



National Audit Office's separate report to Parliament on the audit of the final central government accounts 2014 and the Government's annual report



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To Parliament

The National Audit Office has audited the final central government accounts contained in the Government's annual report for 2014 on the management of central government finances and compliance with the state budget submitted to Parliament and the descriptions of central government finances, national financial administration and operational performance for the budget year 2014 as the report referred to in section 46 of the Constitution of Finland and submits this separate audit report to Parliament under section 6 of the Act on the National Audit Office (676/2000).

Helsinki 27 May 2015

Auditor General

Tuomas Pöysti

Deputy Auditor General

Marjatta Kimmonen

Based on the financial audit of the final central government accounts, the National Audit Office states that the final central government accounts for 2014 have been prepared in accordance with all relevant provisions.

The National Audit Office submitted a total of 67 financial audit reports on the financial audits of ministries and other accounting agencies for the 2014 budget year.

The financial audits revealed improper procedures in 11 accounting agencies 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 main reasons for the qualified opinions on regularity concerned the use of appropriations or authorisations that was in violation of the budget.

The audit of the societal effectiveness information contained in the annual report covered the annual reporting in administrative branches in relation to the objectives set out for them in the state budget. Based on the audit, there have been improvements in the manner in which societal effectiveness information is presented. The information on the achievement of the societal effectiveness objectives in the administrative branches is mostly correct and adequate.

In many administrative branches the achievement of the objectives is assessed in a detailed manner and there has been progress in the setting of the objectives. However, there are still inadequacies in reporting in many administrative branches concerning the setting and achievement of the objectives. All administrative branches have reported on the implementation of the objectives set for them.

Contents

1	Financial audit report on final central government accounts for 2014	9
2	Compliance with the budget and key budget provisions	15
3	Societal effectiveness information contained in Government's annual report	17
3.1	Quality of reporting varies	17
3.2	The long-term trend has been positive	18
3.3	There is still room for improvement	19
	References	21

1 Financial audit report on final central government accounts for 2014

The National Audit Office submits this financial audit report on the financial audit of the final central government accounts for the budget year 2014. The audit was performed by Principal Financial Auditor Aila Aalto-Setälä and Principal Financial Auditor Riitta-Liisa Heikkilä. The audit was supervised by Deputy Auditor General Marjatta Kimmonen.

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

Budget procedures

Items connected with the hedging of loans and included in the balance sheet as non-current receivables and non-current liabilities have been entered on item 32.20.80 (Loans for refinancing activities of Finnish Export Credit Ltd, variable appropriation). The Ministry of Employment and the Economy should, if necessary in cooperation with the Ministry of Finance, examine whether the items connected with the hedging of loans can be net budgeted or otherwise clarify the budgeting and processing of hedging-related items.

Final central government accounts

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

notes to the final accounts have, in essential parts, been prepared in a correct manner.

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, subsection 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.

A total of 450,000 euros in revenue that should have been allocated to the years after 2014 have been paid on item 33.02.06 (Operating expenditure of the Finnish Medicines Agency, two-year deferrable appropriation) in violation of the budget and section 5 a of the State Budget Decree.

Advance payments totalling 1.8 million euros have been entered as expenditure on the basis of a charge criterion in the 2013 state budget on items 31.10.20 (Basic transport infrastructure maintenance, two-year deferrable appropriation) and 31.10.77 (Development of the transport network, three-year deferrable appropriation) in violation of the budget and section 5 a of the State Budget Decree.

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. With this procedure, the appropriations have been carried over in violation of section 7 of the State Budget Act.

Appropriation on item 32.20.02 (Operating expenditure of VTT Technical Research Centre of Finland, two-year deferrable appropriation, section 1 Operating expenditure) has been used 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 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.

A total of 4.6 million in 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.

Expenditure waiting to be entered on the budget account contain paid advance payments totalling 2,778,582 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).

