

## **National Audit Office's annual activity report to Parliament 2013**



R 18/2013 vp



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L 1798-6427  
ISSN 1798-6435 (PDF)  
Edita Prima Ltd  
Helsinki 2013

## To Parliament

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

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 the Parliament, summaries of the audit findings that are of key importance to the Parliament and the findings concerning the implementation of the positions issued by the 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 during the 2012 fiscal year.

The report is based on the performance audits, financial audits, compliance audits and fiscal policy audits conducted by the National Audit Office and its activities as an expert

body. The most important audit findings presented in this report are from the financial audits that were completed in spring 2013 and that cover the 2012 fiscal year. The performance and compliance audits and follow-ups to them conducted between the end of August 2012 and the end of August 2013 are included in the report. The most important findings and recommendations laid out in the fiscal policy audits are included in a separate report submitted to the Parliament on 14 February 2013 (K 2/2013 vp.). Interim fiscal policy audit report on the 2011–2014 parliamentary term.

The National Audit Office submitted a separate report to the Parliament on the audit of the final central government accounts and on the report on the final central government accounts on 30 May 2013 (K 14/ 2013 vp.).

Helsinki 13 September 2013

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## Main content

Three themes stand out in the National Audit Office's report to the 2013 parliamentary session: functioning of the central government steering and management systems, public administration that is efficient and service-oriented from the perspective of citizens' well-being and the knowledge base of the decision-making essential to the successful management of the central government finances.

In its audits of *the functioning of the steering systems* and the management of state assets, the National Audit Office has drawn attention to steering at Government and ministerial level. The lack of a systematic steering policy makes it more difficult for the Government to present a comprehensive approach to steering. A number of cross-administrative policy programmes were prepared during the previous government term but strong criticism towards them prompted the Government to abandon the practice. However, more effective tools have not yet been introduced to replace them. Knowledge-based management has also been a central starting point in the development of the Government's working practices. Recently, however, as work has continued on the drafting of major reforms, there has been friction, new tensions and uncertainty concerning the roles of different actors between knowledge-creation based on earlier research and political value-creation.

Even though the steering systems at ministry level are on a sound basis, there is still room for improvement in the practical aspects of steering. It emerged from the audits of the steering systems of the Ministry for Foreign Affairs and the Ministry of the Interior that

target-setting and the foundations of strategic planning are in order and that there have been few problems in the drafting of laws, a central responsibility of the ministries. At the same time, however, there are differences between steering practices, while the performance targets have been set so that it is difficult to assess how well they have been achieved or to determine the link between the targets and appropriations. It was noted in the audit of the special assignment companies that the government resolution on ownership policy is now a well-established part of ownership steering. However, at the same time, there are differences between the ownership strategy monitoring practices of ministries and agencies. Likewise, in the reports submitted to the Parliament, there has not been enough emphasis on the companies' corporate social responsibility.

Shortcomings in group-level steering in central government have also affected the shared ICT services offered by the Government IT Shared Service Centre (VIP). They have not been introduced in the central government in a large scale because no policy decisions on introducing them have been made at central government level. Not enough attention has been given to the overall organisation of ICT services.

The financial audits conducted by the National Audit Office have produced a roughly similar picture of the steering process. The basis and procedures for performance guidance are now well-established. Reporting on economic efficiency and productivity and on chargeable services is on a comprehensive basis and better than before even though there are some differences in the manner

in which the information on these matters is presented. The financial audits also indicate that target-setting remains a stumbling block. However, economic efficiency targets are key to smoothly functioning performance guidance one task of which is to combine effectiveness, adequate service levels and management of costs. Internal control and risk management are an essential part of a well-functioning steering system. According to the audit findings, there have been some improvements in these areas.

The second theme emerging from the audits was *the impact and effectiveness of the basic and other services available to the public*. The audit produced no clear evidence that rehabilitation helps to lengthen working careers. However, lengthening of working careers is one the main objectives of the Government. There are more people incapable of work than people without work. Disabilities also cause higher losses in total production than unemployment and the losses are usually permanent. According to the audit, there has been little steering of rehabilitation or monitoring of its effects at national level. Not much emphasis or consideration has been given to the risk factors that arise when people retire on a disability pension in the focusing of resources or preventive measures. It has emerged that there are major regional differences in morbidity and the length of working careers.

The audit of special needs education produced similar findings. According to the audit, the number of pupils in special needs education grew by 60 per cent in the ten-year period between 2001 and 2010. In 2010, the teachers assigned to special needs education accounted for 14 per cent of all teachers in basic education. It seems that the objective of providing early support as part of basic education, which the changes to the Basic Edu-

cation Act introduced in 2010 were meant to reinforce, has been achieved during the first years of basic education in the form of part-time special support. However, the number of pupils transferred to special needs education increased during basic education. The largest amount of special needs education was provided during the last years of basic education. This trend is especially worrying because, according to the audit, individualisation of the syllabuses weakens the ability of the young people to continue their studies. It also emerged that there are significant differences in the provision of special needs education and the support provided for pupils with similar learning difficulties between different parts of the country. The existing system of funding special needs education is based on an assumption that there are no differences in the need for special support between municipalities. However, it seems that in municipalities and regions where the socio-economic background of the working-age population is weaker, the need for special support is also greater.

The third theme that emerged from the audits was *the knowledge base of the decision-making concerning central government finances and the state of the information systems supporting it*. As central government resources are shrinking, it is particularly important that the decisions concerning the allocation of funds are based on careful consideration of the economic and other impacts of the decisions. Hasty and poorly prepared decisions tend to increase the likelihood of undesired impacts and partial optimisations and may lead to a situation where the allocation of the resources is ineffective in terms of overall economics.

For example, there has been such a weakening in the scope of the statistics on pupils receiving special needs education and the



resources allocated for special needs education that it is impossible to assess the impacts and effectiveness of special needs education in a reliable manner. Likewise, even though significant money flows are channelled to rehabilitation, there is no systematic monitoring of its effectiveness. In the audits of traffic safety, attention was drawn to gaps in statistics and careful examination of the benefits and disadvantages of organisational reforms. Likewise, there is no proper knowledge base for assessing the success of the reforms concerning the Government IT State Service Centre. It has transpired in the follow-ups to the performance audits that the recommendations of the National Audit Office concerning the knowledge base of the decision-making, information systems and knowledge-based policy preparation have only been partially implemented.

The aim of the National Audit Office is to promote effective and high-quality management of central government finances. The year 2012 was the last year of the strategy period (2007–2012) of the National Audit Office. As regards *the effectiveness of the activities of the National Audit Office*, it

can be said that during the strategy period, NAO has become more effective as an actor strengthening the budgetary and legislative powers of the Parliament, particularly in the reporting to the Parliament and in the audit themes providing a framework for audit topics. The year also saw the completion of an international peer review, which showed that the quality management system of the National Audit Office meets the requirements of the International Standards of Supreme Audit Institutions (ISSAI). In the personnel policy of the National Audit Office, the focus was on the development and management of expertise as tools for ensuring effective operations and workplace well-being. During the year under review the National Audit Office has been given new statutory tasks as an independent body monitoring and evaluating fiscal policy, as referred to in the Fiscal Stability Treaty and the budgetary framework directive of the European Union. In its financial management, the National Audit Office has continued the implementation of the stability and efficiency programme initiated in 2010, which in practice has meant reductions in the number of personnel.



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# 1 Auditor General's overview: The Government must be capable of making decisions and is in need of a new steering model

## Summary

In his review, the Auditor General assesses the need to develop the steering systems available to the Government and knowledge-based decision-making in the light of research literature in the field of economics and jurisprudence and the findings contained in the performance audits, financial audits and fiscal policy audits conducted by the National Audit Office.

In the Finnish legislative drafting process and administrative policy there is heavy reliance on knowledge-based decision-making and policy preparation. However, the results of the performance audits suggest that decision-making is less knowledge-based than before. Moreover, NAO's recommendations concerning the application of the knowledge base of the decision-making and ICT were implemented more slowly and poorly than any other recommendations contained in the performance audits. The reform concerning dividend and corporate taxation and the reform in local government structures and the associated reform in social and health care service structures, growing development gaps between regions, the fact that problems accumulate in the same regions, and the damage caused by moisture and mould in buildings are all examples of the difficulties concerning knowledge-based decision-making when wicked problems are encountered.

Such problems cannot be solved by using the knowledge possessed by one expert sector alone or by applying simple solutions based on a single piece of legislation or instruments of a single administrative sector.

The steering systems and operating practices of the Government have evolved over several decades. In them no consideration has been given to the needs of the present or the future. The central government spending limits are an example of a smoothly working steering system. By making use of them, the Government has been able to make an unprecedented number of decisions on spending cuts. The Government's ability to make decisions and the performance of the steering system have been at their weakest when action is required to introduce structural reforms to solve the ever-deepening problems arising from the sustainability gap of the public sector finances, the structural problems of the Finnish economy and the lack of competitiveness of the Finnish exports. However, on 29 August 2013, the Government adopted the overall guidelines of a structural policy programme aimed at eliminating the sustainability gap in public sector finances and strengthening the basis for growth in the Finnish economy. Providing the programme with a concrete content and putting it into practice will test the functioning of the Government's steering system. The unsuitability of the Government's working practic-

es and steering methods to today's requirements and operating environment generates problems in decision-making and application of knowledge.

Changes in the economic, legal and administrative operating environments have become more rapid and it has become more difficult to predict them with any accuracy. The practical and theoretical business management strategy models are increasingly based on an assumption that it is not possible to determine the competitive advantage of a company on a sustainable and long-term basis or prepare a detailed strategy implementing it. The ability to make correct decisions in uncertain situations with adequate speed and to act and innovate on different and changing arenas are becoming more important as strategic capabilities. These are also called agile strategies.

In the current chaotic and turbulent environment it is important that the societal policy and steering impacting tax policy decision-making, other decision-making by individuals, companies and corporations, and economic and judicial decision-making at local government level are predictable, on a long-term basis and consistent. At the same time, it is less desirable to have detailed and inflexible policy and strategy plans. This also applies to the Government Programme which, as a result of political economics and the political dynamics of multi-party governments formed by competing political parties, has become longer and more detailed and puts more emphasis on finding solutions to different matters. The detailed nature of the Government Programme is already starting to cause economic problems and it is also becoming problematic for the functioning of democracy. The propensity to go into great detail can also be seen in policy and sectoral plans and performance guidance in differ-

ent administrative sectors. Decision-making and preparatory processes should be as clear as possible and steered in accordance with the principles of process management. They should also support decision-making so that there are clear sections for preparation and decision-making. For example in spring 2013, the strategy session of the Government's mid-term policy review and the Government discussion on spending limits were held so close to each other that there was no time to transform the new openings made in the mid-term policy review into concrete proposals for the meeting on spending limits.

In its report on government spending limits, the Parliamentary Finance Committee has criticised the growth of ministers' political staffs and the lack of clarity concerning their roles. The same issue has been highlighted in a number of performance and fiscal policy audits. The division of labour between politicians and public servants in leadership matters, their leadership roles and the rules governing their leadership roles should be clarified again.

Strengthening the decision-making capacity and the incentives for it is an important aspect in the development of steering systems. At the same time, the process of reducing the number of incentives for partial optimisation in individual administrative sectors should be continued, while at the same time the Government should be provided with more capacity to guide and steer entities across the boundaries of administrative sectors and policy sectors and collaborative networks across the boundaries of public and private sectors. In the long term, it should also be considered whether the principle, laid down in the Constitution of Finland, under which legislative drafting takes place at ministry level provides an adequately strong basis for this.

The Government and Finland in general

need a new and innovative steering policy so that we can solve the wicked problems that we are facing. In this process, information systems and ICT should play a central role in the current information and network society as steering instruments within the public administration and as steering instruments directed towards society at large outside the public administration. Likewise, shared and open information on the effectiveness, costs and quality of societal policy and services and a common instrument for accessing such information in accordance with the principles of open data and easy access are still largely unused as steering instruments in civil society and customer steering directed at local government and in the steering by central government. Finland should act as a pioneer in smart steering systems. For this reason, the Government should systematically develop a new steering policy.

## Knowledge-based decision-making model is in trouble

The Government was criticised for the meagre results of its mid-term policy review held on 28 February 2013. In its discussions on spending limits on 21 March, the Government agreed on the main points of a reform on dividend and corporate taxation and made a final decision on the matter on

27 March 2013. Following public criticism and discussions among coalition partners, the heads of the government parties agreed on revisions to the dividend taxation reform on 4 April 2013. The Government report on spending limits for the period 2014–2017 was revised accordingly.<sup>1</sup> In its opinion on government spending limits for 2014–2017, the Parliamentary Audit Committee criticised the knowledge base used in the drafting of the dividend taxation reform.<sup>2</sup> The National Audit Office quickly prepared its own expert assessment to the Audit Committee of the written material that the Committee had received from the Ministry of Finance. The ministry had submitted the material so that the Committee could draw up its own opinion in the matter.<sup>3</sup> In its assessment, the National Audit Office drew attention to the need to ensure that experts and public servants can properly carry out the necessary preparatory work.<sup>4</sup>

In its report on government spending limits, the Parliamentary Finance Committee was slightly more favourably disposed towards the knowledge base of the drafting process. According to the Finance Committee, the dividend taxation reform was based on Ministry of Finance's microsimulation models, which are frequently used in the drafting of tax legislation and tax policy. As a result no description of the model datasets is attached to the information mate-

<sup>1</sup> Government press release 153/2013.

<sup>2</sup> Opinion of the Audit Committee TrVL 1/2013 vp. – VNS 3/2013 vp. and VNS 4/2013 vp. Government report to the Parliament on spending limits for 2014–2017, Government report on revising the Government report on spending limits for 2014–2017 (VNS 3/2013 vp.), submitted on 27 March 2013.

<sup>3</sup> The expert opinion submitted by the National Audit Office did not contain any auditing-based assessments of the preparation of the corporate and dividend taxation reforms or the content of the microsimulation models used by the Ministry of Finance. Neither did they contain any extensive examination of the process of drafting the corporate and dividend taxation reform. As laid out in the request, NAO focused in its opinion on the assessment of the written material received by the Audit Committee. A more extensive auditing-based assessment of the knowledge base of the preparation of the tax policy will be part of a fiscal policy audit, now under preparation in the National Audit Office, which will focus on the effectiveness of the tax policy.

<sup>4</sup> The Audit Committee has made extensive use of the assessment provided by the National Audit Office in its own opinion. The assessment of the National Audit Office can be viewed at NAO website, at [http://www.vtv.fi/files/3434/Lausunto\\_kehyspaatoksen\\_tau-statiedoista.pdf](http://www.vtv.fi/files/3434/Lausunto_kehyspaatoksen_tau-statiedoista.pdf).

rial that is produced using them.<sup>5</sup> However, the Committee underlined the importance of consistency in the making of tax revenue estimates and when consideration is given to the dynamic impacts of the reforms.<sup>6</sup> When discussing the drafting of the dividend taxation reform in its report, the Finance Committee was also fairly critical of the role played by ministers' political staffs and the fact that they have grown in size. The Finance Committee emphasises that the role of the staffs should not weaken the legal liability of the public servants in the drafting process or the link between the ministers and the drafting process.<sup>7</sup> In the drafting of the dividend taxation reform, the most important definitions and the policy decisions concerning the limits and presentation of the evaluation of the effectiveness of the reform were made in the political drafting process. The policy decisions were also made quite close to the spending limits deliberations by the Government. For this reason, public servants did not have much time to conduct an effectiveness evaluation or carry out any drafting work.

Criticism has been levelled at the drafting and steering of the reform in local government structures and the associated reform in social and health care structures. In his decision on a complaint issued on 10 April 2013, the Chancellor of Justice stated that the different timetables of the reform in local government structures and the reform in social and health care service structures are problematic from the perspective of democracy, right to participate, the right to be heard, and local self-government guaranteed under the

Constitution of Finland.<sup>8</sup> In his opinion, the Chancellor of Justice stated that social and health care accounts for such a large proportion of the local government tasks that the outlines of the provision of social and health care should be sufficiently well known to the Parliament when it considers the proposal for reforming the legislation on municipal division and that it should also be known to the municipalities when they are working to meet the obligation to examine the merging of municipalities laid down in the new legislation on local government structures. As regards the hearing of the parties and the right to participate, the view of the Chancellor of Justice was in line with his opinion on the Defence Forces reform according to which the hearing of parties and the use of the right to participate may not be mere formalities. They must provide the parties concerned with a genuine opportunity to influence decision-making and the parties must have access to all relevant information during the hearing process.<sup>9</sup>

The Parliamentary Constitutional Law Committee levelled criticism at the scheduling and factual coordination of the drafting of the local government reform. The criticism was unusually strong, considering the fact that the committee exercises a constitutional and a parliamentary role. According to the committee, the proposal that the Government had revised following the opinion issued by the Chancellor of Justice still does not provide municipalities with enough facts as a basis for municipal mergers.<sup>10</sup>

There is wide agreement on the need and

<sup>5</sup> In the National Audit Office's view, it would, however, be important to briefly mention the models used as the information source and the key assumptions and parameters used in the effectiveness evaluation. Otherwise the basis of the decisions would not be clear enough to the decision-makers (the Government plenary session and - in the consideration of the report - the Parliament).

<sup>6</sup> These factors are also highlighted in the opinion submitted by the National Audit Office to the Parliamentary Audit Committee.

<sup>7</sup> Report of the Finance Committee VaVM 1/2013 vp. – VNS 3/2013 vp. and VNS 4/2013 vp.

<sup>8</sup> Decision of the Chancellor of Justice 10 April 2013 Registry no. OKV/5/21/2013 ym., OKV/381/1/2013 and OKV/450/1/2013.

<sup>9</sup> Decision of the Chancellor of Justice 27 April 2012 Registry no. OKV/246/1/2012, OKV/332/1/2012, OKV/334/1/2012, OKV/343/1/2012, OKV/378/1/2012, OKV/399/1/2012, OKV/441/1/2012, OKV/486/1/2012, OKV/516/1/2012 and OKV/4/21/2012..

<sup>10</sup> Opinion of the Constitutional Law Committee PeVL 20/2013 vp. – HE 31/2013 vp. , HE 53/2013 vp.



urgency of the local government and service structure reform. The latest figures only strengthen the need for the reforms. The statistics on local government finances for 2012 show that the state of the local government finances is weakening. Operating expenditure grew by 5.4 per cent. Annual margin only covered 38 per cent of the self-acquisition expenses of the local government investments, while the loan stock of the municipalities increased by 11.5 per cent, to 12.3 billion euros.<sup>11</sup> According to the calculations made by the Ministry of Finance and the estimates produced by the National Audit Office, local government finances account for more than half of the sustainability gap in Finland's public sector finances.<sup>12</sup> Calculations by the Ministry of Finance indicate that the sustainability gap in local government finances is about three per cent of the gross domestic product.<sup>13</sup> In practice this means that in 2060, Finland's local government finances will (at current price levels) have a financial deficit of more than six billion euros or that a similar adjustment must be made in the statutory tasks of municipalities and joint municipal authorities.

The sustainability gap is linked with substantial differences in demographic and well-being trends and economic gaps at regional and sub-regional level, which are discussed in more detail in this annual report. This means that slow growth and problems are increasingly accumulating in the same regions.<sup>14</sup> Thus, new thinking is needed in the steering of local government tasks, financing and productivity. More effective steering of the productivity of local govern-

ment finances and local government tasks are also key elements in the structural policy programme adopted by the Government on 29 August 2013. This steering system should also be put into practice.

The Parliament adopted the report of the Audit Committee, a study commissioned by the committee for the preparation of the report and, on the basis of extensive preparatory work by experts, an opinion on moisture and mould problems in buildings.<sup>15</sup> The opinion of the Parliament and the Audit Committee report used as a basis for the opinion call for a new operating culture in construction and property management. The objectives set out in the opinions can only become reality if the steering systems in public sector finances, construction and property maintenance, and expertise and training in the property and construction sector are updated. Experience shows that discretionary government transfers for individual projects are not enough.

The operating practices and steering models of the Government and public sector in general have evolved over the decades and are a continuation of a long process. In them no consideration has been given to the needs of the present or the future. The operating practices and steering systems may and in some respects actually constitute an obstacle to effective decision-making and the necessary reforms. Thus, they are capable of causing steering problems and problems in knowledge-based decision-making, as described above.

In the external professional audits of the central government finances and the assess-

<sup>11</sup> Official Statistics of Finland (OSF): Finances and operations of municipalities and joint municipal authorities, preliminary data on the financial and operational statistics of municipalities and joint municipal authorities for 2012, online publication, Helsinki, Statistics Finland [referred to on 27 July 2013]. Retrieved from: [http://tilastokeskus.fi/til/ktt/2012/ktt\\_2012\\_2013-05-31\\_tie\\_001\\_fi.html](http://tilastokeskus.fi/til/ktt/2012/ktt_2012_2013-05-31_tie_001_fi.html) Official Statistics of Finland (OSF): Finances and operations of municipalities and joint municipal authorities, preliminary data on the financial and operational statistics of municipalities and joint municipal authorities for 2012, online publication, Helsinki, Statistics Finland [referred to on 27 July 2013]. Retrieved from: [http://tilastokeskus.fi/til/ktt/2012/ktt\\_2012\\_2013-05-31\\_tie\\_001\\_fi.html](http://tilastokeskus.fi/til/ktt/2012/ktt_2012_2013-05-31_tie_001_fi.html).

<sup>12</sup> Separate report of the National Audit Office to the Parliament K 2/2013 vp. interim fiscal policy audit report on the parliamentary term.

<sup>13</sup> Ministry of Finance: Economics report. Spring 2013 Ministry of Finance 8a/2013, p. 97.

<sup>14</sup> See main chapter 5 of the Annual Report to the 2013 parliamentary session (Effectiveness and service capacity of the public administration from the perspective of ordinary citizens), chapter 5.3. (Regional differences).

<sup>15</sup> Report of the Audit Committee TrVM 1/2013 vp. - - M 5/2013 vp. moisture and mould problems in buildings. Moisture and mould problems in buildings, Kari Reijula et al., publication of the Audit Committee 1/2012, Parliament 2012 (Mould report of the Audit Committee).

ment and monitoring of fiscal policy carried out by the National Audit Office, knowledge base and the functioning of the steering systems in central government decision-making have provided a common perspective for the different auditing and supervisory practices. Three of the four different types of external audit carried out by the National Audit Office (financial audit, performance audit and fiscal policy audit) are conducted from the perspective of the functioning of the steering and management systems and the reliability of the knowledge base used in the decision-making, which are all criteria laid down in the international ISSAI and associated ISA auditing standards. Compliance with the law and the principles of good governance in the steering and management systems of central government finances and other areas of central government may also be set out as priority areas in compliance audits.

There is a great deal of development taking place in the field of steering systems and the knowledge base for decision-making. In the principles of better regulation and the process model for a smoother legislative drafting process, the Government has committed itself to a proper evaluation of the effectiveness of the legislative proposals and to knowledge-based decision-making.<sup>16</sup> In the development projects carried out under the

Prime Minister's Office and the Ministry of Finance, knowledge-based decision-making has played a key role and it has been one of development objectives in the projects.<sup>17</sup> In the discussions with central government representatives in connection with performance audits, we have even heard messages that the development work is in disarray. However, from the perspective of today's management, having a large number of development projects and competitive ideas may also be a positive thing provided that the division of resources and time between development efforts and daily work are on clear basis and sufficient resources are provided for the development work. The permanent secretaries of the Government devoted their workshop, held in April 2013 and chaired by the Prime Minister's State Secretary, to development projects and the assessment and development of the steering systems. The permanent secretaries have also developed their own forms of cooperation by, for example, developing the role of their meetings.

In its annual report to the 2013 parliamentary session, the National Audit Office presents an evaluation of the state and development needs of the steering systems. The evaluation is based on NAO's audit observations.<sup>18</sup> Concerning moisture and mould problems in buildings, the National Audit

<sup>16</sup> The phasing of the legislative drafting process and a compilation of the requirements concerning legislative drafting and the effectiveness evaluation carried out as part of the process are presented in the legislative drafting process guide available in the Finlex database. The guide is a compilation of the description of the drafting process prepared as part of the project 'Sujuvampaan säädösvalmisteluun' (Towards a more efficient legislative drafting process). In its Government Programme, the Government of Prime Minister Jyrki Katainen has pledged to observe this process model. See Ministry of Justice: Process guide for legislative drafting, <http://lainvalmistelu.finlex.fi>

<sup>17</sup> Knowledge-based decision-making was a central aim in the project for developing the monitoring of the Government Programme and strategic management of the Government's work (KOKKA project) and the project for developing the effectiveness evaluation of policy measures (POVI project), which was loosely connected with KOKKA. Both projects were set up by the Prime Minister's Office. See Prime Minister's Office: Management of Government Policies in the 2010s, Prime Minister's Office Publications 7/2011, Prime Minister's Office, Helsinki 2011 and Prime Minister's Office: Improving the Information Base of Political Decision-making – From Goals to Reality. Working Group Report: Developing the Effectiveness Evaluation of Policy Measures, Prime Minister's Office Publications 8/2011. The revised mid-term evaluation of the Government Programme carried out in the government's mid-term policy review on 28 February 2013 is based on the recommendations of these two projects. Strengthening knowledge-based decision-making is also a key aim in the Government's research and evaluation plan and in the updating of sectoral research.

<sup>18</sup> See main chapter 7 of the annual report to the 2013 parliamentary session (Effectiveness of steering systems and proper management of state assets).

Office continues the work started by the Parliamentary Audit Committee and has tackled the problems of the research, development, innovation and training in the construction and property sector from the perspective of steering systems as part of a case examination that will be included in a more extensive performance audit of research, development, innovation and training. The National Audit Office has encouraged actors in the property and construction sector to engage in broad-based cooperation and interaction and to update their operating practices, which at the moment are highly 'silo-like'. In this work, the National Audit Office has applied the workshop method, which is still a relatively rare auditing and evaluation tool in Finland. The United States Government Accountability Office (GAO) has been particularly active in developing this method as an instrument for responsibility-oriented auditing and development.<sup>19</sup> The purpose of the audits and the reporting contained in the annual report is, in accordance with the new strategy of the National Audit Office (VTV2020), to assist the public administration in its reforms. In addition to conducting audits, the experts of the National Audit Office have also actively participated as instructors in the central government management training programmes organised by the Ministry of Finance and as instructors in meetings of Government permanent secretaries and in other similar practical development events in central government.<sup>20</sup>

<sup>19</sup> In spring 2013, the National Audit Office arranged a workshop on steering, training and innovation in the property and construction sector, which was coordinated by the NAO officials in charge of the performance audits. The introductions presented in the workshop and a summary of the key observations made at the event were published at the end of August 2013 as a discussion initiative of the National Audit Office, see National Audit Office: Making use of research, development and innovation in the construction and property sector, NAO 2013.

<sup>20</sup> According to the 2012 final accounts of the National Audit Office, a total of 15 per cent of NAO's external performances were expert services provided to the Parliament, the Government and the public administration as services supplementing auditing activities. The National Audit Office receives more requests for expert assistance than it is able to give. See [http://www.vtv.fi/files/3321/Tilinpaa-tos\\_2012.pdf](http://www.vtv.fi/files/3321/Tilinpaa-tos_2012.pdf).

<sup>21</sup> Follow-ups to the performance audits conducted during 2012. The list is appended to this annual report.

<sup>22</sup> Of the experiences in the United States, see for example Sandra Braman: Policy Research in an Evidence-Averse Environment. *International Journal of Communication*, Vol. 2 (2008), pp. 433–449.

Judging from the findings of the performance audits conducted by the National Audit Office, the recommendations concerning the knowledge base of the decision-making and the development of information systems have been put into practice more slowly than any other recommendations issued by NAO in its performance audits.<sup>21</sup> Moreover, the findings contained in the performance audits indicate that the knowledge base of the decision-making may actually have weakened, despite well-meaning development measures. As examples, this annual report gives details of costs incurred by municipalities and a number of facts that are key to the assessment of the effectiveness of special needs education.

As the state of public sector finances is weak and the outlook for Finland's economy uncertain, the signals indicating a weakening of the knowledge base must be taken seriously. The ideal of knowledge-based decision-making is not what it should be.

It may be that in the desired ideal, there is not enough differentiation between value-based rationality and technical target-based rationality or the current roles and practices of political leadership and political drafting and the drafting carried out by public servants. Judging from international research literature, knowledge-based decision-making is not an unproblematic or self-evident ideal for the development of the public administration.<sup>22</sup> In the wicked problems now facing Finland and in the rapid-

ly changing operating environment it is also necessary to increase the speed of the information processing capacity of the drafting process, tolerance of uncertainty and the capacity to differentiate between essential and non-essential turbulence.

In the opinion of the National Audit Office, the Government should systematically develop an innovative Government-led steering policy, which means an adequately justified policy concerning the use of different steering methods in different policy areas and the development and clarification of steering and drafting processes. An innovative steering policy is necessary so that Finland, both as an economy and as a state, can successfully deal with the sustainability gap and the structural changes facing its economy and maintain efficient administrative structures in a rapidly changing and turbulent operating environment.

### The operating environment of steering is in transition

Steering systems mean the processes and tools using which the activities of the central government and the public sector in general are directed so that the desired objectives can be achieved (internal perspective). In a wider sense, steering methods and steering systems refer to the tools using which the central government aims to influence the behaviour and activities of companies and other corporations, consumers and citizens so that societal objectives can be achieved (external perspective).

It has been noted that internationally, the internal and external perspectives of busi-

nesses and their steering and management practices are becoming increasingly interconnected, resulting in a management system covering the entire value chain and the cooperation network. In addition to agreements and product standards, there are now also extensive process standards and even more extensive management system and management standards and framework and model agreements that provide a basis for them.<sup>23</sup>

In steering and management, the resources (expertise, knowledge, physical and financing capital, raw materials or intermediate products), strategy and management systems and operations of a company or a public sector unit and their different sectors and inputs are directed as efficiently as possible so that they can generate added value in a specific operating environment using the available technologies.<sup>24</sup> Changes in technology and the operating environment require updates in steering and management systems. The breakthrough of digital information management and service economy and new technologies mean a fundamental change.

Strategic steering and management in the public sector have been heavily influenced by private sector practices and business management theories even though public sector management has clearly become a separate expertise area with practices that differ from those used in companies. The public sector also has specific characteristics of its own and thus it cannot directly copy the steering and management methods applied in businesses.

In a more traditional business strategy thinking, companies seek competitive advantages by means of strategy processes and strategies. The effectiveness criteria and the

<sup>23</sup> An overview of these developments, which are interesting both from the perspective of legal regulation and more effective regulation, is contained in Kaisa Sorsa's work Regulation of Global Value Chains: Examining Corporate Social Responsibility and Proactive Law University of Turku 2011.

<sup>24</sup> Roberts: The Modern Firm. Organisational Design for Performance and Growth. Oxford University Press 2004.

ultimate effectiveness targets of public sector organisations are the corresponding tools available in the public sector. In a traditional strategy model they are summed up as a mission, vision, core tasks and the key strategic development tasks arising from them. In a structural analytical management paradigm, these are documented in the strategy. The structure and operating practices of an organisation are then changed so that they are in accordance with the strategy. In public sector performance guidance and in the fundamental model that is in accordance with the strategy theory, the most senior director responsible for strategic management plays a key role. In this model, knowledge-based management or knowledge-based decision-making is then incorporated in the process of directing and implementing the strategy, particularly by seeking and developing practices.

The operating environment has, however, become more unpredictable. Important events in the future cannot be accurately predicted. For this reason, in administrative sciences, there is talk of a chaotic or turbulent environment. The long-term trends can be outlined. Companies do not necessarily have any permanent competitive advantage and the societal needs of the public sector activities cannot be incorporated into existing structures. At the same time, the ability to keep operating practices up to date and to act and innovate on changing arenas become key skills. In this situation, possessing the ability to make more or less correct decisions quickly instead of the ability to make exactly the right decisions after prolonged deliberation becomes an important strategic capability.<sup>25</sup>

In the new operating environment, it is not desirable to prepare detailed strategies. Current strategic management theories present models for strategic agility and flexibility that can be used as tools for supporting management in the private and public sectors. Agile strategies can be particularly well-suited as instruments for group-level management.<sup>26</sup> In its 2010 public governance review on Finland, OECD recommended that Finland should make strategic agility as a priority area.<sup>27</sup> In the National Audit Office's view, which is based on its audit findings, many of the key recommendations presented by the OECD in its 2010 public governance review concerning the development of steering and such issues as the use of business cases are still highly topical even though development work based on the recommendations has been taking place in such areas as the development of performance guidance.

The operating environment is largely shaped by the speed of the information and other networks and the large information transfer and processing capacity. The information milieu of strategic decision-making is changing. Those below the senior management are often (though not always) the first to receive the initial and important signals of changes in competitiveness or (in the public sector) of major changes in the prerequisites for effectiveness. The front line of the operations and the organisation and the networks around it should be integrated into the process of shaping the strategic knowledge base. This is needed to ensure sufficiently rapid change and building of capabilities. A steering model in which the emphasis is solely on strategic leadership and a visionary approach by the senior management thus

25 See for example Rita Gunther McGrath: *The End of Competitive Advantage*. Harvard Business Review Press, 2013.

26 For models of agile strategy, see Mikko Kosonen: *Fast strategy: how strategic agility will help you stay ahead of the game*, Talentum 2008.

27 OECD Public Governance Reviews – Finland: *Working Together to Sustain Success*. OECD Paris 2010.

28 Finansministeriet: *Slutrapport från projektet för utveckling av resultatstyrningen*, finansministeriets publikation 21/2012. Finansministeriet: *Sammandrag av utlåtanden om uppföljningen av verkställandet av projektet för utveckling av resultatstyrningen* 5.6.2013.

needs to be expanded. However, the ability to make the right decisions in a situation characterised by a multitude of information flows and uncertainty is becoming increasingly important and, from the perspective of the assessment of the steering and management system, it is also becoming a crucial factor. Situational awareness is not enough. We must make decisions.

In the development of administrative structures, there is a need to reassess the model, based on Max Weber's thinking, in which the administration is considered as a rational and hierarchical bureaucracy.

This model cannot or should not be rejected in its entirety. In this model, democratic guidance is transmitted, with the help of other performance guidance and steering systems, from the top echelons holding political responsibility (the minister) to day-to-day administration at grass-roots level. This has been the basis for the project aimed at developing performance guidance in central government. The project has justifiably and in accordance with OECD recommendations sought to strengthen performance guidance as part of overall steering in central government so that the strategic objectives set out by the Government would be transmitted by means of performance guidance in a more effective and in a better manner.<sup>28</sup>

In order to achieve results, steering and management models should be updated so that the prerequisites for cooperation and interaction across administrative boundaries and boundaries between the public and private sectors could be improved. As the emphasis in the public sector is on problem-solving and risk management across administrative boundaries and the search for new in-

novations, there should also be steering and management models and operating practices allowing a stronger utilisation of the expertise possessed by organisations, their cooperation networks, society at large and different parties. A visionary manager, cooperation and the involvement of the expert organisation are all important elements in this process. The positive thing about the effectiveness and performance programme coordinated by the Ministry of Finance is that it has managed to bring together a broad spectrum of ideas in central government organisations for use in the development work. However, the process of putting the results in practice is still under way. This means that there are some signs of dynamic and innovative management and operating practices in the central government and the development work taking place in it.

### Government's steering systems are ineffective against wicked problems

Most of the problems in Finland's public sector finances and the public administration are of wicked nature to which there is no single or clear-cut solution. This means that well-meaning and narrowly based attempts or knowledge possessed by a single expert professor do not solve the problems and could actually create a large number of serious problems elsewhere. Likewise, they cannot be solved by a single legal provision or with the efforts of a single ministry or its administrative sector. There has been too little attention to this in the development of knowledge-based decision-making and effectiveness evaluations.

<sup>28</sup> Ministry of Finance: Final report on the performance guidance development project, Ministry of Finance publications 21/2012. Ministry of Finance: Summary of the opinions concerning the monitoring of the implementation of the performance guidance development project 5 June 2013.

