

National Audit Office's annual activity report to Parliament 2012

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To Parliament

The National Audit Office's report on its activities is submitted to Parliament on the basis of section 6 of the Act on the National Audit Office.

The report presents the conclusions that have been drawn on the basis of audit results concerning the management of central government finances and the current state of administration from the viewpoint of parliament together with summary information on the most important audit findings for Parliament as well as observations regarding the implementation of positions taken on the basis of reports issued by the Parliamentary Audit Committee. The report also presents a survey of the National Audit Office's activities and their effectiveness in fiscal year 2011.

The report is based on the National Audit Office's performance audits, financial audits, compliance audits and fiscal policy audits as well as the National Audit Office's expert activities. Key audit results are presented for financial audits that were completed in spring 2012 concerning fiscal year 2011. The report covers performance audits and compliance audits that were completed between the end of August 2010 and the end of August 2011. Fiscal policy audit results were provided in a separate report to Parliament (K 14/2012).

The National Audit Office submitted a separate report to Parliament on the audit of the final central government accounts and the Report on the Final Central Government Accounts on 22 May 2012 (K 14/2012).

Helsinki, 14 September 2012

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Main content

There is a focus in the National Audit Office's annual activity report to the 2012 Parliament on three themes that are vital for the foundations of Finland's economy and citizens' wellbeing: the effectiveness of research, development and innovation activity, employment and increasing the employment rate, and energy and climate policy. The erosion of the competitiveness and structural foundation of our economy poses a visible risk to the welfare state. At the same time the creeping effects of climate change will cause radical changes, the response to which is a major economic and technological task that at the same time also affects security policy and our security.

Rapid erosion will take place in the economic foundations of welfare and employment unless the number of innovative growth companies can be increased through research, development and innovation activities and measures that support their effectiveness. Due to structural changes in the economy, the economic growth required to safeguard welfare and action against climate change call for the bold renewal and development of research, development and innovation activity. Research, development and innovation activity as well as employment and increasing the employment rate must be seen as broad entities and as part of the economic and growth policies. The role of effective and efficient competition as a factor encouraging innovations and their utilisation is emphasised. Research, development and innovation also play a major role in the improvement of energy efficiency, which is required in climate change management.

Targets and information relating to economy and productivity are key elements of well-functioning performance guidance. It can be stated on the basis of financial audits concerning 2011 that the performance targets adopted by ministries relating to economy and productivity have still remained insufficient in the same way as had been seen in previous years. At the same time the situation is considerably better as regards the provision of true and fair information. Reporting on economy and productivity is fairly comprehensive. Clear key indicators and a uniform manner of presentation would, however, make the information easier to utilise and facilitate its production by accounting units.

The main question for the employment management audit theme was the employment rate and measures to increase it, which are essential for attendance to the sustainability gap in central government finances. Audits covered the prevention of long-term unemployment, support for areas undergoing abrupt structural change, and promotion of work-based immigration. According to the audits, these only provided a minor contribution towards improvements in the employment rate, although measures such as support for areas undergoing abrupt structural change as such were found to work well and be necessary from the regional perspective. Broad-ranging efforts will be needed to reach the employment rate target.

The National Audit Office has compiled findings concerning the local government and service structure made in audits over the past few years. The conclusion is that the

structures as such are unable to provide a solution to service quality and availability from the citizen's perspective. For example, in municipalities that have undergone a merger, service development has often been trampled on by the merger process. With the Act on the Reform of Municipal and Service Structures providing a rather loose framework, service structure in the cooperation areas may have become even more fragmented. It is important to pay attention in structural development to the maintenance of service delivery in accordance with the Constitution of Finland and relevant special legislation. Observations including those from the audit of child welfare revealed that the interests of the child are not always realised in accordance with the Child Welfare Act. Key problems in this are to do with the provision of comprehensive support for families, supervision, and substitute and after-care services.

The National Audit Office has completed a series of five audits themed on climate and energy policy. These audits showed that it is possible to improve the cost-efficiency and effectiveness of climate and energy policy measures. Problems in this field are to do with weaknesses in the information base relating to costs and measurement methods, vagueness in target-setting, and types of support that are contradictory from the climate objectives perspective. There has been variation in the implementation of Finland's Climate and Energy Strategy. Further transparency would have been required in its preparation and the use of central government funds. According to the National Audit Office's calculations, in 2011 Finland allocated around €550 million or around one per cent of the budget appropriations to expenditure relating to climate change. Central government funding doubled from 2008 to 2012. The biggest increases were seen in

appropriations for research and development and the promotion of renewable energies. Finland seems to be able to reach the objectives set for the 2008–2012 Kyoto period, but reaching the targets set by the EU by 2020 appears to be a bigger challenge.

It can be stated on the basis of audits relating to education, research and innovation (ERI) that decisions are made by Parliament on the funding and structures of public ERI activities without in practice being able to have an efficient impact on the activities on the whole. Instead of increasing or cutting resource provision for ERI, new lines of thought and operating models aiming at new types of financial risk management should be found. With this objective in mind, the purpose of public activity should be determined more clearly, the objectives of ERI activity should be clarified, and transparency of funding should be increased. The aim is to determine support for research and innovation in accordance with the expressions of Parliament's will and to target it in a more selective, courageous and sustained manner. To increase the effectiveness of public support, the line between fiscal policy and ERI policy must also be crossed in a new way.

The National Audit Office has repeatedly drawn attention to problems relating to legislative quality and their role in decision-making on central government finances. Shortcomings still persist in the achievement of the principles of good legislative drafting, but recent audit findings show positive development in the prerequisites available for quality improvements. Problems in practical law-drafting are not to do with competence or expertise or lack of guidelines. Instead, they are to do with the complexity of the operating environment, drafting resources and timetables as well as insufficiencies in the Government-level workflow management system to

support drafting. More attention should be paid to two factors in legislative drafting and related decisions: the substantive clarity of legislation and the resources required for its implementation. The monitoring of legislative implementation and impacts should not be forgotten either.

The National Audit Office's goal is to promote the effectiveness and quality of the financial management of the State. In this duty, it supports Parliament in its exercise of fiscal power and plays an important role in the national integrity system that maintains good governance. International comparisons show that national audit offices are among the strongest and best-functioning institutions maintaining good governance and public integrity in Europe. According to research, there is a correlation between poor governance and weak control institutions and the poor state of general government finances and poor performance of national economy. On the whole the effectiveness of the National Audit Office was at an excellent level considering that its resources are very low when compared with its peer institutions elsewhere. In the tighter budgetary situation, the National Audit Office has focused on employees' wellbeing at work and its management and continued the efficiency and stability programme launched in 2010. The programme will result in a reduction in the National Audit Office's personnel from 150 to 138 starting from 2012.

The National Audit Office monitors the implementation of positions put forward by Parliament on the basis of reports issued by the Parliamentary Audit Committee where these positions relate to the National Audit Office's audits and Parliament has required reporting on the matter by the Government. Positions monitored for the current electoral term have pertained to the functioning of the central government spending limits procedure, measures to eliminate borrowing in excess of liquidity needs, and the introduction of the workflow management system for the justice and interior administrations. The National Audit Office will get back to the functioning of the spending limits procedure following the completion of follow-up on the matter and in conjunction with reporting on the results of fiscal policy audits halfway through and at the end of the electoral term. In other respects measures can be regarded as having progressed as required by Parliament.

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1 Auditor General's overview: New growth policy through research, development and innovation?

Finland and the European Union are faced with choices. The euro area debt crisis and the internationalisation and structural change of the economy are posing a challenge to the capacities of public finances and the welfare state.

Economic growth forms the economic basis for the welfare state. Economic growth enables the equal distribution of income and other social justice as well the levelling of risks. Safeguarding the welfare state calls for growth policy that works. Increases in gross domestic product are strongly linked with economic and other freedom of choice at the individual and societal levels.

Competitiveness problems and the population's age structure are likely to result in a period of slower economic growth unless the number of hours worked and productivity can be increased through technological advances. At the same time a major restructuring is taking place in the economy due to a shift to a digital service economy. In this, information and communications technology (ICT) acts as the engine for productivity growth. Research has confirmed the view whereby the digitalisation of the economy and the shift to an international digital service economy is similar to the industrial revolution in terms of its economic and social impacts. The shift to a digital service economy

will be the third industrial revolution. At the moment it is only gathering speed. An alarming signal for Finland, however, is that Finland is falling further and further behind the world's leading countries in the application of digital technology while at the same time Finland's status as an ICT producer is also fading. Moreover, this does not only apply to the IT sector. The demand for newsprint is decreasing, and printed newspapers are even predicted to disappear altogether. The newspaper will live on as a reformed electronic media form, which will be strongly reflected in fields including the forest industry.¹ The euro area debt crisis further emphasises the view of the risk of slow economic growth. The worst dimension of the debt crisis may be a lack of prospects and insecurity that decelerates the investments required by the new economic revolution and the grabbing of opportunities for growth it offers. A bold reform of the Finnish growth policy – and research, development and innovation as its vital elements – is needed.

As the professional external auditor of central government finances, the National Audit Office has produced a thematic review of the fundamental issues of Finnish welfare and growth policy in this annual report: research, development and innovation activity and related policies, employment and efforts to

¹ Pohjola – Jalava 2008; Pöysti 2010 and Lehti – Rouvinen – Ylä-Anttila 2012.

increase the employment rate, and climate and energy policy. Climate and energy policy and innovation activity are connected with the economic growth and welfare theme by the sustainable growth perspective. In sustainable growth, economic growth is sought through production methods that help save natural resources and are sustainable from the environmental perspective. Totally new opportunities for this, too, are also provided by the digital service economy revolution.

These three themes are connected by the favourable impact of innovation on economic growth and the importance of technology as a source of solutions that support welfare and secure environmental sustainability. There has been a lot of talk about sustainable growth. Without innovations and the wise promotion of new innovative approaches, sustainable growth will remain just idle talk.²

The selection of these themes was based on the National Audit Office's assessment of the deterioration of the competitiveness and structural foundation of our economy posing a visible risk to the welfare state. At the same time the creeping effects of climate change will cause radical changes, the response to which is a major economic and technological task that, at the same time, also affects security policy and our security. Changes involve risks but also plenty of new opportunities. The generation of sustainable growth and the revolution caused by the digital service economy will not only be seen as painful changes and increased costs but also as new types of opportunities. They should be

grabbed wisely but bravely.³ In this annual report the National Audit Office has compiled its findings relating to Finland's capacities to address these issues that play a fundamental role for citizens and central government finances.

Research, development and innovation (RDI) activity has been assessed by the National Audit Office particularly from the viewpoint of the prerequisites for knowledge-based decision-making and the principles of good governance. Workshops based on broad participation of RDI actors and encounters between a variety of actors and new perspectives were utilised as assessment methods. The National Audit Office has further developed the model for the qualitative processing and interpretation of extensive sets of data on the basis of experience gained by its US peer, the United States Government Accountability Office (GAO).

This has resulted in plenty of questions that should be answered by Finnish RDI activity and its steering, the RDI policy. RDI activity and policy should be examined from a broader perspective as part of economic policy that supports the preconditions for growth. A strong message emerges from the assessment, including the related discussions, and the performance audits conducted by the National Audit Office: procedures and conceptions must be reviewed critically and open-mindedly. Similar signals have been received from recent research and international evaluations of our innovation system actors. Societal atmosphere and apprecia-

2 Aghion 2012. Aghion – Hemous – Veugelers 2009. OECD 2011.

3 I revisionsverkets sakkunnigutlåtande har inte revisionsmässigt utretts processen för beredning av reformen av beskattningen av föIn late 2011 the National Audit Office conducted an extensive risk analysis of central government finances and the national economy, which mapped out the challenges faced by central government finances and the national economy on the basis of a research literature review, analysis of the main items of the central government balance sheet and statement on returns and expenses as well as signals detected during audits, Risk analysis of central government finances and the national economy 2011 (342/02/2011).

tions should also be made more supportive to growth and growth enterprises as well as to employment and the employment access of the unemployed.⁴ Presenting the answers is the task of the Government and those involved in RDI. The National Audit Office seeks to encourage improved performance and have some of the most important performance and accountability themes considered by Parliament.

Increased national prosperity supported by research, development and innovation (RDI) and education policy

Finnish economic growth and welfare have been founded on a strong increase in productivity, which can largely be attributed to technological development. The rise in productivity has been due to rapid industrialisation and the industrial policy, determined research, development and innovation (RDI) activity as well as education that has resulted in major improvements in the nation's education and competence levels.⁵ RDI has played a key role in our economic growth strategy. We have managed to catch up with other countries in terms of technical advances, and Finland has joined the leading nations as regards technology in many fields. In the application of digital technology, however, Finland is falling behind those holding the lead despite having got off to a good start.

The results of Finland's RDI activity can be regarded as reasonably good so far. The international evaluation of Finland's innovation system carried out in 2009 identified several strengths but also areas in need of development that have not been addressed comprehensively or sufficiently enough. The innovation system and its funding are rather fragmented in terms of roles and objectives.⁶ The 2012 international evaluation of the key funding organisation, the Finnish Funding Agency for Technology and Innovation – Tekes, regarded the operations of Tekes as successful, particularly as regards collaboration and capacity building and competence development and operations, and concluded that Tekes is among the world's leading innovation agencies. On the other hand, the evaluation pointed out several areas in need of development, including internationalisation. The evaluation report also strongly underlines the need for changes in innovation activities and their funding in an evolving operational environment.⁷

Finland has largely achieved the European Union and Finnish Government targets concerning a high proportion of RDI expenditure in GDP. The objective whereby RDI expenditure should account for at least 4% of GDP is about to be achieved. In 2010 research and development expenditure accounted for 3.9% of Finland's GDP. Finland is one of the leading EU and OECD countries in terms of the relative share of RDI investments. The ratio of RDI spending to GDP is, however,

4 For the economics perspective see Aghion et al. 2009 and Aghion et al. 2012. For the perspective of business economics, broader operating environment and corporate management team qualities see, e.g., Handelberg 2012.

