



# National Audit Office's report on its activities to the 2016 parliamentary session





# National Audit Office's report on its activities to the 2016 parliamentary session

ISSN 1798-6435 (PDF)

URN:NBN:VTV-R172016VP

[HTTP://URN.FI/URN:NBN:VTV-R172016VP](http://URN.FI/URN:NBN:VTV-R172016VP)

LÖNNBERG PRINT & PROMO

HELSINKI 2016

# To Parliament

Under section 6 of the Act on the National Audit Office (676/2000), the National Audit Office (NAOF) must submit a report on its activities to Parliament.

The report presents the conclusions made on the basis of the audit findings concerning the current state of central government finances and the public administration from the viewpoint of Parliament and the summaries of the audit findings that are of key importance to Parliament. The implementation of the positions issued by Parliament on the basis of the Audit Committee reports are also assessed in the report. The report also presents a review of the National Audit Office's activities and their effectiveness in the 2015 budget year.

The report is based on the performance audits, financial audits, compliance audits and fiscal policy audits conducted by the National Audit Office and its activities as an expert body. The most important audit findings presented in this report are from the financial audits that were completed in spring 2016 and that cover the 2015 budget year. The performance audits, fiscal policy audits and compliance audits and follow-ups to them conducted by the end of August 2016 are included in the report.

The National Audit Office reports on the findings of the fiscal policy evaluation carried out under the Act 869/2012 on a twice yearly basis. The National Audit Office issued a fiscal policy evaluation report on 17 May 2016 (registry no. 181/56/2016).

The National Audit Office submitted a separate report to Parliament on the audit of the final central government accounts and the Government's annual report on 31 May 2016 (K 15/2016 vp).

Helsinki 13 September 2016

Tytti Yli-Viikari  
Auditor General

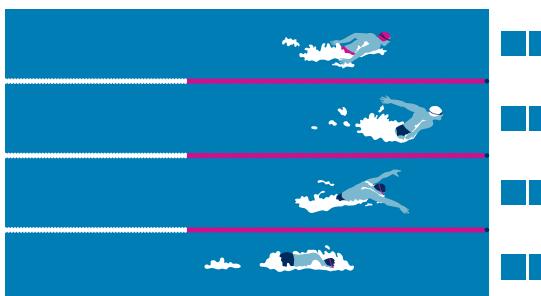
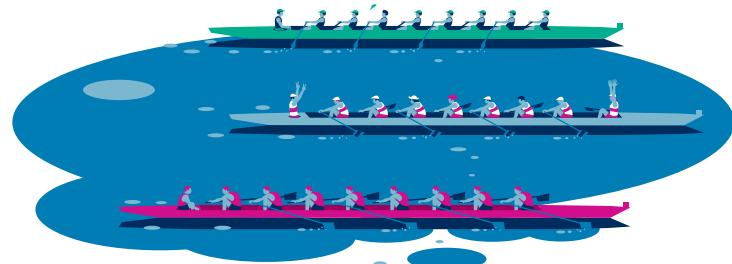
Marko Männikkö  
Deputy Auditor General

# Good governance is a prerequisite for competitiveness



Clearer direction  
through better impact  
assessments of the  
subsidies  
[see chapter 2](#)

Efficient team work will  
create success: Preparation  
of EU matters requires  
cooperation between  
ministries  
[see chapter 4](#)



Smoothly functioning  
information systems support  
internal control like water  
supports a swimmer  
[see chapter 5](#)

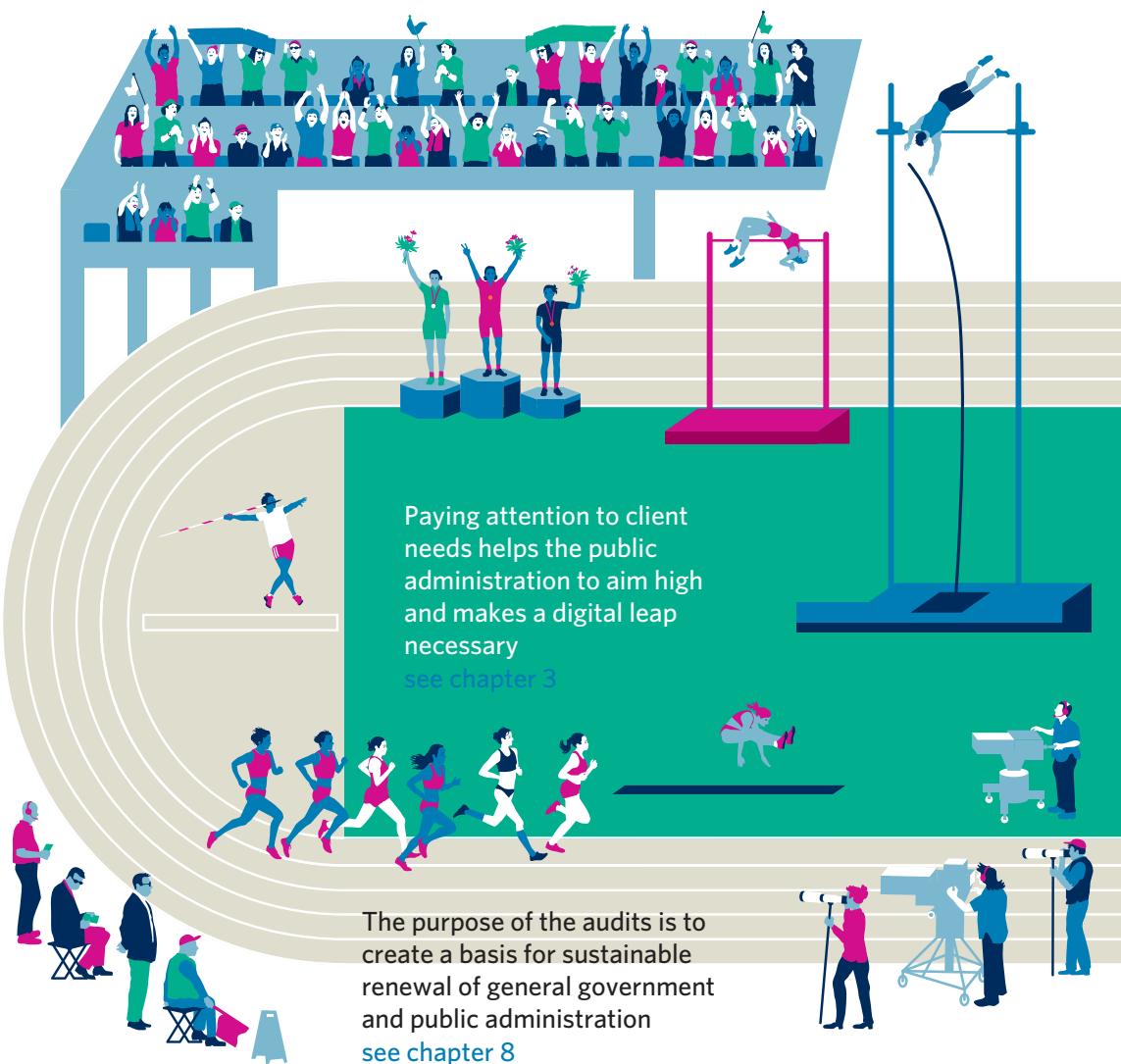
Final accounts are a visible  
manifestation of accountability  
[see chapter 6](#)



Audit findings contribute to transparency and openness  
[see chapter 7](#)



If necessary, NAOF will monitor the implementation of parliamentary positions for several years  
[see chapter 1](#)





The focus in the audits and supervisory work performed by the National Audit Office is on the material risks of general government finances identified in the risk analysis of central government finances and the national economy. The strategic objective of the National Audit Office is to promote effective and high-quality management of central government finances. The conclusions essential from the perspective of Parliament are presented in National Audit Office's report on its activities.

In the report on its activities to the 2016 parliamentary session, the National Audit Office monitors the measures arising from its reports to Parliament and the implementation of the reporting obligations. The Parliament's positions concerning the development of the report on NAOF's activities and the establishment of a unit examining legislative impact assessments have led to measures that are in accordance with the positions.

Legality and proper conduct are part of good governance in central government finances. Based on the audit of the activities of the senior civil servants, the conclusion is that the senior civil servants have, in essential parts, complied with the procedures laid down in the law, contained in regulations and set out in agreements. The conduct of the senior management also contribute to the implementation of the principles of good governance in the public administration.

In the report on its activities, NAOF has drawn attention to the fact that in administrative steering, it is essential to achieve coordination between resources and performance targets. By carrying out financial audits, the National Audit Office ensures that the information on operational efficiency contained in the reviews of operations is true and fair. On this basis, the reporting on productivity and economic efficiency is on a fairly good basis but the inadequacies in the setting of targets interfere with the effectiveness of performance guidance. It has been noted that the challenge also exists at central government level in the audit of the report on final central government accounts.

The strategic objective of the National Audit Office is to promote effective and high-quality management of central government finances

Inadequacies in target-setting interfere with the effectiveness of performance guidance

As regards the promotion of business activities, NAOF has in the report on its activities assessed the manner in which the impact assessments have been prepared. Decision-making must be based on analysis and information on how the need for different types of subsidies can be justified and which of the anticipated impacts become reality.

The development of digital public services has been assessed from the perspective of customers' and users' needs. Instead of being built into comprehensive service packages, many of the electronic services provided by the public administration have been developed on the basis of individual authorities' needs and it has been difficult to build systems across sectoral boundaries.

This report discusses cooperation between administrative branches in the preparation of EU matters. Consideration has been given to broad-based preparation, proactiveness and the concrete nature and prioritisation of the overall priorities in Finland's EU policy. The role of the preparation of EU matters is highlighted as Finland is preparing for its next EU Presidency and the Commission is focusing on more extensive packages of measures in its regulatory work.

The preparation of EU matters is highlighted as Finland is preparing for its next EU Presidency





## Knowledge management helps to ensure controlled change

It is often said that it is more important to make the right things than to make things in the right way. These two approaches to assessing activities are constantly present in the work of external auditors.

During Olympic years, we are keenly following athletes' performances. Sports performances are honed to perfection through knowledge and skills. This also means that there is more public debate about the value of making things in the right way in fair games. At the same time, the ethical nature of the public administration creates a basis for national competitiveness.

In the next few years, the emphasis in the provision of public services will be on the client's perspective. This is made possible by the networking and flexibility of the service providers in accordance with the client's interests and needs. The client strategy of the public administration contains ambitious and important objectives. Client participation and the compatibility and cost-effectiveness of the services will remain major changes in operating practices. In the future, more consideration will be given to the client's perspective in the planning, carrying out and assessment of operations. This means that the clients will provide more solid and up-to-date definitions of what are the right things. The participatory nature of the client strategy is important in central government so that proper implementation can be ensured.

Anticipating clients' needs helps to increase effectiveness

### We need clear objectives during periods of transition

Concrete objectives are needed so that the direction that society must take during transition based on technological change can be concretised. The changes concern things that have been made, ways of doing things, tools and our skills. A large number of changes taking place at the same time mean more operating risks and put pressure on workplace communities in the public sector. Renewal requires a great deal from all of us.

External auditing plays an important role as a supporter of the realisation of the opportunities arising from transition and higher performance. When we assess whether we have made the right things, we compare the objectives set for our activities with the results and impacts achieved.

In a pilot-based culture, doing the right things may also mean that the aim is to know what works and what does not. In that case, the risks arising from the failure of the pilot project to function in a desired manner must also be taken into account in the planning work and target-setting. Workable and transparent risk management assumes a greater role in a period of transition when new operating models are created and old are destroyed.

In our society, openness and transparency support democracy. The objectives laid out for public sector activities serve as a steering tool between the strategic level and operational activities. We assess the effectiveness of performance guidance on the basis of financial audits and from the perspective of the setting of economic efficiency targets and the reporting on them. Steering by ministries in issues concerning productivity and economic efficiency does not function properly. Only one accounting office in three has been provided with productivity and economic efficiency targets. Setting of targets is a joint challenge to the effectiveness of the steering process.

### Risk management and proactiveness help to create efficiency

When we are assessing whether things have been done in the right way, the emphasis is on legality and good governance. In central government finances, good governance means compliance with the state budget, legality of the activities and effective internal control and risk management. Complying with the state budget and the budget provisions is important when the functioning of the financial administration is assessed.

Target-setting is fundamental to successful management

Compliance with the state budget is part of good governance

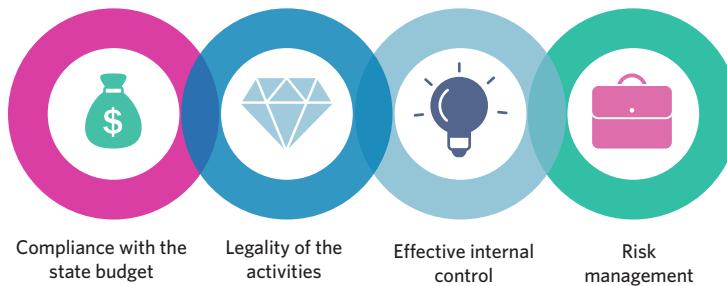


Figure 1: Prerequisites for good governance

With increasing digitalisation, central government management should pay more attention to the organisation and effectiveness of internal control. Centralisation of services and the fact that they are based on information systems highlight the need to anticipate and manage the system as a whole. Centralised changes in information systems help to make operations more efficient but they also make them sensitive to system-level errors. Centralisation of financial and personnel administration services and utilisation of shared information systems require that responsibilities and roles are clearly defined and monitored.

The best practices have shown that digitalisation and automation will bring optimum benefits when the renewal of processes takes place simultaneously with the automation of processes. In such cases digitalisation is already considered during the preparation of statutes. Awareness of the role of internal control among the management creates a basis for good governance in the whole organisation. When activities and internal control are automated, the controls must be defined in advance and focused on sections that are essential to the process as a whole.

Changes highlight management responsibilities and cooperation in the organisation of internal control

Making the right things requires leadership skills and the ability to manage changes and large and complex issues. The management of the service chains and networks required for the production of electronic services is one example of this. Changes occur simultaneously in the supplier field, technology developments and the expectations among public administration clients. Private service providers are changing over to service models that make use of the real-time social media and intelligence anticipating probable client needs. This also means that there are changes concerning the expectations on public services among the members of society.

Audit observations show that major changes require investments as a result of which it will take time to achieve the targeted cost savings. According to the audits carried out by the National Audit Office, the costs arising during the service production stage are not properly assessed. Inadequate competence is one reason but the failure to carry out proper assessments is also intentional. Budgets are minimised so that support for the launching of a project or an activity can be secured. This is unsustainable from the perspective of risk management. For this reason, the cost-savings targets for digitalisation should be assessed in a more transparent manner.

### Networks should take the centre stage when civil servants are drafting statutes

Rapid changes in the operating environment provide legislative work with new challenges. In addition to anticipatory work and impact assessments, the quality of the legislation is also affected by a comprehensive dialogue between the public administration and stakeholders. As regards the preparation of EU matters, we have highlighted good practices applied to anticipatory law-drafting in which the stakeholders are also engaged. A rapidly paced and dynamic operating environment also means that the officials drafting laws must change over to a networked operating method and make use of data analytics and more extensive methodological capabilities. The sauna culture that used to bring decision-makers together in the decades gone by is being replaced with a social media culture, which helps to create new opportunities for stakeholder discussion and different networks can be used in an effective manner.

Interaction is also required in the promotion of innovations and as the public sector acts as the enabler of new business models. According to the audit findings, cautious attitude towards the risks involved is the reason why testing of new solutions in the public sector is in a limited scale. The requirement that things must be done in the right way may also serve as an obstacle. We have noticed that there are good practices in the municipal sector: Interaction with tenderers before the bidding process takes place during the market survey stage; interaction with the tenderers during the bidding is by means of a negotiation procedure and a competitive negotiation procedure. A partnership-based cooperation between the client and the tenderer during the purchasing contract also involves the sharing of the benefits and risks of the purchase.

In a changing operating environment, making things in the right way may be challenging in a situation where guidelines or regulation are lagging behind. A thorough and sufficiently broad-based planning and preparation by civil servants also support the management of the system as a whole in this respect.

From sauna to social media  
- interaction and networks

### Information means more effectiveness

It is important from the perspective of societal openness and transparency that we check whether things have been done correctly. In order to ensure sustainable societal development, it is important that we assess whether we have done the right things. The information produced by the National Audit Office supports the functioning of democracy so that decision-makers can rely on information supplied by independent experts on how smoothly the public administration functions and how well the objectives laid out for the activities have been met. I would like to thank the personnel of the National Audit Office for producing this information and decision-makers for using the information.

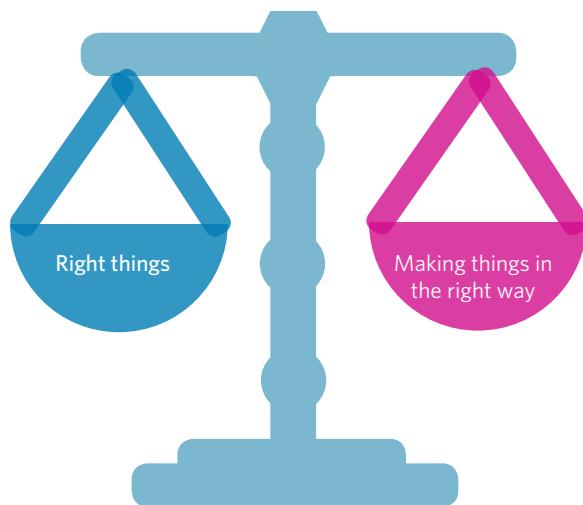


Figure 2: NAOF produces information for public debate





# Contents

<b>Auditor General's review: Knowledge management helps to ensure controlled change</b>	<b>11</b>
<b>1 Monitoring of the positions adopted by Parliament</b>	<b>23</b>
<b>2 Promoting business activities</b>	<b>27</b>
<b>3 Improving client service in public administration through digitalisation</b>	<b>35</b>
<b>4 Cooperation between ministries in the preparation of EU matters</b>	<b>45</b>
<b>5 Good governance and management of central government finances</b>	<b>51</b>
5.1 There were inadequacies in the compliance with the state budget	51
5.2 Internal control and risk management should be strengthened	55
5.3 Government aid involves risks	65
5.4 State of the administration and supervision of EU funds in Finland in 2015	67
5.5 Abuses and complaints concerning central government finances	
<b>6 Accountability and management of central government finances</b>	<b>71</b>
6.1 Final accounts of accounting offices	72
6.2 Operational performance	74
<b>7 Observations by administrative branch</b>	<b>81</b>
7.1 Office of the President of the Republic	81
7.2 Prime Minister's Office	82
7.3 Administrative branch of the Ministry for Foreign Affairs	84
7.4 Administrative branch of the Ministry of Justice	86
7.5 Administrative branch of the Ministry of the Interior	87
7.6 Administrative branch of the Ministry of Defence	89
7.7 Administrative branch of the Ministry of Finance	91
7.8 Administrative branch of the Ministry of Education and Culture	95
7.9 Administrative branch of the Ministry of Agriculture and Forestry	97
7.10 Administrative branch of the Ministry of Transport and Communications	99
7.11 Administrative branch of the Ministry of Economic Affairs and Employment	102
7.12 Administrative branch of the Ministry of Social Affairs and Health	104
7.13 Administrative branch of the Ministry of the Environment	106

<b>8</b>	<b>Work and effectiveness of the National Audit Office</b>	<b>109</b>
8.1	The National Audit Office is seen as authoritative and reliable	109
8.2	National Audit Office has a broad range of effective instruments	112
8.3	National Audit Office assesses the implementation of its performance targets on a regular basis	
<b>Appendix 1: Audit reports 09/2015–08/2016</b>		<b>118</b>
<b>Appendix 2: Qualified opinions on regularity and reporting obligations</b>		<b>126</b>
<b>References</b>		<b>136</b>



*If necessary, NAOF  
will monitor the  
implementation  
of parliamentary  
positions for several  
years*



# 1 Monitoring of the positions adopted by Parliament

The National Audit Office monitors the measures taken as a result of the reports that it submits to Parliament. In addition to concrete action, monitoring also covers the implementation of the reporting obligation.

The positions adopted by Parliament concern matters in which the process of introducing changes is often slow. At the same time, the positions usually pertain to issues that are highly significant in terms of society at large. For this reason, the National Audit Office also monitors the implementation of the issues set out in the positions after the Government has submitted the reports requested by Parliament.

The positions adopted by Parliament in connection with the reports of the National Audit Office are only part of the positions adopted by Parliament. One aim of the reform of the Government's annual reporting in 2013 was to update the manner in which the parliamentary resolutions and positions and the Government measures connected with them are registered<sup>1</sup>. At the time, the idea was to establish an up-to-date register of the resolutions and positions and the Government measures arising from them. The public administration could have entered in the register information on measures that are connected with the implementation of the parliamentary resolutions and positions. The envisaged register has not been established. Instead Parliament has cut the number of resolutions in force. A total of 20 positions connected with the reports of the National Audit Office are in force at the moment.

The numbers of the positions listed below refer to the numbering of the register of parliamentary resolutions.

## Position 1/2015 vp

### K 9/2015 vp – K 15/2015 vp – EK 26/2015 vp

Parliament calls for the Government to develop its annual reporting, giving consideration to the points of view already presented in the report. The material contained in the annual report should be more reader-friendly and informative and contain analytical information on the effectiveness of the activities and operating changes, especial societal effectiveness and the achievement of the targets set. The annual report must be a smoothly functioning part of the central government planning and monitoring system, which requires clearer target-setting in the drafting of the state budget.

The Government amended the State Budget Decree<sup>2</sup> in February 2016 by changing the requirements for the Government's annual report for 2015. The amended decree lists all content requirements concerning the Government's annual report. In a new content requirement, the report must now give a review of central government revenue and expenditure, assets and off-balance sheet liabilities. Descriptions of the performance of individual ministries were shortened.

The information content and clarity of the Government's annual report have improved from the previous years. The problems concerning the target-setting remain. Likewise, description of measures and even planned activities is common even though accountable reporting on the achievement of the targets should play the main role.

The National Audit Office audits the final central government accounts and the Government's annual report each year and submits a separate report on its audit to Parliament. Thus, the National Audit Office will continue to monitor developments in this field.

### Position 93

K 12/2014 vp – K 16/2014 vp – EK 37/2014 vp

Parliament calls for the Government to assess the results, costs and productivity benefits of important ICT projects as part of the monitoring of the project portfolio and to report on the results to Parliament.

In 2014, the Ministry of Finance prepared guidelines on monitoring and reporting principles for major ICT development projects. Even though the guidelines have been applied since autumn 2014, they have not been uniformly applied throughout the central government. The process of harmonising operating practices will continue so that the Government would be able issue its reports in the manner required by Parliament.

In chapter 3 of this report, the issue is discussed from the perspective of digitalisation and client service.

### Position 143

K 5/2013 vp – K 15/2013 vp – EK 1/2014 vp

Parliament calls for the Government to take measures to examine the need for a reform in the funding of election campaigns and political parties.

The latest amendments to the Act on Political Parties entered into force on 1 January 2016. As part of the reform, the supervision of the party subsidies paid under the Act on Political Parties was transferred from the Ministry of Justice to the National Audit Office.

### Position 95

K 18/2014 vp – EK 46/2014 vp

Parliament calls for the Government to take measures to establish a unit examining impact assessments of laws and take into consideration the opinions on the matter that are presented in the report above.

The unit examining the impact assessments of acts has been established and started its work in spring 2016.

An illustration of several sailboats on a blue sea under a clear sky. In the foreground, two sailboats are prominent. One is dark blue with a white sail featuring horizontal stripes; two people are visible on board. Another sailboat, also dark blue with a white sail, has two people in pink gear. In the background, several other sailboats are scattered across the horizon.

