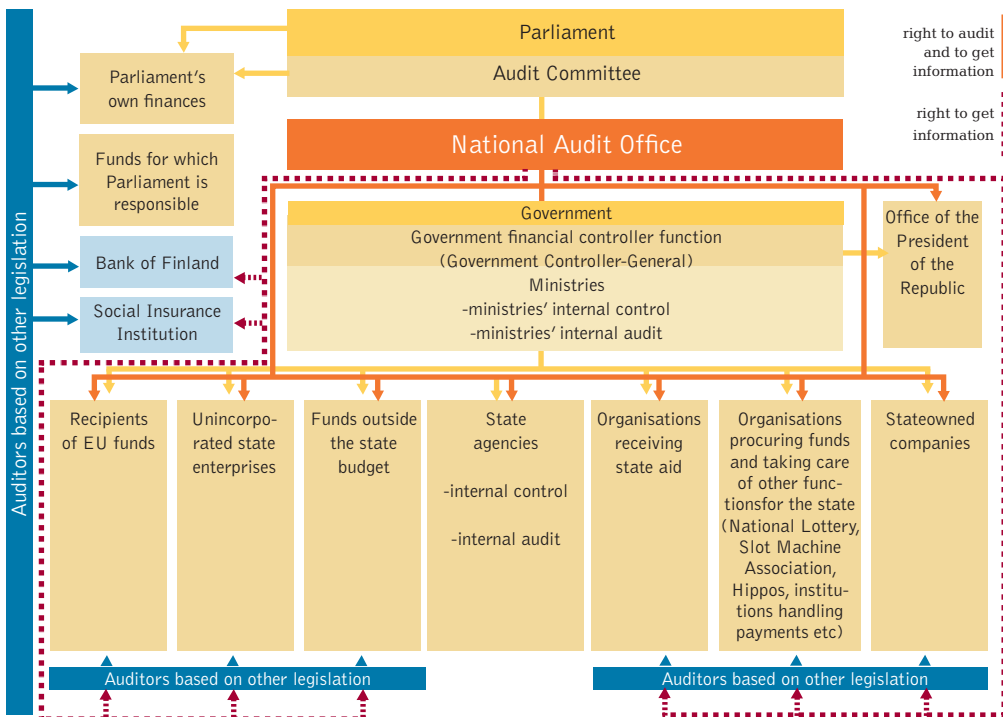


FIGURE 2: Audit of central government finances

INFORMATION ON THE SCOPE OF THE NATIONAL AUDIT OFFICE'S MANDATE:

CENTRAL GOVERNMENT

84 accounting agencies³

total budget expenses about 44.9 billion euros⁴

personnel about 118,000

STATE AIDS AND INCOME TRANSFERS

government transfers to local authorities, joint authorities, households, non-profit organisations and enterprises

other aids and transfers, total transfers about 26.7 billion euros

STATE-OWNED COMPANIES

30 state-owned companies

turnover about 32.5 billion euros

personnel about 90,000

OFF-BUDGET FUNDS

11 funds

total income 1.3 billion euros, total expenses 0.8 billion euros

UNINCORPORATED STATE ENTERPRISES

five unincorporated state enterprises

turnover about 1.4 billion euros

personnel about 4,600

SPECIAL FOCUSES

Monitoring of the transfer of funds between Finland and the European Union

Income from the European Union about 1.0 billion euros

Payments to the European Union about 1.6 billion euros

³ The figure does not include Parliament, the National Audit Office or the Finnish Institute of International Affairs.

⁴ According to the final central government accounts.

9.2 The focusing and timing of audits

Point of departure in the focusing and timing of audits

The National Audit Office fulfils its task by conducting financial audits and performance audits. Financial audit and performance audit work closely together to ensure that the financial management of the state is audited according to good audit practice.

The proper focusing of audit activities is one of the National Audit Office's critical success factors. The focusing of audit activities is based on a comprehensive planning and management system, which

- identifies key changes in the operating environment, risks regarding the financial management of the state and expectations regarding the National Audit Office
- defines strategic criteria for focusing activities, audit areas and audit perspectives and
- schedules and focuses audits effectively.

The National Audit Office monitors the effects of this changes in the operating environment on central government finances and the financial management of the state. Monitoring the operating environment is the basis of the National Audit Office's strategic management.

Principles regarding the focusing and timing of audits

The focusing of audit activities and the allocation of resources are based on the Nation-

al Audit Office's strategy planning. The National Audit Office's strategy for 2007–2012

- sets out general criteria for focusing audit activities,
- permanent audit areas and
- the National Audit Office's strategic theme areas.

General criteria for focusing audit activities are the economic significance of the matter for central government finances, associated risk and the usefulness of findings for decision-making regarding the financial management of the state and ensuring the regularity, quality and effectiveness of central government finances and activities. Criteria regarding the usefulness of audit findings include their economic significance and ability to promote the financial management of the state and performance as well as the effectiveness of findings from the viewpoint of verification, prevention and oversight.

According to the Act on the National Audit Office (676/2000), the conducting of audits is based on an audit plan that is approved by the Auditor General. The audit plan specifies audit topics, assigns resources and revises schedules for reporting on strategic audit themes. The audit plan gives concrete form to the National Audit Office's basic task and goal of promoting the effectiveness and quality of the financial management of the state. In 2008 the National Audit Office prepared performance objectives for 2009 together with an audit plan for 2009–2011, which for the first time covers more than one year.

Methods used in focusing audits

The point of departure in allocating resources is that the National Audit Office conducts annual audits of the final central government accounts as well as the final accounts of all accounting agencies and various other agencies for which performance objectives are set by ministries. The National Audit Office also audits certain off-budget funds according to provisions in separate legislation. The resources that are allocated to a particular audit depend on risk analysis.

The selection of the performance audit topics that are included in the audit plan is

based on an analysis of the operating environment and the result of risk analyses in each administrative sector. Taking the scope of topics into account, the audit plan is designed so that audits are conducted in each administrative sector according to their economic significance and associated risk. Individual audits are likewise focused on different parts of the effectiveness chain on the basis of risk analysis.

Last year the National Audit Office updated its strategy following an analysis of the operating environment and revised the content of audit themes in reporting to Parliament as well as timetables for audits.

9.3 Fulfilling audit and expert tasks and results for society and citizens

Fulfilling audit and expert tasks

The National Audit Office produces audit findings to ensure the regularity and functioning of the financial management of the state and promote the effectiveness of central government finances and activities.

As Finland's Supreme Audit Institution the National Audit Office also takes care of expert and advisory tasks in its field, performs financial audits of certain international organisations and serves as a contact point in international cooperation.

In its audit and expert work the National Audit Office

- promotes the social effectiveness and operational performance of the financial management of the state and related activities,
- ensures compliance with the budget and provisions and regulations regarding it,
- ensures that true and fair information is presented on the development of central government finances and the social effectiveness and operational performance of government activities,
- supports the implementation of principles concerning good governance and finances.

In fulfilling its audit task the National Audit Office supplies Parliament with information that it needs in decision-making and conducting oversight, provides the Government audit findings that it can utilise in preparing social policy and steering administration, and furnishes government agencies and funds with key information that they can

use in developing their own activities. Audits also serve citizens' right to receive timely information on the current state of central government finances.

The effectiveness of audit and expert activities is reflected by the National Audit Office's expenses in relation to the amount of funds that are covered by audits. In 2008 financial audits conducted by the National Audit Office covered one-fourth of Finland's GDP.