5 Prime Minister's Office 2010 and therein Professor Matti Pohjola's review on technology development and productivity increase as sources of Finland's economic growth.

6 Veugelers (ed.) 2009.

7 Ministry of Employment and the Economy/ van der Veen et al. 2012.

merely an indicator of inputs, not outputs. Outputs are illustrated by the number of international and European Union Community patents relative to GDP at purchasing power parity (PPP). The Finnish number of international and EU Community patents relative to GDP at PPP is clearly above the EU average. In Sweden and Finland nine international patent applications are made per €1 billion (at PPP), while the EU average is four applications. However, Finland is not in the lead when it comes to trademarks and design rights. The number of patents, however, is only an intermediate product in innovation activity. The actual economic output is successful business activity that can be seen as increased turnover and employment rates and number of growth enterprises. Outputs proper also include the amount of licensing income, royalties and other innovation income received by the national economy from abroad. The field of knowledge-intensive goods has been showing a reduction rather than an increase in Finland, but the exports of high-knowledge services have increased. Alongside Denmark, Sweden and Germa-

ny, Finland is one of the innovation leaders among the EU Member States on the basis of innovation output. In broader international comparison the US and Switzerland were stronger than the EU countries in innovation leadership and performance.⁸

New circumstances call for new kinds of policies and RDI activities

According to economic research and empirical data analysed in it, economies with strong technological development need different kinds of growth policies and RDI activities and education policies than economies that are attempting to catch up with them.⁹ There is a focus on quality instead of quantity. It is also more difficult to maintain the technological and competitive edge already achieved than to catch up with others by employing and slightly improving tried and tested technologies developed elsewhere. This challenge also covers regional policies and structural policies to support regional development.

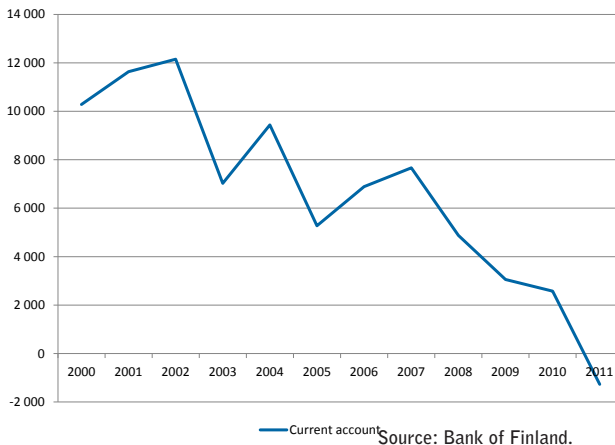


Figure 1 Development of Finland's current account 2000–2011.

⁸ Innovation Union Scoreboard 2011

⁹ Aghion et al. 2009. Aghion 2005.

Competition in the front line has become tougher. Countries such as China and Korea are making considerable investments in RDI activities and new innovations in addition to, and also partly instead of, their competitive advantage in low production costs. The rate of renewal has also increased. International information networks and networking as well as information management have enabled new models for global centralisation and decentralisation. In the digital service economy, the international IT network is at the same time a production forum and a distribution network.

The IT and electrical sectors rose to a major role in the Finnish economy in the early 2000s, and the rapid changes seen in these sectors and the recent difficulties, including the job redundancies, of Nokia Corporation, a huge player considering the size of our economy, are illustrative of the upheaval experienced in the IT sector in particular. Similar messages about a need for new kinds of RDI and growth policies have also been delive-

red by the evaluation of the Finnish innovation system and the international evaluation of the Finnish Funding Agency for Technology and Innovation – Tekes.

Need for change illustrated by the current account and employment rate development

The major personnel reductions seen recently in the IT sector and the structural change of the forest industry that preceded these only constitute one sign of the potential deterioration of the economic structure and the foundations of the welfare system.

A closer look at statistics further illustrates the burning nature of this development. Finland's current account has been falling throughout the 2000s.

Large current account surpluses and deficits are signs of an imbalance in international economy, which has been a major factor contributing towards the financial and debt



Source: Statistics Finland..

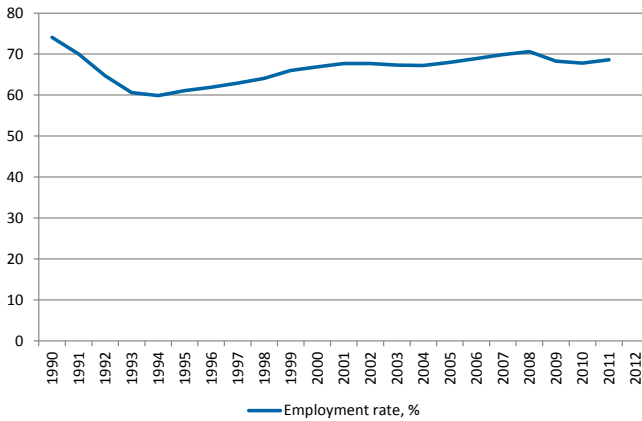
Figure 2 Import and export price indices and price development of imported energy 2000–2011

crisis. Experiences from the euro area debt crisis are a harsh reminder about the fact that the current account still plays an important role in the European Economic and Monetary Union. Practical experience has also shown that a twin deficit – the simultaneous occurrence of current account and general government deficit – indicates problems in the economy and poses major risks to future economic development. Countries struggling with the euro area debt crisis are typically economies that have suffered from a twin deficit.

Underlying the weakening of the current account is a long trend of unfavourable development in Finland's current account, in

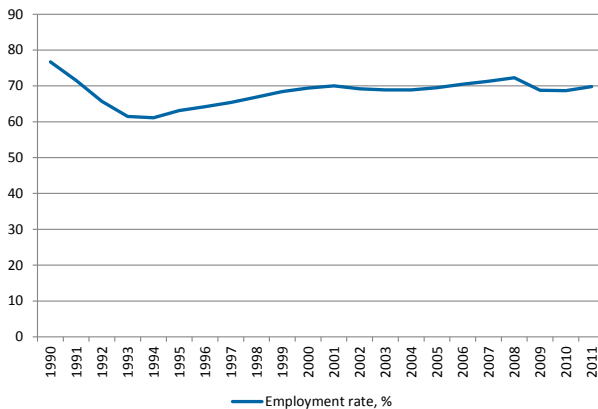
other words the relationship between the nation's import and export prices.

The development seen in the relationship between import and export prices can partly be explained by the increase in the price of imported energy. This, however, cannot alone explain the weakened capacity of the Finnish economy to generate added value for use as the foundation of welfare policy. In the global competition context the objective should rather be for our innovation system to be able to internalise the energy price increases by improving the added value of Finnish products and developing energy-saving solutions. The National Audit Office's perfor-



Source: Statistics Finland.

Figure 3 Employment rate 1990–2011.



Source: Statistics Finland.

Figure 4 Employment rate among men aged 15–64 1990–2011.

mance audits have detected indications of us not being at the Nordic level in terms of the development of energy efficiency, and therefore there is still plenty of untapped potential in this field. The negative trend in the relationship between export and import prices is caused particularly by the fact that the benefits of our ICT sector's productivity development have in many respects been drained abroad as lower prices.¹⁰

The sustainability targets set for public finances require the achievement of a 75% employment rate. At the end of 2011 Finland's employment rate was 68.6%, which is lower than in the other Nordic countries. There is a long and difficult journey ahead before the target can be reached.

The employment rate has been improving very slowly since the recession experienced by Finland in the early 1990s. Finland is also suffering from a major structural unemployment problem. According to an analysis carried out during a National Audit Office performance audit, the employment of the long-term unemployed does not in practice produce a realistic reserve for any major increase in the employment rate. At the same time young people are becoming excluded from employment and studies.

The slight but clear drop in the employment rate of working-aged men aged 15–64 also stands out.

Recent large-scale redundancies and corporate restructurings contribute towards the drop in the employment rate of working-age men.

Therefore the Finnish innovation system has not in view of the challenges faced by the national economy been able to sufficiently improve or maintain the employment rate. The efforts to raise the employment rate can-

not, of course, rely solely on the innovation system. Issues such as the incentive traps of the social security system, the population's health status and social capacity as well as general economic policy play a considerable role in the employment rate. The essential aspect is, however, whether the economic policy, RDI activities and education policy have managed to develop competencies that are broad and diverse enough, can be utilised in practice and, if necessary, can be altered rapidly.

There is a full-blown structural change underway. Existing competencies are quickly losing their relevance. New competencies should be created rapidly to replace them, and competencies should be successfully utilised in economic activities. There appears to be room for improvement in the successful utilisation of competencies in particular.

The strengths and weaknesses of Finland's research, development and innovation (RDI) system from the economic perspective

I utvecklandet av statsrådets styrningssystem. The strengths of Finland's competence development and RDI system include the growing number of international patents and the increase in the exports of high-knowledge services as well as the amount of competencies and other human capital in the national economy. Finland is good at creating capabilities. The economic utilisation of these capabilities, however, still needs to be improved. Other strengths of the Finnish RDI system include the extensive funding channels for applied research, and public funding organisations that are good in international comparison.

¹⁰ This possible interpretation is presented by Maliranta 2011.

International indicator comparisons and evaluation reports are to some extent backward-looking due to the slowness of data updates. The large-scale ICT-sector redundancies and corporate restructurings seen in 2011 and 2012 will result in a drop in Finland's relative success in ratings including the EU Innovation Union Scoreboard and its indicators.

Finland's weaknesses are the relatively small number and share of innovators – innovative and growth companies – among the total number of enterprises, particularly in the service sectors and among small enterprises. Innovation activities were carried out by 46% of enterprises, but the share was higher among large enterprises than among small ones, and there were major differences between sectors. Therefore large enterprises continue to play an important role in innovation activities. The proportion of enterprises participating in innovation activities was lower in the service sectors than in industry. In 2010 enterprises generated around 15% of their turnover from product innovations launched in the market between 2008 and 2010.¹¹ Because of the digital service economy revolution the small number of innovators and growth companies among the service sectors and small and medium-sized enterprises is a clear sign of there being development needs in this respect.

Various studies show that the share of growth companies among all Finnish enterprises is very small. Audits conducted by the National Audit Office have also indicated that the turnover and employment levels of enterprises participating in support programmes have not developed quite as intended. Therefore it appears that there are cle-

ar weaknesses in the utilisation of the intellectual capital created in Finland.¹² There is also an obvious need for development in the internationality of enterprises and innovation activities.

Future challenges include the funding relationship between basic and applied research, sufficient resource allocation for international-level basic research and the competitiveness of research and product development infrastructures. Efforts have already been made to internationalise research and develop structures. Broad enough basic research that is at the international level and engaged in international cooperation creates prerequisites for applied research and subsequent practical innovation. Securing this is important in a situation where the foundations of the Finnish economy and knowhow need to be broadened.

Therefore the question remains, in accordance with the OECD and IMF assessments, whether Finland should shift the funding distribution balance between applied and basic research towards basic research.¹³ The OECD Economic Survey on Finland states rather directly that the focus of government RDI spending should clearly be on funding research in academic environments and should be distributed in such a way as to reward academic quality.¹⁴

The highly necessary central government cost-cutting measures taken in the 2012 budget and on the basis of the decision on spending limits for 2013–2016 included a cut in the budget authorisation to commit expenditure for research funding for the Academy of Finland and the freezing of the university index, which are targeted rather strongly at basic research.

11 Innovation Union Scoreboard 2011. Statistics Finland: Innovation 2010.

12 See also Tanayama – Ylä-Anttila 2009

13 OECD 2012. IMF 2012

14 OECD 2012

The funding division between applied and basic research should not be seen as a zero-sum game where mutual competition prevents a natural connection between the various elements of the RDI and broader research system and their development. Strong basic research, applied research and commercial, enterprise-driven innovation support and supplement each other as well as creating a continuum for each other. Public authorities should ensure the prerequisites for basic research in particular because of the public-good nature of the information created by it.

Will we be able to update the Finnish success model?

The Finnish success model is in need of a reform. This, however, may prove difficult in our consensus-oriented society that is used to the taste of success and risk avoidance. The level of difficulty is increased by our strong confidence in our forerunner position and the ability of technological development to solve problems. Confidence in technology as such was regarded as one of our strengths in the international evaluation of our innovation system. Our successful institutions may not, however, be able to detect the signals of change and renew their operating models fast enough. Leadership in particular now requires sensitivity to see the need for changes, particularly from the viewpoint of the changing needs and preferences of customers as well as technology users and consumers. The Finnish enterprise and public sectors have very little experience of such leadership.

Broader view needed for research, development and innovation (RDI) policy

According to the observations made and workshops organised by the National Audit Office, attention needs to be paid to the need for diversification in RDI activity and policy and the resulting increase in complexity and its management. In addition to the traditional RDI and tax policy instruments, there is an emphasis in the role of the State on more general economic policy and competition policy in particular. Innovation issues are or they should be emphasised in economic policy. It is the task of the State to safeguard and promote the prerequisites for competence and innovation creation through measures including legislation. The success of RDI activity is also affected by information policy, which means the management of information and its availability, pricing of information services in public organisations and the functioning of the intellectual property rights system.

There is scope for development in all of the elements of the broad field of RDI activity and innovation policy in Finland and the European Union alike. The importance of economic growth is discussed a lot in the EU, but so far the Union's own measures to create a single digital market and a well-functioning intellectual property rights system have been very modest in relation to needs and the targets presented in conjunction with economic policy debate.

An essential aspect involved in the broadness of innovation activity is also the issue of promoting public-sector innovation. The National Audit Office's audit observations on issues such as ICT activities in social welfa-

re and health care show that the traditional tools of innovation promotion do not necessarily work as intended in public-sector innovation promotion. Digital technology has not created the expected productivity benefits either. To some extent the productivity expectations have been unfounded. The biggest problem has, however, been the e-enabling of the old organisation and procedures. At the same time the digital service system is based on the functional reorganisation of the entire operations.¹⁵ Better results would have been achieved through competition and procurements if the public organisations' procurement commissioner competence had been better. A better result would also have required new types of innovation and knowledge management instead of traditional steering and leadership models. Consequently, the issues involved in and the competence base required for innovation promotion are expanded beyond the traditional tools of innovation promotion.