Prerequisites for new thinking are already needed during education and training. In fact, in the training of experts in different professional sectors, there is a need to create better prerequisites for joint problem solving and for multidisciplinary and multi-professional cooperation between different expert groups. At the same time, the operating practices and structures of the Government should allow maximum flexibility in the organisation of such work and provide incentives for it. It became clear during the central government reform project (KEHU) that the personnel in different ministries are also willing to achieve this and are enthusiastic about the matter.

It is easy to give practical examples of wicked problems:

The sustainability gap in Finland's public sector finances is being tackled during a period of slow economic growth. From the perspective of cyclical policy, quick and drastic cuts should be avoided in such a situation. There is willingness to take measures aimed at stimulating the economy. In addition to suffering from low growth, the Finnish economy is also undergoing structural change. At the same time, the growth potential of the Finnish economy may also be changing in a manner that can be highly detrimental to our economic well-being.

Finnish exporters have lost market shares in a number of sectors. This is only partially explained by weaker cost competitiveness. In many sectors, such as the electronics industry, Finnish products are not sufficiently attractive or competitive. Likewise, our research, development and innovation systems have not been successful enough. Finnish companies concentrate on the manufacturing

of investment goods, while in the consumer products sector there is still no sign of any permanent strengthening after the decline of the mobile phone sector. Exports of services are growing, albeit at a very slow pace.

Thus, the problems are not solely a result of slow growth in the global economy. This wicked problem could be solved by taking bold and adequate decisions that mean the lengthening of working careers, increases in the supply of and demand for workforce (so that the decline in the number of working hours performed in the economy could be stopped) and reforms in public sector services (so that the rise in costs could be halted). At the same time, we also need reforms aimed at increasing productivity, competition and the use of ICT. Increasing competition has not received enough attention as a structural or practical measure in the economic policy discussion. In the field of economic policy one could therefore suggest that wide-ranging structural reforms should be introduced before any extensive stimulus. Otherwise inefficiencies will neutralise the benefits generated by economic stimulus.<sup>29</sup>

The steering models of public sector finances and public administration are not the best way to outline the necessary structural reforms. The economic assumptions laid out in the programme of Prime Minister Jyrki Katainen's Government have proved too optimistic as a result of unexpectedly weak economic growth and the unexpectedly quick materialisation of the negative impacts of the changes in the Finnish economic structures. The Government has been forced (and has been able) to introduce substantial cuts in addition to those set out in the Government Programme. When the spending lim-

<sup>29</sup> Separate report of the National Audit Office to the Parliament K 2/2013 vp. interim fiscal policy audit report on the parliamentary term.

its decisions made in spring 2013 are included, the savings amount to almost six billion euros. This is a historic high. The decisions have been made possible by an effective system of government spending limits, which is able to produce decisions on spending cuts.

The efforts to achieve structural reforms have been less successful and they have been introduced more slowly. Likewise, in the efforts to reform local government structures and social and health care, there has not yet been any success in the field of multi-channel funding of social and health care services, a source of inefficiency in the sector. However, one aim of the structural policy programme adopted by the Government in its budget session in August 2013 is to find solutions and models that would help to solve the problems resulting from the multi-channel funding of social and health care. There is still work to be done in the area of practical measures and their implementation.

Finland is preparing the finalisation of the national implementation of the budgetary framework directive of the European Union (2011/85/EU) and of the two pack programme of the steering of the economic policy of the European Union. An important part of the two pack programme is the regulation (EU) No 473/2013 of the European Parliament and of the Council on the monitoring of the draft budgetary plans of the Member States.<sup>30</sup> Under the Union legislation, numerical fiscal policy rules must be laid down for the public sector finances and its sub-sectors

(central government finances, local government finances and social security funds).<sup>31</sup> The new procedures and fiscal policy rules required by the European Union should be used as a strategic tool in the implementation of the steering-system reforms that are important for the future and sustainability of our well-being. This could mean making the basic services programme laid down in the Local Government Act into a more binding framework for norm-based guidance at municipal level. In this connection, the Government should also consider how the drafting and outlining of structural reforms could be facilitated as part of the reforms in the fiscal-policy steering system.

The gaps in regional development and the accumulation of weak growth and risks in the same regions and sub-regions, which is highlighted in this annual report, is an extremely wicked problem. Steering systems and structures of the public administration are based on the idea of a unitary state and unitary steering. Our ability to solve the problems resulting from these development gaps seems to be very limited.

The implementation of the parliamentary opinion aimed at bringing the moisture and mould problems in buildings under better control is also a question of wicked problems and knowledge-based limitations in decision-making. Measures aimed at improving energy efficiency have helped to increase moisture and mould problems.<sup>32</sup> From the perspective of practical decision-making,

<sup>30</sup> Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area.

<sup>31</sup> The national implementation of the budgetary framework directive and Regulation (EU) 473/2013 is being considered in a working group appointed by the Ministry of Finance, which is expected to complete its work by 31 October 2013 (see the Ministry of Finance project concerning the appointment of a working group preparing the national implementation of the budgetary framework directive and the regulation on the monitoring of draft budgetary plans VM 123:00/2012).

<sup>32</sup> Mould study of the Audit Committee 2012. Report of the Audit Committee 1/2012 vp., p. 16. Results of the Frame research project, see for example Tampere University of Technology, Department of Civil Engineering, structural engineering, research report 159, Ilmastonmuutoksen ja lämmöneristyksen lisäyksen vaikutukset vaipparakenteiden kosteusteknisessä toiminnassa ja rakennusten energiankulutuksessa, Tampere University of Technology, structural engineering 2012, and research report 160, Matalaenergia- ja passiivitalojen rakenteiden ja liitosten suunnittelu- ja toteutusohjeita, Tampere University of Technology 2012. Information on the results of the research project is also available at the website of the Confederation of Finnish Construction Industries ([www.rakennusteollisuus.fi/frame](http://www.rakennusteollisuus.fi/frame)) [referred to on 25 June 2013].



the problem is that there is wide disagreement among experts in the construction and property management sectors.<sup>33</sup>

The strict budgetary constraints hampering local government finances make it difficult to focus on cost optimisation throughout the building life-cycle in public sector construction. The incentives for competitive bidding based on life-cycle costs and for sustainable management of built assets incorporated in the new steering and funding systems of local government finances should be more broadly based than the individual grant schemes for construction projects. More unified depreciation systems in financial statements and the consideration of the difference between planned and actual depreciations in the assessment of the balance in local government finances and possibly also the obligation to prepare for the maintenance of public buildings would be useful instruments in this respect. The chances of the civil society and local residents to supervise and discuss the state and maintenance of public buildings by means of openly accessible data should also be made into a steering instrument.

In addition to specific measures, we also need new thinking and operating models and participation and steering based on different perspectives and actors. Thus, the solution of wicked problems requires phenomenon-based effectiveness, and steering that encourages such an approach. Inevitably, steering aimed at phenomenon-based effectiveness is a combination of different steering methods.

## Strategic leadership in central government requires a new steering and management model

### Government programmes and strategies should be of more general nature

The problems concerning the implementation of the required reforms may largely be the result of operating practices and structures. The Government's mid-term policy review at the end of February 2013 was too close to the spending limit discussions, which took place in March. There was not enough time to develop the new openings drafted by different ministries on the basis of the mid-term review into decisions. The spending limit calculations are at the accuracy of a budgetary item and the decision is fairly detailed. Thus, the expectation is that the matters included in the decision are thoroughly prepared. One may even ask whether the spending limits and the preparatory process leading to the decision have become too detailed and thorough.

At the same time, the strategic implementation plan of the Government Programme does not set out the ministers or ministries responsible for the overall coordination of the themes pertaining to the Government's strategic objectives (poles and spearhead projects). Coordination across ministerial boundaries is weaker than in the previous policy programmes. At the same time, there is a growing need for a stronger leadership role of the Prime Minister's Office and the Ministry of Finance and other ministries also expect the two to act more decisively. However, it is unthinkable that all coordination

<sup>33</sup> This theme is discussed in more detail in the publication summing up the discussions at the NAO workshop on the research, training and innovation activities of the property and construction cluster, see reports of the National Audit Office 2/2013.

and leadership in the Government in matters concerning the substance of the cross-administrative projects should come from the Prime Minister, Minister of Finance, Prime Minister's Office and the Ministry of Finance. The Government must be better prepared for a stronger phenomenon-based role across administrative sectors, while the dismantling of steering models and structures leading to partial optimisation must continue.

In a turbulent operating environment, there is a need for predictability and consistency of certain basic policies and not for detailed strategies. Requirements for a great degree of predictability and consistency concern such areas as tax policy. The same applies to local government tasks and the fundamentals of providing them with funding.

The problem of detailed, long and inflexible plans already derives from the Government Programme. There is also a rational reason behind the increasing exhaustiveness of the Government Programme, which has also been modelled in political economics models. It stems from the establishment of cooperation between competing political parties. A highly detailed Government Programme is becoming an economic problem. The exhaustiveness and inflexibility may also be a problem from the perspective of the vibrancy and functioning of democracy.

Likewise, the Government Programme implementation plan, the decision on spending limits and other strategic plans and performance agreements should not be too long or too detailed. Strategic steering and its continuity could as well be implemented by listing a small number of key principles and operating policies. This would also free those involved from a vicious circle of continuous

planning, which still characterises some aspects of the public administration.<sup>34</sup>

### There should be a clearer division of labour between politicians and public servants in issues concerning leadership

Coordination of political leadership and the professional leadership and drafting by experts, which are the domain of the public servants, is a major challenge in the development of the Government's steering methods. This comes up repeatedly in the interviews and discussions conducted by NAO's officials with representatives of the public administration. The findings produced by performance audits and follow-ups to them and fiscal policy audits have created an impression that political steering has become stronger and is in a state of change.

Strengthening of political steering does not necessarily mean strengthening of democracy or parliamentary accountability. The role of the ministers' political staffs has become stronger and they have become larger in size. In practice, the role of the staffs is not clear. The Parliamentary Finance Committee has also drawn attention to this in its report on government spending limits.

From the perspective of the Parliament and parliamentarism, we need international comparisons regarding the size of ministerial staffs and their roles. In Finland the question also arises whether from the perspective of democracy it would be better for some of the assistants to support the work of the parliamentary groups instead of working as members of ministerial staffs. After all, the parliamentary groups play an important role in the

<sup>34</sup> In fact, under the policies of the Ministry of Finance, the aim is to incorporate such concise and more strategic practices into the process of developing performance guidance. Nearly all ministries stated in spring 2013 that they are already observing these practices. The audit-based review of the National Audit Office on the state of performance guidance is presented in this annual report. According to the National Audit Office, economic efficiency and productivity are always key factors in steering and management.

interaction with citizens. At the same time, the Government lacks a consultation culture open to stakeholders and citizens, the benefits of which are frequently demonstrated by the parliamentary practice of committee hearings. This could perhaps also provide political staffs with a legitimate role.

It is unquestionable that ministers have tight schedules and a heavy workload. They need assistants. However, it would be strange if the head of department in a ministry who is in charge of the drafting process has difficulty getting into direct contact with the minister and if, instead of the minister, the permanent secretary or the special assistant coordinates the drafting process. Thus, the role of the political staffs in the steering process should be clarified.

Instead of legislative changes, the Government could, in the first stage, introduce a code of conduct laying out the roles and responsibilities of the political staffs. The code of conduct could also help to pilot any legislative changes that are required. The principle should be that the political staffs are not in charge of the drafting carried by experts in such matters as the making of laws but could play a role in steering and support groups at political level. The principle should be that ministers do not delegate political steering in the field of legislative drafting and the preparation of budgets or spending limits under their responsibility from the ministry's senior public servants to the staffs. From the perspective of democracy and accountability, it is essential that the minister, assisted by the ministry's permanent secretary, steers the work of the ministry's senior public servants.

As regards the senior public servants and the drafting work carried out by the public

servants, it is essential that the persons concerned are engaged in broad-based horizontal cooperation and committed to extensive and objective drafting work and the examination of alternatives. Ministers representing differing political views, the Parliament and ordinary citizens must be able to trust the neutrality and objectivity of the drafting carried out by the public servants and their loyalty to legitimate political steering. The departmental heads in ministries cannot merely act as salesmen for their own views or the views of their departments even though it is right to expect public servants to show initiative in the highlighting of matters and in the seeking of proposals for solutions. The roles can be clarified in the codes of conduct, using existing provisions as a basis. Focusing of resources, the setting of societal priorities and choices concerning values are part of political leadership.

The system of state secretaries has been used for the past three parliamentary terms. This would be a good opportunity to prepare a report on the effectiveness of the state secretary system and the implementation of the objectives set and on their impacts on steering and management models and drafting practices that is more extensive than the report produced by the working group reviewing the Government Act in 2011.<sup>35</sup> One of the issues in the new review should be the examination of to what extent the system of state secretaries has improved the Government's decision-making capability.

There is a need to update the operating practices of the Government and to make them more flexible and to strengthen cooperation and thematic leadership across the boundaries of administrative sectors. As re-

<sup>35</sup> See Prime Minister's Office: Memorandum of the working group reviewing the Government Act (2011), reports of the Prime Minister's Office 13/2011.

<sup>36</sup> See t.ex. Mark Hallerberg, Rolf Strauch och Jürgen von Hagen: The Design of Fiscal Rules and Forms of Governance in European Union Countries. *European Journal of Political Economy* 23 (2007), 338–359.

<sup>37</sup> See t.ex. Roberto Perrotti och Yianos Kontopoulos: Fragmented Fiscal Policy. *Journal of Public Economics* 86 (2002), 191–222.

<sup>38</sup> Karl-Martin Ehrhart, Roy Gardner, Jürgen von Hagen & Claudia Keser: Budget Processes: Theory and Experimental Evidence. *Games and Economic Behaviour* 59 (2007), 279–295.

gards the manner in which the Government functions, it will also become necessary to assess how to change the ministry principle laid down in section 67(2) of the Constitution of Finland. Under section 68 of the Constitution, the Government has the requisite number of ministries, while under section 67(2), the matters to be considered by the Government must be prepared in the appropriate ministry. The Government's steering systems should be developed in a more flexible manner if the constitutional requirement was that matters to be decided by the Government would have to be prepared under the ministry responsible for the matter with official liability.

### Recommendations for a steering policy aimed at strengthening decision-making capability

There is a need to assess whether the Prime Minister possesses adequate management tools. However, international research findings in the field of political economics suggest that the best-functioning management tools in a multi-party environment are contract-based and not hierarchy-based (such as a presidential system). A key requirement is to agree explicitly on the management of the most important thematic entities at political level and on who is in charge of the drafting process at public-servant level.

The essential factor in political steering is the ability to make decisions and the use of the decision-making capacity in clearly defined processes and strategies. Economic research findings provide highly interesting perspectives on the economic rules connected with the organisation of fiscal policy

and other aspects of strategic political decision-making in countries characterised by multi-party governments (such as Finland).<sup>36</sup> Especially cabinets with a large number of ministers or parties and decentralised processes produce less disciplined economic policies.<sup>37</sup> A clear definition of the process and clear decision-making priorities have a substantial impact on the economic rationality of the decision-making. It often happens that the more complicated the decision-making process, the more expensive the decisions when measured in terms of the growth in the size of the budget. A clear process in which the main points are outlined in a single session and in which the decisions on details can be delegated produces better results. Research findings suggest that incomplete or uncertain information helps to strengthen these rules.<sup>38</sup>

There were changes in the relative strengths of the parties in the last parliamentary election. In the Finnish parliamentary system and the management by the Government based on it, the emphasis is increasingly on the needs concerning the effectiveness and decision-making capacity of the multi-party government model. International research findings suggest that contract-based administrative models and clear rules on processes, operating principles and objectives laid out in advance have proved successful. This provides important background information for the development of the Government's steering and management models.

In the National Audit Office's view, there is a need to develop a systematic and innovative steering policy for the Government so that the wicked problems affecting the Finnish economy and the public administration can be solved. On the one hand, the work

<sup>36</sup> See for example Mark Hallerberg, Rolf Strauch and Jürgen von Hagen: The Design of Fiscal Rules and Forms of Governance in European Union Countries. *European Journal of Political Economy* 23 (2007), pp. 338–359.

<sup>37</sup> See for example Roberto Perrotti and Yianos Kontopoulos: Fragmented Fiscal Policy. *Journal of Public Economics* 86 (2002), pp. 191–222.

<sup>38</sup> Karl-Martin Ehrhart, Roy Gardner, Jürgen von Hagen & Claudia Keser: Budget Processes: Theory and Experimental Evidence. *Games and Economic Behaviour* 59 (2007), pp. 279–295.

could be carried out on the basis of the current government's legislative plan and, on the other, on the basis of the central government spending limits and the Government's strategy processes. The steering policy should contain strategies on such issues as the use of legislation, standards, norm-based steering, economic steering, information steering and steering based on information systems. In the spending-limits and budget procedures, there should also be more room for the implementation of structural reforms in the economy and public administration and for ensuring that the reforms are carried out. There are good grounds for developing the legislative plan in line with the Government's strategic legislative drafting programme.

In an increasingly internationalised world, the use of a joint regulation model based on regulatory instruments providing an alternative to legislation and the combination of legislation setting the general principles and standardisation should also be more seriously considered. There is demand for societal pilot legislation.

Information systems belong to the steering toolbox of the 2010s. They can be efficiently used as internal steering tools in the central government. Finland could also be innovative in the use of ICT-based solutions as an external steering instrument. Open data

is one of today's applications of the openness principle, which is one of the key principles in the Constitution of Finland. Open data allows citizens and the civil society to take part in the steering in a new manner. In the public administration, there has been little use of shared, unified, accessible and comparable information on the impacts and costs of policy measures and the quality, availability and costs of services as a central government steering method and as an instrument for customer and civic steering directed at municipalities. Such information should be offered in accordance with the principle of open data through a shared electronic channel. Information systems and open data are elements of the smart steering systems of the future. We could act as pioneers in the use of such systems.

The Government has plenty of ideas and development projects that would help us to create innovative solutions that Finland so badly needs. Genuine steering and management innovations should be introduced during the current and the next parliamentary term. They are needed to prepare and carry out structural reforms that are ambitious enough so that the growth base of the Finnish economy can be strengthened and the sustainability gap eliminated.

## 2 Monitoring of the positions adopted by the Parliament

### 2.1 Positions monitored by the National Audit Office

The National Audit Office monitors the implementation of the positions adopted by the Parliament on the basis of the reports prepared by the Parliamentary Audit Committee if the positions pertain to the reports submitted by the National Audit Office to the Parliament and if the Parliament requires in its position that the Government submits a report on the matter or if the National Audit Office has focused its audits on the matters connected with the positions.

The positions adopted by the 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 usually monitors the positions adopted by the Parliament after the Government reporting requested by the Parliament.

During the current government's term of office, the Parliament has requested the Government to submit reports in connection with the reports of the National Audit Office or the audits conducted by NAO have concerned the reporting required by the Parliament in the following parliamentary communications:<sup>39</sup>

In its communication 50/2010 vp., the Parliament called for the Government to report on the implementation of the following measures in the 2011 report on final central government accounts:

- 1 The Parliament calls for the Government to take measures to clarify and improve the knowledge base, openness and transparency of the central government spending limits. The knowledge base of the spending limits must provide the Parliament with better prerequisites for decision-making in the field of spending limits and for monitoring concerning compliance with the spending limits and the implementation of the targets.
- 2 The Parliament calls for the Government to assess separately for each fund if the essential requirements for arranging the activities and funding through an off-budget fund laid down in section 87 of the Constitution still exist.
- 3 The Parliament calls for the Government to take measures to change the structure of the spending limits procedure so that a mechanism is introduced that allows profitable transport infrastructure investments that pay themselves back and intermediate reviews of such projects.
- 4 The Parliament calls for the Government to examine whether tax subsidies should be included in the spending limits procedure. For example, deciding on the total amount of tax subsidies should be part of the fiscal policy rules.
- 5 To ensure the sustainability of local government finances, the Parliament calls for the Government to include in the cen-

<sup>39</sup> The 2012 Government annual report contains an action report. It discusses the reporting requests connected with the parliamentary communications over a period that extends beyond this report. The aim was and still is the establishment of a register of action reports, which would make it easier to monitor the reporting requests issued by the Parliament and the responses of the Government

tral government spending limits a binding limit on how much funding the Government can allocate to the local government sector during the spending limit period through legislative and other means.

- 6 The Parliament calls for the Government to take measures to make the spending limits procedure more flexible so that appropriations can be better allocated within and between administrative sectors.

In its communication 53/2010 vp. the Parliament called for the Government to include the following entities (7 and 8) and the requirements for preventive preparation (9) in the reports on final central government accounts, starting with the 2011 report:

- 7 The Parliament calls for the Government to submit to the Parliament an annual report on state ownership steering.
- 8 The Parliament calls for the Government to include both market-based and special assignment companies and the information on them in the revised ownership steering report to be submitted to the Parliament. The contents of the report must be sufficiently informative and detail how the Government has promoted the principles and objectives of corporate social responsibility.
- 9 The Parliament calls for the Government to take measures aimed at ensuring the operating prerequisites of the Government financial controller's function so that the proposed reporting on Government ownership steering can be implemented.

In its communication 17/2011 vp., the Parliament called for the Government to report on the implementation of the following measures in the 2011 report on final central government accounts:

- 10 The Parliament calls for the Government to take the necessary measures to ensure that borrowing exceeding the liquidity requirements is discontinued.
- 11 The Parliament calls for the Government to take appropriate note of the measures that are mentioned in the report on the basis of budgetary positions.

In its communication 25/2011 vp., the Parliament called for the Government to report on the implementation of the following measures in the 2011 report on final central government accounts:

- 12 The Parliament calls for the Government to monitor what practical improvements in the field of quality and productivity of legislative drafting have been achieved with the procedures of the 'Sujuvampaan lainvalmisteluun' (Towards a more efficient legislative drafting process) project and how the legislative drafting resources have been strengthened and to report on the results to the Parliament as part of the report on final central government accounts in spring 2013.
- 13 The Parliament calls for the Government to prepare and introduce a joint case management and information system for the Justice and Internal Affairs Administrations so that it will also in scheduling terms allow the entry into force of the pre-trial investigation and coercive measures legislation and to report on the matter as part of the next final central government accounts.

In its communication 10/2012 vp., the Parliament called for the Government to report on the implementation of the following measures in the 2012 report on final central government accounts:

- 14 The Parliament calls for the Government to consider the problems that have been highlighted in the report on the use, allocation and supervision of discretionary government transfers and to ensure that the expertise and training of the operators in the sector improves so that in the future all appropriate provisions are known, observed and supervised. The Government must also examine how the provisions in sections 15 and 36 of the Act on Discretionary Government Transfers have been applied in practice and whether such matters as impacts on competition have been assessed.
- 15 R15 The Parliament calls for the Government to take measures and, without delay, use the powers laid down in the Act on Information Management to issue decrees on such matters as open interfaces. Simultaneously with the decisions on social and health care service structures and on organisational responsibilities, the competences and responsibilities required by the information management structure must be laid out in a manner that states explicitly which operators are ultimately responsible for the matter.
- 16 The Parliament calls 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.
- 17 The Parliament calls for the Government to ensure that in the implementation of the central government premises services better consideration is given to the agencies' premises needs and particularly to the change requirements in the premises and that new users can be found for vacant premises as quickly as possible.
- 18 The Parliament calls for the Government to take appropriate note of the measures that are mentioned in the report on the basis of budgetary positions.
- 19 The Parliament calls for the Government to take appropriate note of what has been stated in the report above on the deletion of the positions adopted by the Parliament at the initiative of the Audit Committee.

In its communication 18/2012 vp., the Parliament called for the Government to report on the implementation of the following measures in the 2012 report on final central government accounts:



## 2.2 Implementation of monitored positions

### Points 1–6

The positions adopted by the Parliament are connected with the separate report of the National Audit Office on the effectiveness of the central government spending limits procedure as a fiscal policy instrument (K21/2010 vp.). The National Audit Office has produced a follow-up to the separate report. The National Audit Office has submitted the following separate report on the follow-up to the Parliament: Interim fiscal policy audit report on the 2011–2014 parliamentary term (K2/2013 vp.).

### Points 7 och 8

The Parliament called for the Government to submit an annual report on ownership steering, separately for market-based companies and special assignment companies. In particular, the Parliament called for reporting on the companies' corporate social responsibility. The National Audit Office has audited the annual report (previously known as the report on final central government accounts) and the information on societal impacts each year and in this connection the reporting on ownership steering has also been audited.

In its annual reports, the Government has reported on matters required by the Parliament. Companies coming under the steering of the Prime Minister's Office and the companies owned through Solidium are extensively covered in chapter 3.1 (Ownership steering of the Prime Minister's Office) of the annual report. Sales of shares and investments, corporate restructurings and corporatizations

by the state have been reported for the past five years, while different aspects of dividend income and dividend yield rates have also been covered. The companies administered by Solidium have also been comprehensively reported. As regards corporate social responsibility, the reports explain how the matter manifests itself in the operations of the ownership steering unit.

As regards changes in the value of the ownership, only the figures for the year 2012 are given and compared with the sector index. Such a short period does not give an adequate picture of the development of the long-term state ownership. In this respect, too, a five-year period would provide an adequate and a more accurate picture of the trends. The reports do not give an adequate picture of the operations of the non-listed companies. The turnover and operating profit of the companies are given as overall figures. The figures do not give an adequate picture of the operations or roles of the companies as there is substantial variation in this regard. An itemised presentation in table format would be better.

A ministry-specific report on the special assignment companies that are not steered by the Prime Minister's Office is contained in chapter 3.2 of the annual report. As regards these companies, the reporting on different matters or the manner of reporting is not on a unified basis. However, the key indicators and the companies' core business are presented in a concise and clear manner. The reporting on ownership policy principles mostly covers remuneration systems even though it may not be the most important principle in these companies. There is little reporting

on corporate social responsibility. The section on the Ministry of Social Affairs and Health also contains information on Finland's Slot Machine Association (RAY). As RAY is not a special assignment company, there should not be any reporting on it in connection with company assets.

## Points 9–11

There were no audits of these points.

## Points 12

The Parliament called for the Government to monitor the development of legislative drafting and the strengthening of its resources. The practical development work has taken place as part of the 'Sujuvampaan lainvalmisteluun' (Towards a more efficient legislative drafting process) project. As the project was only concluded in February 2013, it cannot be expected that it has yet had any significant impact on the quality of the legislative drafting process. The Government has submitted a small number of reports on the current quality of legislative drafting. However, no reports have been submitted on the specific impacts of the project. The Government has not submitted any reports on the changes in legislative drafting resources (the manner in which legislative drafting resources have been strengthened).

The National Audit Office regularly audits the quality of legislation from the economic perspective as part its audits. In December 2012, the National Audit Office published a performance audit report on the Government's legislative plan. NAO examined whether the Government's legislative planning has improved the quality of legis-

lative work during the 2007-2011 parliamentary term. According to the audit, legislative planning at Government level has brought little added value to law drafting or the quality of legislative proposals. There was no improvement in the quality of regulation during the period in question. The National Audit Office will draw up a thematic plan on the future audits in this area during 2013.

## Point 13

There were no audits of this point.

## Point 14

The National Audit Office will complete a follow-up on this point during 2014.

## Points 15 and 16

There were no audits of these points.

## Point 17

The Parliament called for the Government to take better notice of premises needs and particularly the change requirements concerning them and to make efforts to ensure that the number of vacant premises can be minimised. In June 2013, the National Audit Office completed a follow-up to the audit report 'Government premises and group steering'.

The follow-up showed that there has been an improvement in the collection and use of the basic information required in premises services. The information covers such matters as the efficiency and cost of the premises

use, lease commitments and environmental friendliness. The 2012 Government annual report presented details of the key indicators and results of premises use for the first time. However, there is not yet any comprehensive gathering of such information and the development of the work is continuing.

As regards the meeting of the premises efficiency targets, progress has been very slow. This is because most of the efficiency improvements have taken place as a result of property renovations and organisational changes. There is still a long way to go before the premises efficiency target of 25 m<sup>2</sup>/person set for office premises in 2005 has been

met. According to the figures for 2012, the average premises efficiency for offices stood at 31.7 m<sup>2</sup>/person and the average monthly rent at 12.3 euros/square metre. The occupancy rate for the premises of the Senate Properties remained unchanged in 2012 (96.4 per cent).

## **Points 18 and 19**

There were no audits of these points.

# 3 Operational performance

## Conclusions and opinions

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, a result of performance guidance. However, the information

would be even more useful if the information on operational efficiency and the manner in which it is presented were more uniform and specific. 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 agency out of three had been set adequate productivity and economic efficiency targets and presented true and fair information on the manner in which they are implemented.

## 3.1 Operational efficiency

### Only one accounting agency in three had been set productivity and economic efficiency targets

Under the State Budget Decree, the grounds for the budget proposal must give the performance targets for the effectiveness and operational performance of the proposal. The performance targets are important for the Government as one basis for steering and for the Parliament when it decides on the allocation of appropriations and determines whether the targets set have been achieved.

Under the State Budget Decree, ministries must approve the breakdown of budgetary accounts and performance targets of the budget without delay after the Parliament has published the state budget. At the same time, under the State Budget Act, agencies must give true and fair information on their operational performance in their final accounts and annual reports.

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

A summary of the most important productivity and economic efficiency targets over a three-year period is given in Table 1.

For 2011 and 2012, the information on target-setting was audited and calculated on the basis of the accounting agencies preparing final accounts, while the comparison information for 2010 is based on the information supplied by the audited agencies.

On the basis of the audits for 2012, it can be said that, as regards productivity and economic efficiency, the performance targets (an essential part of performance guidance) approved by the ministries remain inadequate. Comprehensive economic efficiency targets had only been approved for 53 per cent of the accounting agencies. In the performance agreements, ministries had set productivity targets for 45 per cent of the accounting agencies. When the productivity and economic efficiency targets are assessed together, it transpires that only one accounting agency out of three 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 53 per cent and the productivity targets 75 per cent of the central government operations (in 2011 the figures were 53% and 74% and in 2010, 53% and 71%, respectively).

TABLE 1: SETTING OF TARGETS IN 2010–2012

Year	Economic efficiency	Productivity
2010	43%	48%
2011	50%	40%
2012	53%	45%

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

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

Provisions on the final accounts of central government agencies are contained in the State Budget Act and in the State Budget Decree. Under the amendments incorporated in the State Budget Decree from the start of 2010, only the agencies that the Ministry of Finance has ordered to operate as accounting agencies are obliged to prepare final accounts containing financial statements and a review of operations. Even though ministries still set performance targets for agencies, under the above-mentioned amendment they do not have any comprehensive obligation to report on operational performance in their final accounts.

Under the State Budget Decree, the review of operations must present a description of the operational performance (including key indicators) and a comparison with the performance targets set.

The purpose of the audits is to verify that the figures on operational performance are true and fair. In this case, the audit serves a basis for the assessment of whether the in-

formation on profitability, economic efficiency, chargeable services and their profitability and the cost-effectiveness of the jointly funded activities is true and fair.

Table 2 gives the breakdown of the economic efficiency figures over a three-year period.

The figures on economic efficiency (or the cost information provided instead of them) were found to be true and fair in 58 accounting agencies, which is 91 per cent of all accounting agencies (in 2011, 53 accounting agencies or 88%, and in 2010, 50 accounting agencies or 82%). Most of the figures provided by accounting agencies concern costs and other corresponding quantities, which account for 64 per cent of the information presented. Providing true and fair information means that the performance figures presented are both true and fair. Even though some accounting agencies include a large number of economically important agencies, under the State Budget Decree it is only possible to examine the presentation of true and fair figures at the level of accounting agencies.

The figures on economic efficiency (or the cost information provided instead of them) were found to be true and fair in 57 accounting agencies, which is 89 per cent of all accounting agencies (in 2011, 51 accounting agencies or 85 %, and in 2010, 46 accounting agencies or 75 %). The figures on productivity were found to be fair in 60 accounting agencies, which is 94 per cent of all accounting agencies (in 2011, 53 accounting agencies or 88%, and in 2010, 50 account-

TABLE 2: ECONOMIC EFFICIENCY INFORMATION IN FINAL ACCOUNTS

Year	True information	Fair information	True and fair information
2010	85%	89%	82%
2011	92%	92%	88%
2012	92%	94%	91%

ing agencies or 82%). They were considered true in 58 accounting agencies, which is 91 per cent of all accounting agencies (in 2011, 53 accounting agencies or 88%, and in 2010, 50 accounting agencies or 82%).

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 58 per cent and productivity information 64 per cent of the central government activities (in 2011, the figures were 52% and 59%, and in 2010, 50% and 61%, respectively). When assessed in this manner, there has been a slight improvement in the comprehensiveness of the figures from the previous years.

The ministries have presented most of the economic efficiency figures as cost information by result area or using a corresponding breakdown. The manner of presentation can be considered as adequate and it is also in line with the model recommended by the inter-ministerial accounting working group (Report of the Ministry of Finance working group 1/2006). Even when assessed in this manner, the information on the Ministry for Foreign Affairs, Ministry of Education and Culture and the Ministry of Employment and the Economy could not be considered true and fair.

The figures on economic efficiency (or the cost information provided instead of them) were found to be true and fair in 56 accounting agencies, which is 88 per cent of all accounting agencies (in 2011, 52 accounting agencies or 87 %, and in 2010, 48 accounting agencies or 79 %).

There has been a slow improvement in the trueness and fairness of the information on operational efficiency in recent years. The information would be even more usable if the

information on operational efficiency and the manner in which it is presented were made more uniform and clearer. 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**

The demand for and supply of services under public law are based on legislation and an authority or an agency usually has the sole right to provide the service. Appropriate preparation of cost-effectiveness calculations guarantees the legal rights of the customers so that the prices for the services are in accordance with the criteria laid down in the law. Monitoring and presentation of the chargeable services and their annual results are also particularly important when central government agencies are competing with private providers engaged in similar activities.

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.

Under the information kept in consolidated accounting, the revenue of the central government chargeable services totalled 1.2 bil-

lion euros (unchanged from 2011 and 2010). Of this total, public-law services provided under the Act on Criteria for Charges Payable to the State accounted for 0.4 billion (0.3 billion in 2011), services with market-based pricing for 0.5 billion (0.5 billion in 2011) and services priced under special legislation 0.4 billion (0.4 billion in 2011).

In 2012, the accounting agencies providing chargeable services referred to in the State Budget Act totalled 53 (compared with 50 in 2011 and 49 in 2010). The ministries had set performance targets concerning chargeable services for 39 accounting agencies, which is 74 per cent of all accounting agencies providing chargeable services. In 2011 the figures were 36 agencies or 72% and in 2010, 45 agencies or 63%.

Table 3 gives the breakdown of the information on chargeable services over a three-year period. The figures have been calculated on the basis of the accounting agencies providing chargeable services.

The audits showed that a total of 46 accounting agencies (87 per cent of all accounting agencies providing chargeable services) had presented true and fair information on their chargeable services and the annual results they generated. In the year before, the same applied to 43 accounting agencies or 86% of the 50 accounting agencies providing chargeable services.

When the comprehensiveness of the true and fair information on chargeable services is assessed on the basis of revenue generated by chargeable services, true and fair information covered 86 per cent (unchanged from 2011 and 2010) of all chargeable services.

There has been an improvement in the overall situation regarding the presentation of final accounts information on chargeable services. In 2012, a qualified opinion on regularity concerning the presentation of the annual results of the chargeable services was contained in the financial audit report of one accounting agency (in 2011 and 2010 two and three agencies, respectively).

**TABLE 3: FINAL ACCOUNTS INFORMATION ON CHARGEABLE SERVICES, AS PERCENTAGE OF THE ACCOUNTING AGENCIES PROVIDING CHARGEABLE SERVICES**

Year	True information	Fair information	True and fair information
2010	84%	88%	84%
2011	90%	90%	86%
2012	89%	91%	87%



## 3.2 State of performance guidance on the basis of operational efficiency

### There is room for improvement in the implementation of performance guidance

As part of performance guidance, ministries must provide agencies with appropriate performance targets and the information on them contained in the final accounts must be true and fair.