Results of audit and expert activities for society and citizens

The results of audit and expert activities for society and citizens refer to the social good and positive impacts that are achieved by activities from citizens' viewpoint. The social effectiveness of the external audit of central government finances consists of

- 1 the preventive and oversight impact of audits
- 2 the benefits of verifying information on economy and performance and ensuring the functioning of internal control and steering and
- 3 corrective and development measures resulting from audits.

Results of audit and expert activities for society

The most important result of the external audit of central government finances for society is audits' preventive and oversight im-

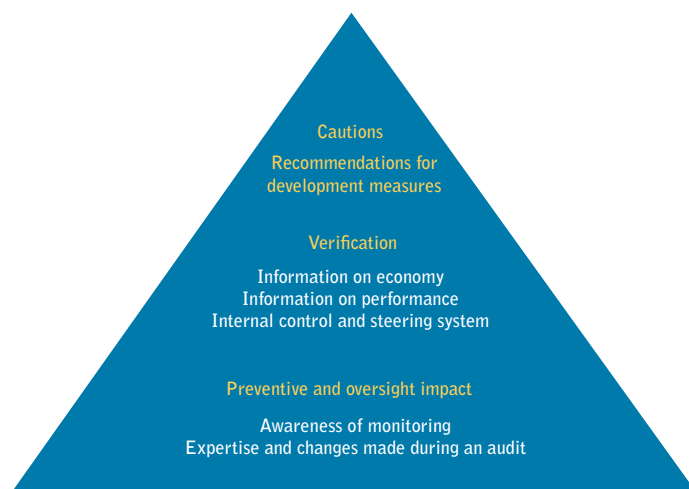


Figure 3: Tasks and impacts of the external audit of central government finances

pact. The fact that an audit is conducted and awareness that everyone responsible for financial management is covered by an independent audit strengthen authorities' accountability and attention to performance.

The National Audit Office's aim is to ensure that central government finances are managed properly and as effectively as possible. This also means drawing attention to critical findings and calling for errors and shortcomings to be corrected during an audit. Conducting an audit thus requires familiarity with the day-to-day business of government and providing support for proper and effective activities with the help of expertise in auditing.

As an external auditor the National Audit Office verifies that the information in final accounts as well as performance reporting is true and fair. In addition to final accounts, this task also extends to the information base used in decision-making concerning central

government finances and the functioning of steering systems as well as the functioning of the internal control of financial management by the Government and subordinate agencies.

By verifying information the National Audit Office strengthens confidence, transparency and compliance with the principles of good governance and in this way supports administration's operating conditions. Producing information concerning the evaluation of decision-making and activities, as part of verification work, in turn creates preconditions for social discussion and decision-making, which are essential for democracy.

Externally the most visible results of audit activities for society are remarks that are made in audits concerning improprieties or inadequate procedures from the viewpoint of performance as well as recommendations for development measures.

Results of audit and expert activities for citizens

Audit and expert activities support open government and a democratic social system while ensuring authorities' accountability.

The National Audit Office produces information concerning the legality and effectiveness of central government activities and openly publishes information. In this way the National Audit Office helps ensure citizens' access to information, which is a constitutional right.

Through its activities the National Audit Office supports the good management of tax revenues and central government assets so as to ensure that citizens get good value for the money they pay in taxes. The National Audit Office helps build citizens' confidence that central government finances are managed well and responsibly and that measures are taken to correct shortcomings. In ensuring that information on central government finances and the effectiveness of financial management is true and fair, the National Audit Office provides citizens preconditions to participate in social discussion and evaluate social policy-making and administration critically.

The National Audit Office serves citizens by publishing audit findings openly and providing information on its activities, answering citizens' enquiries and handling citizens' complaints in its area of expertise. The National Audit Office's customer magazine promotes awareness of audit findings and the National Audit Office's activities.

Effectiveness of the National Audit Office's audit and expert activities

The effectiveness of financial audits is evaluated annually on the basis of the need to repeat reporting requirements in audit reports. In connection with audits for 2007 that were completed in 2008, attention was focused on compliance with reporting requirements set the year before. Audit reports for 2006 placed reporting requirements on 36 accounting agencies. In 22 cases reporting requirements did not need to be repeated in audit reports for 2007.

The effectiveness of performance audits has been evaluated on the basis of what action has been taken as a result of audit opinions and recommendations. In 2008 the National Audit Office completed 15 follow-up reports, which concerned 16 audits. Reports evaluated the implementation of 57 recommendations that were made by the National Audit Office. On the basis of follow-up reports, 26% of recommendations had been implemented in full or almost in full, 41% to some extent and 33% poorly or not at all. The share of recommendations that had been implemented fell slightly compared with the year before.

Recommendations may not have been implemented because broader organisational changes or legislative reforms are under way or a follow-up has been conducted before an agency has had time to implement recommendations. On the other hand, the implementation of recommendations or the taking of measures is not always due entirely to the attention drawn to matters in audit reports.

9.4 The National Audit Office's EU activities

The Act on the Right of the National Audit Office to Audit Certain Credit Transfers between Finland and the European Communities (353/95) contains provisions on the audit of EU funds. The National Audit Office audits transfers of funds between Finland and the European Union in the same scope and according to the same principles, procedures and criteria that apply to national funds.

The National Audit Office serves as the national cooperation body of the European Court of Auditors under Article 248 of the Amsterdam Treaty.

Results of EU activities for society and citizens

In the EU operating environment the National Audit Office sees that Finland's national objectives are represented in cooperation in the audit field.

In 2008 the National Audit Office drew attention to the need to step up cooperation in developing the audit of fiscal policy. On the National Audit Office's initiative the Contact Committee pledged to expand cooperation in this area.

As practical steps in cooperation, the Contact Committee of the Supreme Audit Institutions of the European Union approved workshops on the audit of the Lisbon Strategy and the audit of the fiscal policy information base following a joint initiative by the National Audit Office and its counterpart in Sweden. In accordance with the Contact Committee's decision, the National Audit Office hosted workshops on these subjects in Helsinki in September 2009.

With regard to the audit of EU funds, the National Audit Office serves as the EU's national cooperation body and works with other SAIs to develop audit standards and good practices so as to ensure the proper use of EU funds.

Activities of the Contact Committee

EU-based cooperation takes place in the Contact Committee of the Supreme Audit Institutions of the European Union and the European Court of Auditors. Activities are organised in meetings of the Heads of the SAIs and liaison officers as well as working groups appointed by meetings of the Heads of the SAIs.

The National Audit Office has participated in Contact Committee working groups on the development of meetings of the Heads of the SAIs and liaison officers, value added tax, public procurements, structural funds and national SAI reports on EU financial management.

Audits of EU funds

The National Audit Office's opinions concerning transfers of funds between Finland and the European Union are presented in audit reports to accounting agencies that have been audited or are responsible for correcting shortcomings.

In addition to its own audit activities, the National Audit Office also participates in joint audits of EU funds together with other SAIs. In 2008 the National Audit Office par-

ticipated in a joint audit that was arranged by the Working Group on Structural Funds.

As a national cooperation body under the Amsterdam Treaty, the National Audit Office

takes part as an observer in audit visits of the Court of Auditors in Finland. Three such audit visits were conducted in 2008.