Finnish RDI policy and activities have been highly expert-driven. Despite the changes in the operating environment, the target-setting provided in the budget justifications has remained relatively unchanged and focused mainly on the presentation of general-level operating ideas. Any actual content decisions are made by expert networks and funding authorities. The National Audit Office's workshops indicate that the strength of this system is that it enables decisions to be made on the basis of information and long-term views. On the other hand there is a risk of the narrowing-down and insufficient renewal of the information base and views

Information base still in need of development and diversification

The major investments made by the government and enterprises in research, development and innovation (RDI) beg the question as to how the outcomes of these investments are measured and how targets are set. This is particularly important now that there is a major structural change underway and new things should be discovered in a changing environment. Experiments, including bold ones, are required, but we also need preparedness to end any experiments, projects and programmes that do not work. We also need the courage to make a rapid shift to the promotion of new, improved technologies in fields such as energy and environmental solutions.

Several competing indicator frameworks have been employed in RDI target-setting and output measurements. The share of RDI expenditure in GDP alone does not indicate anything about performance in the actual activities. RDI outputs are translated into economic as well as social, environmental and cultural impacts via diverse networks and impact chains. After direct outputs and projects, RDI affects demand and supply as well as other parts of society.

Performance audits dwell too often on the assessment of innovations and their utilisation. A clear and diverse framework of indicators would be required for actual impact assessments and policy target-setting. The success of individual projects and issues such as enterprise networking are as such important, but they are not enough to provide information about the effectiveness of RDI policy.

¹⁵ Lehti – Rouvinen – Ylä-Anttila 2012.

The path taken by an idea generated in RDI to commercially successful production also differs from one sector to another. For example, the development and life cycles and utilisation paths are essentially different in ICT innovation activity when compared with other fields such as the pharmaceuticals and biotechnology sectors. This calls for the provision of more specific information about sectoral differences and any gaps or risks in the successful innovation activity of individual sectors.

Efforts have been made to develop indicators. Support for the construction of specific and sharp policy-level target-setting and impact assessments and research is provided by measures including the joint project of Tekes and the Academy of Finland on a framework for analysing the societal impact of RDI and the international benchmarking of indicator systems.¹⁶ Assessments supplementing the State of Scientific Research in Finland report further clarify the picture concerning the challenges faced relating to the information base and the measurement of effectiveness.¹⁷ It would be important to be able to better compile objective data and assessment results concerning social impacts and effectiveness that could be combined with the EU indicators used in the evaluation and monitoring of economic and structural policies. Furthermore, strengthening is required for independent empirical and quantitative effectiveness studies and policy-level evaluations.

Well-functioning competition is an essential element of an effective research, development and innovation (RDI) system

According to economic research, the competitive environment plays a major role in innovation activity and the commercially and economically successful utilisation of innovations. Up to a certain limit, innovation activity is increased by increased competition. Improvements in sectoral productivity and utilisation of more productive technologies often take place through the market entry of more efficient operating units and the market exit of inefficient ones. The entry of new enterprises into the market as well as the threat of their entry maintain innovation activity and its renewal.¹⁸

Because Finland is a small and remote market area, the natural tendency over here is to have a market dominated by a few large players. According to the National Audit Office's observations, this has resulted in a clear adverse effect on issues such as the development of information systems for the social welfare and health care sector and the public sector on the whole as well as the achievement of productivity gains through ICT.

Government measures should be used to promote the formulation of a market for Finnish innovative growth companies with as high a level of competition as possible. The promotion of competition should be incorporated into efforts supporting RDI and into the broad spectrum of public growth policy.

¹⁶ Tekes 2011.

¹⁷ See Viljamaa et al. 2010

¹⁸ Aghion 2005 and Aghion et al. 2009. With certain reservations, observations made in the US also apply to Finland as regards the general notion that the requirements set for the technology leaders as regards education and innovation policy and optimal targeting of funding can differ from the requirements set for nations catching up with them.

There should be a stronger focus in public procurement and determination of standards and requirements on elements that support competition and market access. The Finnish market should not be closed. Instead, the aim should be to achieve at least a Nordic market. This sets the requirement for public actors to have stronger competencies in strategic market analyses and procurement and their improved utilisation.

As regards RDI funding and other development support, the competition impacts of the support systems should be assessed more extensively and in greater depth. There are far too few assessments of the impact of the use of discretionary government transfers carried out under section 36 of the Act on Discretionary Government Transfers that are broad enough in scale and that should always also involve a competition impact assessment. The Parliamentary Audit Committee has drawn attention to this as regards the funding of social welfare and health care ICT systems, but the phenomenon and problem are common across the board.¹⁹ Consequently, Parliament has requested that the Government conduct an assessment on how the Act's impact assessment provision has been applied in practice and whether impacts on competition have been assessed.²⁰

Overall, RDI policy and new industrial policies should in Finland as well as the European Union on the whole be combined with efficient competition and the promotion of new actors' market access.²¹ In industrial policy and particularly the promotion of environmental objectives and environmentally beneficial technologies, subsidies can and in

part should be used to eliminate the relative competitive edge enjoyed by technologies that are established but less ideal from the environmental perspective. All policies on RDI and other support should, however, ensure the preservation of the preconditions of market entry and employ as broad a range of competitive elements in RDI activity as possible. The programme for promoting healthy competition led by the Ministry of Employment and the Economy as well as its follow-up should look into how the perspective of increased competition could also be deepened in Finnish RDI policy and its subsidies as well as climate and energy policies. Introducing competition and innovations into services of general economic interest (SGEIs) and other functions co-funded by the State would contribute towards increased efficiency and productivity and, consequently, strengthen the economy.

Do we know why we do not have enough growth enterprises?

Reasons provided by studies and assessments for the relatively small number of growth enterprises and innovative enterprises include obstacles created by legislation and regulation, administrative burden and access to funding. Access to funding was mentioned by entrepreneurs as an obstacle in contexts including the Innovation 2010 report produced by Statistics Finland.²² Although access to funding may not necessarily be a problem as regards public funding, the thinness of the Finnish private risk and

19 Audit Committee Report 2/2012 on social welfare and health care ICT systems and funding.

20 Parliamentary communication 10/2012. – Audit Committee Report 2/2012, Report 3/2012.

21 Aghion et al. 2012.

22 Statistics Finland: Innovation 2010.

venture capital markets weakens the opportunities available to growth companies. This can also be seen on the stock exchange. The number of publicly listed growth enterprises is small in Finland in comparison with Sweden and the other Nordic countries. The majority of potential growth enterprises are not growing as expected either.²³ Enterprise, growth enterprise and innovation utilisation funding is centred on banks.

Public funding plays a major role for innovations. The innovation system would need a considerably larger rate of private risk and venture capital investments. Reducing the bank-centredness of enterprise funding would also reduce the strong interdependence of banks and public finances, which has been a problem in the euro area debt crisis as well as the bank crisis experienced during the Finnish recession of the early 1990s. This interdependence still remains a problem in Finland as well. More diverse and easier access to funding would also encourage towards innovation activity and seeking growth based on it in a situation where new opportunities are also opening up for small and medium-sized enterprises in a global digital service economy.

The information base of enterprises' operating environment needs further specification. In this, an important role is played by technological and other standards and the functioning of the market. Market entry and expansion of operations depend on how easy it is to set up an enterprise and expand its operations. The World Bank's Doing Business indicators show that Finland's public law regulation and legislation as well as our tax system provide quite a competitive environment for

enterprises. At the same time Finland is not among the leading Nordic countries in terms of the administrative burden relating to insurance cover. The administrative burden of entry into and time taken to complete private contracts, such as new electricity contracts, is also even surprisingly heavy in comparison with the other Nordic countries.²⁴

Taxation often plays a more important role to growth entrepreneurship than RDI subsidies. Another international trend that can also be seen in RDI activities is a move towards tax subsidies and incentives provided via the tax system. The justifications provided for the introduction of tax incentives are international competition and the strengthening of the nation's competitive position. Decisions on RDI tax incentives should, however, be based on an in-depth and analytical information base and careful analyses of the objectives as well as the context. In Finland the amount of tax incentives with at least an indirect impact on RDI activities and those granted for growth enterprises in on the increase. Therefore the role of taxation in general should be assessed in the RDI policy context.

Support provided via the tax system and other tax incentives can help correct distortions caused by risk aversion as well as the competitive advantage gained by older technologies that are less favourable from the environmental and energy efficiency perspectives.²⁵ Research has indicated that economic steering instruments and taxation in particular are efficient steering instruments for the achievement of environmental objectives.²⁶ These research findings are partially supported by practical audit findings.

²³ The small number of listed growth enterprises and enterprise funding provided via channels other than banks is regarded clearly as a problem and increasing the number of publicly traded enterprises and securities is specified as an important objective in the government proposal concerning the reform of the securities market legislation, Government proposal 32/2012.

²⁴ World Bank: Doing Business Indicators. Pöysti 2010. Rikama 2012.

²⁵ Aghion et al. 2012.

²⁶ Nissinen et al. 2012 (Final report of the project on climate mitigation through sustainable consumption: evaluation of policy instruments related to food, housing and traffic, the KUILU project).

There is, however, relatively little room for manoeuvre relating to the use of tax incentives as the Finnish level of taxation is rather high.²⁷ It should be remembered that the decisive role as regards enterprise growth and growth entrepreneurship is not played by individual incentives and tax subsidies but by the whole of the tax system. The same also applies to the promotion of sustainable development and environmental objectives. The tax system on the whole is becoming increasingly important for growth enterprises as well as for environmentally sustainable growth and the economy.

Therefore the ex-ante and ex-post assessment of the cost-effectiveness of the various policy measures affecting RDI activity should be clearly strengthened as regards incentives provided via taxation as well as the various types of support. The determination of the effectiveness targets for tax system incentives has so far remained at the general level. A more specific determination of policy targets is therefore needed.

The presentation of information concerning tax subsidies in the state budget has been improved in recent years and particularly following the National Audit Office's performance audit of tax subsidies and the study concerning tax revenue forecasts commissioned by the Parliamentary Audit Committee. In the future effectiveness assessments will also be required in accordance with the assessment plan.

It is recommended that a practice be adopted whereby the effectiveness of all tax incentives is systematically assessed and the further provision of the incentive is tied to assessment results. It is also justifiable to assess, in conjunction with enacting tax incentives, how the collection of data necessary for the assessment of effectiveness can be organised as cost-efficiently as possible.

²⁷ IMF 2012.

The same also applies to support systems based on direct subsidies. The practical implementation of assessments required by section 36 of the Act on Discretionary Government Transfers should also be achieved.

A major role in impact assessments is played by their actual utilisation in decision-making. Some of the tax incentives and support systems in use have been found in assessment studies to have rather low effectiveness levels. Therefore it is justifiable for decision-makers to terminate or discontinue systems that function poorly. In the same way decision-makers must be prepared to promote new, more efficient technologies instead of those previously included in the support system and related production methods. This issue is current concerning, for example, the support and regulation used in energy policy to reduce carbon dioxide emissions. Clear differences in efficiency can, for example, be seen between the different generations of biofuels.

Is the mental atmosphere an obstacle to growth entrepreneurship and innovation?

A potentially important obstacle to growth-oriented entrepreneurship and innovation may ultimately lie in cultural practices and appreciations. Growth-oriented entrepreneurship through new innovations calls for risk-taking, which inevitably also means failures. Willingness to take risks and acceptance of failures should be strengthened. At best the welfare state can encourage healthy entrepreneurship and innovation risks thanks to its efficient risk-sharing and risk insurance role. At the moment the Finnish welfare state is not succeeding in the best possible way in this.

The central government's means of influence concerning growth and healthy enterprise risk-taking are limited and mainly comprise legislation and education policy. Growth-driven entrepreneurship could be more strongly present, starting from school education. There is no need to educate Finns merely into becoming good public officials and employees. It should also be considered whether our legislation, which regards the payment of debt as a matter of honour, allows failures in business efficiently enough or whether legislative development is needed, particularly relating to debt adjustment and bankruptcy legislation as well as entrepreneurs' social security. Corporate executives' incentive systems may also have an excessive focus on the perspective of finance and short-term profit distribution. This is a problem the government can influence as an exemplary owner, developer of better incentives and through taxation.

Research, development and innovation (RDI) policy and activity should be regarded as part of growth-oriented economic policy

In the current economic structures and circumstances the promotion of RDI activity consists of a very broad and diverse set of measures and policies. The RDI policy of the 2010s is an essential element of economic policy that generates sustainable growth and wellbeing. Integrating the viewpoints of the Ministry of Finance, the Ministry of Employment and the Economy and the Ministry of Education and Culture into a well-functioning policy mix is important to secure our national success.

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2 Monitoring of the implementation of positions taken by Parliament

2.1 Parliament's positions monitored by the National Audit Office

The National Audit Office monitors the implementation of positions approved by Parliament on the basis of reports issued by the Parliamentary Audit Committee if these are related to reports to Parliament submitted by the National Audit Office and have called for the Government to report on the matter or if audit activities have focused on related matters.

The National Audit Office's annual activity report to Parliament 2011 provided a summary of reporting required from the Government during the preceding electoral term. Parliament's positions concern significant matters in which achieving change is often slow. This annual activity report for 2012 covers the monitoring of positions that call for reporting by the current Government.

Chapters 4 and 7 of this report, however, cover issues relating to reporting obligations set for the previous electoral term. In parliamentary communication 30/2010 Parliament called for the Government to take measures to ensure the quality of legislative drafting. Related matters are presented on the basis of audits conducted during the reporting year

in Chapter 7. The National Audit Office also produced two reports relating to the quality of legislation in 2011²⁸ and issued statements relating to the theme.²⁹ In parliamentary communication 16/2010 Parliament further called for the Government to compare the costs of arranging public social and health services as regards the various delivery methods. In this context, Chapter 4 covers child welfare and various methods of service provision. The nature of both of these topics is such that the National Audit Office will subject them to audits in the future too.