The financial audits of the accounting agencies revealed procedures concerning the purpose of appropriations that are in violation of the budget and section 5 of the State Budget Decree. These concerned such issues as the use of appropriations for the payment of consumption expenditure, public servants' salaries, transfer expenditure and VAT expenditure in violation of the budget.

The Finnish Defence Forces have, in violation of the budget and section 10 of the State Budget Act, used on item 27.10.18 (Defence materiel procurement) an authorisation contained in an earlier year's budget that according to the 2013 final accounts could not have been carried over. The procedure has actually meant that the corresponding authorisation granted in the 2014 budget has been exceeded by 2.2 million euros. The budget implementation statement contains incorrect information on authorisations carried over from the year 2013, authorisations used in the years before 2014 and the expenditure arising from the use of the authorisations. As the authorisations that can be carried over into 2015, as presented in the 2014 budget, are too large the details of the amounts of the authorisations available in 2015 cannot be considered reliable.

Authorisations totalling 36.5 million euros granted in the budgets of the previous years that under the 2014 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.

According to item 32.50.64 (Funding contribution of EU structural funds and the state to structural fund programmes in programming period 2007-2013, variable appropriation), the authorisation granted to regional councils in the budget is 2.3 million euros too high.

According to item 32.50.64 (Funding contribution of EU structural funds and the state to structural fund programmes in programming period 2007-2013, variable appropriation) an authorisation totalling 57.3 million euros that had already been used in previous years was used in 2014.

The information on the authorisations submitted to the State Treasury for the purpose of preparing the final central government accounts can, as a whole, be considered true and fair. The infor-

mation on the authorisations contained in the final central government accounts correspond to the information obtained as part of the centralised monitoring of authorisations.

The balance sheet contains receivables totalling 1005.6 million euros that are connected with the loans granted to the State of Greece. The receivables have been valued at nominal value. The valuation is based on the opinion of the Ministry of Finance. The footnote of Note 6 to the final central government accounts (Loans granted from the budget) contains additional information on valuation grounds and the risks of the loans granted to Greece, supplementing the final central government accounts.

The current assets in the balance sheet of the Finnish Defence Forces are overvalued by about 60 million euros, a result of the manner in which the assets are defined. The error is 11 per cent of all current assets of the central government.

Defence materiel is considered as an exception in consolidated accounting because all costs resulting from its acquisition are treated as costs arising in the year of acquisition. This means that the value of the defence materiel is not included in the central government balance sheet. According to the estimates of the Finnish Defence Forces, the balance sheet value of the defence materiel is between 3.5 and 4 billion euros. In these respects, the final central government accounts provide an incomplete picture of the value of the materiel in the possession of the Finnish Defence Forces and the State of Finland. In the view of the National Audit Office, defence materiel should be included in the balance sheet of the Finnish Defence Forces and the value of the defence materiel should also be given in the central government balance sheet.

The other commitments presented in Note 12 (Granted state securities, state guarantees and other commitments) are detailed more comprehensively than in the 2013 final accounts. Compared with 2013, the commitments given in the final accounts have increased by about 16.4 billion euros, a result of changes in the reporting practices used by the Ministry of Finance in its financial statements. Note 1 to the ministry's financial statements (Accounting principles and comparability) should have contained details of the changes made to the commitments and the details showing that the amounts of the guarantees that were in effect on 31 December 2013 and that were listed in Note 12 to the 2013 financial statements have been changed. Note 1 to the final central government accounts contains the details of the changes made to the commitments.

Details of the commitments concerning fixed interest rate and variable interest rate export and shipbuilding credits (about 1.5 billion euros) that are in accordance with section 4 of the Act on State-subsidised Export and Shipbuilding Credits and Interest Equalisation (1543/2011) are not included in the Note 12 to the final accounts (Granted state securities, state guarantees and other commitments). In other respects, the notes to the final central government accounts are presented in the manner required under the State Budget Decree.