One purpose of performance guidance is to reconcile the development of operational efficiency and service capacity with the management of costs. The objectives and information concerning economic efficiency are thus 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.

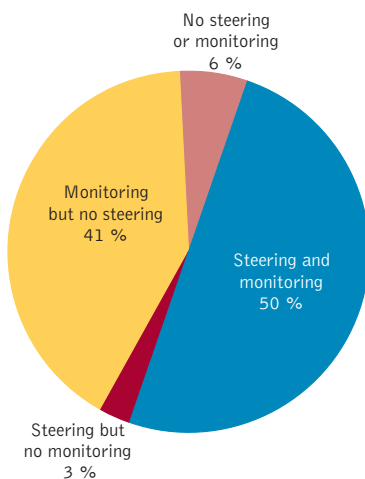


FIGURE 1 Economic efficiency targets and final accounts information describing them

Figure 1 shows the effectiveness of performance guidance from the perspective of steering and reporting on economic efficiency. The comprehensiveness of the economic efficiency targets set by the ministries and the information on them presented by the accounting agencies in their reviews of operations have been used as assessment criteria.

Since 2010, only accounting agencies have been obliged to prepare final accounts and for this reason, the success of performance guidance can only be examined by accounting agency. The percentage of accounting agencies steered on the basis of adequate economic efficiency targets and providing true and fair information has remained more or less unchanged in recent years (in 2012, 50% of all accounting agencies; in 2011 and 2010, 48% and 49%, respectively). Using these figures as a basis, performance guidance has been successful in one out of two accounting agencies. When assessed on the basis of ordinary operating expenses, it means that the figure for all central government activities is only 37 per cent (unchanged from 2010 and 2011). There have been no changes in comprehensiveness in recent years.

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 91 per cent of all accounting agencies presented true and fair information on economic efficiency in their final accounts. In 2011 and 2010, the figures were 88 per cent and 82 per cent, respectively. The readiness of the accounting agencies to present economic efficiency information has been

continuously higher than the readiness of the ministries to steer them with economic efficiency targets.

Economic efficiency targets had been set for 34 accounting agencies, which is 53 per cent of all accounting agencies. Of them, 32 (94%) presented true and fair information in their reviews of operations (for 2010 and 2011, the figure was 97%). Correspondingly, 26 (87%) of the 30 accounting agencies which had not been set economic efficiency targets, presented true and fair information. For 2011 and 2010, the figures were 80% and 67%, respectively. When assessed in this manner, most of the shortcomings concerning performance guidance are in the area of 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 30 per cent of all accounting agencies have adequate targets and present true and fair information (in 2011 and 2010, the figure was 25%). Correspondingly, the accounting agencies 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 nine per cent of all accounting agencies (compared with 13% in 2011 and 25% in 2010).

# 4 Combating of the shadow economy by the Finnish Customs and the Finnish Tax Administration

## Conclusions and opinions

Shadow economy means lawful activities on which no statutory taxes or charges have been paid because the activities or the income formation have not been disclosed to the authorities or the information on it has been inaccurate or inadequate. As an economic concept, the shadow economy is often measured as the output not included in GDP calculations. In fiscal terms, the shadow economy is measured as the amount of taxable income left outside taxation.

The audits of Finnish Customs and the audits of the tax audits conducted by the Finnish Tax Administration<sup>40</sup> showed clearly that the combating of the shadow economy is an integral part of the core activities of the Finnish Customs and the Finnish Tax Administration. It is difficult to measure the overall preventive effect of the activities of these authorities, their contribution to the accumulation of tax revenue or their impact on the shadow economy. There are clear risks to the central government finances if resources of the Finnish Customs and the Finnish Tax Administration are directed to the combating of the shadow economy at the expense of other activities. For this reason, combating of the shadow economy must be based on adequate information on economic and other impacts and risks.

Based on the audits conducted, the systematic development of the core activities of the Finnish Customs and the Finnish Tax Admin-

istration had also had an impact on the combating of the shadow economy. At Finnish Customs this has meant inputs in prior control and nationwide risk analyses activities. The Finnish Tax Administration has deemed it necessary to focus more on real-time audits as they are considered to be more effective in tackling the problem of the shadow economy than traditional ex-post control. High-quality tax audits require an up-to-date legislation so that such things as operational powers would not constitute an obstacle to successful activities. When information systems are developed, consideration should also be given to the fact that the needs of tax auditors may be different from the needs of the other staff members of the Finnish Tax Administration.

Even though the combating of the shadow economy is seen as part of the core activities of the Finnish Customs and the Finnish Tax Administration, both authorities should pay attention to target-setting in the combating of the shadow economy and the development of performance indicators. The Ministry of Finance, which steers both authorities, should play a more active role in the development and introduction of the indicators. It would be desirable if both the Finnish Customs and the Finnish Tax Administration could produce more information about their successes in the combating of the shadow economy.

<sup>40</sup> Audit reports of the National Audit Office 1/2013 Customs' role in combating the shadow economy; audit reports of the National Audit Office 5/2013. Success of tax auditing activities.

## Finnish Customs focuses on prior control

Combating of the shadow economy is part of the core activities of the Finnish Customs. In its work, Finnish Customs has paid attention to ensuring that its basic functions are in order, that it possesses expertise in a wide variety of fields and that the tax collection system functions properly. In the opinion of the National Audit Office, the combating of the shadow economy is part of all activities of the Finnish Customs, both directly and indirectly. The National Audit Office is of the view that as the Finnish Customs meets these requirements, it is well-placed to combat the shadow economy in a successful manner.

The Finnish Customs is responsible for collecting about one third of all tax revenue of the Finnish Government. In 2011, the taxes collected by the Finnish Customs totalled about 10.5 billion euros and about 10.3 billion of this sum was directly transferred to the accounts of the Finnish Government. Only estimates of the size of the shadow economy can be made. According to a report commissioned by the Parliamentary Audit Committee, the size of the Finnish shadow economy was between 10 and 14 billion euros in 2008. This is between 5.5 and 7.5 per cent of Finland's gross domestic product.

In the combating of the shadow economy, the Finnish Customs has invested in prior control. The customerships of the Finnish Customs are based on different types of authorisation and partnership and credit customerships, which are preceded by the examination of the customers' processes and the checking of the customers selected on

the basis of a risk analysis. While the customership arrangements facilitate the management of customs matters, they also mean that customers must carry out checks of their own, which may put the collection of taxes in jeopardy. Authorisations granted to key and partnership customers and membership in programmes may not lead to a reduction in customer control requirements and the assessment of customer-related risks.

In addition to using prior control, Finnish Customs also aims to ensure the collection of the correct amount of taxes and customs duties through real-time and ex-post control. Carrying out of ex-post control is the responsibility of the control units of customs districts. A nationwide control unit is being established in the Finnish Customs as part of the organisation reform, which was under way in the agency during the audit period. The unit's business control operations will be provided with additional personnel resources through extra funding granted to Finnish Customs for combating the shadow economy. More personnel resources will also be granted to risk analysis operations. According to the audit, the risk analyses conducted by the Finnish Customs are comprehensive and broad-based and they are being constantly developed. According to the audit, making the risk analysis operations into a nationwide function and placing the personnel resources recruited with the help of supplementary appropriations in risk analysis activities will also support the combating of the shadow economy. The new organisational structure of the Finnish Customs, which came into force at the start of 2013 clearly shows that the agency is focusing on the combating of the shadow economy.

## Combating of the shadow economy has not been reflected in the performance targets of the Finnish Customs

Combating of the shadow economy is a cross-cutting theme in the organisation of the Finnish Customs. The strategic objectives of the Finnish Customs support the combating of the shadow economy even though the shadow economy is not specifically mentioned in the basic strategies of the Finnish Customs. Particularly in the control strategy, the focus is on the control of the lawfulness of the activities of the target groups, protection of society at large and the combating of customs offences.

One of the effectiveness targets laid out for 2012 directly concerned the combating of the shadow economy. Other targets set for the Finnish Customs also help in the combating of the shadow economy. As part of operational development, the Finnish Customs has set indicators for the combating of the shadow economy. However, it has not specified the targets that the indicators are supposed to measure. The indicators measuring the achievement of the performance targets should be prepared so that the targeted values can also be monitored and measured. The achievement of the targets should also be reported in the final accounts.

Combating of the shadow economy was not an area of special attention in the performance targets of the Finnish Customs before 2012. Even though the combating of the shadow economy was not specifically mentioned in the performance agreements and targets for 2009–2011 examined in the audit, it was nevertheless considered in the target-setting so that the Finnish Customs was given targets aimed at making its operations more effective. The National Audit Office was of the view that the combating of the

shadow economy was an indirect part of the target-setting as a means of controlling lawfulness of the activities and as an instrument for uncovering illegal activities. The Finnish Customs had partially achieved its targets for 2011. This could not be fully assessed in the audit because the implementation of all targets had not been reported or no target value or state with which the degree of implementation could have been compared had been set for all indicators.

Even though the shadow economy is a fluid problem that is difficult to outline, the audits indicate that with the approach that it has chosen, the Finnish Customs is well-placed to successfully combat the phenomenon. Based on the audit, the operating approach of the Finnish Customs supports the combating of the shadow economy by means of a notification procedure, collateral system, risk analysis, control, ex-post control and prevention of offences.

## More detailed information on the effectiveness of tax audits is needed

The tax audits conducted by the Finnish Tax Administration have been effective if the achievement of the existing performance targets is used as a criterion. However, the nature of the performance targets is such that the achievement of the targets does not give an adequate picture of the actual effectiveness of the tax audits. At the moment, there is no information available on tax audits that would allow appropriate verification of the effectiveness of the activities.

A total of 41,845,000 euros had been allocated for the operational expenses of the Tax Auditing Unit for 2011. In the same year, slightly more than 700 person-years were spent on the activities of the Tax Auditing

Unit. During the past few years, a total of about 3,500 tax audits have been carried out annually and they have resulted in debiting proposals worth about 300 million euros each year.

The provisions on tax audits or the material concerning their preparation do not specify the purpose of tax audits so that it would be possible to use them as a basis for performance targets of the tax auditing activities. It can be assumed that the effectiveness of the tax auditing activities is mostly based on the fact that the taxpayers are aware of them and on the possibility of being subject to credible tax audits.

Current performance targets for tax audits mainly steer the manner in which the audits are focused. All effectiveness targets are also focus-related. The procedure in question probably has a positive impact on the effectiveness of the tax auditing activities and their internal efficiency. However, the information concerning the implementation of the individual effectiveness targets do not describe the actual effectiveness of the activities.

The National Audit Office is of the view that the quality of the targets should be improved within the framework of the available resources. The process should involve the Ministry of Finance and all tax auditing actors of the Finnish Tax Administration (including individual auditors). Attention in the development of the effectiveness indicators should also be on cooperation and connections with other authorities. The National Audit Office is of the view that in the steering and management of tax auditing, significantly better use should be made of the information on the examination, assessment and research of the effectiveness of the activities.

The National Audit Office is of the opinion that the societal effectiveness of tax auditing

should, to the extent possible, be made into a subject of more extensive public discussion. The aim should be a broad-based and above all a clear view of what is expected of tax auditing. In such a situation, it would probably also be easier to set effectiveness targets.

### **Real-time tax audits have the potential of combating the shadow economy**

Tax audits are an important instrument in tackling the problem of the shadow economy. Already the credible existence of tax auditing significantly limits the shadow economy. There are differing views among the actors in the Finnish Tax Administration on the chances of combating the shadow economy through tax auditing or on the auditing tools that should be applied in the process. Some of the actors are of the view that there is a clear need to increase tax audits targeting the shadow economy. Likewise, many actors think that there is a need to carry more real-time audits as they are considered a more effective way of tackling the problem of the shadow economy than the traditional expost approach.

The number of audits targeting the shadow economy must be adequate so that their preventive effect can be ensured. At the moment 30 per cent of the work inputs in tax audits are directed at the auditing of the shadow economy. However, there is not enough information on the impact of these audits on the extent of the shadow economy.

Audits of the shadow economy often require substantial resources. Shifting the focus on the shadow economy would mean a significant reduction in the extent of other audits and a reduction in the direct tax revenue resulting from the audits. The National

Audit Office is of the view that the inputs in the audits of the shadow economy must be based on adequate information on economic and other impacts and risks.

### Success of tax audits can be improved

Reorganisation of tax auditing into a single national unit from 1 September 2010 has clearly improved the chances to increase auditing performance. In the steering and management of the activities, there is a clearer need and a better chance to develop and harmonise the activities. There is large number of development projects under way that can be seen as a positive result of the reorganisation. Consideration should also be given to the compatibility of the information systems needed in day-to-day auditing. It should be noted that the prerequisites for successful tax auditing may to some extent differ from the needs of the other personnel at the Finnish Tax Administration.

Those responsible for the steering and management of tax auditing did not consider competence provisions or taxation or other legislation a significant obstacle to appropriate activities or success. The responsible parties are, however, of the view that there is a need for better legal provisions so that the quality of tax auditing can be improved.

In the tax auditors' opinion, the powers are at least to some extent an obstacle to successful activities. The impact of the provisions concerning other authorities on the disclosure of information and the technical problems in accessing banking information were highlighted.

At the moment, the differences between the debiting proposals based on tax audits and the actual debiting and the reasons for the differences are not adequately used in quality assurance. Moreover, there is little monitoring of the tax adjustment requests and claims and the monitoring that is done is on an unsystematic basis. The National Audit Office is of the view that debiting and claims must be followed in a systematic and continuous manner.

# 5 Effectiveness and service capacity of the public administration from the perspective of ordinary citizens

## 5.1 Rehabilitation as a means of lengthening working careers

### Conclusions and opinions

Lengthening of working careers and raising of the employment rate are key objectives of the Government. In the long run, the aim is to lengthen working careers by an average of three years, while the employment rate should be increased to 72 per cent during the current government's term of office. In practical terms, it is a question of the same matter (increasing the amount of work done). The length of the working career describes the amount of work done from the time series perspective, while the employment rate describes the amount of work done from the cross-sectoral perspective. Behind the aims is a continuous lengthening of life expectancy.

Maintaining working capacity throughout the working career is crucial. More total production is lost as a result of incapacity to work than as a result of unemployment. In 2011, the number of unemployed totalled nearly 210,000, while a total of 260,000 people were on a disability pension. For most people, unemployment is a temporary phenomenon. However, few recipients of a permanent disability pension return to working life. The problem is also acknowledged in the current Government Programme and the aim

is to give special consideration to the combating of the causes of disability during the government's term of office.

In the audit, the rehabilitation steering system and the manner in which the rehabilitation maintaining working capacity has succeeded in improving citizens' working capacity and lengthening their working careers were assessed. The state spends about 140 million euros on rehabilitation maintaining working capacity each year. Substantial resources are also allocated for the rehabilitation of special groups outside the labour market, such as people with severe disabilities, those in retirement and disabled war veterans. However, these groups were left outside the scope of the audit.

The audit produced no clear evidence that rehabilitation helps to lengthen working careers. In fact, there has been little research on the link between rehabilitation and retirement on disability pension. The small number of reliable studies examined for the audit showed that there is no link. Using regional statistics as a basis, the audit examined how two vocational rehabilitation schemes (Aslak and Tyk) affected retirement on disability pension. According to the results, Aslak courses have not had any impact, whereas there is some statistical evidence that Tyk rehabilitation helps to prevent disability.



As part of the audit, the risk factors concerning retirement on a disability pension were also examined. The longitudinal research material collected by the University of Jyväskylä was used as a basis for the study. Overweight, morbidity, poor language skills and high alcohol consumption increased the likelihood of disability pension. Referral to care decreased the risk of disability, which indicates that regular health checks are important in the maintenance of the working capacity. However, regular health checks are not compulsory under the existing legislation.

Nationwide steering and coordination of rehabilitation are the responsibility of the Advisory Board for Rehabilitation. Based on the interviews with regional and local actors, there has been little steering at national level during the past few years. Likewise, there has been no follow-up of the impacts of rehabilitation even though this is one of the advisory board's statutory tasks. The role of the central government in rehabilitation maintaining working capacity is limited to legislative drafting and funding (through Kela's budget). There are many actors and pieces of legislation in the field of rehabilitation and

the responsibilities of the actors are considered unclear among those providing the services. The rehabilitation system is confusing and transferring customers from one actor to another is common. There are substantial regional differences in the ways of cooperation and cooperation practices.

### There are substantial regional differences in morbidity and the length of working careers

There are substantial differences in employment rates between regions (variation of almost 20 per cent). Åland had the highest employment rate in 2011 (79 per cent), while the rate was lowest in Lapland (62 per cent). This means that there is also significant variation in the average lengths of working careers. However, no official statistics on the lengths of working careers have been published. The differences are partially explained by the fact that there are also substantial regional differences in morbidity (Figure 2).

Figure 2 shows a clear connection between the number of people on disability pension

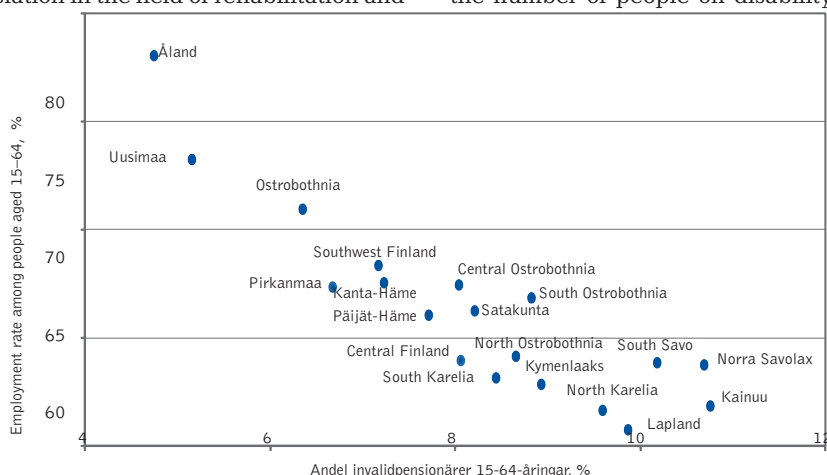


FIGURE 2 Proportion of people in employment and on disability pension by region, in 2010.

and the region's employment rate. A total of 7.3 per cent of the Finnish population in working age was on a disability pension in 2010. The situation in Finland is not markedly different from the situation in other Nordic countries. In Sweden the corresponding figure was 7.8 per cent and in Denmark 7 per cent.

### **Division of responsibilities between actors is not clear**

It was found out in the audit that the Act on Cooperation in Client Services within Rehabilitation has not brought about coordination between the rehabilitation activities of the financing organisations coming under different steering systems (local government, employment pension institutions, Kela and central government). Thus, the division of labour between the different providers of rehabilitation funding is not clearly defined in legislation. Nobody takes overall responsibility of the rehabilitees because there is a large number of different acts containing provisions on different actors. Moreover, it is not always clear who is responsible for a specific customer. There is risk that the customer's rehabilitation chain may be disrupted, that there are delays and that the customer is transferred from one actor to another. This results in overlapping activities and activities that are inefficient in terms of overall economics.

### **A total of about 140 million euros is spent on rehabilitation maintaining working capacity**

The aim of the audit was to produce a rough estimate of the yearly costs incurred by the

central government and the Finnish economy as a result of the rehabilitation maintaining working capacity. According to the calculation presented as part of the audit, the yearly costs are in the region of 140 million euros (in central government) and about 170 million euros (in the Finnish economy as a whole). It should be noted that the costs are partially shouldered by private employment pension institutions. Income transfers, such as rehabilitation allowances compensating for earnings, are not considered as expenditure incurred by the Finnish economy in this calculation. However, these are included in the expenditure incurred by the central government.

### **Monitoring of performance has been inadequate**

Based on the audit, the monitoring of the success of rehabilitation has been inadequate at the level of ministries and the advisory board, when it is assessed from the perspective of the task laid down for the advisory board and when consideration is given to the substantial money flows within the rehabilitation system and the aim to lengthen working careers laid out in the last few Government Programmes. The statutory tasks of the Advisory Board for Rehabilitation include the monitoring of the effectiveness of rehabilitation. According to the interviews conducted in the ministry, effectiveness has only been discussed at the board meetings. However, because of the problematic nature of the subject and the large number of actors in the rehabilitation sector, no measures aimed at monitoring the success of rehabilitation have been taken.

According to rehabilitation actors at regional and local level, the motivation of the

rehabilitees is an important prerequisite for achieving permanent results in rehabilitation. If the rehabilitees do not have any motivation to improve their working capacity, the results will be weak. This also makes it difficult to assess the effectiveness of rehabilitation in a reliable manner. If only motivated persons are selected for rehabilitation, there is a significant selection bias in the register-based examination. For this reason, effectiveness should be assessed using random testing. However, this is not always possible or even ethically acceptable.

Correct timing of the measures is also important and the fact that rehabilitation is usually started too late was often seen as a problem. Gradual weakening of the working capacity should already be tackled earlier. In many cases, the threat of disability during the next five years was seen as an excessively strict criterion for eligibility for employment pension rehabilitation. At the same time, persons with several working years left are also eligible for early rehabilitation provided by Kela (Aslak scheme).

The complex nature of the rehabilitation system was also highlighted at regional and local level. Even experts have at times difficulty finding out who is responsible for the rehabilitation of a specific rehabilitee. Clearer division of labour on who is responsible for rehabilitating whom and when is needed. Such nationwide steering and coordination is a statutory responsibility of the Advisory Board for Rehabilitation.

## Men in working age rarely take health checks

According to the longitudinal research material of the University of Jyväskylä, living habits are of great importance in coping at work.

As expected, overweight is a major risk factor in disability. Heavy alcohol consumption, indicated by binge drinking at least on a weekly basis, increases the disability risk. As expected, a large number of illnesses or injuries increase the disability risk. At the same time, however, language proficiency decreases the risk of disability. The generalisation of the findings is made more difficult by the small sample size and especially the small number of persons drawing a disability pension in the sample. The questions concerning alcohol use involve an additional uncertainty factor.

Perhaps the most important observation from the perspective of the lengthening of working careers is that the referral of those aged 42 to treatment has helped to lower the risk of disability pension at the age of 50. This demonstrates the importance of regular health checks in the maintenance of working capacity.

Living habits can be influenced through education and by means of taxation. The confectionery tax introduced in 2011 is a step to this direction. Under the programme of the current Government, the confectionery tax will be replaced with a more broad-based sugar tax in the next few years. Consideration has also been given to an extra tax on the fat contained in foodstuffs.

The frequency of health checks was studied in the extensive Health 2000 survey. A total of 39 per cent of the working-age men (aged 18–64) and 42 per cent of the working-age women belonging to a sample of more than 8,000 had taken a work-related or study-related health check during the past few years. Only nine per cent of the men and 40 per cent of the women in the age category 35–64 had taken an age-group health check during the same period. Most of the health checks for driver's licence were tak-

en by people in the youngest and oldest age groups. Taking a health check was closely connected with education, training and income: Highly educated people and those with a high income went to a health check significantly more often than others. It is estimated that about one working-age man in two had failed to take a health check during the previous five years.

### Rehabilitation is not targeted on the basis of regional morbidity

There is significant regional variation in the number of rehabilitees. In the regions with the largest rehabilitation volumes, the number of rehabilitees is several times higher than in the less active regions. One would expect that in regions with high morbidity, the aim would also be to rehabilitate as many people as possible. However, there is no link between the volume of rehabilitation and morbidity (Figure 3). Aslak rehabilitation, which is specifically aimed at preventing disability, is the subject of the graph below.

According to a statistical analysis made as part of the audit, it is safe to say that discretionary Aslak rehabilitation has not reduced the popularity of disability pension. There was some statistical evidence that statutory Tyk rehabilitation has helped to prevent disability. Statistical assessment focused on rehabilitation funded by Kela because sufficiently accurate regional statistics on employment pension rehabilitees were not available.

Based on the audit, it would seem that many of the persons selected to Aslak rehabilitation did not face any immediate threat of disability. The selection criteria for Aslak rehabilitation cannot be considered particularly strict. Kela's rehabilitation standards state the following of the target group for Aslak rehabilitation: 'Aslak rehabilitation has as its target group those in employment (permanent or fixed-term) that have a clear risk of a weakening working and functional capacity. The symptoms of the rehabilitees are still mild and reversible and they have only accumulated a small number of sickness allowance days. Rehabilitees have several working years left.' Unlike in the Tyk rehabilitation standards, imminent threat of disability is not a selection criterion

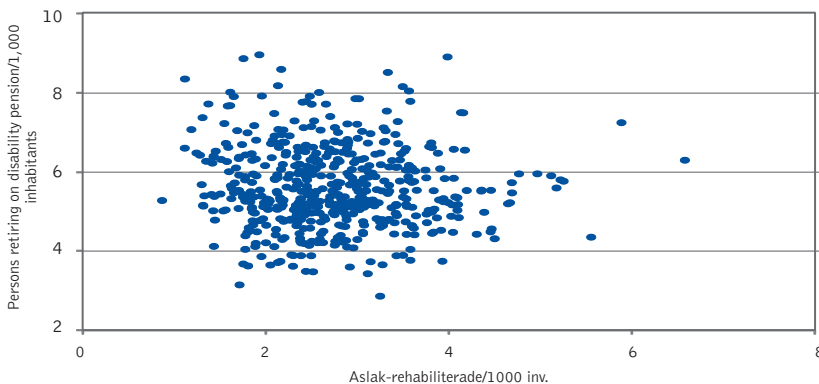


FIGURE 3 Persons retiring on a disability pension and Aslak rehabilitees for 1,000 residents, by sub-region, in 2003–2010.

## 5.2 Effectiveness of special needs education

### Conclusions and opinions

When measured with the number of pupils, the volume of special needs education provided as part of basic education increased by 60 per cent in 2001–2010. This was above all a result of an increase in the provision of special needs education, as the number of pupils receiving special needs education on a part-time basis remained constant, except for a small increase early in the decade, which was caused by a change in the manner in which the statistics are compiled. The largest amount of part-time special needs education was given during the first years of basic education to combat speech, reading and writing disabilities and in this respect the objective of early support laid down in the Basic Education Act has become reality. However, the number of pupils transferred to special needs education increased during basic education and the largest amount of special needs education was provided during the last years of basic education (when measured with the proportion of special needs pupils). Because of incomplete statistical data, it was impossible to ascertain how much part-time special needs education the pupils had received before being transferred to special needs education and why this type of support had not been adequate. The National Audit Office recommends that the support system should be revised so that a sufficiently early intervention could lessen the need for special needs support and for the individualisation of syllabuses during the upper grades of basic education.

The audit also revealed that special needs education has not been available equally in different parts of the country or in all age groups. The support provided for pupils affected by similar learning difficulties varied from one municipality to another. In some cases, the differences were fairly significant. The National Audit Office recommends that the differences between municipalities are tackled and that the support system is developed so that the pupils' right to receive support can be implemented equally in all parts of the country.

As the number of special needs pupils has increased, individualisation of subjects has become significantly more common. In the view of the National Audit Office, this trend is worrying because individualisation of the syllabuses weakens the ability of the young people to continue their studies. The audit results indicate that even though a growing number of pupils has been transferred to special needs education, this has not increased the proportion of pupils that move to upper secondary level education or helped more pupils to complete upper secondary level studies. The National Audit Office recommends that the individualisation of syllabuses and the reasons for it should be examined more carefully and, on this basis, an effort should be made to harmonise the practices of local authorities, for example in connection with the basic education curriculum reform.

As the number of special needs pupils has grown, the resources allocated for special needs education have also been increased. While no separate statistics on all

costs of special needs education are currently produced, an examination of the number of teachers gives some idea of the extent of the activities. In 2010, special needs teachers accounted for nearly 14 per cent of all teachers in basic education. The impacts of an increase in special needs education or in the resources allocated for it are, however, difficult to assess in a reliable manner, as there are no comprehensive statistics on special needs education. The National Audit Office recommends that consideration is given to improving the compilation of statistics on enhanced and special needs support so that there would be a clearer picture of how the support resources are and should be allocated and so that it would be possible to monitor and assess the impacts and effectiveness of the support.

The current system of basic education funding does not give any consideration to the need for special needs support among the pupils in the nine-year compulsory education. Thus, it is based on an assumption that there is no variation in the need for special needs support among the pupils in the nine-year compulsory education in different municipalities. The assumption is quite bold and is not supported by international studies. The matter has not been examined in Finland. The audit results indicate that the socio-economic background of the pupils who have been transferred to special needs education and who are following an individualised syllabus is weaker than that of the pupils who are studying according to the general basic education syllabus. International studies examining the backgrounds of special needs pupils have also arrived at the same conclusion. Thus, judging from these findings, it would seem that in municipalities and regions where the socio-economic background of the working-age population

is weaker, the need for special needs support is also greater. The National Audit Office recommends that as part of the reforming of the basic education funding system, the suitability of both the parents' educational background and other indicators describing socially advantaged or disadvantaged position for assessing the requirement for special needs education should be evaluated so that the aim would be the consideration of needs and the narrowing of the gaps between municipalities in the provision of special needs education.

There is a substantial decrease in the full-time integration of special needs pupils in mainstream education in the upper grades of the comprehensive school. For this reason the National Audit Office recommends that the system of teaching subjects and pedagogical practices in the upper grades of the comprehensive school should be developed in a manner that supports integration so that the aim of providing special needs education in mainstream teaching groups could also be better realised in the upper grades of the comprehensive school.

### **When measured with the number of pupils, the emphasis of special needs education is in the final stages of basic education**

The aim of the National Audit Office's audit of special needs education in basic education was to examine the arrangements and impacts of special needs education in more detail than before and to find out how well the general objective of the Basic Education Act to promote healthy growth and development of all pupils according to their age and capabilities is realised. Drawing on extensive register data, the audit examined the

changes in special needs education in 2001–2010, paying attention to differences between various age groups and municipalities in the provision and arrangement of special needs education, as well as to the grounds on which it was provided and the resources allocated for it. The audit also studied the impacts of special needs education by examining special needs pupils' transition to and progress in upper secondary level education, their attainment of upper secondary level qualifications and their employment situation four years after completing basic education. While the statistical data presented in the audit can be used for describing the amount of special needs education it cannot be used for assessing the content or quality of the support given to the pupils. In addition to statistical analyses, the practices of special needs education were investigated in ten municipalities through interviews and imaginary cases.

The aim of the Basic Education Act has been to ensure that pupils get support for their learning difficulties as early as possible. The purpose of the amendments to the act in 2010 was to strengthen this objective. Recent international studies<sup>41</sup> also indicate that learning difficulties and behavioural disorders should be tackled as early as possible because dealing with them at a later stage will produce much poorer results.

According to the audit results, nearly 35 per cent of the age group received part-time special needs education during the first years of basic education in 2001–2009. It was mainly provided for speech, reading and writing disorders. After the first years of basic education, there is a sharp decrease in the amount of part-time special needs education. In the

upper grades of the comprehensive school, only about 18 per cent of the pupils received part-time special needs education. The main grounds were learning difficulties in mathematics and foreign languages.

At the same time, the taking and transferring of pupils to special needs education was characteristic of the upper grades of the comprehensive school. Between 4 and 6 per cent of the first grade pupils were taken or transferred to special needs education during the autumn term. The proportion was at its lowest in 2001 and at its highest in 2008. In the lower grades of the comprehensive school, transferring pupils to special needs education was mainly on the grounds of severe disabilities and learning difficulties. After the first grade, there was a steady increase in the proportion of special needs pupils throughout the lower grades of the comprehensive school. In the upper grades the rate of increase was slightly faster than in the lower grades. During the final stages of basic education (during the autumn term of the ninth grade), the proportion of special needs pupils varied between 6 and 11 per cent. In autumn 2010, nearly 11 per cent of the ninth-grade pupils had been taken or transferred to special needs education. Especially in the upper grades of the comprehensive school, the main reasons for transferring pupils to special needs education were almost always of less serious nature, such as emotional disorders, social maladjustment, learning difficulties arising from verbal disorders (dysphasia) or other reasons.

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<sup>41</sup> Heckman, J. (2008): Schools, skills, and synapses. *Economic Inquiry*, 46, pp. 289-324 and Cunha, F. – Heckman, J. – Lochner, L. – Masterov, D. (2006). Interpreting the evidence on life cycle skill formation. From Hanushek, E. – Welch, F. (ed.) *Handbook of the Economics of Education*, vol. 1 Elsevier.

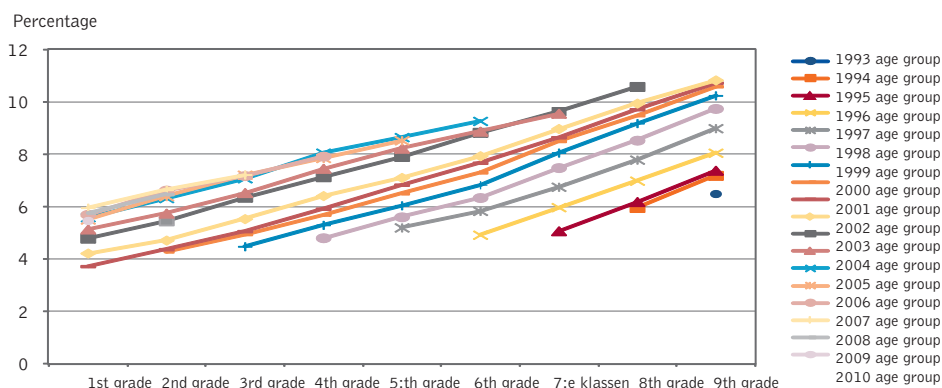


FIGURE 4 Proportion of pupils taken and transferred to special needs education in grades 1–9 in 2001–2010, by age group and in accordance with the year of school start.

### There are differences in the proportion of special needs pupils between age groups and different parts of the country

Different age groups were in a different position concerning special needs education in 2001–2010, depending on where they had started their basic education. Especially during the early years of the decade, when the rate of increase in the number of pupils transferred to special needs education was at its peak, there were fairly substantial differences in the percentages of special needs pupils between age groups (see Figure 4). Moreover, the differences did not become less marked during basic education as each age group remained in its own development path. The differences only became less noticeable at the end of the period when there was no longer any increase in the rate of growth in the number of special needs pupils. No similar trends were observed in special needs education provided on a part-time basis.

In addition to the differences between age groups, there were also marked differences between municipalities in the percentages of

pupils taken and transferred to special needs education. These differences increased between 2001 and 2010. The growth was mainly the result of an increase in the proportion of special needs pupils in the nine-year compulsory education. No such change was observed among the pupils in the eleven-year compulsory education. There was no clear correlation between differences among municipalities and the size of the municipalities. The proportion of special needs pupils was slightly higher in urban municipalities.

### Pupils with similar learning difficulties did not receive similar support

The support provided for pupils affected by similar learning difficulties varied from one municipality to another. In some cases, the differences were fairly significant. The substantial gaps between municipalities concerning special needs education practices were well-known when the 2011 amendments to the Basic Education Act were drafted. The purpose of the amendments was to decrease these differences by changing the process concerning the provision of the sup-



port and by making it more transparent. Despite these changes, municipalities still have a great deal of discretion in the provision of the support and thus there may also be differences in practices and in the way pupils are treated in the future.

### There are differences in the integration of special needs pupils between age groups and different parts of the country

For a number of years, the aim has been to place special needs pupils in mainstream classes. In fact the proportion of special needs pupils placed in mainstream classes increased between 2001 and 2010. The main reason for the increase is probably the growth in the number of special needs pupils. As pupils are being transferred to special needs education on increasingly minor grounds, the teaching of these pupils is organised in mainstream classes, wholly or in part. The number of pupils in special needs groups remained at about 20,000 between 2001 and 2010. In the light of these figures, it would seem that so far there has not been any large-scale integration or inclusion.

When the trends concerning different age groups are examined, another interesting feature regarding the integration of special needs pupils emerges (see Figure 5). There is a steady increase in the proportion of special needs pupils in mainstream classes throughout the lower grades of the comprehensive school. However, the increase is halted at the start of the upper grades of the comprehensive school when the proportion of special needs pupils attending mainstream classes drops from more than 35 per cent to about 25 per cent where it remains for the remainder of the upper grades of the comprehensive school. In fact, it would seem that the subject teacher system in the upper grades of the comprehensive school is a factor that does not support the full-time teaching of special needs pupils in mainstream classes but leads to at least partial teaching in special needs groups.