As regards the current electoral term, Parliament has called for reporting by the Government on the following issues relating to reports submitted to Parliament by the National Audit Office:

In parliamentary communication 50/2010 Parliament required the Government to report in the Report on the Final Central Government Accounts for 2011 on the implementation of the following measures:

- 1 Parliament requires that the Government initiate measures to clarify and improve the information base, openness and

²⁸ Laadukas lainsäädäntö osana valtiontaloudellista päätöksentekoa, National Audit Office's studies and reports 3/2011. Lainsäädäntöpolitiikan mahdollisuus ja haaste, National Audit Office's studies and reports 5/2011.

²⁹ National Audit Office 31/303/2011 Prosessimallilla sujuvampaan lainsäädäntöön-sujuvampaan lainvalmisteluun -hankkeen III väliraportti, National Audit Office 31/202/2011 Hovi- ja hallinto-oikeusverkoston kehittäminen. Oikeusministeriön mietintöjä ja lausuntoja 17/2011, National Audit Office 31/047/2011 Oikeudenkäynti hallintoasioissa. Prosessityöryhmän mietintö

transparency of the central government spending limits. The spending limits information base should provide Parliament with a better foundation for decision-making relating to the spending limits and for monitoring adherence to the spending limits and the fulfilment of targets.

- 2 Parliament requires that the Government evaluate for each fund separately whether the essential grounds referred to in section 87 of the Constitution still exist for arranging its operation and funding under an off-budget entity.
- 3 Parliament requires that the Government initiate measures to change the structure of the spending limits procedure such that a mechanism is introduced that facilitates the making and interim review of profitable transport investments that will pay themselves back.
- 4 Parliament requires that the Government explore whether tax subsidies should be included within the spending limits procedure. For example, it is justifiable to decide on the total amount of tax subsidies as part of the fiscal policy rules.
- 5 Parliament requires, in order to safeguard the sustainability of local government finances, that the Government include in the central government spending limits a tight restriction on how much expenditure central government can allocate, through legislative and other measures, to the local government sector during the budget planning period.
- 6 Parliament requires that the Government initiate measures to increase the flexibility

of the spending limits procedure such that appropriations can be allocated better than at present within and between the administrative sectors.

In parliamentary communication 17/2010 Parliament called for the Government to report in the Report on the Final Central Government Accounts for 2011 on the implementation of the following measures:

- 7 (1) Parliament requires that the Government initiate the measures necessary to eliminate borrowing in excess of liquidity needs.
- 8 (2) Parliament requires that the Government take appropriately into consideration the measures stated in the report regarding budget resolutions.³⁰

In parliamentary communication 25/2010 Parliament called for the Government to report in the Report on the Final Central Government Accounts for 2011 on the implementation of the following measures:

- 9 (2) Parliament requires that the Government prepare and introduce a shared workflow management and information system for the justice and interior administration in a manner whereby this, including in terms of scheduling, enables the entry into force of the legislation on pre-trial investigations and coercive measures and report to Parliament in the next Report on the Final Central Government Accounts.

³⁰ In report 1/2011 the Committee found that the measures reported in the Report on the Final Central Government Accounts taken on the basis of certain parliamentary statements are sufficient or the statements are otherwise no longer needed.

2.2 Implementation of monitored positions

Points 1–6

These positions taken by Parliament relate to the National Audit Office's separate report *Effectiveness of the central government spending limits procedure as a fiscal policy instrument* (R 21/2010). Follow-up on the separate report will take place in 2013. Following its completion, the National Audit Office will report on the implementation of the positions under a separate report on the audit of the final central government accounts. Furthermore, the National Audit Office will conduct continuous fiscal policy auditing relating to the theme. The results of the fiscal policy audits will be reported to Parliament in the middle and at the end of the electoral term.

Point 7

Measures relating to the point have progressed as required by Parliament. Measures to eliminate borrowing that is unnecessary to cover liquidity needs already began at the end of 2011, and this year is likely to see a complete end to unnecessary borrowing. In 2011 budgeted loan facilities amounting to

around €1.7 billion were not drawn down as central government liquidity did not require the implementation of net borrowing in accordance with the revenue estimate. The undrawn amount reduces central government debt interest payments, although no specific estimate of the savings obtained has been produced. There was no time to fully utilise the undrawing of the loans in 2011, whereby the savings will be larger in the coming years.

Point 9

The Government reported in the Report on Final Central Government Accounts that the system will be in use in 2014.

3 Economy and productivity

Conclusions and positions

The functioning of performance guidance requires that ministries set agencies appropriate performance targets and that a true and fair view of these is presented in final accounts. Regardless of the guidance model employed, the resources available and the targets pertaining to the results to be achieved on them must be reconciled in administrative steering. As regards performance guidance, this means the reconciliation of the development of the effectiveness of activities and the service capacity with the management of economy and productivity. Targets and information relating to economy and productivity are key elements of well-functioning performance guidance. Regardless of the guidance system, they also provide the basis for the assessment of effectiveness, service capacity and the operational efficiency of activities on the whole.

The situation regarding the presentation of true and fair information about operational efficiency has improved clearly following the introduction of performance guidance. The utilisability of information would, however, be further improved by the harmonisation and clarification of the information and the method of presentation relating to operational efficiency information. Clear key indicators and a uniform manner of presentation would simplify accounting procedures and increase efficiency in the preparation of reports on operations.

There is still room for improvement in performance guidance. When the target-setting concerning economy and productivity and the related data providing a true and fair view are brought together in the assessment of the state of performance guidance, only one in four accounting units had been set sufficient targets and data providing a true and fair view was provided regarding their achievement

3.1 Operational efficiency

Economy and productivity targets only set for one in two accounting units

Under the State Budget Decree, performance targets for social effectiveness and operational performance must be presented in the justifications given in the budget proposal. Performance targets are important for the Government as one of the points of departure for steering and for Parliament when decisions are made about appropriations granted and when evaluating whether the targets set have been reached.

According to the State Budget Decree, the ministries must approve the breakdown of budgetary accounts and performance without delay following the publication of the budget by Parliament. The State Budget Act requires that true and fair information is provided in final accounts and reports on operations concerning the operational performance of government agencies.

According to the State Budget Act and Decree, operational performance is divided into operational efficiency, outputs and quality management, with service capacity also examined in this context.

In conjunction with financial audits the National Audit Office has evaluated the coverage of the performance targets relating to economy and productivity.

Key summary information on the setting of

economy and productivity targets over a three-year period can be found in Table 1.

As regards 2011, the data concerning target-setting has been computed on the basis of accounting units that produce final accounts, while comparison data for previous years is based on government agency data.

On the basis of financial audits for fiscal 2011, the performance targets approved by ministries, which are an essential part of performance guidance, still contain gaps with regard to targets concerning economy and productivity. Comprehensive economy targets had been approved for only 50% of accounting units, while productivity targets had been set by ministries under performance agreements for 40% of accounting units.

An evaluation of the comprehensiveness of targets concerning economy and productivity on the basis of normal operating costs shows that economy targets covered 53% and productivity targets 74% of government operations (53% and 71% in 2010, 33% and 61% in 2009, respectively).

No essential changes have taken place on the whole in the setting of targets for operational performance in recent years. Although economy and productivity targets could be set for all government agencies, they still cover less than half of the agencies

TABLE 1: TARGET-SETTING IN 2009–2011

| Year | Economy | Productivity |
|------|---------|--------------|
| 2009 | 34% | 42% |
| 2010 | 43% | 48% |
| 2011 | 50% | 40% |

Reporting on economy and productivity fairly comprehensive

Provisions on government agencies' final accounts are laid down in the State Budget Act and the State Budget Decree. Since the beginning of 2010, according to the State Budget Decree only those agencies that have been designated as accounting units by the Ministry of Finance are required to prepare final accounts containing financial statements and a report on operations. Although ministries still set performance targets for other agencies as well, these do not have a comprehensive obligation to report on operational performance in their final accounts on the basis of the Decree.

According to the State Budget Decree, the report on operations must present information on operational performance using appropriate indicators and a comparison with performance targets set.

Financial audits have strived to determine whether true and fair information has been presented on operational efficiency. This includes an evaluation of the information that has been presented on economy, productivity, chargeable activities and their profitability and jointly financed activities in so far as giving true and fair information is concerned.

Table 2 contains a breakdown of true and fair information on economy over a three-year period. Because the requirements set for information provision changed in 2010, data for 2009 is not comparable with data for 2010–2011.

Information on economy or corresponding information on costs was judged to be true and fair in 53 accounting units or 88% of all accounting units (50 accounting units or 82% in 2010, 93 agencies or 80% in 2009). The information presented by accounting units mainly comprised surrogate quantities, which accounted for 66% of the total. The presentation of true and fair information means that the performance information provided is at the same time both true and fair. Although some accounting units cover agencies of economical importance, it has only been possible to examine the presentation of true and fair information at accounting unit level.

Information on productivity was judged to be true and fair in 51 accounting units or 85% of accounting units (46 accounting units or 75% in 2010, 87 agencies or 75% in 2009). Information on productivity was judged to be fair in 53 accounting units or 88% of all accounting units (50 accounting units or 82% in 2010, 98 agencies or 85% in 2009). Information on productivity was judged to be true in 53 accounting units or 88% of all accounting units (50 accounting units or 82% in 2010, 93 agencies or 80% in 2009).

When the information on economy and productivity is evaluated on the basis of the agencies' normal operating costs, true and fair information on economy covered 52% and on productivity 59% of government operations (50% and 61% in 2010, 61% and 57% in 2009, respectively).

TABLE 2: ECONOMY INFORMATION IN FINAL ACCOUNTS

| Year | True information | TFair information | True and fair information |
|------|------------------|-------------------|---------------------------|
| 2009 | 82% | 90% | 80% |
| 2010 | 85% | 89% | 82% |
| 2011 | 92% | 92% | 88% |

Ministries have presented information on economy mainly in the form of cost information broken down by result area or in some other corresponding way. Even bearing this in mind, the information provided by the Ministry for Foreign Affairs, Ministry of Education and Culture and the Ministry of Employment and the Economy cannot be judged as true and fair. Other ministries as well should present information on operational efficiency, such as costs and person-years, according to the model recommended by an inter-ministerial accounting working group (Ministry of Finance working group report 1/2006).

When the information presented on operational efficiency is examined as a whole, the information was judged to be true and fair in 52% accounting units or 87 of accounting units (48 accounting units or 79% in 2010, 85 agencies or 73% in 2009).

The situation regarding the presentation of true and fair information about operational efficiency has improved clearly following the introduction of performance guidance. The utilisability of information would be further improved by the harmonisation and clarification of the information and the method of presentation relating to operational efficiency information. Clear key indicators and a uniform manner of presentation would simplify accounting procedures and increase efficiency in the preparation of reports on operations.

Reporting on chargeable activities at a good level

The demand for and supply of performances under public law are based on legislation, and authorities or agencies have generally been given statutory exclusive rights to produce performances. The appropri-

te preparation of cost-effectiveness calculations ensures legal protection for those who are required to pay charges, so that charges are not higher for customers than the general grounds in legislation allow. The monitoring and presentation of chargeable activities and annual results are also very important when government agencies compete with private actors engaged in the same activity.

According to the State Budget Act, the monitoring of the profitability of chargeable activities must be arranged so that their annual results can be presented in connection with the annual accounts, unless the chargeable activity is insignificant. According to the State Budget Decree, the report on operations must provide information about the profitability of chargeable activities and comparisons with the targets set. The criteria for true and fair information have been further specified under a State Treasury order that requires the presentation of cost-effectiveness by performance type.

According to central accounting data, central government chargeable activities produced revenues totalling €1.2 billion (€1.2 billion in 2010, €1.3 billion in 2009), of which performances under public law produced €0.3 billion (€0.3 billion in 2010), commercially priced performances €0.5 billion (€0.5 billion in 2010) and performances priced on the basis of special legislation €0.4 billion (€0.4 billion in 2010).

In 2011 chargeable activities as referred to in the State Budget Act were provided by 50 accounting units (49 accounting units in 2010, 95 agencies in 2009). Ministries had set performance targets concerning chargeable activities for 36 accounting units or 72% of accounting units engaged in chargeable activities (45 agencies or 63% in 2010, 77 agencies or 81% in 2009).

Table 3 contains a breakdown of information on chargeable activities over a three-year period. The figures for 2010 and 2011 have been calculated for accounting units engaged in chargeable activities.

Audits found that 43 accounting units or 86% of accounting units had presented true and fair information on chargeable activities and annual results for them. The corresponding figures for the year before were 41 accounting units or 84% of accounting units engaged in chargeable activities.

When the information on chargeable activities is evaluated on the basis of revenues

from chargeable activities, true and fair information covered 86% of chargeable activities (86% in 2009 and in 2010).

With regard the presentation of information in final accounts on chargeable activities, on the whole the situation has improved compared with previous years. Qualified opinions on regularity as a result of gaps in the monitoring of chargeable activities and the presentation of annual results were issued to only two accounting units in 2011 (3 accounting units in 2010, 13 agencies in 2009).

TABLE 3: INFORMATION ON CHARGEABLE ACTIVITIES IN FINAL ACCOUNTS, PER CENT OF ACCOUNTING UNITS ENGAGED IN CHARGEABLE ACTIVITIES

| Year | True information | Fair information | True and fair information |
|------|------------------|------------------|---------------------------|
| 2009 | 78% | 93% | 78% |
| 2010 | 84% | 88% | 84% |
| 2011 | 90% | 90% | 86% |

3.2 Current state of performance guidance on the basis of operational efficiency

Room for improvement in the implementation of performance guidance

Performance guidance requires that ministries set agencies appropriate performance targets and that true and fair information on these is presented in final accounts.