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

Internal control

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

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

National Audit Office's opinion of the final accounts

The final central government accounts for the year 2014 have been prepared in accordance with the statutes in force.

Helsinki 18 May 2015

Auditor General

Tuomas Pöysti

Principal Financial Auditor

Aila Aalto-Setälä

2 Compliance with the budget and key budget provisions

The National Audit Office submitted a total of 67 financial audit reports on the financial audits of ministries and other accounting agencies for the 2014 budget year.

The financial audits for the 2014 budget year revealed improper procedures in 11 accounting agencies 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.

	Financial audit reports in 2014	Qualified opinions on regularity		
		2012	2013	in 2014
Office of the President of the Republic	1			
Prime Minister's Office	1			
Administrative branch of the Ministry for Foreign Affairs	1	1	1	1
Administrative branch of the Ministry of Justice	2			1
Administrative branch of the Ministry of the Interior	7	1		
Administrative branch of the Ministry of Defence	3	1	1	1
Administrative branch of the Ministry of Finance	11	3		
Administrative branch of the Ministry of Education and Culture	7	3	3	1
Administrative branch of the Ministry of Agriculture and Forestry	9	1		
Administrative branch of the Ministry of Transport and Communications	5	3	2	1
Administrative branch of the Ministry of Employment and the Economy	12	3	2	3
Administrative branch of the Ministry of Social Affairs and Health	5			1
Administrative branch of the Ministry of the Environment	3		2	2
	67	16	11	11

The total number of accounting agencies issued with qualified opinion on regularity has remained unchanged. However, many of the cautions concerned more than one issue and as a result the total number of the cautions was 29 (32 in 2013).

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 agencies. The cautions in this group concerned the use of an appropriation that was in vi-

olation 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.

Shortcomings in the organisation of performance accounting and the presenting of information on chargeable activities or other aspects of operational efficiency led to cautions in the financial audit reports on three accounting agencies.

The conclusion based on the results of the financial audits of the accounting agencies 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 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 finance and HR systems and information security.

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

3 Societal effectiveness information contained in Government's annual report

All ministries have reported extensively on the societal effectiveness objectives laid out for them in the state budget. There have not been any significant changes in the quality of the reporting.

3.1 Quality of reporting varies

There are still substantial differences in the quality of reporting between ministries. The trend has not been uniform as in some ministries quality of the reporting has declined, while in others it has improved. The main reporting problem concerns the effectiveness objectives laid out in the state budget. The objectives set are often of such nature that they do not even allow clear presentation of the effectiveness objectives.

A number of ministries have tried to solve the problem of poorly formulated objectives during the reporting stage. The Ministry of Finance has divided the original effectiveness objectives into sub-objectives and reports on each of them. However, in practice the sub-objectives are not effectiveness objectives but lists of activities that the ministry performs on a day-to-day basis. For example, the ministry includes such activities as legislative work and the implementation of the effectiveness and performance programme in its effectiveness objectives.

Ministries have set a different number of objectives for themselves and this is one reason why they are of varying importance. The Ministry of Agriculture and Forestry has set a large number of objectives and some of them are overlapping and concern issues that are of minor importance from the perspective of central government finances. At the same time, the Ministry of Defence has only set four objectives, all of which are important from the societal perspective and the perspective of central government finances.

The objectives of most ministries are so vaguely formulated that it is difficult to report on them. The objectives of the Ministry for Foreign Affairs include the strengthening of the EU's operational capability and common foreign policy, management of globalisation and strengthening of the multilateral system. As regards objectives of very general nature, the reporting rarely covers the achievement of the objectives as the focus is largely on the measures taken.

