



National Audit Office's separate report to Parliament on the audit of the final central government accounts 2015 and the Government's annual report



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To Parliament

The National Audit Office has audited the final central government accounts contained in the Government's annual report for 2015 on the management of central government finances and compliance with the state budget submitted to Parliament and the descriptions of central government finances, national financial administration and operational performance for the budget year 2015 as the report referred to in section 46 of the Constitution of Finland and submits this separate audit report to Parliament under section 6 of the Act on the National Audit Office (676/2000).

Helsinki 31 May 2016

Auditor General
Tytti Yli-Viikari

Assistant Auditor General
Marjatta Kimmonen

Based on the financial audit of the final central government accounts, the National Audit Office states that the final central government accounts for 2015 have been prepared in accordance with all relevant provisions.

The National Audit Office submitted a total of 60 financial audit reports on the financial audits of ministries and other accounting offices for the 2015 budget year.

The financial audits revealed improper procedures in eight accounting offices that on their own or together with other improper procedures were considered to be in violation of the state budget or key budget provisions in such a way that a qualified opinion on regularity on them was included in the financial audit report. The most important reasons for the qualified opinions on regularity were the allocation of expenditure to the budget year in violation of the state budget and the carrying over of an appropriation or authorisation. There were two cases in which appropriations and authorisations had been exceeded.

In the audit of the societal effectiveness information contained in the Government's annual report, the National Audit Office assessed the reporting in relation to the targets laid out for the administrative branches in the state budget and the priorities set out by Parliament. Based on the audit, there have been continuous improvements in the manner in which societal effectiveness information is presented. All administrative branches have reported on the implementation of the targets set for them. The reporting has also become more concise.

However, the main problem concerning the reporting remains the same. The effectiveness targets laid out for the administrative branches are often such that they do not allow the presentation of the effectiveness information. This is a long-standing and widely recognised problem. If the aim is to continue the development of reporting in accordance with performance guidance thinking, a solution to the target-setting problem should be found.

The description of the state of general government finances contained in the Government's annual report is in accordance with the observations made by the National Audit Office. Reporting on the state of central government and general government finances has become more informative. The total calculations of central government finances added to the report provide a more comprehensive description of central government financial position than before and more detailed information about state ownership in companies is also given. The Government's annual report provides concise information about central government liabilities, such as guarantees and the risks associated with them.

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1 Financial audit report on final central government accounts for 2015

The National Audit Office submits this financial audit report on the financial audit of the final central government accounts for the budget year 2015. The audit was performed by Principal Financial Auditor Aila Aalto-Setälä and Principal Financial Auditor Riitta-Liisa Heikkilä. The audit was supervised by Assistant Auditor General Marjatta Kimmonen.

The audit was performed in accordance with the National Audit Office's financial audit manual and it covered the final central government accounts referred to in section 17 a of the State Budget Act and the notes required for providing the true and fair information referred to in section 18 of the act, to the extent that they concern on-budget entities. The audit contains the budget outturn statement, statement of revenue and expenses, balance sheet, cash flow statement, notes and the consolidated accounting used as a basis for the final accounts. The audit also covered the procedures that ensure the integrity and accuracy of the information in the consolidated accounting and in the preparation of final central government accounts.

Final central government accounts

The contents of the calculations contained in the final central government accounts and the manner in which they are presented, as well as the accounting used as a basis for them have been examined in sufficient detail so that it can be determined whether the calculations of the final central government accounts and the notes to the final accounts have, in essential parts, been prepared in a correct manner.

The refunds belonging under item 12.24.99 (Revenue of the administrative branch of the Ministry for Foreign Affairs), which total at least 0.38 million euros, have been entered on 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. Likewise, the revenue of 0.12 million euros belonging under item 12.24.99 has been entered on item 24.01.01 (Operating expenditure of the foreign affairs administration, two-year deferrable appropriation) in violation of the state budget. The Minis-

try for Foreign Affairs must cancel equal amounts from the corresponding appropriations carried over to 2016.