*Clearer direction  
through better  
impact assessments  
of the subsidies*

## 2 Promoting business activities

Successful business activities are critical to Finland's economic performance in the current situation. The Government can do a great deal to promote the success but it can also play a negative role when subsidising business activities.

Many state measures influence industries' chances of success

Business activities and the Government measures impacting their operating prerequisites cover a broad range of different sectors. Some of the measures impacting business activities are specifically directed at promoting business activities. Many other measures also have a major impact on companies' operating prerequisites even though their primary aim was to achieve other effects.

Government measures may be intended to provide general support for the prerequisites of business activities or they may be focused to specific companies. Laws, maintaining of the basic infrastructure and financial business subsidies are the main types of the measures.

The observations presented in this chapter are mainly based on the following audits:

- Medium-term development of the investment environment (under preparation)
- Encouraging investments by companies (under preparation)
- Public procurement as an engine for innovation (under preparation)
- Drafting of the amendments to the decree on dimensions and weights of heavy lorries (9/2016)
- Socio-economic feasibility calculations of transport infrastructure projects (10/2016)
- Promoting exports and internationalisation of small and medium-sized companies 13 May 2016
- Private equity investment operations of the state (15/2016)
- Research and development in the real estate and construction cluster (20/2015)
- Export financing (1/2015)

The promotion of business activities is not a means in itself in the same manner as promotion of health for example. For this reason, the way in which the situation in the companies involved has changed is not sufficient as effectiveness information. In particular, there is a need for analysis and information on how more general societal benefits have been achieved and what negative impacts the Government measures have caused or may cause.

Assessment of impacts on business activities is one requirement when laws are drafted. Projects that have nothing to do with business policy may impact business activities by creating negative side effects such as limitations to companies' operating prerequisites or a heavier administrative burden on companies.

Measures aimed specifically at promoting business activities may also have undesirable side effects on other companies, other sectors or public interest. Such negative effects may be in the form of competitive distortions, slowing down of necessary structural changes or prevention of market-based operations. It has been noted in the audits that negative side effects and more general indirect impacts are often overshadowed by direct and positive effects, which is partially because it is difficult to assess them. Indirect impacts and side effects may also be of greater societal importance than directly desired impacts and they should not be overlooked.

Legislation may have undesirable side effects

### It is difficult to assess the impacts of promoting business activities

It has been noted in the audits that it is difficult to carry out impact assessments of the promotion of business activities and that the conclusions are vague. At the same time, however, concerns have been expressed in the audits that the justification for the support and anticipated impacts are often too much on the basis of beliefs.

Civil servants are increasingly dependent on outside experts

Occasionally, the planning of the promotion measures requires special expertise outside the public administration. This has been the case with the planning of financing instruments and transport systems, for example. Production of impact assessments has been made more difficult by the fact that the drafting process is increasingly taking place outside the public administration, which means that the civil servants responsible for the process are more and more dependent on special experts outside central government. It may be difficult for the civil servants responsible for presenting matters to take a sufficiently critical look at the needs and impact assessments that have often been purchased from outside as outsourced services.

Reliance on the calculations produced by external experts has been particularly highlighted in the planning of transport infrastructure serving business activities. There is only a small number of experts able to produce the required modellings. The Finnish Transport Agency has not had any systematic quality assurance procedure that would have allowed the correctness of the calculations to be assessed.

Without any in-depth knowledge of the targeted activities, it may even be difficult to ascertain whether state involvement is at all necessary. For example in the audit concerning private equity investments, it was noted that there are highly conflicting views of the availability of market-based financing. As there is not enough report-based information available on the matter, the state has decided to help in the securing of the financing in order to ensure its availability. For example, it is understandable that in export financing, the state has tried to avoid the risk that export contracts fail to materialise because the customers are not satisfied with the financing opportunities. As the state is providing a large amount of financing for promoting exports, there should be sufficiently detailed information available on the actual contribution of the financing to export contracts.

State financing is fairly risk-free to its recipients and provided on favourable terms, which means that the demand for it is high. For this reason, it cannot be directly concluded from the demand that the financing markets are not functioning properly. If the state responds too quickly to assumed or real lack of market-based financing, the risk is that the state provides financing for unviable projects that have not received any financing from the markets.

For example, the situation where the state has, as part of export financing, endeavoured to respond to all financing needs has led to a rapid growth in the financing provided by the state. Export guarantee authorisations have been raised on several occasions, up to the current limit of 19 billion euros. It has been estimated in the Ministry of Economic Affairs and Employment that the authorisation may have to be raised to 30 billion euros.

The promotion of business activities are connected with important interests and the parties involved are often in a strong position to influence developments. This increases the risk that even one-sided views are used by civil servants as a basis for drafting work especially if there is not enough expertise in the public administration and there is not enough research information available on the issues concerned.

The risk is that the state provides funding for unviable projects that have justifiably been left without market-based financing

## **Impact assessments are superficial and narrow and the assumptions are not always justified**

It has been noted in the audits that the impact assessments are often based on poorly researched solutions. For example, the actors have only been asked whether employment rates have increased or whether it is important to get state financing for starting the project. Impact assessments that are solely based on questionnaires have been criticised in the audits as superficial and unreliable. A questionnaire as the sole assessment criterion will become even more unreliable if it is only directed at companies continuing their activities, which has been the case in the assessments of private equity investments.

It has been noted in the audits that there have also been attempts to produce impact assessments on a more ambitious basis. For example, in transport infrastructure project guidelines-based and systematic cost-benefit assessments have been produced for many years. These assessments have suffered from the inadequacy that the impacts have only been examined from the perspective of the actors directly involved, such as transport companies. There have also been problems with the repeatability of the calculations. There have not been any signs of similar systematic approach elsewhere in the promotion of business activities. For example, assumed impacts that are unsystematic and poorly justified have been presented as part of legislative projects. These impacts are not convincing and it is difficult to form an overall picture on their basis.

Assessing the impacts solely from the perspective of the direct actors has meant that there has been no assessment of the impacts on other actors and the markets. This has not only applied to the impact assessments of transport infrastructure projects. For example in export financing and private equity investments, it has not been assessed how state funding will impact the overall situation in the financial markets. The risk in these activities is that the aim to correct market failure will also ultimately prevent markets from being created.

Impact assessments have occasionally been based on assumptions that have not been supported by facts. One such assumption has been that state funding has a leverage effect. The leverage effect means that state investments will trigger off a large amount of private financing. Impact assessments have failed to give consideration to the possibility that state funding has merely replaced private funding. This is connected with the question whether a project would also have been initiated without state funding. In some assessments, consideration has also been given to this issue, but mainly in the form of questions.

**Questionnaire-based impact assessments are often superficial and unreliable**

**The aim to correct market failure may also prevent markets from being created**

**Impact assessments have occasionally been based on assumptions that have not been supported by facts**

Attempts have also been made to prove the effectiveness of the financing in a manner in which the assumed causal relation should have been justified in more detail. For example, in private equity investments, success has been reported by presenting figures showing rapid growth in turnover in the companies receiving financing. It is possible, maybe even likely that the causal relationship has been opposite to what has been meant: State financing has been directed (even in a target-oriented way) at areas with growth potential where growth might also have taken place without the financing.

On a positive note, it was found out in the audit that in the assessment of the effectiveness of the Finnish Industry Investment Ltd, the difficulty in ascertaining the effectiveness is openly stated. Attempts have also been made to justify effectiveness conclusions and the assumptions behind them. In such cases, it is easier for the outsiders to become more alert and assess the assumptions made.

### Quality of the assessments can be improved

When business activities are promoted, it is also important to assess the impacts beyond the immediate target. In them, the specific purpose of state funding is to achieve something benefiting society at large, in which case the promotion of the immediate target is simply a means of achieving the good.

The need to balance the assessment setting between accuracy and simplification of the assessment was highlighted in the audit of transport infrastructure. Even though the aim for accuracy has been considered worth striving for per se, it may be necessary to apply less stringent requirements so that impacts that are difficult to assess can be examined. This would also make it easier to manage the assessments and improve economic efficiency. Uncertainties must, however, be openly highlighted. The auditors have taken positive note of the fact that it has been examined in the transport administration whether broader socio-economic impacts should be considered in the project assessments.

The fact that broader societal impacts are not examined has been justified with the high cost of the assessments. However, occasionally so much state financing is tied to the measures promoting business activities that commissioning a thorough assessment would in the view of the National Audit Office be reasonable, despite the high costs. An independent and sufficiently detailed report would make the systems more credible and possibly also more effective.

An independent and thorough report on the societal impacts of the promotion of business activities would make the system more credible

In fact, the Ministry of Economic Affairs and Employment has announced that it will consider the commissioning of such a report, which would cover export financing and private venture investments. Such a report should in addition to the role of the state and the need and effectiveness of the state financing, also review the side effects of the sizable state financing on the functioning of the financial markets. In the view of the National Audit Office, the Ministry of Economic Affairs and Employment should consider the combination of the reports on different systems as the reporting needs in these financing systems (which are different) are partially very similar.

The information would make it easier for the civil servants presenting the issues to make independent conclusions of the grounds for the promotion measures. However, the risk that these civil servants will have to rely on proposals made elsewhere cannot be entirely eliminated. In the constant drive to make the public administration more effective, the areas of responsibility of the civil servants drafting the proposals are not becoming narrower and the working hours allocated to the drafting is not increasing. In such cases, it should be considered whether the civil servants presenting the issues should, instead of obtaining substance expertise, increase their meta-competence. The aim of the training could be to achieve a situation where the civil servants responsible for the issues have sufficient knowledge of how a good impact assessment is constructed and what can affect its quality. This would improve their ability to question the information supplied to the civil servants drafting the proposals. The new legislative assessment council might play a role in the strengthening of the meta-competence.

The dominant view of the  
good impact assessment  
among civil servants  
should be developed

## Other development trends in the promotion of business activities

Observations concerning innovativeness, the important role of the domestic market, permit practices, consideration of the long-term aspect and anticipation have also been highlighted in the audits.

Few purchases promoting innovativeness were found in the audits. This applied particularly to purchases by the state; they were slightly more common in local government purchases. Tekes has actively promoted innovativeness in procurement.

There is not enough  
innovative procurement

The public sector is a major developer. Little use has been made of the chance to promote innovative solutions in the real estate and construction sector. At the same time, the proportion of the research and development funding of the turnover is the lowest in the real estate and the construction sector. Surveys have shown that research and development inputs contribute substantially to productivity. In fact, the real estate and the construction sector is the branch with the weakest productivity growth, which is not unique to Finland, however. Low productivity growth in the sector is problematic from the perspective of overall productivity of the national economy as the sector is hugely important for the national economy: It accounts for about two thirds of our national wealth and one quarter of Finland's gross domestic product. Furthermore, the sector receives little research and development funding from the state as Tekes has directed most of its shrinking funding at growth companies aiming to expand internationally. The auditors have also drawn attention to the fact that in the retail sector not enough attention is given to the role played by the domestic market.

The problems concerning permit practices and the predictability of the state activities were highlighted in the audit of the promotion of investments. In the audit, the focus was on the situation in four sectors: mining, pharmaceutical industry, software sector and retail trade. In three of these sectors, permit practices had substantially slowed down investments. The need for predictability was highlighted in all four sectors as a prerequisite for systematic investments.

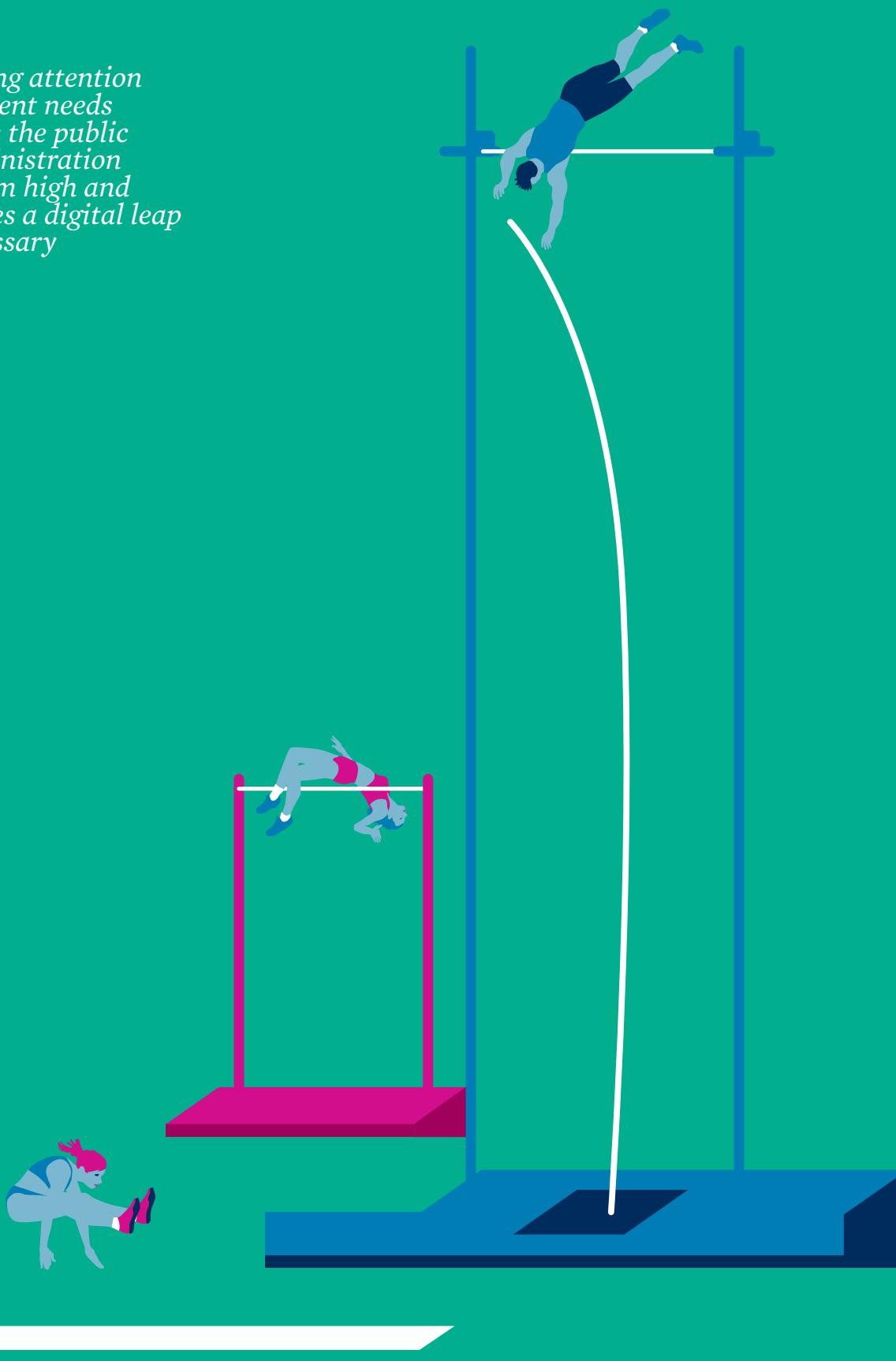
In the development of permit practices, a balance must be found between different societal objectives, while on the other hand we have to manage with the processing resources that central government can afford.

Business operators expect predictability across parliamentary terms. However, providing predictability is a challenge because in a democratic society it is essential secure political room for manoeuvre. In such a situation it may be necessary to consider in which issues and in what manner the role of long-term drafting by civil servants could be strengthened without the central role of the political steering power being diminished. It is not possible to respond to the expectations concerning permit practices and predictability by simply presenting technical solutions.

Internationalisation has been promoted at the expense of the domestic market

Business operators would like to have predictability across parliamentary terms

*Paying attention  
to client needs  
helps the public  
administration  
to aim high and  
makes a digital leap  
necessary*



### 3 Improving client service in public administration through digitalisation

In its programme, the Government of Prime Minister Juha Sipilä aims to introduce user-oriented single-counter digital public services that help to improve productivity and effectiveness.<sup>3</sup> Client-orientation and user-orientation have already been highlighted in many previous Government Programmes<sup>4</sup> and they have been mentioned as a steering objective by different ministries for many years<sup>5</sup>. A separate public administration client strategy<sup>6</sup> was presented in 2014 and the strategy is in the process of being integrated into the strategy on how the public administration can work for the good of the clients in a digital society. This strategy is under preparation.<sup>7</sup> In the digitalisation principles, prepared under the coordination of the Ministry of Finance and published in February 2016<sup>8</sup>, the focus is on customer-orientation and the benefits experienced by the client.

The idea is that digitalisation allows customer-oriented and effective services. Digitalisation is expected to speed up and simplify services and cut costs. Successful customer-oriented services require that there is sufficient cooperation and interaction between administrative authorities and the client. The work to improve the quality and effectiveness of the services can continue with the help of the feedback received from service users and customer-oriented assessment methods.<sup>9</sup>

All people residing in Finland and companies located in Finland are clients of the public administration. The clients of the public administration are a fairly heterogeneous group. This means that the planning of customer-oriented service production must be based on individuals' needs and life situations, which may vary a great deal. The public administration has been in the process of updating service structures into multi-channel systems and making its operating practices more client-oriented.<sup>10</sup>

The aim is to achieve user-oriented single-counter digital public services

Clients of the public administration are a large and heterogeneous group

In this chapter digitalisation is examined as a tool for promoting client service in the public administration on the basis of the following audits carried out by the National Audit Office:

- Development and production of digital services (6/2016)
- Customer advice and telephone services provided by public administration (5/2016)
- Management of immigration matters by the authorities and developing the process (3/2016)
- Digital employment services (8/2015)
- Interoperability in government ICT contracts (7/2015)

## Consideration has been given to the client perspective

Finland's public administration has been developing electronic services for many years. In international comparisons concerning the public administration, Finland is ranked high on access to and user-friendliness of electronic services.<sup>11</sup>

Client-oriented methods have become more widespread in the development of electronic services. In the projects carried out as part of the Action Programme on eServices and eDemocracy (SADe), the aim was to consider the client perspective by using a number of different client-oriented methods. It was noted in the audit of the development and production of digital services (6/2016) that the usability had been tested or assessed in each end user service developed as part of the SADe programme and covered by the audit.<sup>12</sup>

## SADe programme

The aim of the Action Programme on eServices and eDemocracy (SADe) was to promote electronic services. The intention was to have a situation where citizens and companies would have been able to manage their business electronically in all important services by the end of 2013. Client-orientation and importance from the perspective of the development of the public administration and clients were two of the criteria used when selecting projects for the SADe programme. The SADe programme was launched in 2009 as part of the everyday information society programme during the second cabinet of Prime Minister Matti Vanhanen. The service system projects of the SADe programme were directed at the administrative branches of six ministries.

Studyinfo.fi, a project in the SADe programme, has helped to make it easier and simpler to apply for education institutes. In practice, the joint application process is now fully digitalised because after the introduction of the joint application functions of the studyinfo.fi service, only a very small number of paper applications has been submitted as part of the joint application process. The study path has become a unified service system that has replaced a large number of parallel portal services.<sup>13</sup>

Studyinfo.fi has proved to be a successful service system

However, so far the projects of the SADe programme have mainly provided a basis for learning new methods and operating practices. For this reason, not all projects have been able to provide client-oriented service in the same manner. The lessons of the projects of the SADe programme should be assessed so that we can learn from them and transfer the good practices to other activities by applying them in the right way.

The use of client-oriented methods has been practised

### Despite inadequacies, electronic services have already benefited clients

Clients have benefited from electronic services even if they have only been developed on the basis of the individual authorities' own needs.

It was noted in the audit of the management of immigration matters and development of the process (3/2016) that electronic solutions have made the processing of visas in the administrative branch of the Ministry for Foreign Affairs more effective as the process is no longer dependent on the capacity of individual missions and the missions can share the workload. For example the visa applications submitted to Finnish missions in Russia can now be processed in Kouvola. Even though there have not been any improvements in the initiation of the visa matters, the clients already benefit from electronic solutions by receiving the visa decision sooner than before.

Electronic solutions have helped to make visa processing more efficient

The systems used by the Finnish Immigration Service allow clients seeking a residence permit on account of studies or work to initiate the matter electronically. This saves the time and effort for the client and the authorities. In 2014, a total of 76 per cent of all study-related residence permit applications were initiated electronically. The percentage of electronic work-related resident permit applications varies by profession and country.

## There is a need for client-oriented service systems across sectoral boundaries

Developing client-oriented service systems poses challenges. Many of the electronic services in the public administration have been developed to meet the needs of individual authorities. For example, electronic employment services have been developed so that routine tasks of the employment administration have been transferred to clients but the job-application process has not been reformed.<sup>14</sup>

It has been particularly difficult to build systems across sectoral boundaries. The social and health care service system in the SADe programme did not form a unified entity as it consisted of fragmented services. A large number of health care portals that did not form a self-supporting structure were built as part of the programme. The behaviour of the client searching health information was not known or understood. Many of the services had been built on the basis of the service provider's and expert's needs.<sup>15</sup>

The social and health care service system of the SADe programme consists of fragmented services



Figure 3: Health care portals

There have been many factors hampering the development of service systems. As a rule, electronic sharing of information between the authorities is difficult on account of the differences between the data models used by the authorities, lack of technical interfaces intended for sharing information and legislative obstacles.<sup>16</sup> It was also noted in the audit of the development and production of digital services (06/2016) that vague responsibilities and lack of experience in cooperation have made it difficult to produce service concepts developed by a large number of actors. For example, the development of the JulkICT Lab service concept involved a large number of actors and agreements between which no clear relationships had been determined. The service production model was heavy as the service production was steered by a project organisation based on a complicated contractual arrangement. JulkICT Lab had not become a development environment engaging the actors involved.<sup>17</sup>

### JulkICT Lab

JulkICT Lab is a digital services development environment for the public administration provided by the Ministry of Finance. Its aim is to support the creation of ecosystems developing innovative ICT solutions and operating models for the public administration in cooperation with actors in the sector by for example providing a development laboratory for the operations. In the service and innovation activities, the aim is to use the data sets of the public administration that are becoming publicly accessible. The JulkICT implementation project was launched in 2013 and was put into productive use in 2014. The JulkICT development environment is used by a total of 11 projects in addition to which three pilot projects have been completed.

## Services supporting electronic services have been developed in a technologically oriented manner

A service supporting electronic services is a service that the user organisation is using to support its client service, other tasks allocated to it or a service that it provides. Under the Act on Shared Support Services for Electronic Services (571/2016 vp), there are many services coming under the definition of support services. They are illustrated in figure 4 below. The support services are not tied to the content of the service itself. This means that they can be used on an all-round basis and developed and offered in a centralised manner. The user organisation including the support service in its own service is the client of the support service provider. Under the Government proposal the authorities would be obliged to use shared support services for electronic services. This in turn would require that the support services must be of high quality, client-friendly and reliable.