9.5 The National Audit Office's international activities

The National Audit Office participates in international standardisation work in its field within the framework of the International Organisation of Supreme Audit Institutions (INTOSAI). The supreme audit of public finances is based on the ISSAI standards endorsed by INTOSAI, which in turn are based on the IFAC's ISA standards, supplemented with regard to legality and performance. The ISSAI standards incorporate internationally approved principles regarding good practice in the audit of public finances, while INTO-SAI GOV provides guidelines concerning internal control in the public sector.

Results of international activities for society and citizens

International cooperation in the audit field has shown that the National Audit Office is an internationally respected expert. The National Audit Office's activities, practices and methods always follow best practices. The National Audit Office's close cooperation links have in turn provided the impetus and preconditions for developing activities. A concrete example of this is the effect of international standards on the development of audit work. The National Audit Office's quality work is based on ISSAI standards, for instance.

In the international operating environment the National Audit Office seeks cooperation that best serves the development of audit activities and strengthens its expertise and ability to carry out its national audit task. In 2008, for example, the National Audit Office participated in a joint audit of

electricity emergency preparedness that was arranged by the Nordic SAIs. Differences in preparedness and risk management practices between the Nordic countries that came to light in the audit have provided a concrete impulse to develop the electricity emergency preparedness system in Finland.

In addition to developing its own audit activities, another objective of international cooperation is to assist other SAIs' development. The National Audit Office thus plays its own role in supporting the international audit community, international systems, good governance and transparency globally. The National Audit Office's international activities also help build Finland's image. An internationally respected SAI that is an expert in its field and actively participates in cooperation strengthens the image of Finland as a modern and open welfare society where, thanks to a well-organised system of administration and efficient control, social problems such as abuses of funds and corruption are rare.

Participation in the activities of international organisations

The purpose of the International Organisation of Supreme Audit Institutions (INTOSAI) and the European Organisation of Supreme Audit Institutions (EUROSAI) is to encourage the exchange of information through permanent working groups, seminars and meetings of experts. INTOSAI and EUROSAI also work to develop audit methods and standards.

In 2008 the National Audit Office partic-

ipated in the INTOSAI Working Group on Key National Indicators, Working Group on Environmental Auditing and Working Group on Programme Evaluation as well as the EUROSAT IT Working Group and its IT Audit Self-assessment (ITASA) project and Working Group on Environmental Auditing (WGEA).

The National Audit Office is participating in a parallel audit of the appropriateness of the flexibility mechanisms under the Kyoto Protocol arranged by the INTOSAI Working Group on Environmental Auditing. Last year an EUROSAT study group also published a report on benchmarking the costs and performance of tax administrations.

Cooperation with the Nordic and Baltic countries and in the Baltic Sea region

Nordic cooperation in the audit field is well organised. Key forms of cooperation are meetings of the Auditors General and constant contacts among liaison officers. The Nordic Auditors General met in Rovaniemi in August 2008.

The National Audit Office has also participated in working groups appointed by

the Nordic Auditors General on the audit of state-owned companies, abuses and human resources as well as informal networks of communications officers and auditors in the field of health care.

The main form of cooperation with the Baltic SAIs is an annual meeting of representatives of the SAIs in the Baltic and Nordic countries plus Poland. The SAIs in the Nordic countries and Estonia have also worked for many years to build interaction and the exchange of information.

In multilateral cooperation among the SAIs in the Baltic Sea region, a parallel audit of national environmental monitoring and the regulation and monitoring of fishing was completed last year.

International financial audits

The National Audit Office served as an auditor for the European Centre for Medium-Range Weather Forecasts (ECMWF), the Agency for International Trade Information and Cooperation (AITIC), the Baltic Marine Environment Protection Commission, the Nordic Institute for Contemporary Art and the Nordic Development Centre for Rehabilitation Technology.

9.6 Key results of the renewal and development of the National Audit Office

Development of cooperation

The National Audit Office constantly works to maintain and build relations with cooperation partners in Finland.

To develop cooperation the National Audit Office has actively exchanged views with administration. It interacts constructively with Parliament to ensure the effective use of audit findings, among other things. In October 2008 the National Audit Office arranged its second feedback session for senior civil servants. Participants commented on its significance in building a dialogue.

The National Audit Office's expanded Advisory Board began its term in March 2008. The board includes representatives of key cooperation partners and has proved to be an important arena for discussing the audit of public finances and administration and evaluating policies.

Developing operating capacity and preconditions for effectiveness

In 2008 the National Audit Office developed a model for steering system audits. It also placed more emphasis on the perspective of effectiveness in performance audit.

The National Audit Office revised its planning system last year. The new planning system produced an operational and financial plan covering more than one year, annual performance objectives and an audit plan for 1+2 years. The objective in developing the audit plan is to take a longer-term approach that provides the best possible in-

formation base for reporting to Parliament on audit themes.

In risk analysis the emphasis has been on producing and utilising information concerning the most significant risks for the efficiency, economy and effectiveness of administration as well as risks at the level of central government finances in allocating audit resources.

The National Audit Office conducted an image survey in autumn 2008. According to responses, stakeholders' and citizens' think that the National Audit Office has done a good job in promoting sustainable central government finances. They also think that the National Audit Office's activities and expertise have developed positively in recent years. Asked about development needs, respondents said the National Audit Office should participate more actively in social and fiscal policy discussion.

In 2009 the National Audit Office was given the task of monitoring the financing of election campaigns. In order to perform this task the National Audit Office created an online system for campaign finance reports and opened a website on which to publish such reports. The National Audit Office will report separately to Parliament in 2010 on the monitoring of campaign finance for elections to the European Parliament as well as local elections that had to be repeated in a few municipalities.

With regard to developing expertise and working conditions, the National Audit Office paid strong attention to training personnel and managing expertise last year

The National Audit Office's expertise man-

agement system was developed by specifying requirements and competences related to the National Audit Office's basic task. One point of departure in development was attention to expertise at the individual level.

As part of managing change in the age

structure of personnel and expertise, the National Audit Office included a section on recruiting in its personnel plan. This outlines recruiting needs to carry out the audit plan according to the National Audit Office's strategy.

9.7 Quality management and reporting

Quality management system

The starting point in quality work is audit guidelines complying with international audit standards, which cover all the National Audit Office's audit processes in a comprehensive manner. The National Audit Office's audit guidelines form a good basis for quality control in audits as well as quality audit. The National Audit Office's financial audit and performance audit guidelines contain sections on quality control in audits. Quality control is an integral part of the audit process and involves interaction between auditors and audit supervisors.

Results of quality management

One general quality requirement is that audits are conducted according to the audit guidelines that have been approved by the National Audit Office. The achievement of this objective has been evaluated in connection with units' internal work supervision, in evaluating the quality of completed au-

ditions and in meetings that have assessed audit guidelines.

All the audits that were conducted by the Financial Audit unit in 2008 concerning fiscal year 2007 complied with the financial audit guidelines approved by the National Audit Office. With regard to quality management financial audit focused special attention on planning audits and managing the audit process as well as the clarity and conclusiveness of audit opinions. A longer-term focus in this area is the quality and timeliness of interim reporting and annual summaries.

Performance audit reports comply with the performance audit manual. On the basis of quality evaluation after the fact, the need to develop the performance audit process mainly concerns the preliminary audit stage. In 2008 Performance Audit adopted a systematic quality evaluation method in order to assess and monitor the development of quality and focus development measures. Performance Audit also adopted a process that involves checking all audit reports to make sure they are clearly written.