Expenditure totalling 9.4 million euros that should have been allocated to 2015 has been allocated to 2016 on item 28.60.12 (Competence development, two-year deferrable appropriation) 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 1.4 million euros.

A total of 0.38 million euros in expenditure on items 32.01.20 (Non-military service, variable appropriation), 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) and 32.70.30 (State compensation to municipalities, variable appropriation), which should have been allocated to 2016 has been allocated to 2015. 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.

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.

Appropriations on items 35.01.01 (Operating expenditure of the Ministry of the Environment, two-year deferrable appropriation) and 35.10.22 (Certain environmental expenditure, three-year deferrable appropriation in the 2013 and 2014 state budgets) have been used to pay transfers totalling 0.45 million euros. This is in violation of section 5 of the State Budget Act and the state budget.

An authorisation of 2.5 million euros contained in an earlier year's state budget that under the 2014 final accounts could not have been carried over has been used on item 27.10.01 (Operating expenditure of the Finnish Defence Forces) in violation of the state budget and section 10 of the State Budget Act. This means that the corresponding authorisation granted in the 2015 state budget has been exceeded by 2.5 million euros.

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.

The information on the authorisations submitted to the State Treasury for the purpose of preparing the final central government accounts can, as a whole, be considered true and fair. The information on the authorisations contained in the final central government accounts correspond to the information obtained as part of the centralised monitoring of authorisations.

Based on the audit, the conclusion is that the central government statement of revenue and expenditure and the balance sheet have been prepared in accordance with relevant provisions.

The notes to the final central government accounts are presented in a manner required under the State Budget Decree.

Consolidated accounting is organised in accordance with the State Budget Decree.

Internal control

The internal control of the final central government accounts has been assessed in a risk analysis and audited as part of the audits of consolidated accounting, final central government accounts and the financial statements of central government agencies.

According to the opinion formulated in connection with the audit of the final central government accounts, the internal control on consolidated accounting has helped to ensure that the information contained in the consolidated accounting and used as a basis for the final central government accounts does not contain any material misstatements.

National Audit Office's opinion of the final accounts

The final central government accounts for the year 2015 have been prepared in accordance with the statutes in force.

Helsinki 12 May 2016

Auditor General
Tytti Yli-Viikari

Principal Financial Auditor
Aila Aalto-Setälä

2 Compliance with the state budget and key budget provisions

The National Audit Office submitted a total of 60 financial audit reports on the financial audits of ministries and other accounting offices for the 2015 budget year.

The financial audits revealed improper procedures in eight accounting offices that on their own or together with other improper procedures were considered to be in violation of the state budget or key budget provisions in such a way that a qualified opinion on regularity on them was included in the financial audit report.

	Financial audit reports	Qualified opinions on regularity		
	in 2015	2013	2014	in 2015
Office of the President of the Republic	1			
Prime Minister's Office	1			
Administrative branch of the Ministry for Foreign Affairs	1	1	1	1
Administrative branch of the Ministry of Justice	2		1	
Administrative branch of the Ministry of the Interior	7			
Administrative branch of the Ministry of Defence	3	1	1	1
Administrative branch of the Ministry of Finance	12			1
Administrative branch of the Ministry of Education and Culture	7	3	1	
Administrative branch of the Ministry of Agriculture and Forestry	5			
Administrative branch of the Ministry of Transport and Communications	5	2	1	1
Administrative branch of the Ministry of Economic Affairs and Employment	8	2	3	3
Administrative branch of the Ministry of Social Affairs and Health	5		1	
Administrative branch of the Ministry of the Environment	3	2	2	1
	60	11	11	8

The number of accounting offices issued with qualified opinions on regularity has decreased from previous years. However, many of the cautions concerned more than one issue and as a result the total number of the cautions was 22 (29 in 2014).