There were some differences between age groups in integration. In younger age groups, providing all teaching in mainstream classes was slightly more common than in older age groups. The differences between municipalities were again substantial and there was no change in them between 2001 and 2010. The proportion of special needs pupils that

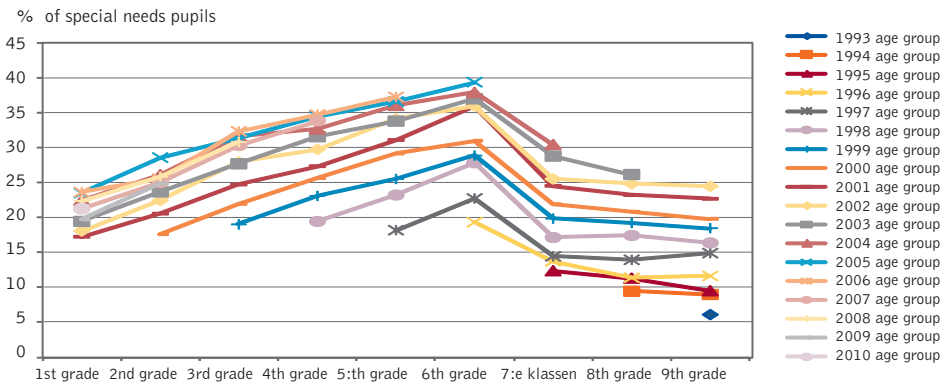


FIGURE 5 Proportion of special needs pupils that are fully integrated into mainstream classes in grades 1–9 in 2001–2010, by age group and in accordance with the year of school start.

only attend mainstream classes was greater in smaller municipalities, whereas studying in special groups was more common in larger municipalities. This may partially be because in the field of the most severe disabilities and learning difficulties, most of the special needs education takes place in the largest municipalities.

### More individualised syllabuses – more than 7 per cent of all ninth-graders have at least some syllabuses tailored to their needs

Pupils transferred to special needs education study in accordance with the general basic education syllabus or have syllabuses that are tailored to their needs, wholly or in part. Teaching of severely disabled pupils is organised by area of activity. It was found out in the audit that partial individualisation of syllabuses (individualisation of specific subjects) became much more common between 2001 and 2010. To some extent the trend can be explained with the fact that there has been a slight decrease in the number of special needs pupils with completely individu-

alised syllabuses. Legislation has only provided a loose framework for the individualisation of syllabuses. The 2004 National Core Curriculum provides guidelines for individualisation in the preparation of the individual education plans (IEP), which have the character of an administrative decision. In addition, the National Core Curriculum also puts the assessment of the pupils on a more unified basis. In fact, the Ministry of Education and Culture drew attention to the fact that the increase may partly be a result of the fact that the providers of teaching act in line with the National Core Curriculum and have no longer calculated targets or exempted pupils from the teaching of specific subjects to the same extent as before. If this assumption is correct, the system has become more transparent. As there is no information about the exempted basic education pupils, it was not possible to examine the issue as part of the audit in more detail.

It would also seem that depending on their age group and municipality of residence pupils are not in an equal position as regards individualisation. There have been substantial differences, particularly during the final stages of basic education. Whereas in 2001, less

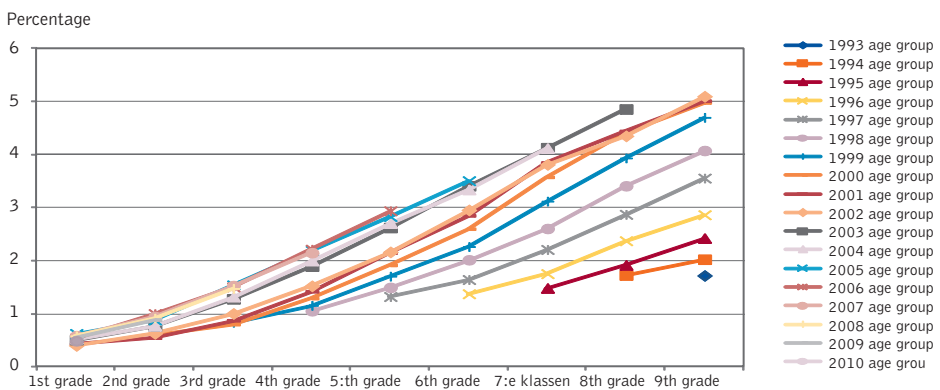


FIGURE 6 Proportion of special needs pupils with partially individualised syllabuses in grades 1–9 in 2001–2010, by age group and in accordance with the year of school start.

than two per cent of all ninth-graders had partially individualised syllabuses, in 2010 the figure had increased to five per cent (see Figure 6). When pupils with fully individualised syllabuses are added to the figure, the total is about 7.5 per cent. There were also fairly significant differences between municipalities. In the top ten per cent of the municipalities, more than eight per cent of all ninth-graders had partially individualised syllabuses. Partial individualisation of syllabuses was more common in smaller municipalities.

### **The wealth of municipalities (as measured with tax revenue) played a role in transfers to special needs education, particularly when the transfers are on minor grounds**

Wealth of municipalities (tax revenue per resident) had an impact on the proportion of special needs pupils. The percentage was higher in wealthier municipalities. Central government transfers to municipalities (as calculated per resident) also had a similar, though a less marked, impact. The wealth of municipalities did not have any impact on the proportion of special needs pupils transferred on the basis of more severe disabilities. In particular, the wealth had an impact on transfers made on minor grounds. In addition to wealth, the degree of decentralisation in special needs education also played a role. In municipalities with more decentralised special needs education, the proportion of special needs pupils was also higher. This, too, mainly applied to pupils transferred to special needs education on minor grounds. At the same time, however, the audit pro-

duced no evidence that the proportion of foreign-language students had any impact on the proportion of special needs pupils.

### **Pupils that have completed individualised syllabuses do not move on to upper secondary level and working life in the same numbers as other pupils**

Fewer pupils that have attended wholly or partially individualised syllabuses in basic education move on to upper secondary level in the autumn immediately following the completion of their basic education. The difference becomes slightly narrower in the second autumn after the completion of the basic education. These pupils also drop out of upper secondary level studies more often than others and their employment situation is weaker four years after the completion of the basic education. The situation remains unchanged even if consideration is given to the weaker social background of the special needs pupils. There are also significant regional differences in participation rates in upper secondary level education between special needs pupils.

The audit produced some evidence that a rise in the proportion of special needs pupils has increased entry into and the completion rate of upper secondary level education. The situation among the pupils with partially individualised syllabuses who completed their basic education in 2006 was slightly better than among those who completed their basic education in 2004 or 2009.

## **It remains uncertain that special needs education is provided with adequate resources**

It was found out in the audit that the number of special needs teachers has not increased at the same rate as the number of special needs pupils. This is partially explained by the fact that the increase in the number of transfers to special needs education is mainly the result of minor learning difficulties, which usually require less support than severe disabilities and learning difficulties. However, the differences between municipalities were fairly significant. The problem remains that there is no information about the actual need for support and thus it is impossible to give reliable estimates of whether the increase in resources has kept pace with the increase in the need for support.

## **Statistics on special needs education are incomplete**

There have been deficiencies in the statistics on special needs education. The statistical system introduced in 2011 has led to less detailed statistics and has made the situation even worse. The impact and effectiveness of special needs education can only be reliably assessed in the future if there is follow-up information available on individual pupils and more detailed information on how much and what type of special needs education the pupils have received. More than ten per cent of all basic education teachers teach special needs pupils, which means that there should be usable information on the success of the activities.

Above we have explained how the partial individualisation of syllabuses has increased significantly since the early years of the millennium. Statistical information on syllabuses is no longer available by grade but only as totals for the lower or upper comprehensive school. No detailed statistical information is available on how many pupils completing basic education have studied with an individualised syllabus. With current data collection methods it is also impossible to obtain information on the target groups of special needs education, the level of support offered to them or the level of integration of the education. These shortcomings are also problematic from the perspective of international comparisons.

Statistics on the resources of special needs education are also incomplete. The latest statistical releases on teaching groups no longer contain any information on the group sizes of special needs education. Thus, the latest available information is from 2008.

## 5.3 Regional differences in service needs

Firstly, it transpired in the audits covering rehabilitation and special needs education (chapters 5.1 and 5.2 above) that there were significant regional differences in operating methods and practices. From the perspective of effectiveness and administrative service capacity, an even more serious problem is that there are fairly significant regional differences in rehabilitation and special needs education. For example, in some re-

gions the proportion of disability pensioners of the working-age population was twice as high as in the regions with the lowest proportion (Figure 7). There were also substantial regional differences in such matters as the moving of special needs pupils who have completed partially individualised syllabuses on to upper secondary level (Figure 8) and working life (Figure 9).

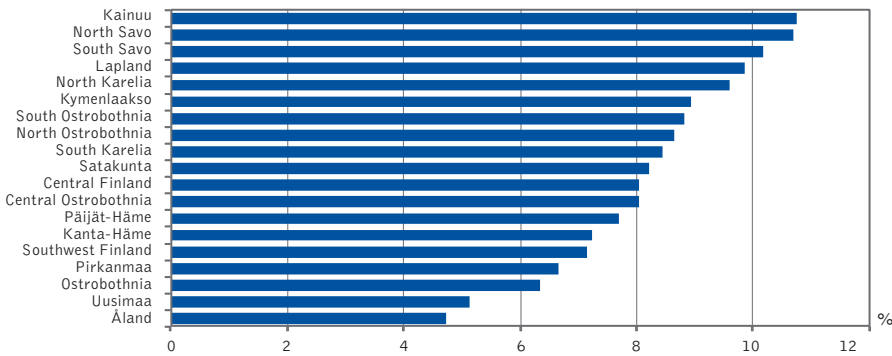


FIGURE 7 Percentage of disability pensioners of the working-age population (aged 15–64) in 2010

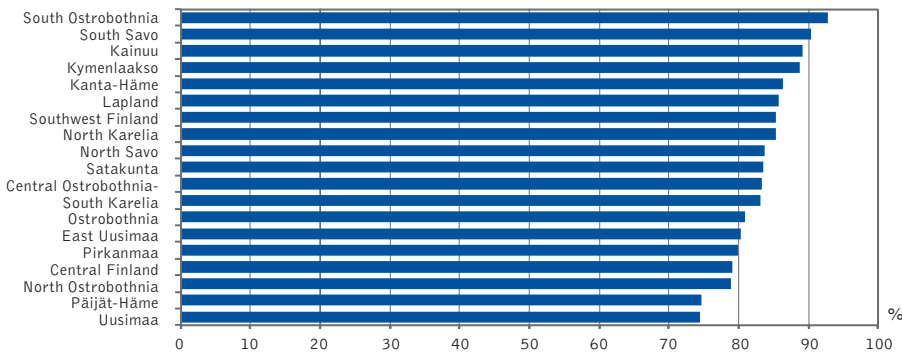


FIGURE 8 Upper secondary level attendance (%) in autumn 2007 among pupils with partially individualised syllabuses who completed basic education in 2006

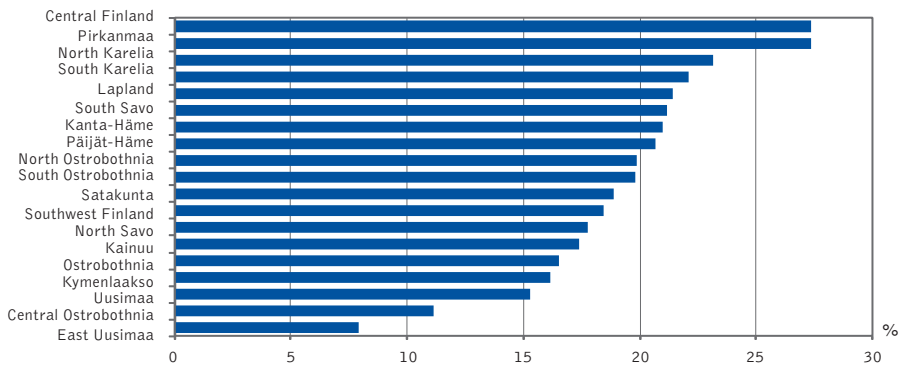


FIGURE 9 Unemployment rate in autumn 2009 among pupils with partially individualised syllabuses who completing basic education in 2006

According to the audits, service needs, impacts and effectiveness are not particularly important grounds when resources and funding are allocated. In rehabilitation, there is no correlation between rehabilitation volume and morbidity even though one would assume that in regions with high morbidity a maximum amount of rehabilitation would be provided. At the same time, the funding system for special needs education is based on an assumption that there are no differ-

ences between municipalities or regions in special needs education. However, this audit showed that there is a connection between the socio-economic background of the working-age population and the requirement for special needs education. In regions where the socio-economic background of the working-age population is weaker, the need for special needs education would also seem to be greater

## 6 Traffic safety

### Conclusions and opinions

In addition to having a human dimension, traffic safety is also of great importance to the national economy and central government finances. Traffic accidents claimed 354 lives in Finland in 2011. Injuries are not reported as comprehensively as deaths. However, according to official statistics, a total of 7,931 people were injured in Finnish road traffic alone in 2011. Recent estimates put the cost of deaths and injuries in Finnish traffic at between 4 and 5 billion euros each year. The central government spends at least 200 million euros on maintaining and improving traffic safety each year. Ethical considerations are one reason why improvements in traffic safety will also be deemed important in the future. The economic benefits of promoting traffic safety manifest themselves as lower accident costs, which may be substantial, depending on the measures and their success. For this reason, it is economically important to allocate central government resources to activities that bring the maximum benefits as reduced accident costs.

One key idea behind the central government transport administration reform of 2010 was to transfer a number of upper-level traffic safety tasks and activities to the Finnish Transport Safety Agency Trafi. The aim is to generate benefits through centralisation of activities. According to the information collected as part of the audit, the principal model chosen may be considered justified. However, there should be no rush to implement any of the changes that may affect other actors in the branch. Particularly attention should be paid to the careful examination of the overall economic benefits and disadvan-

tages of the changes so that expertise, know-how and operating models that have already proven successful are not lost.

At the moment, we do not have enough information or access to effective practices that would allow us to select traffic safety measures from the measures that are the most cost-effective in socio-economic terms. The Ministry of Transport and Communications should, in connection with traffic safety pilot projects or otherwise, examine which funding instruments would speed up the implementation of cost-effective traffic safety promotion measures. Decentralised funding and funding constraints affecting different actors have prevented the selection of the best practices.

According to European comparisons, traffic safety in Finland is at average level. The efforts to improve Finland's standing have not been successful. We need more information on why Finland is considered to lag behind other European countries that are deemed as top performers in traffic safety.

The National Audit Office's opinions on traffic safety are based on an audit completed in spring 2013.

### Even though traffic safety has improved over the years, there are still gaps in the information describing the situation

Yearly number of deaths and accidents has been an important traffic safety indicator and the monitoring of the figures has also produced the most accurate information. However, other less-monitored indicators are also of importance. For example, failure

to observe traffic regulations and an increase in the feeling of insecurity may cause changes in people's behaviour that also have economic impacts.

Statistics show that there has been a significant long-term decrease in the number of traffic deaths and accidents in all modes of transport each year. Thus, it can be assumed that the reductions in the resulting accident costs have also be fairly substantial. The number of deaths and accidents in road traffic entered in the statistics has been significantly higher than in other modes of transport.

However, comprehensive statistics on accidents and the deaths and injuries resulting from them are not collected for all modes of transport. For example, all actual and suspected suicides and strokes occurring in traffic and deaths and injuries among pedestrians are not clear from the statistics as not all of them are defined as traffic accidents. However, from the perspective of the preparation of societal policy, there are good grounds for knowing what is the total number of deaths and injuries occurring in different modes of transport, what are the causes for them and which of them result from such factors as traffic and traffic conditions and which are caused by factors not related to them. Actual or suspected suicides and strokes are not entered in the statistics in a uniform manner for all modes of transport. Up to about 300,000 pedestrians fall or slip on roads and streets each year. More attention should be paid to these injuries because they, too, cause a great deal of different problems and costs. Even if we were of the view that not all such costs are the responsibility of the Ministry of Transport and Communications, the ministry should nevertheless monitor the situation and show initiative in increasing awareness of the problem and in taking appropriate measures.

## **Are the current measures promoting traffic safety the most cost-effective approach in socio-economic terms?**

No detailed or comprehensive information is available on the economic efficiency and effectiveness of the traffic safety work. Not all traffic safety actors make a distinction between traffic safety and other work when allocating their resources. For example, different infrastructure maintenance measures are also carried out with the aim of improving traffic flows and not merely with the aim of improving traffic safety.

At the moment, we do not have enough information or access to effective practices that would allow us to select traffic safety measures from the measures that are the most cost-effective in socio-economic terms. Decentralised funding and funding constraints affecting different actors have been an important factor preventing the introduction of cost-effective practices. The Ministry of Transport and Communications should examine whether there are any funding solutions that would mean more cost-effectiveness in the promotion of traffic safety.

## **Why is Finland considered to lag behind other European countries deemed as top performers in traffic safety?**

It is estimated that in the future, achieving any further reductions in traffic deaths and accidents will become increasingly costly. The zero-death vision can and in a way should be considered a long-term aim on which action should be based if achieving the target is not tried at any price.

The national traffic safety target describing Finland's performance in international rankings should be more explicit and the



follow-up should be in accordance with the target. In European traffic death comparisons made per population, Finland is in the middle group (11th place). However, when the comparisons are made on the basis of the kilometres driven, Finland is doing fairly well (4th place). This may indicate that the driving habits and other factors influencing traffic safety are actually at a fairly good level in Finland and that it is difficult to achieve improvements in road safety by tackling these factors. We need more information on why Finland is considered to lag behind other European countries deemed as top performers in traffic safety and what are the factors that would bring the biggest improvements in traffic safety in Finland.

The Government resolutions on improving traffic safety and the measuring and allocation of the financial resources of the central government have been too disconnected. The limited financial resources of the central government should be targeted so that the emphasis is on the implementation of cost-effective traffic safety promotion measures. This is connected with the need to improve the flow of information mentioned above.

### **Reforms in the traffic safety administration should continue but existing best practices should not be put at risk**

As part of the reorganisation of the public administration in recent years, measures have also been taken to improve the economic efficiency and effectiveness of the traffic safety work. These measures include the central government transport administration reform in 2010 and the reform of the police admin-

istration approved in 2012. One key idea behind the central government transport administration reform of 2010 was to transfer a number of upper-level traffic safety tasks and activities to the Finnish Transport Safety Agency Trafi. The aim is to generate benefits through centralisation of activities. It is natural that in the future, Trafi should be in a position to play a role in all such matters that have a major impact on the overall traffic safety situation and the work in the sector. Based on the information obtained in the audit, the selected model can be considered as well-justified.

Not all efforts to put the division of labour and organisation of the traffic safety work on a more effective and clearer basis have led to results. There should be a clearer division of labour between the Finnish Transport Agency and the Finnish Transport Safety Agency Trafi. Furthermore, the impacts of the reorganisation on other actors have not yet been fully examined. Changes should only be introduced after the benefits of the old structures and the need to change them have been carefully assessed. Administrative savings should not be the only ground for introducing changes. The manner in which the changes affect traffic safety and any societal benefits and disadvantages that they might have should also be assessed and taken into account.

The National Audit Office considers it important that those involved in the Government policy preparation process have access to traffic safety information that is as up to date and comprehensive as possible.

# 7 Effectiveness of steering systems and proper management of state assets

## 7.1 Strategic steering and coordination in the Government

### Conclusions and opinions

Work aimed at developing strategic steering in the Government has been taking place for many years, particularly during the past decade. Despite positive developments, coordination of the steering processes and definition of responsibilities still require improvements and clarification. Planning and management of activities, carried out as part of the strategic plan for implementing the Government Programme (HOT), is being increasingly incorporated into the process of spending limits preparation. At practical level, there is a need for closer cooperation between the Prime Minister's Office and the Ministry of Finance. The aim should be a single strategic process and a single strategy document that incorporate the measures necessitated by the key reforms laid out in the Government Programme and the reallocation of the resources required by them.

Preparation of policy programmes was discontinued at the start of the new government's term of office due to criticism levelled at them. Since then, a number of options for implementing the Government's cross-administrative spearhead projects have been put forward in connection with the development work. They have not yet been made into credible coordination instruments. The existing coordination procedures of the Gov-

ernment are largely based on the allocation of responsibility for the measures and monitoring concerning the strategic plan for implementing the Government Programme (HOT), meetings of permanent secretaries and what is called the HOT network. There will not be any reliable information on the workability of these coordination mechanisms until the end of the government term. The assumption, which is based on the findings made by the National Audit Office in its audits and follow-ups, is that the current practice is inadequate, particularly from the perspective of the management of horizontal policy entities. There seems to be a clear need for the application of stronger coordination as a replacement for policy programmes.

The development of the Government's working practices is largely founded on knowledge-based management applications. Strengthening of political steering will inevitably increase tensions between knowledge-formation in drafting carried out by experts that is based on previous research, and political value-creation. The friction that has emerged in the preparation of key reforms reflects the uncertainty over the roles of different actors. It is therefore essential to define the roles so that political will-formation and the roles of experts are clearly separated. This also requires the definition of the roles and operating practices of the political staffs.

The lack of a systematic steering policy makes it more difficult for the Government to have a comprehensive approach to steering. At the moment the Government does not have any comprehensive and clearly defined steering policy. A policy concerning the use of different steering methods in the key policy areas would improve the process of preparing and implementing the legislative plan and facilitate comparisons between alternative steering methods. Then it would also be possible to express views on when there is a need for strong programme-based implementation in the carrying out of a multi-dimensional and horizontal policy theme and which applications should be used in the process.

## Multi-pronged development

In the previous government terms, such instruments as the strategy document steering the implementation of the Government Programme (HSA) and policy programmes were used as the key tools in political and strategic steering. The aim of the policy programmes was to ensure that the Government was able to implement its most important large-scale reform projects and to secure the necessary cooperation and coordination across administrative boundaries. In the audit of policy programmes,<sup>42</sup> the conclusion was that the programmes have helped to build a culture of horizontal cooperation and networks across sectoral boundaries. However, the programmes proved too

weak as tools in the integration of economic and operational planning. In reality, they were not representative of the Government's political priorities and were unable to gather the resources necessary for implementing new measures. In its summary, the National Audit Office concluded that, as laid out in the original plan, there is a need for much stronger programme instruments so that coordination and effective steering can be ensured. In its follow-up to the audit of policy programmes<sup>43</sup>, the National Audit Office examined the current state of the strategic steering and coordination of the Government. A large number of development projects have been carried out with the aim of development strategic steering.

In the KOKKA project<sup>44</sup>, the focus was on the interfaces and integration of the steering concerning central government spending limits and the Government's strategy process. It is stated in the project report<sup>45</sup> that different types of operational model can be used in the organisation of strategic cross-administrative policy entities and that cross-administrative policy programmes remain a key instrument in this respect. The recommendations emphasise stronger and 'agile' (quickly adjustable) policy programmes. In the POVI project<sup>46</sup>, which was carried out as part of KOKKA, measures to improve the knowledge base of the Government's decision-making were laid out. The project was based on ideas on knowledge management and knowledge-based management as a foundation for the Government's decision processes. From the perspective of steering

<sup>42</sup> NAO Audit Report 212/2010

<sup>43</sup> NAO Follow-up report 12 April 2013 (11/54/2009)

<sup>44</sup> Development of procedures for the efficient implementation of the Government Programme

<sup>45</sup> Management of Government Policies in the 2010s - Tools for More Effective Strategic Work, Prime Minister's Office Publications 7/2011

<sup>46</sup> POVI = Programme for developing the effectiveness evaluation of policy measures

<sup>47</sup> KEHU = projektet för att reformera centralförvaltningen

tools, the most important item was the proposal for a research and assessment plan that the Government would adopt during its term of office. Such a plan has been introduced during the current government's term.

At the end of 2011, the Ministry of Finance launched the KEHU project<sup>47</sup> one aim of which was to transform the Government into a unified entity by making it into a single organisation in terms of its structure and resources instead of administratively independent ministries. In its opinion on the project, the Prime Minister's Office considered it important that well-integrated processes supporting overall management by the Government are established and that a single strategy decision will replace government resolutions and separate strategies. According to the Prime Minister's Office, a new centralised strategic expert secretariat should be established as the staff of the unified Government. The secretariat should bring together expertise from the Ministry of Finance, Prime Minister's Office and the Government's financial controller's function. It seems that before any unified Government can become reality, both complex legal problems and obstacles concerning administrative traditions and operating culture must be overcome.

In connection with the Central Government Reform Project, the Ministry of Finance has, in collaboration with the Prime Minister's Office and Sitra, launched the 'Governments for the Future' project. The aim of this international comparison project is to find solutions and best practices for the key development challenges. From the Finnish perspective, these include a closer integration of political and economic steering processes, ensuring a cross-administrative approach, and a more systematic use of knowledge in the Government's decision-making. As a successor to the productivity programme for the current government term, the Govern-

ment has initiated the VATU project, which deals with effectiveness and performance in central government. The purpose is to clarify the core tasks of the central government and map potential for structural reforms. One sub-project in the programme concerns the improvement of the effectiveness and performance of the Government's strategy process.

An important change from the perspective of strategic steering and horizontal preparation is the amendment to the Government Act under which the cooperation obligation between ministries has now been made into a law (88/2012). It was previously laid down in the Government Rules of Procedure. One justification for the change was that problems arising from inadequate cooperation may manifest themselves as quality problems in the drafting of laws and as effectiveness problems in the implementation of legislation. In connection with the amendment, the Government Rules of Procedure (92/2012) were also changed so that the tasks of the permanent secretaries now also include management of the cooperation between ministries.

A new set of tools supporting the implementation of the Government Programme has been introduced during the current government's term of office. The Government Strategy Document (HSA) used during the previous government terms has been replaced with a more concise strategic implementation plan of the Government Programme (HOT). The purpose of HOT is to specify the main aims of the priority areas of the Government Programme, its spearhead projects and the preparation responsibilities into cross-administrative policy entities. The current HOT is based on the three priorities set out in the Government Programme and the formal cross-administrative allocation of responsibilities for them.

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<sup>47</sup> KEHU = Central Government Reform Project

In addition to HOT, the new system of meetings between permanent secretaries and the ministries' HOT network are considered as key coordination instruments. The progress made by more extensive projects is monitored at the meetings of permanent secretaries and in ministerial working groups. Even though the meeting of permanent secretaries is already a well-established institution, cross-administrative issues and preparation of matters from the horizontal perspective have become increasing important issues on its agenda during the current government term. The second coordination process is based on the HOT cooperation network managed by the Prime Minister's Office, under which contact persons appointed by different ministries stay in touch with each other. The projects included in the Government's strategic implementation programme are mostly carried out and monitored using a procedure that resembles the system of allocating responsibilities and overall monitoring set out in HSA.

### Steering policy requires clear guidelines

Development work aimed at more effective political steering and implementation of the Government Programme is being carried out in a number of extensive projects. The objectives of the projects and their sub-projects are partially overlapping. For this reason, the Ministry of Finance has prepared a separate statement aimed at clarifying the relations between the projects and the role and focus of each project. The development work is still in progress and requires coordination of the preparatory work. As the final proposals are still being outlined it is still impossible to say anything definite about the results.

The idea of a single Government office put forward in the central government project may, if realised, facilitate the solution of the problems in cross-administrative coordination. Reports on the problems concerning the reform suggest that there is still a long way to go before the aim has been achieved. At the same time, not even structural reforms are sufficient to ensure effective implementation of cross-administrative priorities during the government's term of office. Irrespective of the final results and proposals of the central government project, it can be said that in addition to structural solutions there is also a clear need for coordinating processes and well-established procedures so that multifaceted policies can be implemented in a controlled fashion.

One of the conclusions made in the audit of policy programmes was that the implementation of the programmes was not connected with the allocation and size of the appropriations. The new HOT document sets out the objectives of each strategic priority and the measures helping to implement the objectives (spearhead projects), responsible ministries and the project funding situation. Using the funding symbols, it is can be explained which projects require additional resources during the government term, which measures will be guaranteed resources by means of reallocation and where can savings be achieved. HOT was adopted by the Government in its budget negotiations simultaneously with the spending limits and the 2012 budget proposal.

Cooperation between the Ministry of Finance and the Prime Minister's Office has increased during the current government's term of office. In its audit of the relationship between the Government Programme and the spending limits procedure<sup>48</sup>, the National Audit Office concluded that the new strategic implementation plan is a right step towards

a situation where there is a closer and more transparent link between objectives and appropriations. The audit took positive note of the substantial number of reallocations proposed in HOT and the transparency in the cuts in appropriations. At the same time, the new HOT document is taken into account in the guidelines for spending limit proposals.

However, it was noted in the audit that at practical level, the preparation of the Government's strategy session takes place on two separate tracks. The preparation and coordination with all ministries initiated by the Prime Minister's Office, the HOT cooperation network and the meetings of the permanent secretaries were on the first track. The preparation of the substance of the economic matters in different departments initiated by the Ministry of Finance was on the second track. Moreover, various ministries, especially the Ministry of Employment and the Economy were carrying out their own preparatory work on the third track. Thus, the process-related coordination by the Ministry of Finance is not enough as the sectoral ministries are responsible for coordinating funding for cross-administrative spearhead projects. Positive developments must be followed by the next step forward. The aim should be a single unified strategic process and strategy document that incorporates the measures contained in the key reforms laid out in the Government Programme and the reallocation of the resources needed for their implementation.

The current strategic implementation plan is mainly a lighter version of HSA and there are no programme-based implementation methods among the priorities. However, one can find entities in the document and the ways of implementation that resemble policy programmes. For example, the first 'pole' contains a 'cross-administrative policy

programme for combating exclusion, poverty and health problems', which in the opinion of some people resembles a policy programme in terms of its structure. However, it lacks many of the coordinating elements typical of policy programmes.

Thus, policy programmes were discontinued at the start of the new government term even though no specific decision was made or no political discussions took place. The conclusion was largely based on the criticism levelled at the programmes. In principle, the alternatives for programme-based implementation would also have been available in the implementation of the new Government Programme. However, there was no time to pilot the new programme concepts during the preparation of the Government Programme or the implementation plan. Thus, the alternatives set out in the KOKKA project report were also left without concrete applications.

At the moment, there are no instruments replacing policy programmes in the implementation of the Government Programme or cross-administrative policies. The current strategic implementation plan (HOT) and its monitoring procedures, the new system of meetings between permanent secretaries and the coordinating ministries form the instruments used in the implementation of the Government Programme and horizontal coordination.

Discontinuation of the policy programmes is, however, considered a significant change in the horizontal coordination between ministries. The observations made in the policy programme follow-up suggest that the current coordination procedures are weaker than those available in the policy programmes even though they, too, were inadequately coordinated. The positive developments in the coordination of the Government

<sup>48</sup> NAO Audit Report 17/2012

Programme and the spending limits procedure do not mean that there is coordination of the contents of the cross-administrative policies. Coordination in the Ministry of Finance is mainly limited to presenting initiatives and acting as a party implementing decisions. It is left to the sectoral ministries to implement the objectives of the Government Programme and cross-administrative spearhead projects through mutual cooperation.

Under the original model, the purpose of the policy programmes was to strengthen the Government's ability to steer the implementation of the Government Programme in a more efficient manner, provide a connection between the operational and economic planning processes in the implementation of reforms and ensure the uniformity and compatibility of the measures carried out in different administrative sectors. The aims as still topical and for this reason the work to define strategic steering and operational management of the Government and to allocate responsibilities for them should be continued. In the current practice, there are apparent shortcomings, which specifically concern the horizontal coordination of the preparatory process and implementation.

In the development of strategic steering in the Government, the emphasis will be on the challenge of developing the processes, procedures and prerequisites of knowledge management and knowledge-based management. The research and assessment plan supporting the knowledge base of the implementation of the Government Programme and the projects launched as a result of it may provide an important addition to the knowledge-based management toolkit. However, during this government's term of office, there have been signs of problems concerning the relaying of expert information for use as a basis for political decision-making. Even

though it is partially a question of permanent tensions between political value-creation and the 'examined' alternatives provided by experts, the unpredictability of the preparatory processes also reflects the problems in the application of knowledge management.

As steering models change, the roles of political decision-making and expert preparation seem to become somewhat blurred. The strategic steering processes of the Government require further clarification. It is particularly important to separate the roles of political value-creation and the preparation by experts and public servants. Even though political management is founded on a knowledge base that is as solid as possible, its task is to define clear political objectives and guidelines on which the decisions concerning the allocation of resources and preparation of spending limits are founded. The task of the public servants is to convert complex information into a clear and usable form and use it as a basis for proposals concerning implementation alternatives and draw up from them calculations and assessments weighing comparable benefits and costs. The double roles of the political staffs are a particularly interesting issue. The guiding principle should, however, be that the staffs are not in charge of the expert preparation but that they may act as steering groups in important Government projects and programmes. Knowledge-management applications should be developed at Government level so that it is easier to define the roles of the different actors in a balanced manner. The aim should be that as political steering becomes stronger, the processes concerning preparation and assessment by public servants are as clear and well-managed as possible.

A central direction in the development of Government's steering practices is the development of a systematic steering policy.

This would be in the form of a carefully laid out strategy concerning the use of different steering methods and would cover normative steering, economic steering, information steering and steering through unified information systems. The Government would outline on what grounds and in what manner different alternative steering methods would be used and, if necessary, it would define the conditions and Government Programme target areas in which optional steering methods or a well-thought-out combination of them would bring the best results in the generation of the desired societal impacts. In this connection, views would also be expressed on which Government Programme priorities

or sets of measures can best be implemented by means of programme-based structures and processes. Previous research information and expert assessments could strengthen management that is in line with knowledge-based management in connection with steering policy guidelines. At the same time, the debate on the workability of the steering methods would become more transparent. At the moment the Government does not make any clear decisions on a comprehensive steering policy. This also helps to maintain old structures and operating practices in the selection of steering instruments.



## 7.2 Steering system in the administrative sector of the Ministry for Foreign Affairs

### Conclusions and opinions

The audit assessed how well the steering system in the administrative sector of the Ministry for Foreign Affairs is capable of ensuring adequate performance and accountability. The audit findings showed that the steering system is on a sound basis but that there is still room for improvement in the effectiveness of the system. Target-setting poses a particularly difficult challenge in the planning, management and reporting as it makes monitoring of the implementation of the targets difficult.

### The new planning system is on a solid basis

The ministry has recently updated its strategic planning by discontinuing the practice of publishing multi-year strategy documents and by adopting five-year strategic priorities and guidelines that are approved each year. There are no separate strategy documents. On a positive note, strategic guidelines are closely connected with other operational and financial planning processes. At the same time, nothing in the documents indicates that there is any connection between strategic objectives and the use of resources. It is, however, positive that the strategic guidelines and resource planning have been incorporated into a single document and process. It is not particularly easy to assess or monitor the objectives at strategic level.

The ministry's planning system is appropriately described and provided with appropriate instructions in the operational and financial planning manual. The ministry also provides its operating units with instructions for target-setting and resource-planning for the operational and financial plan.

### The objectives are set out so that assessing their implementation is difficult

The operational and financial plan contains a large number of performance targets and they are often presented as operations-based objectives, which means that it is difficult to assess their implementation. There is no clear connection between the targets and the resources necessary for implementing them. The class and item structure of the budget proposal is clear and logical. However, there are no references in the budget proposal to crisis management or civilian crisis management appropriations or revenues included in the budgets of other administrative sectors. Mentioning them would promote the clarity and transparency of the budgeting of cross-administrative matters and would better describe the overall funding required for the activities.

Like the operational and financial plan, the budget proposal has one key shortcoming: the targets are of operational nature and there are no indicators for describing the way in which they will be achieved. This problem

arises from the nature of the operations of the foreign affairs administration and there is no simple solution to it. However, achieving usable indicators should be a continuous aim. A good example of this is the target set out in the ministry under which all areas of development cooperation should have clear and measurable targets and that they should be laid out in the planning documents.

