



National Audit Office's report on its activities to the 2015 parliamentary session



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To Parliament

Under section 6 of the Act on the National Audit Office (676/2000), the National Audit Office hereby submits the report on its activities to the 2015 parliamentary session.

The report presents the conclusions made on the basis of the audit findings concerning the current state of central government and central government finances from the viewpoint of Parliament, summaries of the audit findings that are of key importance to Parliament and the findings concerning the implementation of the positions issued by Parliament on the basis of the reports of its Audit Committee. The report also presents a review of the National Audit Office's activities and their effectiveness in 2014.

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 2015 and that cover the 2014 budget year. The performance audits, fiscal policy audits and compliance audits and follow-ups to them conducted by the end of August 2015 are included in the report.

The National Audit Office reports on the main findings of fiscal policy evaluation and audit in a separate fiscal policy evaluation report submitted to Parliament each year and in the reports submitted in the middle and at the end of the parliamentary terms. The National Audit Office submitted a fiscal policy audit and evaluation report on the 2011–2014 parliamentary term to Parliament on 16 December 2014 (K 20/2014 vp.) and a separate fiscal policy evaluation report 2015 on 8 September 2015 (K 17/2015 vp.).

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 27 May 2015 (K 15/2015 vp.).

Helsinki 17 September 2015

Auditor General

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The National Audit Office's report on its activities to the 2015 parliamentary session has two main themes: the capacity of the public administration to implement structural policy measures and integration into society. Assessing the capacity of the public administration to use ICT for improving productivity is the focus area in the report. The capacity of the public administration to implement structural policy measures has been assessed on the basis of how thoroughly the decisions have been prepared, how well their implementation has been monitored and how well the objectives have been achieved. The main message of the National Audit Office is that the capacity of the public administration to implement decisions and to adopt reforms should be systematically strengthened. This requires the setting of priorities and development of management practices.

Capacity of the public administration to implement structural policy reforms

As economic resources are becoming increasingly scarce, Parliament is expected to set out more clearly what measures should be given priority and what impact they will have. The number of measures that the Government is planning to introduce is too large, which is negatively affecting the capacity of the public administration to implement them. In order to improve the capacity of the public administration to implement measures, the Government should also define how it intends to achieve its objectives and to ensure that progress is monitored and assessed.

Organising performance accounting is a prerequisite to management and especially to presenting information on operational performance in the final accounts. Clear and uniform budget produces help to make financial administration more productive.

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 National Audit Office has assessed the capacity of the public administration to implement structural reforms

Implementing structural policy reforms requires clear political and strategic decisions

Improving productivity through digitalisation was laid out as an objective several years ago. However, the results have been more modest than targeted and expected. In fact, in retrospect it has been impossible to even determine on what basis the objectives of the development measures and the expectations concerning costs, and cost and productivity benefits were laid out.

Development of electronic services and information systems in central government has often taken place in isolation from other activities and there has been too much emphasis on technology in the development work. Achieving productivity targets requires determined leadership and active steering at central government level. When electronic services and information systems are developed, processes, operating practices and, when necessary, the legislation should be adequately reformed so that the productivity targets can be achieved.

Social integration

The number of people in danger of falling into poverty and becoming excluded has increased in Finland. About 250,000 Finns rely on basic social security for their living. The risk of marginalisation is particularly high among immigrants and unemployed youngsters. Unemployment among immigrants is three times higher than among the population as a whole. Marginalisation and unemployment cost the Finnish economy billions of euros.

The risk of marginalisation can be reduced with effective employment and integration measures. When activities are developed and personal services are replaced with electronic services, it is particularly important to safeguard the services of those groups that face a heightened risk of marginalisation. Young people and immigrants in particular need personal services.

Achieving productivity targets requires determined leadership

Marginalisation costs billions of euros

Young people and immigrants must have access to personal and low-threshold services

Impact of audit and assessing the implementation of parliamentary positions

In its previous reports to parliamentary sessions, the National Audit Office has drawn attention to the fact that the Government had not reported on the tax gap and the amount of unpaid taxes in the manner required by Parliament. The latest Government's annual report only includes the estimates of a small number of different tax types. The work on tax gap estimates is not yet complete and the matter has not been reported in the Government's annual report in the manner required by Parliament.

Parliament has called for measures to establish a unit examining legislative impact assessments. A proposal to establish a Government expert unit tasked with impact assessments has already been made. The effectiveness of the work carried out by the National Audit Office is, to a large extent, a result of the preventive and accountability impacts of the audits, monitoring and evaluation.

As part of its audit activities, the National Audit Office monitors the implementation of its opinions and its recommendations aimed at improving the functioning of the public administration. A number of important reforms have been initiated on the basis of the recommendations laid out in the reports to Parliament. The objective of the National Audit Office has been to contribute to the renewal and development of Finnish society. On this basis, its aim has been to carry out the task of promoting reforms and innovation laid out for supreme audit institutions in international audit guidelines.

The National Audit Office monitors the implementation of parliamentary positions and the implementation of its own opinions laid out as part of audits



Believing in renewal and success

Restoring Finland's general government finances requires major operational and structural reforms in Finnish society and in the public administration. The size of the spending cuts and tax increases required for halting the uncontrolled growth in general government debt depends on the implementation of the structural reforms.

The Government of Prime Minister Juha Sipilä has laid out major objectives for reforming operating practices and structural reforms in its programme. The Government has made the potential created by digitalisation as one of its top projects.¹

The target-setting and policies laid out in the Government Programme aimed at balancing general government finances were the main reason why the European Commission did not, in its overall assessment published in June 2015, consider it necessary to initiate an excessive deficit procedure for Finland even though the thresholds for general government deficit and debt, as laid down in the Stability and Growth Pact, had been exceeded. The threshold for structural (cyclically adjusted) general government deficit has also been exceeded. In its overall assessment that for the time being there is no need to initiate the excessive deficit procedure, the Commission put particularly great weight on the Government's intention to introduce spending cuts.² The Fiscal Policy Evaluation of the National Audit Office reached similar conclusions in its independent overall assessment of the Finnish situation.³

Trust in the Finnish economy will depend on how well the objectives laid out in the Government Programme can be put into practice. Strong national economy and general government finances are also sources of external security and social stability.

Finland's public administration has possessed only limited capacity to implement structural reforms during the past 15 years. It has proved difficult to implement large-scale reform projects or to seize the opportunities of digitalisation. This is also one reason for the current economic difficulties.

Trust in the Finnish economy depends on our capacity to implement change

It is not easy to carry out structural reforms. Success requires the ability to change the manner in which people behave and the operating practices that they have adopted. Particular consideration must be given to ensuring that Parliament, the Government and senior civil servants in Government ministries, central government agencies and local government organisations all contribute to successful implementation of the reforms.

In my article I will discuss how the Government and senior civil servants should change their operating practices so that objectives can be met, results achieved and good governance ensured. In professional terminology, these are called internal steering and control.

Professional terminology can also be misleading. It is not a question of audit conducted as part of internal audit. It is a matter of the work performed by the management and personnel in which the aim is to ensure success and good governance and to develop good governance practices.

Failure to achieve productivity and economic efficiency targets is a major risk

According to the risk analysis of central government finances and the national economy prepared by the National Audit Office this year, one of the most serious risks facing central government finances is the failure to achieve the productivity and economic efficiency targets set for the Finnish economy.⁴ Based on the audit findings, the targets can only be achieved if there are changes in administrative practices and attitudes.

Based on economic research and practical experiences gathered in the private and public sectors, digitalisation and information and communications technology (ICT) are among the most important tools for achieving higher productivity.⁵

In realistic terms, digitalisation provides great potential for introducing structural and operational reforms and productivity improvements. However, digitalisation is not a magic solution to all problems. The benefits of digitalisation do not happen by themselves as they require an effective and creative implementation process.

This capacity should be strengthened and the success of the implementation process ensured

Making use of digitalisation is one of the most important ways of improving productivity

Finland has both major strengths and entrenched weaknesses in digital potential. In its 2015 Network Readiness Index, which describes the capacity to use ICT and information networks, the World Economic Forum put Finland second (after Singapore) among a total of 143 economies.⁶ Problems concerning digitalisation in public services and citizen participation were listed as weaknesses for Finland.

Based on the audit and follow-up findings presented by the National Audit Office in this report, the ICT activities in the public administration have revolved around the same themes concerning support services and infrastructure over the last three parliamentary terms. Finland's public administration still has a great deal of work to do in using the full potential of digitalisation.

Digitalisation is definitely not a matter that only involves ICT and that should be the exclusive domain of information management. Seizing the opportunities offered by digitalisation is a matter of developing and changing the way in which things work and society operates. Changes are needed in the public administration and change arises from managing practices and the enthusiasm of competent personnel.

We should get rid of the entrenched weaknesses in the use of digitalisation

In order to benefit from the opportunities of digitalisation we need operational reforms, not ICT projects

Finland's **strengths** in digitalisation

- Citizens have good IT skills
- Infrastructure
- IT accessibility



Finland's **weaknesses** in digitalisation

- Practical implementation of joint solutions
- Consideration of citizens' perspective
- Development focus is on support services
- Focus on technology



Figure 1: Finland's strengths and weaknesses in digitalisation

When the aim is to achieve productivity and economic efficiency targets, it is not practicable to digitalise existing processes as the need is for bold reforms in operating and working practices. This requires creative thinking, piloting and passing of the results to others. It also requires the definition of the development responsibility concerning functions and processes at practical level. The public administration must find new ways of providing services and integrating its activities into more extensive service and cooperation networks (service ecosystems).

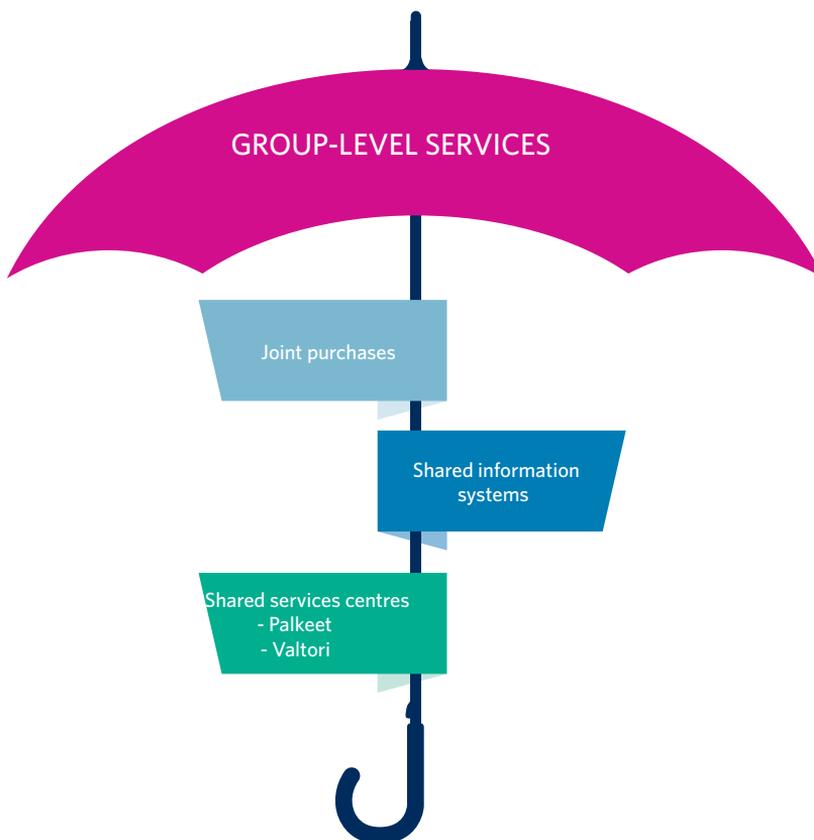


Figure 2: Group-level service solutions in public administration

Joint services (group-level service solutions) concerning the state and, in a wider sense, all areas of public administration are important for achieving productivity and economic efficiency targets.

With group-level service solutions, consideration should also be given to the public administration as a whole

Internal steering and control help to ensure success

By applying internal control, the management and personnel can ensure that objectives are achieved and the principles of good governance observed.

As laid down in budget legislation, consideration must be given to international standards concerning good governance and steering systems when internal control is organised. The most important of these are the INTOSAI GOV guidelines approved by the International Organization of Supreme Audit Institutions (INTOSAI). The guidelines are based on the COSO internal control framework, which is widely used in the private sector, and the COSO ERM risk management framework.⁷ The National Audit Office acts as the Finnish partner in the international cooperation, in which these guidelines are developed.

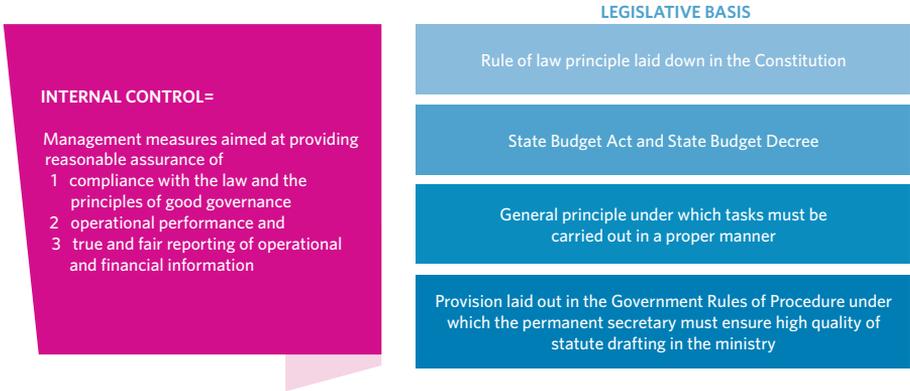


Figure 3: Internal control and its legislative basis

The current focus in the international debate is on models for workplaces and other communities in which internal control and the efforts to develop it involve all members of the personnel and stakeholders. Another field in which intensive development work is taking place are automated controls and the use of smart information systems in the organisation of internal control. The aim is to combine overall internal control with the principles and standards governing the management of ICT.⁸

Digitalisation and new operating models aimed at higher productivity and economic efficiency, such as shared services centres and other new group-level services, force public administration actors to re-examine certain aspects of the regulations concerning internal control and especially their practical implementation. The pressures are directed at the regulatory model, division of tasks between different actors and especially the thinking concerning successful internal control. The risks contained in a digital environment are different from those encountered in earlier environments.

According to INTOSAI GOV guidelines and the COSO framework, which is widely used in the private sector, internal control is intended to be a dynamic and integrated part of managerial work and operating processes. Internal control contains elements that in everyday language are not considered to be within the meaning of “control” and that are not “audit-oriented” by nature. Internal control includes risk assessment, management approach, target-setting, internal communications, flow of information, control measures, verification of controls, assessment of operations, operating environment of the organisation, structures and principles.

In the international COSO framework for the private sector, which was updated in 2013, the emphasis is on the application of principles of good internal control and professional discretion when internal control measures and principles are prioritised.⁹ In the international guidelines, internal control is characterised as a dynamic operating process, which evolves in accordance with time, circumstances, requirements and risks.¹⁰

Internal control models and the risks processed in internal control must be updated into digital era

Internal control should be an up-to-date management tool

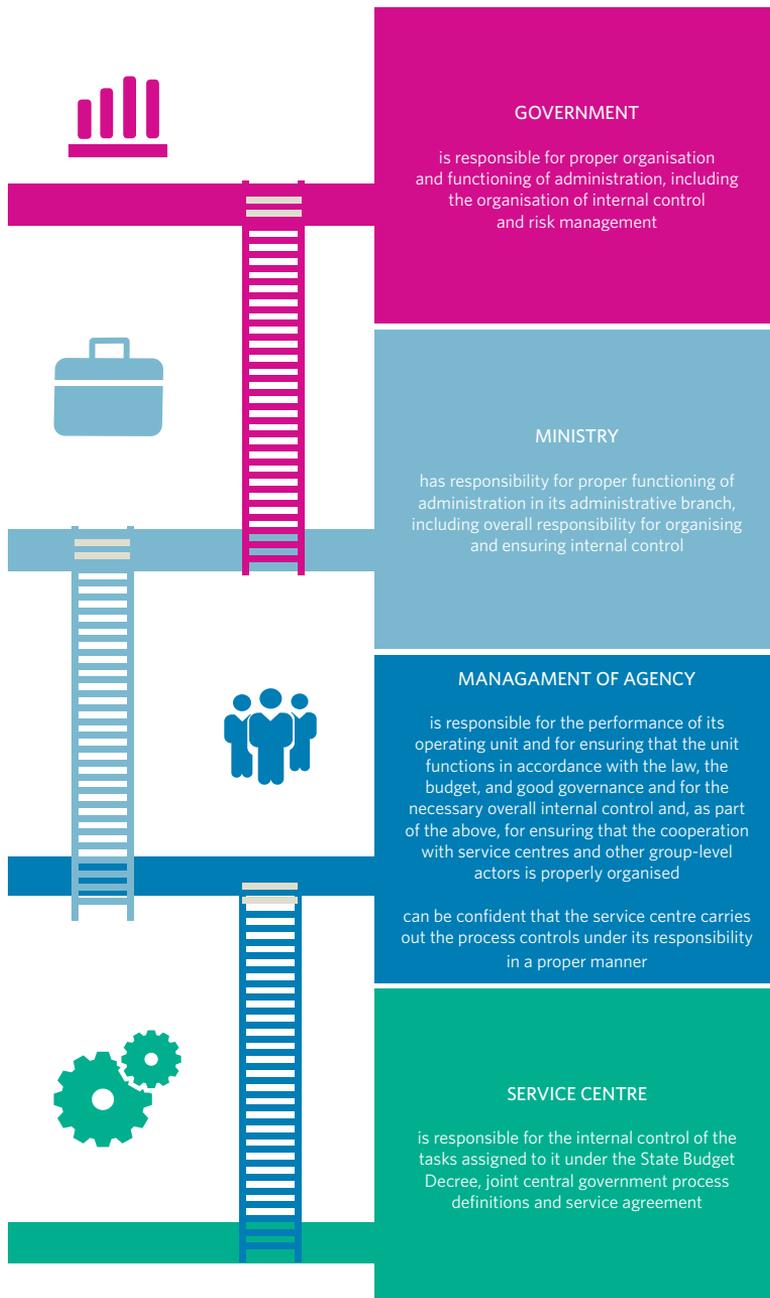


Figure 4: Responsibilities in internal control

In fact, in the statutes laying down provisions on accountability for Swedish central government authorities and on how their activities are organised this concept is referred to as internal steering and control (intern styrning och kontroll), which clearly illustrates the crucial role of the management and other steering systems.¹¹

The strength of the Swedish legislation is that internal steering and control are laid out as a general obligations concerning administrative management and organisation and they are not merely a matter pertaining to the economic process. General provisions on risk management applying to the authorities and public administration organisations should perhaps also be incorporated in the Finnish administrative procedure act.

General internal control guidelines modelled on the Swedish legislation would also be highly useful. In Finland, the Government Controller-General probably has sufficient powers to issue such recommendations under the State Budget Act.

Digital administration making use of shared services centres requires an overall approach to internal steering and control

Practical aspects of internal control in Finland should be urgently reformed so that the required productivity and economic efficiency targets can be achieved. The establishment of the Finnish Government Shared Services Centre for Finance and HR also means that the centre's role should be taken into account in the division of internal control tasks and the responsibilities concerning them. Annex 6 to the programme of Prime Minister Juha Sipilä's Government lists the immediate consolidation measures (general government spending cuts) that the Government has already introduced. One of them is the transfer of all consolidated accounting and final accounts and the personnel managing these tasks to the Finnish Government Shared Services Centre for Finance and HR (Palkeet). The purpose of the transfer is to ensure that the savings potential of KIEKU (the new central government information system for finance and human resources) and the shared services centre mod-

In Swedish legislation there is proper emphasis on the overall role of internal steering and control

The role and responsibilities of shared services centres should be defined as part of internal control

el can be realised. According to Annex 6, the State Budget Act will be amended so that Palkeet would become responsible for the accounts of central government accounting offices and the preparation of the final accounts. The aim is to achieve savings of about four million euros and 60 person-years.¹² Thus, Palkeet would become a tool in the efforts to reduce the number of personnel.

The reform marks the completion of a process that has continued for many years. Most areas of the accounting tasks of central government accounting offices and the preparation of the final accounts are already the responsibility of Palkeet.

When Palkeet assumes the responsibility for accounting and the preparation of the final accounts, the responsibility of the management of the accounting offices for the implementation of the budget, management of resources and cost-awareness should also be strengthened. There is now a good opportunity to do this.

The role of the financial administration in the support of central government steering and management is not limited to financial administration tasks. Introducing the shared services centre model means that there must be a clear agreement on the division of tasks between accounting offices and Palkeet. Palkeet is also expected to develop new services to support management processes and strengthen cost-awareness in central government.

At present, the organisation of internal control is largely based on the responsibilities of the management of central government agencies. Traditionally, the competencies of the authorities are strictly set and in most respects each central government agency acts as a separate unit. The new models for public administration management and performance guidance that were introduced to Finland at the end of 1980s and in the 1990s and in which the OECD was a major source of influence, reinforced the separateness of agencies. This thinking should now be abandoned.

In the new operating environment, internal control should be organised from the perspective of central government finances and, to some extent, from the perspective of general government finances (group-level perspective).

Shared services centres may not weaken management responsibility for economic efficiency and internal control

There is too much reliance on individual agencies in the organisation of internal control

Internal control should be organised at group level

From the perspective of the development of administration generating long-term productivity benefits, there are grounds for defining a clear division of responsibilities for internal control tasks between different actors in resource management. In the division of tasks, consideration should be given to the essential and computerised controls and controls based on risk-assessment in the entire chain of operations.

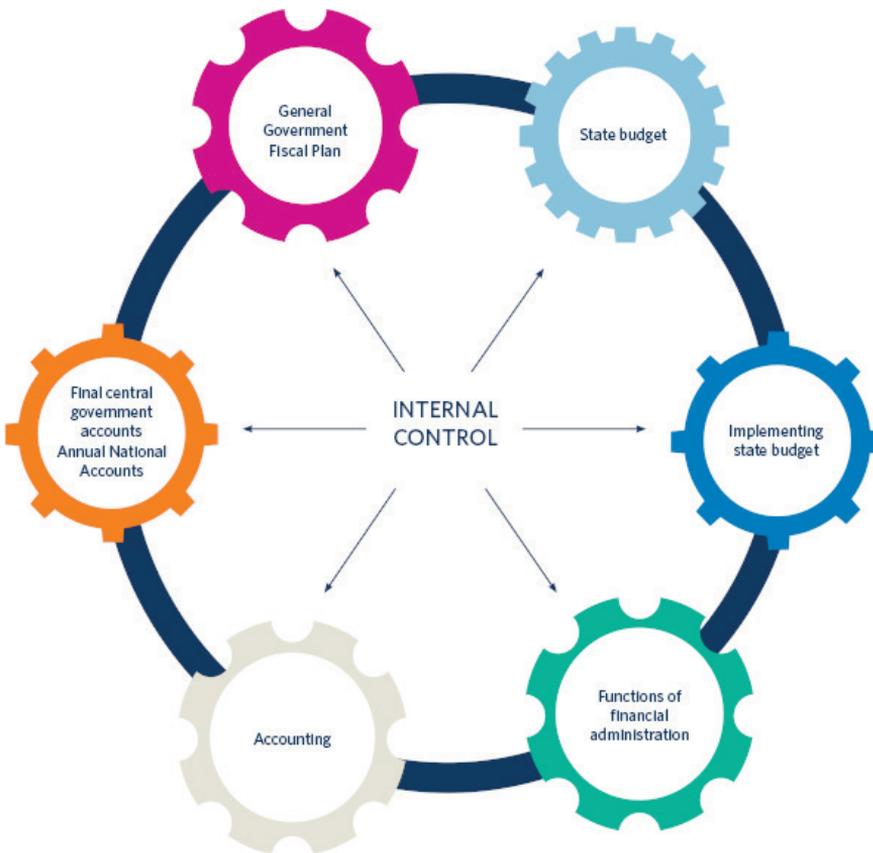


Figure 5: Operating chain in internal control

One purpose of the amendments to the State Budget Decree introduced on 1 January 2015 is develop the transaction and voucher approval processes. It was also laid down in the amendments that Palkeet will be responsible for internal control to the extent that it manages financial administration tasks. In the view of the National Audit Office, it should be determined in more detail which practical internal control functions and tasks are the responsibility of Palkeet and which tasks are the responsibility of the management of the agencies functioning as accounting offices. This would also provide an opportunity to harmonise procedures and make use of digital technology.

Palkeet should continuously focus on the development of client-oriented service production. As Palkeet is a statutory monopoly, making this a reality involves risks. The necessary incentives to adopting a service-oriented approach, openness in cost-level matters and transparency should be created by means of administrative steering.

Uniform central government internal control procedures include the ensuring of sufficiently cohesive budgeting. There are differences between budget practices, particularly when they apply to government aid and subsidies. From the perspective of productivity it would be appropriate if as part of the preparation of the budget proposal, the Ministry of Finance could allocate more personnel resources to ensuring a cohesive budget and to ensuring compliance with budget provisions.

A uniform case management system would also be of great use. The process of granting government aid and subsidies and the special legislation on state financial aid should be consistent with the Act on Discretionary Government Transfers and the general act on state guarantees. These issues have been discussed in the Ministry of Finance working group reviewing the regulation of discretionary government transfers, in which the representatives of the National Audit Office have served as permanent experts.¹³ It seems that there is need development in the special legislation.

There is need for innovation and creativity in the public administration in the implementation and development of internal

The responsibility of the shared services centres for internal control should be clarified

Cohesive budgeting and legislation on government aid support the achievement of the productivity targets

Good internal control is innovative and supports creativity

control. The provisions laid down in the State Budget Act and the State Budget Decree provide the basis for up-to-date internal control. Creativity is particularly necessary when consideration is given to how digital technology and different types of expertise can be effectively used for achieving internal control objectives (see Figure 3). Creativity should be directed at ensuring that principles of good governance can be put into practice in an optimal manner.

Effective use of electronic procedures and the potential of digitalisation is particularly important. By the year 2030, resource management (and consequently also internal control and the external audit, a responsibility of the National Audit Office) will be using smart algorithms and information systems to which large parts of administrative and expert tasks will be transferred. We should already start setting concrete objectives for ambitious digitalisation.¹⁴

We need ambitious digitalisation objectives

Good internal control makes success more likely

Good governance includes the guarantees and foundations of good governance laid down in the Constitution of Finland and the Administrative Procedure Act and the operating practices of the authorities as a whole.¹⁵

The ability to promote innovation is definitely a requirement in today's public sector management. This means the ability to put reforms into practice (innovation management skills) and knowledge and ICT management in which the chances of using digital technology are actively sought.

Innovation management is one of the paradigms of public sector management

The qualification requirements for senior civil servants were harmonised under the amendments to the Act on Government Civil Servants, which entered into force in 2015. Broad experience required in the task, practical management skills and management experience are some of the specific qualification requirements for senior management posts. The rationale of the Government proposal contains an assessment framework laying out the criteria that are considered in the assessment process.¹⁶ In addition to management skills and experience, the assessment criteria should also include innovation management skills and the ability to reform activities with the help of ICT.