9.8 Indicators

Costs and cost structure

The National Audit Office's costs in 2008 amounted to €12.72 million euros (2007 €11.97 million euros). Performance Audit accounted for 48 per cent of this total and Financial Audit 52 per cent. In the calculation

the National Audit Office's corporate service costs in 2008 (€1.17 million), real estate costs (€1.12 million) and other joint costs (€1.46 million) have been allocated to audit units.

Total pay excluding side costs amounted to €8.15 million (2007 €7.78 million, 2006 €7.59 million).

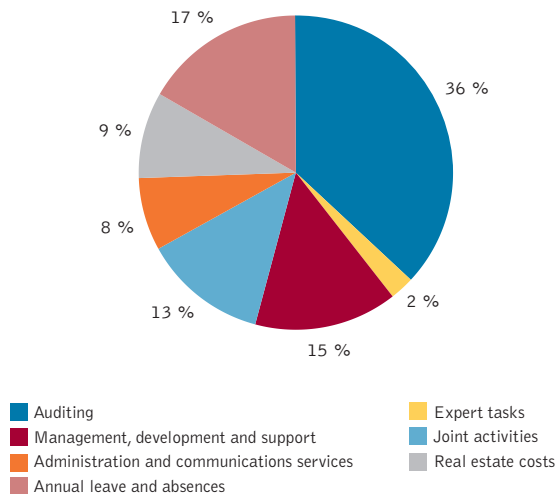


FIGURE 4: The National Audit Office's cost structure in 2008

Key operational indicators

The National Audit Office's operational indicators describe the focusing of activities on the National Audit Office's constitutional task. Monitoring concerns effective working time and produces information on the activities of the National Audit Office and its units.

External performances or audits and ex-

pert tasks accounted for 59.7 per cent of the National Audit Office's effective working time excluding paid absences last year (2007 60.4%, 2006 57.4%).

Measured in work days, external performances accounted for 74.7% of effective working time in Financial Audit (2007 74.0%, 2006 73.8%). In Performance Audit 71.5 per cent of effective working time was spent on exter-

nal performances (2007 71.7%, 2006 66.5%). These figures also include time spent on audit supervision.

The average costs of the National Audit Office's external performance production amounted to €735 per day.

Personnel

At the end of 2008 the National Audit Office had 151 employees. This included 144 permanent employees and 7 temporary employees (4.6%). Person-years totalled 147 in 2008.

The average age of employees was 47.1 years at the end of 2008. Women comprised 42.4% of the National Audit Office's total personnel, 40.9% of audit personnel and 50.0% of other personnel.

PERSONNEL IN FIGURES AT 31 DECEMBER

	2005	2006	2007	2008
Average age, years	45,6	46,0	47,2	47,1
Women's share, %	40,1	40,4	39,3	42,4
Personnel with a university degree, %	86,8	88,5	88,7	90,1

In 2008 eleven employees left the National Audit Office, including eight audit personnel and three other employees. During the year

five employees left to take other jobs (3.3% of personnel). The year before eight employees left to take other jobs.

PERSONNEL DEVELOPMENT

	2005	2006	2007	2008
Training days	1 924	2 248	1 925	1 987
Training days/person-year	13,1	15,5	13,2	13,5
Costs (euro)	567 111	717 183	617 917	690 994
Costs per person-year	3 857	4 946	4 232	4 701

Training days averaged 13.5 days per person-year overall, 14.5 person-days per person-year among audit personnel and 5.4 person-days per person-year among oth-

er personnel. Personnel development costs amounted to 5.4% of the National Audit Office's total costs.

**QUALIFIED OPINION ON
REGULARITY
CONCERNING COMPLIANCE WITH
THE BUDGET AND PROVISIONS
REGARDING IT**

**OBLIGATION TO INFORM THE
NATIONAL AUDIT OFFICE
REGARDING MEASURES**

PRIME MINISTER'S OFFICE

PRIME MINISTER'S OFFICE

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the arranging of performance accounting as prescribed in section 16 of the State Budget Act.

PRIME MINISTER'S OFFICE

**ADMINISTRATIVE SECTOR OF
THE MINISTRY FOR FOREIGN
AFFAIRS**

MINISTRY FOR FOREIGN AFFAIRS

On the basis of the audit it is our opinion that the budget and key provisions regarding it have been complied with except for the transfer of income (total 338,590 euros) that should have been booked in item 24.99.95 (Exchange rate fluctuations, estimated appropriation) to item 12.24.99 (Income in the administrative sector of the Ministry for Foreign Affairs) as well as errors in the allocation of expenses to the fiscal year and the handling of payment traffic in a real estate project.

Contrary to section 5 a of the State Budget Decree, expenses that should have been allocated to 2009 were booked as expens-

**ADMINISTRATIVE SECTOR OF
THE MINISTRY FOR FOREIGN
AFFAIRS**

MINISTRY FOR FOREIGN AFFAIRS

Based on section 5:1 of the Act on the National Audit Office, the Ministry for Foreign Affairs must inform the National Audit Office by 14 August 2009 what measures it has taken as a result of procedures that are not in compliance with the budget and key provisions regarding it.

QUALIFIED OPINION ON REGULARITY

OBLIGATION TO INFORM THE NATIONAL AUDIT OFFICE REGARDING MEASURES

es for 2008 in item 24.01.02 (Foreign affairs administration's operating expenses, 2-year transferable appropriation, 2009's share total 284,124 euros), item 24.30.66 (Actual development cooperation, 3-year transferable appropriation, total 5.5 million euros) and 24.99.66 (Certain membership fees and financial participations, estimated appropriation, total 3.0 million euros). The procedure also lengthened the use of the estimated appropriation, contrary to section 7 of the State Budget Act.

The opening of a bank account for a real estate project carried out by the Ministry for Foreign Affairs was not done with permission as referred to in section 33 of the State Budget Decree nor did the procedures used in approving payment meet the requirement in section 39 of the State Budget Decree that only properly approved expenditures may be paid.

ADMINISTRATIVE SECTOR OF THE MINISTRY OF THE INTERIOR

ICT SERVICE CENTRE

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the arranging of performance accounting as prescribed in section 16 of the State Budget Act.

ADMINISTRATIVE SECTOR OF THE MINISTRY OF THE INTERIOR

QUALIFIED OPINION ON REGULARITY

OBLIGATION TO INFORM THE NATIONAL AUDIT OFFICE REGARDING MEASURES

ADMINISTRATIVE SECTOR OF THE MINISTRY OF DEFENCE

MINISTRY OF DEFENCE

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the payment of expenses related to the repair and alteration of leased facilities (388,694.18 euros) contrary to the budget from item 27.01.01.92 (Ministry of Defence's operating expenses) and the arranging of performance accounting as prescribed in section 16 of the State Budget Act.

DEFENCE FORCES

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the monitoring of the profitability of paid activities and the presentation of annual results as prescribed in section 15:2 of the State Budget Act and the arranging of performance accounting as prescribed in section 16 of the State Budget Act as well as the payment of expenses related to the repair and alteration of facilities leased by the Defence Forces (141,830 euros) contrary to the budget from item 27.10.01.92 (Ministry of Defence's operating expenses, 2-year transferable appropriation). The monitoring of authorisations was not arranged by the Defence Forces as prescribed in section 54 a of the State Budget Decree.