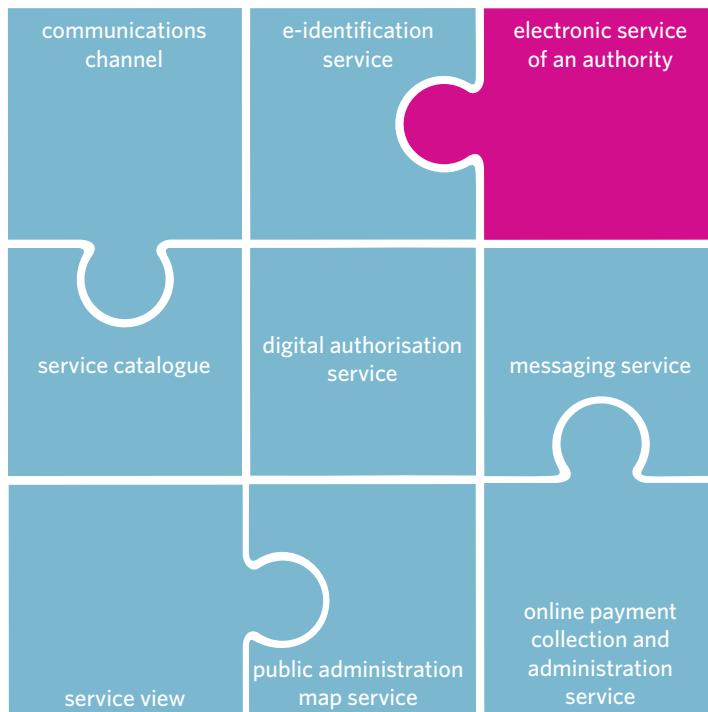


Figure 4: Support services for electronic services

The development of support services for electronic services started fifteen years ago and the process has been characterised by persistent problems.<sup>18, 19</sup> Service providers using support services in their own services were not involved in the development work early enough or their involvement was not sufficiently broad-based. As a result, the service providers are not sufficiently familiar with the support services and did not make early preparations for determining how they could integrate the support services in their own services. As the service development process is not integrated into operational development, the services operated by the authorities often develop into separate technical services for which it is difficult find any suitable uses. This was particularly the case when the service development was the responsibility of the ministries or service centres.<sup>20</sup>

The Citizen's Account can be seen as a support service for electronic services. The Citizen's Account was developed as a solution for electronic communications between citizens and the authorities. The Citizen's Account was deemed necessary because the ordinary e-mail system could not be used for sharing data on citizens because of the data security problems involved. However, considering the inputs made, the service has only attracted a small number of users. Thus, each visit to the service cost almost ten euros.<sup>21</sup>

The data exchange layer, identification service and the role and authorisation service included in the national service architecture (KaPa) are also support services for electronic services. The introduction of these services has been technology-oriented even though in the KaPa programme, the development was originally on an operational basis.<sup>22</sup>

Services have been created  
that have proved much less  
popular than envisaged

## In addition to the development of the service channels, the benefits to the client must also be identified

The Ministry of Finance has endeavoured to facilitate the development of public administration service structures into multi-channel systems. The identified channel options are electronic services, telephone services and personal visits.<sup>23</sup> In a situation characterised by rapid technological advances, this rough division should be understood in a more in-depth manner. It must be possible to offer electronic services on a broad range of different terminal equipment and platforms used by the clients. At the same time, however, the service may also be offered by combining different channels.

The Public Service Info has been implemented by means of a multi-channel service structure. The Public Service Info functions through a number of different service channels, the most widely used of which is the telephone service.

In 2015, the Public Service Info received more than 40,000 contacts of which nearly 32,000 were by telephone. The original aim of the Public Service Info was to handle 300,000 contacts each year. The current volume is only one seventh of what was planned, which has meant high unit costs per performance. A total of nearly two million euros has been spent on the development of the Public Service Info and its maintenance costs more than one million euros each year.<sup>24</sup> The utilisation rate of the Citizen's Account, which is intended for monitoring the processing of decisions by the authorities and providing information on them, has also remained substantially below expectations.<sup>25</sup>

If the utilisation rate is well below what has been planned, errors have probably been made at some stage or stages of the development process. It is possible that the basis for the development of the service have been misunderstood. For example, a contact to the Public Service Info actually means that the authority responsible for the service itself has failed to provide adequate client service. The Public Service Info should be better connected with the services provided by the authorities and the process of improving them.<sup>26</sup>

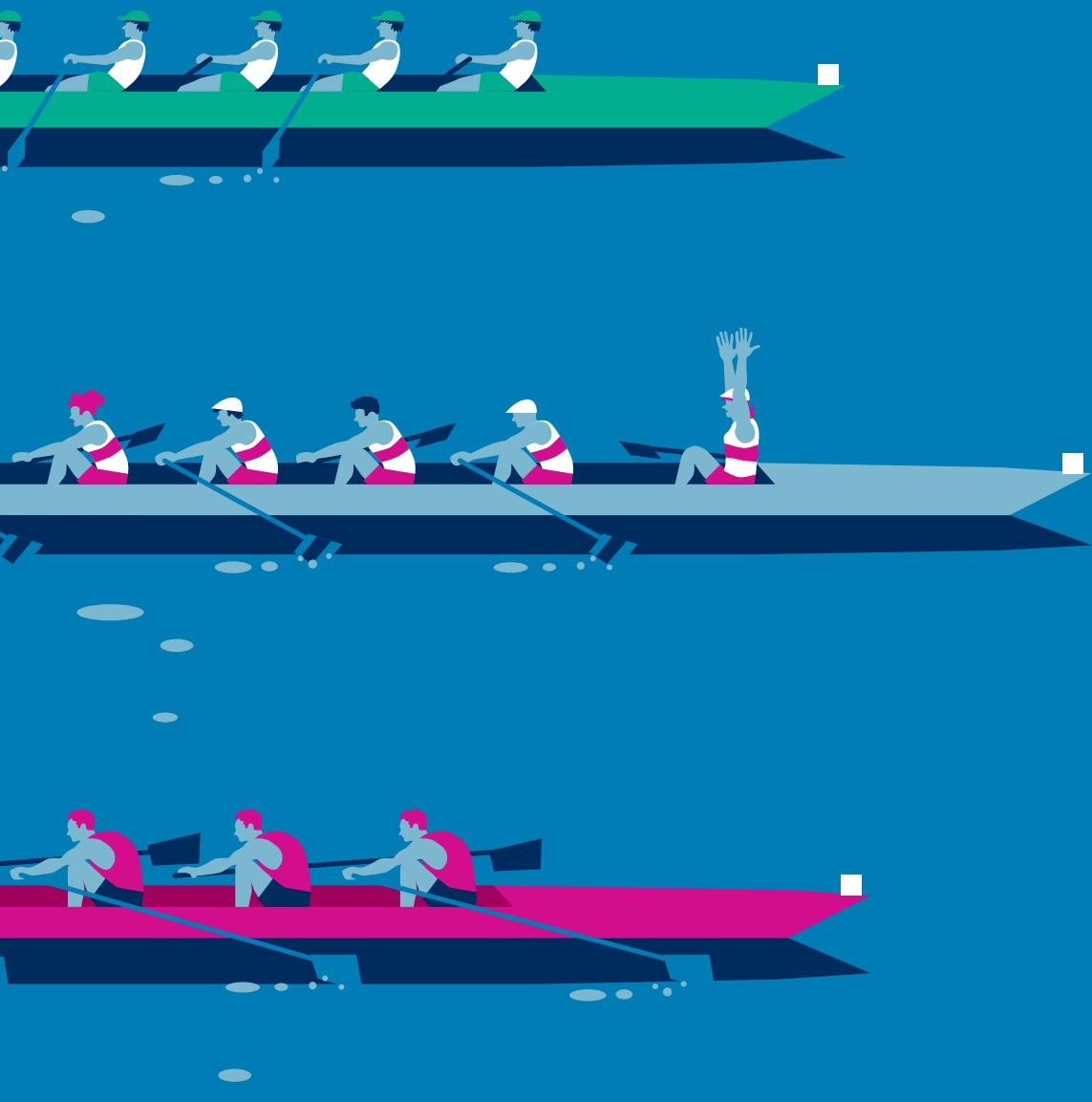
The development of the Public Service Info has not improved the client service of the authorities responsible for the service itself

Until now, the aim in the development of electronic services has been to ensure the client-friendliness of the characteristics of the service event or to offer the service through different channels. The Ministry of Finance and the Advisory Committee on Information Management in Public Administration (JUHTA) have prepared recommendations and guidelines for the development of electronic services in which the providers are encouraged to conduct user-friendliness tests and give consideration to users' needs.<sup>27</sup>

When the services are developed it is important to understand that the value of the service is created through the benefits arising from the service in relation to the client's own needs and not through the characteristics of the service itself.<sup>28</sup> There are also aids to support this approach but they are offered in a decentralised manner. For example, JulkICT Lab provides a tool box for service design<sup>29</sup>, the aim of which is to give better consideration to the client perspective in the development of electronic services. Service design means innovation, development and planning of services by means of design. It was used in the Service Views project, which was part of the national service architecture programme (KaPa).<sup>30</sup> Digitalisation provides new tools, instruments and data resources for building client understanding.

Digitalisation also provides new tools for deepening client understanding

*Efficient team work  
will create success:  
Preparation of EU  
matters requires  
cooperation  
between ministries*



## 4 Cooperation between ministries in the preparation of EU matters

For many years, the European Union has been dealing with a multitude of different crisis. For example, the economic crisis and immigration are complex issues that cannot be solved by measures involving one policy field only. In fact, issues covering a wide range of fields are discussed in the EU in many different forums. The European Council comprised of the heads of government of the Member States has played a particularly important role. The Commission has also changed its structures and adopted new operating practices during the presidency of Jean-Claude Juncker. Instead of legislative proposals, the Commission focuses on broader packages of measures.

According to the National Audit Office (Performance audit report 2/2016), there is a need to strengthen cooperation between the ministries in horizontal EU matters. Preparations have already been started for Finland's next EU Presidency in 2019. This is the right moment to hone the domestic EU preparatory system into top shape.

Finland can only play a decisive role in EU institutions if there is smooth cooperation between experts in different administrative branches. This requires that both the Prime Minister's Office (which has overall responsibility for smooth coordination of EU matters) and other ministries are able and willing to cooperate. Particular consideration should be given to the flow of information during the early stages of the preparation of EU initiatives. During that stage, there is anticipatory drafting and proactiveness, especially towards the Commission.

Preparation of EU matters at national level should take place now - well in advance of Finland's next EU Presidency

### Smooth cooperation at domestic level will strengthen Finland's influence in the EU

From the early stages of its EU membership, Finland has aimed to have a single negotiating position in each legislative initiative and other action in the EU. It has been considered important that ministers and civil servants working in different administrative branches do not present conflicting opinions in Brussels. A single negotiating position strengthens the influence of a small country in EU decision-making. The Government has a coordination system for the preparation of EU matters, which is based on a system of sub-committees. At the middle level, there is the Committee for EU Affairs, while the Ministerial Committee on European Union Affairs functions as the political-level body.

More use of the sub-committees organised by policy sector could be made in the proactive preparation of EU projects. In some of the sub-committees, there is already discussion about future initiatives and joint planning of the early-state proactiveness strategy. This approach should be comprehensively adopted. It is clear, that early consideration of the matters and more extensive priority discussions require that the ministry in charge of the sub-committee must make thorough preparations for the meetings. Impact assessment is one part of the proactiveness. In EU projects that are important or problematic to Finland, a preliminary estimate of the project's domestic impacts should be prepared. In this work, stakeholder groups that are represented in the extended compositions of the sub-committees can offer useful information originating from grass-roots level. Thus, the meetings of the sub-committees should, whenever practicable, be arranged in the extended composition, instead of the restricted composition, which only includes civil servants.

The task of the Committee for EU Affairs is to discuss wide-ranging EU matters concerning all ministries. In the report on influencing EU matters produced by the Government in 2009, it was required that the committee should play a clearer role. However, this is still not the case and the committee meets fairly rarely. The flow of information and discussion in the Committee for EU Affairs among the ministries' senior civil servants have been insufficient even though there is a clear need for regular exchange of views.

The highest body in the coordination system is the Ministerial Committee on European Union Affairs, which considers the EU matters that are legally, economically and politically important. As a whole, the ministerial committee works in an effective manner but the preparation of cross-administrative matters could be strengthened. There is also room for improvement in the quality and distribution of documents. The documents supplied to the ministerial committee should be more concise and focus on essential issues. Problems also arise because the documents for the meetings of the ministerial committee are only delivered at a late stage. Each minister and the civil servants and other persons assisting them should have enough time to prepare for these meetings in which the most important issues concerning Finland's EU policy are considered. One way of ensuring a more thorough consideration of the issues is for the ministerial committee to review matters that are highly problematic to Finland or particularly wide-ranging on two or three occasions.

Sub-committees should plan proactiveness and conduct thematic discussions

The Committee for EU Affairs has unused potential even though the need for broad-based discussion on EU matters has increased

The Ministerial Committee on EU Affairs has made ministers more committed to Finland's EU policy and matters are also discussed from a proactive perspective

## Joint preparation on an informal basis is an agile but non-transparent approach

In addition to the coordination system, ministries also have extensive informal cooperation in the preparation of EU matters. For example, the civil servants of the Ministry of Agriculture and Forestry have a great deal of cooperation with the civil servants of the Ministry of Economic Affairs and Employment and the Ministry of the Environment. The sectors of the Ministry of Defence and the Ministry for Foreign Affairs are another area where there are issues requiring joint preparation.

Broad-based preparation helps to ensure that the implementation of the EU legislation at a later stage can be managed on time and in a flawless manner. The cooperation in the preparatory process may involve individual legislative projects or more wide-ranging issues. In practice, the ministry responsible for the matter may form an ad hoc preparatory group or, using a list of email addresses, stay in contact with other ministries, agencies and stakeholders. Close contacts are also useful in strategic planning. When each ministry prepares its annual or semi-annual EU proactiveness plan, it should consult other ministries so that they are able to allocate resources for participation in the EU matters coming under other administrative branches.

On the downside of a smooth-working unofficial cooperation is the lack of transparency and documentation. In the preparation of horizontal EU matters, there should be better use of existing practices and tools. Furthermore, new agile documentation tools, such as shared electronic workspaces, should also be considered. One way of increasing the transparency of the preparation of EU matters is to make use of well-established procedures in law-drafting at national level. For example, a ministry could organise a consultation round on an EU project for its stakeholders or a working group and, if necessary, a steering group can be appointed to prepare a specific project.

However, cooperation does not always proceed in an optimum manner from the perspective of overall Finnish interests. This may be caused by the matter under discussion or the attitudes of the parties involved: Are different competencies and points of view seen as a resource or as a matter interfering with the preparatory process. For example, there have been situations where the civil servants of the responsible ministry have not identified on time how the EU matter in question is connected with the sectors of other ministries. One way of providing better prerequisites for the cooperation is to ensure that the civil servants of all ministries are more familiar with the general points of Finland's EU policy and the strategic priorities of the EU institutions, such as the Commission.

Flexible cooperation is essential in the management of EU matters. This is because the timetables are strict and Finland is not able to influence them

It is important that the civil servants also have competence and vision outside their own fields of tasks. In Brussels, this is a matter of credibility.

The management of EU projects ties up personnel resources in all ministries. EU matters are a central part of the civil servants' work, in addition to national law-drafting and the management of international affairs. The task of the management is to ensure that there is enough competent workforce available for the preparation of EU matters. Ministries should encourage civil servants to gain practical experience by working in EU institutions, EU agencies or Finland's Permanent Representation. It is important that the ministries plan well in advance to which tasks the civil servants that have acquired EU experience will assume when they return to Finland. Hard-won competence and personal networks should be used as effectively as possible.

Ministries are not making full use of the expertise and networks of the civil servants who have acquired expertise in EU tasks

### EU priorities should be clearly set out in the Government's proactiveness strategy

In the EU, the annual and multi-year programme planning (such as the Commission's work programmes) have become more strategic in nature. In March 2016, the Government submitted to Parliament the Government's EU proactiveness strategy (E 18/2016 vp), which is intended to replace the previous EU reports and key priorities. The aim of the reform is to have a more operative and a more short-term planning document that would also provide a basis for the public EU debate. Parliamentary committees have examined the strategy in great detail: Nine special committees and the Grand Committee have issued opinions on the matter in spring or summer 2016, requiring for example a new timetable for the strategy.

The Government's new EU proactiveness strategy is a combination of a descriptive situational analysis and the presentation of Finland's priorities. Even though the document is called a proactiveness strategy, it does not contain concrete proactiveness plans. The document has four main chapters, in which the following themes are discussed: migration, growth, external activities and shared values. There are several sub-chapters under the main chapters, especially the one discussing growth. When defining the overall priorities of Finland's EU policy, we need a comprehensive view across administrative boundaries and the setting of clear priorities. As pointed out by the Grand Committee in its opinion (SuVL 3/2016 vp), the Government's EU proactiveness strategy could have highlighted the links between issues and policy sectors more clearly.

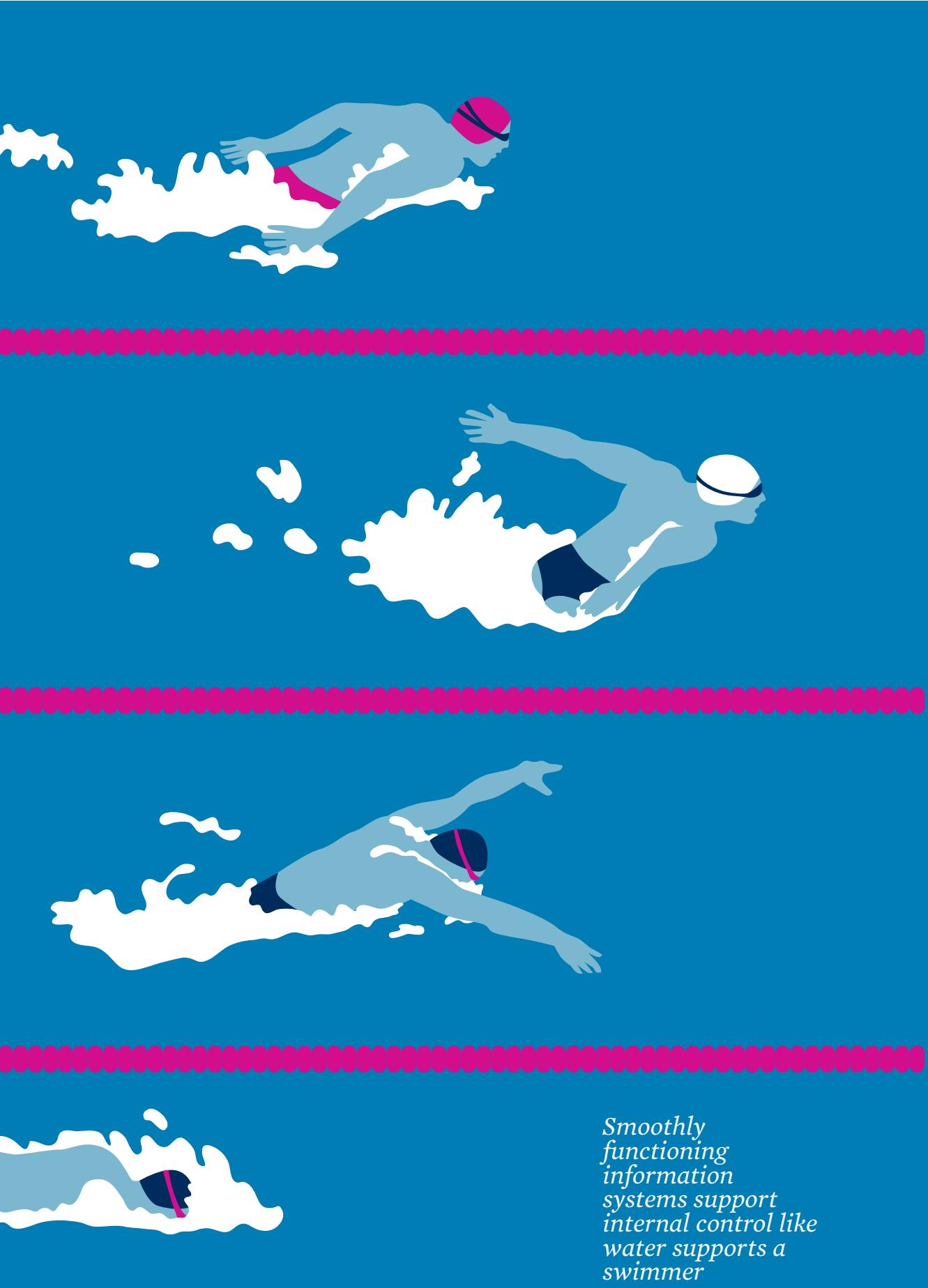
The Government reports on EU policy, which were prepared once every Government term, were a useful way of defining overall priorities of Finland's EU policy stretching over several years. It has occasionally been difficult for parliamentary committees to form a comprehensive view of the EU policy. The reports on EU policy have ensured that Parliament can influence the policy and they have also met the information needs of the Members of Parliament. The reports on EU policy have also made it easier for ministers and civil servants to influence decision-making in EU institutions as each policy sector has been familiar with the general-level opinions discussed by Parliament. On this basis, it has been possible to react quickly (albeit tentatively) to a broad range of topical issues in the EU.

At the same time, however, the steering impact of the key EU policy priorities set each year has remained weak even though in principle it is a good idea to compile in a single document the EU projects and issues (many of which are horizontal) that are of key importance to Finland. Especially in Finland's own initiatives, the documents discussing key EU policy priorities could have been much more concrete. Generally speaking, the overall priorities in Finland's EU policy should be so concrete and well-focused that they can have a concrete impact on the management of EU projects. The priorities and methods must be defined so that their practical impacts can be assessed in retrospect in a meaningful way.

In addition to priorities concerning the Government as a whole, individual ministries have their own high-quality EU priority documents. These could serve as feeds to the Government's EU strategy so that the most important issues could be selected as overall EU priorities of the Government's EU policy. However, it seems that setting of EU priorities by individual ministries and by the Government as a whole are two separate processes. The latest EU policy report, produced in 2013, was prepared without coordinating the process at civil servant level before the document was discussed at political level in the Ministerial Committee on European Union Affairs. As regards the Government's new EU proactiveness strategy, the expert opinions submitted to parliamentary committees indicate that little use has been made of the extensive substance EU knowledge possessed by the ministries when the strategy was prepared. The narrow-based preparatory process would seem to be in conflict with the fact that ministries would have ownership of a joint proactiveness strategy and that the strategy would really steer the practical management of EU-related legislative projects and other EU matters.

The Government's reports on EU policy have served as useful documents

Ministries have high-quality memoranda on EU priorities, which also contain proactiveness plans



*Smoothly  
functioning  
information  
systems support  
internal control like  
water supports a  
swimmer*

## 5 Good governance and management of central government finances

In central government finances, good governance means among other things compliance with the state budget, legality of the activities and effective internal control and risk management. The National Audit Office audits the effectiveness of good governance in all of its audits.

Financial audits cover budget procedures, final accounts, internal control and compliance with the state budget and key budget provisions. For the 2015 budget year, the National Audit Office submitted a total of 60 financial audit reports on the basis of the audits of accounting offices.

During the audit period, the National Audit Office carried out three compliance audits, which covered tax revenue, state's financing contribution to earnings-related daily allowance and Finavia's ownership steering practices. As part of financial audits, the National Audit Office also audited the supervisory environment and the practices of the senior management.

In compliance audits, the focus is on the audit of the compliance with legislation and other key provisions.

### 5.1 There were inadequacies in the compliance with the state budget

The state budget is the most important parliamentary decision steering the management of central government finances. It provides the economic framework, obligations and legal basis for the work of the public administration. As part of the financial audits, the National Audit Office audits budget procedures and compliance with the state budget and key budget provisions.

#### Budget procedures

There were no cautions concerning budget procedures in 2015.

## Compliance with the state budget

The number of qualified opinions on regularity decreased by three, compared with 2014. As they concerned a broad range of different issues, the total number was 22.

The main reasons for the qualified opinions on regularity concerned the use of appropriations or authorisations that was in violation of the state budget. These resulted in a total of 15 cautions in the financial audit reports on eight accounting offices. The cautions in this group concerned the use of an appropriation that was in violation of the state budget, allocation of expenditure in a manner that was in violation of the state budget, carrying over of an appropriation in violation of section 7 of the State Budget Act or carrying over of an authorisation in violation of section 10 of the State Budget Act, processing revenue as reduction in expenditure in violation of the state budget and actual exceeding of an authorisation or appropriation.