In all administrative steering it is essential to match resources and targets concerning outputs. One task of performance guidance is to coordinate the development of operational effectiveness and service capacity with the management of costs. Therefore targets and information relating to economy are key elements of well-functioning performance guidance. Regardless of the guidance system, they also provide the basis for the assessment of effectiveness, service capacity and economy of activities as a whole.

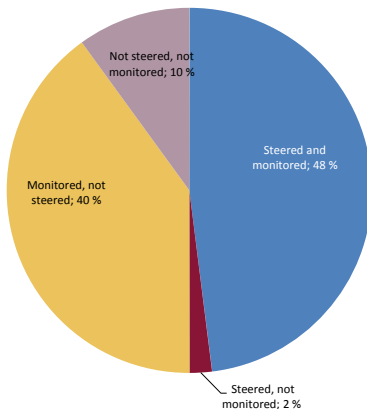


FIGURE 5 Performance targets describing economy and information in final accounts

Figure 5 describes the functioning of performance guidance from the perspective of steering and reporting regarding economy. The coverage of performance targets concerning economy set by ministries and the information presented by accounting units in their reports on operations have been used as criteria.

As only accounting units have been required to prepare final accounts since 2010, the functioning of performance guidance can only be examined for each accounting unit. Although the share of accounting units that have been steered with adequate targets concerning economy and have reported true and fair information has risen to 48% (49% of accounting units 2010, 33% of agencies in 2009), this is still less than half of all accounting units. Evaluated on the basis of normal operating costs, this covered only 37% of government operations (37% in 2010, 33% in 2009).

With regard to the presentation of true and fair information on economy, the situation has improved somewhat in the past three years. True and fair information on economy was presented by 88% of accounting units. The corresponding figure was 82% of accounting units in 2010 and 80% of agencies in 2009. Accounting units' capability to present information on economy is still better than ministries' capability to steer subordinate administration with targets in this area.

Performance targets regarding economy had been set for 30 accounting units or 50% of all accounting units. True and fair information was presented by 29 or 97% these (97%

of corresponding accounting units 2010, 95% of agencies in 2009). Correspondingly, among those accounting units for which economy targets had not been set (30 accounting units), 24 accounting units or 80% presented true and fair information (67% of corresponding accounting units in 2010, 72% agencies in 2009). Evaluated in this manner, the deficiencies in performance guidance can clearly be found in target-setting.

When the target-setting concerning economy and productivity and the presentation of true and fair information on these are combined when evaluating the current state of

performance guidance, the share of accounting units that have been steered with adequate targets and have presented true and fair information is only 25% (25% of accounting units in 2010, 22% of agencies in 2009). Correspondingly, those accounting units the economy and productivity targets set on which by the ministry were not regarded as adequate and that had not presented true and fair information on economy and productivity accounted for 13% of accounting units (25% of accounting units in 2010, 24% of agencies in 2009).

4 Effectiveness and public administration service capacity from the citizen's perspective

This chapter deals with audits with a cross-cutting theme of services provided by public administration and their funding: how public administration responds to service demand and how effective services and measures appear to be. In this context attention has also been drawn to the prerequisites of effectiveness and its assessment, particularly the information base of central government decision-making.

Audits have covered the management of employment as a broader theme from the perspective of increasing the employment rate, the development of local government and service structures as well as the realisation of the interests of the child in the implementation of the Child Welfare Act.

4.1 Management of employment

Conclusions and positions

A sustainability gap has been created in Finland's general government finances, the reduction of which calls for raising the employment rate³¹ as well as other measures. Raising the employment rate is the most efficient way to balance general government finances and respond to the challenges posed by the ageing of the population.³² The perspective shared by the audits conducted under the employment management theme has been to examine how efficiently the Government's employment policy contributes towards the long-term objectives of increasing the employment rate to 75%.³³

In April 2012 the employment rate or the share of the employed among those aged 15–64 was 68.5%.³⁴ However, the employment rate varies considerably from one region to another. Increasing the employment rate to 75% is a challenging objective and reaching it requires good economic growth. Although the employment rate has increased slowly since the recession years of the early 1990s, the structural change of the economy has resulted in the employment rate of men in particular remaining at a level lower than that seen in previous decades. Broad-ranging efforts will therefore be needed to reach the employment rate target. Measures targeted at individual groups only have a limited impact on the overall employment rate.

In addition to students, pensioners and those on family leaves, the unemployed comprise a considerable labour reserve. In 2011 the number of unemployed jobseekers averaged 249,900, of whom 142,600 were difficult to employ.³⁵ Employment and activation measures rarely lead into the rapid employment of the long-term unemployed in the open labour market, but they do contribute towards the prevention of social exclusion. Improved effectiveness would call for the better targeting of measures in accordance with the various needs of customers.

Areas undergoing abrupt structural change have since 2007 been supported through government measures. A total exceeding 11,000 employees were made redundant in these areas between 2007 and 2011. The concept of support provision for these areas has been effective and well-functioning. The amount of funding provided has also been sufficient. On the whole this activity has proven to be necessary from the perspective of the areas of abrupt structural change. There has, however, been hardly any impact on the overall employment rate.

The promotion of work-based immigration has been one of the methods to increase the workforce and reduce the sustainability gap brought up by government programmes. Work-based immigration has accounted

31 Employment rate refers to the share of the employed among the working-age population.

32 Kiander, Jaakko (2010): *Julkisen talouden kestävyys – onko meillä vielä varaa hyvinvointivaltioon?* Saari, Juho (ed.): *Tulevaisuuden voittajat – Hyvinvointivaltion mahdollisuudet Suomessa*, Eduskunnan tulevaisuusvaliokunnan julkaisu 5/2010. p. 156.

33 The long-term objective of Prime Minister Matti Vanhanen's second cabinet and Prime Minister Mari Kiviniemi's cabinet was to raise the employment rate to 75%. Prime Minister Jyrki Katainen's cabinet aims to raise the employment rate to 72% and reduce the unemployment rate to 5% by the end of the electoral term. The national programme of the Europe 2020 Strategy issued in April 2011 set the national target of raising the employment rate of those aged 20–64 to 78%. In practice this corresponds to an employment rate of 75% among those aged 15–64.

34 Statistics Finland. *Labour Force Survey 2012*, April.

35 *Työllisyyskertomus vuodelta 2011*. Työ- ja elinkeinoministeriön julkaisu 8/2012. pp. 19, 22.

for 5–10% of total immigration into Finland, so it only contributes to a small proportion of the boost to labour supply provided by immigration and has not helped the efforts to raise the employment rate. The need to increase work-based immigration will be emphasised as the working-age population gets smaller, but the priority issue is still to raise the employment rate of foreigners living in Finland closer to that seen among the native population.

The objective of increasing work-based immigration has not been translated into concrete, consistent and coordinated activity across administrative sectors that supports the entire scope of employment policy. Instead, the promotion of work-based immigration has remained isolated from the rest of employment policy. Measures taken to promote work-based immigration have been local, small in scale and fragmented. The definition of objectives and concepts of work-based immigration needs clarification in order for the expectations set for it as a tool for sustainability gap reduction to come true.

The systematic and consistent preparation of work-based immigration and, more broadly, labour immigration would be supported by the development of a uniform statistics and monitoring system as well as increased cooperation across administrative sectors. At the moment there is not enough information available about foreigners working in Finland. Not even the number of such employees is known.

Employment rate far behind the target set

Three audits have been conducted under the employment management audit theme. Their topics are helping the long-term unemployed find jobs and preventing marginalisation, supporting areas of abrupt structural change, and 'work-based immigration'.³⁶ The National Audit Office is also conducting an audit concerning the extension of working lives.³⁷ The audits have emphasised the effectiveness perspective because increasing the effectiveness of measures has been a key employment policy objective in recent years.

The targeted 75% employment rate was last achieved in Finland in the late 1980s. This employment rate level has mainly been reached by the other Nordic countries. According to Eurostat, the employment rate among those aged 15–64 was 78.5% in Iceland, 75.3% in Norway, 74.1% in Sweden and 73.1% in Denmark in 2011.

Raising the employment rate may be facilitated in the future by the fact that annually around 10,000 more people will leave the working age population than will enter it. It is, however, difficult to assess the impact of population ageing on the employment rate development. The ageing are the only group with their employment rate higher in 2011 than in the 1980s. The employment rates were lower in all other age groups.³⁸

36 National Audit Office performance audit reports Helping the long-term unemployed find jobs and preventing marginalisation (229/2011), Supporting areas of abrupt structural change (2/2012), Work-based immigration (13/2012).

37 National Audit Office preliminary study report Extending working lives 30 January 2012.

38 Europe 2020 Strategy, Finland's national programme, 2012. Ministry of Finance.

39 National Audit Office preliminary study report Extending working lives 30 January 2012

Major regional variation in employment rates

The regional differences in employment rates still remain rather large in Finland despite some evening out seen in the 2000s. The employment rates vary from 80% in the Åland Islands to slightly over 60% in Eastern and Northern Finland. Reaching the 74–75% employment rate target would require the entire country to achieve on average an employment situation similar to the southern region of Uusimaa.

There is also major regional variation in actual retirement age. In 2010 the variation range in the regional average age of those retiring on old-age, disability, unemployment or special farmer's pension was almost six years. According to a statistical analysis carried out by the National Audit Office, the regional variation in retirement age remains considerable even following the standardisation of certain factors affecting retirement age (morbidity, education level, age structure, unemployment). Without standardisation, the range of variation in regional average ages was 5.5 years (53.7–59.2) in 2003 and 5.8 years (56.1–61.9) in 2010.

The difference between the average retirement age in large sub-regional units that are located reasonably close to each other may also be several years. The average retirement age in the Vaasa sub-regional unit was 60.2, which is four years higher than the figure for the nearby Oulu sub-regional unit. The regional variation in average ages and taking the underlying reasons into consideration can be regarded as one of the prerequisites for the effectiveness of central government measures aiming at extending working lives.⁴⁰

Activation of the long-term unemployed has rather small impact on the employment rate

Achieving the targeted increase in the employment rate calls for the better employment of the labour reserves, such as the long-term unemployed. In 2011 the average number of those difficult to employ (long-term or repeatedly unemployed, unemployed after a measure or moved to another measure) was 142,600 in Finland. According to the audit, bringing those difficult to employ back to the open labour market is a lengthy process that requires plenty of society's resources. The employment effects of the active employment policy aimed at the long-term unemployed are quite small.⁴⁰

Employment and activation measures rarely result in the speedy employment of the long-term unemployed in the open labour market. The audit found that measures do, however, to some extent reduce the need for social assistance and promote the other employment policy objective – the prevention of marginalisation. They may also create the prerequisites for employment access over the longer term.

Improving effectiveness would require more individually oriented measures offering high quality in terms of content and lasting for a sufficient period. In practice such efficient sets of measures may take several years and therefore be expensive. Effectiveness could also be improved by taking measures sooner. As employment access among the long-term unemployed after measures is low, it is important to prevent the occurrence of long-term unemployment in advance.

Increasing the effectiveness of measures

⁴⁰ National Audit Office performance audit report Helping the long-term unemployed find jobs and preventing marginalisation (229/2011).

taken to employ the long-term unemployed and prevent marginalisation calls for the gauging of measures to clients' different needs. The long-term unemployed are not a homogenous group. Instead, there are many different, intertwining factors lying behind their problems. Therefore the National Audit Office finds it important to establish such operating models that support client-specifically tailored services. On the other hand, the eradication of structural unemployment also calls for a clear change of attitudes in the labour market as regards the employment of people with partial disabilities.

According to the National Audit Office's view, the employment policy service system should be transparent and understandable by users. Fragmented by individual measures, the system and activities have lacked continuity and sustainability. The current Government Programme contains a pilot programme to develop cooperation between authorities and other actors and strengthen the role of municipalities aimed to support the employment access of the long-term unemployed and reduce unemployment. A total of 23 projects and 61 municipalities have been selected for the pilot. Launched in the autumn, the experiment provides the participating municipalities with improved opportunities to influence how the services for the long-term unemployed are provided.

Early referral plays an essential role in rehabilitation

The extension of working lives has been proposed as one way to slow down the reduction in labour supply. Rehabilitation and ma-

intenance of capacity to work is the biggest central government measure in monetary terms towards the extension of working lives. The National Audit Office has begun a performance audit to audit central government measures to arrange rehabilitation to maintain capacity to work.⁴¹

No specific target has been set for working career length, and the compilation of statistics on actual lengths of working careers is also only at the planning stage. The only concrete target has been set for the retirement age expectancy at 62.4 years. This should be reached by 2025.

At the end of 2010 there were around 270,000 people on disability pension, which corresponds to the number of unemployed jobseekers and accounts for around 10% of the labour force. The annual number of those retiring on disability pension exceeds 25,000. Of the total of slightly under 1.5 million pensioners, around one in five receives a disability pension. The average age of retirement on disability pension is 52, which is around 10 years younger than the age for old-age pension. The main reasons for disability are mental disorders (38%) and musculoskeletal conditions (29%).

According to several effectiveness evaluations based on randomised trials and register data, the benefits of rehabilitation in the prevention of incapacity for work have been questionable. According to observations made during the audit currently underway, early referral to treatment has, however, reduced the risk of disability pension. It appears that the factors causing disability are addressed too late.

Therefore timely interventions by health care experts play a role in the prevention of

41 National Audit Office preliminary study report Extending working lives 30 January 2012..

incapacity to work. This observation underlines the importance of measures such as regular age-related checkups to the prevention of incapacity to work.

Areas of abrupt structural change have been supported using a well-functioning concept

The performance audit concerning support for areas undergoing structural change⁴² evaluated the effectiveness of regionally targeted measures in the management of employment. Areas undergoing abrupt structural change have since 2007 been supported through government measures. The aim has been to promote employment by increasing elements that encourage the setting up of enterprises and growth in municipalities that are undergoing structural change. Support has been targeted at enterprises' and municipalities' investments and labour administration measures. New types of support have not been created. Instead, additional funding has been allocated for a specific period for the normal support systems used in the areas.