### **There is still too much diversity in performance guidance practices**

The performance organisation is an extensive, multi-layer and partially heterogeneous entity. However, the same performance guidance practices are applied throughout the foreign affairs administration. More than 100 operational and financial plans are prepared each year. Due to job rotation, not all of those who are involved in the preparation of the plans always have enough information about the stages and steering relationships of the processes even though training on the matter is provided each year. This underlines the importance of uniform procedures.

Performance guidance practices are not yet on a fully uniform basis. There are still differences in the practices concerning the feedback received by regional departments from missions. Performance targets are mostly described in words and usually no indicators are set for them. As a result it may be difficult to verify the achievement of the targets. This weakens the quality and transparency of the assessments. It is recommended that the risk management contained in the operational and financial planning process should be sharpened.

The ministry has examined the workability of the steering system for multilateral matters and found out that it contains a number

of deficiencies. The steering problems constitute a risk for the implementation of the effectiveness targets set out for the Finnish foreign and security policy and for this reason the shortcomings should be eliminated as soon as possible.

The reporting on the implementation of the performance targets should be in accordance with unified assessment criteria throughout the foreign affairs administration. Using the same assessment scale in both internal and external reporting would be an appropriate way of promoting the comparability of the information and of supporting central government group steering.

### **Legislative drafting process in the Ministry for Foreign Affairs functions properly**

Compared with other ministries, the Ministry for Foreign Affairs drafts only a small number of Government proposals. Nearly all of the proposals are based on international treaties and conventions.

The drafting of laws in the ministry is in most respects properly organised. The ministry's Legal Service plays a key role as an advisory unit in the drafting of laws and in the coordination of activities.

The effectiveness evaluation carried out as part of the legislative drafting is adequate, considering the fact that not all of the legislative proposals have any major impacts on Finland. The causality behind the impacts could perhaps be highlighted more strongly.

The drafting process is fairly extensively detailed in the Government proposals submitted by the ministry. We recommend that in this context the composition of any working groups would also be given. On a positive note, there are consultation rounds on most

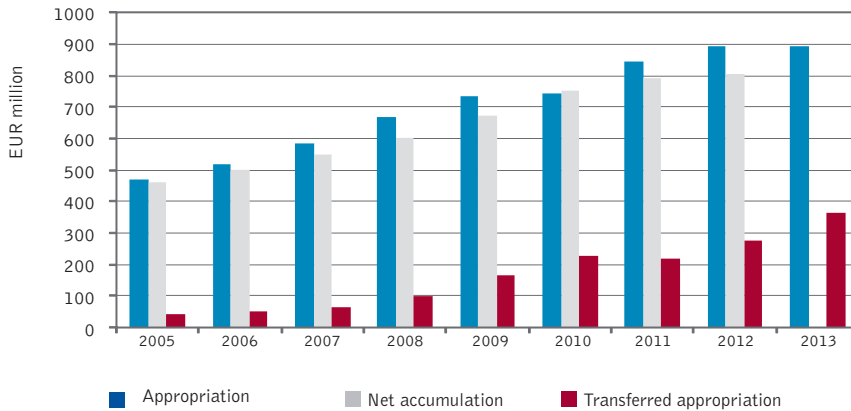


FIGURE 10 Appropriation for actual development cooperation, use of the appropriation (net accumulation) and the item transferred from the previous year, between 2005 and 2013

of the proposals submitted by the ministry. We recommend that the opinions are specified in the Government proposals.

Strengthening the participation of the management in the monitoring and support of the legislative drafting process should be considered. The Ministry for Foreign Affairs should also provide more information about its current and future legislative projects on its website.

### Transferable appropriation item in development cooperation has grown

The actual development cooperation appropriation contained in the budget has grown substantially between 2005 and 2012 and there has also been a substantial increase in the proportion of the sum that is actually used. However, every year, the amounts spent have been lower than the appropriations allocated and thus the transferable item has grown into a substantial sum. At the end of 2012, it totalled 365 million euros or 41 per cent of the appropriation contained in the budget. In the planning and budget-

ing of annual appropriations, better consideration should be given to the actual use of the appropriation.

### The ministry both manages and implements Finland's development cooperation

The Ministry for Foreign Affairs is responsible for Finland's development policy and the implementation of the development cooperation. The organisation is not in accordance with an ideal performance guidance model in which the ministry is responsible for the development policy and the steering and monitoring of development cooperation, while the unit coming under the ministry's performance guidance implements the development cooperation. An alternative to such an integrated operating model would be an arrangement in which a separate agency is responsible for the carrying out of development cooperation. The agency model would be useful in terms of public servants' expertise and maintenance of their skills. At the same time, however, the

agency model would probably not bring any cost savings, compared with the existing situation. Moreover, the Ministry for Foreign Affairs has considered it important that the management of foreign relations is as integrated as possible, which favours the present arrangement.

Under the Development Policy Programme, Finland's development cooperation administration should be more performance-based. This requires more target-oriented management and planning and monitoring of performance, which the contents of the information systems should also support. The new case management system of the development cooperation administration provides only a limited amount of information on the key objectives of Finland's development policy and their implementation and on the breakdown of the use of the appropriations between these objectives. The Ministry for Foreign Affairs is also using or developing other development cooperation information systems. The National Audit Office is of the view that the implementation of the data warehouse project is important because it will speed up access to information and improve its quality.

### **There is room for improvement in accounting and research and assessment activities**

In its 2012 financial audit report, the National Audit Office issued a caution concerning improper conduct, which pertained to the failure to arrange performance accounting in accordance with section 16 of the State Budget Act. The shortcomings are largely due to the fact that the ministry does not have any comprehensive or continuous system for monitoring working hours or other proper arrangements for internal account-

ing. The financial administration application of the Kieku system will probably be introduced in 2014. However, the personnel administration application concerning the working hours monitoring will not yet be put into use. For this reason, the development of performance accounting is not proceeding as expected.

By centralising its research activities, the ministry could harmonise research procurement and put the use of its personnel resources on a more efficient basis. In fact, there are many factors favouring reorganisation. However, if the ministry continues to rely on the existing decentralised model, its Unit for Policy Planning and Research should play a more active steering role and cooperation and coordination between the units engaged in research activities should be improved. The ministry does not have any long-term assessment information on the use of the research results. Based on the audit, an ex-post assessment would be one way of examining the use and applicability of the research findings.

The bilateral development cooperation projects and programmes coming under the responsibility of the ministry's regional departments are assessed on a regular basis. Most of the recommendations set out in the evaluations are usually considered. However, the National Audit Office considers it necessary that the monitoring of the decentralised evaluations under way in the ministry is strengthened and that the formal processes concerning them are introduced.

### **Reporting should focus on results and impacts**

The Ministry for Foreign Affairs submits a performance report and a foreign and security policy review to the Parliament as part

of the Government's annual report. Even though the tables of the performance report now give a more realistic assessment of the year under review, vague target-setting and the lack of clear evaluation criteria make it more difficult to assess the achievement of the targets in a high quality and transparent manner. The performance report is short and concise and it discusses matters that are essential from the perspective of the Parliament and the Government. Concrete results and numerical facts are also presented. However, there could be more information about the results rather than the activities. The fact that there is nothing about the use of appropriations for different activities or the collection of revenue is also a deficiency. The foreign and security policy review mostly discusses the same issues as the performance report albeit more extensively. The focus of the review is on the description of the ministry's activities. Like the performance report, the review does not examine the use of the appropriations, collection of revenue or the costs arising from different activities.

The report on development policy and development cooperation for 2012 submitted as a supplement to the Government's annual report discusses topical themes of the development cooperation and, by giving concrete examples, describes Finland's development policy and development cooperation during the year under review. In a positive development, there is also slightly more information about the results than before. The contents of the review are partially overlapping with the information contained in the Government's annual report.

The Government is planning to end the practice of preparing and issuing development policy reports in connection with its annual reports. The act on submitting the development cooperation report to the Parliament will be repealed and it will be replaced with an act on the review on development cooperation under which the Ministry for Foreign Affairs must prepare a review on development cooperation each calendar year.

The reform of the review procedures will provide an opportunity to provide the Parliament with more concise reports, remove reporting overlaps and underline reporting on performance and societal impacts instead of reporting on the activities of the Government.

## 7.3 Steering system in the administrative sector of the Ministry of the Interior

### Conclusions and opinions

According to the audit of the steering system of the Ministry of the Interior's administrative sector (19/2012), the overall state of the steering system is good even though there is still room for improvement. Better consideration is now given to the measures set out in the Government Programme and the societal effectiveness targets of the administrative sector are in accordance with the objectives laid out for the core tasks. However, the indicators concerning them and the monitoring of the results of the activities should be improved. The Ministry of the Interior has taken a positive view of the matters highlighted in the audit and is in the process of comprehensively updating its management and performance guidance system and organisation.

### Priorities should be more visible

The indicators describing the performance of the administrative sector should put more emphasis on preventive measures, stakeholder cooperation and indicators describing the quality of the activities. The information content of the budget proposal submitted to the Parliament should be improved and the link between effectiveness-related objectives and appropriations should be more clearly shown. A table in the grounds for each main title or class giving the net budgeted items and adequate information on their estimated gross revenue and expenditure would also make the budget more

informative and support the decision-making of the Parliament. In the view of the National Audit Office, the matter should be laid out in the orders concerning the drafting of the state budget.

Strategic choices should be more clearly linked with financial planning. Operational and financial planning and performance plans should be clarified and made more concise so that they would provide a clearer manifestation of the strategies and priorities set out in the administrative sector. It was found out in the audit that the operational and financial plan of the administrative sector of the Ministry of the Interior contained objectives and measures that were of different scope and that some of them clearly belonged to the operational sector. Especially between the Ministry of the Interior and the National Police Board, there was a need to separate responsibility for ministry-level strategic and political decision-making from the operational steering responsibility of the National Police Board. There should also be more emphasis on the examination of correlation between the objectives and available resources and the internal allocation of appropriations, particularly in the police sector.

### Functioning of the steering systems must be ensured when administrative reforms are carried out

Only a few years have passed since the latest structural reforms in the police sector and for this reason it has not yet been possible to provide a final assessment on their impacts

on the steering system. However, the number of staff at the level of directors has not decreased in accordance with the targets set out in the reform. In the view of the National Audit Office, the Pora III reform, which is currently under way, should also examine the present police tasks and resources in the Ministry of the Interior and Regional State Administrative Agencies. The police personnel stationed in Regional State Administrative Agencies have not come under the performance guidance of the National Police Board.

The Finnish Border Guard has prepared its own documents with a content similar to the operational and financial plan and performance plan of the Ministry of the Interior's administrative sector. They reflect the opinions of the Finnish Border Guard and the authority in charge of the agency has not expressed any opinions on them. In the National Audit Office's view, this is not a proper approach. The fact that the various documents contain a large number of objectives and express matters in different ways makes it more difficult to assess the objectives. The situation is also made more difficult by the fact that performance agreements and management agreements have different contents. In fact, the amount of documentary material used in the planning should be reduced and specified and, in order to ensure that the objectives set are achieved, more attention should be paid to the priority and importance of the planned measures. International cooperation has been adequately considered in the strategies and plans concerning the Finnish Border Guard. They should, however, also highlight the measures required by cooperation at national level.

The senior management relationships in the Finnish Border Guard differ from the arrangements used elsewhere in the cen-

tral government because the Headquarters of the Finnish Border Guard also serves as the Ministry of the Interior's Border Guard Department. For this reason, the ministry's permanent secretary concludes the performance agreement with the Deputy Chief of the Finnish Border Guard, who also serves as the head of the Border Guard Department, and not with the Chief of the Border Guard. However, no shortcomings arising from organisational solutions were discovered in the audit. It is noteworthy that the Finnish Border Guard has been able to make its operations more efficient by updating its administrative structures and processes.

### **There is room for improvement in cooperation and division of labour in immigration matters**

The key priorities, main strategies and performance targets of the immigration administration have been approved as part of the operational and finance plan of the internal affairs administration, while the most important matters are taken up in the performance discussions between the Migration Department and the Finnish Immigration Service. It has become clear that there is a need for more cooperation between the two, particularly in the drafting of laws. It is also necessary to expand cooperation between the Migration Department and the Police Department. Successful management of immigration matters also requires that there is cooperation with other authorities. The most important of them is the administrative sector of the Ministry of Employment and the Economy. The reception of refugees and asylum seekers and the costs arising from it are the responsibility of the internal affairs administration, whereas Employment and Econom-

ic Development Offices are responsible for the placement of asylum seekers in municipalities. This means that there is not much that the administrative sector of the Ministry of the Interior can do as regards the costs arising from the reception activities. It is not clear which authorities are responsible for coordinating the activities concerning immigration matters between different administrative sectors. In the view of the National Audit Office, the responsibilities in this area should also be clearly defined.

### **There is no unified approach to performance guidance**

The Ministry of the Interior has not had unified guidelines or practices concerning the performance guidance arrangements in its administrative sector or the contents of the performance agreements. The administrative sector has also failed to meet the requirement laid down in the State Budget Decree that performance targets should be approved as soon as possible after the Parliament has approved the state budget. The Ministry of the Interior should thus strive for a unified procedure in the key parts of the performance guidance of the agencies in its administrative sector and pay attention to the structure, contents and timetable of the performance agreements.

There have been some problems in the internal control and information security of the administrative sector. In practice, the lack of clarity in the appropriateness, adequacy and responsibilities concerning the internal control has arisen from the fact that under the State Budget Act and the State Budget Decree, the responsibility for internal control is determined on an agency-by-agency basis and, ultimately, only as a responsibility of the management of the customer agen-

cy. Especially the requirements of the shared service centres would be better supported if the risk management and internal control of the central government finances and the central government administration coming under the Government would be examined as one entity.

### **Status of funds should be examined**

The Fire Protection Fund functions as an off-budget fund in the administrative sector of the Ministry of the Interior. The National Audit Office has concluded in a separate fiscal policy report (K 21/2010 vp.) that some of the off-budget state funds are of such type that the statutory duties laid out for them could also be managed as part of the budget. In its opinion on the communication 50/2010 vp., the Parliament called for the Government to assess separately for each fund if the essential requirements for arranging their activities and funding as off-budget funds referred to in section 87 of the Constitution of Finland still exist. In a report prepared for the report on the 2011 final central government accounts, the Ministry of the Interior stated that there have been no essential changes in the grounds for maintaining the Fire Protection Fund and that the Fire Protection Fund should remain an off-budget fund outside the spending limits procedure. For its part, the National Audit Office concluded in its steering system audit that the Ministry of the Interior should examine whether the tasks of the Fire Protection Fund are of such nature that managing them as an off-budget fund in the manner laid down in section 87 of the Constitution is necessary.

In a separate report submitted to the Parliament (Interim fiscal policy audit report on the 2011–2014 parliamentary term; K2/2013 vp.), the National Audit Office has assessed



reports on the status of off-budget funds prepared by ministries. In the separate report, the National Audit Office still considers the funds as an important exception to the budgetary power of the Parliament. Furthermore, the fund system makes it more difficult to get a correct picture of the overall financial position of the central government. In the assessments produced by the ministries, the funds have been examined from the perspective of each administrative sector. According to the National Audit Office, the overall system of funds should be assessed under the coordination of the Ministry of Finance in the light of the fiscal policy, central government finances and section 87 of the Constitution during the current parliamentary term. To the extent that there are still grounds for arranging the management and funding of permanent central government tasks through funds, the harmonisation of the provisions concerning the funds should also be assessed from the perspective of central government finances and their steering. In this connection, the status of the Fire Protection Fund should also be reassessed unless it will already be done before that.

As regards the SOLID funds concerning immigration, it should be examined whether the project administration pertaining to them should be moved from the ministry. Administering the fund projects in the ministry cannot be considered appropriate as the ministry should, as a rule, concentrate on strategic matters concerning its administrative sector.

## Good practices in legislative drafting

There are certain practices concerning legislative drafting in the Ministry of the Interior that have been managed so well that they can also be recommended to other ministries. One such practice is the ex-post assessment of the legislative projects that are jointly carried out by the ministry and the Parliament. The National Audit Office is also of the view that the development plans of the Ministry of the Interior concerning the grounds for the government proposals are well-thought-out. However, it also emphasises that in addition to quality assurance, it must be carefully assessed in the preliminary legislative work whether there are sufficient resources for implementing the measures required by the legislation.

## 7.4 Administrative model of state-owned companies

### Conclusions and opinions

In state-owned special assignment companies, the state pursues social objectives. These companies carry out certain duties assigned to them by the state or, because of an exemption granted to them, they do not operate primarily on market terms and their steering is mainly based on achieving objectives related to their special tasks. Ownership steering of these companies has been decentralised between six ministries with a key interest in the relevant sector and one agency. The Ownership Steering Department in the Prime Minister's Office, which handles all aspects of the ownership steering of state-owned companies operating on market terms, also exercises ownership steering in three special assignment companies in which the state is a majority shareholder. Ownership steering refers to measures by which the owners, either directly or through their representatives, influence the operations and development of the company.

In addition to the units that exercise ownership steering, the audit also covered 18 special assignment companies in which the state is a majority shareholder. In 2011 these had a total turnover of about 4 billion euros, a balance sheet total of about 11.5 billion euros and about 7,000 employees. The special assignment companies in which the state is a majority shareholder and other state-owned assets are managed using the means and tools of ownership steering, in compliance with the principles defined in the State Ownership Policy. The new government usually approves the objectives and procedures of its ownership policy in the form of a government resolution. The most recent government res-

olution on state ownership policy was adopted by Prime Minister Katainen's government on 3 November 2011.

The conclusion of the audit was that the Government Resolution on State Ownership Policy is now a well-established part of ownership steering. The principles and procedures of ownership steering outlined in the government resolution have been appropriately implemented. There are some differences in the manner in which the ministries and agencies in charge of the steering carry out their duties and the company-specific ownership strategies do not always fully support the continuity of ownership strategy work and accountability. To eliminate this problem, the ownership strategy and any changes to it should be in writing, and the ownership strategy document should indicate who adopted the strategy or the changes to it and when.

Corporate responsibility reports are nowadays such a key part of the principles of state ownership policy that the implementation of the social responsibility/corporate responsibility principles should be reported to the Parliament as concise summaries attached to the Government's annual report. The summaries could be supplemented with references at the companies' public websites.

These opinions of the National Audit Office are based on an audit conducted on the subject. The National Audit Office also used the findings on special assignment companies made in spring 2013 that were contained in the effectiveness information audit attached to the report on final central government accounts.

## **The Government Resolution on State Ownership Policy is now a well-established part of ownership steering**

Ownership steering exercised by the state is competent and the Government Resolution on State Ownership Policy has established its position as a recommendation for ownership steering and procedures. At the same time, however, the setting up of working groups for the parliamentary term between the Department of Ownership Steering and ministries with a key interest in the relevant sector called for in the resolution has made only slow progress. All ownership steering units have engaged in ownership strategy work, allowing them to take a stand on the strategic and financial issues of the companies when necessary.

## **As a whole, ownership steering is well-organised and functions properly**

Contacts related to ownership steering between the ministries and agencies responsible for ownership steering and the relevant companies can be characterised as regular and pragmatic and they are in accordance with the issues and situations in question. There are few problems concerning the ownership steering of special assignment companies and they do not cause any major problems in ownership steering or the operations of the companies. The biggest group of problems involves the difficulties or lack of clarity resulting from the content or character of the companies' special tasks. According to the ownership steering units such problems have occurred in about one third of the companies and according to the companies themselves in about one quarter of the companies.

## **Company-specific ownership strategies do not always fully support the continuity of ownership strategy work and accountability**

Company-specific ownership strategies should be a key guidance tool that sums up the goals of ownership policy in concrete terms. On the one hand, the strategies guide the actions of the state owner and, on the other, they are updated in response to changes in the operating environment and as a result of the actions of the state owner and the company. However, the Government Resolution on State Ownership Policy or other guidelines on ownership steering do not address the content or form of the ownership strategy work carried out by the ministry or agency responsible for the steering or any needs to update the strategy. This is seen in the large variety of ownership strategy work and ownership strategy documents and as deficiencies in information that concern such issues as the parties that have approved the ownership strategy and the time of the updates.

## **Information on special assignment companies contained in the Government's annual report is not on a uniform basis**

Chapter 3 of the 2012 Government annual report discusses state ownership in companies. According to the annual reporting guidelines (19 December 2012), the Parliamentary Audit Committee has in its report TrVM 4/2012 requested information on market-based state-owned companies and special assignment companies and details of the implementation of the principles concerning the social responsibility of the companies.

Moreover, under the guidelines, the Government's annual report should assess how the ownership policy objectives laid out in the government resolution of 3 November 2011 have been achieved.

The reporting on special assignment companies is characterised by lack of uniformity in both presentation and the matters presented. On a positive note, key economic indicators are reported in a concise and clear manner and there is also a report on the basic business of each company. In most reports, the remuneration system is the only ownership-policy principle discussed. No reasons

have been given for this decision. The implementation of the principles concerning social responsibility/corporate responsibility is not directly clear from the annual reports. However, most reports contain references to the companies' corporate social responsibility reports available on their public websites. The references are in accordance with each company's annual reporting guidelines. Nevertheless, there should also be a short assessment of the implementation of the corporate responsibility principles by company and as a whole in the report of the board of directors.

## 7.5 State IT shared service centres

### Conclusions and opinions

The Government IT Shared Service Centre (VIP) was established at the start of 2009 to implement the Government IT strategy by assuming responsibility for the organisation of the production of shared or harmonised IT services that are in accordance with the strategy. The aim was that after the objective had been achieved, the shared service centres of individual administrative sectors could better focus on the maintenance and development of the IT systems of their own core activities. As the services of VIP focus more on the development of new services, the service centres of individual administrative sectors have not been able to release staff as planned from existing basic information technology services to the maintenance and development of the information systems of the core activities. There has been less attention on the harmonisation of the services produced by individual service centres and ICT concepts and processes and the centralisation of existing ICT services.

Moreover, the shared ICT services provided by VIP have not been comprehensively introduced in the central government because no policy decisions on introducing them have been made at central government level. Even though the shared IT service centres produce similar services, there are differences in the way in which their performance and service agreements are structured and presented. There are also differences in the organisation and reporting practices between the service centres. Moreover, no uniform performance indicators have been established for the state IT shared service centres. Thus, no knowl-

edge base has developed for the assessment of the operational effectiveness and economic efficiency of the audited state IT shared service centres that could be used as a reliable base for evaluating and comparing the performance of the individual service centres. In many respects, the knowledge base used in the steering of the central government ICT operations is founded on the findings of a questionnaire submitted to agencies each year.

The National Audit Office is of the view that if the central government wants to produce more cost-effective IT services through centralisation of services, strategies on the comprehensive use of uniform ICT concepts, operating processes and shared services must be drawn up. These issues are also key to the success of the TORI project in which ICT services independent of specific sectors are brought together.

In the development of state IT shared services, workability and service-related needs should be comprehensively analysed. Decision-making should be based on cost-benefit analyses so that the costs and, in particular the benefits, related to the operations can be adequately assessed. The analyses would also make it easier to prioritise projects and allocate resources for those projects the implementation of which as shared services would bring the biggest benefits. Reliability of the knowledge base of the ICT activities should be improved by harmonising accounting procedures, by developing cost accounting and performance indicators and by determining reporting procedures as tools for monitoring and managing operations.

The purpose of the audit of the state IT shared service centres was to examine whether they are organised in a manner that ensures adequate performance. The audit focused on the Government IT Shared Service Centre (VIP) and its activities. In addition to the operations of VIP, the National Audit Office also examined the establishment, operations and steering of the Regional Administration Information Management Service Unit (AHTI), ICT Agency HALTIK and the ICT Service Centre for the Judicial Administration (OTTK).

## Shared service centre operations in general

A shared service centre is an arrangement in which activities, expertise and infrastructure supporting the core activities are concentrated in one place, while the core activities are kept as part of the original organisation. The main purpose of the shared service centres is to use the economics of scale generated by the centralisation of operations and harmonisation of operating practices. Development of information technology and the increase in data transfer speeds have been the key factors behind the expansion of shared service centre activities. Services suited for shared service centres can be found in financial administration, personnel administration and information technology.

Service suited for shared service centres can be divided into two main categories: *transaction-based services* and *transformation-based services*. The way in which these two service categories operate and the way in which they are managed are different. Transaction-based services concern the economics of scale, process efficiency and efficient use of technology (centres of scale). Transforma-

tion-based services (expert services) concern the advantages of concentrating special expertise and skills in one place (centres of expertise). Such transaction-based services as processing of purchase invoices, payment of salaries and maintenance services are critical to organisations. However, most of them are administrative routine tasks. The purpose of transformation-based services is to change the organisation. For example, even though the tasks concerning recruiting and career planning may be considered responsibilities of a shared service centre, they are more clearly expert services requiring in-depth knowledge and skills of HR matters.

## Cost-benefit analyses should be used more extensively to support decision-making

State IT shared services were outlined in 2004 in the TIME working group and in 2005 in a sub-project on shared IT services. However, the sub-project did not produce any definition of what constitutes a state IT shared service. However, it was concluded in a memorandum that if the aim is to have extensive IT services in the field of basic information technology, support-related technology and expert services, changes in service production would apply to about 2,000 IT staff members and, indirectly, all those employed by the central government. The results of the sub-project on shared IT services were incorporated into the Government IT strategy work. On 15 June 2006, the Government adopted a resolution on the development of central government IT operations (Government IT strategy). The resolution replaced the Government resolution on the development of central government IT management adopted on 2 March 2000.

The resolution sets out the long-term goals for central government IT activities, strategies for developing IT activities, a steering model for shared IT management and development programmes. The aims of the Government IT strategy are as follows:

- 1 satisfied customers, flexible services (customer perspective),
- 2 and efficient, secure and connected government (internal efficiency of the government).

For implementing the strategy, a total of five development programmes were proposed for 2006–2011: customer-centric online services, interoperability, shared IT systems, harmonised basic IT services and information security. A total of twelve projects, prioritised in accordance with their timetable, were selected for the development programmes. It was found out in the audit that the prioritised projects were directed at citizens and the internal efficiency of the central government and that they varied in scope.

It also transpired that no justification concerning the cost and benefits of the projects had been presented to support the prioritisation. This means that it remains unclear on what basis the internal priority of the projects has been determined. The aim was that each of the projects would proceed so that there would first be a preliminary study in which the current situation in each sector, overall solutions, any models for proceeding with the project and timetables would be examined and the risk and cost-benefit analyses conducted. According to the programme, the final decisions on the implementation of the projects and ways of implementing them would be made after the preliminary study. Under the government resolution, the development programmes would be supported by improving the operating prerequisites of

IT operations, for example by establishing a central government IT service unit (later renamed Government IT Shared Service Centre).

The final report on the establishment of the Government IT Shared Service Centre in 2007 only presented a rough overview on the services of the centre. In the first stage, the intention was to move to the service centre a number of central government services operating as part of central government units. However, the report did not specify the services in question or their scope. According to the report, parallel to the above services, the aim was to productivize services of the priority projects into service centre services. However, it was not possible to produce any detailed description or information about the services connected with the priority projects as the projects in question were still in the preliminary-study stage.

It was found out in the audit that there were shortcomings in the preparation of cost-benefit analyses of the projects selected in the development programmes intended as state IT shared services. Most preliminary studies only presented rough estimates of the project costs. Few of the project preliminary study reports contain any volume figures describing the activities or values or analyses pertaining to productivity trends or future benefits generated by the projects. According to preliminary figures contained in the Annex to the memorandum of the Government resolution on the central government IT strategy, the costs of the development programmes were put at about 97 million euros.

Considering the large number of projects, it is unrealistic to consider that all projects are of equal importance from the perspective of the expected benefits. The National Audit Office is of the view that already in the preliminary project studies, there should have

been more comprehensive cost-benefit analyses, which could have been used as a basis for focusing on projects that would have generated the greatest benefits as state IT shared services. In its public governance review on Finland, the OECD also drew more general attention to the fact that there are no standard requirements for cost-benefit analyses in the processes concerning the preparation of decisions.<sup>49</sup>

Under the Act on Information Management Governance in Public Administration (634/2011), which only came into force in autumn 2011, an opinion of the Ministry of Finance must be requested before a major information system project is purchased. The basic requirement for the opinion is that the project is assessed in accordance with a framework prepared in the ministry. The aim of this joint central government assessment procedure is to ensure that the projects have greater chances of success and that the information system investments meet the effectiveness, productivity and interoperability objectives laid out for them.

Under a policy decision made by the Cabinet Committee on Economic Policy on 26 November 2012, the monitoring of the ICT projects will be made more effective by introducing a joint procedure and information system (project portfolio) in 2013. The aim of the Ministry of Finance is also to create a joint model for the cost-benefit analyses concerning the projects. In the view of the National Audit Office, the planned strategies will provide the project management with more efficiency and unified operating practices

## Central government ICT services should concentrate on the harmonisation of existing services and processes and to ensure comprehensive use of the services

The service provision plan of the Government IT Shared Service Centre (VIP) completed in spring 2008 states that at first, VIP will only produce basic information technology services for the Prime Minister's Office, Ministry of Finance and other ministries. Under the service provision plan, the principles concerning the provision of basic information technology services for other customers will be outlined under the coordination of the management unit of the central government IT activities in 2008–2009. The Government IT strategy development programme 'Unified basic information technology services' has not progressed as planned. Under a policy decision on the project 'shared central government work station solution and user support' made in December 2011, work station services will initially be built as part of the TORI project in which ICT services independent of specific sectors are brought together.

The IT service centres of individual administrative sectors (Ahti, Haltik and OTTK) have been established to produce ICT services for specific customers and the administrative sectors in question have developed the service centres from their own starting points. Each service centre has different ICT concepts, process descriptions, service and performance agreements, reporting procedures and organisation.

As a whole, in the steering of the state IT shared service centre activities, there has been less attention on the harmonisation of the ICT concepts and processes used and

<sup>49</sup> OECD (2010); OECD Public Governance Reviews—Finland: Working together to sustain success, p. 24.



the centralisation of existing ICT services. At central government level, the number of information systems has been examined but no action has been taken on the basis of the work. However, the concept 'information system' is not necessarily understood in the same manner in all sectors of the central government, which means that the figures giving the total numbers may contain information systems of very different types.

The establishment of the audited state IT shared service centres was based on the need to centralise basic information technology services that could take advantage of the economics of scale through uniform operating practices and release personnel to the maintenance and development of the information systems of the core activities. The Government IT Shared Service Centre (VIP) was established at the start of 2009 to implement the Government IT strategy by assuming responsibility for the organisation of the production of shared or harmonised IT services that are in accordance with the strategy. The aim was that after the objective had been achieved, the service centres of individual administrative sectors could better focus on the maintenance and development of the IT systems of their own core activities. As the services of VIP focus more on the development of new services, the service centres of individual administrative sectors have not been able to release staff as planned from existing basic information technology services to the maintenance and development of the information systems of the core activities.

The National Audit Office is of the view that when the aim is to take advantage of the economics of scale offered by the service centres, it is essential to harmonise the processes of the ICT service production. The basic idea behind the service centres is to take advantage of uniform operating procedures.

In practice this also means that decisions must be made on which information systems are used and which will be discontinued. The Information Management Act provides an opportunity to steer the introduction and use of shared services more systematically than has been the case until now.

### **Management, planning and monitoring of the state IT shared service centres and central government ICT activities require better accounting services**

Even though the state IT shared service centres produce similar services, there are differences in the way in which their performance and service agreements are structured and presented. There are also differences in the organisation and reporting practices between the service centres. Moreover, no unified performance indicators have been established for the centres. Thus, no knowledge base has developed for the assessment of the operational or economic efficiency of the audited state IT shared service centres that could be used as a reliable criterion for evaluating and comparing the performance of different service centres. In many respects, the knowledge base used in the steering of the central government ICT operations is founded on the findings of a questionnaire submitted to agencies each year.

The National Audit Office is of the view that the introduction of more unified ICT concepts could provide better requirements for a more unified knowledge base on ICT services, their numbers and costs. A more unified knowledge base would provide better prerequisites for overall management and steering of ICT services. Reliability of the knowledge base of the ICT activities should be improved by harmonising accounting proce-

dures and by developing cost accounting and indicators as monitoring and management tools. Considering the economic importance of central government ICT activities (about 900 million euros), economic efficiency and effectiveness of the operations should also in the future be reported as part of the state's group steering and shared services in the reports on final central government accounts. It should be possible to derive the information provided in final accounts and in other reports from the information contained in accounting and operational steering systems in a comprehensive manner.

### **In the organisation of central government ICT services independent of specific sectors, consideration should be on the services as a whole**

Central government ICT services independent of specific sectors are in the process of being brought into a single organisation (TORI project). According to the project appointment decision, these services include the tasks concerning basic information technology and the development and maintenance of the information systems of support services. The preparation is carried out in accordance with the Government Programme and the policies laid out by the Cabinet Committee on Economic Policy. On 6 March 2012, the Cabinet Committee on Economic Policy made a policy decision that the preparations will also include the agencies' own ICT functions that are independent of specific sectors as this is the only way to achieve the targeted efficiency improvements and savings. According to the Ministry of Finance's own studies, service centres only account for 40 per cent of the tasks independent of specific sectors, while about 60 per cent of all tasks

independent of specific sectors are still carried out in the agencies.

On 13 February 2013, the Cabinet Committee on Economic Policy expressed its support for the Ministry of Finance proposal to start the necessary preparations concerning the establishment of a special agency responsible for ICT services independent of specific sectors, which would be steered by the Ministry of Finance. It is estimated that there are more than 1,000 persons in the central government carrying out tasks coming under the TORI project and that the costs arising from the tasks are 350 million euros.

In the audit of state IT shared service centres conducted by the National Audit Office, it was highlighted that similar aims concerning the centralisation of ICT tasks independent of specific sectors were already set out in the outlines of the TIME working group in 2004, in the Government IT strategy prepared in 2006 and in the establishment of the Government IT Shared Service Centre (VIP) in 2009. In its audit report (3/2013), the National Audit Office recommended that in the TORI project and in other development work concerning central government ICT services consideration should be given to ensuring that the planned service centre and the ICT services left outside the TORI project have a separate management, planning and monitoring system, that agreement is reached on shared ICT service nomenclature and concepts and that decisions are made on which information systems will be used in the new procedure and which systems will be discontinued.

Considering the fact that according to the studies conducted by the Ministry of Finance, a total of 60 per cent of all ICT services independent of specific sectors are still provided by agencies, the National Audit Office strongly emphasises that in the reorgan-

isation of ICT services independent of specific sectors it is essential that the agencies' ICT services are organised in accordance with the service centre model. In its audit of the shared service centre of the Ministry of the Interior (225/2009) and its follow-up, the National Audit Office drew attention to the fact that in the service centres of the central government financial and personnel administration, the envisaged division of labour between the service centres and customer agencies has not become reality. According to the Government's 2012 annual report, 89 per cent of all central government financial and personnel administration tasks are still carried out in agencies.

## The Finnish Government Shared Services Centre for Finance and HR

### Efforts are being made to get rid of overlapping information systems in central government financial and personnel administration

In 1995, the State Treasury transferred the procurement, maintenance and development of the financial and personnel administration information systems to the accounting agencies. Until then, these functions had been centrally managed by the State Treasury. In 2005, the State Treasury conducted a survey among the agencies, in which they were asked to give the year in which they would withdraw from use the financial and personnel administration information systems operational at the time. In 2005, agencies were using a large number of financial and personnel administration information systems serving the same purpose.<sup>50</sup> At the

time, it was estimated that, considering the expected useful life of the systems then in use, the new basic financial administration system should be ready for introduction by the end of 2009.

A decision was made to purchase a shared information system for the central government financial and personnel administration. A total of 6,200 person-years were spent on central government financial and personnel administration tasks in 2004 and the resulting costs totalled 270 million euros. It was estimated that substantial cost savings would be achieved at central government level as the information systems are harmonised and their maintenance and development centralised. In 2004, the State Treasury set up the Kieku programme, the aim of which was to increase the efficiency of the central government financial and personnel administration by 40 per cent by improving operating practices and structures and by ensuring that customer and job satisfaction in these tasks will become higher. The aim was that in 2012, central government financial and personnel administration tasks would total 3,700 person-years and that the costs generated by them would be 160 million euros. The annual savings would total 2,500 person-years and 110 million euros, compared with 2004 levels.