Successful use of the opportunities provided by digitalisation requires a more active approach by general management. As digitalisation is becoming part of our everyday life and public administration routines, the management skills connected with digitalisation are needed in general management tasks on a daily basis.

Successful operational reforms making use of ICT technology have common elements, such as developing empowering legislation and active approach by senior management. The Finnish Tax Administration and the National Land Survey have successfully implemented such reforms by developing their operations on a long-term basis.

Research literature and the findings of the National Audit Office suggest that a dynamic and effective organisation that keeps its operating practices up to date is characterised by trust. In literature, such organisations are also called smart organisations.¹⁷ A smart organisation is useful from the perspective of the achievement of productivity and economic efficiency objectives as it has characters that allow the organisation to remain cost-effective on a long-term basis.

In an optimal situation, successful internal control provides a practical tool for promoting trust, reflectivity and organisational learning ability. In smart organisations, there are differences in the role and priorities of internal control compared with a traditional bureaucratic model, even though the fundamentals and principles are the same. In a smart organisation, the objectives of internal control are more ambitious.

The more ambitious objectives can be illustrated as follows: In traditional bureaucracy the aim of internal control in public procurement procedures is to ensure compliance with provisions. In a smart organisation, internal control also takes into account how the potential of different procurement procedures has been used and how the purchases have supported the development of the organisation, development of innovative solutions and, at the level of the public administration as a whole, the process of strategic market influence.

Making use of the opportunities of digitalisation requires the adoption of creative thinking in which the potential of different options

Senior management must have an active and long-term approach to ICT-based development

In a smart organisation, internal control promotes learning and entrepreneurship

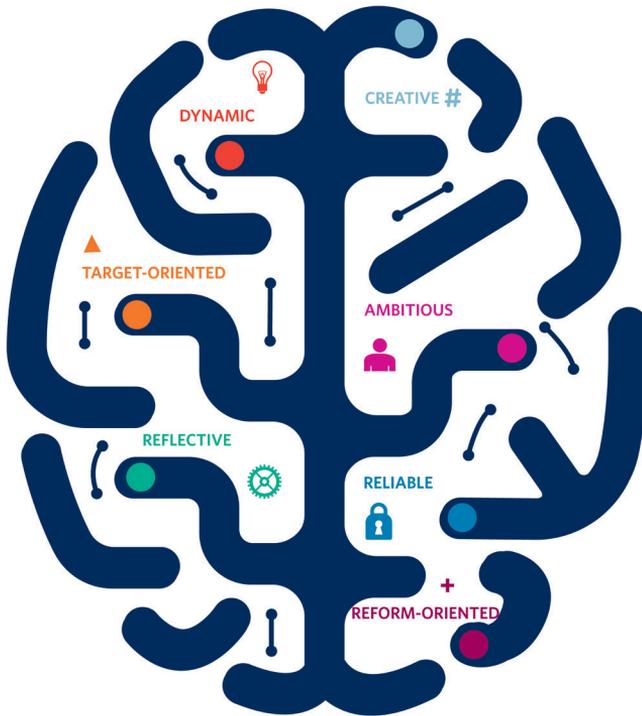


Figure 6: Smart organisation

is understood. In the management of central government and its units and in the manner in which the personnel act, new operating approaches enabled by the new information and communications technology should be actively sought.

Considering the perspective of learning, open flow of information and service users is an important part of the way in which the public administration works. The culture of experiments emphasised in the programme of Prime Minister Juha Sipilä's Government can help to promote such an operating model.

Minimising risks and avoiding mistakes are not the only aims of internal control in a smart public organisation. The aim of internal control is rather to optimise learning and take a creative ap-

Good internal control does not mean aversion of risks

proach to opportunities, within the framework of law and the principles of good governance.

Seizing the opportunities of digitalisation requires genuine cooperation between different professional groups and an active and comprehensive approach by the management. The purpose and aim of internal steering and control is to ensure that there are no breaks in communication between different professional groups and stakeholders in the steering and development process. The problems in information system projects are often the result of breaks in communication between users. Such problems have been encountered in the development of the VITJA information system for steering police operations and the RITU system for archiving sentencing documents.¹⁸

The purpose of internal control is to ensure the functioning of the steering and control system. As part of this process, it should also be ensured that the enterprise architecture referred to in the Act on Information Management Governance in Public Administration becomes a genuine development tool and does not merely remain a clumsy planning bureaucracy instrument for support functions.

When the steering procedures used in the Finnish public information management are compared with similar procedures used in Denmark, it can be noted that in Denmark the steering is practically oriented and focuses on providing advice on issues that are important to successful implementation of the development projects and on ensuring that everything is in place.¹⁹ Instead of relying on the current model based on extensive general guidelines and a dry statement procedure, Finland could learn a great deal from the Danish approach.

Steering should be practically oriented and solution-centred

We need change, not just decisions

According to internal control guidelines, the aim of internal control is to provide reasonable assurance of the achievement of performance targets. One of the most important aspects in the development of internal control is to ensure the success of development projects and to strengthen the implementation process.

Achieving positive change, not just decisions, is essential for the future of Finland. Good internal control helps to ensure sustainable change.

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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.

As part of the reports submitted by the National Audit Office to Parliament in 2014, Parliament called for Government reporting or measures in its communications 37/2014 vp and 46/2014 vp.

In its communication 37/2014 vp, Parliament called for the Government to:

- 1 assess the results, costs and productivity benefits of important ICT projects as part of the monitoring of the project portfolio and reports on the results to Parliament and
- 2 to give proper consideration to the opinions concerning the earlier parliamentary resolutions that are contained in the report of the Parliamentary Audit Committee and the opinions of the special committees appended to it and the opinions concerning other issues.

Monitoring of ICT projects

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 to issue its reports in the manner required by Parliament. At the moment, the reporting on the results of ICT projects is not at the level required by Parliament.²⁰

Earlier parliamentary resolutions

The National Audit Office has considered the matter in a separate report to Parliament on the audit of the final central government accounts and Government's annual report for 2014.

In its communication 46/2014 vp, Parliament called 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.

Establishing the unit examining impact assessments

On behalf of the central government steering framework development project (OHRA), the group preparing the impact assessment expert unit submitted a proposal for establishing an impact assessment expert unit in the Government. The working group completed the work on its report on 24 April 2015.

The group proposed that an independent impact assessment board should be established in the Prime Minister's Office. According to the proposal, the board would initially be on a fixed-term basis (between 1 January 2016 and 30 September 2019) and its main task would be the review of the economic impact assessments of Government proposals.

The meeting of permanent secretaries would select the projects for the review and only the projects that are essential for the implementation of the Government Programme would be considered. The board would not produce any impact assessments as it would, on the basis of its expertise, review the sustainability and transparency of the assessment criteria prepared in the ministries. A secretariat consisting of two or three civil servants would prepare the matters to the board. The secretariat would, on request, also provide advice to the parties preparing the impact assessments.

After the fixed-term trial phase, the role and tasks of the board could be specified.²¹

As part of the reports that it has submitted to Parliament in previous years, the National Audit Office has monitored the implementation of the following opinions in particular:

In its communication 18/2012 vp, Parliament called for the Government to:

report on the estimated tax gap and the amounts of unpaid taxes, changes in them, the most important factors affecting the changes and the impacts of the measures taken to reduce the tax gap and the amount of unpaid taxes, each year in the report on the final central government accounts, starting with the 2013 report, in connection with the factors affecting central government finances and tax revenue.

Tax gap

There are differences in the reporting on tax gap between Government's annual reports for 2013 and 2014. However, the tax gap estimates are not yet ready and the matter has not been reported in the Government's annual report in the manner required by Parliament. The annual report only includes estimates of a small number of different tax types.

The estimate of the value added tax gap was completed in summer 2015 and the first estimates of other taxes will be ready in 2016–2017.²² As the work progresses, it will also become easier to report on the relevant factors highlighted by Parliament and plan measures aimed at reducing the tax gap.

In its communication 1/2014 vp, Parliament called for the Government to:

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

Election campaign and political party funding

On 21 November 2014, the Ministry of Justice appointed a working group to review the legislation on election and political party funding. The task of the working group was to prepare a proposal on how the development proposals put forward by Parliament and any other proposals could be implemented in the most appropriate manner. The working group was also asked to assess how the recommendations concerning election campaign and political party funding submitted by the Office for Democratic Institutions and Human Rights of the Organization for Security and Co-operation in Europe (OSCE) in 2011²³ can be implemented and, when necessary, prepare proposals for implementing them. The working group submitted its final report on 21 April 2015.²⁴

The working group proposed changes to the conditions for granting political party subsidies, performing of the supervision tasks and the disclosure obligation. According to the proposal, subsidies should be granted to parties with sufficiently broad national support even if they did not win any parliamentary seats. It was proposed that the responsibility for supervising political party subsidies should be transferred from the Ministry of Justice to the National Audit Office. The working group also proposed that the disclosure obligation should be extended to cover candidates reaching the position of second deputy in the European Parliament. The main proposals submitted by the working group would require legislative changes. This work has not yet started.

In the view of the National Audit Office, transferring the supervision of political party subsidies to the National Audit Office would be difficult to reconcile with the existing tasks of the National Audit Office. However, if it is decided to transfer the supervision task to the National Audit Office, the National Audit Office should also be given powers to terminate the payment of the subsidy and to recover the subsidies already paid. Allocation of the resources required by the transfer should also be examined separately.

2 Measures required by structural change

Structural policy is a sector of the economic policy that, in a broad sense, covers the reforming of public services and public administration. During the past few years, the purpose of the structural policy measures has been to correct the sustainability gap in general government finances, which is primarily a result of changes in the age structure of the population and, consequently, of the weakening of the dependency ratio.

Even though the strategic objective in structural policy has been explicitly defined (strengthening the growth basis of the economy and closing the sustainability gap), few of the measures have been put into practice. In fact, the implementation and formulation of the most important structural policy measures was moved to the parliamentary term starting in spring 2015.

Implementing structural policy reforms requires clear political and strategic decisions. Vague policies and the large number of measures make it much more difficult to implement structural policy decisions in the public administration. Furthermore, the indicators used for assessing the success of the measures should already be considered when the measures are being planned. This is the only way to obtain fact-based information on the progress and effectiveness of the decisions.

The capacity of the public administration to implement structural policy measures in general is discussed in the following chapters. The focus is on the ability of the public administration to use ICT as a productivity-improvement tool.

2.1 Capacity of public administration to implement structural policy decisions

The capacity of the public administration to implement structural policy measures can be assessed on the basis of how thoroughly the decisions have been prepared, how well their implementation has been monitored and how well the objectives have been achieved. The most important consideration in decision-making is to have a sufficiently clear picture of the initial situation and the objective. From the perspective of implementation and management, the crucial question is to determine how the objective is expected to be achieved and how the progress towards the objective will be monitored.

In the view of the National Audit Office, the following measures should be taken in order to provide the public administration with better implementation capacity:

- the number of targeted measures should be smaller,
- clear indicators and monitoring procedures should be created for the selected measures,
- implementation process should be on a long-term basis and
- continuous change projects should be avoided.

The observations presented in this chapter are based on the following audits, follow-up reports and reviews:

- Knowledge base of structural policy decisions (13/2015)
- Central government pay systems (2/2015)
- State IT shared service centres (3/2013)
- Government premises and group steering (225/2011)
- The Shared Service Centre of the Ministry of the Interior (187/2009)
- Strategy work in ministerial administration (1/2014)
- Action programme aimed at reducing administrative burden in companies (2/2014)

Reducing spending and slowing down the increase in spending usually mean that specific things are no longer done or that the way in which they are done is reorganised. As economic resources are becoming increasingly scarce, Parliament is expected to set out more clearly what measures should be given priority and what

Implementation capacity requires clear setting of objectives and monitoring of implementation

There are tasks that cannot be performed any more or that have to be performed in a new manner

impact they will have. There should be a higher degree of certainty that decisions are consistently implemented and that the objectives set can be achieved.

The number of measures that the Government is planning to introduce is too large, which is negatively affecting the capacity of the public administration to implement them. There is not enough time or resources for thorough planning or implementation of all measures. It has not always been possible to create clear and measurable indicators for the objectives, in which case it is practically impossible to verify the impacts of the measures or manage the activities. Some of the measures have lacked a knowledge base and the commitment to the implementation process has been weak.

Reducing companies' administrative burden

A national action plan aimed at reducing the administrative burden of companies was carried out in Finland between 2008 and 2012. The purpose was to reduce the administrative burden by 25 per cent (about 0.3 billion euros), compared with the starting level in the priority areas. According to the final reports of the action programme, the actual reduction was less than one per cent of the overall burden. The conclusion in a report prepared by the National Audit Office (2/2014) was that when the final measurements were made, consideration was not given to all priority areas or such issues as the role of electronic services as a factor reducing the administrative burden. The main weakness of the action programme was that it was launched hastily without genuine commitment.

There is a need for adequate knowledge base for setting indicators and for assessing the achievement of targets

From the perspective of implementation and management, it is crucial to determine how the objectives are expected to be achieved. Preparing and implementing decisions usually require information from different areas. A comprehensive knowledge base covering operating volumes, costs and process efficiency figures that has been collected in a uniform manner provides a good foundation for decision-making, implementation and monitoring.

It should be possible to monitor and assess the achievement of the objectives so that it can be ensured that right things are being done and the direction can be changed if necessary. Thus, at prac-

tical level there is a need for clear setting of objectives, clear indicators and monitoring and assessing of the way in which the objectives are achieved.

In situations involving structural change, different types of cost data play a central role as changes and reforms are often introduced with the aim of influencing costs or cost structures. In central government, this requires more cost awareness at all organisational levels, while accounting must be made part of operational planning and monitoring.²⁵

Cost data can also be used for prioritising matters by proportioning the costs of different activities. Defining and monitoring process efficiency figures make reorganisation of operations easier. Targets concerning process efficiency are of central importance when ICT is used for automating operations and for releasing personnel to other tasks.

Successful implementation requires choices

A central observation made by the OECD in its public governance review of Finland in 2010²⁶ was that strategic steering, performance guidance and economic steering have become separated from each other. Performance guidance is only vaguely connected with strategic planning and it does not provide an adequate link between the agencies' operational objectives and societal effectiveness objectives concerning public administration as a whole.

In summer 2014, ministries had more than 300 strategies, programmes, reports and resolutions.²⁷ In the National Audit Office's report on strategy work in ministerial administration (1/2014), it was noted that there are no systematic efforts to implement strategies and that some of the strategies are mere declarations of intent. The steering effects of the strategies are often vague and unstructured. There are many strategy and planning documents on the basis of which it is impossible to determine what the priorities are, what the monitored objectives are and what is being done to ensure that they are set.

Limiting the number of steering documents and making steering systems more strategic in nature have been discussed in the public administration in recent years as part of the OHRA project.²⁸ The main proposal of the project was that the manner in which the Government Programme is prepared should be revised. According to the proposal, Government's strategy would be formulated in two stages:

- 1 preparation of the strategic Government Programme and
- 2 preparation of the Government Action Plan, which would

Cost-awareness should be increased at all organisational levels

The gap between strategic steering and financial steering should be narrowed

There should be fewer strategies and matters should be prioritised

specify the policies laid out in the strategic Government Programme, and preparation of the Government's first General Government Fiscal Plan.

On 18 December 2014, the Government appointed a project preparing the implementation of the OHRA project.²⁹ A separate working group was appointed on 4 February 2015 to prepare the practical procedures concerning coordination between the Government Action Plan and the General Government Fiscal Plan.

Negotiations on the strategic Government Programme³⁰ were successfully completed on 27 May 2015. It seems that the work to clarify strategies has started. The next phase is to achieve coordination between the Government Action Plan and the General Government Fiscal plan in terms of their content and timetables after which they will be submitted to Parliament as a single Government report together with the 2016 state budget proposal.

Decisions on structural policy programme were not based on relevant information

According to the audit report 13/2015, the numerical overall target for the sustainability gap laid out in the structural policy programme can be considered credible, clear and measurable. However, the grounds for breaking down the overall programme-level target into sub-targets have not been documented. It is not described in the programme on what grounds the overall sustainability gap target has been broken down into targets concerning different measures and sustainability gap impacts or how the targeted sums, timetables and percentage points for the measures have been calculated.

Decision-making should be based on a good knowledge base covering the impacts and risks of the measures

Targets have already been set for group-level services in central government on many occasions

It has been proposed in the OHRA project³¹ that internal group-level targets in central government (such as those concerning premises, personnel, ICT and purchases) should be defined in a separate process and be coordinated by the Ministry of Finance in cooperation with group-level actors. In a Government decision³², overall savings potential for units producing group-level services have been proposed as permanent reductions in operating expenditure. The final report on the performance guidance development project³³ also contains a proposal to introduce joint administrative targets.

The National Audit Office has audited the operations of the shared services centre of the Ministry of the Interior (187/2009), central government premises and group-level steering (225/2011), state IT shared service centres (3/2013) and the central government pay system reform (2/2015). In the view of the National Audit Office the aims laid out for group-level services should be monitored and reported on long-term basis.

There is still work to be done in the reorganisation of central government financial and personnel administration

The productivity targets laid out for the shared services centres have not been fully achieved. In order to ensure that they are achieved, central government financial management processes should be developed as a whole. In the report on its activities in 2013³⁴, the National Audit Office highlighted development priorities concerning the organisation, steering and management of the services in IT shared service centres and shared services centres for finance and HR.

Finnish Government Shared Services Centre for Finance and HR

According to a State Treasury report on productivity trends in central government financial and personnel administration³⁵ productivity in the main processes of central government financial administration grew by about six per cent between 2008 and 2011 and in the most important HR administration processes by between four and six per cent. The Shared Services Centre accounted for 11 per cent of all person-years committed to financial and personnel administration tasks. There are differences between administrative branches and accounting offices concerning the manner in which they use the Shared Services Centre (variation is between 4 and 20 per cent).

The aim of the establishment of the Finnish Government Shared Services Centre for Finance and HR was to centralise day-to-day volume services and harmonise information systems. By harmonising services and processes and by making use of the latest ICT solutions, the aim was to release personnel to producing economic information supporting decision-making and planning.

Full introduction of the Kieku information system has been delayed. The last parts of the system are expected to be commissioned in 2016. In practice this means that the old overlapping financial and personnel administration systems will have to be used and maintained much longer than originally planned. In order to make full use of the shared services centres, central government financial management processes and information systems should be made more effective on an overall basis.

The National Audit Office has emphasised³⁶ that the Government administration unit, which started operations on 1 March 2015, should also have measurable targets for efficiency and performance and for harmonisation of operating processes. This would help to create tools for monitoring, steering and directing the reform.

Differences in reporting on central government premises data

Even though the monitoring of premises efficiency has improved there is no comprehensive reporting on trends in premises costs and efficiency.

Central government premises strategy

The aim of the central government premises strategy prepared in 2005 was to improve working environments in central government agencies so that the premises can support the operations in a cost-effective manner and the overall state interest and social responsibility of the operations are ensured. Under the strategy, the overall efficiency target was 25 square metres/person for office-type units.

It was estimated in the Government resolution of 4 February 2010 that if this figure could be cut by about five square metres, the need for premises in central government would be reduced by about 425,000 m² (based on the number of personnel in 2010) and that this would lead to annual savings of between 16 and 32 million euros (based on current levels).

The conclusion in the audit of central government premises (225/2011) was that the Ministry of Finance has not compiled any knowledge base of the landlords, costs, economic efficiency or efficiency of central government premises. The National Audit Office is of the view that it should be possible to assess the progress towards higher premises efficiency, which has been set as a strategic objective.

In 2010, Senate Properties began entering all central government premises information into a premises information database under its administration. The National Audit Office is of the view that when ready the database could provide a good basis for managing central government premises as a whole, for assessing premises efficiency targets and for reporting on them.

The key information and figures on central government premises contained in the Government's annual report for 2013³⁷ were not yet fully comprehensive. In the follow-up report to the audit of central government premises³⁸, the National Audit Office expressed the view that in future reporting, consideration should be given to ensuring more comprehensive premises information. The 2014 Government's annual report³⁹ contains no information about the progress in the collection of premises information or its use in decision-making or about premises costs, premises efficiency or trends in these two areas.

Targets concerning the harmonising of central government ICT services must be given concrete form

Attempts were already made to bring central government ICT services under the state IT shared service centres established in 2005. Against this background, it would be extremely important to supplement harmonising targets with concrete and measurable indicators on how the harmonising of central government ICT activities under the Government ICT Centre Valtori is making progress and what are the trends in ICT costs. In order to improve the manageability of central government ICT costs, special consideration should be given to the development of accounting systems supporting decision-making.

It was noted in the follow-up to the audit of state IT shared service centres⁴⁰ that no performance indicators or systems supporting operational or financial management have been prepared for Valtori. The Ministry of Finance is planning to continue the questionnaire survey in which information on central government information administration is collected. According to the follow-up, no accounting systems supporting ICT management have been developed.

As new forms of organisation are introduced in central government, they should also be provided with the steering and monitoring systems that are required in management processes. The reports on how well the targets have been achieved should not include separate questionnaires. The information should be directly reportable from information systems so that it would be easier to use them in decision-making, implementation and management.

Reporting on premises information and progress in premises information project should be consistent

Financial steering and monitoring systems should be introduced

Targets laid out at state level and their implementation should be reported in a consistent manner in the annual report submitted by the Government to Parliament.

Pay systems are not used in management at central government level

The pay system reform has resulted in a large number of different pay systems in central government. Within a framework of agreements, agencies have been able to make independent decisions on their pay systems, which has resulted in systems best suited to the operations of each agency. At the same time, however, the existence of a large number of different pay systems makes it more difficult to produce comparable information at central government level and it may also affect the flexible use of personnel resources between agencies.

According to the audit of central government pay systems (2/2015), improvements in central government pay levels have not been accompanied by methods that would allow the assessment of the impacts of pay system reforms on the operations and performance of the agencies. The usefulness of the performance appraisals carried out in the agencies each year and their relevance to the achievement of the agencies' performance targets are not monitored at central government level.

There should be a clearer link between performance appraisals, performance management and performance guidance

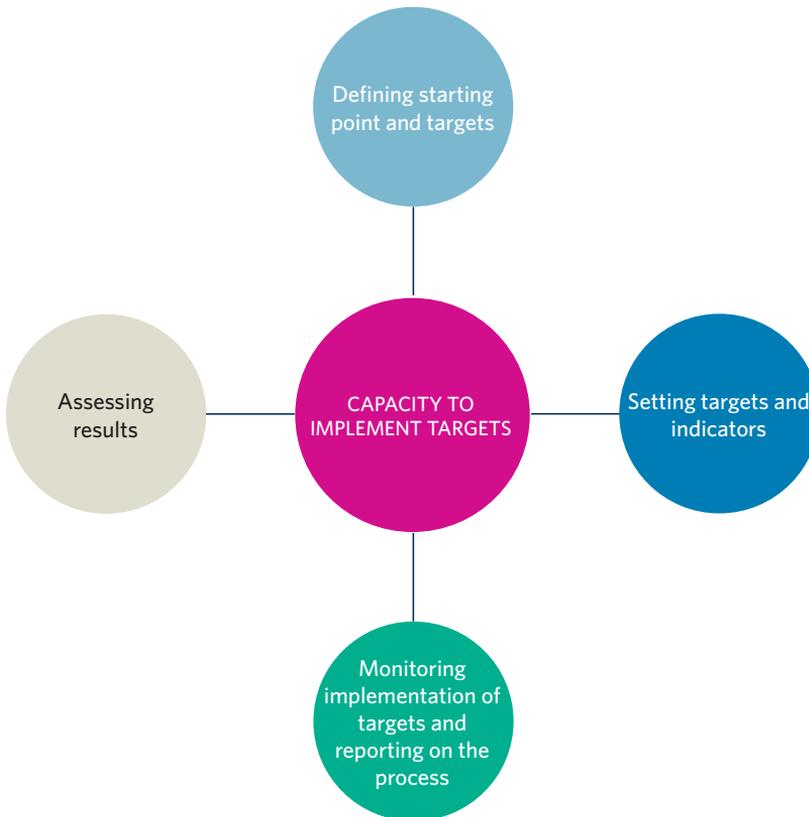


Figure 7: Factors contributing to successful implementation

2.2 Capacity of public administration to use ICT

Information and communications technology (ICT) and digitalisation are expected to herald a new period of economic growth and higher productivity.⁴¹ They are also expected to improve the operational capacity and quality of the public administration and to make it more efficient.⁴²

Promoting digitalisation requires strong and committed management and group-level steering. Digitalisation should be taken into account in the drafting of statutes. Existing statutes should also be revised if they constitute an unnecessary obstacle to innovative process replanning and the expected benefits of digitalisation. The public administration should make a critical analysis of the manner in which information society has developed so far and to learn from its mistakes so that the expectations of economic growth and productivity improvements created by ICT and digitalisation can be met.

In this chapter the capacity of the public administration to use ICT is examined on the basis of the following audits and follow-up reports of the National Audit Office:

- Knowledge base of structural policy decisions (13/2015)
- Digital employment services (8/2015)
- Interoperability in central government ICT contracts (7/2015)
- Using technical assistive devices in services for older persons provided at home (3/2015)
- Promotion of electronic archiving (11/2014)
- Managing youth unemployment (8/2014)
- State ICT shared service centres (3/2013) (audit report and follow-up)
- Development and use of identification services in public administration (161/2008) (audit report and follow-up)

Results of digitalisation have been more modest than expected

Improving productivity by means of digitalisation plays a central role in the programme of Prime Minister Juha Sipilä's Government. At the same time, information society and ICT have already been discussed in a number of Government Programmes and in information society programmes based on them since the 1990s. The results have, however, been more modest than expected.

The programme of Prime Minister Jyrki Katainen's Government contained a number of measures concerning the use of information and communications technology. It was emphasised in the programme of Prime Minister Alexander Stubb's Government that digitalisation is an important opportunity for Finland to improve productivity and that it should be fully used. Digitalisation also played a central role in the structural programme adopted by Jyrki Katainen's Government and the implementation of the programme was continued by Alexander Stubb's Government.

Administrative challenges, objectives and proposals for measures have remained more or less unchanged since the 1990s

Examples of the objectives and measures laid out in earlier electronic services and information society programmes

Second government of Prime Minister Paavo Lipponen

The second Government of Prime Minister Paavo Lipponen included the efficient information society and the promotion of digitalisation in its programme in 1999. To support this, the Government launched an action programme on electronic services in public administration.⁴³ The aim was to provide a basis for easy-to-use and secure services through the information network, decrease the workload and costs of public administration clients and to support the competitiveness of companies.

Many of the problems identified in the programme that concern the development of information society in the public administration remain relevant today. The proposals included the securing of comprehensive and fast data communication links and the provision of electronic identification services.

First Government of Prime Minister Matti Vanhanen

In 2003, the task of the first Government of Prime Minister Matti Vanhanen was to put the Finnish economy on a new growth path through work, entrepreneurship and joint responsibility. The Government launched a cross-administrative information society programme the purpose of which was to improve competitiveness and productivity, narrow social and regional gaps, and provide citizens with more well-being and a higher quality of life by means of information and communications technology.