ADMINISTRATIVE SECTOR OF THE MINISTRY OF DEFENCE

MINISTRY OF DEFENCE

Based on section 5:1 of the Act on the National Audit Office, the Ministry for Foreign Affairs must inform the National Audit Office by 28 August 2009 what measures it has taken to arrange performance management as prescribed in section 16 of the State Budget Act.

DEFENCE FORCES

Based on section 5:1 of the Act on the National Audit Office, the Defence Forces must inform the National Audit Office by 14 August 2009 what measures it has taken to arrange performance management as prescribed in section 16 of the State Budget Act.

QUALIFIED OPINION ON REGULARITY

OBLIGATION TO INFORM THE NATIONAL AUDIT OFFICE REGARDING MEASURES

ADMINISTRATIVE SECTOR OF THE MINISTRY OF FINANCE

MINISTRY OF FINANCE

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the monitoring of the profitability of paid activities and the presentation of annual results as prescribed in section 15:2 of the State Budget Act and the arranging of performance accounting as prescribed in section 16 of the State Budget Act.

NATIONAL BOARD OF CUSTOMS

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the monitoring of the profitability of paid activities and the presentation of annual results as prescribed in section 15:2 of the State Budget Act and the arranging of performance accounting as prescribed in section 16 of the State Budget Act as well as the preparation of balance sheet specifications to verify the financial statements as prescribed in section 64 of the State Budget Decree.

STATE TREASURY

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the carrying over of a net-budgeted appropriation to the following year contrary to section 7:3

ADMINISTRATIVE SECTOR OF THE MINISTRY OF FINANCE

MINISTRY OF FINANCE

Based on section 5:1 of the Act on the National Audit Office, the Ministry of Finance must inform the National Audit Office by 28 August 2009 what measures it has taken to arrange performance management as prescribed in section 16 of the State Budget Act.

NATIONAL BOARD OF CUSTOMS

Based on section 5:1 of the Act on the National Audit Office, the National Board of Customs must inform the National Audit Office by 14 August 2009 what measures it has taken to investigate discrepancies between the main ledger and balance sheet specifications and prepare missing balance sheet specifications and to arrange performance management as prescribed in section 16 of the State Budget Act.

of the State Budget Act from item 12.28.20 (Income from Service Centre, 89,423.84 euros) and the exceeding of an appropriation contrary to section 7:3 of the State Budget Act from item 33.50.53 (State aid for the rehabilitation of wives of war invalids, 2-year transferable appropriation, exceeded by 23,260.65 euros) and from item 28.60.03 (Pay expenses related to government personnel arrangements, 2-year transferable appropriation, exceeded by 32,236.08 euros).

GOVERNMENT INSTITUTE FOR
ECONOMIC RESEARCH

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the requirement in section 21 of the State Budget Act concerning the presentation of true and fair information on operational efficiency.

POPULATION REGISTER CENTRE

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the approval of the final accounts by the deadline as prescribed in section 63 of the State Budget Decree.

QUALIFIED OPINION ON
REGULARITY

OBLIGATION TO INFORM THE
NATIONAL AUDIT OFFICE
REGARDING MEASURES

ADMINISTRATIVE SECTOR OF
THE MINISTRY OF EDUCATION

MINISTRY OF EDUCATION

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for errors in procedures concerning payment traffic for a cultural cooperation project.

The opening of a bank account for a cultural cooperation project carried out by the Ministry of Education was not done with permission as referred to in section 33 of the State Budget Decree nor did the procedures used in approving payment meet the requirement in section 39 of the State Budget Decree that only properly approved expenditures may be paid..

HELSINKI SCHOOL OF ECONOMICS
AND BUSINESS ADMINISTRATION

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the arranging of the monitoring of the profitability of paid activities and the presentation of annual results as prescribed in section 15:2 of the State Budget Act.

UNIVERSITY OF HELSINKI

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for

ADMINISTRATIVE SECTOR OF
THE MINISTRY OF EDUCATION

QUALIFIED OPINION ON REGULARITY

OBLIGATION TO INFORM THE NATIONAL AUDIT OFFICE REGARDING MEASURES

the arranging of performance accounting as prescribed in section 16 of the State Budget Act.

UNIVERSITY OF JOENSUU

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the monitoring of the profitability of paid activities and the presentation of annual results as prescribed in section 15:2 of the State Budget Act and the arranging of performance accounting as prescribed in section 16 of the State Budget Act.

UNIVERSITY OF KUOPIO

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the arranging of performance accounting as prescribed in section 16 of the State Budget Act..

ACADEMY OF FINE ARTS

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the arranging of performance accounting as prescribed in section 16 of the State Budget Act..

UNIVERSITY OF LAPLAND

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for

UNIVERSITY OF LAPLAND

Based on section 5:1 of the Act on the National Audit Office, the University of Lapland must inform the National Audit Office

QUALIFIED OPINION ON REGULARITY

the payment of unjustified state aid amounting to 50,606.28 euros contrary to the budget as well as the monitoring of the profitability of paid activities and the presentation of annual results as prescribed in section 15:2 of the State Budget Act and the arranging of performance accounting as prescribed in section 16 of the State Budget Act.

NATIONAL BOARD OF ANTIQUITIES

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for a procedure contrary to the budget and section 5 a of the State Budget Decree involving payment-based accounting in authorisation-based item 29.80.50 (Certain grants, 3-year transferable appropriation for fiscal years 2006-2008) and the use of the appropriation in item 29.80.04 (National Board of Antiquities' operating expenses, 2-year transferable appropriation) to pay carried-over expenses contrary to the budget (24,000 euros).

NATIONAL BOARD OF EDUCATION

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the requirement in section 21 of the State Budget Act concerning the presentation of true and fair information on operational efficiency..

OBLIGATION TO INFORM THE NATIONAL AUDIT OFFICE REGARDING MEASURES

by 14 August 2009 what measures it has taken to arrange performance management as prescribed in section 16 of the State Budget Act.

Furthermore the University of Lapland must inform the National Audit Office by 14 August 2009 what measures it has taken to recover unjustified state aid.

NATIONAL BOARD OF ANTIQUITIES

Based on section 5:1 of the Act on the National Audit Office, the National Board of Antiquities must inform the National Audit Office by 14 August 2009 what measures it has taken as a result of remarks concerning the allocation of transferable expenses to the fiscal year, the monitoring of authorisations and the allocation of costs in jointly funded activities.

QUALIFIED OPINION ON REGULARITY

OBLIGATION TO INFORM THE NATIONAL AUDIT OFFICE REGARDING MEASURES

UNIVERSITY OF OULU

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the application of income in item 29.50.01 (Universities' operating expenses, 2-year transferable appropriation) that should have been allocated to 2008 (about 2.6 million euros) to 2009 contrary to the budget and section 5 a of the State Budget Decree as well as the monitoring of the profitability of paid activities and the presentation of annual results as prescribed in section 15:2 of the State Budget Act and the arranging of performance accounting as prescribed in section 16 of the State Budget Act..

SIBELIUS ACADEMY

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the application of item 29.50.01 (Universities' operating expenses, 2-year transferable appropriation) contrary to the budget to pay for carried-over expenses (40,000 euros) as well as the arranging of the accounting referred to in section 16 of the State Budget Act.