### Cost-benefit model helps to clarify division of labour

In its audit of the shared service centre of the Ministry of the Interior<sup>51</sup>, the National Audit Office noted that the cost-benefit tool prepared in the Kieku programme for the assessment of the service centre projects was

<sup>50</sup> Summary of the estimated life cycles of the existing financial and personnel administration information systems State Treasury. Administrative Steering. Kieku. 25 May 2005. <http://www.kiekuhanke.fi/public/download.aspx?ID=62048&GUID=%7B68aba1c8-771a-4193-aa47-50c59581c7e6%7D>

<sup>51</sup> NAO 2009. Performance audit report 187/2009

not used in the planned manner. In a number of administrative sectors, the preparation of the cost-benefit analyses was a protracted process and in some sectors they were not produced at all. The analyses on financial administration were more extensive than those made on personnel administration. However, the conclusion made in the audit was that the cost-benefit calculation gives a good overall picture of the financial and personnel administration processes.

Presenting the division of labour between the service centre and the customer in the service centre model makes it easier to understand what are the practical impacts of the process of becoming a service centre customer on the number of person-years required for each process and how much does the division of labour between the service centre and the customer agencies depend on which financial and personnel administration processes are involved. In the service centre model, most of the work connected with such items as the processing of purchase invoices, payment transactions, accounting and final accounts should be carried out in the shared service centre. At the same time, most of such tasks as internal accounting would be the responsibility of the customer agencies.

### **Introduction of the Kieku information system has taken longer than planned**

However, the introduction of the Kieku financial and personnel administration information system has not proceeded as planned. In January 2012, the Kieku information system project was divided into two stages for risk-management reasons. In Jan-

uary 2013, the timetable of the second stage was extended. At the moment, it is envisaged that the last parts of the system will be put into use in 2016. In practice this means that the old overlapping financial and personnel administration systems must be used and maintained much longer than originally planned.

### **Productivity trends in central government financial and personnel administration must be followed**

The Government's 2012 annual report states that the State Treasury has examined productivity trends in the personnel and financial administration. Based on the examination, productivity in the key processes of the central government financial administration (processing of revenue and expenditure) had improved by about 6 per cent and in the key processes of the personnel administration (payroll accounting, travel and management of the service relationship) by 4–6 per cent between 2008 and 2011. The shared service centre accounted for 11 per cent of all person-years committed to financial and personnel administration tasks. The conclusion was that 89 per cent of all financial and personnel administration tasks are still carried out in accounting agencies. It was also noted that there is substantial variation in the use of the shared service centre between administrative sectors and accounting agencies (4–20 per cent). Likewise, it was found out that there is great variation between processes. In the Government's annual report it is stated that based on the reports' findings, it is possible to make processes more productive

<sup>52</sup> NAO 2009. Performance audit report 187/2009.

<sup>53</sup> NAO 2009. Performance audit report 186/2009.

<sup>54</sup> Follow-up report 28 May 2012.

and use the shared service centre more efficiently.

In 2009, the National Audit Office audited the operations of the shared service centre of the Ministry of the Interior<sup>52</sup> and changes in financial administration in ministries, agencies and units.<sup>53</sup> The Finnish Government Shared Services Centre for Finance and HR was established in 2010 by merging four central government service centres in the field of finance and personnel administration. Based on the findings collected in spring 2012 for the follow-up to the audit of the shared service centre of the Ministry of the Interior, the service centre accounted for between 7 and 21 per cent of all work, depending on the administrative sector. It was noted in the follow-up report<sup>54</sup> that this reflects the differences on to what extent the customer agencies have transferred their tasks to the shared service centre. In its follow-up report the National Audit Office concluded that due to the small proportion of the transferred tasks and the large differences in the percentage of transferred work, it would be essential to examine on what grounds financial and personnel administration tasks have been left to customer agencies and whether these grounds are adequate and appropriate considering the aims laid out for the centralisation of central government financial and personnel administration.

Already in its audit of the shared service centre of the Ministry of the Interior, the National Audit Office concluded that the productivity targets laid out for the service centres in central government financial and personnel administration can only be achieved

and the service centre activities utilised in full if the tasks, job descriptions and roles of the financial and personnel administrations of the customer agencies are defined in accordance with the new operating approach and the service centre activities. A small number of processes with substantial volumes and a large number of person-years (such as processing of purchasing invoices) showed only modest progress in 2009. In its audit the National Audit Office expressed the opinion that the follow-up measures in the development of financial and personnel administration should be directed at large-volume processes and their sub-processes.

Monitoring of the use of person-years plays a central role in the efforts to achieve economical solutions by means of information and communications technology. Most of the central government tasks in the field of financial and personnel administration will also in the future be carried out in agencies. However, it is essential to draw attention to which financial and personnel administration tasks are prioritised in the agencies. The agencies should develop their operating practices and processes so that they can focus on what are called financial administration added-value processes, such as internal accounting and analysis. This allows the full use of the benefits of the shared service centre as a provider of volume processes and services. The Kieku information system helps to make it possible to introduce a new division of labour. For this reason, consideration should also be given to the factors that slow down the introduction of information systems and new operating practices.

# 8 Using the opportunities provided by EU at national level

## 8.1 Administration of agricultural subsidies

### Conclusions and opinions

The complexity of the agricultural subsidies administration and the administrative burden resulting from the complexity have been recognised as a problem in Finland and in the European Union for many years. Efforts have been made to reduce the administrative burden. Despite a variety of measures, there has been no significant improvement in administrative efficiency or a reduction in the administrative burden. At the same time, however, from the perspective of ensuring compliance with the law, the administration of agricultural subsidies has functioned well. There have been no errors leading to major financial corrections (loss of EU funding) in the administration.

Judging from the results of the audit of the administration of agricultural subsidies, there is potential for improving the system.<sup>55</sup> Improvements could be achieved especially through improvements in electronic administration and such measures as the simplification of procedures pertaining to area measurements and electronic databases. Some of these measures would require changes in EU-level rules and their interpretations in the EU.<sup>56</sup> However, in a complex operating environment, the benefits resulting from in-

dividual measures would not make much difference.

Significant benefits can only be achieved by reducing the number of administrative layers. From the perspective of the reduction of administrative burdens, the most significant factor would be the simplification of the aid system. However, at the same time, this would mean compromising the current agricultural production maintenance objectives.

According to the audit of the agricultural subsidies administration, there are two major reasons for the complexity of the sector. In Finland's agricultural policy, efficiency of the subsidies administration has become a secondary objective. Furthermore, for historic reasons, the subsidies administration has many different layers and it has mainly been developed on the basis of the old structures.

### Agricultural policy objectives do not support efficient administration

In the objectives of Finland's agricultural policy, the emphasis has been on the maintenance of agricultural production in all parts of the country and maximum use of the agricultural aid provided by the EU in this process. In practice, the main aim of the sub-

<sup>55</sup> Performance audit report Administration of agricultural subsidies 4/2013.

<sup>56</sup> Opinion of the National Audit Office to the Audit Committee on 10 December 2012 concerning the 2011 annual report of the European Court of Auditors (E 140/2012 vp.) and the Government report appended to it.

sidies policy has been the maintenance of the prevailing situation in agricultural production. For this reason, when changes have been made in the agricultural policy, consideration has been given to different regions and types of farming in order to ensure that the changes in production would be as small as possible. Thus, agricultural subsidies, their levels and assisted regions have evolved into an extremely complex entity. To ensure that the objectives are achieved, different types of subsidy with cumbersome administration (such as agri-environmental aid) have been introduced. The number of aid levels and assisted regions has become very large. However, the growing complexity of the subsidies system and the increasing difficulties in the workings of the administration have not been considered so serious that they would have had any impact on the objectives of the agricultural policy.

The agricultural subsidies system is also made more complicated by the fact that national objectives must be reconciled with the common agricultural policy of the European Union. The common agricultural policy is often based on compromises and in order to reach them, it is often necessary to make the system even more complicated.

The European Union steering directed at the common agricultural policy is heavily focused on supervision and inspections. This has resulted in a situation where the main consideration is how extensively matters can be inspected and less attention is paid to the effectiveness of the activities. Furthermore, the sanctions system of the European Union, which is in the form of financial corrections, is such a strong steering instrument that the Member States have to adapt to a reality in which inspections play a central role.

A situation where the emphasis in inspections is on matters that are easiest to inspect and supervise is not good from the perspective of accountability. It would be better if in the checks and supervision, a greater emphasis would be on the verification of the effectiveness of the activities. Furthermore, the situation is not good from the perspective of allocating inspection resources at national level. Substantial resources are allocated for checking the use of agricultural subsidies that are of relatively minor importance from the perspective of correction measures. The resources could be used much more efficiently in the supervision of the way in which other public funds are spent and collected. At the same time, this approach burdens both the public administration and the farms subject to checks.

### **Administrative structures are from the time before EU membership**

The structure of the Finnish agricultural subsidies administration is highly exceptional. In Finland, there are four administrative layers, while in most other comparable countries there are only two or at most three layers. The administration consists of the Ministry of Agriculture and Forestry, the Agency for Rural Affairs, ELY centres and municipalities or cooperation areas established by the municipalities. At central government level, the ministry is in principle responsible for strategic activities, while the Agency for Rural Affairs is responsible for the practical aspects of the administration.

ELY centres, operating at regional level, come under the Ministry of Employment and the Economy. Most of the tasks in the field

of agricultural subsidies administration are different from the main task of ELY centres, which is the promotion of regional industries. In the field of agriculture, the tasks also include many aspects of aid supervision, which are of such nature that they would be much better catered for if they were made the responsibility of the Regional State Administrative Agencies.

For historic reasons, municipalities are also involved in the administration of agricultural subsidies at local level. When Finland joined the European Union, the administration of subsidies was made the responsibility of municipalities because they were already managing such tasks at the time. In the latest change at local level introduced in 2012, the aim was to reduce the number of local-level actors. However, the administration of subsidies at local level was still laid down as a responsibility of municipalities. For this reason, the municipalities were required to establish cooperation areas that are responsible for administrative tasks at local level. A total of about 60 local government cooperation areas were established. Previously, involvement of municipalities in administrative tasks was mainly justified with familiarity with local affairs. However, after the establishment of the cooperation areas, knowledge of local affairs will be weakened. The four-layer structure of the administration has, however, not been dismantled.

Complexity of the national administration means that it is difficult to steer the overall system of subsidies. There is no monitoring of the overall administrative costs. In some areas, monitoring is also very difficult because in principle, the activities carried out by the municipalities are funded by central government transfers and there is little information available at this level on the costs concerning local government activities and tasks with comparable classification of tasks. The overall annual costs incurred by the central government are estimated at 60 million euros. Municipalities account for nearly one third of this total, while the remainder is a central government responsibility. The amount of administrative burdens (the administrative costs incurred by the customers) is not known.



## 8.2 European Globalisation Adjustment Fund

In its performance audit report published on 12 January 2012 (2/2012 Supporting areas of abrupt structural change), the National Audit Office drew attention to the fact that Finland had made less use of the funding potential of the European Globalisation Adjustment Fund (EGF) than most other comparable European Union Member States.

Since then, the Ministry of Employment and the Economy has submitted two applications to the EGF. The Commission has ap-

proved the first application, which was submitted on 4 July 2012, and on the basis of which Finland has already received 5.3 million euros. The second application, submitted on 1 February 2013, totalling 9.9 million euros, is being considered by the Commission. In both projects, the national contribution is of the same size as the contribution of the EGF.

# 9 State of central government finances and administration

## 9.1 Compliance with the budget and key budget provisions

### Deficiencies in the compliance with the budget

The National Audit Office submitted a total of 67 financial audit reports on the basis of the audits of agencies for the 2012 fiscal year. A total of 64 of the audits concerned agencies that the Ministry of Finance has defined as accounting agencies and that on this basis must prepare final accounts containing financial statements and a review of operations referred to in the State Budget Decree. The National Audit Office also submitted financial audit reports on three such agencies that do not prepare final accounts but for which the ministry has set performance targets and which are thus accountable to the ministry with regard to budget implementation and operational performance.

The financial audits for the 2012 fiscal year revealed improper procedures in 16 accounting agencies that on their own or together with other improper procedures were considered contrary to 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. In 2011, a qualified opinion on regularity was included in the financial audit reports on 14 accounting agencies and four other agencies.

The number of qualified opinions on regularity decreased by two, compared with 2011. As the cautions concerned a broad range of different issues, they totalled about 40.

The main reasons for qualified opinions on regularity concerned the use of funds or authorisations that was contrary to the budget. These resulted in a total of 32 cautions in the financial audit reports on 13 accounting agencies. The cautions of this group concerned the use of an appropriation or authorisation that was contrary to the budget, allocation of expenditure in a manner that was contrary to the budget, carrying over of an appropriation or authorisation in violation of section 7 of the State Budget Act, entering revenue on a gross-budgeted expenditure item in violation of section 3 a of the State Budget Act and actual exceeding of an authorisation. Based on the results of the audits, the National Audit Office thus draws attention to the procedures that are contrary to the state budget and in violation of the key provisions concerning it and that are also in contravention of the provisions on central government finances laid down in the Constitution of Finland.

Shortcomings in the organisation of performance accounting and the presenting of information on operational efficiency led

to cautions in the financial audit reports on five accounting agencies. 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 one fifth of the central government finances fails to meet the regularity requirement laid down for them. Furthermore, a qualified opinion on regularity does not mean that it would be based on a misuse of central government funds. When the importance of qualified opinions on regularity is assessed, consideration should also be given to the different sizes of the agencies' budgets. However, a qualified opinion on regularity should always be considered a serious matter concerning 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 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. Section 24 b of the State Budget Act, which lays down provisions on arranging internal control and its organisational responsibilities, provides a sound basis for assessing internal control in situations where central government's administrative tasks have been transferred to shared service centres. According to the audit conclusions, a workable, efficient and economically effective internal control also requires a clear division of responsibility between the shared service centres and their customer flows in matters concerning internal control. For this reason, the State Budget Decree should contain a provision laying down that the management of the shared service centre is responsible for the internal control referred to in the State Budget Act and State Budget Decree to the extent that the tasks have been transferred to a service centre under a service agreement.

## 9.2 Obligation to report on the measures concerning the cautions contained in the audit reports

Under section 5(1) of the Act on the National Audit Office, the auditee and the ministry under whose administrative sector the auditee operates, must notify the National Audit Office of the measures that have been taken on the basis of the cautions contained in the audit report.

The financial audit report specifies the cautions that require the above-mentioned reports and the deadline for submitting them. The adequacy of the measures is audited in connection with the next audit. Even though qualified opinions on regularity are usually also matters requiring a report, the obligation may also be imposed as a result of cautions that have not resulted in a qualified opinion on regularity.

Table 4 gives the breakdown of reporting obligations by administrative sector for the last three years.

The number of financial audit reports containing a reporting obligation has increased by four compared with the previous year.

Shortcomings in the organisation of performance accounting and the presenting of information on operational efficiency led to reporting procedure in four financial audit reports (compared with three in 2011 and four in 2010). Shortcomings concerning the use and monitoring of authorisations led to the imposition of a reporting obligation on two and shortcomings in internal control procedures on three accounting agencies.

The effectiveness of the reporting obligations contained in the previous year's financial audit reports were examined in the 2012 financial audits. A total of three agencies were issued with a reporting obligation in the 2011 financial audit reports. The reporting obligations of all three agencies was renewed in full or in part in 2012 (in 2010 and 2011, the obligation of three agencies was renewed).

TABLE 4: REPORTING OBLIGATIONS IN THE FINANCIAL AUDIT REPORTS ON 2010–2012 FISCAL YEARS

	Financial audit reports in		Reporting obligations in	
	2012	2010	2011	2012
Office of the President of the Republic	1	-	-	-
Prime Minister's Office	1	-	-	-
Administrative sector of the Ministry for Foreign Affairs	1	1	1	1
Administrative sector of the Ministry of Justice	2	-	-	-
Administrative sector of the Ministry of the Interior	7	-	-	-
Administrative sector of the Ministry of Defence	3	-	-	1
Administrative sector of the Ministry of Finance	10	-	-	1
Administrative sector of the Ministry of Education and Culture	7	1	-	-
Administrative sector of the Ministry of Agriculture and Forestry	9	-	-	-
Administrative sector of the Ministry of Transport and Communications	5	1	1	1
Administrative sector of the Ministry of Employment and the Economy	13	2	1	3
Administrative sector of the Ministry of Social Affairs and Health	5	-	-	-
Administrative sector of the Ministry of the Environment	3	-	-	-
	67	5	3	7

## 9.3 Budget procedures

A total of five financial audit reports contained cautions concerning budget procedures in 2012. The cautions concerned the presentation of budget authorisations, inclusion of unjustified revenue in the budget and net budgeting in connection with investment expenditure. In 2011, cautions concerning budget procedures were issued in connection with two financial audit reports.

### Budgeting and monitoring of authorisations and reporting on them

An authorisation means a right granted in the budget or in a law to be committed to expenditure for which corresponding appropriations are included in the coming years' budgets. In connection with the 2012 financial audits, the National Audit Office conducted a compliance audit concerning the budgeting and monitoring of the authorisations granted in the state budget and authorisations based on law and reporting on them. The audit was a continuation to the compliance audit of the budgeting and monitoring of the authorisations for transport infrastructure projects (compliance audit report 10/2012).

The conclusion made on the basis of the audit was that there are essential shortcomings in the budgeting of the authorisations in the administrative sector of the Ministry of Transport and Communications (main title 31). The conclusion is that the Parliament has not received true and fair information on the content of the transport infrastructure authorisation items 31.10.77 (Development of

the transport network, three-year transferable appropriation item) or 31.10.78 (Certain transport infrastructure projects, three-year transferable appropriation item) contained in the 2012 budget.

In overall terms there were no essential shortcomings in the budget authorisations of other administrative sectors. The note in the authorisation clauses of item 27.10.18 (Defence materiel procurement, three-year transferable appropriation item) in the 2011 and 2012 budgets was, however, highlighted as a significant shortcoming. According to the note, previously made contracts may be cancelled in the fiscal year in question and assets tied to the order authorisations may be recommitted in accordance with the unpaid appropriation. In this respect, the definition of an authorisation is not in accordance with the requirement concerning the exact amount and use of the authorisation granted in the budget, contained in section 10 of the State Budget Act. Thus, it cannot be considered to be in compliance with good budgeting practices. Another conclusion based on the audit was that the budget authorisation clauses are not sufficiently clear in all respects, for example in the carrying over of budget authorisations and their intended uses, or in the amounts of the budget authorisations in situations where the amount is index-linked.

The conclusion made on the basis of the audit was that there are essential shortcomings in the monitoring of authorisations in the main titles of the administrative sectors of the Ministry of Defence and the Ministry of Transport and Communications (main ti-

tles 27 and 31). As regards the budget economy, the authorisations in these administrative sectors are essential as exercising them without interest-subsidy authorisations accounted for about 24 per cent of all use of authorisations in the 2011 state budget. In overall terms, there were no significant shortcomings in the monitoring of authorisations in the main titles of other administrative sectors. However, there were essential shortcomings in the monitoring of authorisations granted in connection with the discretionary appropriation 32.50.64 (Funding contribution of EU structural funds and the state to structural fund programmes of the EU and ENPI and CBC programmes in the programming period 2007–2013, estimated appropriation). The discretionary appropriation in question is essential to the budget economy.

Based on the financial audits and the present compliance audit, the National Audit Office notes that as a whole, the information contained in the financial statements for 2011

and 2012 is essentially true and fair. However, information on the authorisations and the expenditure incurred when using them in the financial statements of the Finnish Transport Agency and the Ministry of Employment and the Economy for 2011 and 2012 is not true and fair. In the agencies' financial audits, attention was also focused on the risks of error and errors in the monitoring of budget authorisations and the budget authorisation notifications submitted to the State Treasury. Based on financial audits and the present compliance audit, it can be noted that providing clear definitions of the authorisations as consistently as possible during budget preparation and in the budget would contribute to supporting budget implementation, and as part of it, to arranging the monitoring of budget authorisations as required in the State Budget Act and Decree.

## 9.4 Financial statements of accounting agencies

Table 5 shows the details of the financial statements cautions contained in the final accounts reports over a period of three years. Since 2010, the requirement laid down in section 21 of the State Budget Act that agencies must in their final accounts and the review of their operations prepared for the purposes of accountability present true and fair information on compliance with the budget and the revenue, expenditure and financial position of the agency has under the State Budget Decree only applied to agencies that under a decision of the Ministry of Finance only operate as accounting agencies.

A total of 17 financial audit reports contained cautions on financial statements and notes to them.

The budget implementation statement contains the information on budget revenue and expenditure and the information on authorisations and their use. A total of 13 accounting agencies received cautions concerning budget implementation statements in 2012, which was two fewer than in 2011. The cautions in this group concerned the use of appropriations that was contrary to the budget, entry of expenditure on a gross-budgeted expenditure item and allocation of expenditure in a manner that was contrary to the budget so that it resulted in a carrying over of the appropriation. More than 30 such cautions were issued.

In 2012, authorisations were used by a total of 23 accounting agencies. A total of six accounting agencies were cautioned about the presentation of authorisation information or the use of authorisations. The main reasons were shortcomings 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.

One accounting agency was cautioned about its revenue and expenditure statement, while three accounting agencies were cautioned about their balance sheets. 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.

A total of five accounting agencies were cautioned about shortcomings in the notes to the financial statements. In the financial audits, particular attention was drawn to such notes that significantly supplement the information presented in the financial statements. The most important of them are the details on state securities and guarantees and other liabilities.

TABLE 5: ACCOUNTING AGENCIES CAUTIONED ABOUT THEIR FINANCIAL STATEMENTS

	Cautions in		
	2010	2011	2012
Budget implementation statement	14	13	13
Revenue and expenditure statement	2	2	1
Balance sheet	3	2	3
Notes to the financial statements	5	6	5
Examination of financial statements	-	-	-
Approval of final accounts	-	2	-

## 9.5 Current state of internal control and risk management

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. In its performance audits, the National Audit Office has assessed the risks connected with administrative steering systems and operational chains and their management and internal controls, particularly from the perspective of their societal impacts and performance of the activities and the provision of a true and fair picture of the economy and operations. The shortcomings noted in steering, operating and reporting systems are also shortcomings in internal control and risk management at Government level and in the administrative sectors 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 agencies

that the audits concern or that are responsible for rectifying the shortcomings.

Table 6 gives summary information on the state of internal control in central government. The figures are based on financial audits.

When the state of internal control is examined on the basis of the proportion of the accounting agencies cautioned about internal control in financial audit reports, it seems that there has been a slight improvement in internal accounting control, compared with the previous year. The proportion of accounting agencies with no essential shortcomings in the arrangements of internal accounting control constituted 86 per cent of all accounting agencies (in 2011, 78% of all accounting agencies and in 2010, 80% of all agencies). Essential shortcomings in internal accounting controls requiring action were discovered in nine per cent of all accounting agencies (in 2011, in 13% of all accounting agencies and in 2010, in 14% of all agencies).

As regards the monitoring of authorisations, essential shortcomings in internal control arrangements requiring action were discovered in 22 per cent of all accounting agencies with authorisations (in 2011 and 2010, the figures were 17% and 26%, respectively).

TABLE 6: INTERNAL CONTROL IN 2012 FISCAL YEAR (A TOTAL OF 23 ACCOUNTING AGENCIES HAD AUTHORISATIONS)

	Accounting	Monitoring of authorisations	Performance accounting	Other internal control
a) no essential shortcomings	86%	74%	84%	84%
b) essential shortcomings but corrective measures have been taken	5%	4%	-	3%
c) essential shortcomings requiring corrective measures	9%	22%	16%	13%



The key provisions on performance accounting are laid down in section 16 of the State Budget Act. Further provisions on the matter are contained in the State Budget Decree under which 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 financial statements and the review of operations.

Regarding performance accounting, it seems that from the perspective of internal control the situation is more or less unchanged from the previous years. Audits revealed essential shortcomings on the basis of which corrective action is required in financial audit reports in a total of 16 per cent of all accounting agencies (in 2011 and 2010, the figures were 17% and 20%, respectively). Deficiencies in accounting are usually the reason for the shortcomings 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 required under the State Budget Decree are a key instrument in the organisation of internal control in accounting agencies. In the 2012 financial audits, a total of 94 per cent of all accounting agencies were found to have appropriate financial rules (in 2011 and 2010, the figures were 88% and 90%, respectively).

Under the State Budget Decree, the review of operations must provide an assessment of the appropriateness 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 were issued as part of the financial audits in 2012

(in 2011, two accounting agencies and in 2010 three accounting agencies were cautioned). The audit findings reveal that there are still differences between agencies concerning the procedures. In addition to the priorities, the auditing agencies should also issue 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.

## 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 internal control is appropriate and adequate and to carry out the control 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 results of the 2012 financial audits show that internal auditing was provided in 46 accounting agencies or in 72 per cent of all accounting agencies (in 2011, in 67% of all accounting agencies and in 2010 in 75% of all agencies).

When assessed on the basis of the person-years allocated to it, the volume of internal auditing seems to have remained unchanged from the previous years. A total of

about 102 person-years was allocated to internal auditing in 2012 (For 2011 and 2010, the figures were 99 and 97 person-years, respectively). A total of about 11 person-years was allocated to internal auditing in 2012 (For 2011 and 2010, the figures were 10 and 8 person-years, respectively). In 18 of the accounting agencies that carried out agency-internal audits in 2012, the internal auditing input involving the agencies' own personnel was a maximum of one person-year (for 2011 and 2010, the figures were 17 and 15 accounting agencies, respectively).

The standing orders for internal auditing were deemed appropriate in 42 accounting agencies or in 91 per cent of all those accounting agencies in which internal audits are conducted (In 2011, the same applied to 98% of all accounting agencies and in 2010 to 75% of all agencies).

## System audits

The main purpose of the supplementary system audits that are conducted in connection with financial audits is to ensure that the key internal control procedures, other controls and information security arrangements connected with the systems and their operating environments are appropriate and that the integrity of the data processed in the systems can be safeguarded. In information security audits, the focus is on administrative 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. A total of 14 audits were conducted and five of them were follow-ups to previous year's audits.

System audits were conducted in one ministry, seven agencies and the Finnish Government Shared Services Centre for Finance and HR. One of the system audits carried out in an agency was conducted in connection with the tax revenue compliance audit, which was carried out as part of the financial audit of the Finnish Tax Administration. In the audits conducted in the Finnish Government Shared Services Centre for Finance and HR, the focus was on the arrangements concerning the provision of services in the service centre and internal control procedures. Audits were also carried out in agencies using the Kieku system. Three audits and one follow-up audit were conducted in agencies using the Kieku system. The other follow-up audits were carried out in the Finnish Government Shared Services Centre for Finance and HR and one agency.

The most important matters covered by the audits were controls relating to the use and the administration of the use of systems, authorisations and administration of authorisations, division of labour concerning the use, documentation of the procedures used and other internal control procedures. Arrangements and documentation concerning information security and ICT functions and the organisation of ICT functions were also audited.

The most important audit observations concerned the administration and control of the use of the system and authorisations, documentation (including process descriptions), information security and system documents, and the clarification of responsibilities, division of labour and control procedures, particularly in multi-operator environments. It was observed in the follow-up audits that corrective measures had been taken but that the measures had not been adequate in all

respects. The audit results are discussed in connection with financial audits.

## Tax revenue

A tax revenue compliance audit was conducted as part of the 2012 financial audit of the Finnish Tax Administration. The audit covered unprompted taxes and tax-related fees processed on the tax account, payments to tax recipients' accounts, and taxation costs. The audit also included a separate system audit.

The audit of unprompted taxes and tax-related fees concerned the appropriateness and adequacy of the internal control of the notification obligation, notification control, tax account processing of obligations and reimbursements, payment transactions, tax revenue accounting and internal control of customer register maintenance. The aim of the audit was to check whether the carrying out and organisation of the tasks are in accordance with the law, other lower-level regulations and the guidelines and orders issued and whether the internal control of the taxes and tax-related fees processed on the tax accounts is appropriately organised. The aim was also to assess whether the principles governing the steering of the processes of the taxes and tax-related fees processed on the tax account and the internal control procedures are organised so that they support compliance with the law and unified and fair taxation practices in relation to tax payers and tax recipients. The audit revealed shortcomings in internal control as a result of which the Finnish Tax Administration should take measures.

The tax revenue audit conducted as part of the 2012 financial audit contained an audit of the transfer of taxes to tax recipients and the collection of taxation expenses. The aim of the audit was to ensure that the transfer of taxes to tax recipients is in accordance with the provisions, guidelines and orders given. In its audit, the National Audit Office also assessed the appropriateness and adequacy of internal control in relation to the risks identified in the process. No essential shortcomings came to light in matters concerning the transfer of tax revenue to tax recipients and the organisation of the internal control in the collection of taxation expenses.

The system audit focused on specific aspects of the information systems used in the management of unprompted taxes, transfer of tax revenue to tax recipients and the processes concerning the collection of taxation expenses. The audit also covered the Lupa system used for administering authorisations, a number of the electronic notification channels used by the Finnish Tax Administration and the information systems connected with them. The aim of the system audit was to check the adequacy and appropriateness of specific aspects of the procedures that help to safeguard the availability, correctness, integrity and confidentiality of the information needed in taxation and the processing of tax revenue. Based on the audit findings, the National Audit Office has recommended that the Finnish Tax Administration should prepare methods descriptions and issue recommendations concerning authorisations and access control.

## 9.6 State of the administration and supervision of EU funds in Finland in 2012

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

As the National Audit Office does not conduct the audits as statistical monetary unit sampling, the total monetary error cannot be estimated on the basis of the audits.

In the financial audits conducted by the National Audit Office, attention is on the accuracy of the accounts, the legality of the activities, appropriateness 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 analytical auditing of the internal control laid down in the budget legislation. In some cases, the audits have also involved 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 financed through EU funding. Audits concerning the national use of EU funding are discussed in chapter 8.

In the 2012 fiscal year, the audits of the transfer of European Union funds dealt with project and business subsidies part-funded by the European Agricultural Fund for Rural Development in the ELY Centres for Satakunta, Uusimaa and Southwest Finland and in the Agency for Rural Affairs. The audits focused on projects carried out by the

agencies with their own resources. The audits revealed shortcomings in the financial administration of a project carried out by the ELY Centre for Uusimaa with its own resources. Furthermore, the audits indicated that in projects produced by the agencies with their own resources, it should already be ensured during the preparatory stage that any other funding provided by the state is in compliance with the budget. As in previous years, the audit does not provide a clear answer to the question whether a project may receive prepayments from a municipality until the final payment, in the same way as prepayments are paid from state funds. It is recommended in the audit that the system of municipal prepayments should be clarified by law or in a lower-level provision issued under an act. As in previous years, it was stated in the audit that there is a risk that after the recovery carried out by the ELY Centre there will still be too much other public funding in the project (such as funding provided by municipalities) because central government authorities do not have any competence concerning such recovery.

The audit pertaining to the European Social Fund focused on the functioning of the EURA 2007 system used in the administration of structural fund tasks and the adequacy of information in the documentation of the party initiating the recovery and the reasons for the recovery. The audit covered a total of 385 cases of recovery and reimbursement. In its audit, the National Audit Office issued recommendations for ensuring that the system data would be used in the monitoring carried out by individual authorities, from the

perspective of the overall control of the activities and particularly from the perspective of deviations. The Ministry of Employment and the Economy was also urged to pay attention to consistent interpretation of the funding terms concerning the recovery and the monitoring of compliance with the terms and conditions and to the adequacy of the guidelines concerning the supervision. The audit revealed that the EURA 2007 system does not directly give the reason for the recovery without a separate database report and that about one third of all observations resulting in recovery have been made during on-the-spot checks and only about ten percent during project checks. This means that there is often a need for recovery at the end of the project life-cycle even though any problems concerning eligibility for support should be examined at an earlier stage.

Regarding the European Regional Development Fund, the audit dealing with the transfers of EU funds and their internal control focused on the ELY Centre for Southwest Finland. The audit of the funds of the European Regional Development Fund revealed shortcomings in the verification of payroll costs concerning the verification of eligibility. Otherwise, the audit revealed that the eligibility of the costs had been appropriately ensured and documented using accounting printouts and other documents in connection

with the payment batches. Regarding individual projects, it was noted that the reasons for changing the manner in which the project is implemented and the grounds for approving the costs should have been examined and documented in more detail in project documents. It was also recommended that there should be a comprehensive up-to-date monitoring of the recovery measures.

In the audits focusing on the Ministry of Employment and the Economy and budget accounts 32.50.62.1.3 (ERDF - European Territorial Cooperation, Objective 3) and 32.50.64.1.4 (ERDF - Cooperation along the external borders of the EU, ENPI CBC), it was noted that the separation of the tasks in the administrative process of the Ministry of Employment and the Economy has been carried out in an appropriate manner. It was noted that there are shortcomings in three areas: information systems, process descriptions and inspections of payments. In the project audit of the European Territorial Cooperation Objective the conclusion was that the Ministry of Employment and the Economy should define more clearly such matters as the internal controls of the project payments in process descriptions.

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

## 9.7 Current state of the administration and supervision of government aid and support

Government aid is a major expenditure item 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 purpose of internal control is to ensure the appropriateness of the procedures concerning government aid.

As part of the financial audits, government aid procedures were audited in a total of nine accounting agencies. The audits of internal control of government aid produced the following findings:

**TABLE 7: BREAKDOWN OF AUDIT FINDINGS CONCERNING INTERNAL CONTROL OF GOVERNMENT AID**

	Year 2010	Year 2011	Year 2012
a) no essential shortcoming	67 %	50 %	67 %
b) essential shortcomings but corrective measures have been taken	6 %	13 %	11 %
c) v essential shortcomings requiring corrective measures	28 %	38 %	22 %

In 2012, financial audits focusing on government aid were carried out in a total of 11 accounting agencies and other agencies. Based on the recent years' audits the conclusion is that the agencies have given consideration to the administration procedures of government aid. However, in 2012 internal control shortcomings requiring measures were revealed in one accounting agency in five. In most cases, it was a question of a small number of shortcomings concerning administrative processes that were connected with the separation of work tasks, uni-

formity of procedures, clarity of guidelines and the correctness and adequacy of the information used as a basis for government aid decisions.

### Compensating for the costs of institutional care of disabled war veterans

Provisions on compensating for the costs of institutional care and part-time institutional care of disabled war veterans are contained in the Military Injuries Act (404/1948). Institutional care services for disabled war veterans are mainly provided by such specialised institutions as those set up by the Disabled War Veterans Association of Finland, including the Kauniala military injuries hospital (today Kauniala Hospital Ltd) and the institutions built with 90% state funding in the 1980's and 1990's. It has become customary to refer to all these institutions as war veterans' homes and they have a special role in providing institutional care services for disabled war veterans. Institutional care services for disabled war veterans may also be provided by other rehabilitation institutions with which the State Treasury has concluded service provision contracts.

The audit dealt with compensation paid to war veterans' homes for the institutional care and part-time institutional care of disabled war veterans that mainly have been sourced from budget appropriation 33.50.52 deriving from profits of gambling (State compensation for the operating costs of institutions for disabled war veterans).

In 2012, a total of 55.6 million euros was paid to war veterans' homes for the institutional care of disabled war veterans. This was 7.1 per cent less than in the year 2010. About 7.5 million euros was paid to other rehabilitation institutions. This was 9.3 per cent less than in 2010. In 2012, a total of 266,000 institutional care days for disabled war veterans eligible for compensation were provided in war veterans' homes, showing a reduction of 12.3 per cent from 2010.