The action plan prepared in 2004 by the division on electronic services in public administration working under the auspices of the Information Society Council dealt with the development of joint services provided as part of electronic services, such as a management solution for authorities' access rights. The purpose of the solution was to identify the users, their roles as users and their access rights.⁴⁴

Meeting the expectations created by the national data exchange layer requires overall coordination

In the structural policy programme of Prime Minister Jyrki Katainen's Government, the Ministry of Finance offered, as part of the national service architecture, a national data exchange layer as one solution for improving productivity.

The budgetary impacts of the national service architecture project are estimated at 120 million euros between 2014 and 2017. At the same time, in overall terms, the project is expected to reduce the sustainability gap by about 500 million euros during a period of ten years.⁴⁵ However, it was noted in the audit of the knowledge base of the structural policy decisions (13/2015) that the national service architecture was not included in the proposal submitted by the working group preparing the structural policy programme and that the estimates of its costs and benefits are not laid out in the programme documents.

The structural policy programme does not detail the costs and benefits of the national data exchange layer

National data exchange layer and architecture

The national data exchange layer refers to an information transmission service that is based on the X Road concept used in Estonia. There are also plans for the state

- to provide opportunities for electronic identification and signature,
- role and authorisation services allowing the use of electronic services on behalf of other parties, and
- a service account allowing citizens to contact the authorities and that would provide a storage solution for the information central to the legal protection of individuals.

These are developed simultaneously with the national data exchange layer and they will jointly form the national service architecture. After they have become reality, they are expected to serve as central part of the digital services infrastructure.

The national data exchange layer and the national service architecture are expected to make processes more efficient and support the development of new services and business opportunities. No plans concerning how and when the national data exchange layer will be put into extensive and efficient use have been presented. There is a risk that the national service architecture will progress in the same manner as previous information society infrastructure projects: Process changes that would generate cost benefits are not adopted by sufficiently large groups of users.

For this reason, coordination should be put on a more comprehensive basis and ultimately, responsibility for the coordination should be agreed on at Government level. There is a need for determined leadership and active steering at group level. The party that is assigned steering responsibility should be in continuous interaction with different parties. Steering measures should be as practically oriented as necessary. Alongside infrastructure projects, there is also a need for smoothly functioning project-based services for which there is sufficient demand and that are on a healthy financial basis. Correct phasing of the change programme and timing and synchronisation of the phases are important.

There is a need for comprehensive coordination and steering so that the objectives laid out for the national data exchange layer can be achieved

Examples of central government ICT infrastructure projects that have only produced negligible benefits or no benefits at all

The growth in the number of citizen and organisation certificates offered by the Population Register Centre was extremely slow. There were many reasons for this: a technology not suitable for a large number of end users, lack of uses for the certificate, public administration did not support the extensive introduction of the citizen certificate, high price of the citizen certificate and problems in the organisation and operations of the Population Register Centre.⁴⁶

The preparation of the competitive tendering for the project "service platform for electronic services" of the state IT shared service centre was completed in November 2011. The aim was to have a platform consisting of technical basic infrastructure, service development tools and all-round information system services, such as authorisation services. The Ministry of Finance stopped the project in early 2012 because in its view, the benefits of the service platform would be smaller than expected. According to the ministry, one reason for this was that the number of authorities committed to using the service platform was too low.⁴⁷

There is too much emphasis on technology in the development work

For many years, there has been general awareness that electronic services should be developed as part of the efforts to develop the activities and the economy as a whole.⁴⁸ IT projects should not remain separated from the development of the activities.⁴⁹ However, in practice the development of electronic services and information systems in central government has remained isolated from other areas. The parties responsible for the activities and for developing them have not fully understood their role in the development of information systems.

Under section 3 of the Act on Information Management Governance in Public Administration, information management is a support activity that helps to secure the management of public administrative tasks by means of information and communications technology. Overall steering of the information management in the public administration has been laid down as the responsibility of the Ministry of Finance. At the same time, individual ministries are responsible for developing the activities in their own administrative branches.⁵⁰ For this reason, the steering by the Ministry of Finance is limited to technical solutions and information management for individual authorities. However, it is impossible to make full use of technical solutions if they have not been developed as part of the activities or if the development has not supported the activities.

Senior civil servants should assume responsibility for a closer connection between information and communications technology and operational development in their own administrative branches. Solutions based on information and communications technology should be developed through innovative smaller-scale piloting. It should also be ensured that the results of the successful pilot projects can be put into wider use, the activities of the public administration are developed on an overall basis and that information and communications technology is used in a manner that benefits the economy as a whole.

The enterprise architecture described in the Act on Information Management Governance in Public Administration is considered as a tool that facilitates the planning of activities and information systems as a whole. However, in the audit of the interoperability of central government ICT contracts (7/2015) it was noted that enterprise architecture has not been put into comprehensive use and that it has been mainly considered as a tool for the agencies' own information management functions. Architecture descriptions concerning the public administration as a whole or different sectors are incomplete and do not provide an overall picture of the situation.

Under the Act on Information Management Governance in Public Administration, information management is a support function, which may make it more difficult to reform the activities in an innovative manner with the help of ICT

Enterprise architecture has not been adopted as a strategic instrument and has remained an information management tool

Enterprise architecture

Enterprise architecture is a comprehensive approach intended for developing operations. It is a strategic management tool for harmonising the development of activities and the use of ICT in the public administration. It is used for developing the activities, information, information systems and technology of an organisation in a comprehensive manner.

The Ministry of Finance has produced a framework for describing and structuring the enterprise architecture and provided indicative guidelines for designing and maintaining it.

Not paying enough attention to personnel or focusing on wrong aspects in their work is often a drawback in technology-oriented development. The skills required for introducing new operating approaches are lacking and efforts to introduce changes fail. The human contribution to the process is not understood and not enough is invested in it. Implementation of information system projects is often the responsibility of the information administration and software suppliers even if the project manager represented the core activity. If the management is not actively involved in the project or if the operational objectives of the project have remained abstract or vague, the risk is that users' representatives include their own well-established operating models and practices in the system functions.

We need strong commitment on the part of the senior management so that operating practices can be changed

Examples of projects in which the needs of the personnel have not been properly considered

The SALAMA project of the Ministry of Education and Culture was organised under the auspices of the information management. At the start of the project, there was insufficient understanding of what was needed. As the new operating models had not been properly planned, users started presenting change demands during the project on the basis of old operating approaches. This was one reason why the implementation of the function intended for processing discretionary government transfers in SALAMA was delayed for several years, leading to a substantial rise in project costs.⁵¹

At the same time, the use of technical assistive devices in services for older persons provided at home has suffered from the fact that there have been too few courses allowing the care personnel to familiarise themselves with such assistive devices. Moreover, not all persons working with the clients have been provided with familiarisation or it has been inadequate.⁵²

Processes and operating procedures are not always updated to a sufficient degree

Reforming and harmonising service processes and the public administration has often been more challenging than the implementation of the necessary ICT solutions.⁵³ When development work is carried out, the parties involved do not necessarily realise what is taking place outside their own organisation or administrative branch or they do not understand the overall impacts of the technological solutions that they are implementing. Those involved are not able to question the well-entrenched operating models or habits. What is needed is a visionary change manager.

Comprehensive approach has been lacking in such areas as the development of case management and electronic archiving. Not enough attention has been paid to the formulation of joint objectives or coordination of measures as the development work has been on the basis of the parties' own needs and situations. It was noted in the audit of the promotion of electronic archiving (11/2014) that permanent or long-term storage of information has not been discussed as part of a wider aspect of information management.

In most cases, ICT solutions are only made to cover the organisation or administrative branch of the parties concerned, which negatively impacts innovative development. In many cases, the most important aim has been to transfer routine tasks to clients so that the authorities can concentrate on more demanding service tasks.⁵⁴ Instead the aim should be to automate routine tasks by means of information and communications technology and cooperate with other public administration actors, using the information already collected in the public administration.

Different parties develop their own solutions from their own needs without giving consideration to the overall situation

ICT should be used for comprehensive automation of work stages and not for making them a client responsibility

Digital employment services

The Finnish labour administration was one of the first public administration actors engaging in the development of online services. Clients have been able to announce job vacancies and search for jobs online since 1992. The service concept of the TE Offices is based on personal, face-to-face service. Other service channels, such as telephone and online services were originally developed to supplement the personal service. At the moment most unemployed people register as job seekers online. Even though the labour administration has transferred many of its routine tasks to the clients there have been few changes in the job-seeking process during its existence.

The opportunities and impacts arising from the introduction of new technology should be understood as extensively as necessary. In addition to information and communications technology, this also applies to other new technologies. It has been assumed that the new welfare technology will substantially improve the efficiency of the health services and the services for the disabled and the elderly that are the responsibility of the municipalities. It was noted in the audit of the technical assistive devices in services for older persons provided at home (3/2015) that it is often overlooked that the use of technical devices in specific services has a broader impact on the service and processes as a whole. Technologies can only generate substantial benefits if the municipalities are able to give adequate consideration to the impacts of technical assistive devices intended for the use of the clients on care work and its processes. If the matters are examined from too narrow a perspective, both the cost impacts and the benefits are estimated in a wrong manner.

The aim of case management systems is to ensure that personnel can make more effective use of their working hours, improve the flow of information and increase openness and transparency. When development projects are initiated, it is usually stated that achieving the objectives requires process redesign. It was noted in the audit of the promotion of electronic archiving (11/2014) that innovative redesign of operating processes is difficult for developers entrenched in old operating models. Reforms were mostly limited to making old processes more efficient. New process descriptions and work stages were not substantially different from the processes described on paper. Only the transfer of data between work stages was carried out electronically.

Wrong conclusions are often drawn from the examination of ICT expenditure

Based on the results of the questionnaire survey on information management expenditure conducted by the Ministry of Finance each year, there was steady growth in central government ICT expenditure between 2000 and 2010. It seems that after that there has been no further increase.⁵⁵ Even though the results of the questionnaire survey have been used to support decision-making, the knowledge base of the survey is not reliable. There are substantial differences between the survey results and the entries in consolidated accounting in accounts where there should not be any discrepancies. Furthermore, there has been no cost accounting supporting the planning and monitoring of ICT activities.⁵⁶ Examining ICT expenditure without simultaneous examination of performances and results can easily lead to cuts in wrong areas.

Parties involved are not able to adequately assess the benefits and cost impacts of new technologies or systems

Existing processes are made more efficient but they are not upgraded in an innovative manner

Examining ICT expenditure separately from other activities entrenches the role of ICT as support function and will easily lead to spending cuts in wrong places

In 2013, the Ministry of Finance introduced a joint information technology solution as the central government ICT project portfolio. The aim is to enter into the project portfolio information about the objectives and contents of central government projects under way and under planning and estimates and details of the costs and funding during the life-cycle of the resulting solutions. It was noted in the audit of the interoperability of central government ICT contracts (7/2015) that so far the picture given by the project portfolio has only been indicative at most as the information contained in it is not reliable or comparable enough. The project portfolio has not been designed to give a picture of the information and communications technology as a whole, its monetary value or the contracts made. Thus there is still no comprehensive view of these matters.

Digitalisation can only be successfully implemented if ICT costs can be analysed and understood in depth. There is still need for development in cost accounting and monitoring.

Purchasing of information technology systems increasingly complicated

Information system purchases are subject to an increasing number of requirements, which are partially based on statutes. These include:

- Act on Public Contracts (348/2007),
- Act on Information Management Governance in Public Administration (634/2011),
- section 22 a of the State Budget Act (423/1988) and
- Act on the Organisation of Joint Central Government Information and Communications Technology Services (1226/2013).

The legislation also has an impact on operational and information content specifications of the information systems. Ensuring that their operations are in compliance with all statutes and other obligations requires a great deal of work on the part of the agencies. The conclusion in the audit of the interoperability of central government ICT contracts (7/2015) was that because of the multitude of provisions laid down for them, information system purchases have become a difficult, rigid and slow process even though a rapidly evolving ICT sector would require agility and flexibility.

The public administration should update its expertise concerning the purchases, use and maintenance of information systems so that it would be in accordance with the requirements of current and future operating environments. As the deliveries of information systems have become long, interdependent chains or networks, there is a risk that the responsibilities become blurred.

The multitude of different statutes slows down the process of purchasing and developing information systems and makes it more rigid

There is not yet adequate expertise in all areas of public administration concerning the management of complex information system networks

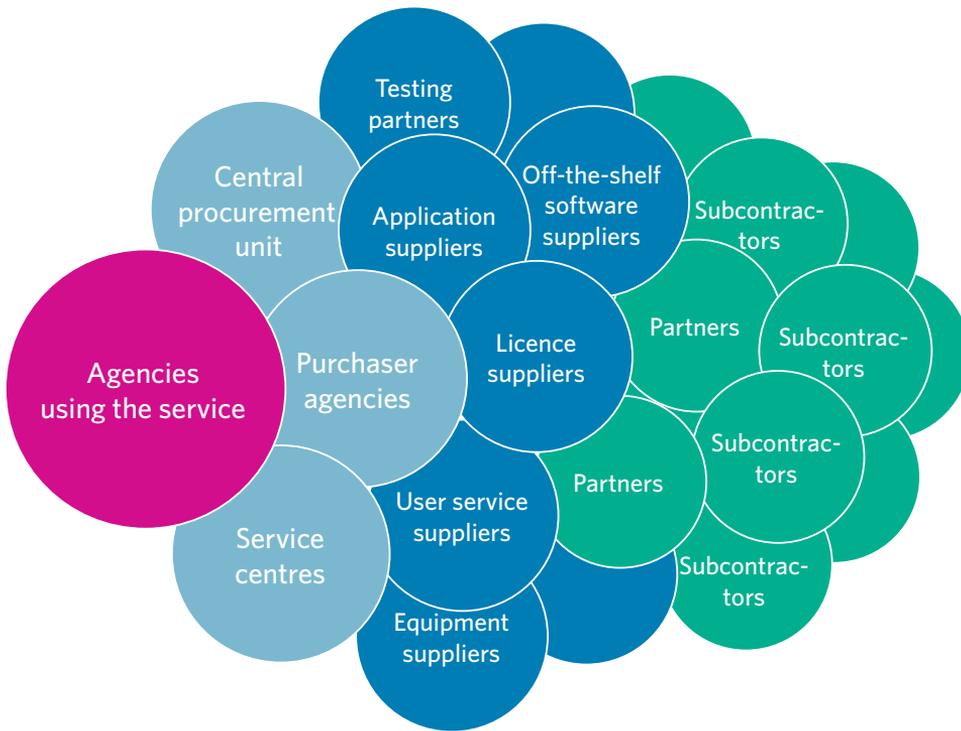


Figure 8: Information system purchasing network

The existing contract management practices applied by the public administration do not fully support good governance of complex entities.⁵⁷ It may be difficult to identify causes and determine responsibilities in practical problem situations.

It is difficult to use the information collected by other authorities

One aim of the Act on Information Management Governance in Public Administration is to promote compatibility of information systems so that the information stored in one system would also be available to other systems across organisational boundaries. For example, in the management of youth unemployment, there is often a need for an overall picture of the individuals concerned that can only be formed with information acquired from representatives of TE Offices, education and training services and social and health care services.⁵⁸

Public services intended for citizens often contain personal data the processing of which is subject to strict provisions. As a rule, exchanging such information between different authorities is not possible without a separate permission granted by the individuals in question. In services for older persons provided at home, strict

Restrictions concerning the processing of personal data make it more difficult to develop joint services for the authorities

data protection has led to situations where an assistive device centre is unable to check which devices have been provided to the clients by social services. In worst cases, this may lead to situations where clients are provided with several different assistive devices for the same purpose and the employees do not necessarily know what aims are laid out for the equipment supplied to the clients.⁵⁹

The technical interfaces required for information exchange are often missing. Those involved have not been able to identify or determine them or implementing them has been seen as too expensive in relation to any benefits. Those involved examine the benefits from their own perspective instead of considering the overall picture. In the information system projects of central government agencies, the emphasis is often on compatibility with the agencies' own systems or the systems of their most important stakeholders. The connections between integration and interface requirements with strategic-level plans have not been entirely clear.⁶⁰ For example, in the services for the elderly, the problem has been that even if the clients gave their consent to the transfer of information, differences between the systems usually makes this impossible. In fact, even municipalities coming under the same regional assistive device centre do not always have a joint device register.

Even though the purpose of the Ministry of Finance's JulkICT function has been to encourage agencies to give consideration to compatibility requirements, the emphasis in information system projects has been on technical implementation. However, the fact different authorities use the same concepts in different ways is a more serious problem. In such situations, solving compatibility problems becomes more difficult. Such problems may have their origins at legislative level. Even differences in nuances may change the meaning of a concept in a crucial manner. Not even state IT shared service centres can rely on uniform concepts concerning their own service activities, which means that it is difficult to make comparisons between their operations and services. Even the concept of information system is interpreted in many different ways.⁶¹

Harmonisation of the content and interpretation of the concepts across the boundaries of administrative branches should start at legislative level.

Lack of technical interfaces is a problem and the reasons are not simply a matter of technical aspects or contract law

The seemingly identical concepts contained in different information systems often have different meanings

3 Social integration

Reducing poverty, inequality and marginalisation was one of the three main objectives laid out in the programme of Prime Minister Jyrki Katainen's Government. However, the number of people facing the risk of poverty and marginalisation has continued to grow in Finland.⁶² The audit reports list problems that are a sign of weak social integration and present recommendations for improvements. At worst, the problems can lead to social exclusion. marginalisation costs the national economy billions of euros.⁶³

The risk of marginalisation is particularly high among unemployed youngsters and immigrants. The risk can be diminished by ensuring that all young people are provided with basic vocational skills. The risk can also be reduced through effective employment and integration measures and by taking into consideration the special needs of the risk groups in social and health care services.

Labour administration actors should take into consideration that immigrants and young people in particular entering the labour market are in need of personal guidance and assistance. The Ministry of Education and Culture should ensure that immigrant students in basic education get all the necessary support. The ministry should also examine why the average learning gaps among immigrant students are wider in Finland than in other Nordic countries and similar countries in Northern Europe.

Young people and immigrants in particular need personal services

Most of the observations presented above are from the following reports:

- Integration of immigrants in social and health care (3/2014),
- Immigrant students and the effectiveness of basic education (12/2015),
- Digital employment services (8/2015) and
- Cooperation for study and career guidance (5/2015).

Lack of personal services prolongs unemployment among young people

In recent years, Finland's labour administration has been replacing personnel with electronic employment services. The aim has been to reform central government service structures so that productivity in service production can be improved. Even though online services can be provided at low cost employment services have a significant indirect impact on central government finances because the national economy suffers losses as a result of unemployment.

The aim has been to develop labour administration services on the basis of clients' needs. However, nowadays clients are not always provided with face-to-face services. The clients are allocated to service lines on the basis of assumed need for support. In the view of the National Audit Office, the process of allocating clients is too mechanical and no consideration is given to their actual labour market experience and skills. Lack of steering is a particularly serious problem for young people entering the labour market who may have a qualification or degree but who have very little experience or knowledge of working life. The service channels should be chosen on the basis of impact and effectiveness.

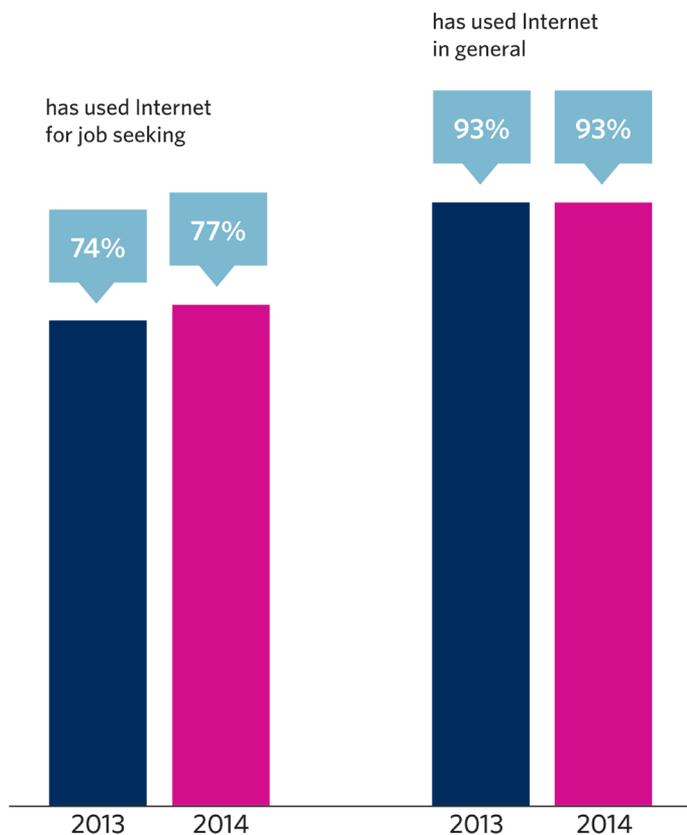
Not all personal employment services can be replaced with electronic services. There are clients that are not able to use online services. Between 10 and 20 per cent of potential clients lack online banking ID. This is particularly problematic to foreigners residing in Finland that are unable to prove their identity with an official personal identity card issued in their country of origin. It is not yet possible to use the services with mobile equipment. A small proportion of the Finnish population also lives in areas where the Internet does not function properly or it does not function at all. Users of mobile equipment, people without online banking ID and persons living outside the Internet account for a substantial proportion of the clients of TE Offices. It has also been concluded in a study on electronic social and health care services that electronic services can supplement traditional services but cannot replace them entirely.⁶⁴

Young people without work is a costly problem

About 250,000 Finns rely on basic social security for their living and half of them are under the age of 30.⁶⁵ About five per cent of all young people under the age 24 lack post-basic level qualifications and they are not working or in education or training.⁶⁶ According to a study conducted by Statistics Finland, young people speaking Somali are in the greatest risk of remaining without qualification or work. Of them, 41 per cent are without work, education, training or post-basic level qualification.⁶⁷ Russian-speakers

Between 10 and 20 per cent of the clients of TE Offices cannot be reached by means of online services

Support services for children and young people produce better results than other inputs



Source: Statistics Finland, *Use of information and communications technology by individuals 2013, 2014*.

Figure 9: Percentage of unemployed that have used Internet for job seeking during the past three months

are the foreign-language group with the lowest risk of marginalisation (12%). A total of 34 per cent of the young people speaking Kurdish and 29 per cent of the young people speaking Arabic face the risk of marginalisation.

Young people need single-counter low-threshold services and a single person who is responsible for providing them with services. Cooperation between the authorities plays an important role in the efforts to prevent marginalisation. Services alone rarely help young people to get out of the cycle of marginalisation. Support measures are also more effective if they are started early. Studies show that support measures targeting children and young people are more effective than any other inputs.⁶⁸ In order to prevent marginalisation it is particularly important to support young people in their job-seeking efforts. Unemployment experienced at a young age can have a significant impact on success in the labour market in later years.

Being without work is a costly problem for the national economy. Unemployment security expenditure for young people is about 470 million euros each year.⁶⁹ In 2013, social assistance expenditure totalled more than 700 million euros.⁷⁰ Marginalisation among young people is connected with poor health and mortality. According to a recent survey, the total cost arising from the health care provided to excluded youngsters is seven times higher than among other young people.⁷¹ Mental health problems are particularly common among youngsters. Psychiatric treatment costs about 750 million euros each year. A total of about 230 million euros is spent on services preventing marginalisation among young people each year.⁷²

Unemployment security expenditure for young people total about 470 million euros each year

Integration can help immigrants to find work

Having a job provides protection against poverty. People in employment are also healthier than people without work. The connection is bidirectional: Becoming excluded from work leads to declining health and poor health may increase the risk of becoming unemployed.

Employment promotes health and vice versa

In Finland, immigrants suffer from both short-term and long-term poverty more often than the rest of the population.⁷³ Studies have shown that the risk of poverty among children of parents born outside the EU is about six times higher than among the rest of the population.

Employment among immigrants will improve considerably during the first ten years spent in Finland. Nevertheless, unemployment among immigrant is three times higher than among the population as a whole. Moreover, immigrants are also in fixed-term jobs and jobs that do not correspond to their training more often than the native population.

Contraction of the working-age population resulting from the ageing of the population will cause a substantial slow-down in the growth of employment input for many years. Even though at the same time a large number of working-age immigrants are entering Finland, their employment participation rate is lower than among the native population, which means that immigration is not enough to compensate for the impact of the decrease in working-age population.⁷⁴

Finland's working life needs immigrants. According to a report commissioned by the Finnish Business and Policy Forum EVA, Finland needs 34,000 immigrants each year in order to prevent contraction in labour force. This is twice as many as now.⁷⁵

The immigrants already living in Finland provide a labour force reserve of 56,000 people and the employment of this reserve can be supported and speeded up through integration.⁷⁶ Correctly measured language training started soon after immigration can substantially improve employment prospects. Immigrants benefit from personal service at TE Offices and from efficient referral to other services. Immigrants are often unfamiliar with the Finnish service system, which increases the need for referral.

Integration can make it easier for immigrants to find work

Health problems may prevent integration of immigrants

Integration is a central factor in the building of a successful multicultural society. Integration is important for the persons that are being integrated and the society at large. An unsuccessful integration process may result in problems at individual level and at the level of society at large and, in extreme cases, it may even lead to radicalisation.

Integration is the joint responsibility of the Ministry of Employment and the Economy and other ministries. Social and health care has not been in the focus of the integration process managed by the state. However, purpose-built social and health care services are part of a successful integration process. They contribute to successful integration, help immigrants to find work and prevent marginalisation. Health problems may prevent an immigrant from learning a new language, finding work and acquiring citizenship. They may also prevent successful integration of the immigrants and their families.

Large immigrant groups that have spent many years in Finland are well integrated into Finnish society and know how to use social and health care services. However, many immigrants suffer from social and health problems. Groups that are particularly at risk are refugees, asylum seekers, ageing immigrants and women among whom there are many single parents and mothers who have stayed at home for many years. Physical health of immigrant women is often poor.