The National Audit Office again draws attention to the procedures that are in violation of the state budget and key budget provisions and that are also in violation of the provisions on central government finances laid down in the Constitution of Finland.

Organisation of performance accounting is a key prerequisite to presenting information on operational performance in the final accounts. In overall terms, there has been a slight improvement in the situation from the previous year. Inadequacies in the organisation of performance accounting and the presenting of information on operational efficiency led to cautions in the financial audit reports on four accounting offices.

A qualified opinion on regularity should always be considered a serious matter in respect of the economic management of the agency and the purpose of the financial audits is to report on procedures that involve a deviation from proper budget practices.

Qualified opinions on regularity usually concern sectors of economic management or specific procedures. One should not conclude from the qualified opinions on regularity that central government finances are not managed in accordance with the regularity requirement laid down for them. Furthermore, a qualified opinion on regularity does not mean that it would be based on a misuse of central government funds. When the importance of qualified opinions on regularity is assessed, consideration should also be given to the different sizes of the agencies' budgets.

Qualified opinions on regularity were issued in a total of 22 matters

A total of eight accounting offices received qualified opinions on regularity

Compliance with the state budget is part of effective financial management

Performance accounting is reasonably well-managed

## Obligation to report to the National Audit Office

Under section 5(1) of the Act on the National Audit Office, the auditee and the ministry under whose administrative branch the auditee operates, must notify the National Audit Office of the measures that have been taken on the basis of the cautions contained in the audit report. The financial audit report specifies the cautions that require the above-mentioned reports and the deadline for submitting them.

The adequacy of the measures is audited in connection with the next audit. Even though most qualified opinions on regularity are also matters requiring a report, the reporting obligation may also be imposed as a result of cautions that have not resulted in a qualified opinion on regularity.

Reporting obligation is based on the Act on the National Audit Office



Figure 5: Reporting obligations by administrative branch

Even though qualified opinions on regularity were included in eight financial audit reports, the accounting offices were only issued with five reporting obligations. Not all of the matters concerning qualified opinions on regularity involve measures on which the parties concerned should be obligated to submit reports to the National Audit Office.

Inadequacies in the compliance with the state budget and in internal control procedures led to a reporting obligation in three accounting offices, and inadequacies pertaining to the use and monitoring of authorisations to reporting obligation in four accounting offices. Inadequacies in the organisation of performance accounting and the presenting of information on operational efficiency led to a reporting obligation in the financial audit reports on three accounting offices.

## 5.2 Internal control and risk management should be strengthened

Internal control means procedures, organisational solutions and operating practices contained in an operating unit's steering and operating processes that help to ensure that operations and finances are in accordance with the law, the state budget is adhered to and the assets are secured. Internal control procedures also help to ensure that the financial and performance information is reported in a true and fair manner.

In the financial audits conducted by the National Audit Office, internal control has been assessed as part of a risk analysis and audited in connection with the auditing of accounts, monitoring of authorisations and performance accounting and separately in connection with certain other audits. These have included the ICT audits conducted as part of the financial audits and separate compliance audits.

Performance audits have involved the assessment of risks in administrative steering systems and operating chains and their management. Internal control has been primarily assessed from the perspective of the societal impacts and operational performance and the provision of a true and fair picture of the finances and the operations as a whole. The inadequacies noted in steering, operating and reporting systems are also inadequacies in internal control and risk management at Government level and in the administrative branches of individual ministries.

Asset transfers and use of assets in the European Union are also covered by the financial audits. In the audits, attention has been drawn to the accuracy of the accounts, the legality of the activities, operational steering and particularly on different issues concerning asset management and the organisation of internal control. The audit positions have been reported to the accounting offices that the audits concern or that are responsible for rectifying the inadequacies.

Internal control ensures that the principles of good governance are observed in central government finances

## Summaries of internal control based on financial audits

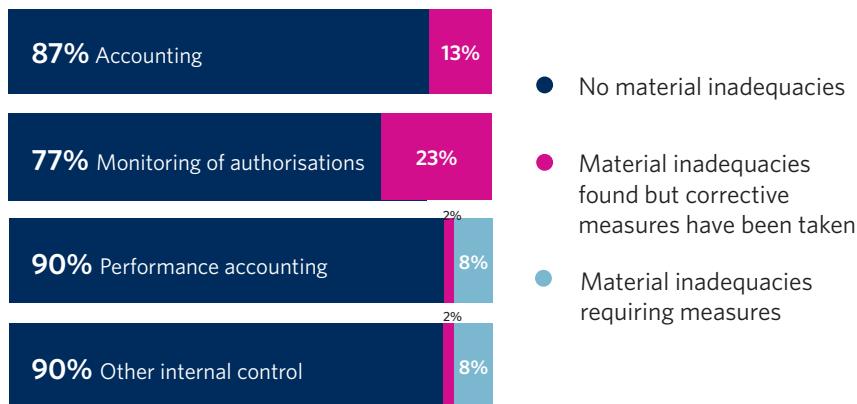


Figure 6: Internal control in 2015 in figures

It seems that among those accounting offices that have received cautions as a result of internal control, the number of offices with material inadequacies requiring measures has remained unchanged (in 2015 and 2014, the figures were 25% and 26%, respectively).

The proportion of accounting offices with no material inadequacies in the arrangements of internal accounting control constituted 87 per cent of all accounting offices (in 2014 and 2013, the figures were 88% and 85%, respectively). A total of 13 per cent of all accounting offices were found to have material inadequacies in the organisation of internal accounting control that would require measures (in 2014 and 2013, the figures were 11% and 12%, respectively).

Authorisations were used by a total of 26 accounting offices. A total of 23 per cent of them were found to have material inadequacies in the monitoring of authorisations warranting caution that would require measures by the accounting offices in question (in 2014 and 2013, the figures were 18% and 8%, respectively). When assessed in this manner, the situation concerning the monitoring of authorisations has deteriorated from the previous year.

More consideration should be given to the monitoring of authorisations

The most important provisions concerning performance accounting are contained in section 16 of the State Budget Act and more detailed provisions are laid down in the State Budget Decree. Accounting and performance accounting must be arranged so that they produce the essential information required for the external steering of the agency and the information required for final accounts and the review of operations.

Regarding performance accounting, it seems that from the perspective of internal control the situation is more or less unchanged from the previous years. Material inadequacies on the basis of which corrective action is required in financial audit reports were noted in eight per cent of all accounting offices (in 2014 and 2013, the figure was 10%).

Under the State Budget Decree, the review of operations must provide an assessment of the proper state and adequacy of the internal control and the risk management carried out as part of it and a statement based on the assessment detailing the state of internal control and the key priorities. No cautions concerning the statement have been issued in financial audit reports during the last few years.

Under the State Budget Decree, the management of an agency must arrange internal auditing if there are special grounds for it as a result of the internal control procedures required under sections 69 and 69 a of the same decree. The results of the 2015 financial audits show that internal auditing was provided in 44 accounting offices or in 73 per cent of all accounting offices (in 2014 and 2013, the figures were 70% and 73%, respectively).

The conclusion based on the results of the financial audits of the accounting offices is that continuous attention should be paid to the organisation of internal control, as laid down in section 24 b of the State Budget Act, and the principles of good governance. As operating practices are changing and the tasks partially decentralised to different actors, special consideration should be given to the effectiveness of internal control and its organisation as a whole.

The way in which internal audit is organised in an accounting office is at the discretion of the management

## Internal control is part of processes and information systems

The transfer of all financial and personnel administration services to the Government Shared Services Centre for Finance and HR (Palkeet) has significantly changed the processes and information systems of central government's financial and personnel administration. The audit of the internal control of the client service processes in Palkeet is a central part of the financial audits carried out by the National Audit Office. The aim of the audits is to identify and assess the risks of material errors and to assess the appropriateness and adequacy of the internal control systems of the client service processes with regard to identified risks. The audits of the processes managed by the service centre covered personnel administration and travel management processes.

Centralisation of services highlights overall management in internal control

Kieku and M2 systems are the information systems connected with personnel administration and travel management. The aim of the system audit covering them was to ensure that the systems are software secure and that they are secure to use.

As many of the main internal control procedures have become part of information systems, separate information system audits are also required to supplement financial audits. In information systems, the focus was on financial and personnel administration systems and systems generating information for them and the arrangements connected with their operating environments. In 2015, the focus was on the shared central government financial and personnel administration system (Kieku).

Based on the audit of the client processes of the service centre, the conclusion was that the internal control of the client service process of the personnel administration is not properly organised. Furthermore, considering the personnel administration as a whole, the internal control is not properly organised either.

The introduction of the Kieku system has created substantial internal control risks. From the perspective of the correctness of payroll accounting and payment of salaries it is essential that the information system is properly tested and the correctness of the accounting principles is ensured before the system is commissioned. Transferring the testing from the implementation project to service production means that the parties involved are intentionally taking a risk that there will be errors in the payment of salaries. The errors detected in the payment of salaries show that the existing internal control procedures of the service centre are not appropriate or adequate. The internal control procedures have not been able to prevent, detect or correct the errors to a sufficient degree.

The service centre is only in the process of developing the internal control procedures of the Kieku personnel administration and preparing guidelines on them even though the first accounting offices already started using the system in 2011. This has resulted in differing practices in the procedures concerning the internal control of the pay material. From the perspective of central government as a whole, internal control procedures are often overlapping but clear inadequacies in internal control have also been noted. Some of the internal control procedures had not been put into use or their implementation had not been properly supervised.

Information systems are key to effective internal control

There are inadequacies in the internal control of the client service processes

The introduction of information systems must be thoroughly prepared

The aim of the separation of tasks is to prevent errors and abuses so that the tasks are divided into several stages between a large number of persons so that risk-prone work combinations can be avoided. The risk-prone job descriptions identified in the service production of the service centre require strengthening of the internal control procedures in client agencies and the ensuring of the integrity and correctness of the payroll accounting information before the salaries are paid. This is not appropriate from the perspective of the efficiency and effectiveness of the current operating model.

Personnel administration tasks have not been properly separated

The inadequacies detected in the audit of the travel management concerned the separation of the tasks and the inconsistent control system between sub accounts and main accounts among agencies.

Internal control must be developed as a whole

The service centre and the accounting offices using its services are considered as a single entity in central government finances. This allows the development of efficient financial and personnel administration processes and a comprehensive organisation of internal control. Efficiency is especially supported by the unified client service processes of the Kieku information system, statutes governing the use of the system and the unified information systems used for performing the tasks. Internal control procedures should be enabled and directed at those parts of the overall process in which the identified risks can be managed in the most effective manner.

Automating controls is a prerequisite for effectiveness

Automation of functions and internal control should be the main ways of making internal control more efficient and effective. A centralised personnel administration operating model and information system solution highlight the role of effective controls and the role of supervision of internal control procedures preventing errors from the perspective of cost-effective organisation of the controls. From the perspective of the system as a whole, it is important that the service agreement and the division of responsibilities are adhered to.

The responsibility for the appropriateness and adequacy of the internal control of the information systems used in client service processes and the information security connected with it is not clear. The responsibility for internal control should be sufficiently clear.

The most important development priorities highlighted in the system audits concerned the responsibilities, control and scope of control in the system's operations and information security and authorisation administration and access rights management procedures. It was also noted that there is room for improvement in the documentation of systems, information security and risk management procedures and the functioning and automation of controls.

## Control environment and procedures applied by the senior management

Awareness of the role of internal control among the management creates a basis for good governance in the organisation as a whole. When the members of senior management show that they adhere to agreed procedures the rest of the personnel are also likely to comply with the guidelines.

As part of the financial audit, the National Audit Office also carried out a compliance audit, which covered compliance with internal control procedures in the senior management of central government agencies. The audit was conducted in all accounting offices.

In the audit, senior management meant ministries' permanent secretaries, as well as the persons in charge of other agencies and, on a case-by-case basis, heads of units and persons in similar positions. In the largest accounting offices, senior public servants were also included in the senior management. Political permanent secretaries and persons holding similar positions were outside the scope of the audit. The audit covered a maximum of eight persons in each accounting office.

The senior civil servants have, in essential parts, complied with the procedures laid down in the law, contained in regulations and set out in agreements. The conduct of the senior management also contribute to the implementation of the principles of good governance in the public administration.

It was noted that improvements are mainly needed in certain travel practices and the allocation of client benefits. Moreover, in order to ensure high civil service ethics, continuous consideration must be given to ensuring that taking part in events of general nature organised by external parties is properly justified.

Control environment and management procedures as audit entities

Senior civil servants in central government observe good governance practices

## Excise taxation

Excise duties are collected on products made in Finland and on products imported to Finland. The collection of excise duties is the responsibility of the Finnish Customs. Some of the products come under excise taxation harmonised by means of EU directives. In addition to products coming under harmonised excise taxation, there are also national excise duties in Finland. A total of about 6.8 billion euros in excise duties were collected in 2015.

Based on the compliance audit, the conclusion was that the excise duties have, in essential parts, been collected in accordance with relevant provisions and the internal control is, in essential parts, properly organised.

Excise duties have been collected in accordance with relevant provisions

The provisions concerning the adjustment of excise taxation and additional taxation should be updated so that they are in accordance with the changes required by automated taxation. The Finnish Customs is urged to take measures so that the provisions can be made more specific. The transparency of the final excise duties is weakened by the fact that any adjustments to the taxation are made to the tax ledger as adjustment decisions and not to the excise taxation declaration system. The Finnish Customs should develop the excise taxation declaration system (Veivi) so that adjustment decisions are also processed in the system.

It was noted that there is room for improvement in procedures concerning adjustment of taxation

In the imposition of tax increases, the discretion of the Finnish Customs is based on the law whereas the application of the law is on the basis of unofficial guidelines. The application practice and the powers associated with them should be laid out in the rules of procedure of the Finnish Customs.

The provisions concerning tax increases may, in connection with additional taxation, lead to unreasonable end results when the taxpayer receives a tax refund but the decision concerning the additional taxes remains in force. Extending the time limit for additional taxation so that it would be in accordance with the five-year limit laid down in section 56 of the Act on Assessment Procedure, would in taxes such as the excise duty lead to a situation that is unreasonable for the taxpayers.

In electronic tax return procedure, the taxation decisions are mainly taken automatically. In order to improve ex ante control, there are grounds for developing application controls so that more tax returns would be processed manually on the basis of risks and materiality. At the same time, there should be clear procedural instructions so that the uniformity of taxation can be ensured.

In the processing of declarations, consideration should be given to materiality and risks

Under section 26 of the Act on Assessment Procedure, when assessing the taxes, the tax authority must examine the information and reports it has received in a manner that is justified, considering the nature and scope of the matter, uniform treatment of taxpayers and the requirements of tax control. The provision is the general provision for tax assessment based on mass procedure but it also forms the basis for tax audit and control. The provision has created an appropriate legislative basis for the selection taking place as part of taxation. There are grounds for including the selection provision of section 26 of the Act on Assessment Procedure in the Excise Duty Act, in which case better consideration could be given to the material nature of the taxation events in individual audits. In euro terms, the taxation of essential taxpayers should be audited each year and the audits should at least be carried out using computers. The audits of other taxpayers could be directed at events or processes that are prone to errors.

The audit reports prepared by the Corporate Audit of the Finnish Customs contain instructions to specific taxpayers. The Finnish Customs should, on a systematic basis and by tax type, identify situations involving different interpretations and on their basis form clear policies and principles for carrying out excise taxation in accordance with relevant provisions and in a uniform manner. The Finnish Customs should consider specific controls in matters that are of material importance in euro terms or leave particular room for interpretation. From the perspective of internal control, it is essential to ensure that the most important provisions are up-to-date.

The information system audit covering the excise taxation declaration system covered the most important internal control procedures and information system arrangements of the system and its operating environment.

The excise taxation declaration system was developed between 2011 and 2014 to replace the previously used information system. The first stage of the system was introduced in March 2014. The aim of the audit was to ensure that the most important internal control procedures and information security arrangements concerning the system and its operating environment have been properly implemented and that the integrity and permanence of the information processed in the system can be ensured.

The Finnish Customs was issued with recommendations that cover the guidelines concerning the use of the declaration system, preparation of a description of methodology for the system, matching of the excise taxation declaration system and taxation ledger events, risk-prone work combinations permitted by user authorisations and the supervision of the outsourced information system tasks.

## Tax revenue

Several tax revenue audits were conducted in connection with the financial audits of the Finnish Tax Administration and Finnish Customs between the years 2012 and 2015. The audits of the Finnish Tax Administration have covered income taxation, unprompted taxes and tax-related fees processed on the tax account, as well as payments to tax recipients. Audits of the Finnish Customs have covered the vehicle taxation of new motor vehicles and excise taxation. An information system audit has also been carried out on each tax type covered in the audit.

Tax revenue audits have been carried out in the Finnish Tax Administration and Finnish Customs

In a separate compliance audit, a summary of the audits was produced by focusing on two issues. Firstly, it was discussed whether the formal tax law provisions concerning the automated taxation process ensure that the internal control of the taxation process is appropriate and adequate. Secondly, it was discussed whether the internal control of the taxation process is adequate and appropriate.

The diligent discretionary approach originally laid out in the Act on Assessment Procedure in 1996, has been gradually abandoned, first in practice and later on a statutory basis. Instead of the diligent and case-by-case consideration, the tax assessment procedure applied since the year 2006 has been based on an approach in which the tax authority must examine the information and reports it has received in a manner that is justified, considering the nature and scope of the matter, uniform treatment of taxpayers and the requirements of tax control. The aim of the investigation taking place in the automation of the tax returns is to identify and select the errors and inadequacies that are essential from the perspective of the tax risk and interests concerning the manual processing of the tax returns. No similar changes arising from automation of taxation have been made in the acts on vehicle taxation, excise taxation and value-added taxation even though in practice the investigation is on a selective basis. Making compromises with the extensive investigation obligation also required more detailed provisions concerning tax adjustment. No revisions of the adjustment provisions required by the change have been incorporated into other tax laws either.

Under section 2(3) of the Constitution of Finland, in all public activity, the law shall be strictly observed. Thus, in principle the provision based on selective investigation is a major change.

The purpose of the investigation carried out in automation is to make internal control more effective. The effectiveness of the selections depends on how well cases requiring measures are discovered with the help of different selection criteria. If there is a large number of case requiring unnecessary investigation work, the controls will become less effective. At the same time, however, the audit findings show that the selection does not identify all errors and inadequacies affecting the calculation of taxable income.

The aim of the Finnish Tax Administration to focus tax control on the detection of errors and abuses that are, in euro terms, the most essential from the perspective of the tax gap and the grey economy has an impact on the number of selections and the selection criteria. The selections are based on selection criteria that are nationally uniform and that are changed on the basis of the risk assessment process. By defining its selection criteria, the Finnish Tax Administration can set the tax control at desired level or adjust it in accordance with available resources.

In the examination of tax returns, there has been a changeover from case-by-case consideration to automated processing

Controls are directed from the perspective of the tax gap and the grey economy

Automated tax control means balancing between effectiveness requirement and uniform treatment of all taxpayers. As a result of the selection criteria, similar cases or cases that are in the same scale in euro terms are, in principle investigated using the same criteria. The cases remaining outside the scope of the selection criteria are, however, not investigated in detail, which weakens the uniform nature of taxation. In taxation the processing of the selection and the decision procedure are also steered by the deviation limits and investigation thresholds laid out in the internal work instructions of the Finnish Tax Administration. The number of selections has decreased each year. Furthermore, in the investigations of the selections, the euro limits have been increased, while at the same time the number of investigated matters has been cut.

Balancing between effectiveness and uniform treatment

Tax legislation should be developed and the automation increased with the aim of providing a basis for effective organisation of taxation processes and internal control so that the tax gap can be narrowed, a high level of tax ethics maintained and the effectiveness of tax control ensured. This would reduce the risk of internal control in the control process and allow the Finnish Tax Administration to direct tax control more extensively at essential issues where there is room for interpretation. Simplification and clarification of the tax legislation and automation of functions and internal control would also decrease the quality-management risks associated with taxation processes.

In statute drafting consideration should be given to internal control

Formal tax law provisions such as those concerning tax assessment are essential from the perspective of internal control. On the one hand, they provide a basis for internal control, while on the other hand they ensure compliance with the provisions of material tax law. In law drafting they should thus also be systematically assessed from the perspective of internal control.

## Ownership steering of Finavia

Based on the compliance audit of Finavia's ownership steering practices it was concluded that Finavia's management has worked consistently and in an appropriate manner in order to resolve the issue of derivative liabilities. It was also concluded that the activities of the state owner have been partially inappropriate, which has led to the blurring of responsibilities between the company and the state owner.

The purpose of the compliance audit was to determine the adequacy and appropriateness of the measures taken with the aim of resolving the responsibilities concerning the losses arising from Finavia's derivatives.

## 5.3 Government aid involves risks

Government aid is a major area of expenditure in the state budget and there are provisions on granting and paying it and on the supervision of its use in a number of different laws. The state of the administration and supervision of government aid and subsidies has been audited in internal control audits conducted as part of financial audits and in separate compliance audits. The purpose of internal control is to ensure that the procedures concerning government aid are on a proper basis. The compliance audit of government aid covered earnings-related daily allowance.

The auditing of transfers is based on the risk analysis of central government finances and the national economy

### State's financing contribution to earnings-related daily allowance

In the 2015 state budget, a total of 1.1 billion euros were allocated to the state's financing contribution to earnings-related daily allowance. The compliance audit covered the state's funding contribution for 2015 and the daily allowances paid to unemployed job seekers in the same year.

The unemployment security and its financing are based on the Unemployment Security Act, Act on Unemployment Funds and the Act on Financing Unemployment Benefits. The payment of the state's financing contributions to unemployment funds and the payment of earnings-related daily allowance to unemployed job seekers are based on the Government decrees implementing the Act on Unemployment Funds and the Unemployment Security Act, and the Government decree on income considered in the determination of unemployment benefits. The State Budget Decree provides the statutory basis for internal control.

Definition of the payment system resulted in a systematic error

The first aim of the audit was to determine whether the state's financing contribution to earnings-related daily allowance has been paid to the unemployment funds in accordance with all relevant provisions. According to the audit findings, the state's financing contribution to earnings-related daily allowance has been paid to unemployment funds in accordance with all relevant provisions, except for the earnings-related daily allowances paid for layoff periods, which are not part of the state's financing contribution.

All unemployment funds should review the manner in which the provisions of the Unemployment Security Act are applied to the payment systems, correct the 2015 financing contributions and enter the corrections in the payment statistics and the final financing contributions. When analysing the outturn statistics on the benefits paid by the unemployment funds, the Ministry of Social Affairs and Health should pay particular attention to ensuring that the daily allowances paid for layoff periods or other items that are not eligible for central government transfers under law or the state budget do not include any central government transfers.

The second aim of the audit was determine whether the payment of the earnings-related daily allowances to the final beneficiaries has been in accordance with all relevant provisions. The conclusion based on the audit is that in the cases reviewed in the audit the earnings-related daily allowances have been paid to the final beneficiaries in accordance with all relevant provisions.

The third aim of the audit was to provide an opinion on whether the internal control of the financing process is properly organised. Even though, as a whole, the internal control of the financing process is organised in an adequate manner the role of the Ministry of Social Affairs and Health in the process should be more specific.