The aim of the audit was to establish whether the compensation for the institutional care and part-time institutional care for disabled war veterans has been paid in accordance with provisions and guidelines and whether the internal control of the compensation process has been properly arranged. Thus, the following matters were examined in the audit: Has compensation only been paid for the disabled war veterans who, under the Military Injuries Act, are entitled to institutional care or part-time institutional care compensated for by the State Treasury, have the compensations been paid in accordance with the state budget and has the State Treasury supervised the compensations in accordance with provisions. Answers to the questions listed as audit objectives were sought by deriving key audit criteria from the legislation, in particular the Military Injuries Act, the state budget and the practices established in the State Treasury for administrating the compensation. The audit was based on the Military Injuries Act that was in force until 31 December 2012.

Based on the audit, the National Audit Office concluded that compensation for institutional care and part-time institutional care has only been paid for those disabled war veterans who are entitled to state-reimbursed institutional care and part-time institutional care.

Under the legislative amendment that entered into force on 1 January 2013 (901/2012), periodical reimbursements were discontinued, and the disability rate entitling to permanent institutional care was lowered to 20 per cent regardless of whether the need for institutional care is due to an injury or an illness eligible for compensation.

Compensation for military injuries to disabled war veterans and those who have been injured or fallen ill in military service before 1 January 1991 and their family members is paid under the Military Injuries Act. A considerable proportion of payment commitments that were valid in 2012 had been granted to disabled persons who had become injured or fallen ill while doing their military service in peace time in between 1948 and 1990. If the disability rate entitling to institutional care reimbursed by the State Treasury is lowered from the current 20 per cent, an increasing number of persons with military-related disabilities (but not an increasing number of disabled war veterans) will be eligible for free institutional care. It is estimated in the 2013 state budget that at the end of 2013, disabled war veterans will total 4,312 and other persons with military-related disabilities 2,227.

The audits show that the state budget does not provide true and fair information on the grounds for reimbursing the costs of institutional care of disabled war veterans. The heading of the item "State compensation for the operating costs of institutions for disabled war veterans" and the wordings in the decisions, explanations and context are in conflict, and the actual use of the item does not correspond with the intended use of the appropriation, as the pricing of care days does not itemise operating and capital costs. Since 1994, the operating surplus of war veterans' homes has also been spent on funding invest-

ments even though this is not permitted by the intended use of the item.

Municipalities are the only service providers to whom specific provisions on compensating the costs of institutional care of disabled war veterans apply and the procedures are based on information provided in the state budget and the practice applied by the State Treasury at any one time. The information provided in the state budget since 1994 cannot be considered true and fair as the decisions, explanation and context in the grounds for the item are not in accordance with current practices.

The budget item based on the profits of the Finland's Slot Machine Association is used to fund both the war veterans' homes where the state has compensated 90 per cent of the funding for their establishment and the institutions established by the Disabled War Veterans' Association of Finland. There are no grounds for this division from the perspective of the state budget or payment of the compensations. The institutions funded from the item in question are in a special position compared with other rehabilitation institutions.

These war veterans' homes have preserved their special position regardless of the change in ownership. The special position also applies to the new institutions established by the war veterans' homes. The State Treasury decides on a case-by-case basis whether the service provider can supply services for disabled and other war veterans when the nature of operations changes. Making the decisions in this manner means that the equal treatment of institutions is put at risk.

The audit revealed that for the most part the compensation process administered by the State Treasury is not based on provisions but on case-by-case practices applied by the State Treasury. The State Treasury has said

that it subjects institutional care and rehabilitation services for disabled war veterans to a bidding process. The bidding process model used by State Treasury is not based on applying the public contract legislation but rather on allocating the available appropriations to war veterans' homes. When the bidding procedure was introduced in 1994, there was talk of adopting performance guidance, which in fact is a better description for the model. A calculated price is formed by service category, which is paid to the service provider, if it is lower than the price offered by the institution. If the price offered by the institution is lower, the price offered by the institution is paid. This procedure does not treat all bidders equally. If the institution offers a price that is lower than the calculated price, it may receive a smaller compensation than an institution with the same quality points that has submitted a bid with more expensively priced care days.

A caution concerning the procedure and other shortcomings in the procurement process was issued in the performance audit conducted by the State Treasury and published in 2001. Its probable that not all of the service providers submitting bids are aware of the procedure applied by the State Treasury.

The compensation paid by the State Treasury for institutional care is thus not based on the market price or actual costs but on calculative grounds that include actual previous care days, average differences between costs incurred for various disability ratings derived from the bidding prices and the available appropriations, which are increased in line with the general cost index.

The National Audit Office has stated in a performance audit report (Procurement of hospital services for disabled war veterans; 1/2001) that its understanding is that in the



implementation of the 1994 reform the emphasis has been on safeguarding the upkeep of the war veterans' homes rather than providing disabled war veterans with high-quality services that are efficient in terms of overall economics. This compliance audit has only strengthened this view. The procurement procedures of the State Treasury have remained essentially unchanged since 2001.

In a competitive bidding arranged in 2010, the war veterans' homes were only able to secure the bidding price in exceptional cases. The compensations paid to the war veterans' homes were thus based on calculated care day prices determined by the State Treasury.

Instead of bidding, the compensations are determined in a manner that under the Act on Funding Educational and Cultural Activities (1705/2009) applies to central government transfers for vocational basic training. If it is considered appropriate to pay this compensation as a central government transfer, appropriate legislation should be introduced. However, in that case it should be considered that central government transfers are based on actual costs and not the appropriation available.

Based on the audit results, the National Audit Office concludes that shortcomings concerning the payment commitment procedures of the State Treasury, quality assurance associated with the contract award procedure, auditing of institutional care and follow-up of care days were uncovered in the arrangements for the internal control of the compensation process. As a result, the National Audit Office is of the view that the State Treasury and the Ministry of Social Affairs and Health as the ministry steering the activities should take appropriate measures.

## Support granted to non-governmental organisations from development cooperation appropriations

In the 2012 state budget, the support for development cooperation carried out by non-governmental organisations were contained in a separate budget allocation table in item 24.30.66 (Actual development cooperation, three-year transferable appropriation) from which, according to the budget, support can be paid to development cooperation carried out by non-governmental organisations, Kepa (the umbrella organisation for Finnish non-governmental organisations) and for the provision of information on development cooperation.

A total of 103 million euros were allocated to this budget allocation table in the 2012 state budget. In 2011, the corresponding appropriation was 88 million euros, which was 17 per cent more than in the year before. Moreover, under the authorisations budgeted on the item, new development cooperation agreements and commitments resulting in expenditure after 2012 can be concluded during 2012. A total of 123.1 million euros in authorisations have been budgeted in the budget allocation table. In 2011, the authorisation under the same budget allocation table was 83.4 million euros, which means that the increase was almost 50 per cent.

In 2011, a total of 144 organisations received 85.1 million euros in grants. In 2012, a total of 197 organisations received 92.1 million euros in grants.

The compliance audit of the support granted to non-governmental organisations from development cooperation appropriations only covered the programme support and project support granted to partnership organ-

isations. The audit results have been reported as part of the financial audit of the Ministry for Foreign Affairs.

The aim of the audit was to establish whether the provision and payment of the grants, supervision of their use and the recovery had been in accordance with provisions and guidelines, whether the internal control of the grant process has been organised appropriately and whether the grants have been spent on the purpose for which they have been allocated and whether true and fair information on the use of the grants have been given.

The audit revealed that the provision and payment of the development cooperation grants, supervision of their use and their recovery had mostly been in accordance with provisions and guidelines.

The audit revealed that there are shortcomings concerning the transfer of the support and shortcomings concerning guidelines, selection and role of partnership organisations, use of project-specific audits and supervision of local partners in the organisation of the internal control of the process of providing development cooperation grants that require appropriate measures by the Ministry for Foreign Affairs.

The audit also revealed that deriving the purpose of the grant from the application may in some cases lead to problems concerning interpretation. Despite extensive guidelines, eligible expenditure has not been defined with necessary accuracy. The recognition principles of the proportions of general administrative expenditure included in the projects were not fully reliable and there were shortcomings in the monitoring of the working hours of the organisations. The Ministry for Foreign Affairs has imposed an extensive reporting obligation on the grant recipients. An auditor's opinion stating that the discretionary government transfers have been used in accordance with the terms and conditions laid down for the use of the grant and the provisions laid down for discretionary government transfers serves as the verification for true and fair information. However, the requirements concerning the scope and content of the audit have not been implemented in a uniform manner. Despite an opinion issued by the Accounting Board, the interpretation of the accrual principle in the transfer of grant funds to local partners is not on a uniform basis. The documentation of the change in purpose can be deemed as an appropriate procedure.

## 9.8 Current state of central government procurement

According to the central government accounts, central government procurement totalled about 6.3 billion euros in 2012. This amount included 1.1 billion in procurement of fixed assets. The aim of the National Audit Office has been to rectify shortcomings in procurement by auditing the procurement of both goods and services and all stages of the procurement process.

In 2012, the procurement procedures of eight accounting agencies were audited as part of financial audits. In one of the agen-

cies where the state of procurement was audited as part of the financial audits, the audits revealed shortcomings requiring action by the agency. The shortcomings concerned procurement procedures and documentation of the procurements.

In addition to audits, the experts at the National Audit Office have also promoted good procurement practices by arranging an ICT procurement forum in collaboration with the Ministry of Finance.

# 10 Abuses and complaints concerning central government finances and reports on abuses

**The National Audit Office is responsible for supervising that central government agencies deal with abuses in a proper and efficient manner**

The abuses come to the knowledge of the National Audit Office as a result of the audits conducted by NAO or as reports on abuses submitted by administrative actors in accordance with section 16 of the Act on the National Audit Office. Under section 16 of the Act on the National Audit Office, a central government authority, agency, state enterprise or a state fund must without delay and notwithstanding secrecy provisions report to the National Audit Office on abuses occurring in its activities that concern central government funds or assets.

Based on the reports and other information revealed in the audits, the National Audit Office monitors and examines abuses taking place in the central government and their impacts on central government finances and the measures taken in the central government to combat the abuses. Based on the monitoring of the abuses, the threshold of the authorities to report abuses or submit requests to investigate abuses involving their own activities must in some cases be considered too high. Requests for investigation and other appropriate measures after abuses have been revealed should be seen as part of effective internal control.

In 2012, central government agencies submitted reports on a total of 16 abuses, as required under law (compared with 22 in 2011). In 2012, central government agencies also reported seven other abuses to the National Audit Office (compared with 13 in 2011). These reports involved abuses that the agencies were not required under law to report to the National Audit Office but that they chose to report nevertheless. Most of these cases involved suspected abuse by recipients of government aid. The reports on abuses have concerned a broad range of different administrative sectors.

The National Audit Office must report an offence that it has observed in an audit and that involves the activities of a central government authority or agency, state enterprise or state fund or that involves assets that any of the above has managed or assets under its responsibility unless the auditee has reported the offence and the act can be considered of minor nature, considering the circumstances.

The National Audit Office did not report any offences during 2012. Below are some the abuses reported to the National Audit Office: On 18 June 2012, the Centre for Economic Development, Transport and the Environment for South Savo reported suspected gross misuse of the official position of a public servant. On 22 October 2012, the National Emergency Supply Agency reported an abuse concerning risky receivables in the sale of heavy fuel oil. The risk arose be-

cause the credit rating of the buyer had not been checked in connection with the transaction, which is in violation of the financial rules of the agency. On 23 November 2012, the Centre for Economic Development, Transport and the Environment for Lapland announced that it had requested the police to investigate a suspected abuse concerning the use of business subsidies.

The agencies administering EU aid also send copies of the notifications concerning the supervision of the aid to the National Audit Office.

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, Ministry of Agriculture and Forestry 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 20 reports on the year 2012 (compared with 43 reports on 2011). This total number comprises both new reports and follow-up reports.

The Ministry of Employment and the Economy has submitted to the National Audit Office the reports on irregularities concerning the European Regional Development Fund and the European Social Fund, as required under Commission Regulation (EC) No 1828/2006, as amended by Regulation (EC) No 846/2009 and Regulation (EU) No 832/2010.

A total of four reports concerning the European Regional Development Fund were submitted (compared with 13 on 2011). This total included three new reports and one follow-up report. The smallest irregularity amounted to 25,002 euros and the biggest 264,600 euros (in the reports on 2011, the corresponding amounts were 25,244 and 387,264 euros, respectively).

A total of two reports concerning the European Social Fund were submitted (compared with eight on 2011). This total included one new and one follow-up report. The smallest irregularity amounted to 38,802 euros and the biggest 51,709 euros (in the reports on 2011, the corresponding amounts were 17,772 and 114,949 euros, respectively).

For 2012, the Agency for Rural Affairs submitted to the National Audit Office a total of 13 reports in accordance with Commission Regulation (EC) No 1848/2006 and Commission Regulation (EC) No 1681/94, as amended by Regulation (EC) No 2035/05 (compared with 22 reports on 2011). This total included eight new reports and five follow-up reports. The smallest irregularity amounted to 28,782 euros and the biggest 280,736 euros (in the reports on 2011, the corresponding amounts were 11,385 and 200,000 euros, respectively).

The Ministry of Agriculture and Forestry has submitted to the National Audit Office one report on irregularities, as required under Commission Regulation (EC) No 1828/2006, as amended by Regulation (EC) No 846/2009 and Regulation (EU) No 832/2010. The report was a new one. The Ministry of Agriculture and Forestry had not submitted reports concerning the European Fisheries Fund to the National Audit Office in previous years. The irregularity reported by the ministry amounted to 220,778 euros.

The reports on abuses and the reports on irregularities submitted to the EU give some idea of the state of internal control. Internal control is the responsibility of the board of the agency and the top levels of its administration. Abuse can be prevented by emphasising the role of internal control in agencies. Under section 65 of the State Budget Decree, an accounting agency must include in its review of operations an assessment and statement of assurance of the state of internal

control and the most important development needs of internal control. The review of operations must also include a summary of the abuses and errors.

### **One complaint in five resulted in 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. A complaint may also be submitted on unlawful practices by state-owned companies. Separate complaints may also be submitted to the National Audit Office on the unlawfulness of election financing and financing of political parties on the basis of the Election Financing Act and the Act on Political Parties. A party may submit a complaint on a matter concerning itself but the complaint may also be submitted on behalf of others or jointly with other parties. The complaint must concern past activities or events. The National Audit Office does not have prior assessment as an area of responsibility. Thus, the National Audit Office does not investigate complaints that are solely directed at how a matter should be organised in the future or what would be politically the most appropriate approach.

During the year under review, the National Audit Office received a total of 55 complaints submitted by individual persons and organisations. In the previous year, the figure was 67. These complaints concern matters in which a body coming under the scope of audits conducted by the National Audit Office has, in the complainant's opinion, acted

in a wrongful or inappropriate manner. The complaints were roughly evenly distributed between the areas coming under the scope of audits of the National Audit Office. They concerned central government agencies, recipients of government support, state-owned companies and the use of EU funds.

The National Audit Office does not investigate complaints concerning matters that are more than two years old, unless there are specific reasons to do so. Ordinary citizens also send enquiries to the National Audit Office asking which authorities they should turn to with their problems. If the matter does not come under the responsibility of the National Audit Office, the citizens in question are referred to the appropriate authorities or other appropriate bodies.

In connection with the investigation of the complaints, the National Audit Office obtains the information it deems necessary from the appropriate authority. About 35 per cent of all complaints did not warrant any action on the part of the National Audit Office. In about 25 per cent of all complaints the National Audit Office did not have the competence to consider the matter. In many such cases, the complaint concerned the management of finances in municipalities or in Kela. In about 20 per cent of all decisions on complaints that it made during the year under review, the National Audit Office concluded that the matter has been looked into or that it will be examined in connection with audits. In about ten per cent of all cases, the National Audit Office required that a central government agency takes corrective measures so that the error or shortcoming can be eliminated. About ten per cent of all complaints were forwarded to other authorities (in many cases to ministries) for consideration. In such cases, the National Audit Office asked the ministry in question to provide information

on the measures that it has taken as a result of the complaint.

## Procurement-related complaints

A large proportion of the complaints concerned the procurement procedure of an authority or a state-owned company. The main attention of the complainant may have been on the correctness of the procurement procedure. The National Audit Office has also received complaints in which the procurement procedure is only one of the issues to be assessed.

The National Audit Office received two complaints in which criticism was levelled at the bidding on ferry services by the Centre for Economic Development, Transport and the Environment for Southwest Finland. In one of the complaints, the National Audit Office examined the procurement procedure in its entirety. In its decision, the National Audit Office expressed its opinion on whether the procurement procedure was in accordance with the procurement provisions. In the matter in question, it also assessed whether the planning of the procurement was in accordance with the Administrative Procedure Act, archipelago legislation, administrative steering and policy recommendations. In its decision, the National Audit Office concluded that it is questionable whether the ice navigation requirements of the ferries laid out in the invitation to bid were in accordance with the recommendations set out in the national archipelago policy programme. The National Audit Office also drew attention to the fact that the age of the vessel offered by the winning bidder for the route was not necessarily in accordance with the recommendations of the action programme referred to above. The National Audit Office also concluded in its

decision that in its contract review after the comparison between the bids, the contracting authority had made changes to the ice navigation requirements laid out in the invitation to bid that were in violation of the procurement provisions. This had an effect on the price of the procurement. In a complaint concerning the decision to stop the development of the joint central government records management system (VALDA), the National Audit Office also drew attention to the shortcomings in the planning and implementation of the project and the procurement procedure connected with it.

In one complaint, the National Audit Office drew attention to the use of special government grants by HUS-Röntgen. In its decision, the National Audit Office concluded, among other things, that the procurement of memory sticks as teaching material had involved a public servant whose related parties had links with the company supplying the products. HUS had also failed to observe its internal procurement guidelines in the purchase. In a complaint concerning the purchase of tablet computers for the use of the aviation services of the Finnish Transport Safety Agency Trafi, the National Audit Office also expressed its opinion on the obligation of an official organisation to observe its internal procurement guidelines. In its decision, the National Audit Office also examined whether it is permitted to deviate from the joint procurement obligation under the State Budget Act. In a complaint concerning the development of the forensic medical activities of the National Institute for Health and Welfare (THL), the National Audit Office drew THL's attention to the prerequisites for direct award in the purchasing of laboratory samples and the consideration of the prerequisites in the institute's future procurements.

In two complaint decisions, the Nation-

al Audit Office assessed the correctness of the procurement procedure of a state-owned company operating in accordance with business principles but which is outside the scope of the Act on Public Contracts. In one of the decisions, the National Audit Office drew the attention of Destia Ltd on ensuring that the content of the bids of the competitors of a company belonging to the related parties of a Destia employee may not become known to the first-named company. In this respect, the National Audit Office drew attention to the general ethical requirements concerning ownership policy and ownership steering laid out in the Government Resolution on State Ownership Policy of 3 November 2011 and the principle of fair and open competition set out in the ethical guidelines of the civil engineering sector of 25 April 2005.

The National Audit Office also examined the procurement concerning the competitive bidding of the opinions on start-up grants by the Centre for Economic Development, Transport and the Environment for South Ostrobothnia as a complaint to the extent that the complainant had in its complaint referred to matters concerning the appropriateness of the procurement on which the Market Court had not expressed opinion in its final decision in the matter.

The competence of the Market Court, which considers the complaints concerning public procurements and the procurement decisions concerning them, is limited to the assessment of the procurement procedure on the basis of the Act on Public Contracts. As detailed above, in its decisions on complaints, the National Audit Office has examined the procurement by different authorities and state-owned companies from a much broader normative perspective. In this respect, the National Audit Office has examined legal issues that would otherwise

be difficult to control by means of official action and for which there are few precedents that authorities can rely on when making decisions. In its decisions, the National Audit Office has also expressed opinions on the correctness of the procurement procedure of companies operating in a market-based manner and that are outside the scope of the Act on Public Contracts.

## Nuuksiokeskus

On 27 December 2012, the Office of the Chancellor of Justice transferred the matter concerning the funding of Nuuksiokeskus Ltd to the National Audit Office for consideration. The matter had already been examined by the Ministry of Finance. The aim of Nuuksiokeskus Ltd has been to build the Nature Centre Haltia in the Nuuksio National Park in Espoo.

In its opinion, the National Audit Office suggested that Metsähallitus and the Ministry of the Environment should jointly examine how the problems concerning the planning work have contributed to the increase in the project construction costs and which of the parties involved in the project is responsible for the cost increases. The National Audit Office also proposed that in the competitive bidding for projects of this type that involve novel solutions consideration should already in the project planning stage be given to the possibility that changes may have to be made in the project during the contract period.

In the view of the National Audit Office, project budgeting has not been entirely successful and the risks concerning the adequacy of the project appropriation have not been clear from the appropriation proposals and the grounds for them. The National Au-



dit Office also drew attention to the fact that overall project budgets—in this particular case and in general—should from the outset be planned so that the expenses generated by the project could be covered with budgeted funds. In the opinion of the National Audit Office, complex project management arrangements have been one factor behind a wrongly sized project budget. The National Audit Office also drew attention to the fact that for the future, it would be appropriate to examine whether the financial risks of such joint projects could be arranged in a more balanced manner from the point of view of the state owner.

## Other complaints

The National Audit Office examined a complaint that concerned the closure of the Training Air Wing of the Finnish Air Force at Kauhava as part of the defence forces reform. The complainant was particularly critical of the calculations concerning the closure plan and considered them as vague, deficient and intentionally oversized or undersized and even misleading. In its decision, the National Audit Office concluded that the Ministry of Defence had provided a sufficiently comprehensive justification for closing the Training Air Wing. NAO also concluded that, to the extent that it is the question of observance of the legislation on central government finances and the preparation of calculations presented as a basis for decision-making, there were not essential shortcomings in the consideration of the complaint that pertained to the preparation of the closure decision. Finally, the National Audit Office concluded in its decision that in the future, the Ministry of Defence and the Finnish Defence Forces should set clear economic efficiency objec-

tives for their decisions and assess their likely cost impacts. The benefits to be achieved should already be examined as extensively and reliably as necessary when strategy decisions are made.

The other complaints considered by the National Audit Office included a complaint concerning the workers' housing in Billnäs and Fiskars, which is of significant cultural history value. The complainant was dissatisfied with the manner in which the Housing Finance and Development Centre of Finland had acted in connection with the lifting of the Arava restrictions applying to the housing in question. The complainant was also dissatisfied with the manner in which the State Treasury had acted in the matter. In its decision, the National Audit Office concluded that the authorities in question had not acted unlawfully or otherwise inappropriately in the matter.

# 11 Key audit findings by administrative sector

## 11.1 Office of the President of the Republic

### Current state of the administration on the basis of the audits

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

According to the financial audit, the budget and the key budget provisions have been complied with. The information describing operational efficiency presented in the final accounts were considered true and fair in the audit.

## 11.2 Prime Minister's Office

### Current state of the administration on the basis of the audits

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

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.

It was found out in the financial audit of the Prime Minister's Office that there are shortcomings in the organisation of performance accounting, as a result of which the Prime Minister's Office should take measures.

The performance audit 7/2013 (Good governance model in special assignment companies and in their ownership steering), discussed in chapter 7.4, and the performance audit 18/2012 (Government's legislative plan) also covered the Prime Minister's Office.

The follow-up to the performance audit 212/2010 (Policy programmes as steering instruments–health promotion programme as an example) also covered the Prime Minister's Office. This follow-up is discussed in chapter 7.1.

## 11.3 Administrative sector of the Ministry for Foreign Affairs

### Current state of the administration on the basis of the audits

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

The qualified opinion on regularity contained in the financial audit report on the Ministry for Foreign Affairs concerned the organisation of performance accounting. The shortcomings 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 financial audit revealed shortcomings in internal control as a result of which the ministry should take measures. The shortcomings concerned the organisation of performance accounting, transfer of grants provided for development cooperation carried out by certain non-governmental organisations, guidelines, selection and role of partnership organisations and the organisation of internal control connected with the use of project-specific auditing and supervision of local partners. The procedures concerning the provision of grants for development cooperation carried out by non-governmental organisations were audited in the compliance audit conducted in connection with the financial audit. The compliance audit is discussed in more detail in chapter 9.7 of this report (Current state of the administration and supervision of government aid and support).

The performance audits 12/2013 (Steering system in the administrative sector of the Ministry for Foreign Affairs), discussed in chapter 7.2 and 9/2013 (Military crisis management) also covered the administrative sector of the Ministry for Foreign Affairs.

### Military crisis management

The main question raised in the audit 9/2013 was whether the military crisis management steering procedures had supported an effective implementation of military crisis management. In the audit, the National Audit Office examined goal-setting and reporting in military crisis management, consultation of the Parliament, financial planning and monitoring and procurement procedures and the implementation of comprehensive crisis management. The audit did not set out to evaluate the success of crisis management operations.

Between 2000 and 2012, the Finnish government spent more than one billion euros in budget appropriations on military crisis management. In the 2013 state budget, a total of 123 million euros was allocated to military crisis management, of which some 63 million euros (51%) in the main title of the Ministry for Foreign Affairs' administrative sector, and some 61 million euros in the main title of the Ministry of Defence's administrative sector.

On the basis of the audit findings, the National Audit Office concluded that, while the military crisis management steering procedures function fairly well they could be substantially improved. The improvements

would also support the successful implementation of military crisis management.

The objectives for military crisis management should be set more clearly. Based on documents submitted to the Parliament, it is difficult to conclude why participation in a specific operation is important and how it is significant to Finland's crisis management activities as a whole. The vagueness of the objectives also makes it difficult to assess performance and to compile performance reports.

The Government has consulted the Parliament on participation in operations by providing it with reports. The information content of the reports should be developed by presenting the objectives and risk assessments of the operations and the financial information on them in a clearer and more analytical manner.

The crisis management operations selected for the audits have been provided with adequate financial guidelines. In connection with incidental operations, the National Audit Office also audited the contract award procedure for the vessel service contract in operation Atalanta. According to the audit, the contract award procedure had not been in compliance with the Act on Public Contracts or carried out in a manner that would have ensured efficient use of public funds, one of the objectives set out in the act.

The Government has only partially implemented the measures aimed at developing comprehensive crisis management set out in its strategy. However, a framework for promoting a comprehensive approach does exist.

## 11.4 Administrative sector of the Ministry of Justice

### Current state of the administration on the basis of the audits

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

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

The performance audit 18/2002 (Government's legislative plan) also covered the administrative sector of the Ministry of Justice.

## 11.5 Administrative sector of the Ministry of the Interior

### Current state of the administration on the basis of the audits

There were four accounting agencies in the administrative sector of the Ministry of the Interior in 2012: the ministry itself, the Finnish Immigration Service, the Emergency Services College and the National Police Board. For the 2012 fiscal year, the National Audit Office submitted financial audit reports of the four accounting agencies, ICT Agency HALTIK, the Emergency Response Centre Administration and the Finnish Border Guard.

The qualified opinion on regularity contained in the financial audit of the Finnish Immigration Service concerned the allocation of an appropriation in a manner that was not in accordance with the budget.

The economic efficiency and productivity targets set by the ministry for itself and the other accounting agencies were considered adequate. The information on economic efficiency and chargeable services provided by all four accounting agencies was considered true and fair. Except for the National Police Board, the productivity information 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 sector of the Ministry of the Interior and the true and fair final account information on them, the conclusion is that the ministry, the Emergency Services College and the Finnish Immigration Service are guided by adequate economic efficiency and productivity targets and base their reporting on true and fair information.

The performance audit 19/2012 (Steering system in the administrative sector of the Ministry of the Interior) also covered the administrative sector of the Ministry of the Interior. The audit is discussed in chapter 7.3.

## 11.6 Administrative sector of the Ministry of Defence

### Current state of the administration on the basis of the audits

There were three accounting agencies in the administrative sector of the Ministry of Defence in 2012: the ministry itself, the Finnish Defence Forces and the Construction Establishment of Defence Administration.

The qualified opinion on regularity contained in the financial audit of the Finnish Defence Forces concerned the exceeding of the 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 shortcomings also resulted in the imposition of a reporting obligation.

The financial audit report on the Finnish Defence Forces also contained a caution concerning the carrying over of a budget authorisation.

The conclusion made in the financial audits was that adequate economic efficiency targets had been set for the ministry and the Construction Establishment of Defence Administration. The productivity targets set for the Finnish Defence Forces and the Construction Establishment of Defence Administration were considered adequate.

The information on economic efficiency and productivity presented by the ministry and the Construction Establishment of Defence Administration in their financial accounts were 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 agency 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 sector 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 appropriate performance guidance arrangements.

The performance audit 9/2013 (Military crisis management), discussed in chapter 11.3 under the administrative sector of the Ministry for Foreign Affairs, also covered the administrative sector of the Ministry of Defence.



## 11.7 Administrative sector of the Ministry of Finance

### Current state of the administration on the basis of the audits

In addition to the ministry itself, there were a total of nine accounting agencies in the administrative sector of the Ministry of Finance in 2012. 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 agencies in the administrative sector are as follows: State Treasury, Statistics Finland, the Finnish Government Shared Services Centre for Finance and HR, the Government Institute for Economic Research, Regional State Administrative Agency for Southern Finland, State Department of Åland and the Population Register Centre.

The National Audit Office issued financial audit reports on all ten accounting agencies.

Three financial audit reports in the administrative sector of the Ministry of Finance contained a qualified opinion on regularity. The qualified opinion on regularity contained in the financial audit report of the Ministry of Finance concerned the organisation of performance accounting. The qualified opinion on regularity contained in the financial audit report of Statistics Finland concerned the use of an appropriation contrary to the budget and the qualified opinion on regularity included in the financial audit report of the Finnish Customs the preparation of balance sheet specifications verifying the final accounts.

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. Both the above accounting agencies and the Government Institute for Economic Research were also considered to have adequate productivity targets.

The information on economic efficiency provided by all accounting agencies in the administrative sector were considered true and fair. Except for the ministry, the productivity information was found to be true and fair in all accounting agencies of the administrative sector. All nine accounting agencies 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 economic efficiency and productivity targets for the administrative sector 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 economic efficiency and productivity targets and base their reporting on true and fair information.

In addition to the ministry, six accounting agencies were found to have such internal control shortcomings that require measures on part of the auditee.

The compliance audit of the budgeting, monitoring and reporting on authorisations is discussed in chapter 9.3 and the compliance audit of tax revenue in chapter 9.5.

The performance audits 1/2013 (Customs' role in combating the shadow economy) and 5/2013 (Success of tax auditing activities), discussed in chapter 4, and the performance audit of the state IT shared service centres, discussed in chapter 7.5, also covered the administrative sector of the Ministry of Finance. The follow-up to the performance audit 225/2011 (Government premises and group steering in the administrative sectors of the Ministry of Justice, Ministry of Employment and the Economy and the Ministry of Finance) also covered the administrative sector of the Ministry of Finance. The follow-up is discussed in chapter 2.2.

The following fiscal policy audits also covered the administrative sector of the Ministry of Finance: Information supplied to Parliament on European financial stability arrangements (16/2012), Relation between the Government Programme and the spending limits procedure (17/2012), Interim fiscal policy audit report on the 2011–2014 parliamentary term (K2/2013), and a separate report on the audit of the final central government accounts for the 2012 fiscal year and on the audit of the Government's annual report (K 14/2013 vp., chapter 4, spending limits procedure and knowledge base for fiscal policy).

## Development of identification services

The follow-up to the performance audit 161/2008 (The development and use of identification services in the public administration) also covered the administrative sector of the Ministry of Finance. The development and use of identification services in the public administration, the focus area of the 2008 audit, is a key element in public sector electronic services. The main finding in the audit was that in the public administration, identi-

fication services have been developed on the basis of the requirements of each individual actor, which has resulted in overlapping and inefficient solutions. The reason for this is the lack of adequate overall coordination in the development of central government IT operations.

In the follow-up to the audit in question, it was found out that the dismantling of overlapping solutions and the development of overall coordination is making only slow progress. At the moment, the planning of the national identification solution is linked with the project involving the planning of the national service bus architecture. One proposed solution has been the distribution of citizen qualified certificates to all citizens free of charge. In this connection, it should be remembered that free distribution of citizen qualified certificates could distort the certificate markets, which would be in violation of the proposal for amending the Competition Act (section 30 a), which is being considered by the Parliament.

A number of major risks were discovered in the follow-up, particularly in the development of organisational identification services. The role identification service, offered by the National Board of Patents and Registration, would allow the checking of a person's role entered in the trade register. However, not all roles connected with electronic services or all associations are part of the registers kept by the National Board of Patents and Registration. At the moment, the Finnish Tax Administration is the only central government actor that develops and maintains an organisational identification service (Katso identifier) that in addition to the registers of the National Board of Patents and Registration also covers other associations and roles. The service in question involves both information security risks and legislative challenges.

Under the Act temporarily amending the Act on the Tax Administration (1414/2010), section 2 a was added to the Act on the Tax Administration (503/2010). Under the new section, the Finnish Tax Administration is authorised to maintain an electronic identification service. The service allows authorities or other parties providing public sector duties to identify an organisation and a person representing it when carrying out the public sector task. The act will remain in force until 31 December 2013. There are plans to extend the act by two or three years. Temporary legislative amendments help to buy time but they do not provide a sustainable solution.

The purpose of the Act on Information Management Governance in Public Administration (634/2011) is to make the public administration more efficient and improve public services. Under the act, the overall steering of the information management of the public authorities is the responsibility of the Ministry of Finance. Provisions on joint information-technology solutions required for implementing electronic transactions and that interact with transaction services and on the extent of use of these solutions may be given by Government decree. The act has not yet been applied to identification services.

## 11.8 Administrative sector of the Ministry of Education and Culture

### Current state of the administration on the basis of the audits

In addition to the ministry itself, there were a total of six accounting agencies in the administrative sector of the Ministry of Education and Culture in 2012. The National Audit Office issued financial audit reports on all accounting agencies for the 2012 fiscal year.

The financial audit reports on three accounting agencies contained a qualified opinion on regularity. The qualified opinions on regularity contained in the financial audit reports on the National Archives and the Finnish National Gallery concerned the allocation of expenditure on the fiscal year and the carrying over of an appropriation in violation of the State Budget Act. The qualified opinion on regularity contained in the financial audit report on the National Board of Education concerned commitment to an expenditure item and a use of an appropriation contrary to 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, the Governing Body of Suomenlinna and the Finnish National Gallery. Only the productivity targets set for the National Board of Education and the Governing Body of Suomenlinna were considered adequate.

Except for the ministry itself and the Finnish National Gallery, the financial audit information on economic efficiency and productivity of all accounting agencies was considered adequate. Except for the Finnish Na-

tional Gallery and the National Board of Education, all seven accounting agencies engaged in chargeable services provided true and fair information on their chargeable services and their results for the fiscal year.

When the state of performance guidance is assessed on the basis of the setting of economic efficiency and productivity targets for the administrative sector 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 agency 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 agencies.

Three accounting agencies in the administrative sector of the Ministry of Education and Culture were found to have such internal control shortcomings that require measures on the part of the auditees. The shortcomings were caused by deficiencies in the management and organisation of accounting and performance accounting.

The performance audit 8/2013 (Special needs education in basic education), discussed in chapter 5.2, also covered the administrative sector of the Ministry of Education and Culture.

## 11.9 Administrative sector of the Ministry of Agriculture and Forestry

### Current state of the administration on the basis of the audits

In addition to the ministry itself, there were a total of eight accounting agencies in the administrative sector of the Ministry of Agriculture and Forestry in 2012. Financial audit reports were submitted for all accounting agencies.

The qualified opinion on regularity contained in the financial audit report of MTT Agrifood Research Finland concerned the allocation of an appropriation in a manner that was contrary to the budget.

Except for the ministry, the economic efficiency targets set by the ministry are, according to the financial audits, adequate in all accounting agencies, while the productivity targets are adequate in four accounting agencies. The economic efficiency and productivity information were found to be true and fair in all accounting agencies of the administrative sector. The information on chargeable services provided by all eight accounting agencies engaged in such services were 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 sector of the Ministry of Agriculture and Forestry and the true and fair final account information on them, the conclusion is that four accounting agencies in the administrative sector 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 agencies, except for the ministry itself.

The performance audit 4/2013 (Administration of agricultural subsidies), discussed in chapter 8.1, also covered the administrative sector of the Ministry of Agriculture and Forestry.