Refugees, asylum seekers, ageing immigrants and women are in the risk group

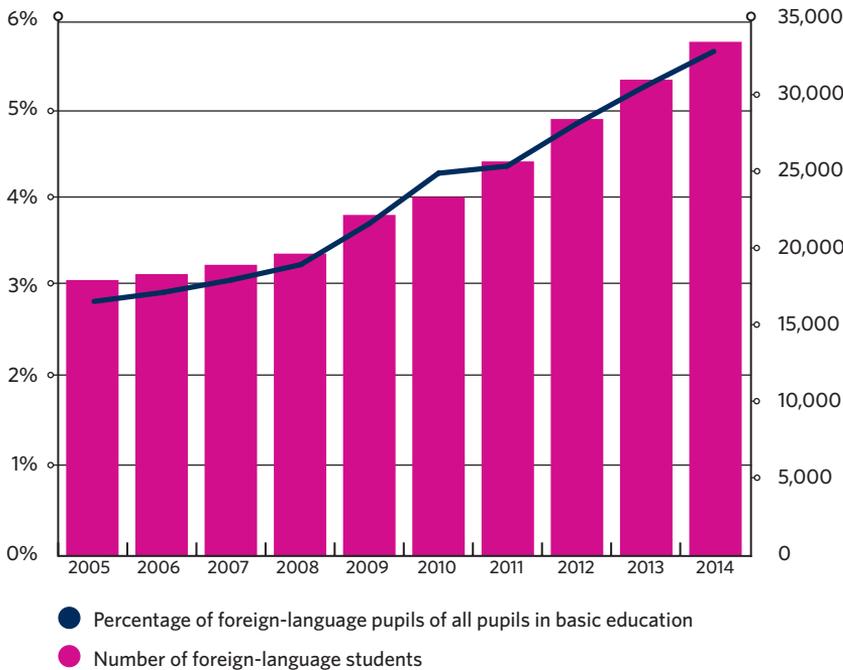
There is a great deal of variation in how the special needs of the immigrants are considered in municipalities and in municipal social and health care units. Maternity and child health care clinics are the only social and health care services reaching all immigrant groups. Other services are only properly accessible to refugees. For example, refugees are often the only immigrant group that are provided the benefit of extended consultation hours and interpreters even though the majority of the immigrants also need these aids. In many cases, mental health problems of the immigrants are also left untreated.

The National Audit Office has submitted a list of measures to the Ministry of Social Affairs and Health and the Ministry of Employment and the Economy aimed at making the integration process more effective. One of the measures is more comprehensive steering of municipalities and the allocation of the steering so that municipalities would be better placed to meet the immigrants' service needs. Successful integration can prevent costly marginalisation.

Municipalities should be better prepared to integrate immigrants

Supporting immigrant children and youngsters at all grades is essential

Finland's immigrant population is young. About five per cent of all pupils in basic education speak foreign languages as their mother tongue. Immigrant students view school more positively than students with Finnish background. They find school more meaningful and important. Especially second-generation immigrants have more positive attitudes towards school than the native population. This despite the fact the immigrant students experience bullying on account of their foreign background and poor Finnish skills.⁷⁷ Immigrant parents also have a strong belief in education and training. They consider education and training more important from the perspective of the individual and society at large than the parents of native students.



Source: Education and culture funding reports compiled by National Board of Education

Figure 10: Number of students speaking a foreign language as mother tongue and their percentage of all students in basic education, between 2005 and 2014

However, the school performance of immigrant students is weaker than among the native population. According to the results of the PISA 2012 survey, mathematical, reading and scientific skills among immigrant students aged 15 are considerably weaker than among the native population. Giving consideration to the background of immigrant students compensates for the difference in school performance. However, on average the gap between immigrant and native students is substantially wider in Finland than in the OECD countries.

Many immigrant students study on lower grades than other students in their age cohort. This is also the case in many other countries in Northern Europe. In the view of the National Audit Office the practice should be examined in more detail. Schools should ensure that immigrant students are on grades corresponding to their age.

Young people face the highest risk of marginalisation when they move from basic education to upper secondary level and vocational training and from vocational training to working life. The proportion of youngsters remaining outside upper secondary level education immediately after basic education is substantially higher among the foreign-language than among the native population. Foreign-language youngsters drop out of school and change school more often than other young people.⁷⁸ According to a survey conducted by Kela and VATT, this is explained by the economic situation of the parents of immigrant students, which is usually weaker than among the native population. When immigrant students are compared with native students coming from similar family backgrounds, the gaps become narrower or even disappear altogether.⁷⁹

More use should be made of study guidance in the prevention of marginalisation

Every year about 5,000 young people fail to get a study place in education and training leading to qualification.⁸⁰ Efforts are made to speed up the process of finding study paths and moving to working life by means of study guidance. According to the audit assessing study guidance, not all objectives laid out for the guidance are being met. The contents of the study guidance services are now so broad-based that it has become more difficult for municipalities to organise the guidance at practical level.

Information on the adequacy and quality of guidance is insufficient. For example, it is not known how close Finland is to the target laid out by the Parliamentary Education and Culture Committee under which each guidance counsellor should have a maximum

Basic education has provided fewer opportunities to immigrant students than to native population

In Finland, the gaps between immigrant and other students are wider than in many other European countries

Little is known about the success of student guidance

of 250 counselled students. It seems that the chances of providing all students with individual guidance have weakened rather than improved. The National Audit Office recommends that a nationwide assessment of the state of study guidance should be carried out so that the inadequate knowledge base can be strengthened.

At the same time, the number of young people in need of extensive support and guidance has increased. For example, it seems that there is a need for more effective study guidance of immigrant students. It was noted in the performance audit of immigrant students and basic education that compared with native students, a smaller proportion of the immigrant students feels that they have learned to find information on how to continue their studies. Outside school, immigrant students receive slightly more support for career preparation than native students, while at school they receive less support.

Guidance services for young people could be improved through closer cooperation between the Ministry of Education and Culture and the Ministry of Employment and the Economy. At the moment, the planning and preparation of the guidance services are too decentralised between and within ministries.

Planning of guidance services is scattered among several ministries

4 Strategic interests of the state as justification for involvement

Both private actors and actors receiving their funding from public sources contribute to the functioning of society. However, the overall responsibility lies with the state. The state is said to have a strategic interest in matters that are considered particularly important for managing this overall responsibility. The state has a broad range of different strategic interests. Even though the interests may be of fairly permanent nature (such as ensuring food supplies) the ways of ensuring them may vary, depending on the situation.

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

- Subsidising merchant shipping (in progress)
- Steering of strategic-interest companies (16/2015)
- Solidium Oy (6/2015)
- Practicalities of the liquidation of Asset Management Company Arsenal Ltd (4/2015)

With its budget-funded activities, the state aims to secure its strategic interests in areas where market-based operations are not possible. In fact, in budget-funded activities, it is difficult to differentiate between the management of strategic state interests and other activities as the overall aim of the state is to ensure the functioning of society at large. However, it is natural to reserve the concept of strategic interest to special situations where the operations are, because of public interest, steered in a manner that differs from the basic situation. From this perspective, by taking its strategic interests into account, the state incurs additional costs, compared with the basic situation. However, at overall state level savings may sometimes be achieved. An example of a macroeconomic approach to managing strategic interests is a situation where an auxiliary landing strip is built on the road during road construction so that the extra costs incurred as a result of the construction are lower than those that would be incurred if the landing strip was built separately.

It is also fairly straightforward for the state to promote its strategic interests in companies where it is the majority shareholder.

The state has overall responsibility for society at large

Safeguarding strategic interests comes at a price

er. For example in ice-breaking, which is managed by a company wholly owned by the state, the determination of the state to keep the icebreakers in the Baltic Sea was justified with strategic interests (since then the interests has been reassessed). This resulted in the loss of revenue from commercial ice-breaking operations, while on the other hand a smoother flow of goods to and from Finland can be seen as a possible benefit.

Because of its overall responsibility, the state also follows activities outside its own sphere of operations, assesses the strategic interests contained in them and, when necessary, aims to influence strategically important actors and their activities. The state can use different instruments in this respect, such as acquisition, statute-based steering, taxation, subsidies, service purchases, persuasion and agreement. The instruments result in direct and indirect costs to the state or other operators. An example of the efforts to secure strategic interests through acquisition has been the purchasing of tankers to partial state ownership, while subsidising Finnish merchant shipping on the grounds of security of supply is an example of achieving the aims by means of subsidies.

The National Audit Office has audited different types of situations involving strategic state interests. In these situations, managing strategic interests has usually meant deviations from well-established practices, as a result of which the state may have incurred costs. It is important that in the management of strategic interests, consideration is given to the possibility of additional costs and that the costs are compared with achievable benefits. The risk is that the strategic interests are considered so important that ordinary economic efficiency and performance requirements are not considered applicable to them. The risk may be increased by the fact that the strategic interests are not envisaged in the operational planning system and no preparations for them have been made.

In the view of the National Audit Office the costs arising from strategic interests should be examined in a more comprehensive manner. When strategic interests are secured by means of state ownership in companies, it should be expressed more clearly how much the strategic interests have impacted or how much they should be allowed to impact the companies' revenue and transfers of profits to the state. There is a need for more weighing of alternative and effective instruments in the securing of strategic interests. Even though the definitions of strategic interests have been clarified in some respects they are still too vague.

Strategic interests of the state also cover private sector activities

Good intentions do not mean that profitability requirements can be ignored

Justification for subsidising merchant shipping not entirely convincing

The state subsidises Finnish merchant shipping by between 200 and 400 million euros each year (the sum partially depends on how the subsidies are defined). Providing one business sector with permanent subsidies is an exception to the general industrial policy in which the markets are allowed to determine the industrial structure and in which subsidies are only used for managing unexpected structural problems.

Merchant shipping is of great strategic importance. Finland is completely dependent on maritime transport and its continuation must be secured in all circumstances. The conclusion is that Finland needs Finnish-owned merchant shipping, which, supported by crisis legislation, helps to ensure Finland's security of supply. The view is also that Finnish-owned merchant shipping can only survive if it receives state aid. Thus, the chain of effects has been outlined in documents but it contains gaps in crucial points: There is no convincing evidence why Finnish-owned merchant shipping is essential for securing maritime transport in today's globalised transport markets. In fact it has not even been shown whether relying on Finnish-owned vessels is enough to ensure the security of supply. In fact, it was noted in the audit that out-flagging of vessels is easy and can be done quickly, which puts the security of supply at risk. The potential impact of this factor had not been considered in planning documents.

Subsidising merchant shipping also has other aims but they too can be viewed against the background of ensuring the security of supply. It was noted in the audit that in their case too few convincing arguments have been presented: For example, it has not been shown beyond doubt why Finnish-owned merchant shipping is essential to the survival of the maritime cluster or whether Finnish-owned merchant ships are safer than other vessels sailing in the Baltic Sea.

As maritime links are of vital importance, the administrative branches responsible for industries and transport should examine whether the existing procedures can adequately ensure the security of supply or whether the aim could be achieved in a manner that would be less burdensome to central government finances. Consideration should also be given to the impact of the existing subsidy scheme on central government finances and its indirect effects as merchant shipping differs from other sectors in important respects. For this reason, producing a thorough assessment of the impact of the subsidies on central government finances is difficult but necessary.

Can state funding ultimately ensure the required security of supply?

Strategic interest is one criterion in classifying state-owned companies

State-owned companies are divided in two main groups: commercial companies and special assignment companies. In a number of commercial companies, the state mainly plays the role of an investor, though in some of them it also has strategic interests. Strategic interests have been used as justification for state ownership in companies since 2004.

The difference between a strategic-interest company and a special assignment company is not entirely clear. According to the classification criterion, in special assignment companies the state has special interests pertaining to regulation and official tasks. They may be very similar to strategic interests,

The State of Finland owns shares in 40 commercial companies. Of these companies, 21 has been classified as companies in which the state has strategic interests. In them, the state's strategic interests mainly concern the security of supply, other areas of infrastructure maintenance and national defence. Updating of the descriptions of the interests has now begun. According to the audit 16/2015, most of the descriptions are clear and easy-to-understand. In fact, the updating is important because the role of the companies in the securing of the strategic interests may change.

The definition of the strategic interests in Fortum has been partially updated as a reaction to the measures initiated by the company. Originally, the strategic interests also covered power distribution. As the company started selling its power distribution business, the definition was changed so that the strategic interests no longer covered power distribution. As the matter was under discussion, the minister responsible for ownership steering stated that if substantial parts of the power distribution network are in danger of falling into the hands of owners outside the EEA the Government can take action under the legislation on company acquisitions by foreigners. The case shows that not enough consideration had been given to ensuring whether the strategic interests can be secured by other means than ownership arrangements (such as legislative means). Fortum's power generation business remains a strategic-interest sector and the state ownership in it is still considered an instrument for ensuring the interests of the state.

The strategic interest in the VR Group was also examined in the audit in more detail. The interest was defined in 2013 as an instrument for promoting and ensuring smooth rail services. As part of the updating of the strategic interest in 2014–2015, the interest was defined as an instrument for ensuring rail passenger services

In strategic-interest companies the strategic basis for state ownership has been defined in a fairly clear manner

under a public service obligation. The company manages the tasks covered by the interest in return for a separately agreed compensation and on the basis of a fixed-term monopoly. Changing the definition so that it is now based on ensuring the continuation of the services can as such be considered appropriate. However, one can ask whether the passenger services on the state-owned rail network could be secured by means of agreements or operating licences instead of relying on an ownership based on a strategic interest. In the view of the Ministry of Transport and Communications, it is irrelevant to the ministry which type of company provides the services. The VR Group has a contractual monopoly to operate rail passenger services in Finland until 2024.

Ensuring strategic interests does not always require special measures on the part of the companies and thus it does not necessarily generate separate costs. Occasionally, the strategic interests are closely linked with the company's core operations and existence, in which case ownership steering may be solely directed at business goals and strategies and at the same time ensure that the aims laid out in the interests are met.

Even though companies did not incur costs as a result of the strategic interests, they may generate costs to the state by tying up state capital in sectors where the profits may be lower than in alternative sectors. This potential cost impact of strategic interests has not been adequately highlighted. For example, it is not clear from the annual reports of the Ownership Steering Department or the Government whether strategic interests have been considered as lower profits or lower profit transfer requirements.

Strategic-interest companies of the state have mostly been profitable. It was concluded in the audit that strategic interests may also generate business benefits for the companies. They may provide the company with stability and credibility in the financial markets, help to open up markets or enable the companies to achieve a monopoly status. In companies where the management of the strategic interest can be separated from other operations, the companies have had a clear idea of the costs arising from the management of the interest.

It is unclear how the performance of Solidium should be assessed

Solidium Oy is a special assignment company that is wholly owned by the State of Finland. Under Solidium's articles of association, its objective is to strengthen and stabilise Finnish ownership in nationally important companies and increase ownership value in the long term.

It is not clear from the annual reports whether the strategic interest has been considered as a lower profit or profit transfer requirement

Classifying Solidium as a special assignment company means that strategic interest is not a prime consideration in the company's operations. In fact, it is stated in the rationale of the company's guidelines that Solidium has been established to manage state ownership in publicly listed companies that do not involve strategic state interests. However, the objective laid out in the articles of association contains matters that are closely connected with strategic state interests and this is more clearly stated in the guidelines setting out the company's objectives: The company should consider in its operations national interests, which include the security of supply, continuation of smoothly functioning securities markets and the macroeconomic impacts of the operations of the associated companies. These are definitely matters involving strategic interests. At the same time, however, it is also stated in the guidelines that Solidium is not a industrial policy actor, which is surprising considering the tasks specified for the company. On the basis of the documents, the role intended for Solidium in relation to the implementation of the strategic interests has remained fairly vague.

The multitude of different interpretations of the company's purpose makes it more difficult to determine on which basis the company's success should be assessed and how the measures based on national interest that may lower profits should be weighed. The role of Solidium is to act as a long-term investor, which has been shown to lower profits, at least in the short term. When profit comparisons are made, it should also be known what consideration Solidium has given to the security of supply or other aspects involving national interest as factors that may lower profit expectations when making its investment decisions. Even though the national importance of Solidium's individual portfolio companies could not be publicly discussed there should be an estimate of how much the consideration of national interest has reduced the overall value of Solidium's investments. Company-specific justifications for the estimates should only be presented in the documents made available to the state owner.

Under its guidelines, Solidium's Board of Directors has the right to purchase substantial amounts of shares in companies considered of national importance if the company can fund the purchases without the contribution of the state owner. Before making its investment decisions, Solidium analyses such matters as the national importance of the companies. As the national importance covers matters pertaining to strategic state interests, one can ask whether setting the value for this is the company's responsibility or should the valuation be made in a political-administrative process. Moreover, the company also ties up central government funds if an investment made on the basis of national importance lowers the value of the capital invested in Solidium. Changes affecting the

Even though Solidium is said to operate outside strategic state interests it has been given strategic-interest tasks

One can ask whether a company is the right place to assess strategic state interests

strategic interest may, however, be sudden and the decisions must be made without delay. This means that there are grounds for providing the company with powers to make independent decisions in matters that also concern strategic interests.

Arsenal too has public-interest tasks in which the strategic decisions should be made by the Government

Arsenal Ltd is a special assignment company that is wholly owned by the State of Finland. Arsenal was established to manage the bad debts resulting from the banking crisis of the 1990s and to sell assets connected with it. The operations that were originally intended to be of limited duration have continued for more than 20 years in different forms and with different priorities. At the time of its establishment, Arsenal was guided by an extremely important strategic interest: the need to manage the aftermath of a severe banking crisis. The preparation of the final report on Arsenal began in October 2003 as the company was put into liquidation.

Two central principles have continued to guide the company's operations during liquidation: minimal burden on central government finances and the clarifying objective. The clarifying objective of Arsenal meets the criteria of the strategic interest because the sole purpose of the company is not to maximise the profits generated by the recovery of debts. Because of the clarifying objective, the company can give the examination of irregularities priority over financial gain.

The mandate for clarifying objective is primarily based on the report prepared by the Parliamentary Finance Committee in 1996. In its report, the Committee expressed the view that from the perspective of the general sense of justice, it is important that matters are thoroughly examined even though court processes would not bring any significant financial benefits to taxpayers. Likewise, in the reply submitted by the Ministry of Finance to Parliament in 1994, it was stated that the clarifying objective may actually be more important than the explicit objective of ensuring the most profitable course of action.

Examining irregularities on the basis of ethical aspects and control of legality in relation to the profitability objective can be considered a particularly difficult issue to assess. According to the audit 4/2015, Arsenal has not ignored financial considerations when recovering debts on the basis of the clarifying objective. The amount of capital returned to the owners during the liquidation has in many cases been higher than originally estimated. At the same time, it was also noted that the asset management company has attached great weight to the clarifying objective and has only deviated from it in specific cases.

The clarifying objective has even been given priority over the profitability objective

No upper limit has been set to the cost of clarifying objective

Finding balance between financial gain and the clarifying objective has been left to the company and in this respect Arsenal has been in the same situation as Solidium. Thus, in practice, Arsenal has weighed how much adherence to the legal order has been allowed to cost in the company's operations. Consideration without price limit already received political approval about two decades ago.

In the case of Arsenal one can also ask whether the Government and the ministry responsible for the administrative branch, and not the company, should be responsible for the consideration of the strategic interest. In the administrative branch of the Ministry of Justice, the question of how much adherence to the legal system may cost is a frequent consideration. This is a difficult valuation issue and the responsibility for dealing with it lies with the administrative branch, which is used to dealing with such matters. The Ministry of Justice is responsible for costs and performance in legal matters pertaining to basic structures of society at large.

Arsenal is another example of how the state has failed to give adequate consideration to alternative ways of ensuring its strategic interests. It was suggested in the audit that the public receivership procedure could perhaps be used as an alternative to the liquidation performed by the asset management company.

5 Effectiveness of government aid

When successfully implemented, government aid generates the desired benefits at low cost. At the same time, effectiveness is based on good legislation, which in turn requires a thorough law-drafting process.

The effectiveness of government aid has been audited on a fairly regular basis and, according to the audits, there is a wide range of effectiveness problems. In one way or another, most problems are derived from the inadequacies in the drafting of government aid legislation.

The conclusions presented in this section are based on ten audits, published in 2013 and 2014, risk analyses and follow-ups produced by the National Audit Office and the expert work carried out by NAOF representatives in the Ministry of Finance working group examining government aid practices and other forums.

In the view of the National Audit Office, ensuring more thorough drafting of statutes and other documents would be the most effective way to prevent the problems observed in government aid activities. The resources available during the drafting stage are often small compared with the resources required for implementation. Small additional inputs into the drafting process and sustainable basic solutions could generate substantial savings in implementation, which requires greater resources. Government aid activities should also be more effectiveness-oriented. The choices between values that need to be made as part of the aid decisions should be justified more openly.

Insufficient knowledge base of the drafting process has resulted in a costly trial-and-error procedure

It seems that many of the inadequacies in statute drafting are derived from the fact that statute drafting has been carried out in a hurry by a small number of people.

The activities for which the aid is to be granted and their impact mechanisms have not always been examined in great detail. Insufficient information may have led to a situation where con-

There is a multitude of problems concerning the effectiveness of government aid

Problems could be prevented with thorough statute drafting

clusions have been made on the basis of general assumptions that have later proved wrong. At the same time, not enough consideration has been given to impact assessments. Too little attention has been paid to alternative approaches.

Solutions based on an inadequate knowledge base have led to problems in implementation. As a result, it has been necessary to redraft the relevant sections, which in turn has increased the workload of the personnel responsible for the drafting process. The fact that it has been necessary to correct or change the schemes afterwards has provided the parties responsible for implementation with new challenges: uncertainty, changes to the plans of the aid recipients, enquiries and a need for new guidelines.

The schemes are always prepared on the basis of insufficient information and it is impossible to find out everything in advance. However, it seems that even aid schemes that are intended to have extensive impact have been built with the help of a fairly narrow knowledge base. In aid schemes that cover the country as a whole and a large number of aid recipients, progress through trial and error is an expensive method generating poor results. It is a different thing if the objective is to develop the activities by, for example, conducting trials aimed at producing innovations, in which case there is always the possibility of a failure.

Effectiveness may have been eclipsed by other factors in the drafting process

The problems are not always caused by an inadequate knowledge base. They may also have resulted from a clearly specified assignment, which means that other options have not been considered.

The organisations receiving the aid may also have become so well-established that the drafting has taken place on the basis of the organisations' needs rather than the needs of society at large. It may not be desirable to introduce substantial changes to the allocation of funding too suddenly as the adjustment of the activities may require time. However, there should be more readiness to abandon well-established operating models and introduce the necessary changes in a controlled manner even if that would take slightly more time.

It has been noted that in agricultural aid there has been so much emphasis on the legality objective that effectiveness of the aid has been of secondary importance. Moreover, as providing the full amounts of aid has been an important national objective, the range of different aid schemes has increased and the schemes have become complicated and administratively heavy. While emphasising

Drafting has been on the basis of organisations' needs rather than on the basis of the needs of society at large

Aid schemes have become complex and administratively heavy

legality was seen as a largely EU-derived phenomenon, the complexity of the aid schemes was seen as a result of the setting of objectives at national level.

Systematic implementation and proper monitoring are only possible with clear objectives

It has been noted that there are different types of inadequacies in the objectives laid out for government aid: No objectives have been documented or they are vague or unrealistic. It has also been noted in the audits that there has been a secondary objective behind the documented objective, which has actually steered the government aid activities. This has been the case in projects aimed at promoting employment in which the actual aim has been to prevent marginalisation.

Especially in aid schemes involving a decentralised and extensive implementation process, the objectives should be documented in a clear and open manner. Otherwise, there will be lack of uniformity or systematic approach and the implementation process will be ineffective. Proper follow-up also impossible if the aims of the aid scheme have been unclear.

The objectives of the aid schemes must be open and clear

Poor or inadequate steering has hampered the implementation process

It has been noted that steering is the most common problem in the implementation of government aid. Weak or vague steering has led to enquiries between the parties involved, case-by-case searching of solutions, incomplete application forms and different types of payment criterion. Moreover, the organisations responsible for the steering have not always been sufficiently familiar with the practicalities of the activities receiving the aid, in which case it has been difficult to provide credible steering providing the necessary clarification.

These steering-related problems have partially derived from the fact that the drafting process has not produced a clear aid scheme that is easy to implement. The scarce steering and processing resources at different administrative levels have also contributed to the problem.

Instead of more steering resources, there is a need for additional drafting inputs

Providing steering with additional resources cannot be an overall solution for improving the implementation process. A more effective approach would be a clarification of the basic government aid solutions by means of better drafting so that there would be less need for steering. A situation where the objectives and impact chains have been properly thought out also provides a better basis for target-oriented, clear and effective implementation. Especially in extensive government aid schemes implementation requires considerably more resources than the drafting process. Effectiveness losses may be also substantial if the scheme has not been carefully prepared.

The government aid system should be made more target-oriented so that we can avoid situations where funding decisions are made on the basis of the visibility of the aid recipients and not on the basis of needs and impact assessments. A target-oriented approach and focusing on the desired impacts would provide the implementation process with a clear direction and there would be less need for a work-intensive case-by-case approach.

There may be substantial effectiveness losses during implementation if the schemes have not been carefully prepared

More consideration to large projects, innovativeness and sustainability and dissemination of the results

In target-oriented activities, the focus remains on the requirements serving as the basis of the scheme and on what the scheme involves. The National Audit Office has proposed in its audits that funding should be allocated to larger and more effective projects and that the projects should be of longer duration. In that case there would be more time for the results to mature. Allocating funding to small and uncoordinated projects at local level has not produced permanent results in an effective manner. When the aim is to achieve larger projects, it should, however, be remembered that the public administration can be at its most effective in extensive routine activities and that effectiveness is not necessarily one of the advantages of government aid activities.

At the same time, it has been concluded in the audits that there is a need for more innovative government aid activities, which is exactly what small projects can be about. Effectiveness can also be achieved through small projects if they served as pilot projects for larger projects the results of which would be disseminated nationwide on a target-oriented basis. Irrespective of the project size, target-oriented dissemination of the results should be given consideration as a development priority.

We need results instead of relying on a passive approach and entrenched structures

Funding decisions and preparation of them have been characterised by lack of target-orientation in many ways. The applicants have not been compared with each other in a comprehensive manner in order to find the best projects as aid has been granted in an uncoordinated manner piece by piece. Aid has been granted to projects, which have only been known by their name and in which no clear information on project content or budget has been available. Sometimes the impression has been that granting funding in accordance with formal requirements has been more important than achieving results. There has not always been proper commitment to the projects and the projects granted funding have not always been completed.

According to the audits, an excessive funding proportion leads to higher risks: instead of promoting activities, continuous government funding (that can amount to as much as 100 per cent of the expenses) leads to passivity and entrenched structures. It has been noted that the actors granted funding before are also more likely to get new funding. The “costs are reimbursed” principle has also been used as a funding criterion without determining the correct level of activities and costs. This leads to a higher risk of uncontrolled growth in funding.

Low level of effectiveness is acceptable as long as the reasons are known

It was noted in the audits that in many cases, government aid has had little effect. The reasons included capitalisation of the aid and the fact that the aid helped to increase prices, which neutralised the targeted impacts and benefited groups other than those envisaged as beneficiaries. This has been noted in a number of agricultural aid and housing renovation schemes.

It was also noted in the audits that funding for the activities continued even though there was research information on the low level of aid effectiveness. This was the case with a number of aid schemes for labour market training. The funding may have been justified with benefits outside the main objective, such as prevention of marginalisation, which is difficult to verify.

Sometimes, negative side effects have to be accepted if that is the only way to promote the objectives. The progress concerning the parallel objectives may also be deemed so important that the parties are prepared to accept low level of effectiveness in the main objective. Even though it may be difficult to achieve the objective

Sometimes the impression has been that providing funding in accordance with formal requirements has been more important than achieving results

considered important in terms of society at large the efforts may still be considered worth the financial sacrifices. Above all, it should be ensured that there are no efforts to hide the side effects, the parallel effects eclipsing the original main objective or the low level of quantitative effectiveness. When the grounds for granting the aid are openly discussed, the choice of values concerning the continuation or reallocation of the funding are more open and clearer.