In practice, the state's financing contribution is determined on the basis of the information supplied by the payment systems of the unemployment funds each month. There are two system suppliers delivering payment systems. The payment systems are highly automated and produce benefit decisions on a mass basis. Under the agreements between the system suppliers and unemployment funds, the system suppliers are responsible for the proper functioning of the systems. However, in individual cases, the unemployment funds are responsible for ensuring the correctness of the benefit decisions and the information produced by the systems.

Over the past few years, the Financial Supervisory Authority has not audited the correctness of the benefit decisions or the effectiveness of the payment system. The Ministry of Social Affairs and Health does not have any external obligation to supervise unemployment funds because under Finnish law, the supervision is the responsibility of the Financial Supervisory Authority. Each year, the ministry gives, on the submission of the Financial Supervisory Authority, its final approval to the state's financing contribution to earnings-related daily allowance. The information supplied by the unemployment funds' payment systems are not systematically audited in the ministry. This is a material risk from the perspective of the state's financing contribution. On the basis of the audit findings, it is recommended that the ministry should ensure that the payment systems of the unemployment funds are properly supervised and audited, especially when legislative changes are introduced.

Earnings-related daily allowances have been paid to final beneficiaries in a correct manner

The Ministry of Social Affairs and Health should have a stronger role in the financing process

## 5.4 State of the administration and supervision of EU funds in Finland in 2015

The transfer, administration and supervision of EU funds are audited in accordance with the principle of equal protection as part of the performance audits, financial audits and compliance audits conducted by the National Audit Office. The audits are carried out in accordance with the same principles and procedures as the audits of national funds.

Are audited in the same manner as national funds

In the financial audits conducted by the National Audit Office, attention is on the accuracy of the accounts, the legality of the activities, proper state of operational steering and on issues concerning asset management and the organisation of internal control. The performance audits conducted by the National Audit Office focus on the effectiveness of the measures wholly or partially financed through EU funding.

In the 2015 budget year, the financial audits of the transfer of European Union funds covered project and business subsidies in the ELY Centres and in the Agency for Rural Affairs that are part-financed by the European Agricultural Fund for Rural Development.

Implementation has been delayed by problems concerning the development of the project and business subsidy system

The most important administrative change concerning the project and business subsidies part-financed by the European Agricultural Fund for Rural Development in the programming period 2014–2020 has been the digitalisation of the application procedure and the processing of the documents. The change has been more successfully incorporated in the application process than expected. However, the incorporation of digitalisation in the system has proved to be more difficult than anticipated, which is one reason why the development of the information system is behind schedule. The development problems have delayed the implementation of the subsidy system to the extent that it concerns the making of financing decisions and the stages following the financing decision.

The decision-making and payment process in the aid paid to farmers must be speeded up

Aid provided to farmers was also audited in the Agency for Rural Affairs. The delays in the introduction of the information system has also led to a situation where the approval of the commitments and agreements concerning the environmental compensations applied for in 2015 has been postponed to 2016. For this reason only 11.2 million euros of the authorisation of 1,155 million euros granted under item 30.20.43 (Environmental compensation, organic production, advice and non-productive investments) was spent in 2015. The Agency for Rural Affairs has taken measures aimed at correcting the problems connected with the subsidy system and

the measures should be continued so that the decision-making and subsidy payment processes can be speeded up.

In the audit of the assets of the European Social Fund (ESF) and the European Regional Development Fund (ERDF) the focus was on the identification of the beneficiaries, state of the projects and the basis for implementing the 2015 state budget.

The information content of the EURA2014 information system was still incomplete and partially incorrect at the beginning of 2016. It was concluded in the audit of the budget procedures that the current authorisation budget procedure is not in accordance with section 10 of the State Budget Act and the general principle concerning the use of authorisation under which the authorisations are intended as a basis for multi-year project financing. It was recommended that the budget procedure concerning the authorisation of item 32.50.64 (Financing contribution of the EU and the state to structural funds, external border cooperation and other cohesion policy programmes, variable appropriation) should be changed so that it is in accordance with the general budget practice.

The audit of the internal control of the assets of the European Regional Development Fund revealed inadequacies in the verification of payroll costs concerning the verification of eligibility. In other respects, eligibility had been ensured and documented in connection with the payment batches in an appropriate manner. In the audit, the ELY Centre, the KEHA Centre and the Ministry of Economic Affairs and Employment were urged to jointly create procedures for electronic administration of business subsidies that would help to ensure proper internal control of the subsidy administration process. Guidelines should also be updated.

The financial audits of EU funds revealed no other material inadequacies concerning internal control of the audited areas.

The three performance audits carried out by the National Audit Office in the budget year 2015 had connections with the administration of EU funds. Audit reports of two of the audits were published in spring 2016: Preparation and coordination of EU affairs in the Government (report 2/2016) and Support for the building of broadband network (report 8/2016). The main conclusions of the audits are described in chapter 4 of the report (Cooperation between ministries in the preparation of EU matters) and in chapter 7 (Support for the building of broadband network).

The National Audit Office is also in the process of carrying out a performance audit assessing the effectiveness of the structural fund programmes of the European Union. The audit only covers the employment and income impacts of the European Regional Development Fund in the programming period 2007–2013. The report will be completed in autumn 2016.

The authorisation procedure on item 32.50.64 should be clarified

Electronic procedures in ERDF funding should be developed

There were three performance audits concerning the management of EU funds

## 5.5 Abuses and complaints concerning central government finances

The abuses come to the knowledge of the National Audit Office as a result of the audits conducted by NAOF or as reports on abuses submitted by administrative actors in accordance with section 16 of the Act on the National Audit Office.

The National Audit Office has received only a small number of reports of abuses and their economic importance has been negligible

### Statutory reports on abuses submitted by public administration

In 2015 the National Audit Office received nine reports from state authorities concerning abuses of state funds or assets in their operations (in 2014 and 2013, the figures were 12 and 9, respectively). The reports concerned several administrative branches.

Furthermore, one case involving suspected abuses by a recipient of government aid was reported by central government agencies to the National Audit Office (in 2014 and 2013, the figures were 3 and 9, respectively).

### Reports on irregularities concerning the use of EU funds

The National Audit Office has received copies of the reports on irregularities concerning the supervision of the aid that the Ministry of Economic Affairs and Employment and the Agency for Rural Affairs, the bodies administering EU aid, send to the European Commission in accordance with Commission regulations. The National Audit Office received a total of 63 such reports in 2015 (in 2014 and 2013, the figures were 60 and 40, respectively). This total comprises both new reports and follow-up reports.

These reports on irregularities have been insignificant in term of their economic importance.

## Only a small percentage of the reports warrants specific action

A private citizen or an organisation suspecting that there have been irregularities concerning the legality of central government finances may submit a written complaint to the National Audit Office. The complaint may concern the legality of central government finances or compliance with the state budget. The National Audit Office does not consider appropriateness issues as complaints.

During the year in review, the National Audit Office received a total of 43 complaints (in 2014 and 2013, the figures were 31 and 51, respectively). The number of complaints addressed during the year totalled 44 (in 2014 and 2013, the figures were 40 and 52, respectively). Most (about two thirds) of the complaints did not warrant any action on part of the National Audit Office. The remaining matters were subjected to complaints procedure in which the authority subject to the complaint was requested an opinion on the matter concerned. A decision on the complaint issued by the National Audit Office concluded the processing of the complaint.

The complaints have been of little economic significance. Of the matters processed as complaints, a case involving official procurement can be highlighted as a case involving important principles. In the complaints decision on the case, the National Audit Office stated that concluding contracts that are valid until further notice (such as the contract made on 8 February 1994, which was the subject of the complaint) is as such permitted under procurement provisions. However, the contracting authority may not conclude a contract with unlimited validity without violating against the competitive tendering obligation. The view was that the contract was too long in terms of its duration.

A private citizen or an organisation suspecting that there have been irregularities concerning the legality of central government finances may submit a complaint to the National Audit Office



*Final accounts  
are a visible  
manifestation of  
accountability*

## **6 Accountability and management of central government finances**

The following documents help to ensure accountability in central government finances: Government's annual report, final central government accounts and the final accounts of state enterprises, off-budget entities and government agencies designated as accounting offices.

As part of the financial audits, the National Audit Office audits the final central government accounts, final accounts of the accounting offices and the notes to them, as well as the information on operational efficiency presented by the accounting offices in their reviews of their operations.

Of the other information presented by the Government in its annual report, the National Audit Office has audited information on societal effectiveness and the state of general government finances. These issues and the audit of final central government accounts are reported in the separate report 15/2016 vp.

### **Final accounts of the accounting offices**

Provisions on the final accounts of central government agencies are contained in the State Budget Act and in the State Budget Decree. In addition to the Office of the President of the Republic and ministries, only the agencies that the Ministry of Finance has ordered to operate as accounting offices are, under the State Budget Decree, obliged to prepare final accounts and final accounts that also include a review of operations. Even though ministries also continue to set performance targets for other agencies, they do not have any comprehensive obligation to report on operational performance in their final accounts.

## 6.1 Final accounts of accounting offices

Under section 21 of the State Budget Act, the final accounts and reviews of operations prepared in order to implement accountability must contain true and fair information on compliance with the state budget and the revenue and expenditure and financial position of the agencies. The requirement only applies to the agencies that operate as accounting offices under the decision of the Ministry of Finance.

The final accounts of the accounting offices help to ensure accountability of the management

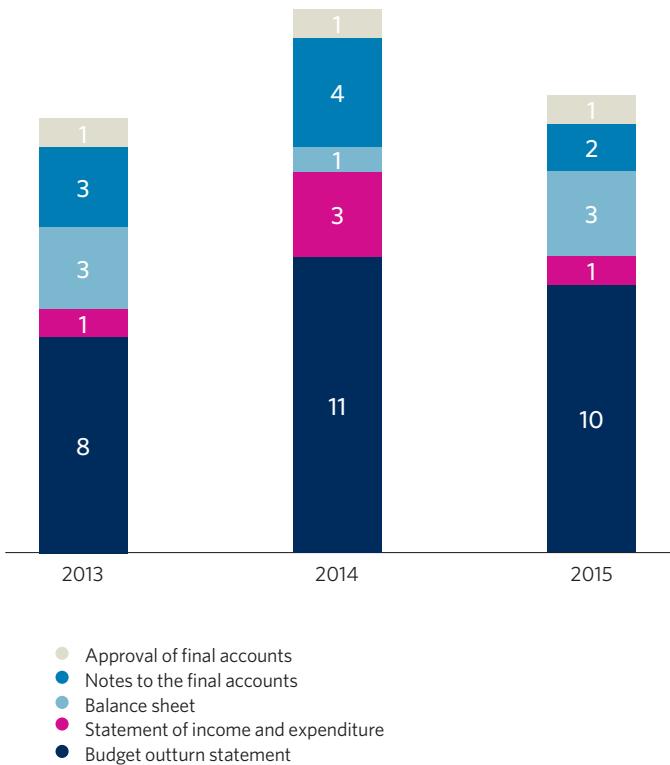


Figure 7: Cautions concerning final accounts in figures

A total of 12 financial audit reports contained cautions on final accounts and notes to them.

The budget outturn statement contains the information on budget revenue and expenditure and the information on authorisations and their use. The cautions in this group concerned the use of appropriations that was in violation of the state budget, entry of revenue on a gross-budgeted expenditure item and allocation of expenditure in a manner that was in violation of the state budget so that it resulted in a carrying over of the appropriation. A total of 15 such cautions were issued.

In 2015, authorisations were used by 26 accounting offices. Five accounting offices were cautioned about the presentation of authorisation information or the use of authorisations. The main reasons were inadequacies in the carrying over of the authorisations and the organisation of the monitoring of authorisations. One financial audit report contained a caution concerning the exceeding of an authorisation, while a caution concerning the carrying over of an authorisation was included in one financial audit report.

One accounting office was cautioned about its revenue and expenditure statement, while three accounting offices were cautioned about their balance sheets. The caution concerning the balance sheet was issued in connection with the appreciation of assets and the way in which it is presented in the balance sheet.

Two accounting offices were cautioned about inadequacies in the notes to the final accounts. In the financial audits, particular attention was drawn to such notes that significantly supplement the information presented in the final accounts. The most important of them are the details on the state securities and guarantees and other off-balance sheet liabilities.

A total of 10 accounting offices received cautions concerning their budget outturn statements

Monitoring of authorisations is an essential part of the monitoring of the budget outturn

The details of liabilities are the most important notes to the final accounts

## 6.2 Operational performance

In administrative steering, it is essential to reconcile the resources with the objectives concerning the results achievable with them. In performance guidance, the requirements concerning operational efficiency and service capacity are reconciled with the management of productivity and economic efficiency. The objectives and information concerning productivity and economic efficiency are key to successful performance guidance. Irrespective of the steering system, they also provide a basis for the overall assessment of the effectiveness, service capacity and operational efficiency. The grounds for the budget proposal must lay out the societal effectiveness and operational performance targets of the proposal. They are one basis for the Government in its administrative steering and for Parliament when it decides on appropriations and assesses the meeting of targets.

After Parliament has published the state budget, the ministry must approve the performance targets for central government agencies. The agencies must give true and fair information on their operational performance in their final accounts and reports on their operations.

In their reviews of operations, the ministries and other accounting offices must, as part of the description of performance, present a description of operational performance (including key indicators) and a comparison with the performance targets set.

As part of the financial audits, the National Audit Office has also assessed the comprehensiveness of the productivity and economic efficiency targets approved by the ministry concerned and the information on them contained in the final accounts.

### Process of target-setting is slow

The productivity and economic efficiency targets approved by the ministries remain inadequate. Comprehensive economic efficiency targets had only been approved for 40 per cent of the accounting offices. The situation concerning economic efficiency targets has deteriorated significantly from the previous years. In their performance agreements, the ministries had provided a slightly higher proportion (47 per cent) of the accounting offices with productivity targets. When the comprehensiveness of the productivity and economic efficiency targets are assessed together, it transpires that only about 32 per cent of all accounting offices had been set adequate targets.

Setting of targets provides  
a basis for operations

Adequate targets had only  
been set for 32 per cent  
of all accounting offices

	Economic efficiency	Productivity
2013	54%	51%
2014	46%	51%
2015	40%	47%

Figure 8: Presenting targets as figures

When the productivity and economic efficiency targets are assessed on the basis of ordinary operating expenses, it transpires that the economic efficiency targets cover 37 per cent and the productivity targets 75 per cent of the central government operations (in 2014 the figures were 50% and 76% and in 2013, 52% and 77%, respectively).

In overall terms, there have been few changes in the setting of operational performance targets in recent years. However, some form of productivity and economic efficiency targets could be set for all agencies and ministries.

### Productivity and economic efficiency are reported in a fairly comprehensive manner

The purpose of the financial audits is to verify that the figures on operational performance presented in the review of operations contained in the final accounts are true and fair. The audit serves as a basis for assessing whether the information on profitability, economic efficiency, chargeable services and their profitability and the cost-effectiveness of the jointly funded activities is true and fair.

The information on economic efficiency (or the cost information provided instead of them) was found to be true and fair in 55 accounting offices, which is 92 per cent of all accounting offices (in 2014 and 2013, the figures were 62 and 61, respectively).

Most of the figures provided by accounting offices in their final accounts concern costs and other corresponding quantities, which account for 58 per cent of the information presented. Even though some accounting offices include a large number of economically important agencies, under the State Budget Decree the presentation of true and fair figures may only be examined at the level of accounting offices.

The productivity figures were found to be true and fair in 56 accounting offices, which is 93 per cent of all accounting offices.

When the comprehensiveness of the true and fair figures on productivity and economic efficiency are assessed on the basis of ordinary operating expenses of the agencies, true and fair economic efficiency information covered 65 per cent and productivity information 66 per cent of the central government activities (in 2014, the figures were 73% and 65%, and in 2013, 72% and 65%, respectively). When assessed in this manner, there has been a slight decline in the comprehensiveness of the figures from the previous years.

Provisions on the reporting obligation are contained in the State Budget Act

Productivity and economic efficiency are reported in a comprehensive manner

#### True and fair information

<b>2013</b>	<b>91%</b>
	» 61 accounting offices
<b>2014</b>	<b>93%</b>
	» 62 accounting offices
<b>2015</b>	<b>92%</b>
	» 55 accounting offices

Figure 9: Economic efficiency information in final accounts

#### True and fair information

<b>2013</b>	<b>91%</b>
	» 57 accounting offices
<b>2014</b>	<b>91%</b>
	» 61 accounting offices
<b>2015</b>	<b>93%</b>
	» 56 accounting offices

Figure 10: Productivity information in final accounts

When the information on operational efficiency is assessed as a whole, the figures presented by 52 accounting offices, or 87 per cent of all accounting offices, could be considered true and fair (in 2014, 60 accounting offices or 90%, and in 2013, 62 accounting offices or 93%).

The ministries have presented most of the economic efficiency figures as cost information by result area or by using a corresponding breakdown. The manner in which the ministries present the information can be considered appropriate. Except for the Ministry for Foreign Affairs and the Ministry of Economic Affairs and Employment, the information provided by the ministries can be considered true and fair.

The situation concerning the trueness and fairness of the information on operational efficiency is, in overall terms, fairly good. The information would, however, be more usable and the provision of the information easier if the figures on operational efficiency and the manner in which they are presented were harmonised and clarified. Presenting key indicators in a clear and uniform manner would simplify accounting procedures and make the preparation of the reviews of operations more efficient.

Information should be presented in a clear and uniform manner

### Chargeable services are adequately reported

Under the State Budget Act, the monitoring of the profitability of chargeable services must be organised so that their annual results can be presented as part of the final accounts unless the chargeable services are only provided in a small scale. Under the State Budget Decree, reviews of operations must provide information on the profitability of chargeable services and a comparison with the targets set. The requirement for true and fair information has been further tightened by the order of the State Treasury under which service-specific cost-effectiveness calculations must be presented.

The requirements concerning the monitoring and reporting on chargeable services are laid down in the State Budget Act

According to consolidated accounting, the revenue of the central government's chargeable services totalled 1.1 billion euros. Of this total, public-law services provided under the Act on Criteria for Charges Payable to the State accounted for 0.4 billion, services with market-based pricing for 0.3 billion and services priced under special legislation for 0.4 billion. The revenue for chargeable services have remained at previous years' levels.

In 2015, there were a total of 40 accounting offices providing chargeable services referred to in the State Budget Act (in 2014 and 2013, the figures were 45 and 56, respectively). The ministries had set performance targets for chargeable services for 31 accounting offices, which was 78 per cent of all accounting offices providing chargeable services (in 2014, the figures were 33 accounting offices or 73%, and in 2013, 38 accounting offices or 68%).

The audits showed that a total of 33 accounting offices (83 per cent of all accounting offices providing chargeable services) had presented true and fair information on their chargeable services and the annual results they generated. In 2014, the figures were 40 accounting offices and 89 per cent.

When the comprehensiveness of the true and fair information on chargeable services referred to in the Act on Criteria for Charges Payable to the State is assessed on the basis of revenue generated by chargeable services, true and fair information covered 80 per cent of all chargeable services (in 2014 and 2013, the figures were 78% and 92%, respectively).

As a whole, the information on chargeable services contained in the final accounts is presented in a fairly comprehensive manner. In 2015, a qualified opinion on regularity concerning the inadequacies in the presentation of the annual results of the chargeable services was contained in the financial audit report of one accounting office (no change from 2014 and 2013).

As a whole, reporting on chargeable services has improved during the last few years

## Performance guidance does not function properly as no targets are set

Success of performance guidance can, on the basis of the financial audits, be assessed from the perspective of the setting of economic efficiency targets and the reports produced on them. The comprehensiveness of the economic efficiency targets set by the ministries and the information on them presented by the accounting offices in their reviews of operations are used as the assessment criteria.

There is a need for the coordination of aims and resources

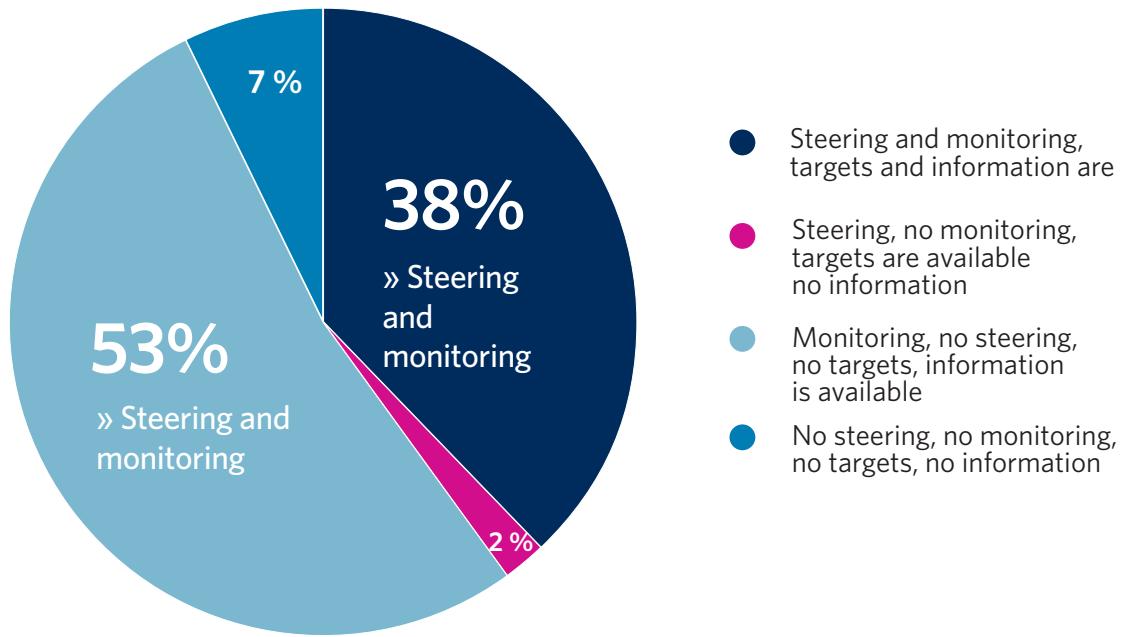


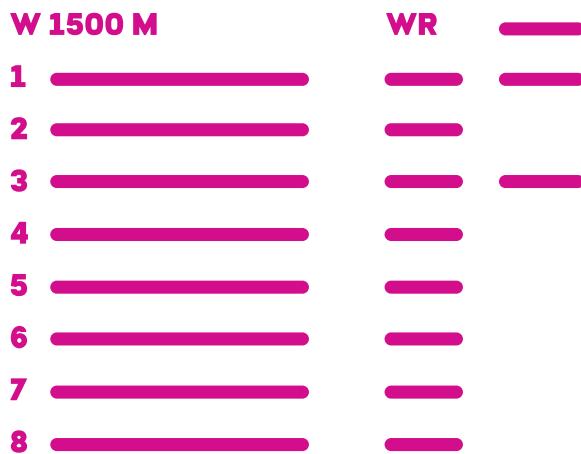
Figure 11: Comprehensiveness of the target-setting and true and fair reporting in reviews of operations

Compared with the previous years, there has again been a slight reduction in the proportion of accounting offices that are guided by adequate economic efficiency targets and that present true and fair information in their final accounts (38% of all accounting offices in 2015 and 46% in 2014). On the basis of the audit, only slightly more than one accounting office in three has workable performance guidance arrangements, when assessed in this manner. When assessed on the basis of ordinary operating expenses, it means that the figure for all central government activities is only 46 per cent (50% in 2014 and 51% in 2013).

If in the assessment of the state of performance guidance, the setting of productivity and economic efficiency targets and the presentation of true and fair information on them are combined, it transpires that only 30 per cent of all accounting offices had been set adequate productivity and economic efficiency targets and presented true and fair information. For 2014 and 2013, the figures were 33% and 36%, respectively. Correspondingly, the accounting offices for which the productivity and economic efficiency targets set by the ministries were not considered adequate and that had not provided true and fair productivity and economic efficiency figures accounted for seven per cent of all accounting offices (compared with 7% in 2014 and 9% in 2013).