Around €40 million a year has been spent on these activities. The amount of support funding has been sufficient to cover the funding of all appropriate projects.

On the basis of a statistical analysis of the effectiveness of the measures carried out in the audit, the employment impacts of the activities can be regarded as positive. It has not, however, been possible to replace all lost jobs in a short period of time. It is, however, difficult to distinguish the impacts of structu-

ral change support from those of other regional support.

A total exceeding 11,000 employees were made redundant in these areas between 2007 and 2011. In an average structural change area the number of those suffering a direct loss of job is around 500. Following the completion of the performance audit concerning support for areas of abrupt structural change, plans were announced by the Nokia Group for reductions resulting in the loss of 3,700 jobs in Finland⁴³, which alone accounts for one-third of the total number of those who have previously lost their job in structural change areas.

According to the audit findings, the authorities' activities can as a rule be regarded as successful and speedy enough. It is likely that without these measures the situation of the structural change areas would be worse than it is today. The two-year structural change area status can, however, be regarded as a short period to generate employment impacts. In several areas structural change has been continuous rather than abrupt, whereby the measures taken by central government should support enterprises' long-term capacities.

According to the audit, there are shortcomings in the monitoring of the impacts of funding provided for structural change measures. Monitoring the employment access of those made redundant cannot be used as a basis of conclusions on what would have happened without additional funding. Consequently, the evaluation of the actual effectiveness of these measures is challenging.

42 National Audit Office performance audit report Supporting areas of abrupt structural change (2/2012).

43 Nokia Corporation Stock Exchange Release 14 June 2012 at 09.30.

Rates of work-based immigration to Finland have been low and account for a small share of total immigration

Promoting work-based immigration has been one of the means included in government programmes to increase the workforce and reduce the sustainability gap.⁴⁴ The examination of work-based immigration is made difficult by the fact that there is no clear and established definition for the concept of work-based immigration and that it cannot always be distinguished from other immigration.⁴⁵

Immigration to another country on a permanent basis for the purpose of work is commonly referred to as work-based immigration. Using this definition, work-based immigration only accounts for a small part of immigration to Finland and of the increase in labour supply based on immigration. In practice, others than those who have moved to Finland on the basis of grounds other than work-related ones often also have the right to work in Finland. Less than one-tenth of immigration has been work-based in recent years. The share of work-based immigration from non-EU countries to Finland is also low in European comparison⁴⁶.

There was a considerable increase in immigration to Finland in the first decade of the 2000s. Between 2000 and 2009 a total of 218,000 persons moved to Finland from abroad, with one in three of these born in Finland. The most common reason for immigration to Finland is family.

Around one in three immigrants have moved away from Finland. The likelihood of this varies considerably depending on the immigrant's country of origin.⁴⁷

Immigrants do not often move to Finland for permanent employment but rather for temporary work

A special feature in the participation of foreign nationals in the Finnish labour market is that it does not constitute actual permanent immigration but rather temporary stays in the country for work purposes.⁴⁸ Typical characteristics of sectors employing foreigners include cyclical changes, low pay levels and the skills required not being very country- or language-specific. For example, only 639 persons were within the scope of application of the Act governing the income tax of foreign key employees (1551/1995) in 2010. Another typical feature is the concentration of foreign employees in Southern Finland.

Statistical data is available on foreign employees who are permanent residents in Finland. However, temporary foreign labour, with most of these being posted employees, account for a major proportion of the total number of foreign employees in Finland. There is strong variation in estimates of the amount of temporary foreign workforce. Not all temporary workers arriving in Finland are registered, and there are also overlaps in authorities' register data⁴⁹. According to an estimate by Statistics Finland, there are at least 50,000 temporary workers in Finland. Based on this calculation, the number of permanent and temporary foreign employees totals at least 140,000 or around 6% of the total number of employed persons.

Although temporary workforce is not visible in employment statistics, it affects the functioning of the Finnish labour market. The role of temporary workers in the labour market is not known, and their impact on the

44 National Audit Office performance audit report Work-based immigration (13/2012).

45 Two terms have been used for the concept in Finnish.

46 Eurostat, Statistics in focus 43/2011.

47 Statistics Finland (rate of moving out among those who moved to Finland in 1987–2009).

48 Sorainen, Olli (2012): Työperusteinen maahanmuutto ja työlupajärjestelmä Suomessa. Oikeus 2012 (41); 2: 244–256, pp. 245–246.

49 Registers are maintained by the Finnish Centre for Pensions, the Finnish Immigration Service, employee pension insurance providers and the National Board of Taxes.

Finnish labour market cannot be assessed reliably.

Development of compilation of statistics and registration required to obtain a better picture of foreign workforce

The concept of foreign workforce is not unambiguous, and there is no uniform and comprehensive statistical data about foreigners working in Finland. In addition to foreign nationals permanently residing in Finland, there are temporary employees working in Finland who are not part of the Finnish population or included in workforce figures. Work-based immigration is not distinguishable from other types of immigration in population statistics. Statistics and monitoring data providing a full picture about the amount, structure and placement of foreign workforce are not available. The Finnish situation concerning statistics and monitoring is regarded as worse than in the other Nordic countries.⁵⁰

The problems and deficiencies relating to the registration of and statistics on foreign workforce have been known for a long time. Several problems concerning the information base were specified in a government report (4/2008). The Programme of Prime Minister Jyrki Katainen's Government also sets the objective that statistics and research activities concerning immigration must be clarified and made more efficient. Systematic development work is, however, yet to be launched. This would require inter-agency coo-

peration across administrative branches in which information needs extending beyond boundaries between authorities would be taken into consideration in the development of authorities' information systems.

Major challenge posed by variation in employment rates depending on grounds of immigration and background

From the employment rate target perspective, in practice issues more important than work-based immigration are the integration and employment access of immigrants regardless of the grounds on the basis of which they immigrated to Finland. Current population forecasts anticipate a population gain of around 15,000 persons a year from migration. Around 75% of immigrants arriving in Finland are of the working age, and the immigrant age structure is clearly younger than that of the native population, which may improve the demographic dependency ratio.⁵¹

In 2009 the employment rate of Finnish citizens was 68.6% and that of foreign nationals 49.3%. Cross-cutting statistics do not provide a good overall picture of immigrants' labour market status, however. It takes time – even more than a decade – for immigrants' socio-economic status to become established.⁵²

There is strong variation in immigrant employment rates depending on the grounds of immigration, gender and language background. Women's employment rates are usually 10–20 percentage points lower than

50 Sorainen (2012), 245–246.

51 The demographic dependency ratio refers to the number of those aged under 15 and over 64 per one employed person. In addition to population ageing, the demographic dependency ratio is affected by reductions in the size of the workforce.

52 Myrskylä, Pekka (2012): Presentation at Statistics Finland seminar on 22 May 2012; Linnanmäki-Koskela, Suvi (2010): The labour market integration of immigrants, City of Helsinki Urban Facts.

men's. In compliance with the Government Programme, the Ministry of Employment and the Economy has set a performance target for the Centres for Economic Development, Transport and the Environment to increase the employment rate of immigrants and to halve their unemployment rate.

The programmes of Prime Minister Matti Vanhanen's first and second cabinets featured the idea of active immigration policy. The aim was to replace workforce exiting the labour market and strengthen the competence base by promoting work-based immigration. The main focus in the Programme of Prime Minister Jyrki Katainen's Government is on the increased efficiency of integration rather than the promotion of work-based immigration. There has been a shift in focus in immigration policy, which in practice has had

an adverse effect on the implementation of immigration policy, in which a sustained approach is required.

Integration measures seek to promote immigrants' labour market capacities and employment access. The National Audit Office has begun a study for the launch of a performance audit concerning integration measures. According to research findings, immigrants with an immigration plan have found employment considerably more quickly than others since the entry into force of the Act on the Integration of Immigrants⁵³. The transfer of integration tasks from the Ministry of the Interior to the Ministry of Employment and the Economy has sought to result in increased efficiency in immigrants' integration and the promotion of their employment in the open labour market⁵⁴.

53 Hämäläinen, Kari and Sarvimäki, Matti (2008): Vuoden 1999 kotouttamislain vaikutusarviointi. VATT-julkaisu 47.

54 Government proposal 73/2011.

4.2 Developing the local government and service structures

Conclusions and positions

Performance audits have examined local government and service structures from the viewpoints of steering and service systems. The National Audit Office underlines that the structures as such are unable to provide a solution to service quality and availability from the citizen's perspective. Instead, particular attention should be paid in the development of local government and service structures on services being at the level required by the Constitution of Finland and relevant special legislation.

The project to restructure local government and services (Paras) has involved a switch in the delivery of many services to cooperation areas. The establishment of cooperation areas has affected the provision of individual services in many ways. Service level may have improved in some areas, and employees have also received opportunities for specialisation and peer support in larger units of service provision. On the other hand, the establishment of cooperation areas may have created inappropriate administrative structures that are problematic from the viewpoint of access to democratic influence among municipal residents. A high degree of specialisation may have been visible to customers as service fragmentation and longer journeys to points of service access.

The system of central government transfers to local government was reformed at the beginning of 2010 into a 'one tube' model, and this did not unequivocally improve the transparency of the funding system. The cri-

teria for central government transfers also remained almost unchanged in the reform. The reform showed once again how many types of issues have to be taken into consideration in projects to reform systems of central government transfers to local government. In the future more determined efforts should be made to examine the entity created by funding and other steering rather than renewing the various steering instruments independently of each other.

The local government and service structure reform will also continue after the Paras project. An Act on Local Government Structures based on the Programme of Prime Minister Jyrki Katainen's Government is due to replace the Paras framework act in force until the end of 2012. A vital local government structure based on strong autonomous municipalities is the aim of the drafting process. In practice this has been regarded to mean a clear reduction in the number of municipalities, which would be based on natural commuting zones. The aim of the local government reform is for the municipalities also to be able to bear responsibility for the provision of social welfare and health care services. The National Audit Office finds that special attention should be paid in the reforms currently underway to the obligations set in the Constitution and special legislation and to the citizen's perspective. It should be remembered in conjunction with reforms that municipalities are not mere service production organisations. Instead, they are key components of the Finnish democratic social system.

Auditing of local government and service structures

The Paras project for the reform of the local government and service structure has not been audited as a whole. Several performance audits have, however, been conducted on its social welfare, health care and education sections. Although covering different areas, the findings and positions of audits concerning the service structure and the Paras project are very similar.

Government transfers and grants to municipalities are mainly determined on an imputed basis and universal, whereby municipalities can use their discretion in their allocation. The amount changes automatically to reflect changes in population number and age structure as well as the cost level. Government transfers and grants also change on the basis of decisions following legislative changes and central government budget decisions. Government transfers and grants to municipalities and joint municipal boards included in the section on budgeting for basic services of the General Strategy and Outlook of the budget proposal amounted to a total of €10,095 billion in 2011. Of these imputed central government transfers to local government amounted to €9.078 billion and other government transfers and grants to €1.017 billion. Central government measures resulted in an imputed €40 million deterioration in local government finances of in 2011.⁵⁵

The objectives of the project to restructure local government and services (Paras) partially reached

In spring 2005 the Government launched a project to restructure local government and services (Paras project). From the local government actor perspective the project was launched quickly and at least in part unforeseeably. The launch of a local government sector project of this type could, however, be anticipated on the basis of the productivity programme launched by Prime Minister Matti Vanhanen's first cabinet.

The Act on the Reform of Municipal and Service Structures (169/2007) will remain in force until the end of 2012. According to section 1 of this framework act, the reform aimed to strengthen from the starting points of municipal democracy local government and service structures, advance new service provision methods and service organisation, reform the financing system of municipalities and the system of central government transfers to municipalities, and to revise the division of duties between local authorities and central government. In this way, it is hoped that the basis for the arrangement and provision of services for which local authorities are responsible, and the development of municipalities, will remain strong in structural and financial terms. The aim was also to improve productivity and curb increases in local government expenditure as well as to create capacities for the development of the steering of services arranged by municipalities.

The framework act aimed for a vital, operational and cohesive local government structure.

⁵⁵ Government budget proposals 2011 and 2012; Report on the Final Central Government Accounts 2011.

re. Another aim was to ensure that high-quality services are available to residents throughout the country. The service structure had to be comprehensive and economical and enable the efficient use of resources.

A key obligation set for municipalities was the population base of a minimum of 20,000 residents laid down for basic health care and closely related social welfare services. Municipalities could choose whether they would create the population base through a municipal merger or by establishing a cooperation area. Deviation from the population base objective was allowed on the basis long distances, special circumstances of island municipalities, language rights (Finnish/Swedish) or the language and cultural rights of the Saami.

In 2011 the framework act was made tighter. The amendment laid down provisions concerning the Government's power to oblige municipalities for cooperation, the schedule for the transfer of decision-making and tasks of municipalities and the Government and added a specification whereby the social welfare tasks transfer covers all services excluding child day care and services relating to private child care allowance.

The Paras project unquestionably resulted in unprecedented changes in the Finnish local government structure. The number of municipalities has been cut down by 166 in the 2000s. The municipal mergers in force since the beginning of 2011 resulted in the current number of Finnish municipalities being 336. The Paras project has had a major impact on the promotion of municipal mergers. There is greater variation in the extent to which the objectives relating to service structure and service productivity in particu-

lar have been reached. The general nature of the framework act and unclarity in concepts and objectives included in it have been visible in the disunity of the cooperation practices. The technical and content-related problems of the Act have reduced municipalities' commitment to the objectives set.⁵⁶

Performance audits conducted in recent years have found that the development or reorganisation of services in municipalities undergoing a merger have often been trampled by the merger process. It has not been until the post-merger period that consideration has begun on how to arrange services for the increased population base or what types of service the new municipality will provide. These are specifically those issues that should have been considered in conjunction with the merger discussions.⁵⁷ Under the framework act, the municipalities were supposed to provide the Government with implementation plans concerning the reform. According to audit findings these plans did not in all respects match the expectations set. The implementation plans were very general and did not cover individual services but, instead, service bundles. Therefore they do not indicate anything about issues such as the delivery of individual mental health services.