## 11.10 Administrative sector of the Ministry of Transport and Communications

### Current state of the administration on the basis of the audits

In addition to the ministry itself, there were a total of four accounting agencies in the administrative sector of the Ministry of Transport and Communications in 2012.

The cautions contained in the financial audit reports on the administrative sector of the Ministry of Transport and Communications led to qualified opinions on regularity in three financial audit reports. The qualified opinion on regularity contained in the financial audit report on the Ministry of Transport and Communications concerned the allocation of expenses to the fiscal year. The qualified opinion on regularity contained in the financial audit report on the Finnish Transport Agency was a result of procedures that were contrary to the budget and in violation of the State Budget Act. These concerned the authorisation procedure, consideration of certain revenue items in the budget and in the budget follow-up, allocation of expenditure to the fiscal year and the organisation of performance accounting and internal control. The qualified opinion on regularity contained in the financial audit report on the Finnish Communications Regulatory Authority concerned the allocation of an appropriation in a manner that was not in compliance with the budget.

The reporting obligation contained in the financial audit report on the Finnish Transport Agency concerned the measures required by compliance with the budget and the key budget provisions and shortcomings in internal control.

Cautions concerning the budget procedure were issued in the financial audit reports on

the ministry and the Finnish Transport Agency. The cautions concerned the inclusion of unjustified revenue in the budget and the presentation of authorisations in the budget.

According to the financial audits, economic efficiency targets were only adequate in the Finnish Transport Agency and the Finnish Communications Regulatory Authority, while the productivity targets were considered adequate in all accounting agencies of the administrative sector. The information on economic efficiency was considered true and fair in all accounting agencies, except for the ministry and the Finnish Transport Agency. At the same time, the view was that all accounting agencies in the administrative sector had provided true and fair productivity information. Except for the Finnish Transport Agency, the information on chargeable services was considered true and fair in all accounting agencies providing chargeable services.

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

The ministry itself and the Finnish Transport Agency were found to have such internal control shortcomings that require meas-

ures on the part of the auditees. This was due to shortcomings in the manner in which the monitoring of authorisations, accounting and performance accounting were organised. Based on the audit findings, the conclusion was that the Finnish Transport Agency should also pay attention to the organisation of internal control in the manner required under section 69 of the State Budget Decree.

A performance audit of traffic safety (6/2013), discussed in chapter 6, covered the administrative sector of the Ministry of Transport and Communications.

### **Grounds for implementing transport infrastructure projects**

A follow-up to the performance audit of the grounds for implementing transport infrastructure projects (211/2010) also covered the administrative sector of the Ministry of Transport and Communications. According to the audit, which was completed in 2010, improvements are needed in such areas as the quality assurance and documentation of the transport infrastructure feasibility calculations, monitoring of the accuracy of the transport infrastructure cost-benefit calculations, updating of transport infrastructure assessment guidelines, assessment of the requirements for measures concerning Finland's transport network as a whole and the presentation of the assessment results and the preparation of the decisions concerning the implementation of the projects.

The information obtained in the follow-up indicates that there have been significant improvements in the matters and functions concerning the grounds for infrastructure projects that were raised in the audit. For example, the general guidelines for assessing transport infrastructure projects have been updated. However, there are matters that

still need to be monitored or that need to be examined in the future. The process of preparing and justifying transport infrastructure projects and the feasibility of the measures and requirements concerning the transport infrastructure as a whole have been inadequately clarified and for this reason a new audit covering them should be conducted or they should be examined as part of a more extensive audit.

Moreover, the follow-up findings showed that it is difficult to develop effective evaluations of different transport policy tools in the manner set out in the current Government Programme or in the way required by the Ministry of Transport and Communications. For example, there has been little progress in the field of concrete measures concerning the development of project evaluation. The aim has been to develop a framework allowing consideration of the economic impacts of the projects and their impacts in the field of employment, emissions, discharges and regional policy in project evaluation. The aim has also been to develop planning procedures in accordance with transport system thinking so that before any transport infrastructure projects are initiated, consideration would be given to a range of measures that could help in the solution of traffic problems. Transport infrastructure projects are only one transport policy instrument in this area. However, infrastructure development projects are the only transport policy instrument for which such feasibility assessment methods have been developed. In this case, the risk is that the overall resources made available to the transport administration are used in an inappropriate or inefficient manner when for example it is decided to use other transport policy instruments instead of highly feasible infrastructure projects and the use of the other instruments is not justified in the same way.

## 11.11 Administrative sector of the Ministry of Employment and the Economy

### Current state of the administration on the basis of the audits

In addition to the ministry itself, there were a total of 12 accounting agencies in the administrative sector of the Ministry of Employment and the Economy in 2012. Financial audit reports were submitted for all accounting agencies.

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 financial audit report on the ministry concerned the placing of revenue on an expenditure item, which is in violation of section 3 a of the State Budget Act, carrying over of an authorisation and the organisation of performance accounting. The Centre for Economic Development, Transport and the Environment for South Savo acts as an accounting agency that comprises a total of 15 ELY Centres. The qualified opinion on regularity contained in the financial audit report on the ELY Centre in question concerned the allocation of expenditure to the fiscal year, carrying over of an appropriation in violation of the State Budget Act, the use of an appropriation in a manner that is not compliance with the budget, allocation of authorisation to the fiscal year and the verification of certain expenses. The qualified opinion on regularity contained in the financial audit report on the National Board of Patents and Registration resulted from the processing of certain revenue items in the monitoring of the budget.

A reporting obligation was added to the financial audit reports on the ministry, ELY Centre for South Savo and the National Board of Patents and Registration. The reporting obligation imposed on the ministry again concerned the organisation of performance accounting. The reporting obligations of the other accounting agencies concerned shortcomings in accounting, monitoring of authorisations and the organisation of performance accounting.

The financial audit report on the Ministry of Employment and the Economy contained a caution on budget procedures, which concerned the budgeting of balance sheet items connected with the hedging of loans.

According to the financial audits, the economic efficiency and profitability targets set by the ministry for five of its accounting agencies were considered adequate. All accounting agencies, except for the ministry itself, were deemed to have presented true and fair information on economic efficiency and productivity. All accounting agencies providing chargeable services, except for the ministry itself and the ELY Centre, were deemed to have presented true and fair figures for chargeable services and their profitability.

When the state of performance guidance is assessed on the basis of the setting of economic efficiency and productivity targets for the administrative sector of the Ministry of Employment and the Economy and the true and fair final account information on them, the conclusion is that three accounting agencies are guided by adequate economic efficiency



targets and base their reporting on true and fair information. In the field of economic efficiency and productivity, the same applied to five accounting agencies.

In three accounting agencies, the financial audit revealed shortcomings in internal control that require measures on the part of the auditees. The shortcomings concerned the management of accounting and monitoring of authorisations and the organisation of performance accounting.

A performance audit of rehabilitation as a means of lengthening working careers (2/2013), discussed in chapter 5.1, also covered the administrative sector of the Ministry of Employment and the Economy.

## 11.12 Administrative sector of the Ministry of Social Affairs and Health

### Current state of the administration on the basis of the audits

In addition to the ministry itself, there were a total of four accounting agencies in the administrative sector of the Ministry of Social Affairs and Health in 2012.

According to the financial audits, the Ministry of Social Affairs and Health had only set adequate economic efficiency targets for one accounting agency in its administrative sector. There were still no productivity targets for any of the accounting agencies in the administrative sector.

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

When the state of performance guidance is assessed on the basis of the setting of economic efficiency targets for the administrative sector of the Ministry of Social Affairs and Health and the true and fair final account information on them, the conclusion is that only one accounting agency is guided by adequate economic efficiency targets and bases its reporting on true and fair information.

The compliance audit of the compensation for the costs of the institutional care of disabled war veterans is discussed in chapter 9.7.

A performance audit of rehabilitation as a means of lengthening working careers (2/2013), discussed in chapter 5.1, also covered the administrative sector of the Ministry of Social Affairs and Health.

## 11.13 Administrative sector of the Ministry of the Environment

### Current state of the administration on the basis of the audits

There were three accounting agencies in the administrative sector of the Ministry of the Environment in 2012: the ministry itself, the Finnish Environment Institute and the Housing Finance and Development Centre of Finland.

The ministry has set economic efficiency targets for the Housing Finance and Development Centre of Finland and the Finnish Environment Institute. According to the financial audits, the productivity targets set by the ministry are not adequate. According to the audits, the economic efficiency and productivity figures presented by the ministry and the accounting agencies in its administrative sector are true and fair. Only the Finnish Environment Institute was required to present figures for chargeable services and the information was deemed true and fair.

When the state of performance guidance is assessed on the basis of the setting of economic efficiency targets for the administrative sector of the Ministry of the Environment and the true and fair final account information on them, the conclusion is that two accounting agencies are guided by adequate economic efficiency targets and base their reporting on true and fair information.

### Role of the state in increasing the supply of lots and creating a more compact urban structure

A follow-up to the performance audit 208/2010 (Role of the state in increasing the supply of lots and creating a more compact urban structure) covered the administrative sector of the Ministry of the Environment. Particularly in the Helsinki Metropolitan Area, an inadequate supply of reasonably priced housing may stifle economic growth and pose a risk to individual households. At the same time the fragmentation of the urban structure at the edges of growth centres means longer trips for commuters and more environmental pollution.

According to the audit findings, the state lacks a strategic and cross-administrative approach in the efforts to increase the supply of lots and the creation of a more compact urban structure. For example, the state has a number of aid schemes, in which the risk is that the development goes to opposite direction.

There are many factors influencing the urban structure and the supply of lots and it is difficult to change them overnight. The follow-up findings indicate that even though no significant changes have taken place, there are trends that are taking matters in the right direction. First all, property taxation has been used as an instrument for encouraging construction in unbuilt and planned areas allocated for detached housing, which are plentiful in the Helsinki Metropolitan Area. Construction at existing lots would be beneficial

in socio-economic terms because these lots are usually located within existing urban areas equipped with the necessary infrastructure.

Secondly, new agreements on land use, housing construction and transport infrastructure (MAL agreements) help to accommodate the needs of land use, housing production and development of transport infrastructure in four densely populated areas in different parts of Finland. The inclusion of transport infrastructure projects raises hopes that municipalities would become more committed to the agreements. For example, the letter of intent on housing production in the Helsinki Metropolitan Area for 2008–2012 did not lead to an increase in housing construction in the surrounding municipalities.

In the audit, attention was drawn to the socio-economic costs of an increasingly fragmented urban structure, which mainly result from the maintenance of infrastructure and

provision of basic services within the fragmented structure. The follow-up indicates that more effective steering by the Ministry of the Environment is the only new tool that has been introduced to tackle the issue. In a positive development, there seems to be more awareness of the impacts of the urban structure as municipalities have recognised the repair backlog in the urban infrastructure.

Municipal planning officials play a central role in providing a basis for housing and land use. Cooperation between municipalities in growth centres within the framework of the municipal reform or other mechanisms is essential to ensuring production of reasonably priced housing and a more compact urban structure.

## 12 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 operates as an independent body in connection with the Parliament. The aim of the National Audit Office is to ensure that central government finances and fiscal policy and the financing of elections and 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 public sector finances are built on the results of different types of audit (fiscal policy, financial, compliance and performance audits). The National Audit Office is also responsible for supervising the financing

of parties and elections. The year under review saw the drafting of national legislation on the implementation of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (Fiscal Stability Treaty). Under the same legislation, Finland is also implementing the provisions of the budgetary framework directive of the European Union (2011/85/EU). The National Audit Office took part in the preparation of the implementation as an expert body. Under the legislation in question, the National Audit Office will act as the independent body monitoring and assessing fiscal policy referred to in the Fiscal Stability Treaty and the budgetary framework directive of the European Union. The National Audit Office created the prerequisites for carrying out this supervisory task.

### 12.1 The effectiveness of the National Audit Office has increased during the strategy period 2007–2012

The year under review was the last year of the National Audit Office's strategy period which covered the years 2007–2012. The National Audit Office has been highly successful in implementing the strategy, particularly in the reporting to the Parliament and auditing themes comprising different audit subjects. Reports were submitted on nearly all auditing themes. There has been a clear strengthening of the National Audit Office's role as an actor consolidating the fiscal and legislative powers of the Parliament and as a supporter of the Parliament in its role as a

provider of opinions during the strategy period. The Parliament has issued a number of important opinions and required the Parliament to take action on the basis of the auditing reports. Legislative and development projects have also been initiated on the basis of the findings and recommendations of the National Audit Office.

During the year under review, the strategic performance target of the National Audit Office was to promote effective and high-quality management of central government finances.

In its external audit of central government finances, the National Audit Office verified the accuracy of the final accounts of the central government and its accounting agencies, compliance with the state budget and the key provisions of the budget legislation and the functioning of internal control. This helps to establish fundamental trust in Finnish central government finances. In a financial crisis such trust alone is of clear economic value. The reliability of basic financial information also provides a foundation for a successful drafting of fiscal policy and steering and management of central government finances and other central government activities. In financial audits, the emphasis has been on economic efficiency and productivity and internal control providing a basis for good governance. As a result of the financial audits and the advisory work carried out in connection with them, there has been an improvement in the state of the central government accounting. The number of central government accounting agencies issued with a qualified opinion on regularity decreased during the 2007–2012 strategy period. At the same time, the cautions issued to individual agencies cover a large number of matters.

Compliance audits, which are separate from financial audits, allow the National Audit Office to take a more extensive and in-depth look at the legality of central government finances and the implementation of the principles of good governance in financial management from the viewpoint of development. In practice, compliance audits have become a tool for developing administration and financial management. A concrete example of this is the Government proposal on amending the act on the grants provided from the proceeds of the Finland's Slot Machine Association (HE 11/2013 vp.) in which consideration has been given to many of the

recommendations presented by the National Audit Office in its compliance audits.

During the year under review, the emphasis in performance audits has been on issues concerning the effectiveness, quality, funding and steering of the public services available to ordinary citizens. The audits have concerned such issues as the management of employment, traffic safety, special needs education in basic education, combating of the shadow economy, functioning of steering systems and the management of state assets. Some of the performance audits have, in addition to helping to achieve administrative improvements, generated a lively public debate, which in the long term makes citizens more involved in public matters and strengthens trust in the management of the public sector finances and the functioning of democracy. The National Audit Office systematically monitors the action taken as a result of the opinions presented in performance audits. A total of 76 per cent of the recommendations submitted by the National Audit Office are implemented, in whole or in part. A total of 24 per cent of the recommendations did not lead to any action or only resulted in minor changes. Especially information system projects and the legislation concerning them made slower-than-expected progress, which is also seen in the implementation rate of the recommendations.

During the past few years, performance audits have often focused on the knowledge base of the decision-making and on promoting knowledge-based decision-making. Only a small proportion of the recommendations concerning the knowledge base of decision-making and knowledge-based policy preparation has been implemented. According to the follow-ups to the performance audits, problems have arisen in providing decision-making with a knowledge base and

access rights to datasets and registers. According to the findings, practical implementation of a knowledge-based decision-making model is therefore difficult.

The quality of legislation and law drafting from the perspective of central government finances is a permanent audit area of the National Audit Office. Performance audits focus on these areas. According to the feedback from permanent secretaries, the audits have supported development work and provided those involved in the law drafting process with more motivation.

In performance audits, fiscal policy audits and (to some extent) in compliance audits, the National Audit Office has emphasised the aspect of smoothly functioning competition and focused on obstacles to competition in government support, legislation, public sector practices and ICT activities. In many of these areas, competition authorities lack clearly defined or adequate powers. Smoothly functioning competition is of great importance to ordinary citizens. Lack of competition means higher prices, reduces innovation incentives and, consequently, decreases productivity and slows down economic growth. Smoothly functioning competition gives citizens and consumers more choice. Smoothly functioning competition is also a practical requirement for efficient and effective use of information management and ICT, which also indirectly impacts the quality of the services available to ordinary citizens.

In the fiscal policy audits conducted in 2012, the focus was on verifying the accuracy of the information on the European fiscal stability arrangements and their risks provided to the Parliament. The audits have helped to improve the quality of the information provided to the Parliament and strengthen trust in the ability of the Parliament to influence developments and, consequently, in the

functioning of the Finnish democracy. The second theme has concerned the assessment of the relationship between the Government Programme and the spending limits procedure. The findings of the National Audit Office in this area have become key factors in the development of the Government's steering and management systems.

In its role as an international expert, the National Audit Office has contributed to the development of environmental reporting, national indicators, government debt reporting and public sector final accounts reporting. As regards the introduction of the European Public Sector Accounting Standards (EPSAS), the National Audit Office has, in collaboration with other accounting agencies, helped to ensure that there are cost-effective European tools for increasing the openness of the reporting on the financial position of the public sector and the quality of final accounts information. This is a requirement for accountability and market discipline ensuring responsible finances.

The year 2012 saw both the election of the President of the Republic and municipal elections. The processing of the disclosures of municipal election financing and the supervision of the election financing involved a great deal of work. A total of 5,008 advance disclosures were published and a total of 19,070 persons were obliged to disclose their election financing. For processing the disclosures of election financing, a large number of National Audit Office staff members worked extra hours. As regards the supervision of election financing and supervision of financing of political parties, the National Audit Office is preparing to carry out an urgently needed upgrading of its information systems. In the field of election financing disclosures, the National Audit Office was actively cooperating with political parties in order to en-

sure that disclosers would submit them after receiving two reminders. A total of 2,895 disclosers had failed to submit disclosures by the deadline laid down in the Election Financing Act. In addition to sending letters, the National Audit Office was also in contact with disclosers by telephone, by e-mail and through parties and their district organisations and, ultimately, through bailiffs. However, there were cases in which the National Audit Office had to start the process of imposing a penalty payment as not all disclosers submitted the disclosure despite several contacts. A total of 191 disclosers were sent a notification of a process stage and of the opportunity to be heard in connection with the notification of the imposition of a penalty payment. The National Audit Office obliged a total of 27 disclosers to submit an election financing disclosure on pain of a fine.

During the year under review, new values were prepared and approved for the National Audit Office. They will steer all auditing, supervision and expert activities of NAO, interaction between NAO on the one hand and the auditees and stakeholders on the other, and the internal activities of NAO. All staff members were involved in the preparation of the new values. The values steering NAO's activities and embodying the principles governing the auditing ethics set out in the International Standards of Supreme Audit Institutions (ISSAI) are responsibility, openness, objectivity and respect.

An international peer review on NAO's quality management system was carried out during the year under review. It also included a quality audit. Based on the findings of the peer review, the quality management system of the National Audit Office is in accordance with the requirements laid down in the International Standards of Supreme Audit Institutions (ISSAI) and particularly the requirements set out in the ISSAI 40 standard, which concerns quality management systems. In private sector auditing, corresponding requirements are contained in the ISQC1 and ISA 220 standards. In 2012, the National Audit Office carried out a peer review of the quality standards of two activities of the French auditing court (audits of the final accounts of the French government and social security funds).



TABLE 8: VALUES OF THE NATIONAL AUDIT OFFICE

RESPONSIBILITY – OPENNESS – OBJECTIVITY – RESPECT

Responsibility

We carry out our tasks in a professional and efficient manner. We are actively improving workplace well-being and professional skills and work to ensure that everybody is treated equally. We also tackle difficult issues and give positive feedback. We assess our operations critically and develop them. We expect others to act in the same manner as we.

Openness

We produce easy-to-understand and essential information at the right time. We communicate about our work and its results in a reliable and clear manner. When giving opinions we also give the grounds for them. We improve the effectiveness of our work and usability of its results through active cooperation. Our interaction is a genuinely two-way process. We learn from others. We promote the openness of the public administration.

Objectivity

We examine different aspects of matters without preconceptions. We make our decisions independently and without outside influence. We treat everybody in a fair and equal manner. Our audit and supervision opinions are based on audit findings.

Respect

We act in a constructive and interactive manner and listen to others. We also respect opinions that differ from our views. We respect the skills of other actors and individuals. We know our strengths but also recognise our role and limitations. A multitude of voices and sectors are among the strengths of our work community

## 12.2 Developing expertise and management plays an important role in promoting efficiency and workplace well-being at NAO

The National Audit Office continued the implementation of its stability and efficiency programme in the field of personnel policy and finances. At the same time, the National Audit Office has been given major new statutory tasks. As a result of the programme, the number of person-years in the National Audit Office decreased from 148 to 137 between 2010 and 2012. The aim of the stability and efficiency programme was to reduce the number of person-years to 138 without changes in the personnel structure. Overall labour cost decreased by 2.8 percentage points.

The strategic efficiency target of the National Audit Office is to ensure that the increase in costs entered in the final accounts and in the prices of performance days should not exceed the consumer price index during the four-year planning period. Operating expenses decreased by 2.6 per cent, compared with 2011. At the same time the annual average of the consumer price index increased by 2.8 per cent. The price of the external performances of the National Audit Office per person day increased by 4.9 per cent. The increase was mainly due to the fact that in relative terms, the reduction in the number of person-days spent on external performances was larger than local absences and the time spent on indirect performances. This can be considered a weakening in productivity. Between 2010 and 2012, the price of one performance day decreased by 8.9 per cent, while the annual average of the consumer price index rose by 6.2 per cent during the same period. This means that the strategic efficiency target is within reach.

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 NAO's operating prerequisites. The measures in the field of workplace atmosphere and workplace well-being have had a positive impact on NAO and on the manner in which the personnel cope with their work. Efforts have been made to reduce workloads by improving the manner in which resources are calculated and how they are planned. 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.

Even though the number of sickness absences among the personnel increased, they are still at average levels when consideration is given to the central government as a whole. During the year under review, ASLAK rehabilitation sessions were provided, development of management practices continued and teamwork and workplace well-being training was organised. A total of 10.5 person-days was spent on training per person-year. Performance development discussions are comprehensive and they are separate from performance appraisals.

In addition to the stability and efficiency programme, the National Audit Office has also invested in skills development. During the year under review, NAO prepared a skills development policy as part of its new strategy. The policy covers measures that help in the preparation of NAO's skills chart, support the expansion and deepening of personnel skills and ensure the comprehensiveness of NAO's skills areas in relation to its tasks.

TABLE 9: EFFECTIVE WORKING TIME BY TYPE OF PERFORMANCE

	2011	2012
Financial audit	7,566 person-days 35% of external performances	7,482 person-days 37% of external
Compliance audit	963 person-days 4% of external performances	548 person-days 3% of external
Performance audit	5,140 person-days 24% of external performances	4,567 person-days 23% of external
Fiscal policy audit	377 person-days 2% of external performances	287 person-days 1% of external
Reports to Parliament	312 person-days 1% of external performances	184 person-days 1% of external
External management	3,768 person-days 17% of external performances	3,490 person-days 17% of external
External expert work	2,911 person-days 13% of external performances	3,037 person-days 15% of external
Supervision of political parties and election	647 person-days 3% of external performances	460 person-days 2% of external
External performances, total	21,684 person-days	20,056 person-days
External performances of total working hours	60%	59%
Indirect activities (support services, administration)	7,315 person-days	6,533 person-day
Holidays and other paid absences, total	7,641 person-days	7,557 person-days
Working hours, total	36,640 person-days	34,145 person-days



**QUALIFIED OPINION ON  
REGULARITY ON COMPLIANCE WITH  
THE BUDGET AND KEY BUDGET  
PROVISIONS**

**OBLIGATION TO REPORT TO THE NA-  
TIONAL AUDIT OFFICE**

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

MINISTRY FOR FOREIGN AFFAIRS

On the basis of the audit, it is our opinion that the budget and 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 SECTOR 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 15 August 2013 on the measures that it has taken to ensure that performance accounting is in accordance with section 16 of the State Budget Act.

**INRIKESMINISTERIETS  
FÖRVALTNINGSOMRÅDE**

MIGRATIONSVERKET

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 26.40.20 (Counselling of return migrants, estimated appropriation) to cover pay expenses totalling 144,673.73 euros. This is in violation of the State Budget Act.

**INRIKESMINISTERIETS  
FÖRVALTNINGSOMRÅDE**

## QUALIFIED OPINION ON REGULARITY

## OBLIGATION TO REPORT TO THE NA- TIONAL AUDIT OFFICE

### ADMINISTRATIVE SECTOR 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 27.10.01 (Operating expenses of the Finnish Defence Forces) by 2.9 million euros and on item 27.10.18 (Defence materiel procurement) by 9.8 million euros in the final accounts of the Finnish Defence Forces 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 SECTOR 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 15 August 2013 on the measures that it has taken to arrange the monitoring of the use of the authorisation in accordance with section 15 of the State Budget Act, 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 presented in the 2012 final accounts.

### ADMINISTRATIVE SECTOR OF THE MINISTRY OF FINANCE

#### FINANSMINISTERIET

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 SECTOR OF THE MINISTRY OF FINANCE

## QUALIFIED

### OPINION ON REGULARITY

## OBLIGATION TO REPORT TO THE NATIONAL AUDIT OFFICE

#### STATISTICS 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 payment of pay expenses of public servants appointed to their posts (35,867.88 euros) from point 29.40.53.7 (Expenditure arising from promotion of interaction between science and society and other expenditure arising from the supporting of science). This is contrary to the budget.

#### FINNISH CUSTOMS

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 preparation of balance sheet specifications verifying the final accounts, as laid down in section 64 of the State Budget Decree.

#### FINNISH CUSTOMS

Under section 5(1) of the Act on the National Audit Office, the Finnish Customs must report to the National Audit Office by 15 August 2013 on the measures that it has taken to ensure that the discrepancies between the balances in the main accounts and the balance sheet specifications are clarified.

### ADMINISTRATIVE SECTOR OF THE MINISTRY OF EDUCATION AND CULTURE

#### NATIONAL ARCHIVES

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 29.40.53 (Use of lottery proceeds for promoting science, estimated appropriation) for paying expenses of 149,000 euros allocated to 2013.

### ADMINISTRATIVE SECTOR OF THE MINISTRY OF EDUCATION AND CULTURE

This is contrary to the budget and in violation of section 5 a of the State Budget Decree. Using the procedure, the National Archives has carried over the estimated appropriation in violation of section 7 of the State Budget Act.

FINNISH NATIONAL BOARD OF EDUCATION

The budget and the budget provisions have been complied with, except for the commitment to the renovation expenses of the Finnish-Russian School (3.7 million euros), which is contrary to the budget and in violation of section 38 of the State Budget Decree and the use of the appropriation on item 29.20.20 (On-the-job learning, two-year transferable appropriation in 2011 and 2012 budgets) for paying government aid (0.5 million euros), which is contrary to the budget.

FINNISH NATIONAL GALLERY

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 the appropriation on item 29.80.52 (Use of lottery proceeds for promoting science, estimated appropriation) for paying expenses of 29,000 euros allocated to the 2013 fiscal year as an expenditure for 2012. This is contrary to the budget and in violation of section 5 a of the State Budget Decree. Using the procedure, the Finnish National Gallery has carried over the estimated appropriation in violation of section 7 of the State Budget Act.



**QUALIFIED**

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**OBLIGATION TO REPORT TO THE NATIONAL AUDIT OFFICE**

**ADMINISTRATIVE SECTOR OF THE MINISTRY OF AGRICULTURE AND FORESTRY**

MTT AGRIFOOD RESEARCH 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 30.20.01 (Operating expenses of MTT Agrifood Research Finland, two-year transferable appropriation) to cover a transferable expense of 5,000 euros. This is contrary to the budget.

**ADMINISTRATIVE SECTOR OF THE MINISTRY OF AGRICULTURE AND FORESTRY**

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

MINISTRY OF TRANSPORT AND COMMUNICATIONS

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 31.30.63 (Purchasing and development of public transport services, three-year transferable appropriation) for paying expenses of 2.2 million euros allocated to 2013.

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

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

FINNISH TRANSPORT AGENCY

Under section 5(1) of the Act on the National Audit Office, the Finnish Transport Agency must report by 15 August 2013 on the meas-

## QUALIFIED OPINION ON REGULARITY

## OBLIGATION TO REPORT TO THE NA- TIONAL AUDIT OFFICE

the following errors and shortcomings in the budget implementation statement and in the presentation of performance information:

- 1) The carrying over of the project authorisations allocated to item 31.10.78 (Certain transport infrastructure projects, three-year transferable appropriation) in previous years is in violation of the provision on the scope of the authorisation and the restriction of its use contained in section 10 of the State Budget Act.
- 2) Authorisations totalling 52.5 million euros granted in the budgets of previous years that are unused according to 2011 final accounts are contained on item 31.10.77 (Development of the transport network, three-year transferable appropriation). As the authorisations had not been carried over in the 2012 budget, the procedure has been used to carry over the authorisation in violation of section 10 of the State Budget Act.
- 3) A total of 25.4 million euros in project expenditure paid by third parties that is not state budget revenue has been paid to item 12.31.10 (Revenue of the Finnish Transport Agency). This is in violation of section 42 of the State Budget Decree. The payments have not actually been paid to the state.
- 4) A total of 1.0 million euros have been paid to item 31.10.20 (Basic transport infrastructure maintenance, two-year transferable appropriation) in a manner that is contrary to the budget and in violation of section 3 a of the State Budget Act. The corresponding expenditure has been paid from item 31.10.77 (Development of the transport network). A total of 0.2 million euros of revenue generated by jointly funded activities have been

ures that it has taken as a result of the procedures that are contrary to the budget and in violation of the key budget provisions, and the measures that it has taken as a result of the shortcomings in internal control.

paid to item 31.10.77 (Development of the transport network) in violation of section 3 a of the State Budget Act. The Finnish Transport Agency must cancel equal amounts from the appropriations transferred to 2013.

5) A total of about 1.5 million euros in expenditure on item 31.10.20 (Basic transport infrastructure maintenance, two-year transferable appropriation) for 2012 have been allocated to 2013. This is contrary to the budget and in violation of section 5 a of the State Budget Decree.

6) There are errors in the transport infrastructure balance sheet values as a result of which the value of the transport infrastructure presented in the budget is about 26 million euros too high.

7) Performance accounting has not been arranged in a manner required under section 16 of the State Budget Act.

8) The information entered on accounting vouchers has not been fully in accordance with the requirements laid down in sections 44 and 45 of the State Budget Decree.

9) The internal control in the Finnish Transport Agency has not been arranged in a manner required under section 69 of the State Budget Decree. Under section 24 a of the State Budget Act, the coordination of the internal control and its appropriateness are the responsibility of the agency's management.

FINNISH COMMUNICATIONS REGULATORY AUTHORITY

POn the basis of the audit, it is our opinion that the budget and the key budget provi-

sions have been complied with, except for the payment of the expenses arising from the decisions to grant broadband aid in 2011 and 2012 (2,947,119 euros) from item 31.40.50 (Discretionary government transfers for implementing the nationwide broadband project, transferable appropriation in the 2010 budget). Paying the expenses from the item in question is contrary to the budget.

### ADMINISTRATIVE SECTOR OF THE MINISTRY OF EMPLOYMENT AND THE ECONOMY

#### MINISTRY OF EMPLOYMENT AND THE ECONOMY

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

- 1) 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 32.30.80 (Loans for refinancing activities of Finnish Export Credit Ltd, estimated appropriation) so that in the final accounts, they appear as budget revenue totalling 232.8 million euros. This procedure is in violation of section 3 a of the State Budget Act.
- 2) Interest income totalling 203,427.99 euros connected with prepayments have been entered as deductions on item 32.50.64 (Funding contribution of EU structural funds and the state to structural fund programmes in

### ADMINISTRATIVE SECTOR 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 15 August 2013 on the measures that it has taken in order to ensure that performance accounting is arranged in accordance with section 16 of the State Budget Act.

## QUALIFIED

### OPINION ON REGULARITY

## OBLIGATION TO REPORT TO THE NATIONAL AUDIT OFFICE

programming period 2007–2013, estimated appropriation), This is contrary to the budget and in violation of section 3 a of the State Budget Act.

3) The authorisations granted to regional councils in the budget (65.4 million euros) on item 32.50.64 (Funding contribution of EU structural funds and the state to structural fund programmes in programming period 2007–2013, estimated appropriation) have been carried over in violation of section 10 of the State Budget Act.

4) Performance accounting has not been arranged in a manner required under section 16 of the State Budget Act.

#### NATIONAL BOARD OF PATENTS AND REGISTRATION

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 the miscellaneous trade register notification payment revenue totalling 19.1 million euros on item 32.40.03 (Operating expenditure of the National Board of Patents and Registration, three-year transferable appropriation). This is contrary to the budget and in violation of section 39 of the State Budget Decree.

#### 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

#### NATIONAL BOARD OF PATENTS AND REGISTRATION

Under section 5(1) of the Act on the National Audit Office, the National Board of Patents and Registration must report to the National Audit Office by 15 August 2013 on the measures that it has taken to correct the shortcomings in the internal control of the accounting procedures concerning the trade register notification payment revenue.

#### CENTRE FOR ECONOMIC DEVELOPMENT, TRANSPORT AND THE ENVIRONMENT FOR SOUTH SAVO

Under section 5(1) of the Act on the National Audit Office, the ELY Centre must report to the National Audit Office by 15 August 2013 on the measures that it has taken to correct

the following errors:

- 1) A total of 791,991 euros in expenditure that should have been allocated to 2013 have been allocated to 2012 on items 32.70.30 (State compensation to municipalities, estimated appropriation), 35.10.63 (Expenditure arising from the purchasing of and compensations for protected areas, three-year transferable appropriation in the 2010 budget) and 35.20.64 (Grants to the care of building heritage, three-year transferable appropriation in the 2010 budget). This is contrary to the budget and in violation of section 5 a of the State Budget Act. Using the procedure, the ELY Centre for South Savo has carried over the appropriations in violation of section 7 of the State Budget Act.
- 2) A discretionary government transfer of 42,474 euros granted in 2009 has been entered on the authorisation-based item 30.50.31 (Support for water management and flood protection, three-year transferable item in 2011 budget) as payment-based expenditure for 2013. This is contrary to the budget and in violation of section 5 a of the State Budget Decree.
- 3) The appropriation 30.40.20 (Fishing stock management obligations, two-year transferable appropriation) has been used for paying expenditure totalling 14,666 euros for which the agency did not have any appropriations or authorisations when commitments to the 2010 expenditure decisions were made.
- 4) Appropriations on items 30.50.20 (Expenditure for water resources management and use, transferable appropriation in 2010 and 2011 budgets) and 35.10.22 (Certain en-

the internal control shortcomings revealed in the report.

vironmental expenditure, three-year transferable appropriation) have been used to cover pay expenses of persons appointed to permanent posts (total amount 211,942 euros). This is in violation of the budget.

5) The appropriation on item 30.50.31 (Support for water management and flood protection, three-year transferable appropriation in the 2010 budget) has been used to pay expenditure totalling at least 17,600 euros that should have been allocated to the operating expenditure item. This is in violation of the budget. The ELY Centre for Lapland must cancel an amount equalling to the expenditure erroneously entered from the transferred operating expenditure appropriation.

6) Commitments totalling 5.59 million euros made in 2013 have been allocated as authorisations to 2012 on item 31.30.64 (Procurement and development of archipelago ferry services) in violation of the budget.

7) It has been found out that in the verification of certain expenditure there have been procedures that are in violation of the generally accepted accounting practice referred to in section 14 of the State Budget Act.

A total of 315,000 euros in enterprise development assistance have been granted for purchasing a property, which is in violation of section 9 of the Act on Discretionary Government Transfers for developing entrepreneurial Activities (1336/2006).

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97/53/12	Finnish Geodetic Institute
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101/53/12	Agency for Rural Affairs
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103/53/12	Finnish Game and Fisheries Research Institute

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114/53/12	National Consumer Research Centre
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116/53/12	Finnish Tourist Board
117/53/12	Centre for Metrology and Accreditation
118/53/12	National Board of Patents and Registration
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17/2012	The relation between the Government Programme and the spending limits procedure (audit report) Separate report to the Parliament: Interim fiscal policy audit report on the 2011–2014 parliamentary term, K 2/2013 Separate report on the audit of the final central government accounts for 2012 fiscal year and on the audit of the Government's annual report, K 14/2013 vp., chapter 4 Spending limits procedure and knowledge base for fiscal policy

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ISSN 1798-6435 (PDF)