6 State of central government finances and administration

For the 2014 budget year, the National Audit Office submitted a total of 67 financial audit reports on the basis of the audits of accounting offices.

6.1 There were inadequacies in the compliance with the budget and the key budget provisions

The financial audits for the 2014 budget year revealed improper procedures in 11 accounting offices that on their own or together with other improper procedures were considered to be in violation of the 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 number of qualified opinions on regularity in 2014 was the same as in 2013. As they concerned a broad range of different issues, the total number was about 30.

The main reasons for the qualified opinions on regularity concerned the use of appropriations or authorisations that was in violation of the budget. These resulted in a total of 19 cautions in the financial audit reports of nine accounting offices. The cautions concerned the use of an appropriation that was in violation of the budget, allocation of expenditure in a manner that was in violation of the 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 budget and actual exceeding of an authorisation or appropriation.

The National Audit Office thus draws attention to the procedures that are in violation of the 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.

Inadequacies in the organisation of performance accounting and the presenting of information on operational efficiency led to cautions in the financial audit reports on three accounting offices.

A total of 11 accounting offices received qualified opinions on regularity

Qualified opinions on regularity were issued in a total of 30 matters

Compliance with the budget is part of effective financial management

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.

Qualified opinions on regularity usually concern sectors of economic management or specific procedures. Thus, 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 it. 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.

However, 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.

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. Changes in the State Budget Decree helped to clarify the responsibilities of the Finnish Government Shared Services Centre for Finance and HR for the organisation of internal control and provides a good basis for effective and economically efficient organisation of internal control. Additional clarification of responsibilities is needed in centralised financial and personnel administration systems and information security.

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.

Performance accounting is reasonably well-managed

More attention should be given to ensuring efficient internal control

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

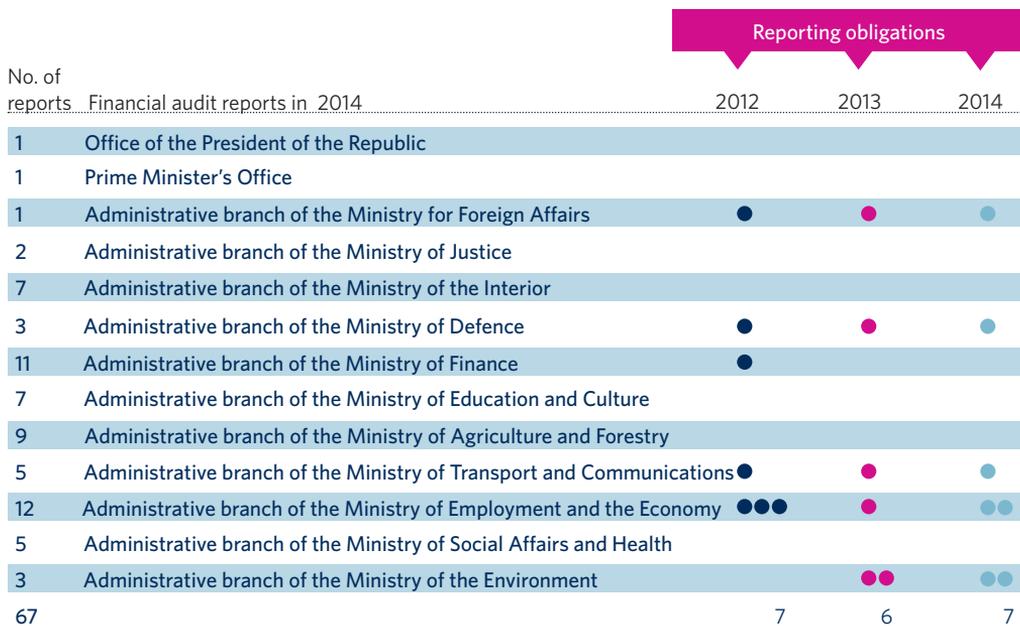


Figure 11: Reporting obligations by administrative branch

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.

Even though qualified opinions on regularity were included in 11 financial audit reports, the accounting offices were only issued with seven 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 budget and in internal control procedures led to a reporting obligation in five accounting offices, and inadequacies pertaining to accounting and monitoring of authorisations to reporting obligation in three accounting offices. Inadequacies in the organisation of performance accounting and the presenting of information on operational efficiency led to a reporting procedure in three financial audit reports (compared with three in 2013 and four in 2012).

6.2 Budget procedures

One financial audit report contained a caution concerning budget procedures in 2014. The caution concerned the processing of items connected with the hedging of loans and included in the balance sheet as non-current receivables and non-current liabilities in connection with an appropriation. In 2013, a caution concerning budget procedures was issued in one financial audit report.

One caution was issued concerning budget procedures

Budget procedures

The aim of the compliance audit covering budget procedures (15/2015) was to determine whether the state budget has been prepared in accordance with relevant statutes and regulations and whether all administrative branches apply uniform budget preparation procedures. It was also examined whether there had been any changes in budget preparation procedures between 2001 and 2014. The audit covered the budget proposal and supplementary budget proposals for 2014, and the 2014 budget outturn statement for 2014 obtained from the consolidated accounting was used as reference data.

Under section 84(1) of the Constitution of Finland, estimates of the annual revenue and appropriations for the annual expenditure, the reasons for the appropriations and other justifications of the budget shall be included in the state budget. It may be provided by an act that, for certain revenue and expenditure immediately linked one to another, a revenue or appropriation corresponding to their difference may be included in the budget.

Provisions on key budget principles are laid down in the Constitution of Finland

The State Budget Act (423/1988) contains more detailed provisions on gross and net budgeting, grouping of revenue and expenditure, exceeding and carrying over of appropriations, and allocation of revenue and expenditure to a budget year. The State Budget Decree (1243/1992) lays down the provisions on the preparation of the state budget and its structure.

A Government decision of 24 April 2013 lays down provisions on the principles concerning the preparation of spending limits proposals, budget proposals and operational and financial plans. The Ministry of Finance has issued a regulation on operational and financial planning and on the drafting of spending limits and budget proposals (TM 1101, 23.3.2011). The Budget Statement lays out the general regulations that must be observed in the implementation of the budget.

It was noted in the audit that most of the statutes and regulations on budget preparation have been observed. However, under these statutes and regulations there is room for different types of budget solutions. The differences in budget solutions between administrative branches are partly connected with different tasks and agency structures of the administrative branches.

Statutes and regulations on budget preparation have been observed

There is some variation in the manner in how references to net budgeting are included in item decisions. As regards standard items, there are different practices in administrative branches concerning how net budgeted appropriations are presented in item decisions.

According to the Government regulation on the preparation of the budget, an appropriation is budgeted as a fixed appropriation unless its marked as variable or deferrable appropriation for a specific reason. However, fixed appropriations only accounted for a small proportion of the state budget for 2014. There were two administrative branches with no fixed appropriations. Even if consideration is given to the maximum appropriations used in the budgeting of discretionary appropriations under variable appropriation items, fixed appropriations only accounted for about one per cent of all appropriations in the 2014 budget proposal.

Fixed appropriations are an exception

Under the itemisation principle laid down in section 84(1) of the Constitution of Finland, the state budget must be clearly structured and the appropriations itemised in such detail that Parliament can make effective use of its budgetary power. Under section 5 of the State Budget Decree, expenditure in the budget shall be classified under budgetary items according to the objective or the nature of the expenditure. The number of mixed items (items in which appropriations for expenditure under more than one expenditure type have been budgeted) is fairly large. Especially pay expenditure is often budgeted under items other than operating expenditure items. There should be fewer mixed items in budgeting based on the nature of expenditure. Pay expenditure should, as a rule, be budgeted under operating expenditure items.

As a rule, pay expenditure should only be budgeted under operating expenditure items

There are a small number of items in the 2014 budget proposal in which the purpose of the appropriation is not given as clearly and explicitly as necessary. This is particularly the case when the budgeted appropriation can, under the budget, be used for covering transfers in general. In some cases, there is a need for clarifying the resolutions stating how the appropriations should be spent.

The budget proposal contains a small number of detailed and long item decisions. According to the information obtained in the audit, this is because ministries want to keep the number of items low and to ensure that the appropriations contained in the policy programmes can be comprehensively monitored. However, a

Providing clear item-specific justification contributes to efficient financial management

large decision section makes it more difficult to arrange the monitoring of the implementation of the budget on the basis of budget accounting. It should only be applied when there are particularly good operational reasons for using it.

A procedure deviating from the provisions laid down in sections 5 a and 5 b of the State Budget Decree have been extensively used in the allocation of revenue and expenditure in budget proposals. The most commonly applied allocation principle laid down in the decree is the payment decision basis, which is used in the budgeting of discretionary government grants. The State Budget Decree contains provisions on expenditure allocation principles. There should be fewer deviations from these principles in the decisions concerning appropriation items. Use of other allocation principles should be properly justified. When decisions are made on expenditure allocation principles, consideration should also be given to how the selected solution will impact the monitoring of the expenditure use and it should be ensured that the expenditure can actually be allocated to the budget year in accordance with the budget.

Based on the audit, there have not been any major changes in the budget procedures between 2001 and 2014. At the same time, as required under the principle of unity, the budget has become more comprehensive, and it is also more coherent than before. There are now more options for using net budgeting. Likewise, there have been few changes in the use of mixed budgeting. Appropriations under items other than those concerning pay and operating expenditure are increasingly being used for employing personnel. There has been a substantial increase in the use of allocation principles deviating from those laid down in section 5 a of the State Budget Decree. Coherent budget practices in individual administrative branches help to clarify budget monitoring practices and thus also support efficient management of finances.

Good budget practices are also a productivity issue

6.3 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 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.

A total of 14 financial audit reports contained cautions on final accounts and notes to them.

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

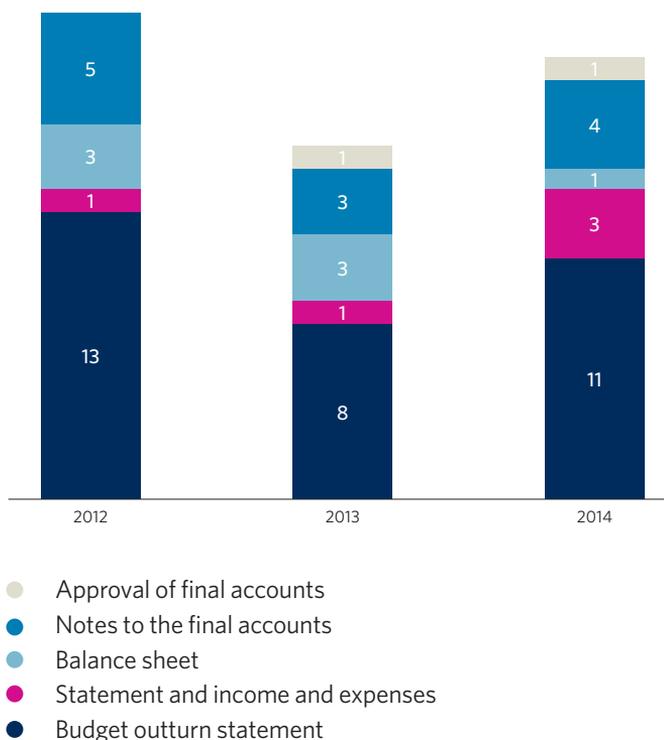


Figure 12: Cautions concerning final accounts in figures

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 budget, entry of expenditure on a gross-budgeted expenditure item and allocation of expenditure in a manner that was in violation of the budget so that it resulted in a carrying over of the appropriation. Almost 20 such cautions were issued.

In 2014, authorisations were used by 28 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 two financial audit reports.

Three accounting offices were cautioned about their income and expense statements, while one accounting office was cautioned about its balance sheet. The cautions concerning balance sheets were issued in connection with the appreciation of assets and the way in which it is presented in the balance sheet.

Four 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 state securities and guarantees and other off-balance sheet liabilities.

A total of 11 accounting offices received cautions concerning their budget outturn statements

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

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

6.4 Internal control and risk management

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 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. In particular, internal control has been assessed from the perspective of the societal impacts and effectiveness of operations 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 13: Internal control in 2014 in figures

It seems that among those accounting offices that have received cautions as a result of internal control, the number of units with material inadequacies requiring measures has remained unchanged (in 2014 and 2013, the figures were 26% and 27%, respectively).

The proportion of accounting offices with no material inadequacies in the arrangements of internal accounting control constituted 88 per cent of all accounting offices (in 2013 and 2012, the figures were 85% and 86%, respectively). Eleven per cent of all accounting offices were found to have material inadequacies in the organisation of internal accounting control that would require measures (in 2013 and 2012, the figures were 12% and 9%, respectively).

Authorisations were used by a total of 28 accounting offices. Eighteen 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 2013 and 2012, the figures were 8% and 22%, respectively). When assessed in this manner, the situation concerning the monitoring of authorisations has deteriorated from the previous year.

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. Under these provisions 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.

More consideration should be given to the monitoring of authorisations

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 10 per cent of all accounting offices (in 2013 and 2012, the figures were 10% and 16%, respectively). Inadequacies in accounting are usually also the reason for the inadequacies concerning the trueness and fairness of the manner in which information on economic efficiency, productivity, profitability of chargeable services and cost-effectiveness of jointly funded services is presented in the reviews of operations.

The financial rules laid down in the State Budget Decree are a key instrument in the organisation of internal control in accounting offices. In the 2014 financial audits, a total of 97 per cent of all accounting offices were found to have proper financial rules (in 2013 and 2012, the figures were 93% and 94%, respectively).

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. The audit findings reveal that there are still differences between agencies concerning the procedures. In addition to the development priorities, there should also be explicit statements on the state of internal control. The statements should highlight the responsibility of the management in the area of internal control. The statements and their background memoranda should also in the future draw attention to the continuity of statements issued in different years.

Most accounting offices have proper financial rules

Internal audit

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 purpose of internal auditing is to ascertain to the management that proper and adequate internal control procedures are in place and to carry out the auditing tasks laid down by the management. In internal auditing, consideration must be given to the general standards and recommendations applying to it. The orders concerning the internal auditing procedures and the role of internal auditing in the organisation are given in the standing orders for internal auditing.

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

The results of the 2014 financial audits show that internal auditing was provided in 47 accounting offices or in 70 per cent of all accounting offices (in 2013 and 2012, the figures were 73% and 72%, respectively).

When assessed on the basis of the person-years allocated to the purpose, the volume of internal auditing seems to have decreased compared with 2013. A total of about 80 person-years was allocated to internal auditing in 2014 (for 2013 and 2012, the figures were 92 and 93 person-years, respectively). Outsourced services accounted for nine person-years of this total (compared with 11 person-years in 2013 and 2012). A total of 35 of the accounting offices with internal auditing also made use of their own personnel inputs in the work. In 18 of them, the internal auditing input involving the agencies' own personnel was a maximum of one person-year (for 2013 and 2012, the figures were 24 and 18 accounting offices, respectively).

A total of 44 accounting offices were deemed to have proper standing orders for internal auditing, which was 94 per cent of all those accounting offices in which internal audits are conducted (in 2013 and 2012, the figures were 90% and 91%, respectively).

Internal control in information systems

The main purpose of the supplementary system audits that are conducted as part of the financial audits is to ensure that the internal control procedures, other controls and information security arrangements connected with the systems and their operating environments are properly organised and that the integrity of the data processed in the systems can be safeguarded. In information security audits, the focus is on administrative, operational and document security. In system audits, the focus was on financial and personnel administration systems and systems generating information for them and the arrangements connected with their operating environments. In 2014, the focus was on the audit of the Kieku system. Kieku is a new financial and personnel administration system jointly used by all branches of central government. A total of 11 system audits were conducted by the National Audit Office and two of them were follow-ups to previous year's audits.

System audits were conducted in two ministries, six agencies and the Finnish Government Shared Services Centre for Finance and HR. The system audit of the Shared Services Centre was conducted as part of the centralised internal control audit of the centre's client service processes. Two system audits of agencies were conducted: One in the Finnish Tax Administration and the oth-

System audits are a central part of financial audits

er in Finnish Customs. Both were part of compliance audits concerning revenue that were carried out as part of the financial audits of the two agencies. Five system audits were conducted in the agencies using the Kieku system. In addition, there were also two follow-ups and one audit focusing on the commissioning of the Kieku system. The commissioning process was also reviewed in other Kieku audits.

In the audits, the focus was on the controls pertaining to system use and administration of the use, administration of authorisations and access control, responsibilities and division of tasks concerning system use, documentation of the procedures used and other internal control procedures. Responsibilities, arrangements and documentation concerning information security and ICT functions and the organisation of ICT functions were also audited. In the audit covering the commissioning of the Kieku system, the focus was on the commissioning process and its implementation.

The most important development priorities highlighted in the audits of the Kieku system concerned the responsibilities, control and scope of control in the system's operations and information security, authorisation administration procedures and documentation concerning the system and information security. It was noted in the follow-up audits that corrective measures had been taken but that the measures had not yet been fully implemented.

Financial and personnel administration processes managed by the Finnish Government Shared Services Centre for Finance and HR

Central government financial and personnel administration processes are the responsibility of the Finnish Government Shared Services Centre for Finance and HR. Since 2014, the National Audit Office has been conducting audits of the internal control of all client service processes managed by the Services Centre and in the future, this audit will be a permanent part of the financial audits conducted by NAOF. The Services Centre has a large number of clients and substantial volumes, which makes it extremely important that the internal control is properly organised.

Shared financial and personnel administration processes have been developed as part of the central government Kieku project. The processes are based on unified information systems, guidelines and operating procedures. During 2014, the National Audit Office audited the appropriateness and adequacy of the internal control of Kieku's financial administration processes and the conversions of the Kieku information system. The audits included a separate

System-internal controls are central to internal control

The role of the Shared Services Centre highlights the role of proper internal control

system audit of the information systems used in expenditure processing and debiting information systems.

The aim of the audit was to ensure that the performing and organisation of the tasks are in accordance with relevant statutes and regulations and that the internal control of the financial management processes is properly organised. The aim was also to ensure that the principles governing the steering of financial administration sub-processes have been organised so that they support adherence to statutes and proper organisation of internal control.

The Services Centre and the accounting offices serving as its clients are considered as a single entity in central government finances. It allows the development of efficient financial and personnel administration processes and organisation of internal control in an efficient manner. 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.

Under an amendment to section 69 of the State Budget Decree (1243/1992), which entered into force on 1 January 2015, the management of the Shared Services Centre is responsible for the internal control referred to in section 24 b of the State Budget Act (423/1988) in so far as the tasks of the accounting office have been transferred to the Services Centre under a service agreement.

The amendment clarifies the responsibilities for the organisation of internal control and supports the efficiency of the financial and personnel administration process crossing the boundaries of accounting offices and the proper organisation of internal control. However, at present, there are no clear responsibilities concerning the internal control of the information systems used in financial administration processes. These responsibilities should be clarified.

The Shared Services Centre plays a central role in financial and personnel administration client processes and in the organisation of internal control. In the view of the National Audit Office, the Shared Services Centre should organise its internal audit in a more extensive and systematic manner and as laid down in section 70 of the State Budget Decree (1243/1992).

Internal control also includes the security of the information systems and the security of the data processed in the information systems. Under section 4 of the Government Decree on Information Security in Central Government (681/2010), an authority must ensure that information security is planned in accordance with a good information management practice. Section 5 of the decree lays down measures for implementing information security.

Unified information systems and operating practices make processes more effective

Responsibilities for internal control have been clarified

Internal audit of client service processes should be more extensive and systematic

In accordance with good information management practice, an authority must, in order to implement information security, ensure that:

- the information security risks pertaining to the operations are identified,
- tasks and responsibilities concerning the processing of documents are determined, and
- unauthorised modification of the information and other unauthorised or improper processing of the information is prevented through proper and adequate safety arrangements covering administration of authorisations, access monitoring, and information networks, information systems and information services and other measures.

Under section 6 of the decree, information security measures must be planned and implemented so that they cover all stages of document processing and that the information processing obligations are also observed when the information processing task is performed on behalf of an authority.

The responsibilities and scope of control concerning the information security of the centralised information systems used in the client service processes of the Shared Services Centre are not clear and they should be made clearer.

It was concluded in the audit that process-type service agreements and process guidelines of the Shared Services Centre are, in essential parts, properly prepared and support unified procedures and the organisation of internal control. However, the Services Centre should pay attention to procedures that help to ensure adherence to guidelines.

The applications used in financial administration sub-processes and the procedures used in internal control of authorisation administration should be improved. Efficiency of internal control should be improved by automating process functions and internal control procedures contained in them and that help to ensure adherence to guidelines and provisions.

Chargeable services

Compliance audits covering chargeable commercial services provided under the Act on Criteria for Charges Payable to the State were conducted in 12 accounting offices as part of 2014 financial audits. The audits covered the accounting offices with the largest revenue generated by chargeable commercial services.

Responsibilities concerning information systems and information security should be clarified

Main controls should be automated as part of the information systems

Compliance audit covered commercial chargeable services

Commercial revenue under the Act on Criteria for Charges Payable to the State amounted to 458.6 million euros in 2014. This sum included rental revenue and access charges totalling 50.3 million euros. Internal state activities, which are often at cost price, account for a substantial proportion of the commercial revenue. The Construction Establishment of Defence Administration was the accounting office with the largest sales revenue (175 million euros) and the sum was almost exclusively generated by cost-price sales to the agency's own administrative branch. The fact that cost-price sales account for a large proportion of the services reduces the proportion and role of the market-priced profit-oriented chargeable services in chargeable operations of the state.

Commercial chargeable services have, in essential parts, been in accordance with the Act on Criteria for Charges Payable to the State and other statutes steering chargeable services. There were no issues warranting a caution in the ministries' decisions concerning the chargeability of the performances of the agencies in their administrative branches. In most cases adequate performance targets have been set for chargeable services in both the budget and the performance agreements. The most common procedure violating the Act on Criteria for Charges Payable to the State is connected with inadequately completed invoices that were found in half of all audited accounting offices.

In the pricing of performances, consideration must be given to the provisions on the abuse of the dominant market position if performances are produced in a dominant market position. It was noted that in certain performances, two accounting offices are major players in the market. A high performance target had been set for one of offices and its operations were also highly profitable. The exceptionally high surplus arising from the pricing is a risk factor concerning the legality of the operations when the issue is examined from the perspective of the dominant market position referred to in the Act on Criteria for Charges Payable to the State. When setting performance targets, the ministries should state on what basis the exceptionally high targets for cost-effectiveness are set.

A number of inadequacies were noted in the organisation of internal control of chargeable commercial services. The conclusion was that most of the guidelines and decision-making procedures applied by accounting offices to chargeable services are on a proper basis. However, in accounting offices comprising a large number of separate agencies, attention was drawn to the management of the guidelines as a whole. Few of the inadequacies in the organisation of internal control noted in the audit were systematic errors repeated in several accounting offices. They concerned such

In 2014, the revenue totalled 458.6 million euros

The Act on Criteria for Charges Payable to the State has been mostly complied with

Dominant market position should be taken into account

There are inadequacies in the organisation of internal control

matters as observance of signature authorisations, contract-based invoicing, contract management, internal accounting control and preparation of process descriptions.

It was noted that in a small number of accounting offices, the personnel costs included in the cost-effectiveness calculations of chargeable services were based on estimates, a result of inadequate monitoring of working hours. However, in most cases monitoring of working hours is properly organised.

Several accounting offices have also outsourced tasks pertaining to the process of chargeable services outside shared services centres. In most cases the accounting offices have, under the co-operation agreement, transferred tasks concerning the delivery of services or products to their external partners and in these cases the accounting offices remain responsible for tasks concerning the steering of service contents and quality. In most cases, the accounting offices have concluded agreements, issued guidelines and carried out monitoring so that they can also ensure proper internal control in outsourced tasks. However, it should also be ensured that the outsourced services are under proper internal control as required under the State Budget Decree.

Adequate consideration should be given to the internal control of outsourced services

Purchasing expert and research services

Compliance audits covering purchases of expert and research services were conducted in 17 accounting offices as part of the financial audit for 2014. According to the information entered in consolidated accounting, central government actors purchased expert services worth 601 million euros in 2014. The audited accounting offices accounted for about 80 per cent of the purchases of expert services by central government actors.

The aim of the audit was to provide an opinion based on limited assurance on whether the purchasing of expert services has been in accordance with public procurement legislation and whether the internal control of the procurement activities is properly arranged. Except for two accounting offices, the audit did not reveal any material inadequacies in the compliance with public procurement legislation or in internal control.

Procurement legislation was mostly complied with

The conclusion was that, as a rule, no comparative calculations between in-house work and outsourced services required under section 6.3 of the regulation concerning the application of the state budget (TM 9509) are made. This means that it is impossible to determine whether an outsourced service is more cost-effective than carrying out the project by the agency itself. It was noted in the audit that in many accounting offices there are inadequacies con-

Comparisons between in-house work and outsourced services are rarely made

cerning the archiving of purchasing documents and contract management. Moreover, in a small number of accounting offices there were inadequacies concerning the justification of direct award.

Corporate income taxation

As part of the 2014 financial audit of the Finnish Tax Administration, the National Audit Office also conducted an audit of the internal control of the corporate income taxation process, which included the audit of internal control of the client registration process. The audit covered the income taxation for the 2012 tax year and the internal control procedures of client registration for the 2014 tax year.

The aim of the audit was to ensure that the performing and organisation of the tasks are in accordance with the law, other lower-level regulations and the guidelines and orders issued and that the internal control of the income taxation process is properly organised. The aim was also to ensure that the principles governing the steering of the income taxation process and the internal control procedures are organised so that they support adherence to statutes and harmonised and fair taxation practices and procedures with respect to taxpayers. In most respects, the internal control of the corporate income taxation is properly organised.

Based on the audit of the Finnish Tax Administration for 2014, the internal control of tax revenue accounting and payment traffic and the accounting practices concerning tax revenue are in most respects properly organised. No errors or inadequacies were noted in the payment of interest on payment transactions connected with income taxation.

The audit also included a system audit covering the information security of tax applications. The aim was to ensure that the internal control and information security of the audited parts of the tax applications are properly organised. It was noted in the audit that there are inadequacies concerning compliance with the Archives Act, which mainly pertained to the compliance with the storage periods of electronic information kept for specific periods and the definition of the information. Recommendations concerning continuity plans and access rights and internal control concerning the database were also issued as part of the audit.

From the perspective of internal control and proper state and adequacy of risk management, the main requirement is that internal control procedures make it reasonably easy to identify the errors and negligence concerning tax returns that require measures by taxpayers or the Finnish Tax Administration aimed at ensuring compliance with the law. The large number of clients and limited

Audit of corporate income taxation covered the income taxation of limited liability companies

In most respects, internal control is properly organised

Information security of tax applications was also audited

Complicated structure of information systems and tax legislation poses a challenge to organising internal control

resources of the Finnish Tax Administration, and complex information systems and tax legislation pose challenges to the identification of tax risks and the effective organisation of internal control.