As part of the Paras project, the Ministry of Education and Culture implemented a vocational institute strategy, with one of its main objectives set in 2006 being to reduce the number of providers of vocational upper secondary education and training. The project was a success in terms of the quantitative objective as the number of providers has been cut from 175 to 139 in five years. The population base in accordance with the Pa-

56 National Audit Office performance audit report Services for persons with disabilities in a changing municipal and service structure – state steering in arranging housing services for persons with intellectual disabilities (221/2011).

57 National Audit Office performance audit reports The steering and funding system for basic education (192/2009), Medical rehabilitation (193/2009) and The effectiveness of legislation steering mental health services (194/2009).

ras project, 50,000 residents, is not, however, enough for the provision of vocational upper secondary education and training. A mere reduction in the number of education and training providers does not indicate much about the extent to which mergers have managed to create the desired impacts relating to improved quality of education and training.⁵⁸

Service structure based on cooperation areas may result in service fragmentation from the customer perspective

The application of the Act on the Reform of Municipal and Service Structures (the Paras framework act) has been a challenge for the local government sector. As the local government and service structure reform was steered specifically by a framework act, the municipalities were allowed a relatively free hand to construct various models for service provision. The problems of the recommendations given concerning the local government and service structure reform were also detected quite soon by the central government in its steering provider role. Efforts were subsequently made to eliminate the problems with the recommendations by turning them into looser standards that are obligatory to municipalities.⁵⁹

The general nature of the framework act and unclarities in concepts and objectives included in it have been visible in the disunity of the cooperation practices between municipalities. Central government administration has not always had a clear view of what kinds of service production solutions have been created in cooperation areas. In some

cases service structures have even become more decentralised. There has also been variation in issues relating to responsibility for service provision between and even within models. The functioning of cooperation areas and municipal mergers has been adversely affected by considerable differences between the structures and practices of the cooperating municipalities. Bringing such different operating models together has tied up considerable amounts of municipal resources and taken time from basic work.⁶⁰ Therefore the question arises whether issues such as the host municipality model have genuinely improved services or whether they have just been a way to postpone the inevitable merger of municipalities.

Corresponding observations about service structure fragmentation have been made in research conducted by the National Institute for Health and Welfare⁶¹. The changes made may have increased organisational rigidity and bureaucracy. On the other hand, in larger units employees have access to more peer support and opportunities for specialisation, which may contribute towards improved service quality for municipal residents. The increased harmonisation and packaging of services have reduced individual flexibility in access to services. Service splitting and competence differentiation increase the diversity of service supply but can from the customer perspective be seen as service fragmentation.

On the other hand, the Paras project has had many positive impacts. The level of services available may have increased in many areas. For example, regional differences in child welfare service supply and access appear to be reducing. For instance, the har-

58 National Audit Office performance audit report Structural arrangements in secondary education (11/2012).

59 National Audit Office performance audit report The effectiveness of legislation steering mental health services (194/2009).

60 National Audit Office performance audit report Services for persons with disabilities in a changing municipal and service structure – state steering in arranging housing services for persons with intellectual disabilities (221/2011)

61 National Institute for Health and Welfare report 56/2011.

monisation of services and practices in child welfare has meant that child welfare customers get the same services and support measures regardless of where they live. In smaller municipalities, for example, social welfare and child welfare customers can be provided with increasing levels of expertise, such as professional family work. At best the Paras project has therefore increased the diversity as well as the uniformity of regional service provision.⁶² Data available on the Paras project highlights the fact that the impacts of service changes are multifaceted and may appear different from one customer to another.

According to audit findings, the coordination of service systems may have been insufficient and the requirements set by the Paras act difficult to combine. Poor synchronisation between the various objectives set by central administration has been visible in issues such as the harmonisation of the dismantling of institutional care and the development of large population base services under section 6 of the framework act. The audit on services for persons with disabilities⁶³ found that local authorities and special care districts did not see the connection between the objective of shifting towards non-institutional care and the consolidation of special care districts and hospital districts. Therefore the view of the situation concerning the development of large population base services remained in parts unclear.

Funding system transparency not increased considerably by the Paras project

At the beginning of 2010 the imputed sys-

tem of central government transfers to local government underwent a reform into a 'one tube' model. In the new system, general transfers to local government, the grounds for the determination of transfers to social welfare and health care, and the evening out of transfers based on tax revenue remained almost unchanged. A bigger change was that transfers for pre-primary and basic education are now granted on the basis of age groups (ages 6–15). The graduated system applied to special needs education was discontinued. The school network factor was also abandoned, but its impact was taken into consideration through a change to the population density factor. The provision of education to pupils with minor or more serious disabilities was secured by guaranteeing education providers with funding equal to the level seen before the reform separately from the one tube model.

Because central government transfers for pre-primary and basic education are paid in the one tube model to municipalities, the municipalities must pay a compensation for pupils attending a school operated by another municipality or private provider. The funding system reform in force since the beginning of 2010 was therefore seen as a threat particularly among private basic education providers. Attending comprehensive school in the neighbouring municipality has also been quite common in areas near the municipal border. Invoicing to the home municipality was feared to endanger pupils' freedom to choose their school and increase administrative work between education providers. The matter was resolved by the central government collecting the amounts of compensation payable by pupils' home municipalities and any

62 National Audit Office performance audit report Child welfare (6/2012).

63 National Audit Office performance audit report Services for persons with disabilities in a changing municipal and service structure – state steering in arranging housing services for persons with intellectual disabilities (221/2011)

other funding, such as for voluntary additional basic education, from the administrative sector of the Ministry of Education and Culture and pay the funding to the education provider that actually provides the education. This clearing system helped avoid the increased bureaucracy caused by traditional invoicing of home municipalities. It also helped ensure the predictability of funding from the education provider's perspective.

The above example illustrates the diversity of issues that need to be taken into consideration in projects to reform systems of central government transfers to local government. The objective to simplify and clarify the central government transfers system is also included in the Paras framework act. The changes to the funding system introduced at the beginning of 2010 have not, however, unequivocally improved the transparency of the funding system. It was found in assessments of the reform of the system of central government transfers to local government that some changes made to the system were based more strongly on a consideration of political appropriateness than carefully studied grounds for change⁶⁴.

To improve transparency, it is particularly important in the future to develop funding and other steering systems as an integrated whole. Otherwise there is a risk of changes taking place in the various steering instruments actually reducing system transparency and funding predictability from the service provider's perspective.

Local government reform to continue beyond the Paras project

Although the local government and service structure has been reshaped considerably by the Paras project, the project's impacts have so far not been sufficient from the viewpoint of the sustainability of public finances. The reform of local government and service structures will continue further. The proposal for the Act on Local Government Structures based on the Programme of Prime Minister Jyrki Katainen's Government is due to be circulated for comments by the municipalities in autumn 2012. The aim is for the Act to enter into force on 1 May 2013 the latest. The drafting aims to create vital local government structures based on strong autonomous municipalities. In practice this has been regarded to mean a clear reduction in the number of municipalities, which would be based on natural commuting zones. The reform aims to form municipalities that are strong enough to also bear responsibility for the provision and funding of social welfare and health care.⁶⁵

If municipal productivity guidance is targeted merely at the maximisation of the population base and number of residents, it is difficult to understand what kinds of genuine productivity benefits could be created by any changes to local government and service structures. The most problematic municipalities regarding costs have recently been those with the largest and the smallest numbers of residents. In this respect the productivity guidance of municipalities is in fact still in its infancy as the focus remains on economies of scale measured on the basis of the extent of structures. This applies to political debate as

64 National Audit Office performance audit report Steering and funding system for basic education (192/2009) and its follow-up.

65 Government statement to Parliament concerning progress made in the local government reform 5 June 2012.

well as other debate on research and development in Finland. The key issue regarding productivity guidance is how to steer municipalities towards paying attention in new ways to the cost structures of their service provision. The Paras project as well as its successor both appear to be based on the idea whereby municipal mergers will over the longer term enable improved productivity and reductions in expenditure growth. From

the perspective of the sustainability of central government finances, impacts improving the productivity of service structure should be generated as soon as possible. Some impacts have already been seen as the local government sector has sought to improve productivity through its own projects. There is, however, major variation between municipalities in terms of their level of activity.

4.3 Child welfare

Conclusions and positions

The increase seen in the need for child welfare services has also resulted in a continued increase in child welfare costs. In 2010 child welfare costs of institutional and family care amounted to €619 million and of open care to at least €236 million. Child welfare substitute care costs are indeed turning into a major expenditure item for municipalities. According to audit findings, however, authorities steering child welfare do not have specific information about where and how the costs are created in the various stages of the child protection process. In addition, it is not possible to determine the annual number of child welfare clients on the basis of child welfare statistics.

Municipalities have sought to respond to the growing need for child welfare services by focusing in open care on prevention and early intervention, in substitute care on increasing the share of foster care, and in child welfare services on the whole on curbing the increase in child welfare costs. Municipalities have made determined efforts to change their production and operating methods, reorganised their services and prepared the statutory child welfare plans. Nevertheless, the findings presented in the performance audit report on child welfare (6/2012) show that the interests of the child are not always realised. Key problems in this are to do with the provision of comprehensive support for families, supervision, and substitute and after-care services. The problems seem to be connected mainly with two factors: insufficient human resources and scarcity of appro-

priations allocated by municipalities for child welfare. According to audit findings the solution to the shortage of social workers in open care is not merely to increase the number of social workers in open care. Instead, it should also be considered how some of the tasks assigned to social workers could also be assigned to other child welfare employees.

The Child Welfare Act emphasises that the primary responsibility for a child's development and wellbeing rests with the child's parents and other custodians. Child welfare authorities must support parents and others responsible for children's upbringing and care in these duties by arranging the necessary services and support measures. According to audit findings, however, families are not provided with sufficient support at any stage of the child protection process. The Child Welfare Act also underlines the reunification of families, the significance of which has indeed increased since the entry into force of the new Act. In the opinion of the National Audit Office, one precondition for family reunification is that work with parents is intensified and that reunification objectives are included in parents' client plans.

The increased need for child welfare services has also increased the number of private service providers. According to audit findings, the majority of municipalities procure substitute care services, and services for young people remaining in after-care in the municipality in which they were placed in foster care in particular, from private service providers. The supervision of substitute care carried out by municipalities is not, however, sufficient, while the regional state

administrative agencies do not have the resources required for comprehensive supervision of substitute care.

Efforts have been made to improve substitute care supervision through the enactment of an act on private social services that entered into force in 2011. The introduction of self-supervision plans is also sought to improve supervision. On the basis of the audit, the shortcomings in supervision are so great that self-supervision plans alone will not be able to guarantee sufficient supervision.

The audit showed that municipalities are making every effort to change the substitute care service structure by increasing foster care and reducing institutional care. The transfer of the most challenging young people to foster care calls for stronger support to and training of foster families and the sufficient access of these young people to the services required by them in foster care. According to audit findings children and young people who are in substitute care have major problems with access to psychiatric care in particular. These are partly due to shortages of health care resources. As a result of this child and youth psychiatry units refer such children to substitute care who would primarily need health care services. Social welfare and health care authorities should ensure the functioning of cooperation between child welfare and mental health care services so that children would not be wrongly placed in child welfare institutions.

Well-functioning after-care is a prerequisite for the effectiveness of child welfare work. According to audit findings, neither the government proposal for the Child Welfare Act (252/2006) nor the provisions on after-care take the role of after-care sufficiently into consideration as part of the child protection process. The development of after-care has been almost completely overshadowed by

open and substitute care regardless of the fact that child welfare statistics have for years shown an increase in the number of after-care clients.

Need for open care met reasonably well by services

According to audit findings, there is better access to services in open care in child welfare than could have been expected on the basis of previous reports. The types of open care support provided for child welfare clients are family work, support persons and families, and financial support. The main shortcomings are to do with access to family work and home help services. There are not enough support persons and families to meet the need either, and professional support personnel are only available on the basis of purchased services. Service access is also restricted by long queues, particularly to mental health services. The service system is at its weakest in terms of its capacity to respond to the need for support among children who have experienced violence and young people who need special support. On the basis of the audit, other problems include the fact that young people enter open care too late. There are a lot of such young people who are seen for the first time by social workers at the point when they are referred to urgent placement.

Families need more support

As regards the comprehensive supporting of families, the child welfare system appears to have major shortcomings in the achievement of client-centredness. Although the entire family is regarded as the recipient of support

in open care, lack of time prevents the provision of comprehensive support to families. Parents' lack of motivation to receive the support measures offered is also regarded as a problem among child welfare personnel. No efforts are, however, made to specifically motivate parents to accept support.

In substitute care parents are often left alone in the placement situation, although according to the Child Welfare Act a client plan should be drawn up for them. There is also great variation between municipalities as regards the provision of support to parents and their access to crisis support at the beginning of a placement. Some municipalities have transferred support provision to parents to child welfare institutions, which is not the intention under the Child Welfare Act. It is common for parents to be unaware of what is required from them for family reunification to take place. Families receive the least support in after-care. Audit findings show that families are not considered important for young people who are becoming independent.

Only the interests of the child should matter in substitute care place selection

Substitute care arrangements seek to fulfil the interests of the child, but the objectives of the Child Welfare Act concerning substitute care are not being reached. Children's and parents' wishes regarding the substitute care place are asked about and heard, but in practice the selection of the place is affected more by the views and experience of the child welfare worker. Other determining factors include the place situation in substitute care and financial realities due to which some municipalities mainly place children in their own institutions. According to audit findings efforts are made to arrange the sub-

stitute care place near the home municipality, but in most cases they are located 200–400 km or even further away, particularly if the unit provides special care. Long distances affect contacts between family members and increase costs.