Productivity and economic efficiency steering by ministries works in one accounting office in three

*Audit findings  
contribute to  
transparency and  
openness*



## **7 Observations by administrative branch**

The financial audit observations concerning the management of central government finances and the state of the public administration presented in chapter 5.1 of this report are itemised and analysed in this chapter. Performance audit and fiscal policy audit observations and significant follow-up observations that are not included other parts of this report are also discussed below. For lists of all completed audit reports and follow-up reports, see appendices 1–6 to this report.

### **7.1 Office of the President of the Republic**

#### **State of the administration on the basis of the financial audits**

The Office of the President of the Republic operates as a single accounting office.

According to the financial audit, the state budget and the key budget provisions have been complied with.

The information on operational efficiency presented in the final accounts was considered true and fair.

## 7.2 Prime Minister's Office

### State of the administration on the basis of the financial audits

The Prime Minister's Office operates as a single accounting office.

According to the financial audit, the state budget and the key budget provisions have been complied with.

Even though the Prime Minister's Office has not set itself any economic efficiency or productivity targets, the information on these areas presented in the final accounts was nevertheless considered true and fair.

The information on productivity and economic efficiency was true and fair

### Performance audit observations

The aim of the audit of the preparation and coordination of EU affairs was to determine whether the preparation of EU affairs at national level ensures that Finland can play an effective role in the drafting of legislation and decision-making in EU institutions. According to the audit findings, the coordination system of EU affairs in the Government is, as a whole, functioning well even though there are also areas where improvements are needed. More use should be made of the sub-committees in the preparation of EU matters and in broad-based priority discussions.

The access of the ministries' civil servants to information should be improved and they should also have more discussions on EU affairs within the framework of the Committee for EU Affairs or in other appropriate manner. Because of the new structure and new operating practices of the Commission, an increasing number of extensive horizontal EU issues are coming up for consideration.

Ministries' senior civil servants should have more discussions on EU matters

Based on the audit, the conclusion is that the overall setting of priorities for the Government's EU policy should be sharpened. The priorities should be so concrete that their achievement can be assessed on an ex-post basis. The audit also covered the ministries' internal preparation and management practices in EU matters. It was noted in the audit that a centralised coordination model is a better way of ensuring systematic preparation than a decentralised model. In each ministry, the senior and middle management must make proactiveness inputs when EU initiatives that are exceptionally important to Finland are considered. The management must also ensure that in each ministry there is high-quality expertise in EU affairs. Each ministry should encourage its civil servants to gain experience by working in the Commission, in Finland's Permanent Representation and other similar bodies. It is also important to plan well in advance which tasks the civil servants possessing such experience will assume when they return to Finland so that their competence and networks can be put to effective use.

It was noted with satisfaction in the follow-up to the audit of the implementation of parliamentary resolutions that the number of new resolutions decreased by almost one third during the last parliamentary term. The reporting on the resolutions in the review of operations was slightly streamlined and the Speaker's Council issued a recommendation aimed at removing old resolutions. However, these measures are only small steps towards achieving the target. The efforts to make the resolution procedure more interactive failed and it seems that the open resolution database will not be introduced. Based on the follow-up, there is still a need to improve the resolution procedure.

The overall priorities of Finland's EU policy should be concrete and well-focused

There is still room for improvement in the procedure of implementing parliamentary resolutions

## 7.3 Administrative branch of the Ministry for Foreign Affairs

### State of the administration on the basis of the financial audits

The administrative branch of the Ministry for Foreign Affairs operates as a single accounting office.

The qualified opinion on regularity contained in the financial audit report on the ministry concerned the placing of budget revenue on an expenditure item, which is in violation of the state budget and section 3 a of the State Budget Act, and the organisation of performance accounting. These inadequacies also resulted in a reporting obligation.

The Ministry for Foreign Affairs had not set economic efficiency or productivity targets for its operations and its review of operations did not provide true and fair information of operational efficiency.

The conclusion was that there are inadequacies in the internal control procedures concerning compliance with the state budget and performance accounting and that the ministry should take action as a result.

Performance accounting and target-setting should be improved

### Performance audit observations

The audit covering the management of immigration matters by the authorities and developing the process examined the work of the administrative branches of the Ministry of the Interior and the Ministry for Foreign Affairs in the processing of residence permit, asylum and visa applications and in the combating of illegal immigration. The material for the audit was compiled before the substantial increase in the number of asylum seekers from summer 2015. As regards the Ministry for Foreign Affairs, the conclusion was that the outsourcing of the visa application reception process and changeover to a location-independent system have substantially improved customer service and made the processing of visa applications more efficient. In other respects the audit is discussed in section 7.5 (Administrative branch of the Ministry of the Interior).

Outsourcing of the visa application reception process has helped to make the processing of applications more efficient

The follow-up to the audit of the steering system in the administrative branch of the Ministry for Foreign Affairs (12/2013) covered the implementation of the large number of recommendations concerning planning, management and reporting in the ministry. Based on the follow-up, the National Audit Office has concluded that the Ministry for Foreign Affairs has taken a broad range of different measures that are in accordance with the recommendations and opinions presented in the audit so that the steering system can be developed. The vague nature of the target-setting and the absence of clear evaluation indicators are, however, still a major challenge to the planning and management of the activities and reporting on it. Development of these sectors is still necessary.

In the follow-up to the audit of humanitarian assistance (8/2012), it was concluded that the administration of Finland's humanitarian assistance has in many respects developed in accordance with the opinions expressed in the audit. The Act on Discretionary Government Transfers is now applied to humanitarian assistance granted by the Ministry for Foreign Affairs and guidelines for the use of funds have been introduced. The budgeting of the humanitarian assistance appropriation has also been developed and the payment of the assistance in urgent cases has been speeded up. The trend has also been positive in most other areas covered by the audit even though it is more difficult to verify the progress. The integration of the reduction in catastrophe risks in Finland's development cooperation is an important matter, which is still under development.

In the follow-up to the audit of military crisis management (9/2013), it was concluded that the Ministry for Foreign Affairs and the Ministry of Defence have achieved partial improvements in the target-setting of military crisis management and performance reporting. Performance assessment could be further improved by applying the results of the development project currently under way. According to the ministries, the reports submitted to Parliament are now clearer and presented in more standardised format and their information content has been improved. However, no significant improvements were noted in the document analysis carried out as part of the follow-up and there is still variation in the content and quality of the reports. The role of the strategic crisis management coordination group has not managed to strengthen its role in the manner recommended in the audit.

There have been  
improvements in the  
administration of  
humanitarian assistance

## 7.4 Administrative branch of the Ministry of Justice

### State of the administration on the basis of the financial audits

There are two accounting offices in the administrative branch of the Ministry of Justice: the ministry itself and the Criminal Sanctions Agency.

According to the financial audit, the state budget and the key budget provisions have been complied with.

Both the ministry and the Criminal Sanctions Agency had been provided with productivity and economic efficiency targets. According to the financial audit, the information on operational efficiency presented by both accounting offices in their reviews of operations was true and fair.

When the state of performance guidance is assessed on the basis of the setting of productivity and economic efficiency targets for the administrative branch of the Ministry of Justice and the true and fair final account information on them, the conclusion is that both the ministry and the Criminal Sanctions Agency are guided by adequate productivity and economic efficiency targets and base their reporting on true and fair information.

The conclusion was that there are inadequacies in the internal control concerning the invoicing procedure in the Ministry of Justice and that the ministry should take action as a result.

There are two accounting offices in the administrative branch

Adequate targets have been set for both accounting offices

The information on operational efficiency was true and fair

## 7.5 Administrative branch of the Ministry of the Interior

### State of the administration on the basis of the financial audits

There were seven accounting offices in the administrative branch of the Ministry of the Interior in 2015: the ministry itself, the ICT Agency HALTIK, Emergency Response Centre Administration, Finnish Immigration Service, Emergency Services College, National Police Board and the Finnish Border Guard.

According to the financial audit reports, the state budget and the key budget provisions have been complied with in all accounting offices of the Ministry of the Interior.

With the exception of the ministry itself, the economic efficiency targets set by the Ministry of the Interior were considered to be adequate. Except for the ministry itself and the ICT Agency HALTIK, the productivity targets laid out by the ministry were considered adequate. Except for the ICT Agency HALTIK and the National Police Board, the information on economic efficiency was considered true and fair, while the information on productivity was considered true and fair in all accounting offices, except for the National Police Board.

Except for the ministry itself and the ICT Agency HALTIK, all other accounting offices in the administrative branch provided chargeable services. Except for the National Police Board and Finnish Border Guard, these accounting offices also presented true and fair information on these activities.

When the state of performance guidance is assessed on the basis of the setting of productivity and economic efficiency targets for the administrative branch of the Ministry of the Interior and the true and fair final account information on them, the conclusion made in the financial audit is that, except for the ministry itself, ICT Agency HALTIK and the National Police Board, all accounting offices in the administrative branch are guided by adequate productivity and economic efficiency targets and base their reporting on true and fair information.

There are seven accounting offices in the administrative branch

Five accounting offices have been provided with adequate targets

Five accounting offices provided true and fair information on operational efficiency

## Performance audit observations

The audit of management of immigration matters by the authorities and developing the process covered the work of the administrative branches of the Ministry of the Interior and the Ministry for Foreign Affairs in the processing of residence permit, asylum and visa applications and in the combating of illegal immigration. The material for the audit was compiled before the substantial increase in the number of asylum seekers from summer 2015. The Finnish Immigration Service and police departments had successfully reformed the processing of residence permits by increasing team work, cooperation between the authorities and electronic services.

The processing of residence permits has been successfully reformed

For example, as a result of the new operating practices, the backlog of applications concerning Somali citizens' family ties, which started accumulating in 2007, could be eliminated during 2014. Before the substantial increase in the number of applications in summer 2015, the processing of asylum matters had also been speeded up in cooperation with the police and with the help of a separate development project.

It was recommended in the audit that the organisation of the immigration matters should be reformed by changing the division of tasks between the Finnish Immigration Service and the police and that the steering of immigration matters should be developed at group level across administrative boundaries. As regards the Ministry for Foreign Affairs, it was noted that the outsourcing of the visa application reception process from 2010 and the introduction of a location-independent visa processing system in 2013 have substantially improved customer service and made the work more efficient.

According to the follow-up to the audit of the steering system in the administrative branch of the Ministry of the Interior (19/2012), there have been a number of development projects in the administrative branch of the ministry. These projects have helped to improve strategic steering, operational and financial planning and the legislative process. In accordance with the recommendations contained in the audit, the division of tasks between the Ministry of the Interior and the National Police Board has been clarified. The ministry has also examined options for parties assuming responsibility for the home affairs funds and issued guidelines on internal control and risk management for the agencies in its administrative branch.

## 7.6 Administrative branch of the Ministry of Defence

### State of the administration on the basis of the financial audits

There were three accounting offices in the administrative branch of the Ministry of Defence in 2015: the ministry itself, the Finnish Defence Forces and the Construction Establishment of Defence Administration.

The qualified opinion on regularity contained in the financial audit report on the Finnish Defence Forces concerned the exceeding of an authority granted in the state budget and organisation of the monitoring of authorisations, monitoring of chargeable services and the presentation of their annual results and the organisation of performance accounting. These inadequacies also resulted in a reporting obligation.

The audit showed that the ministry itself and the Construction Establishment of Defence Administration had been set adequate economic efficiency targets. The productivity targets set for the Finnish Defence Forces and the Construction Establishment of Defence Administration were considered adequate.

According to the audits, the information on productivity and economic efficiency presented by the ministry itself and the Construction Establishment of Defence Administration are true and fair. The Finnish Defence Forces and the Construction Establishment of Defence Administration provide chargeable services and the opinion of the National Audit Office was that the latter accounting office had also presented true and fair information on the services in its final accounts.

When the state of performance guidance is assessed on the basis of the setting of economic efficiency targets for the administrative branch of the Ministry of Defence and the true and fair final account information on them, the conclusion is that the ministry itself and the Construction Establishment of Defence Administration are guided by adequate economic efficiency targets and base their reporting on true and fair information. When the assessment also includes productivity, only the Construction Establishment of Defence Administration had proper performance guidance arrangements.

One accounting office was found to have internal control inadequacies that require measures on the part of the auditee.

There are three accounting offices in the administrative branch

One accounting office received a qualified opinion on regularity

One accounting office had been provided with adequate targets

Two accounting offices provided true and fair information on operational efficiency

## Performance audit observations

According to the follow-up to the audit of the management of premises in the Defence Administration (3/2012), the Defence Administration has abandoned a number of large sites as part of the Defence Forces reform. After the audit, the Ministry of Defence has reviewed the role of the Construction Establishment of Defence Administration and decided to maintain the current operating model and to develop it. As part of the development work, the organisation and operating practices of the Construction Establishment of Defence Administration have been reformed, the contract system has been updated and the tasks of the agency during emergencies have been made more specific. It was also noted in the follow-up that, as before, one risk in the management of premises of the Defence Administration is that priority is given to projects aimed at improving standards over maintenance of existing premises that are still needed.

## 7.7 Administrative branch of the Ministry of Finance

### State of the administration on the basis of the financial audits

In addition to the ministry itself, there were eleven other accounting offices in the administrative branch of the Ministry of Finance in 2015. Of these, the Finnish Tax Administration and the Finnish Customs play a key role in the collection of revenue for the state. The other accounting offices in the administrative branch are as follows: State Treasury, Statistics Finland, Financial Stability Authority, Finnish Government Shared Services Centre for Finance and HR, VATT Institute for Economic Research, Government ICT Centre Valtori, Regional State Administrative Agency for Southern Finland, State Department of Åland and the Population Register Centre.

According to the financial audit reports, the state budget and the key budget provisions have been complied with in all accounting offices, except for the ministry itself.

Based on the findings of the financial audits, the National Audit Office has concluded that the Ministry of Finance has approved adequate economic efficiency targets for the Finnish Tax Administration, Finnish Customs, Statistics Finland and the Finnish Government Shared Services Centre for Finance and HR. In addition to the above accounting offices, the Population Register Centre and the VATT Institute for Economic Research were also considered to have adequate productivity targets.

The information on productivity and economic efficiency provided by all accounting offices in the administrative branch was considered true and fair. A total of seven accounting offices providing chargeable services were found to have presented true and fair details of these services in their final accounts.

When the state of performance guidance is assessed on the basis of the setting of productivity and economic efficiency targets for the administrative branch of the Ministry of Finance and the true and fair final account information on them, the conclusion is that the Finnish Customs, the Finnish Tax Administration, Statistics Finland and the Finnish Government Shared Services Centre for Finance and HR are guided by adequate productivity and economic efficiency targets and base their reporting on true and fair information. There have been no changes to the situation from the previous years.

There are 12 accounting offices in the administrative branch

Four accounting offices had been provided with adequate targets

The information on operational efficiency was true and fair

Three accounting offices were found to have internal control inadequacies that require measures on the part of the auditees. The inadequacies concerned performance accounting and the organisation of internal control in service processes.

Three accounting offices should improve their internal control procedures

## Fiscal policy audit observations

It was noted in the fiscal policy audit of the reliability of macroeconomic forecasts produced by the Ministry of Finance (11/2016) that the economic forecasts prepared by the Ministry of Finance are statistically reliable and that there is no difference in accuracy between them and the forecasts produced by other forecasting institutes. Both revenue and expenditure trends have been underestimated in fiscal forecasts. Even though the forecasts are prepared in a consistent and efficient manner, the processes and methods are inadequately documented, which makes the forecasts less transparent. It was also noted in the audit that in practice the forecasts are prepared in an independent manner. However, the ministry does not have any written procedures ensuring the independence of its forecasting activities and the organisation of the forecasting is not fully in accordance with the requirements for independence laid down in the law. In fact, the guidelines supporting independence should be developed and reports on forecast errors should be published on a regular basis.

There is no difference in accuracy between the forecasts of the Ministry of Finance and those produced by other forecasting institutes

The picture of the state of the economy and development prospects given by the macroeconomic forecasts greatly influence the fiscal policy decisions steering central government and general government revenue and expenditure. It is also required under EU law that national fiscal plans and draft budgets must be based on independent macroeconomic forecasts. For this reason, consideration should be given to a model where macroeconomic forecasts are endorsed by an independent external institution or body.

According to the fiscal policy audit of the total central government balance sheet (19/2015), it is difficult to form a clear view of the overall financial position of the central government as the management of and reporting on central government assets, debts and liabilities has been on a fragmented basis. The development work concerning the total central government balance sheet should be continued so that a better overall view of the situation could be formed. The financial position of the “core central government” can be described with a balance sheet combining on-budget entities, funds and state enterprises. Moreover, a more unified reporting on state ownership in companies could help to provide

a clearer overall picture of the financial position of state-owned companies. An open and transparent description of the financial position of the central government should be developed as part of the Government's annual report. At the same time, consideration should also be given to the costs of the development work in relation to the achievable benefits.

It was noted in the monitoring of the administrative branch following the audit that total balance sheet of the “core central government” and other total calculations were added to the 2015 Government's annual report.

There is now more comprehensive information on the financial position of central government in the Government's annual report

## Performance audit observations

According to the audit of the customer advice and telephone services provided by the public administration, the Public Service Info has failed to achieve its original objective, which was to reduce the number of non-urgent advisory and guidance calls received by the Emergency Response Centre Administration. However, the most important customer advice and telephone services provided by the authorities had been organised in a manner that supports service production.

According to the audit of the development and production of digital services, the digital services provided by the public administration have not achieved the targeted savings. Achieving more efficient services and, consequently, cost savings, by increasing electronic services has been a political target for many years.

It was noted in the audit of the steering of the government security network (TUVE) that the expansion and long-term development of the TUVE activities have until now been overshadowed by the launching of the operations. During the launching stage TUVE has been mainly used by the organisations in the administrative branches of the Ministry of Defence and Ministry of the Interior. During the audit, the plans under which other user organisation would join the TUVE network were incomplete and there was still no agreement on the financing model.

The security network operations have not yet proceeded beyond the launching stage

There is a risk that with the appropriations available to them, user organisations are unable to ensure that all their systems specific to individual sectors will meet the strict preparedness and security requirements laid down by the Ministry of Finance. The functional requirements of the user organisations must, however, be considered. Based on the audit, the conclusion is that the security network operations and its links to the rest of the ICT operations in the public administration should be regularly assessed.

After the performance audit covering the Finnish Customs's role in the combating of the grey economy (1/2013), it has been noted that the performance guidance of the combating task has improved in target-setting, indicators and reporting. The effectiveness targets concerning the combating of the grey economy set for the Finnish Customs have been made more specific, the target values contained in the indicators had been made easier to follow and the actual progress has been described in reviews of operations each year. According to the results, Finnish Customs is now working more effectively to combat the grey economy. In most areas, the directly measureable fiscal effectiveness had improved and most of the performance targets had been achieved.

It was noted in the follow-up to the performance audit of the steering and administration of off-budget funds (184/2009) that, except for the legislation on financial audit, the provisions on the funds have not been harmonised in the manner proposed by the working group on central government accounting. The aim of the proposals was to improve the dissemination of information and to put accountability on a more effective basis. Furthermore, the steering and management has not been developed on the basis of uniform principles. Even though Parliament's access to information about the funds' operations, performance, liabilities and commitments had been improved in the 2014 Government's annual report, the document does not contain an analysis of the funds' final accounts prepared in the manner proposed by the working group.

It was noted in the follow-up to the audit of sickness absences and their monitoring in state administration (5/2012) that the usability and reliability of the central government's Tahti system has improved. The use of the system in the management of sickness absenteeism has also been promoted by means of training and provision of information. According to the follow-up results, awareness of the partial sickness allowance has increased and more and more central government employees are using it. At the same time there has been a slow downward trend in sickness absenteeism in central government. Occupational health care expenditure is still growing at a fairly substantial rate and for this reason, the role of occupational health care as a strategic partner of the employers is highlighted as the aim is to promote and maintain working capacity and to have longer working careers.

Improvements are still  
needed in the steering of and  
reporting on off-budget funds

## 7.8 Administrative branch of the Ministry of Education and Culture

### State of the administration on the basis of the financial audits

In addition to the ministry itself, there were six other accounting offices in the administrative branch of the Ministry of Education and Culture in 2015. These were the Centre for International Mobility CIMO, National Archives, National Board of Antiquities, National Board of Education, Academy of Finland and the Governing Body of Suomenlinna.

According to the financial audit reports, the state budget and the key budget provisions have been complied with in all accounting offices of the administrative branch.

According to an assessment made as part of the financial audits, the Ministry of Education and Culture has set adequate economic efficiency targets for the Academy of Finland, the National Board of Antiquities and the Governing Body of Suomenlinna. Only the productivity targets set for the Governing Body of Suomenlinna were considered adequate.

The financial account information on productivity and economic efficiency provided by all accounting offices in the administrative branch was considered true and fair. Three of the five accounting offices providing chargeable services supplied true and fair information on their chargeable services and their results for the budget year. The two exceptions were the National Board of Education and the Governing Body of Suomenlinna.

When the state of performance guidance is assessed on the basis of the setting of productivity and economic efficiency targets for the administrative branch of the Ministry of Education and Culture and the true and fair final account information on them, the conclusion is that there is only one accounting office in the administrative branch with adequate performance guidance. When the corresponding assessment is made on the basis of economic efficiency targets and the true and fair information on them, there is adequate performance guidance in three accounting offices. There have been no changes to the situation from the previous years.

Two accounting offices in the administrative branch of the Ministry of Education and Culture were found to have internal control inadequacies that require measures on the part of the auditees. This was due to inadequacies in the organisation of performance accounting and payroll accounting.

There are seven accounting offices in the administrative branch

One accounting office had been provided with adequate targets

Six accounting offices provided true and fair information on operational efficiency

Two accounting offices should improve their internal control procedures

## Performance audit observations

Real estate accounts for about two thirds of Finland's national wealth and the cluster accounts for about one quarter of Finland's gross domestic product. According to the audit reviewing research and development in the real estate and construction cluster, the cluster invests less in RDI than any other industrial sector. The productivity growth in the cluster is also weaker than in other sectors. The Government should find ways of encouraging the sector to increase its research inputs, which have been low for many years.

The research input of the real estate and construction cluster is weak

The real estate and construction cluster is large and difficult to manage. Even though there are a large number of steering instruments directed at its research and development activities, the activities as a whole are inadequately managed. A comprehensive operating policy is needed for the research, development and innovation activities in the cluster. RDI activities could help to reduce conflicts that arise when the activities are steered from many different directions.

It was noted in the audit of the steering system of the administrative branch of the Ministry of Education and Culture that most of the strategic planning processes in the ministry are interactive and working well. The process of statute drafting successfully combines the knowledge of legal experts and experts in other fields, such as pedagogists. There are, however, problems in the flow of information between departments. However, the ministry has worked to improve statute management structures across departmental boundaries in recent years. There is also room for improvement in the ministry's societal effectiveness targets. Rather than providing an adequate description of the societal effectiveness achieved through education, training, science, culture, sports and youth work, the societal effectiveness targets laid out by the ministry measure the outputs of different sectors.

## 7.9 Administrative branch of the Ministry of Agriculture and Forestry

### State of the administration on the basis of the financial audits

In addition to the ministry itself, there were four other accounting offices in the administrative branch of the Ministry of Agriculture and Forestry in 2015. These were the Finnish Food Safety Authority Evira, the National Resources Institute Finland, the National Land Survey of Finland and the Agency for Rural Affairs. The MTT Agrifood Research Finland, the Finnish Forest Research Institute, the Finnish Game and Fisheries Research Institute and the Information Centre of the Ministry of Agriculture and Forestry were merged into the National Resources Institute Finland at the start of 2015.