The Finnish Tax Administration has started an extensive updating of the taxation processes and information systems. Improvements in the effectiveness of internal control should mainly be by automating taxation process functions and the internal control procedures included in them that would improve the real-time nature of taxation and tax control and ensure compliance with legislation. The Finnish Tax Administration should make more extensive use of the information contained in its applications and registers in client risk assessment processes.

Tax legislation should be developed with the aim of providing a basis for effective organisation of taxation processes and internal control so that the tax gap can be narrowed, high level of tax ethics maintained and the effectiveness of tax control ensured. This would improve the internal control carried out as part of the control process and allow the Finnish Tax Administration to direct tax control more extensively at essential issues and issues where there is room for interpretation.

Taxation of motor vehicles

Taxpayers liable to pay vehicle tax may conduct their business at Finnish Customs as cash customers or as registered agents. The amount of tax payable by cash customers is determined before the motor vehicle is registered and the cash customers must also pay the vehicle tax before registration. A registered agent may register the new vehicle before submitting the vehicle tax declaration and paying the tax.

The system audit of the vehicle taxation system of the Finnish Customs covered the software, equipment and operational security of the system and administrative information security. The audit covered the taxation decisions made in 2013 that concerned registered agents and new vehicles. The audit covered a total of about 120,000 vehicles on which a total of 821.3 million euros was paid in vehicle taxes.

The aim of the audit was to determine whether new motor vehicles are taxed in accordance with relevant statutes. Based on the audit, most new vehicles are taxed in accordance with the statutes, except for certain inadequacies concerning compliance with formal tax law.

The aim of the audit was also to determine whether the internal control concerning the taxation of new motor vehicles is properly

organised. It was noted in the audit that there are inadequacies in internal control concerning the definition of the responsibilities of registered agents and certain taxation procedures, which require measures on the part of the Finnish Customs. Furthermore, internal control is weakened by the vagueness of certain provisions in the Vehicle Tax Act.

Under section 59, the Finnish Customs has wide discretion to impose tax increases. The discretionary powers are based on law but the manner in which they are applied is based on unofficial guidelines. The existing application practice and the powers associated with them should also be laid out in the rules of procedure of Finnish Customs.

Calculating the tax increase when the registered agent has submitted the tax declaration late but before the date specified in section 61 of the Vehicle Tax Act, will lead to a tax increase even though the registered agent did not have a chance to pay the taxes by the deadline laid down in the act. Section 60 of the Vehicle Tax Act should be made more specific in this respect.

The penalties arising from the negligence of the registered agent should be directed at the registered agents and not the taxpayers that have verifiably paid the vehicle tax.

Even though there are no specific provisions on the supervision of vehicle taxation, the existing procedures can, in essential parts, be considered appropriate. In order to ensure that the character of vehicle taxation as mass taxation also has a legal basis, a provision on tax audit similar to section 14 of the Tax Assessment Act and a provision on the determination of taxes similar to section 26(6) of the same act should perhaps be added to the Vehicle Tax Act.

On the basis of the audit, authorisations, system description and the maintenance of the customer and authorisations registers should be improved.

Tasks and responsibilities of the registered agents should be specified

6.5 State of the administration and supervision of EU funds in Finland in 2014

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 performed in accordance with the same principles and procedures as the audits of 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, particularly, on issues concerning asset management and the organisation of internal control. In the financial audits, the focus is on the auditing of the internal control laid down in the budget legislation. In some cases, the audits have also included testing of specific aspects of key controls. The performance audits conducted by the National Audit Office focus on the effectiveness of the measures wholly or partially funded by the EU.

In the 2014 budget year, the audits of the transfer of European Union funds dealt with project and business subsidies part-financed by the European Agricultural Fund for Rural Development in the ELY Centre for Southeast Finland and in the Agency for Rural Affairs.

The conclusion reached in the audit was that changes in administrative structures in the ELY Centres and the resulting personnel turnover may have had some impact on how successfully the payments for the last years of the programming period (2007–2013) can be carried out. The National Audit Office has recommended that the parties concerned should ensure the correctness of the interpretation under which a cooperative in the process of being established can initiate a project application in a manner that creates legal effects before the cooperative is registered in the trade register. This interpretation is commonly used in the administrative branch.

The system for administering rural development project subsidies contains a risk that after the recovery carried out by the ELY Centre the project can still receive large amounts of public financing (such as funding provided the municipality). Central government authorities do not have any competence to recover funding provided by municipalities, while at the same time ELY Centres do not monitor return of other public funding.

The principle of equal protection guides the audit of EU funds

The audit of the assets of the European Social Fund (ESF) and the European Regional Development Fund (ERDF) covered the adequacy of the controls of the currently used information system and the correctness of the information content and especially the manner in which errors and abuses are itemised and reported. In the audit, the focus was on errors made in structural fund projects noted during the official processing of the payment applications and control visits. The adequacy of the measures carried out after the discovery of the errors (the manner in which the observations made by the bodies managing the funds and more extensive reports are documented by the bodies in question and by the administrative authority). The focus was on the error “other ground for ineligibility”, the work of the managing body and situations where the volume of the observed errors is very small.

Even though the economic significance of the observed errors is small, there should be continuous attention to analysing them, determining their extent and making conclusions in such areas as training and, from the perspective of internal control, in projects implemented by the managing bodies themselves. It was noted in the audit that the “other ground for ineligibility” is frequently given as the error. Attention should be paid to the adequacy of the measures and guidelines and the accuracy of the follow-up information concerning the errors. The ineligibility criteria should also in other respects be made more specific so that the uniformity of the administrative procedures can be ensured and the activities developed.

It was noted in the audit of the Ministry of Employment and the Economy that the revenue accumulating on item 12.32.50 (Revenue from European Regional Development Fund and European Social Fund) comprises, for the European Regional Development Fund, EU aid payments for 2014 and for the European Social Fund, EU aid payments granted for the implementation of the ESF programme 2007–2013. In addition to this, advance payments of structural fund programme for Mainland Finland during programming period 2014–2020 are also entered as revenue. The expenditure allocation principle is not clear from the State Budget Decree, the budget or other statutes. For this reason, it was recommended that the item allocation principle should be clearly entered in the justification for the item.

It was revealed in the audit of the Ministry of Employment and the Economy that authorisations totalling 36.5 million euros granted in the budgets of the previous years that under the 2013 final accounts had not been carried over were used in 2014 on item 32.50.64 (Funding contribution of EU structural funds and the state to structural fund programmes in programming period 2007–2013, variable

appropriation). With this procedure, an authorisation was carried over in violation of section 10 of the State Budget Act.

Regarding the European Regional Development Fund, the audit covering the transfers of EU funds and their internal control focused on the ELY Centre for North Karelia and the ELY Centre for Central Finland.

It was found out in the audit of the financing provided by the European Regional Development Fund that there were inadequacies in the verification of the eligibility of the expenditure, which concern the checking of the applicants right to sign for a project, project accounting, recording of working hours in the projects and the requiring of purchasing documents. It was noted in the audit of one project that the specific reasons for making purchases from parties close to the project organisation eligible for aid should have been documented in more detail in the project funding documents. It was recommended in the audit that eligible pay costs containing special conditions should be justified in more detail in the funding decision. Otherwise, the audit revealed that the eligibility of the costs had been properly verified and documented using accounting printouts, copies of receipts and other documents in connection with the payment batches. It was recommended that some parts of the descriptions of the ELY Centres' administration and supervision systems should be updated. It was also recommended that there should be a comprehensive up-to-date monitoring of the recovery measures.

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

There were no performance audits covering EU funds during the 2014 budget year.

6.6 Current state of the administration and supervision of government aid

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 covering government aid covered compensations.

Compensations

The audit covered the different types of compensation paid from four expenditure items in the state budget that differ from each other in terms of their legal grounds and purpose. The audited compensations were as follows: compensation for criminal damage, legal aid, occupational accidents and the establishment of nature conservation areas.

Transfers are the biggest expenditure item in the state budget. Because of their nature, transfers involve a greater risk of legality, appropriateness and inappropriate use than central government operating expenditure. Another reason for selecting the above-mentioned compensations as the audit topic was their economic significance in the annual state budget.

There are a number of different acts and decrees that constitute the statutory basis for the compensations. The most important of them are the Criminal Damage Act (1204/2005), the Act on Legal Aid (257/2002), Government Decree on Legal Aid (388/2002), Government Decree on the Criteria for Reimbursement for Legal Aid (290/2008), Criminal Procedure Act (689/1997), Act on Licensed Legal Counsel (715/2011), Employment Accidents Act (608/1948) and the Nature Conservation Act (1096/1996).

The first aim of the audit was to determine whether the compensation processes involving criminal damage, legal aid and occupational accidents and the compensation processes involving the establishment of nature conservation areas have been conducted in accordance with statutes and instructions in force at the time. The compensation processes involving criminal damage, legal aid

Because of their nature, transfers involve risks

The State Treasury should ensure that the time limits laid down in the act are observed

and occupational accidents and the compensation processes involving the establishment of nature conservation areas have in essential parts been in accordance with relevant statutes and instructions. However, the decisions on occupational accident compensations have not always been made within the three-month period laid down in section 41 b of the Employment Accidents Act.

There is a backlog of decisions concerning occupational accident compensation claims in the State Treasury. In 2012, as a result of the introduction of a new claims system, it was necessary to use the old and new systems side by side, which led to a growing backlog of unprocessed claims. It is estimated in the State Treasury that there are currently between 250 and 300 claims that have not been processed within the time laid down in the law. The State Treasury has already taken measures to deal with the problem and the aim is to eliminate the backlog by the end of 2015. The processing times laid down in the new act on occupational accidents and diseases, which will probably enter into force at the start of 2016, are even shorter. Under the new act, the claims must be processed within 30 days.

It was noted that there are substantial delays in the transfer of information on compensations for criminal damage from the State Treasury to the Legal Register Centre, the agency responsible for the recovery of state claims based on the right of recourse. The delays mean that the state may not be able to initiate the recovery process within the time specified in the Enforcement Code and they may even prevent the recovery of the claims altogether. The State Treasury has already taken measures to rectify the situation.

In order to ensure non-discriminatory treatment of recipients of compensation paid for the establishment of nature conservation areas, the Ministry of the Environment and Centres for Economic Development, Transport and the Environment should issue more specific instructions concerning the manner in which the compensations are calculated. The ELY Centres should also ensure that the compensations are paid in accordance with section 31 of the Administrative Judicial Procedure Act (586/1996). Under this provision, the compensations may only be paid after the decision to establish the conservation area has become final.

The second aim of the audit was to determine whether the internal control of the compensation process is appropriately organised. The internal control of compensations for criminal damage and legal aid is properly organised. The internal control of the compensations paid for occupational accidents and the establishment of nature conservation areas is not adequate.

There is a backlog of more than 250 occupational accident compensation decisions

Delays in the process of recovering criminal damage compensations may put the state claims at risk

In the organisation of internal control of occupational accident compensation processes there are inadequacies pertaining to the controls during the granting of the compensations, documentation of the compensation matters and payment controls as a result of which the State Treasury should take measures.

The practices followed by ELY Centres in the compensation processes concerning the establishment of nature conservation are not fully harmonised and the instructions have not always been observed. The calculation of the compensations is to a great extent on the basis of the experience of the assessors and the calculation of the compensations is only briefly covered in the relevant instructions.

Under section 10(3) of the Legal Aid Act, the piece of legislation applied to legal aid, a legal aid office may, on the conditions referred to in section 10(2) of the act, access, by way of a technical interface, secret personal data in the personal data files of the tax authorities and the Social Insurance Institution, so as to verify the information supplied by the applicant on his or her economic situation. However, this type of technical interface is not yet available to legal aid offices. The conclusion reached in the audit is that a technical interface could reduce the number of documents required of the applicants.

There are inadequacies in the internal control of the compensation process

6.7 Abuses and complaints concerning central government finances

Statutory reports on abuses submitted by public administration

Only a small number of reports on abuses were submitted to the National Audit Office during 2014 and the economic significance of the abuses described in them has been small.

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.

In 2014 the National Audit Office received 12 reports from state authorities concerning abuses of state funds or assets in their operations (in 2013 and 2012, the figures were 9 and 16, respectively).

Furthermore, a total of three cases involving suspected abuses by recipients of government aid were reported by central government agencies to the National Audit Office (in 2013 and 2012, the figures were 9 and 7, respectively). The agencies administering EU aid have also sent the reports on irregularities concerning the supervision of the aid to the National Audit Office.

Reports on irregularities concerning the use of EU funds

The agencies administering EU aid have also sent reports on irregularities concerning the supervision of the aid to the National Audit Office. The reports have concerned a broad range of different administrative branches. The National Audit Office receives copies of the reports on irregularities concerning the supervision of the aid that the Ministry of Employment and the Economy 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 60 such reports for 2014 (for 2013 and 2012, the figures were 40 and 20, respectively). This total comprises both new reports and follow-up reports.

The cases detailed in the reports are fairly insignificant economically.

The National Audit Office has only received a small number of reports on abuses

Only a small percentage of the reports warrants further action

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. The complaint may concern the legality of central government finances or compliance with the state budget.

During the year in review, the National Audit Office received a total of 42 complaints from private citizens and organisations (in 2013 and 2012, the figures were 51 and 55, respectively). The number of complaints addressed during the year totalled 40 (in 2013 and 2012, the figures were 52 and 67, respectively). About 65 per cent of all complaints did not warrant any action on the part of the National Audit Office. The complaints have been of little economic significance.

Several parties contacted the National Audit Office during 2014, criticising the way in which the Asset Management Company Arsenal Ltd has operated. The National Audit Office has conducted a performance audit (4/2015), in which it was able to verify that the clarifying objective and public economic interest have not been reconciled in an inappropriate manner during Arsenal's liquidation. However, attention was drawn to the fact that the lessons learned from Arsenal could be used in the establishment of any new asset management company and that the ownership steering of the asset management company should also be on an active basis during the final stages of the asset management company.

The National Audit Office considered a total of 40 complaints in 2014

7 Operational performance

Performance guidance will only work if the ministries provide agencies with appropriate performance targets and the information on them contained in the final accounts are true and fair. In administrative steering it is always essential to reconcile the resources with the objectives concerning the results achievable with them. In performance guidance, the development of operational efficiency and the development of service capacity must be 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.

There has been a clear improvement in the trueness and fairness of the information on operational efficiency as a result of performance guidance. The information would, however, be more usable if the figures on operational efficiency and the manner in which they are presented was 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.

There is still room for improvement in performance guidance. 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 one accounting office in three had been set adequate productivity and economic efficiency targets and presented in its final accounts true and fair information on the manner in which they are implemented.

A total of 36 per cent of all accounting offices have been set productivity and economic efficiency targets

Productivity and economic efficiency are reported in a fairly comprehensive manner

Performance guidance only functions properly in one accounting office in three

7.1 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.

Each ministry must approve its performance targets after Parliament has published the state budget. The agencies must give true and fair information on their operational performance in their final accounts and reports on their operations.

Operational performance is divided into operational efficiency, output and quality management. Quality management also includes the examination of service capacity. As part of the financial audit, the National Audit Office has also assessed the comprehensiveness of the productivity and economic efficiency targets approved by the ministry concerned.

Process of target-setting is slow

The productivity and economic efficiency targets approved by the ministries are still inadequate. Comprehensive economic efficiency targets had only been approved for 46 per cent of the accounting offices. The situation concerning economic efficiency targets has weakened significantly from the previous years. In their performance agreements, the ministries had provided a slightly larger proportion (51 per cent) of accounting offices with productivity targets than economic efficiency targets. When the productivity and economic efficiency targets are assessed together, it transpires that only about 36 per cent of all accounting offices had been set adequate targets.

When the productivity and economic efficiency targets are assessed on the basis of ordinary operating expenses, it transpires that the economic efficiency targets cover 50 per cent and the productivity targets 76 per cent of the central government operations (in 2013 the figures were 52% and 77% and in 2012 they were 53% and 75%, 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.

Target-setting is based on budget legislation

Adequate targets had been set for about 36 per cent of all accounting offices

	Economic efficiency	Productivity
2012	53%	45%
2013	54%	51%
2014	46%	51%

Figure 14: Presenting the targets as figures

Obligation to produce final accounts

Provisions on the final accounts of central government agencies are contained in the State Budget Act and in the State Budget Decree. 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.

Economic efficiency is comprehensively reported

Under the State Budget Decree, the review of operations 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.

The purpose of the financial audits is to verify that the figures on operational performance 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 62 accounting offices, which is 93 per cent of all accounting offices (in 2013 and 2012, the figures were 61 and 58, respectively).

Most of the figures provided by accounting offices in their final accounts concern costs and other corresponding quantities, which account for 61 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 61 accounting offices, which is 91 per cent of all accounting offices. The information on productivity was found to be fair in 64 accounting offices, which is 96 per cent of all accounting offices (in 2013, 65 accounting offices or 97%, and in 2012, 60 accounting offices or 94%). They were considered true in 61 accounting offices, which is 91 per cent of all accounting offices (in 2013, 61 accounting offices or 91%, and in 2012, 58 accounting offices or 91%).

Reporting obligation is based on the State Budget Act

True and fair information

2012	91%	» 58 accounting offices
2013	91%	» 61 accounting offices
2014	93%	» 62 accounting offices

Figure 15: Economic efficiency information in final accounts

True and fair information

2012	89%	» 51 accounting offices
2013	91%	» 57 accounting offices
2014	91%	» 61 accounting offices

Figure 16: Productivity information in final accounts

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 73 per cent and productivity information 65 per cent of the central government activities (in 2013, the figures were 72% and 65%, and in 2012, 58% and 64%, respectively). When assessed in this manner, there has been a slight improvement in the comprehensiveness of the figures from the previous years.

When the information on operational efficiency is assessed as a whole, the figures presented by 60 accounting offices, or 90 per cent of all accounting offices, could be considered true and fair (in 2013, 62 accounting offices or 93%, and in 2012, 56 accounting offices or 88%).

The ministries have presented most of the economic efficiency figures as cost information by result area or using a corresponding breakdown. The manner which the ministries present the information can be considered to give the required data. Even when assessed in this manner, the information supplied by the Ministry for Foreign Affairs and the Ministry of Employment and the Economy could not be considered true and fair.

There has been a slight improvement in the trueness and fairness of the information on operational efficiency in recent years. 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.

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.

According to consolidated accounting, the revenue of the central government's chargeable services totalled 1.2 billion euros. Of this total, public-law services provided under the Act on Criteria

Operational efficiency is fairly comprehensively reported

Information should be presented in a clear and uniform manner

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

for Charges Payable to the State accounted for 0.4 billion, services with market-based pricing for 0.5 billion and services priced under special legislation for 0.4 billion. The revenue for chargeable services have remained at previous years' levels.

In 2014, a total of 48 accounting offices providing chargeable services referred to in the State Budget Act (in 2013 and 2012, the figures were 56 and 53, respectively). The ministries had set performance targets for chargeable services for 35 accounting offices, which is 73 per cent of all accounting offices providing chargeable services (in 2013, for 38 such accounting offices or 68 %, and in 2012, for 39 such accounting offices or 74 %).

The audits showed that a total of 43 accounting offices (90 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 2013, the figures were 51 accounting offices and 91 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 78 per cent of all chargeable services (in 2013 and 2012, the figures were 92% and 86%, respectively).

Concerning the presentation of final accounts information on chargeable services, the overall situation can be considered fairly good. In 2014, 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 2013 and 2012).

Reporting on chargeable services has improved during the last few years

7.2 State of performance guidance on the basis of operational efficiency

Performance guidance will only work if the ministries provide agencies with appropriate performance targets and the information on them contained in the final accounts is true and fair.

One purpose of performance guidance is to reconcile the development of operational efficiency and service capacity with the management of costs. Economic efficiency targets and the information concerning their implementation are thus essential 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.

Success of performance guidance can, on the basis of financial audits, be assessed from the perspective of economic efficiency steering and reporting. 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 in administrative steering

Setting of targets and reporting on them are a single entity

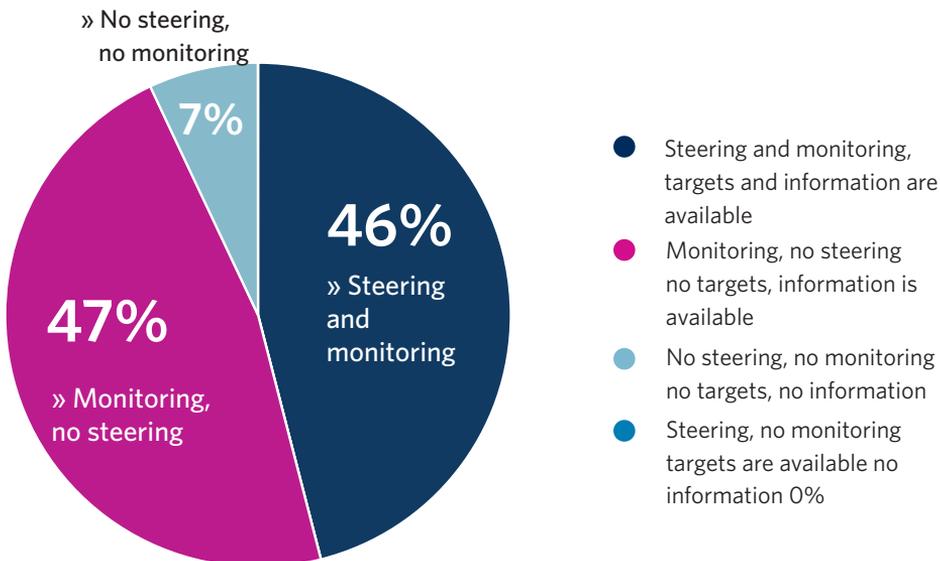


Figure 17: Comprehensiveness of the target-setting and true and fair reporting in reviews of operations

Compared with the previous years, there has 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 (46% of all accounting offices in 2014 and 52% in 2013). On the basis of the audit, one accounting office in two 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 50 per cent (51% in 2013 and 37% in 2012).

There has been a slight improvement in the presentation of true and fair information on economic efficiency during the past three years. A total of 93 per cent of all accounting offices presented true and fair information on economic efficiency in their final accounts. In 2013 and 2012 the figure was 91 per cent. The readiness of the accounting offices to present economic efficiency information remains higher than the readiness of the ministries to steer them with economic efficiency targets.

Economic efficiency targets had been set for 31 accounting offices, which is 46 per cent of all accounting offices. They also presented true and fair information in their reviews of operations (for 2013 and 2012, the figures were 97% and 94% respectively). Correspondingly, 31 (86%) of the 36 accounting offices which had not been set economic efficiency targets, presented true and fair information. For 2013 and 2012, the figures were 84% and 87%, respectively. The inadequacies in performance guidance still concern target-setting.

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 33 per cent of all accounting offices had been set adequate productivity and economic efficiency targets and presented true and fair information. For 2013 and 2012, the figures were 36% and 30%, respectively. Correspondingly, the accounting offices for which the productivity and economic efficiency targets set by the ministries were not considered adequate and that have not provided true and fair productivity and economic efficiency figures accounted for seven per cent of all accounting offices (compared with 9% in 2013 and 2012).

One accounting office in two is steered and monitored on the basis of economic efficiency criteria

The readiness to present economic efficiency information is higher than the readiness to use these aims for steering

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

8 Audit findings by administrative branch

The financial audit observations concerning the management of central government finances and the state of public administration presented in chapter 6.1 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.

8.1 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 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.

8.2 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 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 in connection with operational efficiency figures was considered true and fair.

The information on productivity and economic efficiency was true and fair

Performance audit observations

A performance audit report on Solidium Oy (6/2015) was published during the year in review. The document is discussed in chapter 4 of this report.

8.3 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 for Foreign Affairs concerned the organisation of performance accounting. The inadequacies in performance accounting also resulted in the imposition of 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 performance accounting and that the ministry should take action as a result.

Performance accounting and target-setting should be improved

8.4 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.

The qualified opinion on regularity contained in the financial audit report on the Ministry of Justice concerned the use of an appropriation for transfers in a manner that is in violation of the budget.

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.

Two accounting offices

Both accounting offices have been provided with adequate targets

The information on operational efficiency was true and fair

Performance audit observations

During year in review, the National Audit Office issued a follow-up report on an audit that covered the implementation and impacts of the productivity programme in the administrative branch of the Ministry of Justice (232/2011). Based on the follow-up findings, the administrative branch has been able to meet the person-year reduction targets laid out in the central government productivity programme for the period 2007–2011. Most of the reductions have been carried out as a result of the productivity projects in the administrative branch even though the ministry has not presented a link between all projects and person-year reductions. With a small number of exceptions, the productivity projects have been completed and the implementation of the remaining projects and the development work carried out as part of them are continuing.

The Ministry of Justice has not presented an overall estimate of the capacity of the administrative branch to perform its basic tasks. According to the Criminal Sanctions Agency, it has been impossible to expand the efforts aimed at reducing recidivism or to focus on developing the punishment regime. At the same time, however, the agency has been able to carry out its other basic tasks.

In the administrative branch of the Ministry of Justice the aim was to ensure that person-year reductions laid out in the productivity programme are achieved through projects that can improve productivity in the long term instead of simply cutting the number of person-years. Such an approach has proved to be the correct one in a situation characterised by continuous weakening of central government finances.

8.5 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 2014: the ministry itself, 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 report, the budget and the key budget provisions have been complied with in all accounting offices.

Except for the ministry itself and the ICT Agency HALTIK, the productivity and economic efficiency targets laid out by the ministry were considered adequate. The information on economic efficiency was considered true and fair in all accounting offices, except for the ICT Agency HALTIK, while the National Police Board was the only accounting office that did not present true and fair productivity information.

Except for the ministry itself, all accounting offices in the administrative branch provided chargeable services on which they also supplied true and fair information 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 the Interior and the true and fair final account information on them, the conclusion is that, except for the ministry, 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.

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

Seven accounting offices

Five accounting offices have been provided with adequate targets

Five accounting offices provided true and fair information on operational efficiency

Performance audit observations

A performance audit report on the programmes to combat the grey economy and coordination of the work (14/2015) was published during the year in review. The report covered the work of the management group for combating economic crime and the combating of the grey economy. In addition to the administrative branch of the Ministry of the Interior, the work to combat the grey economy also involves other administrative branches. The programmes to combat economic crime and the grey economy, which are in the form of Government resolutions issued since 1996, have provided the framework for systematic combating of the grey economy. According to the audit report, the fixed-term nature of the programmes has created a good basis for follow-up and reporting but the programme periods have often been too short from the perspective of the preparation of important legislative projects and impact assessment. The fixed-term nature of the resources involved in the programmes also increases the risk of losing the expertise of the key personnel. According to the targets set out in the two programmes for combating the grey economy in the periods 2010–2011 and 2012–2015, they should generate benefits of between 300 and 400 million euros for general government. It could not be established in the audit that the projects included in the programme would have created a basis for such significant impacts.

During the year in review, the National Audit Office published a follow-up report on the audit reviewing the cooperation between the police and the prosecution service (226/2011). According to the follow-up report, the Criminal Investigations Act that entered into force in 2014 and the guidelines issued by the National Police Board and the Office of the Prosecutor General have created a good basis for cooperation between the authorities. Positive results of the cooperation are already visible but as the new standards have only been in effect for a short time, it has not been possible to reliably assess all the potential benefits. Moreover, there are still problems with the monitoring and measuring of the results and the development of information systems in connection with them.