GOVERNING BODY OF SUOMENLINNA

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the application of funds in item 29.80.03

SIBELIUS ACADEMY

Based on section 5:1 of the Act on the National Audit Office, the Sibelius Academy must inform the National Audit Office by 14 August 2009 what measures it has taken to arrange performance management as prescribed in section 16 of the State Budget Act.

QUALIFIED OPINION ON REGULARITY

(Governing Body of Suomenlinna's operating expenses) contrary to the budget to pay for repairs (548,753 euros).

SWEDISH SCHOOL OF ECONOMICS AND BUSINESS ADMINISTRATION

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the monitoring of the profitability of paid activities and the presentation of annual results as prescribed in section 15:2 of the State Budget Act and the arranging of performance accounting as prescribed in section 16 of the State Budget Act.

UNIVERSITY OF ART AND DESIGN HELSINKI

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the application of budget item 29.50.20 (Universities' joint expenses, 3-year transferable appropriation) to pay for expenses (200,000 euros) that should have been booked in item 29.50.01 (Universities' operating expenses, 2-year transferable appropriation), the recording of income from gifts associated with VAT expenses (13,700 euros) that should have been booked in item 29.01.29 (VAT expenses in the administrative sector of the Ministry of Education) in item 29.50.01 (Universities' operating expenses) and the arranging of performance accounting as prescribed in section 16 of the State Budget Act.

OBLIGATION TO INFORM THE NATIONAL AUDIT OFFICE REGARDING MEASURES

UNIVERSITY OF ART AND DESIGN HELSINKI

Based on section 5:1 of the Act on the National Audit Office, the University of Art and Design Helsinki must inform the National Audit Office by 14 August 2009 what measures it has taken to manage accounting according to good practice.

QUALIFIED OPINION ON REGULARITY

The University of Art and Design Helsinki's accounting has not been managed in all respects according to good practice as prescribed in section 14 of the State Budget Act.

UNIVERSITY OF TAMPERE

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the arranging of performance accounting as prescribed in section 16 of the State Budget Act and the sale of movable property contrary to the budget and section 24 of the State Budget Act (92,144 euros).

THEATRE ACADEMY OF FINLAND

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the arranging of performance accounting as prescribed in section 16 of the State Budget Act and the payment of price support for paid activities contrary to the budget to support another university's paid activities (50,000 euros) from item 29.50.01 (Universities' operating expenses, 2-year transferable appropriation).

TURKU SCHOOL OF ECONOMICS AND BUSINESS ADMINISTRATION

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the managing of accounting according to

OBLIGATION TO INFORM THE NATIONAL AUDIT OFFICE REGARDING MEASURES

UNIVERSITY OF TAMPERE

Based on section 5:1 of the Act on the National Audit Office, the University of Tampere must inform the National Audit Office by 14 August 2009 what measures it has taken to collect a receivable linked to the sale of movable property according to the budget.

THEATRE ACADEMY OF FINLAND

Based on section 5:1 of the Act on the National Audit Office, the Theatre Academy of Finland must inform the National Audit Office by 14 August 2009 what measures it has taken to arrange performance management as prescribed in section 16 of the State Budget Act.

TURKU SCHOOL OF ECONOMICS AND BUSINESS ADMINISTRATION

Based on section 5:1 of the Act on the National Audit Office, the Turku School of Economics and Business Administration must inform the National Audit Office by 14 Au-

QUALIFIED OPINION ON REGULARITY

good practice as prescribed in section 14 of the State Budget Act..

UNIVERSITY OF VAASA

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the arranging of performance accounting as prescribed in section 16 of the State Budget Act..

ÅBO AKADEMI UNIVERSITY

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the monitoring of the profitability of paid activities and the presentation of annual results as prescribed in section 15:2 of the State Budget Act and the arranging of performance accounting as prescribed in section 16 of the State Budget Act.

ADMINISTRATIVE SECTOR OF THE MINISTRY OF AGRICULTURE AND FORESTRY

OBLIGATION TO INFORM THE NATIONAL AUDIT OFFICE REGARDING MEASURES

gust 2009 what measures it has taken to correct shortcomings in the internal control of accounting.

ADMINISTRATIVE SECTOR OF THE MINISTRY OF AGRICULTURE AND FORESTRY

FINNISH GAME AND FISHERIES RESEARCH INSTITUTE

The National Audit Office requires that, based on section 5:1 of the Act on the National Audit Office, the Finnish Game and Fisheries Research Institute must inform the

**QUALIFIED OPINION ON
REGULARITY**

**OBLIGATION TO INFORM THE
NATIONAL AUDIT OFFICE
REGARDING MEASURES**

National Audit Office by 14 August 2009 what measures it has taken as a result of financial losses due to shortcomings in internal control and to ensure that internal control as prescribed in section 24 b of the State Budget Act (1988/423) is properly arranged..

**ADMINISTRATIVE SECTOR OF
THE MINISTRY OF TRANSPORT
AND COMMUNICATIONS**

FINNISH CIVIL AVIATION AUTHORITY

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the monitoring of the profitability of paid activities and the presentation of annual results as prescribed in section 15:2 of the State Budget Act and the arranging of performance accounting as prescribed in section 16 of the State Budget Act.

INSTITUTION OF MARINE RESEARCH

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the approval of the final accounts as prescribed in section 63 of the State Budget Decree..

FINNISH RAIL ADMINISTRATION

On the basis of the audit, it is our opinion that the budget and key provisions regard-

**ADMINISTRATIVE SECTOR OF
THE MINISTRY OF TRANSPORT
AND COMMUNICATIONS**

FINNISH CIVIL AVIATION AUTHORITY

Based on section 5:1 of the Act on the National Audit Office, the Finnish Civil Aviation Authority must inform the National Audit Office by 14 August 2009 what measures it has taken to arrange the monitoring of the profitability of paid activities and the presentation of annual results as prescribed in section 15:2 of the State Budget Act and to arrange performance accounting as prescribed in section 16 of the State Budget Act.

FINNISH RAIL ADMINISTRATION

Based on section 5:1 of the Act on the National Audit Office, the Finnish Rail Admin-

QUALIFIED OPINION ON REGULARITY

ing it have been complied with except for the arranging of performance accounting as prescribed in section 16 of the State Budget Act..

FINNISH RAIL AGENCY

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the requirement in section 21 of the State Budget Act concerning the presentation of true and fair information on economy and productivity in the final accounts.

FINNISH NATIONAL ROAD ADMINISTRATION

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the requirement in section 21 of the State Budget Act concerning the presentation of true and fair information on economy and productivity in the final accounts.

ADMINISTRATIVE SECTOR OF THE MINISTRY OF EMPLOYMENT AND THE ECONOMY

MINISTRY OF EMPLOYMENT AND THE ECONOMY

On the basis of the audit, it is our opinion that the budget and key provisions regard-

OBLIGATION TO INFORM THE NATIONAL AUDIT OFFICE REGARDING MEASURES

istration must inform the National Audit Office by 14 August 2009 what measures it has taken to arrange performance management as prescribed in section 16 of the State Budget Act.

ADMINISTRATIVE SECTOR OF THE MINISTRY OF EMPLOYMENT AND THE ECONOMY

MINISTRY OF EMPLOYMENT AND THE ECONOMY

Based on section 5:1 of the Act on the National Audit Office, the Ministry of Employ-

QUALIFIED OPINION ON REGULARITY

ing it have been complied with except for the monitoring of authorisations and related accounting as prescribed in section 10 of the State Budget Act.