According to the financial audit reports, the state budget and the key budget provisions have been complied with in all accounting offices of the administrative branch.

Except for the ministry itself, the economic efficiency targets set by the ministry are, according to the financial audits, adequate in all accounting offices, while the productivity targets are adequate in two accounting offices.

The information on productivity and economic efficiency was found to be true and fair in all accounting offices of the administrative branch. There were three accounting offices in the administrative branch providing chargeable services and all of them were considered to have provided true and fair information on these services.

When the state of performance guidance is assessed on the basis of the setting of productivity and economic efficiency targets for the administrative branch of the Ministry of Agriculture and Forestry and the true and fair final account information on them, the conclusion is that there are two accounting offices in the administrative branch with adequate performance guidance. When the corresponding assessment is made only on the basis of economic efficiency targets and the true and fair information on them, there is adequate performance guidance in all accounting offices, except for the ministry itself.

There are five accounting offices in the administrative branch

Four accounting offices had been set adequate economic efficiency targets

All accounting offices provided true and fair information on operational efficiency

One accounting office in the administrative branch of the Ministry of Agriculture and Forestry was found to have such inadequacies in internal control that require measures on the part of the auditee. This was due to inadequacies in the manner in which the monitoring of authorisations was organised.

### Performance audit observations

It was noted in the follow-up to the audit of the administration of agricultural subsidies (4/2013) that the agricultural subsidies systems have remained administratively expensive and heavy. The objectives of the agricultural subsidies policy in which the aim is to maintain production sectors and production in different parts of the country unchanged have resulted in a complex and heavy subsidies system. Based on the results of the follow-up, the situation will remain largely unchanged in the programming period 2014–2020.

## 7.10 Administrative branch of the Ministry of Transport and Communications

### State of the administration on the basis of the financial audits

In addition to the ministry itself, there were four other accounting offices in the administrative branch of the Ministry of Transport and Communications in 2015. These were the Finnish Meteorological Institute, Finnish Transport Agency, Finnish Transport Safety Agency Trafi and the Finnish Communications Regulatory Authority.

The cautions contained in the financial audit reports on the administrative branch led to qualified opinions on regularity in one accounting office. The qualified opinion on regularity contained in the financial audit report of the Finnish Transport Agency concerned the manner in which the monitoring of authorisation is organised.

The reporting obligation contained in the financial audit report of the Finnish Transport Agency concerned measures required by inadequacies in internal control.

According to the financial audit, only the Finnish Transport Safety Agency Trafi and the Finnish Communications Regulatory Authority had presented adequate economic efficiency targets. In addition to the ministry itself, all accounting offices in the administrative branch were deemed to have adequate productivity targets.

All accounting offices, including the ministry itself, were deemed to have presented true and fair information on productivity and economic efficiency. The information on chargeable services was considered true and fair in three accounting offices providing chargeable services. Four accounting offices provided chargeable services.

When the state of performance guidance is assessed on the basis of the setting of productivity and economic efficiency targets for the administrative branch of the Ministry of Transport and Communications and the true and fair final account information on them, the conclusion is that the Finnish Transport Agency and the Finnish Communications Regulatory Authority are guided by adequate targets and base their reporting on true and fair information. However, the financial audit showed that in terms of productivity, performance guidance functions properly in all accounting offices of the administrative branch.

There are five accounting offices in the administrative branch

One accounting office received a qualified opinion on regularity

Two accounting offices had been provided with adequate targets

Four accounting offices provided true and fair information on operational efficiency

The audits of the ministry and the Finnish Transport Agency revealed such internal control inadequacies that require measures on the part of the auditees. This was due to inadequacies in accounting practices and the supervision of the use of government aid.

Internal control should be improved in two accounting offices

## Performance audit observations

It was estimated in the audit of the support for the building of broadband network that as a result of the extension of the support programme, about 70 per cent of the targeted number of high-speed broadband connections can be built. There are substantial regional differences in the construction of the broadband network. The broadband projects started best in municipalities where state aid covered the greatest proportion of project expenditure. When individual regions are examined, the projects in the regions of North Karelia, Kymenlaakso, Lapland and Northern Ostrobothnia succeeded best. Even though, on average, the subscriber connections purchased by June 2015 (incl. operating costs) can be considered reasonably priced, there is a wide variety in the rates.

There are substantial regional differences in the construction of the broadband network

The Broadband for All project was carried out in a significantly different situation than anticipated. Instead of being implemented by a small number of large telecommunications companies, it was carried out by more than 20 companies. For a number of municipalities, the decision to participate in the project has meant a substantial economic risk. The National Audit Office recommends that the Ministry of Transport and Communications follows up whether in connection with the Broadband for All projects, unreasonable financial losses and liabilities have been incurred by parties for whom they were not originally intended. Losses may have incurred by municipalities taking part in a project, companies involved in the projects and broadband subscribers during different stages of the project and after it.

The aim of the two performance audits of the transport administration was to determine how the economic impacts of the measures supporting economic growth taken by Finland's transport administration could be assessed and managed in a better manner. The audits covered the drafting of the amendments to the decree on maximum dimensions and weights of heavy lorries introduced in 2013 and the management of feasibility of large and medium-sized transport infrastructure projects carried out by the state. Both the amendments and the transport infrastructure projects have a major impact on the operating prerequisites of economic actors.

The Ministry of Transport and Communications drafted the amendments to the decree on the maximum weights and dimensions of heavy lorries in an authoritative manner. The results of the impact assessments and feasibility calculations produced as part of the drafting work were of great use in the decision-making process. However, there were inadequacies in the comprehensiveness and clarity of the data. The Ministry of Transport and Communications should ensure the comparability and comprehensiveness of the baseline data of the assessments used as a basis for the statute drafting. The ministry should also produce a follow-up on the statute drafting and the impact assessment connected with it.

The transport administration has produced useful assessment guidelines for preparing descriptions of the socio-economic feasibility of transport infrastructure projects. However, not all of the projects that are implemented have been subjected to project assessments described in the guidelines. All transport infrastructure projects included in the state budgets should be subjected to project assessments described in the project assessment guidelines. The implementation of the project assessments carried out during the planning of the transport infrastructure projects should also be monitored more comprehensively. This would produce a better picture of the reliability of the project assessments and reduce the risk of failed state investments.

It was noted in the follow-up to the audit of traffic safety (6/2013) that there has been progress in the overall planning of traffic safety but that so far the results have been fairly modest. As regards the knowledge base of traffic safety, the conclusion is that there has been concrete progress in the development of the statistics even though there is still room for improvement. After the audit, it has been examined how Finland's position in European traffic safety rankings could be improved. The review and introduction of any new cost-effective methods is still under way and the introduction of any changes to the division of tasks and organisation concerning traffic education is also at planning stage. The traffic surveillance carried out by the police is now monitored more comprehensively and extensively than at the time of the audit.

Even though the guidelines concerning transport infrastructure projects are adequate, the guidelines are not applied to all projects

## Compliance audit observations

The purpose of the compliance audit was to review and assess the appropriateness of the activities of the Ministry of Transport and Communications and Finavia Corporation in the resolving of Finavia's derivative liabilities. The National Audit Office had drawn attention to the need to resolve the issue of liabilities in an earlier performance audit (15/2013). In the compliance audit, particular attention was drawn to the blurring of responsibilities between the state-owner and the company.

## 7.11 Administrative branch of the Ministry of Economic Affairs and Employment

### State of the administration on the basis of the financial audits

In addition to the ministry itself, there were seven other accounting offices in the administrative branch of the Ministry of Economic Affairs and Employment in 2015. These were the Development and Administrative Centre for ELY Centres and TE Offices (KEHA-Centre), Energy Authority, Geological Survey of Finland, Tekes - the Finnish Funding Agency for Innovation, Finnish Competition and Consumer Authority, Finnish Patent and Registration Office and the Finnish Safety and Chemicals Agency.

The cautions contained in the financial audit reports led to qualified opinions on regularity in three financial audit reports. The qualified opinion on regularity contained in the ministry's financial audit report concerned the funding of expenses from advance payments already paid and the carrying over of an authorisation in a manner that is in violation of the state budget, as well as the organisation of performance accounting. These too resulted in an obligation to report to the National Audit Office.

The KEHA-Centre operates as an accounting office for a total of 15 ELY Centres. The qualified opinions on regularity contained in the financial audit reports on the KEHA-Centre and the Energy Authority concerned the allocation of expenditure on the budget year and the carrying over of an appropriation in violation of the State Budget Act.

According to the financial audits, the ministry had set adequate economic efficiency targets for two and adequate productivity targets for three of its accounting offices. All accounting offices, except for the ministry itself, were deemed to have presented true and fair information on productivity and economic efficiency. The information on chargeable services and its profitability was considered true and fair in all accounting offices providing chargeable services.

When the state of performance guidance is assessed on the basis of the setting of productivity and economic efficiency targets for the administrative branch of the Ministry of Economic Affairs and Employment and the true and fair final account information on them, the conclusion was that there are two accounting offices

There are eight accounting offices in the administrative branch

Three accounting offices received a qualified opinion on regularity

Two accounting offices had been provided with adequate targets

Six accounting offices provided true and fair information on operational efficiency

that are guided by adequate targets and base their reporting on true and fair information. In economic efficiency, the same applied to two and in productivity to three accounting offices.

Two accounting offices were found to have internal control inadequacies that require measures on the part of the auditees. The inadequacies concerned procedures that were in violation of the state budget and the organisation of performance accounting.

Two accounting offices should improve their internal control procedures

## Performance audit observations

According to the findings of the audit of the private equity investments by the state, the state and other actors in the public sector account for a large proportion of private equity investments in Finland. The purpose of the audit was to determine whether the steering of the private equity investments made by the state and the monitoring of the investment performance support the achievement of the investment objectives. The audit was carried out in the Ministry of Economic Affairs and Employment and the following three companies in its administrative branch that invest in private equity: Finnish Industry Investment Ltd, Finnvera plc and Tekes Venture Capital Ltd.

The Ministry of Economic Affairs and Employment has considered the recommendations contained in the evaluation of the Finnish Industry Investment in the steering of the company's operations and in this way it has made efforts to improve the effectiveness of the company. In the evaluation of Finnish Industry Investment Ltd, the company is characterised as having a substantial impact. Usefulness of the results is, however, weakened by the fact that the methods used cannot produce a causal relationship between the activities and the alleged impacts. This is a common problem in impact assessments.

It was noted in the audit that more than half of the target companies of Finnish Industry Investment are in foreign ownership even though its main task is to promote Finnish SMEs. Under the act governing the operations of Finnish Industry Investment, the company can make investments in foreign funds and target companies provided that their operations help to promote economic growth in Finland. There are no provisions in the act or the Government decree on the company on how a foreign fund is defined even though this is essential for the implementation of the act.

According to the audit findings, the additional capitalisation by the state should be based on a comprehensive analysis of companies' funding needs, functioning of the capital market and the inadequacies in these areas.

## 7.12 Administrative branch of the Ministry of Social Affairs and Health

### State of the administration on the basis of the financial audits

In addition to the ministry itself, there were four other accounting offices in the administrative branch of the Ministry of Social Affairs and Health in 2015. These were the Finnish Medicines Agency, National Supervisory Authority for Welfare and Health, Radiation and Nuclear Safety Authority and the National Institute for Health and Welfare.

According to the financial audit reports, the state budget and the key budget provisions have been complied with.

According to the financial audits, the Ministry of Social Affairs and Health had not set adequate productivity and economic efficiency targets for the accounting offices in its administrative branch.

The conclusion was that all accounting offices had presented true and fair information on productivity, economic efficiency and chargeable services in their final accounts.

There are five accounting offices in the administrative branch

All accounting offices provided true and fair information on operational efficiency

### Performance audit observations

The audit reviewing the development of division of labour in social welfare and health care was based on an assumption that ensuring the adequacy of social welfare and health care personnel in a situation where the Finnish population is ageing requires improvements in the division of labour. The aim of the improvements in the division of labour is also to increase the efficiency and productivity of the social welfare and health care services. Based on the audit findings, the work is, however, still in its initial stages. It seems that achieving the savings targets set out in the structural policy programme of Prime Minister Jyrki Katainen's Government is not a realistic objective. According to the audit findings, the fact that the efforts to improve the division of labour have proceeded at different speeds in different municipalities has made nationwide steering more difficult. Except for a small number of measures, the Ministry of Social Affairs and Health has played a passive role in the efforts to develop the division of labour.

The savings targets concerning social welfare and health care personnel set out in the structural policy programme were unrealistic

It was noted in the follow-up to the audit of the legislative drafting in the Ministry of Social Affairs and Health (12/2012) that the weight of the drafting process has been strengthened by directing more drafting and supervisory resources at the work. Efforts have been made to increase the systematic nature and timetables of the drafting process by introducing new operational planning practices and by drafting legal reforms as more extensive packages.

It was noted in the follow-up to the audit of rehabilitation as a means of extending working careers (2/2013) that the rehabilitation system remains complex from the perspective of the persons in need of it and that the financing of the system is divided among a large number of organisations. Based on the follow-up results, there has been a slight improvement in the monitoring of the rehabilitation results and impacts. National coordination and steering of rehabilitation will be reformed after the social welfare and health care organisation and financing reform and the comprehensive reform of the rehabilitation system.

Results and impacts of rehabilitation are monitored more comprehensively than before

## 7.13 Administrative branch of the Ministry of the Environment

### State of the administration on the basis of the financial audits

There were three accounting offices in the administrative branch of the Ministry of the Environment in 2015: the ministry itself, the Finnish Environment Institute and the Housing Finance and Development Centre of Finland.

The cautions contained in the financial audit reports led to qualified opinions on regularity in one accounting office. The qualified opinion on regularity contained in the ministry's financial audit report resulted from using an appropriation in a manner that was in violation of the state budget.

The ministry has not set adequate performance targets concerning economic efficiency for the accounting offices in its administrative branch. The productivity targets set for the Finnish Environment Institute were considered adequate. According to the audits, the information on productivity and economic efficiency presented by the ministry and the other accounting offices is true and fair. Only the Finnish Environment Institute was required to present figures for chargeable services and the information was deemed true and fair.

The audits of the ministry and the Finnish Environment Institute revealed internal control inadequacies that require measures. The inadequacies concerned entry practices and internal control of government aid.

There are three accounting offices in the administrative branch

One accounting office received a qualified opinion on regularity

All accounting offices provided true and fair information on operational efficiency

Two accounting offices should improve their internal control procedures

## Performance audit observations

Fine particles in outdoor air are the most harmful environmental exposure agent in terms of health impacts. The European Environment Agency has estimated that fine particles cause the premature death of about 2050 people in Finland.

However, according to the audit of the consideration of the health and cost impacts of fine particles in the preparation of strategies, little consideration has been given to the health impacts of fine particles and the cost arising from them in the drafting and updating of climate, energy, natural resources, transport and health strategies. Most of the strategies reviewed in the audit lack a preliminary assessment of the harmful health impacts or the strategies are of fairly general nature. In many cases, only the potential benefits of the strategy were highlighted. When the strategies are prepared, comparisons should be made between different strategic options, their impacts and benefit and cost information so that the most appropriate solution can be selected.

The Ministry of the Environment has prepared support material for the environmental impact assessment of plans and programmes. The purpose of the material, which is intended for the use of the authorities, is to facilitate the practical implementation of the impact assessments. The expertise of the ministries in the field of preliminary assessment of environmental and health impacts should be systematically developed under the auspices of the Ministry of the Environment.

*The aim is to  
create a basis  
for sustainable  
renewal of general  
government  
and public  
administration*



## 8 Work and effectiveness of the National Audit Office

The National Audit Office of Finland (NAOF) is Finland's supreme external audit institution and its position is laid down in section 90 of the Constitution of Finland. It operates independently in affiliation with Parliament. It audits central government finances, evaluates fiscal policy and monitors political party and election campaign funding. The aim of the National Audit Office is to ensure that the principles of the rule of law, democracy and sustainable economy are adhered to. The work of the National Audit Office, its achievements, opinions and recommendations generate added value for Finnish society and has an impact on the management of Finland's general government finances. The National Audit Office carries out fiscal policy, financial, compliance and performance audits.

The National Audit Office ensures that the principles of the rule of law, democracy and sustainable economy are adhered to

### 8.1 The National Audit Office is seen as authoritative and reliable

During the year in review, the strategic performance target of the National Audit Office was to promote effective and high-quality management of central government finances. Under the VTV2020 strategy, the aim of NAOF is to create prerequisites and support for sustainable reforms on general government finances and the public administration.

The trend is to support sustainable renewal of general government and public administration

The National Audit Office works to achieve its aims through the information that it produces and the interaction and public debate based on it. According to the stakeholder survey carried out in 2015, the view is that NAOF has performed its tasks effectively and successfully. Stakeholders are fairly familiar with the operations of NAOF; central government actors and Parliament are more knowledgeable than others in this respect. The information about audit, evaluation and monitoring reports and their findings is considered adequate.

In Parliament and central government, most of the information on audit findings is obtained directly from NAOF's reports. Media is an important source of information for other stakeholders. Central government also uses the work of NAOF more extensively than other stakeholders. Stakeholders are satisfied with audit, evaluation and monitoring reporting and the National Audit Office receives good marks for the authoritativeness, reliability, objectiveness and usefulness of the reports.

The work of NAOF is most extensively used in central government

Based on the results of a stakeholder survey, NAOF is making its feedback practices more regular and systematic. The National Audit Office also develops interaction during audits, aims to make its conclusions more feasible and works to ensure the materiality of its audit findings.



Figure 12: Priority areas based on the stakeholder survey

## 8.2 National Audit Office has a broad range of effective instruments

The National Audit Office makes a significant contribution to ensuring that central government finances are on a sustainable basis. The audits and supervisory work have been directed at the risks identified in the risk analysis of central government finances and the national economy that are essential from the perspective of Finland's general government and central government finances.

The purpose of the external financial audits of central government carried out by the National Audit Office is to ensure the reliability of the final accounts of the state and its accounting offices. The financial audits also ensure compliance with the state budget and key budget provisions and the effectiveness of internal control. This creates fundamental trust in the ability of the State of Finland to manage its finances. Internal control has been an important element in financial audits as it provides a basis for good governance. The reliability of key financial information provides a basis for successful fiscal policy formulation and the steering and management of central government activities and finances.

Separately conducted compliance audits support the implementation of the lawfulness of central government finances and the principles of good governance.

In fiscal policy audit, the focus is on the reliability of the information base of fiscal policy decision-making and the functioning and effectiveness of the fiscal policy management tools. The task of fiscal policy audit is to determine whether a true and fair view has been given of the central government finances and the sustainability of general government finances.

Performance audits produce information and development recommendations concerning the implementation of structural reforms and the quality of legislation and contain recommendations for sustainable reform in the public administration. The National Audit Office systematically monitors the implementation of the opinions presented in performance audit reports and assesses the effectiveness of the opinions. Based on media monitoring, NAOF has strengthened its reputation as an expert organisation. Most of the reactions of the audited entities appearing in the media have been fact-based and constructive and characterised by positive attitudes towards NAOF's opinions and recommendations. Based on the follow-ups to performance audits, the proportion of the recommendations and measures that are implemented is high when compared with other countries. About 30 per cent of the follow-up recommendations have been implemented in full or almost in full.

The audits have been directed at the risks identified in the risk analysis of central government finances and the national economy that are essential from the perspective of Finland's general government and central government finances

NAOF has strengthened its reputation as an expert organisation

Fiscal policy evaluation helps to ensure that the structural balance is calculated in a correct and transparent manner. Fiscal policy evaluation contributes to long-term economic sustainability. Fiscal policy evaluation has helped to highlight matters that are important to economic growth and risks concerning long-term economic growth. One aim of fiscal policy evaluation has been to ensure that Finland complies with the Stability and Growth Pact in the management of its general government finances.

Oversight of election campaign and political party funding makes a significant contribution to the openness and transparency of election campaign and political party funding. The conclusion is that the overall effectiveness of the National Audit Office is very good.

Sustainable development goals have been a central theme in the international cooperation between supreme audit institutions. The 17 goals adopted by UN member states in the UN General Assembly in September 2015 are binding on all countries. The goals apply to different policy sectors, from human and environmental well-being to sustainable finances and good governance. In its capacity as Second Vice-President of EUROSACI (European Organisation of Supreme Audit Institutions), the National Audit Office has actively encouraged audit institutions to support the UN in the monitoring of the national implementation of the goals. The National Audit Office has also played a central role in strategy work taking place in EUROSACI.

The National Audit Office is taking part in the coordination of the preparations of EUROSACI to the congress of INTOSAI, the international umbrella organisation of supreme audit institutions, in which the issue of sustainable development will be discussed. The supreme audit institutions play an important role in the assessment of the implementation of the sustainable development goals at national level. They can audit the national prerequisites for implementing sustainable development goals and carry out audits focusing on the theme of sustainable development. The sustainable development goal 16 is closely connected with the sector of the National Audit Office as it includes the building of effective, accountable and transparent institutions. The National Audit Office can promote the achievement of the goal by issuing recommendations for the development of good governance and financial management in the public sector and by setting an example as an effective and transparent auditing institution.

**The supreme audit institutions assess the national implementation of sustainable development targets**

The National Audit Office has promoted the implementation of transparency, responsibility and openness in economic policy co-ordination in the EU. The Contact Committee of the Supreme Audit Institutions of the European Union has issued a statement on the banking supervision system in the EU. The committee draws attention to the fact that not all national audit institutions have the same right to audit banking supervision in the EU. The committee is of the view that the mandate of the European Court of Auditors should be strengthened and the mandate of national audit institutions expanded so that they would also include the auditing of central banks and financial supervisory authorities. The National Audit Office has continued to monitor banking supervision and pointed out that it does not have the right to audit the operations of the Financial Supervisory Authority, which is affiliated to the Bank of Finland. Parallel audits of the risks to the sustainability of general government finances and the effectiveness of the structural funds in the EU have also started as a result of the cooperation between audit institutions in the European Union. Finland chairs the Network on Fiscal Policy Audit of national audit offices and courts of auditors of the EU.

The Contact Committee is of the view that the mandate of the European Court of Auditors should be strengthened and the mandate of the national audit institutions expanded

## 8.3 National Audit Office assesses the implementation of its performance targets on a regular basis

Tytti Yli-Viikari served as the acting Auditor General from 1 October 2015 and was elected as Auditor General by the plenary session of Parliament in November. Tytti Yli-Viikari started her six-year term as Auditor General on 1 January 2016.

Changes in the operating environment and new requirements are taken into account in the internal management of the agency and in the development of its operating model.

Our operations are based on successful auditing, evaluation and monitoring of central government finances and on contributing to sustainable renewal of general government finances and public administration.

We produce topical audit, evaluation and monitoring information, which is of central importance to decision-makers when they develop operations.

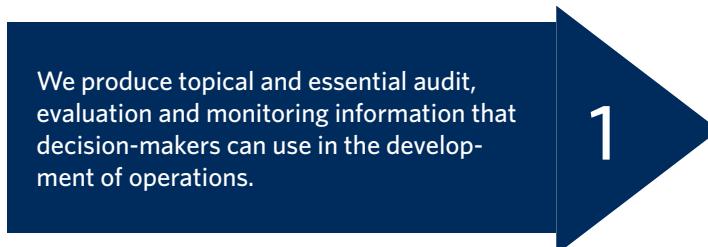
We foresee changes in our operating environment, react to them when producing plans and reports and justify our priorities in a transparent manner.