8.6 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 2014: 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 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.

The information on productivity and economic efficiency presented by the ministry and the Construction Establishment of Defence Administration in their final accounts was considered 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 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.

Three accounting offices

One accounting office was issued with a qualified opinion on regularity

One accounting office has been provided with adequate targets

Two accounting offices provided true and fair information on operational efficiency

8.7 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 ten other accounting offices in the administrative branch of the Ministry of Finance in 2014. 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, 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 report, the budget and the key budget provisions have been complied with in all accounting offices.

Based on the findings made in the financial audits, the National Audit Office 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. Except for the State Department of Åland, all nine 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 year.

11 accounting offices

Four accounting offices have been provided with adequate targets

The information on operational efficiency was true and fair

Four accounting offices were found to have internal control inadequacies that require measures on the part of the auditees. The inadequacies concerned the internal control of certain taxation procedures and compensations and the organisation of internal control for service processes.

Four accounting offices should improve their internal control procedures

Fiscal policy audit observations

The purpose of the fiscal policy audit of the overall central government balance sheet, which is still in progress and will be published in autumn 2015, was to examine how the reporting on overall central government balance sheet and group-level reporting has been developed and how the information requirements of Parliament and the associated international recommendations are taken into account. At the moment, the Government's annual report describes the assets, debts and liabilities of central government. However, the information is presented in a fragmented manner and it is not comprehensive. Both from the perspective of the need to provide Parliament with information and international recommendations (OECD and IMF) it is important to put the reporting on central government assets, debts and liabilities on a more comprehensive basis. Transparent overall examination of central government balance sheet and group-level issues as part of the reports submitted to Parliament would be an improvement to the current situation.

The fiscal policy evaluation observations submitted after the fiscal policy audit and evaluation report (separate report K15/2014 vp.) are reported to Parliament each year in the separate fiscal policy evaluation report and the reports issued in the middle and at the end of the parliamentary term.

Performance audit observations

Of the audit reports published during the year in review, the reports on central government pay systems (2/2015) and compatibility in central government ICT contracts (7/2015) are discussed in chapter 2 of this report. The follow-up on state ICT service centres is also reviewed in the same chapter. The audit report on the practicalities of the liquidation of Asset Management Company Arsenal Ltd (4/2015) was also published during the year in review. This report is discussed in chapter 4 of this report.

The conclusion in the report on the statutory tasks of the regional state administration and the allocation of resources to them (9/2015) was that the resource adjustments and allocation carried out during the last few years have had mixed effects on the activities of Regional State Administrative Agencies and ELY Centres.

Improving the efficiency of the regional state administration would require more prioritisation. There have been efforts to reform the legislation on regional state administration so that the resources could be used in a more flexible and efficient manner. In fact, the ministries responsible for steering should determine the tasks of the Regional State Administrative Agencies (overall administrative steering is the responsibility of Ministry of Finance) and ELY Centres (overall administrative steering is the responsibility of Ministry of Employment and the Economy) so that the management of the tasks and the resources allocated for them are in balance. Balancing the tasks and resources would require changes in statutes and effective implementation of the changes. The ministries responsible for steering should also continue their efforts to simplify and streamline the performance guidance system of the Regional State Administrative Agencies and ELY Centres. It should be easier to monitor the implementation of the targets set by means of performance reporting.

The purpose of the audit of state charge policy (11/2015) was to determine whether the use of charges as steering and funding instruments has been transparent and effective. The state charge policy has an impact on the manner in which the responsibility for funding the provision of services is divided among all taxpayers and the clients paying for the use of the services. Based on the audit findings, the principles concerning the cost accounting of chargeable services should be harmonised while there should also be a clearer differentiation between performances carried out under public law and on a commercial basis.

8.8 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 2014.

The financial audit report on one accounting office contained a qualified opinion on regularity. The qualified opinion on regularity contained in the financial audit report on the Ministry of Education and Culture concerned the use of an appropriation in a manner that was in violation the budget.

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.

Except for the Centre for International Mobility CIMO, the final accounts information on productivity and economic efficiency of all accounting offices was considered true and fair. Except for the National Board of Education, all five accounting offices providing chargeable services supplied true and fair information on their chargeable services and their results for the budget year.

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 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.

Three 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. The inadequacies were caused by deficiencies in the management and organisation of accounting and performance accounting.

Seven accounting office - the ministry issued with a qualified opinion on regularity

One accounting office has been provided with adequate targets

Five accounting offices provided true and fair information on operational efficiency

Three accounting offices should improve their internal control procedures

Performance audit observations

The conclusion in the audit of cooperation for study and career guidance (5/2015) was that the efforts to disseminate the results of study guidance development have been unsuccessful and that many of the results have only had local impact. There should be closer cooperation between ministries and between local actors. According to the audit, the preparatory work performed in ministries should be made into a tighter network encompassing the broad range of different steering work at local level, while at the same time, the experiences derived from good practices should also be used. The public administration has inadequate information on the scope, type and impacts of steering. The knowledge base should be improved by conducting a nationwide assessment of all aspects of steering, while at the same time, there should also be tools suited for continuous monitoring and comparisons between local differences.

The conclusion in the audit of immigrant students and effectiveness of basic education (12/2015) was that basic education does not provide all immigrant students with equal opportunities as their learning and school performance has been weaker than among native students. The results of this audit are discussed in chapter 3.

8.9 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 eight other accounting offices in the administrative branch of the Ministry of Agriculture and Forestry in 2014.

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

Except for the ministry, 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 five accounting offices. There have been no changes to the situation from the previous year.

The information on productivity and economic efficiency was found to be true and fair in all accounting offices of the administrative branch. The information on chargeable services provided by all six accounting offices engaged in such services was considered true and fair.

When the state of performance guidance is assessed on the basis of the setting of economic efficiency and productivity 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 five accounting offices in the administrative branch have 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.

Nine accounting offices

Five accounting offices have been provided with adequate targets

All accounting offices provided true and fair information on operational efficiency

8.10 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 2014.

The cautions contained in the financial audit reports on the administrative branch of the Ministry of Transport and Communications 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 allocation of expenses to the budget year and the preparation of accounting vouchers.

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

According to the financial audit, only the Finnish Transport Agency 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 all four 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 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.

Five accounting offices

One accounting office was issued with a qualified opinion on regularity

Two accounting offices have been provided with adequate targets

All accounting offices provided true and fair information on operational efficiency

The audits of the ministry, the Finnish Communications Regulatory Authority and the Finnish Transport Agency revealed internal control inadequacies that require measures on the part of the auditees. This was due to deficiencies in accounting practices, practices concerning the monitoring of authorisations and the organisation of performance accounting.

Three accounting offices should improve their internal control procedures

8.11 Administrative branch of the Ministry of Employment and the Economy

State of the administration on the basis of the financial audits

In addition to the ministry itself, there were 11 other accounting offices in the administrative branch of the Ministry of Employment and the Economy in 2014.

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, carrying over of an authorisation and the organisation of performance accounting in a manner that is in violation of the budget. The Centre for Economic Development, Transport and the Environment for South Savo acts as an accounting office that comprises a total of 15 ELY Centres. The qualified opinion on regularity contained in its financial audit report concerned the allocation of expenditure to the budget year, carrying over of an appropriation in violation of the State Budget Act, and the use of an appropriation in a manner that was in violation of the budget.

The reporting obligation was contained in the financial audit reports of the ministry itself and the Centre for Economic Development, Transport and the Environment for South Savo. The ministry's reporting obligation concerned the organisation of performance accounting and monitoring of authorisations and the processing of certain advance payments. The monitoring obligation of the ELY Centre concerned the inadequacies in internal control concerning procedures that were in violation of the budget.

According to the financial audits, the ministry had set adequate economic efficiency targets for five and adequate productivity targets for six of its accounting offices. The information on economic efficiency was considered true and fair in the ministry itself, while the information on productivity was considered true and fair in all accounting offices, except for the ministry itself and the Energy Agency. The information on chargeable services and its profitability was considered true and fair in all accounting offices providing chargeable services.

12 accounting offices

Three accounting offices were issued with a qualified opinion on regularity

Four accounting offices have been provided with adequate targets

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 Employment and the Economy and the true and fair final account information on them, the conclusion was that there are three accounting offices that are guided by adequate targets and base their reporting on true and fair information. In economic efficiency and productivity, the same applied to five 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 budget and the organisation of performance accounting.

Ten accounting offices provided true and fair information on operational efficiency

Two accounting offices should improve their internal control procedures

Performance audit observations

The conclusion in the audit of the impacts of digital employment services (8/2015) was they cannot fully replace personal employment services. The results of the audit are also discussed in chapter 3 of this report. Not all client service needs can be determined without face-to-face meetings. At the same time, however, clients are satisfied with the fact that matters that in the past required queuing can now be managed quickly online. At the moment, 72 per cent of all those registering as unemployed submit their registrations online.

During this decade, a total of between 2.3 and 3.1 million euros have been spent on the maintenance of public electronic employment services each year, while between 0.5 and 1.25 million euros have been spent of the development work each year. The resources allocated to the development of the services are small compared with what is spent in other European countries. More resources should be allocated to the development of online services.

The Ministry of Employment and the Economy has monitored the utilisation rate of online services by region and nationwide. However, it is not known in the ministry whether online services have helped to reduce unemployment. The Ministry of Employment and the Economy should assess the impacts of online services in a more systematic manner and ensure the availability of the material needed for the assessment.

The audit of the statutory tasks of the regional state administration (Regional State Administrative Agencies and ELY Centres) and providing them with resources (9/2015) is discussed in chapter 8.7.

8.12 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 2014.

The cautions contained in the financial audit reports led to qualified opinions on regularity in one financial audit report. The qualified opinion on regularity contained in the financial audit report on the Finnish Medicines Agency concerned the allocation of expenses to the budget year.

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.

All accounting offices were deemed to have presented true and fair information on productivity and economic efficiency while the information on chargeable services was considered true and fair in four accounting offices.

Five accounting offices

One accounting office was issued with a qualified opinion on regularity

All accounting offices provided true and fair information on operational efficiency

Performance audit observations

The conclusion in the audit covering the use of technical assistive devices in services for older persons provided at home (3/2015) was that the technical assistive devices should be introduced more quickly so that technology can be used for ensuring that patients in poorer health suffering from memory disorders are provided with care equivalent to assisted living. The current steering by the state cannot simultaneously make operations more efficient and ensure high-quality and safe services for people living in private homes. Reaching these goals simultaneously requires that the state will, by means of steering, create preconditions for using technology in service provision and support technology use. The main observation concerned inadequate information on costs of technical assistive devices as there is no overall idea of their costs. The costs arising from the technology assisting independent living should be comprehensively examined.

The audits reviewing the integration of immigrants in social and health care and the performance of immigrant students in basic education are discussed in chapter 3 of this report.

The conclusion in the follow-up to the audit of child welfare (6/2012), published in the year in review, was that the Ministry of Social Affairs and Health has, in cooperation with Valvira, the National Institute for Health and Welfare and Regional State Administrative Agencies, taken a number of measures to correct inadequacies in child welfare. The reform of the Social Welfare Act is also expected to increase early and comprehensive support for families. According to the audit, a change-over to in-house control in foster care units and increase in home care are a quality risk in foster care. The most important follow-up observation was that foster care still costs more than 600 million euros each year.

It was highlighted in the follow-up to the audit of regular home care (214/2010) that the main audit observations concerned inadequate information on the overall costs of home care and regional differences in home care services, service needs assessment and client charges. According to the audit recommendations, there has been progress in service needs assessment and the consideration of environmental factors in the changes to the service structure. More consideration is now also given to the competence of the personnel in social care, improvements have been achieved in the way in which quality recommendations are implemented and the client charge system in home care is being updated. It was noted in the follow-up that there are still inadequacies in the calculation of overall home care costs and the specification of the definition of home care. Few of the recommendations put forward by the National Audit Office have been implemented in these areas.

The follow-up reports on the following two audits of social and health care IT projects were also published during the year in review: Government aid for IT projects in social and health care (1/2012) and Implementation of national IT projects in social and health care (217/2011). The follow-ups covered the implementation and steering of the IT projects and certain aspects of the purchasing and government aid procedures. It was noted in the follow-up that the audits prompted government aid authorities to produce recovery-related reports as a result of which recovery decisions worth about 980,000 euros covering 24 projects were made. Some of the recovery measures could have been avoided if there had been adequate controls during the aid payments. The conclusion in the follow-up was that as a whole the Ministry of Social Affairs and Health has taken measures on account of the opinions and cautions presented in the audit reports even though some of the measures have not yet been completed. The Ministry of Social Affairs and Health should, however, pay attention to problems concerning the regulation and statute-drafting problems that pertain to nationwide information system services and personal data files in health care and to producing realistic and adequate drafting information for statute drafting.

8.13 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 2014: 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 two financial audit reports. The cautions were issued because appropriations had been used in a manner that was in violation of the budget.

The reporting obligation was contained in the financial audit reports of the ministry and the Finnish Environment Institute. The reporting obligation imposed on the ministry concerned procedures concerning the use of an appropriation. The reporting obligation imposed on the Finnish Environment Institute concerned inadequacies in project accounting.

The ministry has not set adequate economic efficiency performance targets 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 accounting practices and the organisation of monitoring of authorisations and performance accounting.

Three accounting offices

Two accounting offices were issued with 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

9 Work and effectiveness of the National Audit Office

The National Audit Office is the supreme external audit institution in Finland, as laid down in section 90 of the Constitution of Finland. It audits central government finances and supervises fiscal policy and the financing of parties and elections. The National Audit Office is an independent body affiliated with Parliament. The aim of the National Audit Office is to ensure that central government finances and fiscal policy and the funding of elections and political parties are in accordance with the principles of the rule of law, democracy and sustainable finances.

The effectiveness and added value of the National Audit Office in the management of Finland's general government finances are built on the results of different types of audits (fiscal policy, financial, compliance and performance audits). The National Audit Office is responsible for the oversight of political party and election campaign funding and it acts as the independent supervisor of central government finances.

9.1 National Audit Office is auditing implementation of structural reforms

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, NAOF aims to provide prerequisites and support for sustainable reforms in general government finances 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. The National Audit Office is making a significant contribution to ensuring that central government finances are on a sustainable basis. The International Monetary Fund (IMF) conducted an assessment of the transparency of Finland's general government finances in autumn 2014. According to the assessment, the external audit and fiscal policy evaluation conducted by the National Au-

dit Office is in accordance with the best international practices in the sector.⁸¹ The audits and evaluation conducted by the National Audit Office have properly targeted the central risks affecting Finland's general government finances and society at large that have been identified in the risk analysis of central government finances and the national economy.

The purpose of performance audits is to monitor and assess the implementation of structural policy reforms. Structural changes also have an impact on the public administration. The public administration must have the readiness to change its procedures and practices so that it can manage its traditional basic task and respond to the changing expectations of citizens. For example, it must be possible to better assess the impacts of legislation. Performance audits produce information and development recommendations concerning the quality of legislation and the implementation of structural reforms and contain recommendations for sustainable reform in 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. Performance audit follow-ups show that, compared with other countries, a high proportion of the recommendations issued by NAOF is implemented. Some 29 per cent of the assessed recommendations are implemented in full or in most respects, while 47 per cent are partially implemented.

The external audit of central government finances conducted by the National Audit Office verified the reliability of the final accounts of the central government and its accounting offices as well as compliance with the budget and key budget legislation and the functioning 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 from the perspective of development.

The closing of the sustainability gap and stabilisation of general government finances require structural reforms. The audits have helped to improve the quality of the information received by Parliament and promoted confidence in Parliament's chances to influence matters. The focus in the audits conducted in 2014 was on the tax policy and the auditing of financial tax policy assessments.

Performance audits support the development of central government finances and promote overall and economic efficiency

Financial audits strengthen trust in central government finances

Fiscal policy audits help to improve the quality of information supplied to Parliament

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.

Together with its international partners, the National Audit Office has contributed to the implementation of accountability and openness in the banking union of the European Union and in economic policy coordination. Finland chairs the Network on Fiscal Policy Audit of national audit offices and courts of auditors of the EU. The National Audit Office has monitored the development of the banking union of the European Union. The National Audit Office and the other audit offices of the euro area have concluded that the new banking union and the single supervisory mechanism have made it more difficult for a number of national audit offices in the euro area to obtain information and affected transparency of banking supervision in euro area countries even though a single supervisory mechanism will result in a significantly more unified financial supervision and allows the tackling of problems affecting the euro area as a whole.

The National Audit Office responded to the public consultation request of IPSASBoard, the body setting international final accounts standards for the public sector, concerning the future administrative model of IPSASBoard and the development of supervision and monitoring. Many of the views of the National Audit Office concerning the administration and supervision model for final accounts standards and the improvement of the status of supreme audit institutions were taken into account in the IPSASBoard's recommendations concerning the planned reform. The views and expertise of the standard's users will be considered in a new manner in the work aimed at developing the standards. In accordance with the views of the National Audit Office, special consideration in the recommendations has also been given to improvements in the openness and transparency of the activities.

Fiscal policy evaluation ensures transparency and credibility of fiscal policy rules

The National Audit Office also helps to strengthen the basis for accountability in the European Union

The international efforts to prepare final accounting standards for public sector are making progress

9.2 National Audit Office helps to ensure economic sustainability and reforms in public administration

NAOF's reports submitted to Parliament have focused on issues that are essential to central government finances and the national economy. A number of important reforms have been initiated on the basis of the recommendations laid out in the reports to Parliament. The recommendations of the National Audit Office concerning the development of the Government steering policy, reduction in the number of central government strategies and a substantially shorter Government Programme were included in the proposals submitted as part of the project concerning the Government steering policy. Based on the recommendation presented by the National Audit Office, Parliament has called for the establishment of a centralised unit responsible for supporting and monitoring the impact assessment of statutes. The purpose of the unit, which would be established from the beginning of the parliamentary term starting in 2015 and would be part of the Government, would be to ensure the quality of the impact assessment of legislation. The parliamentary committee tasked with the assessment and development of the functioning of the Government has proposed, in accordance with the observations and recommendations of the National Audit Office, that the division of labour between political decision-makers and senior civil servants should be clarified and that the system of political permanent secretaries should be reassessed. The objective of the National Audit Office has been to contribute to the renewal and development of Finnish society. On this basis, its aim has been to carry out the task of promoting reforms and innovation laid out for supreme audit institutions in recently adopted international standards.

The recommendations of the National Audit Office concerning the upper limit to the obligations imposed on municipalities by the state and an overall economic steering model for local government finances are in the process of being implemented. The estimates of the achievement of fiscal policy objectives, overall functioning of the tax system, tax policy and the basis for the fiscal policy for the next parliamentary term presented in the fiscal policy evaluation and audit report for the parliamentary term have strongly influ-

A number of important reforms have been initiated on the basis of the recommendations issued by the National Audit Office

NAOF's assessments of the implementation of fiscal policy objectives have steered public debate

enced the public debate on these topics. The National Audit Office has also highlighted the role of reforms strengthening the output potential of the Finnish economy.

Oversight of election campaign and political party funding has played a major role in ensuring the openness of election campaign and political party funding. The conclusion is that the overall effectiveness of the National Audit Office is very good.

The National Audit Office has laid out its performance targets for 2014 in its 2014–2018 audit plan. The agency’s departments and quality group have carried out an assessment of the implementation of these performance targets. The results of the stakeholder survey, to be conducted in the autumn of 2015, will be reported in 2016.

Monitoring ensures openness of election campaign and political party funding

STRATEGIC OBJECTIVE



Figure 18: Monitoring of performance targets 2014

ASSESSMENT

OBJECTIVE 1

The results of the stakeholder survey, to be conducted in the autumn of 2015, will be published in 2016.

OBJECTIVE 2

In its reports to Parliament, the National Audit Office has reviewed the prerequisites for structural change. The focus in performance audits has been on high-priority risk areas. The National Audit Office has reported to Parliament on the audit of final central government accounts, summary of compliance with the budget, the state of central government finances and of the implementation of the principles of good governance in effectiveness of operations, internal control, true and fair final accounts information and legality of the activities. The reports have highlighted the risks affecting growth in total and potential output and the impacts of tax policy on economic growth and contained an assessment of how successfully the Government has managed to stabilise general government finances.

OBJECTIVE 3

According to the quality group of the National Audit Office, most of the objectives have been met. The results of the stakeholder survey, to be conducted in the autumn of 2015, will be published in 2016.

OBJECTIVE 4

Has been mostly implemented to the extent that the National Audit Office has highlighted the sustainability problem facing general government finances. Finland's general government finances are not on a sustainable basis. The purpose of financial audits and compliance audits is to verify the legality of central government finances, compliance with the budget and the trueness and fairness of the final accounts. At central government level, the performance audits have covered important areas, such as export financing liabilities. Sustainable and successful management of finances has been discussed in the audits reviewing the renovation grant scheme and the youth guarantee. Based on self-evaluation, the perspective of economic efficiency in performance audits should be strengthened. Sustainability of general government finances has been extensively highlighted in fiscal policy audit and evaluation.

OBJECTIVE 5

The purpose of financial audits and compliance audits is to verify the legality of central government finances, compliance with the budget and the trueness and fairness of the final accounts. In the long term, these will strengthen the credibility of central government finances and reliability of the information on them. Because of the indirect nature of the issue, the audits performed by the National Audit Office have had some effect. During the period in review, performance audits have focused on employment issues. As part of its statutory fiscal policy evaluation task, NAOF's fiscal policy evaluation function monitors compliance with the Stability and Growth Pact Finland has complied with the pact during the 2011-2014 parliamentary term. However, there is a risk that Finland will be in breach of the objective concerning general government structural balance laid down in the preventive arm of the pact. In 2014, the National Audit Office highlighted the importance of structural reforms and reforms strengthening the output potential of the Finnish economy so that Finland can remain in compliance with the Stability and Growth Pact. In this respect one can say that NAOF has significantly contributed to ensuring compliance with the pact.

OBJECTIVE 6

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 part of the process of verifying that financial management is in compliance with the law.

OBJECTIVE 7

The results of the stakeholder survey, to be conducted in the autumn of 2015, will be published in 2016.

9.3 Productivity and economic efficiency targets have been achieved

The National Audit Office continued the implementation of its stability and efficiency programme in personnel policy and finances. At the same time, the National Audit Office has been given important new statutory tasks. The number of person-years in the National Audit Office totalled 143, which was two more than in the previous year. The growth in the number of person-years was based on changes in the structure of public offices as a result of which the euro-denominated target for personnel expenses was achieved. The aim of these measures and an anticipatory personnel policy has been to ensure the long-term effectiveness of its operations with existing funding levels.

The strategic economic efficiency objective of the National Audit Office has been to ensure that the rise in the real price of the performance day (change in the price of the audit day in relation to the consumer price index) during a four-year period will not exceed the rise in the consumer price index during the same period. The target concerning the price of the audit day was achieved during the year in review. In 2014, the price of the performance day decreased by 3.9 per cent from the previous year. During the monitoring of the National Audit Office's stability and efficiency programme which began in 2011, the price of the performance day has increased by 3.3 per cent, which is below the increase in the consumer price index between 2011 and 2014.

Ensuring that the rise in expenditure during a period of four years does not exceed the increase in consumer price index during the same period has been the second strategic economic efficiency objective. The expenditure of the National Audit Office has increased by 3.4 per cent, while at the same time (during the past four years or since 2011), the consumer price index has risen by 5.6 per cent. The increase in expenditure has been well below the rise of the consumer price index. The target has been achieved.

The aim of the National Audit Office has been to achieve a situation where the ratio between external and internal performances is 75–25. This target has been achieved: In 2014, the ratio was 75.6–24.4. Effective working hours in the National Audit Office totalled 21,881 person-years (compared with 20,623 in 2013). In 2014, slightly fewer working days/person-year were spent on the development of expertise and internal development projects than in the previ-

The National Audit Office aims to ensure the effectiveness of its operations by means of an anticipatory personnel policy and personnel planning

The National Audit Office has achieved its productivity and economic efficiency targets

External performances accounted for 75.6 per cent of effective working hours

ous year. The amount of advisory work provided to ministries and Parliament that supplements audit and monitoring is substantial; it accounts for 11.7 per cent of effective working hours. The demand for National Audit Office's expertise is on the increase.

The quality of the management and supervisory work has improved and there is also greater trust in the role of the management in the maintenance of NAOF's operating prerequisites. Development of the working atmosphere, well-being at work and working methods is an essential part of the implementation of the National Audit Office's strategy. Efforts have been made to reduce workloads by calculating resources more accurately and by planning their use. The measures that have been taken so far have had a positive effect on work management and have also brought about a slight reduction in the workload perceptions among staff members.

The number of sickness absences among the personnel decreased by 16.6 per cent from the previous year and is now well below central government average. A total of 11.1 person-days/person-year was spent on training, which was 6.7 per cent less than in the previous year. Development discussions (that take place separately from performance assessments) were conducted with each staff member.

Parallel to the implementation of the stability and efficiency programme, the National Audit Office has also invested in the development of skills. The skills development policy covers measures that help in the preparation of NAOF's skills chart, support the expansion and deepening of personnel skills and ensure the comprehensiveness of NAOF's skills areas in relation to its tasks.

Improvements have been achieved in management and supervisory practices and workflow management

Strengthening expertise has been a focus area in the National Audit Office

Table 1: Effective working hours by type of performance

	2012	2013	2014
Financial audit	7,482 pd 37% *	6,823 pd 33% *	6,063
Compliance audit	548 pd 3% *	662 pd 3% *	1,554 pd
Performance audit	4,567 pd 23% *	5,018 pd 23% *	5,587 pd
Fiscal policy audit	287 pd 1% *	326 pd 1% *	361 pd
Reports to Parliament	184 pd 1% *	327 pd 1% *	710 pd
External management	3,490 pd 17% *	3,638 pd 17% *	3,619 pd
External expert activities	3,037 pd 15%	3,406 pd 15% *	3,607 pd
Oversight of election campaign and political party funding	460 pd 2% *	424 pd 2% *	380 pd
External performances, total	20,056 pd	20,623 pd	21,881 pd
External performances as % of total working hours	59%	59%	
Indirect activities (support services, administration)	6,533 pd	7,495 pd	
Holidays and other paid absences, total	7,557 pd	7,495 pd	7,052 pd
Working hours, total	34,145 pd	35,260 pd	35,995 pd

*) of external performances

Comprehensive reform in EU's banking sector (banking union)

The banking union comprises the establishment of a single supervisory mechanism and a single resolution mechanism and harmonisation of deposit guarantees.

Implementation of the banking supervisory mechanism

A single banking supervisory mechanism was established in the euro area in autumn 2013. The regulation on the banking supervisory tasks of the European Central Bank entered into force in November 2013 and operations began in November 2014. The single supervisory mechanism comprises the European Central Bank (ECB) and the competent national authorities of the Member States taking part in the mechanism. In Finland, the Financial Supervisory Authority serves as the supervisory authority and administratively it operates alongside the Bank of Finland.