EMPLOYMENT AND ECONOMIC DEVELOPMENT CENTRE FOR CENTRAL FINLAND

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the handling of commitments to outside actors regarding projects co-financed from the ESF and the ERDF during the programming period 2007–2013 (over 4.9 million euros) contrary to the budget as the use of an authorisation for fiscal year 2009 as well as the application of item 32.80.51.5.02 (Procurement of group and other services, estimated appropriation) contrary to the budget and section 5 a of the State Budget Decree to pay expenses that should have been allocated to 2009 (20,216.62 euros). The procedure lengthened the use of the estimated appropriation, contrary to section 7 of the State Budget Act.

OBLIGATION TO INFORM THE NATIONAL AUDIT OFFICE REGARDING MEASURES

ment and the Economy must inform the National Audit Office by 28 August 2009 what measures it has taken to arrange the monitoring of authorisations and related accounting as prescribed in section 10 of the State Budget Act, to correct shortcomings in the system used in managing structural fund projects and to arrange performance management as prescribed in section 16 of the State Budget Act.

EMPLOYMENT AND ECONOMIC
DEVELOPMENT CENTRE FOR
PIRKANMAA

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the allocation of expenses should have been allocated to 2009 from item 26.40.64 (Receiving refugees and asylum seekers, 2-year transferable appropriation) contrary to the budget and section 5 a of the State Budget Decree to 2008. The procedure lengthened the use of the estimated appropriation, contrary to section 7 of the State Budget Act.

EMPLOYMENT AND ECONOMIC
DEVELOPMENT CENTRE FOR
NORTHERN OSTROBOTHNIA

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the requirement in section 21 of the State Budget Act concerning the presentation of true and fair information on operational efficiency.

EMPLOYMENT AND ECONOMIC
DEVELOPMENT CENTRE FOR UUSIMAA

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the handling of commitments to outside actors regarding projects co-financed from the ESF during the programming period 2007-

**QUALIFIED OPINION ON
REGULARITY**

**OBLIGATION TO INFORM THE
NATIONAL AUDIT OFFICE
REGARDING MEASURES**

2013 (at least 8.0 million euros) contrary to the budget as the use of an authorisation for fiscal year 2009.

**ADMINISTRATIVE SECTOR OF
THE MINISTRY OF SOCIAL
AFFAIRS AND HEALTH**

MINISTRY OF SOCIAL AFFAIRS AND
HEALTH

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the application of funds in item 33.60.34 (Central government compensation to health care units for costs resulting from mental health examinations and patient transfers) contrary to the budget to pay for consumption expenses (3,344,858.90 euros).

NATIONAL PUBLIC HEALTH INSTITUTE

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the presentation of the profitability of gross-budgeted paid activities and annual results as prescribed in section 15:2 of the State Budget Act.

**ADMINISTRATIVE SECTOR OF
THE MINISTRY OF SOCIAL
AFFAIRS AND HEALTH**

FINANCIAL AUDIT REPORTS BY ADMINISTRATIVE SECTOR

236/53/08 Final Central Government Accounts

OFFICE OF THE PRESIDENT OF THE REPUBLIC

117/53/08 Office of the President of the Republic

PRIME MINISTER'S OFFICE

118/53/08 Prime Minister's Office

ADMINISTRATIVE SECTOR OF THE MINISTRY FOR FOREIGN AFFAIRS

119/53/08 Ministry for Foreign Affairs

ADMINISTRATIVE SECTOR OF THE MINISTRY OF JUSTICE

120/53/08 Ministry of Justice

121/53/08 Criminal Sanctions Agency

ADMINISTRATIVE SECTOR OF THE MINISTRY OF THE INTERIOR

122/53/08 Ministry of the Interior

123/53/08 ICT Service Centre

124/53/08 Helsinki Police Department

125/53/08 Emergency Response Centre Administration

126/53/08 National Bureau of Investigation

127/53/08 Mobile Police

128/53/08 Directorate of Immigration

129/53/08 Emergency Services College

130/53/08 Police College

131/53/08 Police Technical Centre

132/53/08 Border Guard

133/53/08 Shared Service Centre

134/53/08 Security Police

237/53/08 Fire Protection Fund

ADMINISTRATIVE SECTOR OF THE MINISTRY OF DEFENCE

135/53/08 Ministry of Defence

136/53/08 Service Centre of the Defence Administration

137/53/08 Construction Establishment of the Defence Administration

138/53/08 Defence Forces

ADMINISTRATIVE SECTOR OF THE MINISTRY OF FINANCE

139/53/08	Ministry of Finance
140/53/08	State Provincial Office of Åland
141/53/08	State Provincial Office of Southern Finland
142/53/08	State Provincial Office of Eastern Finland
143/53/08	State Provincial Office of Lapland
144/53/08	State Provincial Office of Western Finland
145/53/08	State Provincial Office of Oulu
146/53/08	Statistics Finland
147/53/08	National Board of Customs
148/53/08	State Treasury
149/53/08	Government Institute for Economic Research
150/53/08	National Board of Taxes
151/53/08	Population Register Centre

ADMINISTRATIVE SECTOR OF THE MINISTRY OF EDUCATION

152/53/08	Ministry of Education
153/53/08	Helsinki School of Economics and Business Administration
154/53/08	University of Helsinki
155/53/08	University of Joensuu
156/53/08	University of Jyväskylä
157/53/08	National Archives
158/53/08	University of Kuopio
159/53/08	Art Academy
160/53/08	University of Lapland
161/53/08	Lappeenranta University of Technology
162/53/08	National Board of Antiquities
163/53/08	National Board of Education
164/53/08	University of Oulu
165/53/08	Sibelius Academy
166/53/08	Academy of Finland
167/53/08	Governing Body of Suomenlinna
168/53/08	Swedish School of Economics and Business Administration
169/53/08	University of Art and Design Helsinki
170/53/08	Tampere University of Technology
171/53/08	University of Tampere
172/53/08	Theatre Academy
173/53/08	Helsinki University of Technology
174/53/08	Turku School of Economics and Business Administration
175/53/08	University of Turku
176/53/08	University of Vaasa

177/53/08 National Art Gallery
178/53/08 Service Centre for Universities
179/53/08 Åbo Akademi University

ADMINISTRATIVE SECTOR OF THE MINISTRY OF AGRICULTURE AND FORESTRY

180/53/08 Ministry of Agriculture and Forestry
181/53/08 Finnish Food Safety Authority
182/53/08 Finnish Geodetic Institute
183/53/08 MTT Agrifood Research Finland
184/53/08 Ministry of Agriculture and Forestry Information Service
185/53/08 National Board of Survey
186/53/08 Agency for Rural Affairs
187/53/08 Finnish Forest Research Institution
188/53/08 Finnish Game and Fisheries Research Institution

ADMINISTRATIVE SECTOR OF THE MINISTRY OF TRANSPORT AND COMMUNICATIONS

189/53/08 Ministry of Transport and Communications
190/53/08 Vehicle Administration Centre
191/53/08 Finnish Civil Aviation Authority
192/53/08 Finnish Meteorological Institution
193/53/08 Finnish Maritime Administration
194/53/08 Institution of Marine Research
195/53/08 Finnish Rail Administration
196/53/08 Finnish Rail Agency
197/53/08 Finnish Road Administration
198/53/08 Finnish Communications Regulatory Authority