Figure 13: Management guidelines in NAOF

The implementation of the National Audit Office's performance targets for 2015 has been assessed by using the assessment of NAOF's departments and units and the stakeholder survey so that the assessment of external and qualitative targets would be balanced. The National Audit Office has laid out its performance targets in its 2016–2020 audit plan. The National Audit Office has achieved its external performance targets, laid out as part of its strategic effectiveness targets, as follows:

## STRATEGIC OBJECTIVE

## INDICATOR



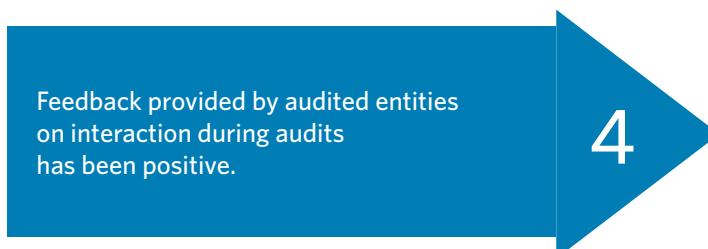
Self-evaluation by departments:  
stakeholder survey



Self-evaluation by departments:  
stakeholder survey



Self-evaluation by departments:  
stakeholder survey



Results of the stakeholder survey

Figure 14: Monitoring of performance targets

# ASSESSMENT

## OBJECTIVE 1

The target has been achieved and we are making a significant contribution by providing decision-makers with up-to-date information and essential audit, evaluation and monitoring information for development of operations. The purpose of financial audits and compliance audits is to produce information for determining that central government finances are in compliance with the law and the state budget. As part of this process, it is the task of the financial audit in particular to verify the trueness and fairness of the information contained in the final accounts (final accounts and reviews of operations of accounting offices and final central government accounts). Focus in the performance audits has been on the priority areas laid out in the 2015 risk analysis of central government finances and the national economy. As in previous years, a high proportion of the recommendations presented in the audit reports has been implemented. A total of 30 per cent of the recommendations has been implemented in full or almost in full.

## OBJECTIVE 2

Of the different audit types of NAOF, financial audit is of greatest importance in this area, and according to its assessment, our activities have made a significant contribution to the achievement of the target. The purpose of financial audits and compliance audits is to ensure that central government finances are in compliance with the law and the state budget. Verifying the trueness and fairness of the final accounts is also part of the process of verifying that financial management is in compliance with the law.

According to the stakeholder survey, about one half of the central government respondents use financial audit reports in their work. For compliance audit reports, this figure is 36 per cent. The information obtained from the financial audits is considered nearly adequate. More than half of the respondents considers the conclusions made in the report as feasible. According to an assessment carried out by the Performance and Fiscal Policy Audit Department, the target has been mostly achieved. However, in performance and fiscal policy audits, the impact is, as a rule, indirect. The issues discussed in performance and fiscal policy audits do not usually concern compliance matters or adherence to the state budget.

## OBJECTIVE 3

The target has been achieved and we have made a significant contribution. The impact of the performance audits is usually indirect because their results provide prerequisites for sustainable reforms in the public administration even though it is not possible to determine whether there is a direct connection with improved sustainability of central government finances. However, the audits have focused on issues that are essential to the target.

The purpose of financial audits and compliance audits is to ensure that central government finances are in compliance with the law and that the state budget is adhered to. As part of this process, it is the task of the financial audit in particular to verify the trueness and fairness of the information contained in the final accounts (final accounts and reviews of operations of accounting offices and final central government accounts).

As a whole, financial audits and compliance audits are focused on the basis of the risk analysis of central government finances and the national economy and in accordance with the audit plan approved by the National Audit Office. The main priority areas and audit topics are laid out in the audit plan and the departmental plan supplementing it. The focus in them is on materiality from the perspective of final central government accounts and risk assessment at the level of on-budget entities and accounting offices.

## OBJECTIVE 4

The target has been achieved. According to the results of the stakeholder survey, the view is that adequate information about the audit, evaluation and monitoring process is provided and the cooperation with the auditors is smooth and professional and characterised by mutual respect. Stakeholders would like to have more information about the methods and criteria used in the audits. Central government actors would also like to see closer contacts with the audited entities. In fact, the National Audit Office plans to monitor and assess interaction during the audits by introducing more regular and systematic feedback practices.



## Appendix

### Reports to Parliament

- |              |  |
|--------------|--|
| K 21/2014 vp | National Audit Office's report to Parliament on the oversight of election campaign funding in the 2014 European Parliamentary Elections                      |
| K 4/2015 vp  | National Audit Office's report to Parliament on the oversight of political party funding in 2014   |
| K 15/2015 vp | Separate report of the National Audit Office to Parliament on the audit of the final central government accounts for 2014 and the Government's annual report |
| K 17/2015 vp | Fiscal policy evaluation report  |
| K 18/2015 vp | National Audit Office's report on its activities to the 2015 parliamentary session   |
| K 19/2015 vp | National Audit Office's report to Parliament on the oversight of election campaign funding in the 2015 Parliamentary Elections                               |

### Financial audit reports by administrative branch

111/53/15        Final central government accounts

#### *Office of the President of the Republic*

51/53/15        Office of the President of the Republic

#### *Prime Minister's Office*

52/53/15        Prime Minister's Office

#### *Administrative branch of the Ministry for Foreign Affairs*

53/53/15        Ministry for Foreign Affairs

### *Administrative branch of the Ministry of Justice*

54/53/15	Ministry of Justice
55/53/15	Criminal Sanctions Agency

### *Administrative branch of the Ministry of the Interior*

56/53/15	Ministry of the Interior
57/53/15	ICT Agency HALTIK
58/53/15	Emergency Response Centre Administration
59/53/15	Finnish Immigration Service
60/53/15	Emergency Services College
61/53/15	National Police Board
62/53/15	Finnish Border Guard
112/53/15	Fire Protection Fund

### *Administrative branch of the Ministry of Defence*

63/53/15	Ministry of Defence
64/53/15	Construction Establishment of Defence Administration
65/53/15	Finnish Defence Forces

### *Administrative branch of the Ministry of Finance*

66/53/15	Ministry of Finance
67/53/15	State Department of Åland
68/53/15	Regional State Administrative Agency for Southern Finland
69/53/15	Financial Stability Authority
70/53/15	Statistics Finland
71/53/15	Finnish Customs
72/53/15	State Treasury
73/53/15	VATT Institute for Economic Research
74/53/15	Finnish Government Shared Services Centre for Finance and HR
75/53/15	Government ICT Centre Valtori
76/53/15	Finnish Tax Administration
77/53/15	Population Register Centre

### *Administrative branch of the Ministry of Education and Culture*

78/53/15	Ministry of Education and Culture
79/53/15	Centre for International Mobility CIMO
80/53/15	National Archives
81/53/15	National Board of Antiquities
82/53/15	National Board of Education
83/53/15	Academy of Finland
84/53/15	Governing Body of Suomenlinna

### *Administrative branch of the Ministry of Agriculture and Forestry*

85/53/15	Ministry of Agriculture and Forestry
86/53/15	Finnish Food Safety Authority
87/53/15	National Resources Institute Finland
88/53/15	National Land Survey of Finland
89/53/15	Agency for Rural Affairs

### *Administrative branch of the Ministry of Transport and Communications*

90/53/15	Ministry of Transport and Communications
91/53/15	Finnish Meteorological Institute
92/53/15	Finnish Transport Agency
93/53/15	Finnish Transport Safety Agency TrafI
94/53/15	Finnish Communications Regulatory Authority
113/53/15	State Television and Radio Fund

### *Administrative branch of the Ministry of Economic Affairs and Employment*

95/53/15	Ministry of Economic Affairs and Employment
96/53/15	Development and Administrative Centre for ELY Centres and TE Offices
97/53/15	Energy Authority
98/53/15	Geological Survey of Finland
99/53/15	Tekes - the Finnish Funding Agency for Innovation
100/53/15	Finnish Competition and Consumer Authority
101/53/15	Finnish Patent and Registration Office
102/53/15	Finnish Safety and Chemicals Agency

## Appendix

### *Administrative branch of the Ministry of Social Affairs and Health*

103/53/15	Ministry of Social Affairs and Health
104/53/15	Finnish Medicines Agency
105/53/15	National Supervisory Authority for Welfare and Health
106/53/15	Radiation and Nuclear Safety Authority
107/53/15	National Institute for Health and Welfare

### *Administrative branch of the Ministry of the Environment*

108/53/15	Ministry of the Environment
109/53/15	Housing Finance and Development Centre of Finland
110/53/15	Finnish Environment Institute
114/53/14	Finnish Oil Pollution Compensation Fund

### Compliance audit reports

183/52/16	Tax revenue
184/52/15	State's financing contribution to earnings-related daily allowance
368/52/15	Issues concerning responsibilities in the examination of Finavia's derivative liabilities (13/2016)

### Fiscal policy audit reports

19/2015	Total central government balance sheet
11/2016	Reliability of macroeconomic forecasts

### Fiscal policy evaluation reports

7/2016	Fiscal policy evaluation report spring 2016
--------	---

### Performance audit and follow-up reports by administrative branch

#### *Prime Minister's Office*

- |         |  |
|---------|--|
| 20/2015 | Research and development in the real estate and construction cluster |
| 2/2016  | Preparation and coordination of EU affairs in the Government         |

#### [Follow-up report](#)

- |        |  |
|--------|--|
| 1/2014 | Implementing parliamentary resolutions |
|--------|--|

#### *Administrative branch of the Ministry for Foreign Affairs*

#### [Follow-up reports](#)

- |         |  |
|---------|--|
| 8/2012  | Humanitarian aid   |
| 12/2013 | Steering system in the administrative branch of the Ministry for Foreign Affairs |

#### *Administrative branch of the Ministry of the Interior*

- |        |   |
|--------|---|
| 3/2016 | Management of immigration matters by the authorities and developing the process |
|--------|---|

#### [Follow-up report](#)

- |         |  |
|---------|--|
| 19/2012 | Steering system in the administrative branch of the Ministry of the Interior |
|---------|--|

#### *Administrative branch of the Ministry of Defence*

#### [Follow-up reports](#)

- |        |  |
|--------|--|
| 3/2012 | Management of premises in the Defence Administration |
| 9/2013 | Military crisis management                           |

### *Administrative branch of the Ministry of Finance*

5/2016	Customer advice and telephone services provided by public administration
6/2016	Development and production of digital services
14/2016	Steering of the Government Security Network

#### **Follow-up reports**

184/2009	Steering and administration of off-budget funds
5/2012	Sickness absences and their monitoring in state administration
1/2013	Custom's role in combating the shadow economy

### *Administrative branch of the Ministry of Education and Culture*

4/2016	Steering system of the Ministry of Education and Culture
--------	--

#### **Follow-up report**

11/2012	Structural arrangements in secondary education
---------	--

### *Administrative branch of the Ministry of Agriculture and Forestry*

#### **Follow-up report**

4/2013	Administration of agricultural subsidies
--------	--

### *Administrative branch of the Ministry of Transport and Communications*

8/2016	Support for the building of broadband network
9/2016	Drafting of the amendments to the decree on dimensions and weights of heavy lorries
10/2016	Socio-economic feasibility calculations of transport infrastructure projects

#### **Follow-up report**

6/2013	Traffic safety
--------	----------------

### *Administrative branch of the Ministry of Economic Affairs and Employment*

- 17/2015 Consideration of the health and cost impacts of fine particles in the preparation of strategies  
15/2016 Private equity investment operations of the state

#### **Follow-up report**

- 227/2011 Support for energy and climate technology

### *Administrative branch of the Ministry of Social Affairs and Health*

- 1/2016 Developing division of labour in social welfare and health care

#### **Follow-up reports**

- 12/2012 Legislative drafting at the Ministry of Social Affairs and Health  
2/2013 Rehabilitation as a means of extending working careers

## Appendix 2:

Qualified opinions on regularity  
and reporting obligations

### QUALIFIED OPINION ON REGULARITY CONCERNING COMPLIANCE WITH THE STATE BUDGET AND BUDGET PROVISIONS

*Administrative branch of the Ministry for Foreign Affairs*

Ministry for Foreign Affairs

On the basis of audit, it is our opinion that the state budget and the key budget provisions have been complied with, except for the entry of the refunds of at least 380,000 euros belonging to item 12.24.99 (Revenue of the administrative branch of the Ministry for Foreign Affairs) to item 24.30.66 (Actual development cooperation, three-year deferrable appropriation) in violation of the state budget and section 3 a of the State Budget Act and for the entry of a revenue of 115,987 euros belonging item 12.24.99 (Revenue of the administrative branch of the Ministry for Foreign Affairs) to item 24.01.01 (Operating expenditure of the foreign affairs administration, two-year deferrable appropriation) in violation of the state budget and the organisation of performance accounting in a manner required under section 16 of the State Budget Act. The Ministry for Foreign Affairs must cancel equal amounts from the corresponding appropriations carried over to 2016.

### OBLIGATION TO REPORT TO THE NATIONAL AUDIT OFFICE

*Administrative branch of the Ministry for Foreign Affairs*

Ministry for Foreign Affairs

Under section 5(1) of the Act on the National Audit Office, the Ministry for Foreign Affairs must report to the National Audit Office by 19 August 2016 on the measures that it has taken as a result of the procedures that are in violation of the state budget and key budget provisions and the measures that it has taken as a result of the inadequacies in internal control.

### QUALIFIED OPINION ON REGULARITY

*Administrative branch of the Ministry of Defence*

**Finnish Defence Forces**

On the basis of the audit, it is our opinion that the state budget and the key budget provisions have been complied with, except for the exceeding of an authorisation on item 27.10.01 (Defence materiel procurement) by 2.5 million euros in violation of section 10 of the State Budget Act, for the arrangement of the monitoring of the use of authorisations in accordance with section 15 of the State Budget Act, for the monitoring of the profitability of chargeable services, for the presentation of the annual results and for the arrangement of performance accounting in accordance with section 16 of the State Budget Act.

### OBLIGATION TO REPORT TO THE NATIONAL AUDIT OFFICE

*Administrative branch of the Ministry of Defence*

**Finnish Defence Forces**

Under section 5(1) of the Act on the National Audit Office, the Finnish Defence Forces must report to the National Audit Office by 12 August 2016 on the measures that it has taken to arrange the monitoring of the use of the authorisation in accordance with section 15 of the State Budget Act and to ensure that performance accounting is in accordance with section 16 of the State Budget Act.

### QUALIFIED OPINION ON REGULARITY

*Administrative branch of the Ministry of Finance*

**Ministry of Finance**

On the basis of the audit, it is our opinion that the state budget and the key budget provisions have been complied with, except for the allocation of expenditure totalling 9,376,309.60 euros that should have been allocated to the year 2015 as revenue for 2016 on item 28.60.12 (Competence development, two-year deferrable appropriation). This is in violation of the state budget and section 5 a of the State Budget Decree. If the expenditure had been allocated in accordance with the state budget, the appropriation would have been exceeded by 1,376,309.60 euros.

### OBLIGATION TO REPORT TO THE NATIONAL AUDIT OFFICE

*Administrative branch of the Ministry of Finance*

### QUALIFIED OPINION ON REGULARITY

*Administrative branch of the Ministry of Agriculture and Forestry*

### OBLIGATION TO REPORT TO THE NATIONAL AUDIT OFFICE

*Administrative branch of the Ministry of Agriculture and Forestry*

**Agency for Rural Affairs**

Under section 5(1) of the Act on the National Audit Office, the Agency for Rural Affairs must report to the National Audit Office by 12 August 2016 on the measures that it has taken as a result of the inadequacies concerning the documentation on the information on the use of the authorisation.

### QUALIFIED OPINION ON REGULARITY

*Administrative branch of the Ministry of Transport and Communications*

Finnish Transport Agency

On the basis of the audit, it is our opinion that the state budget and the key budget provisions have been complied with, except for the arranging of the monitoring of authorisations, as laid down in section 15 of the State Budget Act.

### OBLIGATION TO REPORT TO THE NATIONAL AUDIT OFFICE

*Administrative branch of the Ministry of Transport and Communications*

Finnish Transport Agency

Under section 5(1) of the Act on the National Audit Office, the Finnish Transport Agency must report to the National Audit Office by 12 August 2016 on the measures that it has taken to correct the inadequacies in internal control.

### QUALIFIED OPINION ON REGULARITY

#### *Administrative branch of the Ministry of Economic Affairs and Employment*

##### Ministry of Economic Affairs and Employment

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

- 1 In 2014–2016 expenditure belonging under item 32.20.47 (Interest subsidies and compensation of losses of Finnvera plc, variable appropriation) has been funded from advance payments paid from appropriations allocated to 1993 and 1994. This is in violation of the state budget and section 6 a of the State Budget Act. The Ministry of Economic Affairs and Employment must take measures to recover the remaining advance payments (9.1 million euros) and the interest claims connected with the advance payments.
- 2 Authorisations granted in the previous years' state budgets that under the 2014 final accounts could not have been carried over were used in 2015 on item 32.50.64 (Funding contribution of EU structural funds and the state to structural fund programmes in programming period 2007–2013). With this procedure, an authorisation has been carried over in violation of section 10 of the State Budget Act.
- 3 Performance accounting has not been arranged in the manner required under section 16 of the State Budget Act.

### OBLIGATION TO REPORT TO THE NATIONAL AUDIT OFFICE

#### *Administrative branch of the Ministry of Economic Affairs and Employment*

##### Ministry of Economic Affairs and Employment

Under section 5(1) of the Act on the National Audit Office, the Ministry of Economic Affairs and Employment must report to the National Audit Office by 19 August 2016 on the measures that it has taken as a result of the procedures that are in violation of the state budget and key budget provisions and the measures that it has taken as a result of the inadequacies in internal control.

### QUALIFIED OPINION ON REGULARITY

#### Development and Administrative Centre for ELY Centres and TE Offices

On the basis of the audit, it is our opinion that the state budget and the key budget provisions have been complied with, except for the allocation of expenditure totalling 307,492 euros that should have been allocated to the year 2016 as revenue for 2015 on items 32.01.20 (Non-military service, variable appropriation) and 32.70.30 (State compensation to municipalities, variable appropriation). This is in violation of the state budget and section 5 a of the State Budget Decree. With this procedure, the appropriations have been carried over in violation of section 7 of the State Budget Act.

#### Energy Authority

On the basis of the audit, it is our opinion that the state budget and the key budget provisions have been complied with, except for the deposit of an expenditure of 73,300 euros belonging to budget year 2016 to a banking institution without the authorisation of the State Treasury in violation of section 33 of the State Budget Decree and its entry as expenditure for 2015 from item 32.01.21 (Productivity appropriation for the administrative branch of the Ministry of Economic Affairs and Employment, two-year deferrable appropriation in the 2014 state budget) in violation of the state budget and section 5 a of the State Budget Decree. With this procedure, the appropriations have been carried over in violation of section 7 of the State Budget Act.

### OBLIGATION TO REPORT TO THE NATIONAL AUDIT OFFICE

### QUALIFIED OPINION ON REGULARITY

*Administrative branch of the Ministry of the Environment*

#### **Ministry of the Environment**

On the basis of the audit, it is our opinion that the state budget and the key budget provisions have been complied with, except for the use of the appropriation on items 35.01.01 (Operating expenditure of the Ministry of the Environment, two-year deferrable appropriation, 292,000 euros) and 35.10.22 (Certain environmental expenditure, three-year deferrable appropriation, in the 2013 and 2014 state budgets, 161,052.50 euros) for paying transfer expenditure, which is in violation of the state budget.

### OBLIGATION TO REPORT TO THE NATIONAL AUDIT OFFICE

*Administrative branch of the Ministry of the Environment*





## References

- 1 <http://www.finlex.fi/fi/esitykset/he/2013/20130062>
- 2 1243/1992
- 3 Programme of Prime Minister Juha Sipilä's Government
- 4 See for example the programme of Prime Minister Jyrki Katainen's Government
- 5 See for example the performance agreement between the Ministry of Social Affairs and Health and the National Institute for Health and Welfare for 2013–2016 in which client orientation is set out as a performance target
- 6 Valtiovarainministeriö (2014): Yhteistyössä palvelu pelaa! Julkisen hallinnon asiakkuusstrategia
- 7 Valtiovarainministeriö (2016): Julkisen hallinnon asiakas digitaalisessa yhteiskunnassa. Strategialuonnos, <https://www.ottakantaa.fi/fi/hankkeet/39/> (referred to on 28 April 2016)
- 8 Ministry of Finance (2016): Principles of digitalisation <http://vm.fi/en/principles-of-digitalisation>
- 9 Hallituksen esitys eduskunnalle hallintolaiksi ja laaksi hallintolainkäyttölain muuttamisesta (HE 72/2002 vp)
- 10 <http://www.vm.fi/hallintopolitiikka> (referred to on 28 April 2016)
- 11 See for example European Commission (2015) Future-proofing eGovernment for a Digital Single Market. Final Insight Report: June 2015. A study prepared for the European Commission DG Communications Networks, Content and Technology.
- 12 National Audit Office (2016): Development and production of digital services, 6/2016, p. 45 (in Finnish, English summary available)
- 13 National Audit Office (2016): Development and production of digital services, 6/2016, p. 45 (in Finnish, English summary available)
- 14 National Audit Office (2015): Digital employment services, 8/2015 (in Finnish, English summary available)
- 15 National Audit Office (2016): Development and production of digital services, 6/2016, p. 46 (in Finnish, English summary available)
- 16 National Audit Office (2015): Interoperability in government ICT contracts, 7/2015 (in Finnish, English summary available).
- 17 National Audit Office (2016): Development and production of digital services, 6/2016, pp. 18–20 (in Finnish, English summary available)
- 18 National Audit Office (2006): Development and use of identification services in public administration, 161/2006 (in Finnish, English summary available).
- 19 National Audit Office (2013): Follow-up report to audit report 161/2006 The development and use of identification services in public administration
- 20 National Audit Office (2016): Development and production of digital services, 6/2016, p. 45 (in Finnish, English summary available)

## References

- 21 National Audit Office (2016): Development and production of digital services, 6/2016, p. 48  
(in Finnish, English summary available)
- 22 National Audit Office (2016): Development and production of digital services, 6/2016, p. 49  
(in Finnish, English summary available)
- 23 [http://vm.fi/hallintopolitiikka/palvelurakenteiden kehittaminen](http://vm.fi/hallintopolitiikka/palvelurakenteiden_kehittaminen) (referred to on 28 April 2016)
- 24 National Audit Office (2016): Customer advice and telephone services provided by public administration, 5/2016, pp. 27–32 (in Finnish, English summary available)
- 25 National Audit Office (2016): Development and production of digital services, 6/2016, p. 48  
(in Finnish, English summary available)
- 26 National Audit Office (2016): Customer advice and telephone services provided by public administration, 5/2016, pp. 34–35 (in Finnish, English summary available)
- 27 JHS 190 Julkisten verkkopalvelujen suunnittelu ja kehittäminen ([www.jhs-suositukset.fi](http://www.jhs-suositukset.fi))
- 28 Arantola, Heli ja Kimmo Simonen (2009): Palvelemisesta palveluliiketoimintaan – Asiakasymmärrys palveluliiketoiminnan perustana. Tekesin katsaus, 256/2009.
- 29 JAMK University of Applied Sciences (2012): SDT – Service Design Toolkit. [www.sdt.fi](http://www.sdt.fi)
- 30 National Audit Office (2016): Development and production of digital services, 6/2016, p. 49  
(in Finnish, English summary available)





NATIONAL AUDIT OFFICE OF FINLAND  
ANTINKATU 1, P.O. BOX 1119, FI-00101 HELSINKI  
TEL. +358 9 4321, WWW.VTV.FI

ISSN 1798-6435 (PDF)