All significant banks operating in the euro area were put under the direct oversight of the European Central Bank. Significant banks are banks with a balance sheet of more than 30 billion euros or 20 per cent of the Member State's GDP. National supervisory authorities continue to supervise all other less significant banks in cooperation with the ECB. The following Finnish banks were transferred under direct the oversight of the supervisory mechanism: Nordea Pankki Suomi Oyj, OP-Pohjola-ryhmä and Danske Bank Oyj.

Impacts on the work of supreme audit institutions

According to the report compiled by the Contact Committee of the European Union's supreme audit institutions in 2012⁸², only 7 of the 14 audit institutions have the right to audit their own national financial market supervisors. The National Audit Office does not have the right to audit the operations of the Financial Supervisory Authority. At the same time, however, the National Audit Office has the right to audit the operations of the Financial Stability Authority, which serves as the national resolution authority. In a report on the impacts of the banking union supervisory mechanism⁸³, the National Audit Office has concluded that the limited scope of the audit powers of the national audit institutions can put accountability in the euro area at risk.

The Contact Committee of the supreme audit institutions of the European Union has expressed its concern over the accountability and audit gap arising from the fact that national institutions auditing central government finances are not able to audit the activities of financial market supervisors. Under the principles of internationally accepted accountability, openness and transparency principles and other good governance principles, all aspects of the activities involving substantial general government funds, liabilities and risks should be covered by external auditing. Eliminating the audit gap in the European Union in a unified manner, would require the widening of the audit powers of the National Audit Office in this respect. There are also other areas in the Finnish legislation concerning the scope of the National Audit Office's audit and evaluation powers that should be reviewed.

Risk analysis of central government finances and the national economy 2015

Registry no. 203/02/2015

The main risks facing central government finances and the national economy

In its risk analysis of central government finances and the national economy, the National Audit Office has surveyed the risks of Finland's general government finances and its national economy that from the perspective of finding solutions to Finland's problems and thus also from the perspective of the Government must be successfully dealt with. The National Audit Office has evaluated the materiality of the issues and has in the audit focused on the management of these risks, drawing Government's attention to the fact that in the strategic management of fiscal policy and other areas of societal policy and public administration there is a need to give high priority to the risks discussed here.

1 Risks facing the national economy

In its risk analysis, the National Audit Office has identified three change trends that from the perspective of the national economy pose major risks to general government finances and thus also to central government finances. These are:

- 1 The basis for economic growth is weakening
- 2 There is a disparity between revenue and expenditure in the public sector - sustainability gap
- 3 Overall management of the public sector has become more difficult

1.1 The basis for economic growth is weakening

The Finnish and Nordic welfare state is based on a model where economic growth makes it possible to provide extensive public services and carry out current transfers. GDP growth is nowadays largely determined by the growth in overall productivity. At the same time, the revenue of general government finances and central government and their economic capacity depend on how rapidly the gross domestic product is growing.

As a result of the structural changes in the Finnish economy there has been a considerable slowdown and near stagnation in the growth of overall productivity in recent years. As a result of the changes in sectoral structure and the problems concerning competitiveness and the use of innovations, overall productivity growth may be quite low during the next five years. This means that the potential output of the national economy and, ultimately, the gross domestic product will grow at a fairly slow rate.

Failure of Finland's private and public sector to make sufficient use of the opportunities offered by ICT will also weaken the basis for economic growth. Regulation and policy measures by central and local government have an impact on how well ICT and the productivity potential that it offers can be used. Pay trends and productivity growth should also be in balance so that Finland can maintain its cost competitiveness. Environmental risks and climate change will further undermine the basis for economic growth.

Ageing of the Finnish population will put considerable pressure on care and welfare expenditure in a situation where Finland's economic production potential is weakening. As a result, the indebtedness of general government finances is threatening to get out of control. Moreover, the ratio of central and local government expenditure to gross domestic product may reach such levels that there is no longer any funding available. The effects of the weakening of the dependency ratio as a result of the age structure could be reduced if employment rates were higher.

As a result of the changes in sectoral structure, jobs will disappear in some sectors while new ones will be created in others. The risk is that unemployment is growing while at the same time there is a shortage of labour. Finland is a small country with an open economy, which makes us sensitive to external shocks slowing down growth. Economic restructuring and digitalisation may wipe out more jobs than new ones are created, which makes the labour market more polarised.

1.2 There is a disparity between revenue and expenditure in the public sector.- sustainability gap

It seems that Finland will have to live with a public sector deficit for years to come. As a result of slow economic growth, tax revenue will not be sufficient for maintaining a welfare state in its current form. In addition to the economic slowdown and Finland's population structure, the growth in public spending can also be put down to the fact that costs in the public sector are growing more rapidly than in the rest of the economy. This means that closing the sustainability gap in general government finances is more difficult than before and requires long-term policy measures.

Globalisation increases the need for international regulation in many areas of general government and societal policy (including economic and fiscal policy). The risk is that Finland will be unable to make sufficient use of the opportunities of international cooperation in the overall management of general government finances or that international steering and putting it into practice are not in accordance with our national objectives.

1.3 Overall management of the public sector has become more difficult

Even though general government finances should be examined as a whole, this approach is not necessarily adequately supported by the manner in which fiscal policy and economic policy decisions have been prepared in the past. Central and local government finances in particular should also be steered in overall terms from the perspective of the Finnish economy as a whole. At the same time we must avoid the risk that targets concerning the fiscal position of local government finances and social and health care get into conflict with the legislation laying down fundamental rights, subjective rights or binding procedural standards.

A high-quality infrastructure is an important competitive factor for Finland. There must be sufficient investments in ensuring the quality and upgrading of the infrastructure, while at the same time the infrastructure must be developed so that it will best serve the efforts to ensure economic productivity.

2 Risks facing central government finances

In its risk analysis, the National Audit Office has identified four main risks for central government finances. These are:

- 1 Central government fails to maintain its revenue base and its ability to collect revenue
- 2 Central government fails to adjust current transfers correctly or to allocate them in a correct/appropriate manner
- 3 Central government fails to achieve the productivity and economic efficiency targets set for administrative structures and their renewal
- 4 Legislation becomes less effective

2.1 Central government fails to maintain its revenue base and its ability to collect revenue

The ability of the central government to collect revenue mainly depends on whether Finland can, as part of its tax policy, maintain a revenue-accruing tax system in which the societal costs of taxation can be kept under control and citizens are willing to pay taxes. The inability of the tax system to function properly may result in insufficient tax revenue. The dividends generated by state-owned companies are also an important source of revenue and the risk is that the central government is unable to use the dividends and sales proceeds generated by them for investments strengthening economic growth, productivity and the cost-effectiveness of the public sector.

2.2 Central government fails to adjust current transfers correctly or to allocate them in a correct/appropriate manner

At the moment, the public administration is unable to meet all statutory service requirements. Current transfers (benefits, subsidies and government transfers and grants) account for almost 70 per

cent of all expenditure in the state budget. As circumstances are changing, it is important to adjust the level of current transfers in the state budget in accordance with the revenue and to allocate them in a correct and appropriate manner. The danger is that current transfers help to maintain outdated structures and prevent the creative destruction that helps to revitalise the economy and increase productivity.

2.3 Central government fails to achieve the productivity and economic efficiency targets set for administrative structures and their renewal

There will be more emphasis on the achievement of productivity and economic efficiency targets in the activities and renewal process of the public sector. In productivity improvements, procedural reforms making use of ICT are central to productivity improvements. The risk is that ICT fails to become a tool supporting productivity. Cyber and information security risks also endanger the achievement of productivity and economic efficiency targets. The danger in achieving the productivity targets is that there is too much emphasis on perspectives and that the public administration adopts a large number of solutions specific to individual administrative branches within which there is partial optimisation at the expense of general government finances as a whole.

According to the assessments of Government decision-making, the main challenges are the preparation and implementation of strategies and flexible use of resources. Problems concerning the political leadership, the main force behind joint Government action, and the failure to strengthen the Government's ability to implement decisions are major risks concerning decision-making and implementation of decisions.

2.4 Legislation becomes less effective

The amount of legal regulation and the administrative burden resulting from it are growing, while at the same time there are also deficiencies in the quality of legislation. Improving the quality of regulation requires ex-ante and ex-post effectiveness evaluation.

The EU has a substantial influence over Finland's national legislation and it has also become an increasingly influential player in the management of general government finances. At the level of national economy, development of electronic communications and digitalisation of information have meant that the information-intensive sectors now account for a larger share of the national economy than before. In central government and especially among security authorities, the security of electronic transactions and digital information are also a major concern at the moment. Despite fundamental challenges, Finland's infrastructure is of high quality when compared with other countries. Maintaining the high quality of our infrastructure requires maintenance investments or a plan concerning the lowering of its quality.

3 Risk concerning central government finances

In its risk analysis, the National Audit Office has identified four main risks for central government finances. These are:

- 1 Risks that the state budget and laws are not complied with are increasing
- 2 Shared central government service solutions and reliance on ICT are creating new types of risk
- 3 There is no overall perspective in the management of the economy
- 4 Development of steering and management systems is stagnating

3.1 Risks that the state budget and laws are not complied with are increasing

As there is less funding available, the risks that the state budget and laws are not complied with are increasing. As a result, organisations are being streamlined and it becomes impossible to ensure adequate expertise or to introduce new types of expertise. Giving priority to short-term productivity measures may divert attention from uniform and appropriate budgetary procedures.

3.2 Shared central government service solutions and reliance on ICT are creating new types of risk

Service centres and other new central government group-level service solutions and the fact that they rely on ICT for their functioning bring productivity improvements but can also result in long and complex administrative chains and blurring of responsibilities. Centralised group-level solutions are entirely dependent on the functioning of the ICT systems used in them, which also means more data security risks and emphasises competence requirements. In the cross-cutting processes of central government, steering and funding of ICT are still the responsibility of a large number of different actors, which means that it is more difficult to ensure productivity improvements and manage ICT risks.

3.3 There is no overall perspective in the management of the economy

There is still partial optimisation in central government finances and the knowledge base of the decision-making does not support awareness of the long-term and medium-term costs resulting from the decisions or the failure to make them. Inadequacies in the examination of the central government balance sheet and the overall examination of the general government balance sheet make long-term and future-oriented management of state assets more difficult.

3.4 Development of steering and management systems is stagnating

The risk in the development of steering and management systems is that it is impossible to produce a better overall picture or to put the overall management of general government finances on a better basis and at the same time strengthen the perspective of performance information and assessment in the management process. Hasty and at times partisan preparation of reforms may erode the basis for good administration and weaken the overall functioning of public administration and general government finances. Increasingly international arrangements limit the budgetary power of Parliament and may weaken citizens' trust in the management of the Finnish economy and weaken the budgetary power when the overall perspective of democracy and the budgetary power are not actively considered in implementation at national level.

Appendix 2:
Qualified opinions on
regularity and reporting
obligations

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

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

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

Administrative branch of the Ministry of Justice
Ministry of Justice

On the basis of the audit, it is our opinion that the budget and the key budget provisions have been complied with, except for the use of the appropriation on item 25.01.01 (Operating expenditure of the Ministry of Justice) to cover the payment of transfers (20,000 euros) in a manner that is in violation of the budget.

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 14 August 2015 on the measures that it has taken to ensure that its performance accounting is in accordance with section 16 of the State Budget Act.

Administrative branch of the Ministry of Justice

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 budget and the key budget provisions have been complied with, except for the exceeding of an authorisation on item 27.10.18 (Defence materiel procurement) by 2.2 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.

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

On the basis of the audit, it is our opinion that the budget and the key budget provisions have been complied with, except for the use of the appropriation on item 29.20.30 (Central government transfer and discretionary government transfer for operating expenditure of vocational education and training, variable appropriation) for paying consumption expenditure (49,466 euros), which is in violation of the budget.

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 14 August 2015 on the measures that it has taken to arrange the monitoring of the use of an authorisation in accordance with section 15 of the State Budget Act, to ensure that performance accounting is in accordance with section 16 of the State Budget Act and to verify the information on the use of the authorisation that, according to the 2014 final accounts, can be carried over.

Administrative branch of the Ministry of Education and Culture

QUALIFIED OPINION ON REGULARITY

Administrative branch of the Ministry of Transport and Commu- nications

Finnish Transport Agency

On the basis of the audit, it is our opinion that the budget and the key budget provisions have been complied with, except for the budget outturn statement, advance payments and the inadequacies concerning the contents of vouchers:

- 1 A reduction in fixed assets (0.7 million euros) entered in the balance sheet without grounds has been entered as reduction in expenditure on item 31.10.79 (Life-cycle funding projects, three-year deferrable appropriation) in violation of the budget and section 42(2) of the State Budget Decree. The reduction should only have been entered in general accounting. The Finnish Transport Agency must cancel equal amounts from the appropriation carried over to 2015.
- 2 Advance payments have been entered as expenditure on the basis of a charge criterion in the 2013 budget as follows: 0.88 million euros on item 31.10.20 (Basic transport infrastructure maintenance, two-year deferrable appropriation) and 0.9 million euros on item 31.10.77 (Development of the transport network, three-year deferrable appropriation). This is in violation of the budget and section 5 a of the State Budget Decree.
- 3 Accounting vouchers are not fully in accordance with the provisions laid down in section 45 of the State Budget Decree.

OBLIGATION TO REPORT TO THE NATIONAL AUDIT OFFICE

Administrative branch of the Ministry of Transport and Commu- nications

Finnish Transport Agency

Under section 5(1) of the Act on the National Audit Office, the Finnish Transport Agency must report by 14 August 2015 on the measures that it has taken as a result of the procedures that are in violation of the 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 Employment and the Economy

Ministry of Employment and the Economy

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

- 1 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 in violation of the budget and section 6 a of the State Budget Act.
- 2 Authorisations totalling 36.5 million euros granted in the budgets of the previous years that under the 2013 final accounts could not have been carried over was used in 2014 on item 32.50.64 (Funding contribution of EU structural funds and the state to structural fund programmes in programming period 2007-2013, variable appropriation). 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 Employment and the Economy
Ministry of Employment and the Economy

Under section 5(1) of the Act on the National Audit Office, the Ministry of Employment and the Economy must report to the National Audit Office by 14 August 2015 on the measures that it has taken as a result of the inadequacies in the organisation of performance accounting and monitoring of authorisations and the inadequacies in the processing of certain advance payments.

QUALIFIED OPINION ON REGULARITY

Centre for Economic Development, Transport and the Environment for South Savo

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

- 4 A total of 688,194 euros in expenditure on items 32.01.20 (Non-military service, variable appropriation) and 32.70.30 (State compensation to municipalities, variable appropriation) that should have been allocated to 2015 have been allocated to 2014 in violation of the budget and section 5 a of the State Budget Decree. Using the procedure, the Centre for Economic Development, Transport and the Environment for South Savo has carried over an appropriation in violation of section 7 of the State Budget Act.
- 5 Appropriations on items 30.50.20 (Expenditure for water resources management and use, three-year deferrable appropriation in the 2013 budget) and 35.10.22 (Certain environmental expenditure, three-year deferrable appropriation in the 2012 and 2013 budgets) have been used to cover pay expenses of persons appointed to permanent posts (total amount 125,650 euros). This is in violation of the budget.

OBLIGATION TO REPORT TO THE NATIONAL AUDIT OFFICE

Centre for Economic Development, Transport and the Environment for South Savo

Under section 5(1) of the Act on the National Audit Office, the Development and Administrative Services Centre for ELY Centres and TE Offices must report to the National Audit Office by 14 August 2015 on the measures that it has taken as a result of the procedures that are in violation of the budget and the key budget provisions, and the measures that it has taken as a result of the inadequacies in internal control.

- 6 Expenditure waiting to be entered on the budget account contain paid advance payments totalling 2,778,582.84 euros that under the budget and section 5 a of the State Budget Decree should have been entered as expenditure under item 35.10.20 (Prevention of environmental damage, variable appropriation).
- 7 The appropriation on item 35.10.21 on item (Certain nature protection expenditure, three-year deferrable appropriation) has been used for paying transfer expenditure (34,843.78 euros), which is in violation of the budget. There are no references in item decisions to using the appropriation for paying transfer expenditure.
- 8 The procedures concerning the verification of certain expenditure cannot be considered to be in accordance with the good accounting practice referred to in section 14 of the State Budget Act.

QUALIFIED OPINION ON REGULARITY

VTT Technical Research Centre of Finland

On the basis of the audit, it is our opinion that the budget and the key budget provisions have been complied with, except for the use of the appropriation on item 32.20.02 (Operating expenditure of VTT Technical Research Centre of Finland, two-year deferrable appropriation, section 1 Operating expenditure) for paying expenditure totalling 262,000 euros under section 3 (Investments in and commissioning of test equipment for renewable energy sources, EK, max.) of the same item. This is in violation of the budget. If the expenditure had been entered in accordance with the budget, the appropriation in section 3 would have been exceeded by the same amount.

OBLIGATION TO REPORT TO THE NATIONAL AUDIT OFFICE

QUALIFIED OPINION ON REGULARITY

Administrative branch of the Ministry of Social Affairs and Health Finnish Medicines Agency

On the basis of the audit, it is our opinion that the budget and the key budget provisions have been complied with, except for the entry of revenue of 450,000 euros that should have been allocated to the years after 2014 as revenue for 2014 on item 33.02.06 (Operating expenditure of the Finnish Medicines Agency, two-year deferrable appropriation). This is in violation of the budget and section 5 a of the State Budget Decree.

Administrative branch of the Ministry of the Environment Ministry of the Environment

On the basis of the audit, it is our opinion that the budget and the key budget provisions have been complied with, except for the use of the appropriation on item 35.10.21 (Certain nature protection expenditure, three-year deferrable appropriation) for paying transfer expenditure totalling 175,000 euros, which is in violation of the budget and use of the appropriation on item 35.10.22 (Certain environmental expenditure, three-year deferrable appropriation in the 2012, 2013 and 2014 budgets) for paying transfer expenditure totalling 286,671 euros, which is in violation of the budget.

OBLIGATION TO REPORT TO THE NATIONAL AUDIT OFFICE

Administrative branch of the Ministry of Social Affairs and Health

Administrative branch of the Ministry of the Environment Ministry of the Environment

Under section 5(1) of the Act on the National Audit Office, the Ministry of the Environment must report to the National Audit Office by 21 August 2015 on the measures that it has taken as a result of the procedures that are in violation of the budget and the inadequacies noted in internal control.

QUALIFIED OPINION ON REGULARITY

Finnish Environment Institute

The budget and key budget provisions have been complied with, except for the use of the appropriation on item 35.10.21 (Certain nature protection expenditure, three-year deferrable appropriation in the 2013 and 2014 budgets) for paying transfer expenditure of 61,000 euros, which is in violation of the budget and the use of the appropriation on item 35.01.29 (Value-added tax expenditure in the administrative branch of the Ministry of the Environment, variable appropriation) for paying expenditure on item 35.10.70 (Vessel investments, three-year deferrable appropriation) totalling 565,412.90 euros, which is in violation of the budget. The Finnish Environment Institute must cancel equal amounts from the appropriation carried over to 2015.

OBLIGATION TO REPORT TO THE NATIONAL AUDIT OFFICE

Finnish Environment Institute

Under section 5(1) of the Act on the National Audit Office, the Finnish Environment Institute must report to the National Audit Office by 14 August 2015 on the measures that it has taken as a result of the inadequacies in the accounting practices concerning jointly funded activities.

125/53/14 Final central government accounts

Office of the President of the Republic

58/53/14 Office of the President of the Republic

Prime Minister's Office

59/53/14 Prime Minister's Office

Administrative branch of the Ministry for Foreign Affairs

60/53/14 Ministry for Foreign Affairs

Administrative branch of the Ministry of Justice

61/53/14 Ministry of Justice

62/53/14 Criminal Sanctions Agency

Compliance audit

184/52/14 Compensations

Administrative branch of the Ministry of the Interior

63/53/14	Ministry of the Interior
64/53/14	ICT Agency HALTIK
65/53/14	Emergency Response Centre Administration
66/53/14	Finnish Immigration Service
67/53/14	Emergency Services College
68/53/14	National Police Board
69/53/14	Finnish Border Guard
126/53/14	Fire Protection Fund

Administrative branch of the Ministry of Defence

70/53/14	Ministry of Defence
71/53/14	Construction Establishment of Defence Administration
72/53/14	Finnish Defence Forces

Administrative branch of the Ministry of Finance

73/53/14	Ministry of Finance
74/53/14	State Department of Åland
75/53/14	Regional State Administrative Agency for Southern Finland
76/53/14	Statistics Finland
77/53/14	Finnish Customs
78/53/14	State Treasury
79/53/14	VATT Institute for Economic Research
80/53/14	Finnish Government Shared Services Centre for Finance and HR
81/53/14	Government ICT Centre Valtori
82/53/14	Finnish Tax Administration
83/53/14	Population Register Centre

Compliance audit

184/52/14	Compensations
189/52/14	Budget procedures

Administrative branch of the Ministry of Education and Culture

84/53/14	Ministry of Education and Culture
85/53/14	Centre for International Mobility CIMO
86/53/14	National Archives
87/53/14	National Board of Antiquities
88/53/14	National Board of Education
89/53/14	Academy of Finland
90/53/14	Governing Body of Suomenlinna

Administrative branch of the Ministry of Agriculture and Forestry

91/53/14	Ministry of Agriculture and Forestry
92/53/14	Finnish Food Safety Authority
93/53/14	Finnish Geodetic Institute
94/53/14	MTT Agrifood Research Finland
95/53/14	Information Centre for the Ministry of Agriculture and Forestry
96/53/14	National Land Survey of Finland
97/53/14	Agency for Rural Affairs
98/53/14	Finnish Forest Research Institute
99/53/14	Finnish Game and Fisheries Research Institute

Administrative branch of the Ministry of Transport and Communications

100/53/14	Ministry of Transport and Communications
101/53/14	Finnish Meteorological Institute
102/53/14	Finnish Transport Agency
103/53/14	Finnish Transport Safety Agency
104/53/14	Finnish Communications Regulatory Authority

Administrative branch of the Ministry of Employment and the Economy

105/53/14	Ministry of Employment and the Economy
106/53/14	Energy Authority
107/53/14	Centre for Economic Development, Transport and the Environment for South Savo
108/53/14	Geological Survey of Finland
109/53/14	Tekes - the Finnish Funding Agency for Innovation
110/53/14	Finnish Competition and Consumer Authority
111/53/14	National Consumer Research Centre
112/53/14	Finnish Tourist Board
113/53/14	Centre for Metrology and Accreditation
114/53/14	Finnish Patent and Registration Office
115/53/14	VTT Technical Research Centre of Finland
116/53/14	Finnish Safety and Chemicals Agency

Compliance audit

184/52/14	Compensations
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Administrative branch of the Ministry of Social Affairs and Health

117/53/14	Ministry of Social Affairs and Health
118/53/14	Finnish Medicines Agency
119/53/14	National Supervisory Authority for Welfare and Health
120/53/14	Radiation and Nuclear Safety Authority
121/53/14	National Institute for Health and Welfare

Administrative branch of the Ministry of the Environment

122/53/14	Ministry of the Environment
123/53/14	Housing Finance and Development Centre of Finland
124/53/14	Finnish Environment Institute
127/53/14	Finnish Oil Pollution Compensation Fund

Compliance audit

184/52/14	Compensations
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Fiscal policy evaluation reports

- K 20/2014 vp. Fiscal policy audit and monitoring report on the 2011–2014 parliamentary term
- K 17/2015 vp. Separate report to Parliament:
Fiscal policy evaluation report 2015

Fiscal policy audit reports

13/2014	Economic effects of changes in taxation – corporate and capital taxation
15/2014	Economic effects of changes in taxation – overall audit of the tax system

Performance audit reports and follow-up reports by administrative branch

Prime Minister's Office

6/2015	Solidium Oy
16/2015	Steering of strategic-interest companies

Administrative branch of the Ministry for Foreign Affairs

Follow-up report

232/2011	The implementation of the government productivity programme in the administrative sector of the Ministry of Justice and its impacts
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Administrative branch of the Ministry of the Interior

14/2015 Programmes for combating the grey economy and coordinating the work

Follow-up report

226/2011 Cooperation between the police and the prosecution service

Administrative branch of the Ministry of Finance

2/2015 Central government pay systems
4/2015 Practicalities of the liquidation of Asset Management Company Arsenal Ltd
7/2015 Interoperability in government ICT contracts
9/2015 Statutory tasks of regional state administration and providing them with resources (Regional State Administrative Agencies and ELY Centres)
11/2015 State charge policy
13/2015 Knowledge base of structural policy decisions

Follow-up reports

219/2011 Central government liabilities – presentation and consideration in planning and monitoring documents
3/2013 State IT shared service centres

Administrative branch of the Ministry of Education and Culture

5/2015	Cooperation for study and career guidance
12/2015	Immigrant students and the effectiveness of basic education

Administrative branch of the Ministry of Transport and Communications

Follow-up report

198/2009	The establishment of unincorporated state enterprises to perform certain functions of the Finnish Maritime Administration
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Administrative branch of the Ministry of Employment and the Economy

1/2015	Export financing
8/2015	Digital employment services

Follow-up reports

224/2011	Urban and metropolitan policy
229/2011	Helping the long-term unemployed find jobs and preventing marginalisation
13/2012	Work-based immigration

Administrative branch of the Ministry of Social Affairs and Health

3/2015 Using technical assistive devices in services for older persons provided at home

Follow-up reports

6/2012 Child welfare

214/2010 Services for older citizens: Regular home care

Joint follow-up report on the following social and health care information system projects:

1/2012 State aid for IT projects in social and health care

217/2011 The implementation of national IT projects in social and health care

Administrative branch of the Ministry of the Environment

Follow-up reports

220/2011 The steering system in the administrative sector of the Ministry of the Environment steering system

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- 9 COSO: Internal Control – Integrated Framework (COSO 2013), <http://www.coso.org/ic.htm>
- 10 INTOSAI GOV 9100 guidelines for internal control
- 11 See Myndighetsförordning (the Swedish decree laying down the responsibilities of authorities), SFS nr: 2007:515, Förordning om årsredovisning och budgetunderlag (the Swedish decree on final accounts and budget appropriations), SFS nr: 2000:605 and Handledning (the internal control guidelines issued by the Swedish National Financial Management Authority): Ansvar för intern styrning och kontroll, ESV 2012:46, available <http://www.esv.se/contentassets/6d89146c1130414e9de5284a6adcfce/2012-46-ansvar-for-internstyrning-och-kontroll.pdf> [retrieved 5 June 2015]
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- 17 Petri Virtanen – Jari Stenvall: Älykäs julkinen organisaatio, Tietosanoma 2014, pp. 23–24. See National Audit Office's report on its activities to the 2014 parliamentary session, K 18/2014 vp., Auditor General's review on the ethical principles of good governance. For a private sector perspective, see Pentti Sydänmaanlakka, Älykäs johtaminen 7.0. Miten kasvaa viisaaksi johtajaksi, Talentum, Helsinki 2012
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