The number and importance of the objectives vary

3.2 The long-term trend has been positive

However, there have been continuous improvements in the presentation of societal effectiveness information during the current government term. Reporting on effectiveness information has become much more systematic. As recently as four years ago, reporting on the objectives depended entirely on the administrative branch; some administrative branches reported on their objectives and on achieving them, while others mainly described the measures that they had taken or only measures that they would take in the future. During the past two years, all ministries have reported on all societal effectiveness objectives set for them in the state budget. Thus, in this respect reporting has become more comprehensive. Comprehensive reporting provides a basis for the assessment of overall implementation of accountability and also for any development measures that may be required.

Reporting is now more systematic because reporting guidelines have become more systematic. As a result, ministries are now putting a greater emphasis on how to report on the objectives laid out in the state budget. Likewise, there has been some progress in the efforts to reduce overlapping reporting, an objective set out in the annual reporting overhaul.

The changes in reporting quality have not been as clear as the improvements in the comprehensiveness of the reports. Description of measures still accounts for a large proportion of the reporting. If effects are described, the role of the measures and the use of funds in the change are rarely detailed.

The manner in which the effectiveness information is presented has improved

Guidelines have become more systematic

3.3 There is still room for improvement

Even though the reports are becoming better, there is still room for improvement. Guidelines have helped to make reporting more comprehensive and the development work should now focus on improvements in reporting quality.

From the perspective of improvements in reporting quality, emphasis should be on the development of the objectives set out in the state budget. The objectives should be formulated in such a way that they are relevant to steering in individual administrative branches. Moreover, it should be clear when the objectives are set how and on the basis of what information achievement of the objectives would be reported. Wherever possible, use should be made of indicator-type monitoring material that would also allow the assessment of long-term trends.

When the objectives are set, there should also be some degree of uniformity in the selection of the issues in question as the impact on central government should be a consideration. Direct impact on central government finances is not always a good indicator. Even though the ministries are of very different size in terms of on-budget entities, the reports of the ministries contained in the annual report are approximately of the same length. Currently, the length of the reporting is not necessarily an indicator of the importance attached to the issue concerned as there is no correlation between the two. When societal effectiveness objectives are reported, the focus should naturally be on matters that are socio-economically important and important in terms of central government finances. For this reason, the first step could be the elimination of less important effectiveness objectives from the annual reports.

It is difficult to solve the issue of reporting on cross-administrative objectives in the reports produced by individual ministries under the current system. As one aim of the annual reporting overhaul is to achieve more concise reporting, solutions to this problem should be found.

Theme-based reporting, in which a specific theme are covered in more detail each year, has been suggested as a solution.¹ Based on the audits of effectiveness information by the National Audit Office, there are good grounds for reporting on properly set targets on a yearly basis. Societal effectiveness is a matter of long-term work in which changes are slow. Unsystematic theme-based reporting might become random and provide a less useful

Improvements in reporting require better objective setting

The objectives should be formulated so that long-term monitoring is possible

monitoring and steering instrument. Thus, the objectives should be formulated so that they allow a longer-term monitoring and assessment of socio-economic impacts as part of the reporting. In that case, it would be possible to see whether any improvements are taking place.

- The audit covered the annual reporting in administrative branches in relation to the objectives set out for them in the state budget. The assessment criteria used were as follows: (1) usefulness of reporting as a steering instrument and (2) effectiveness assessment tool; and (3) the focusing of the reporting on societally important issues; and (4) its role from the perspective of parliamentary decision-making.
- These criteria have been used throughout the 2011–2015 government term, which means that it is possible to assess any changes in reporting.
- Reporting on final central government accounts has been overhauled by incorporating the reports that had previously been submitted separately into a single document. The Government’s annual report for 2013 was the first unified report.
- In addition to the effectiveness reporting, the National Audit Office also reviewed the 2011–2013 effectiveness information audits and the opinions of the parliamentary committees on the Government’s annual reporting overhaul in its audit of the year 2014.²

References

- 1 Parliamentary Commerce Committee TaVL 27/2014 vp
- 2 TrVM 7/2014 vp, K12/2014 vp consideration



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