ADMINISTRATIVE SECTOR OF THE MINISTRY OF EMPLOYMENT AND THE ECONOMY

199/53/08 Ministry of Employment and the Economy
200/53/08 Energy Market Authority
201/53/08 Geological Survey of Finland
202/53/08 Finnish Competition Authority
203/53/08 Consumer Research Centre
204/53/08 Consumer Agency
205/53/08 Finnish Tourist Board
206/53/08 Centre for Metrology and Accreditation
207/53/08 National Board of Patents and Registration
208/53/08 Finnish Funding Agency for Technology and Innovation
209/53/08 Safety Technology Authority
210/53/08 VTT Technical Research Centre of Finland

212/53/08	Employment and Economic Development Centre for South Ostrobothnia
211/53/08	Employment and Economic Development Centre for South Savo
213/53/08	Employment and Economic Development Centre for Häme
214/53/08	Employment and Economic Development Centre for Southeastern Finland
215/53/08	Employment and Economic Development Centre for Kainuu
216/53/08	Employment and Economic Development Centre for Central Finland
217/53/08	Employment and Economic Development Centre for Lapland
218/53/08	Employment and Economic Development Centre for Pirkanmaa
219/53/08	Employment and Economic Development Centre for Ostrobothnia
220/53/08	Employment and Economic Development Centre for North Karelia
221/53/08	Employment and Economic Development Centre for Northern Ostrobothnia
222/53/08	Employment and Economic Development Centre for North Savo
223/53/08	Employment and Economic Development Centre for Satakunta
224/53/08	Employment and Economic Development Centre for Uusimaa
225/53/08	Employment and Economic Development Centre for Varsinais-Suomi

ADMINISTRATIVE SECTOR OF THE MINISTRY OF SOCIAL AFFAIRS AND HEALTH

226/53/08	Ministry of Social Affairs and Health
227/53/08	National Public Health Institute
228/53/08	National Agency for Medicines
229/53/08	National Product Control Agency for Welfare and Health
230/53/08	National Research and Development Centre for Welfare and Health
231/53/08	Radiation and Nuclear Safety Authority
232/53/08	Insurance Supervision Authority

ADMINISTRATIVE SECTOR OF THE MINISTRY OF THE ENVIRONMENT

233/53/08	Ministry of the Environment
234/53/08	Housing Finance and Development Centre
235/53/08	Finnish Environmental Institute
238/53/08	Oil Pollution Fund

PERFORMANCE AUDIT REPORTS AND FOLLOW-UP REPORTS BY ADMINISTRATIVE SECTOR

Effectiveness information in the report on the final central government accounts

PRIME MINISTER'S OFFICE

Follow-up reports:

The state's associated companies and the state as a minority shareholder

ADMINISTRATIVE SECTOR OF THE MINISTRY FOR FOREIGN AFFAIRS

170/2008 Cross-cutting objectives of development cooperation
 180/2009 The procurement of expert and research services at the Ministry for Foreign Affairs
Follow-up reports:
 Audit of local cooperation funds

ADMINISTRATIVE SECTOR OF THE MINISTRY OF JUSTICE

169/2008 The administrative courts
 191/2009 The supervision of party subsidies
 197/2009 The steering system in the administrative sector of the Ministry of Justice
Follow-up reports:
 Applying performance management and managing the district courts

ADMINISTRATIVE SECTOR OF THE MINISTRY OF THE INTERIOR

178/2008 The relocation of the Police IT Management Agency
 186/2009 Changes in financial administration in ministries, agencies and units
 187/2009 The Shared Service Centre of the Ministry of the Interior
Follow-up reports:
 The regional councils' role – the use of the unrestricted portion of regional development funds

ADMINISTRATIVE SECTOR OF THE MINISTRY OF FINANCE

163/2008 Abuses in state administration
 164/2008 The National Emergency Supply Agency

168/2008	The state's cash management
179/2008	Central government debt management
184/2009	The steering and administration of off-budget funds
185/2009	The Vehicle Administration Centre's PALKO information system project
195/2009	Vehicle taxation
	<i>Follow-up reports:</i>
	Occupational health in state administration
	Municipal merger grants
	Supervision fees collected by authorities from supervised entities
	Official travel – supervision systems and economy

ADMINISTRATIVE SECTOR OF THE MINISTRY OF EDUCATION

171/2008	Foresight analysis and the dimensioning and targeting of education – focusing on vocational education for young people
188/2009	Developing relevance for working life at universities of applied sciences
192/2009	The steering and funding system for basic education
	<i>Follow-up reports:</i>
	Specialised vocational institutes and government grants to cover their operating costs
	Renovation of the Finnish National Theatre

ADMINISTRATIVE SECTOR OF THE MINISTRY OF AGRICULTURE AND FORESTRY

162/2008	Metsähallitus – as a state enterprise and as a manager of nature conservation under the Ministry of the Environment
173/2008	The steering system in the Ministry of Agriculture and Forestry's administrative sector
175/2008	Reducing nutrient emissions from agriculture
190/2009	Discretionary support systems in the administrative sector of the Ministry of Agriculture and Forestry
	<i>Follow-up reports:</i>
	Cadastral surveys conducted by the National Land Survey

ADMINISTRATIVE SECTOR OF THE MINISTRY OF TRANSPORT AND COMMUNICATIONS

158/2008	The implementation of regional Information Society projects
159/2008	Maintaining rail infrastructure
161/2008	The development and use of identification services in public administration
182/2009	Maintaining waterways

Follow-up reports:

Ice classes and fairway dues

ADMINISTRATIVE SECTOR OF THE MINISTRY OF EMPLOYMENT AND
THE ECONOMY

157/2008	R&D evaluation activities
165/2008	The commercial exploitation of intellectual property rights by VTT Technical Research Centre of Finland
166/2008	Parallel audit of the SAIs of the EU on the Performance (output/ effectiveness) of the Structural Funds programmes in the area of employment
172/2008	The impacts of regional development programmes
174/2008	The service process in employment services
176/2008	Lights on in the Nordic countries - Nordic cooperation in electricity emergency preparedness
189/2009	Promoting the development of electronic business
	<i>Follow-up reports:</i>
	The employment effects of employment subsidies
	The use of state aids granted to promote invention activities
	The permanence of the effects of corporate aids
	The employment effects of employment subsidies

ADMINISTRATIVE SECTOR OF THE MINISTRY OF SOCIAL AFFAIRS AND HEALTH

160/2008	Projects conducted with health promotion funds
167/2008	Guaranteed access to treatment
177/2008	Occupational health care and the prevention of alcohol-related problems
181/2009	The transparency of the formula-based government grant system for social welfare and health services
193/2009	Medical rehabilitation
194/2009	The effectiveness of legislation steering mental health services
	<i>Follow-up reports:</i>
	The supervision of private social services
	Special state grants for health research
	Funding provided by the Slot Machine Association to prevent major public health problems
	Preventing young people's exclusion

ADMINISTRATIVE SECTOR OF THE MINISTRY OF THE ENVIRONMENT

183/2009	Regional environment centres as implementers of the Objective 2 programme
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NATIONAL AUDIT OFFICE OF FINLAND
ANTINKATU 1, P.O.BOX 1119, FI-00101 HELSINKI
TEL. +358 9 4321, FAX +358 9 432 5820, WWW.VTV.FI

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