The main reasons for the qualified opinions on regularity concerned the use of appropriations or authorisations that was in violation of the state budget. A total of eight accounting offices received 15 cautions concerning these issues. The cautions 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.

Four accounting offices received cautions concerning inadequacies in the organisation of performance accounting and the presenting of the information on chargeable activities or other areas of operational efficiency.

Most of the qualified opinions on regularity concerned sectors of financial administration or specific procedures. Thus, on the basis of the qualified opinions on regularity, one should not conclude that central government finances would not be in compliance with the legality requirement laid down for them or that the qualified opinions on regularity would have been prompted by the misuse of central government funds. When the importance of qualified opinions on regularity is assessed, consideration should also be given to the differences between the sizes of the agencies' budgets. However, a qualified opinion on regularity should always be considered as a serious matter regarding the financial management of an agency. The purpose of the financial audit is to report on procedures that mean a deviation from proper compliance with the state budget and the key budget provisions.

3 Societal effectiveness information contained in Government's annual report

All ministries have reported extensively on the societal effectiveness targets laid out for them in the state budget. There have not been any major changes in the quality of the reporting in this respect. The ministries have been able to meet the reporting requirements laid down by Parliament more comprehensively than before. Reporting has become more concise even though the ministries are now required to submit reports on more matters than in the past.

3.1 Performance reporting by ministries

Ministries have managed to make their reports more concise. The unified reporting structure is clear and informative. The structure has also helped the ministries to take into account the achievement of the targets set in their reports. The unified structure has, however, caused a certain amount of repetition in the annual report. For example, nearly all ministries consider the weak state of general government finances as a major risk affecting their operating environment and several ministries have included immigration as a major change in the operating environment.

There are still substantial differences in the quality of reporting between ministries and the quality improvements have also been uneven. In some of the ministries, reporting quality has improved, while in others it has declined. The main problem concerning the reporting remains the same. The effectiveness targets set are often such that they do not even allow the presentation of the effectiveness information. This is a long-standing and widely recognised problem. Thus, if the aim is to continue the development of reporting in accordance with performance guidance thinking, a solution should be found. One factor contributing to the uneven quality of the targets is that the ministries are able to determine and formulate their own targets. A more unified or more coordinated procedure could help to achieve better reporting results.

3.2 Major reporting-related policy issues

There have been efforts to make reporting in the annual report for 2015 more topical and interesting by including a small number of specific issues in the publication. The specific issues cover a wide range of different matters: economic and fiscal policy, Government's spearhead projects, structural change, foreign and security policy, migration and immigration and the achievement of the EU policy goals.

There is more variation in the reporting on the specific issues than in the other matters discussed in the annual report. In some of the issues, there is little reporting on the achievement of the targets and information is only provided about the targets themselves, planned measures or the measures that have already been initiated. As regards the spearhead projects and structural change, this is understandable as the Government has only been in office for a short time. However, most of the reported issues are such that it would be more natural to discuss them in the Government's strategy or planning documents. Immigration is such a recent concern that instead of reporting on the targets achieved in this area, the Government is only able to describe the measures taken. In EU policy too the reporting mainly covers policy objectives and the measures carried out. However, the focus in the Government's annual report should be on the achievement of the targets. The measures should only be cursorily described, especially if it is not clear whether the measures in question will help to achieve the targets set.

3.3 Improving the annual report

The requirements concerning the content of the Government's annual report were changed by Government decree on 11 February 2016. The changes are in accordance with the efforts to make the annual report more concise but they also lay down more detailed requirements for the comprehensiveness of the document. The provisions contained in the decree also applied to the annual report for 2015, which was under preparation at the time.

Based on the audits conducted by the National Audit Office, the focus in the development of the annual report should be on improvements in target-setting, while in reporting the main aim should be the description of the achievement of the targets. The targets should be formulated so that they concern effectiveness and that already when the targets are set it is known what type of information could be used for reporting on achieving the targets. Systematic monitoring and reporting on the achievement of the targets are important to well-functioning steering of an administrative

- The quality of the Government's annual report was assessed as part of the audit. The assessment criteria used were as follows: (1) usefulness of the reporting as a steering instrument and effectiveness assessment tool; (2) focusing of the reporting on societally important issues; and (3) its role from the perspective of parliamentary decision-making. Performance reporting in individual administrative branches was also assessed in relation to the objectives set out for them in the state budget.
- The Government decrees 1243/1992 and 118/2016 were amended in spring 2016 by changing the requirements concerning the content of the Government's annual report. The changes also apply to reporting on the year 2015. The aim of the reform was to make the annual report more concise and to ensure that the information contained in the document can be used in a better manner.
- As the performance reporting by individual administrative branches has been audited in the same manner since 2011, it is also possible to assess developments in the reporting over the past few years.

4 Examination of central government finances in the Government's annual report

On 17 May, the National Audit Office published an evaluation of the fiscal policy carried out in 2015. The evaluation contains a review of compliance with fiscal policy rules, including compliance with the Government's spending limits rule. The description of the state of general government finances contained in the annual report is in accordance with the observations made by the National Audit Office.

There is no discussion on the rules and objectives guiding the management of general government finances in the subchapter of the state of the general government finances. It is only stated that the deficit has fallen below the three per cent limit laid down in the Stability and Growth Pact. The fact that general government debt-to-GDP ratio has exceeded the 60% limit set in the Stability and Growth Pact is not commented in the report. It is widely expected that general government deficit will also increase the debt-to-GDP ratio in the coming years.

Reporting on the state of the central government and general government finances in the Government's annual report has become more informative. As required by Parliament, the document also contains information about the tax gap. The information on state ownership in companies contained in the report is also presented in a clearer manner.

The total calculations of central government finances added to the report provide a more comprehensive description of central government financial position than before. In addition to on-budget entities, they also cover the statements of revenue and expenditure in off-budget entities and state enterprises as well as the balance sheet. Some of the liabilities outside the total balance sheet, such as guarantees, are also itemised. Contents of the calculations and the methods used for producing them are described in detail. The fact that the elimination of the internal items in the consolidated calculations is partially based on estimates is one detail mentioned in the report. More comprehensive reporting also makes it easier to form an overall picture of the assets and financial position of the state. It also makes central government finances more transparent from the perspective of the parliamentary steering power. The National Audit Office published an audit re-

port on total balance sheet and consolidated balance sheet reporting (19/2015) in December 2015.

State-owned special assignment companies still remain outside the total calculations, which means that their assets or the state liabilities arising from them are not fully considered in the calculations.

State liabilities and risks

The Government's annual report provides concise information about central government liabilities and the risks associated with them. Central government debt, pension liabilities, guarantees and contractual liabilities account for most of the state liabilities. The estimate of the state liabilities presented in the annual report is a compilation based on nominal values. In addition to the central government debt, the substantial increase in guarantees has also increased state liabilities in recent years. Guarantees have almost doubled in five years. There was a particularly sharp rise in guarantees provided by Finnvera in 2015.

Liability-related risks include macroeconomic shocks, market and other risks related to central government assets and debt, and the risks contained in the hidden liabilities that have been assumed by the state or that will ultimately be assumed by the state. Likelihood of the risks and the realisation of the liabilities in the past are not assessed in the Government's annual report even though it is stated that the costs arising from the realisation of the state liabilities can substantially burden the national economy. An assessment of the interest rate risk concerning central government interest expenditure is the only risk assessment presented in the report. The assumption is that as more guarantees have been provided, the risks associated with state liabilities have also increased during normal economic fluctuations.

Risks should be more extensively discussed in the Government's annual report and there should be details of the revenue and expenditure arising from guarantees during the year. As central government liabilities arise in both on-budget entities and elsewhere in central and general government, the liabilities should be presented as extensively as possible for all areas of general government.



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