The supervision of substitute care is not sufficient. The audit showed that the supervision of substitute care is insufficient particularly in agreement-based foster families, the supervision of which is the responsibility of municipalities. Some municipalities are not sufficiently aware of their supervision responsibility either. This applies particularly to municipalities in which substitute care units are located. Some municipalities find that supervision is their duty only if they have placed children in the substitute care unit. Supervision carried out by municipalities also depends on resources and the amount and turnover of competent employees. As well as municipalities, substitute care is supervised by the regional state administrative agencies and the National Supervisory Authority for Welfare and Health. According to audit findings, child welfare workers assume that the supervision carried out by the regional state administrative agencies is sufficient. According to regional state administrative agencies' views, supervision is not systematic or comprehensive. Shortcomings, including serious ones, have been detected in supervision relating to issues such as the number and professionalism of personnel. The provisions concerning restrictive measures are not known well enough either, and restrictive measures are not always used in accordance with provisions and the interests of the child. The monitoring and supervision of restrictive measures is made more difficult by the fact that child welfare units do not keep a record of restrictive measures or the recording is insufficient.

Client plans not always drawn up in accordance with provisions

Client plans are highly important for all parties to the child welfare system, but the drawing up and content of client plans varies depending on the municipality and whether the care is open, substitute or after-care.

The audit showed that the amendment to section 36 of the Child Welfare Act had not affected the drawing up of client plans in open care. Client plans are still not drawn up for all open care clients. The objective of always including the necessary services in the client plans of young people in after-care and those of their parents has not been reached either (for this also see Chapter 7, Quality legislation as part of financial decision-making).

In comparison with open care, substitute care client plans are made and checked more often and systematically. There are still insufficiencies in the entry of issues relating to support to parents, maintaining contact or family unification in client plans. Despite the obligation set by the Child Welfare Act, few municipalities draw up client plans for parents. Client plans are not made in cooperation with those providing parents with care either.

On the basis of the audit the main reason for shortcomings in client plans is that workers are too busy. Entries to client plans may lag behind by up to a year. The situation is problematic for clients and new employees who, particularly in crisis situations, would need client information immediately.

Room for development in after-care

On the basis of audit findings the right of young people to good treatment in after-care

is realised. Municipalities use similar criteria to assess the need for after-care, and they mainly offer similar services to young people who are in a similar situation. Young people's opinions are also heard and taken into consideration in after-care in contexts such as decisions on whether or not they will remain in after-care in their placement municipality or return to their home municipality. Young people in after-care are also provided with excellent support relating to housing and access to social assistance. In child welfare social assistance is granted on easier grounds and the amount of supplementary assistance may also be larger. For example, young people in after-care do not have to finance their first and in some municipalities also their second vocational qualification on state-guaranteed study loans.

There is also a problem relating to hearing and taking young people's opinion into consideration when viewed from the perspective of the effectiveness of after-care. Young people over the age of 18 have the right to choose whether or not they will receive after-care. Although the total rejection of after-care is rare, rejections and discontinuations of after-care still take place. This is a problem as more and more young people moving on to after-care are regarded to require support for their process of becoming independent. According to audit findings, however, municipalities are not in practice capable of sufficient response to these young people's need for personal support, advice and guidance.

The audit also showed that the systematic transfer of young people from substitute care to after-care does not work as it should. Some substitute care places do not provide young people with sufficient preparation for independent life. As a result of this they enter after-care with highly differing knowledge and skills levels, which in turn affects their need

for personal support.

Preparation for after-care is perceived as part of substitute care, whereby the costs of preparation are already included in the price of a day in care. If a young person has not, however, received enough preparation for coping with everyday issues and chores, the municipality has to purchase these services again as after-care support measures. This results in municipalities paying a double price for preparation for independent life. On the basis of the audit it appears that, when purchasing substitute care services, municipalities are not capable of specifying in sufficient detail and in concrete enough terms what they would like to be included in service components such as the preparation of young people for independent life. In addition, some municipalities had purchased or would have been ready to purchase after-care services from the enterprise that provided the substitute care. This means there is little consideration in municipalities of whether the substitute care service has been of good quality and effective regardless of the fact that outsourced after-care is expensive.

Children and young people entitled to after-care also have the right to receive funds for promoting independence. According to audit findings, there is considerable regional variation in these funds paid by municipalities and the grounds used for their determination. Some of the provisions concerning funds for promoting independence are also open to interpretation in terms of their wording (see Chapter 7 on quality legislation). It is also problematic that costs of young people in after-care such as those relating to housing and education and training can be covered from social assistance, financial support for open care or funds for promoting independence. This makes it difficult to compare municipalities as regards funds for promo-

ting independence but also to obtain an overall view of the total amount of financial support children and young people are provided with while in after-care. If the support is paid from the funds for promoting independence, this reduces the amount of funds for promoting independence available. If, however, the support is paid as an open care support measure or social assistance, it does not affect the funds for promoting independence. This creates inequality between young people who are in after-care and dependent on the funds for promoting independence paid by the municipality.

Equal treatment of clients not guaranteed by the Act on Client Fees in Social Welfare and Health Care

Under the Child Welfare Act, parents and children or young people may be charged a fee to cover costs arising from foster care, institutional care or housing services provided as an open care support measure, substitute care or after-care. Legislation on client fees seeks to promote fairness by ensuring that client fees are at a reasonable level and their amount does not prevent the use of necessary social and health care services. At the same time clients' right to good treatment requires that child welfare clients are treated equally to each other. According to audit findings the collection practices concerning client fees promote fairness but do not necessarily guarantee the equal treatment of clients. This is because the collection of client fees is based on social workers' discretion, municipalities' level of activity regarding collection, the different client fee tariffs used by municipalities, and the methods used by municipalities to assess parents' capacity for payments and child maintenance.

For equal treatment between child welfare clients to be realised, those deciding on client fees should interpret client fee legislation in a uniform manner. According to audit findings, some sections of the Act on Client Fees in Social Welfare and Health Care are unnecessarily vague (for this also see Chapter 7 on quality legislation). For example, the Act's provisions on the amount of fee payable by parents for child welfare services are rather general. Some sections are also open to interpretation. For example, provisions concerning client fees are linked to several different acts through internal references within sections, but it has not been ensured that a clear answer to the matter can be found in the section or sections in question. Consequently, child welfare social workers in open care found it difficult to determine client fees.

Deficiencies in child welfare statistics

For those steering child welfare services to have sufficient information about the effectiveness of child welfare work, they should have information about the support measures provided for children and young people. The National Institute for Health and Welfare collects annual information about child welfare clients but not about the services and support measures provided for them.

The assessment of the effectiveness of child welfare work is prevented by differences in the method of data collection used in

open care and substitute care. The register of children placed outside the home is based on the personal identity code, while the client statistics for open care in child welfare contain summary data. Such a method of data collection does not enable the compilation of client data from the two databases.

As a result of this, statistics cannot be utilised when assessing the effectiveness of child welfare work or monitoring 'client paths' of child welfare clients.

Information on issues such as for how many years the child was a client of open care before placement is not available from statistics. Information available cannot be used for assessments of the effectiveness of substitute care either, such as whether the termination of protective custody has been successful. In the current situation such data has to be collected through separate research.

The current method of data collection has resulted in the steering bodies not having specific information about the total number of children and young people within the child welfare system or, in reality, even about the number of clients in the various child welfare processes. The switch in the child welfare open care data collection system into register data containing personal identity codes would require a legislative amendment.

5 Central government climate and energy policy steering instruments

Conclusions and positions

On the basis of audits conducted, the National Audit Office states that it is possible to increase the efficiency of the use of central government funds allocated to climate change mitigation and improve climate policy performance. Effectiveness in funds usage has been reduced by issues including vagueness in the target-setting for the largest central government climate expense category: support for energy and climate technology. Efficiency is also reduced by contradictions between policy objectives mitigating climate change and those increasing emissions. For example, the central government seeks to cut down transport emissions while at the same time providing various types of support to private vehicle use for other reasons.

On the basis of findings made by the National Audit Office, Finland's view on climate and energy policy objectives is in line with EU policies. New steering instruments have been introduced alongside normative and information steering and traditional economic instruments. These include emissions trading and the feed-in tariff (price guarantee) for renewable energy. There is not, however, enough information about the cost-efficiency of the various steering instruments and measures.

The National Audit Office found differences between the sectors in climate policy implementation. Increased use of renewable

energy has been the area showing the fastest rate of implementation. Increasing the share of renewable energy may not, however, necessarily be the most cost-efficient way to cut down emissions. Transport biofuels are counted as emission-free, but their global and full-lifecycle effects may turn out to be poor from the climate protection perspective. Some of the climate policy performance problems are to do with the EU climate and energy policy, which seeks to reduce greenhouse gas emissions while at the same time increasing the share of renewable energy. Finland could, however, use its national leeway by, for example, tightening its energy efficiency target, which would certainly result in emission reductions.

In the opinion of the National Audit Office, the information base concerning climate policy should be improved. More information is needed particularly about the cost-efficiency of the various measures. This would improve the preconditions for climate policy performance. On the basis of the audits conducted, the transparency of climate policy and the use of central government funds allocated to climate policy must be increased. Attention must also be drawn to the clarity of strategy documents. Broader stakeholder and civil society participation in climate and energy policy formulation is important as climate change cannot be stopped by central government action alone.

Finland seems to be able to reach the objectives set for the Kyoto period (2008–2012),

but reaching the targets set by the EU by 2020 appears to be a bigger challenge.

Climate and energy policy closely interlinked

Climate change and efforts to mitigate it has become a major global challenge. Human activity has resulted in global warming, and this is forecast to lead into difficulties in issues including global food production. Various extreme weather phenomena, such as floods and storms, will also increase. In addition to human and social consequences, climate change also has major economic impacts as global gross domestic product is anticipated to remain considerably lower if climate change is not mitigated. On the other hand, significant amounts of money are allocated to climate change mitigation efforts around the world. It is important from the central government finances perspective whether or not value for money is obtained: whether or not the funding results in any genuine mitigation of climate change.

International agreements have been signed in response to the climate change challenge. According to Finland's current Government Programme, Finland's long-term goal is a carbon-neutral society. The impacts of climate change can be reduced through making cuts in emissions and adaptations to changing conditions. Emission reductions can be achieved by controlling emissions and increasing the amount of sinks, such as forests, that absorb carbon. The National Audit Office's climate and energy theme focuses on emission reductions.

Five performance audits have been conducted under the climate and energy audit theme. These cover the flexible mechanisms under the Kyoto Protocol, community structure, promoting renewable energy, support for energy and climate technology, and the preparation and implementation of the climate and energy strategy. An expert workshop was organised to support the thematic reporting, with around twenty key planning officials and researchers participating. The objective of the audit theme was to examine whether the central government had a clear idea about the climate and energy policy objectives as well as the types of steering instruments used and their cost-efficiency.

Climate and energy policy are closely interlinked. Climate policy aims to reduce greenhouse emissions, but energy policy also has other objectives. These are related to issues such as employment and industrial policy and energy self-sufficiency.⁶⁶ The multiple objectives of energy policy were taken into consideration in the audits, but the main focus of this report is on greenhouse gas emissions reductions and whether funds allocated to climate policy provide value for money from this perspective.

Efforts made to reduce emissions through EU emissions trading and other measures nationally

Climate policy can be divided into emissions trading within the EU, which is governed by EU legislation and in which emission reductions take place within the EU emissions trading scheme (EU ETS), and into measu-

66 Also Parliamentary Communication (19/2009) – Government Report to Parliament (6/2008).

res outside the scheme. Large industrial facilities and energy production plants included in the EU ETS account for around half of Finland's greenhouse gas emissions. Emissions trading and actions taken outside the scheme are not, however, totally independent from each other. For example, central government support to renewable energy also affects activities in the emissions trading sector.

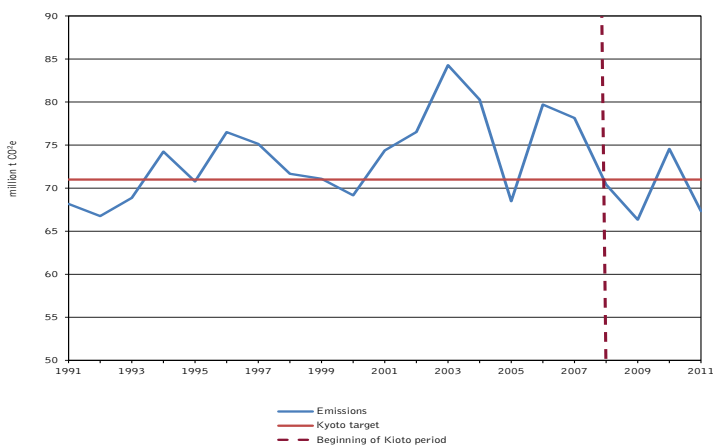
Finland's greenhouse gas emissions are characterised by major annual variations (Figure 6) influenced by issues including economic trends, weather conditions and availability of hydropower in the Nordic electricity market. For example, in 2009 emissions were reduced, mainly due to the economic downturn, but increased again in 2010 as the economy recovered. Economic trends have a particular impact on emissions of the EU ETS sector. According to preliminary data published by Statistics Finland, in 2011 emissions were reduced on the year before by 6.4% in the EU ETS sector but only by 0.9% in the non-EU ETS sector. The reduction in energy

sector emissions was mainly due to a decrease in coal and natural gas consumption and an increase in electricity net imports.

Emissions not included in the EU ETS are less influenced by the economic situation. The European trend appears to be that emissions from large individual sources included in the EU ETS have been cut down while at the same time emissions from the transport sector in particular have increased. Reducing non-EU ETS emissions is the responsibility of the central government. Therefore the audits conducted by the National Audit Office focused on the non-EU ETS sector.

Kyoto mechanisms aim to stimulate cost-efficient emissions reductions

The Kyoto Protocol supplements the United Nations Framework Convention on Climate Change and entered into force in 2005. The objective set for Finland was to stabilise emissions at the 1990 level of 71 million tonnes of carbon dioxide equivalent (tCO₂e)



Source: Statistics Finland.

FIGURE 6 Figure 6 Development of Finnish greenhouse gas emissions in 1990–2011 against the Kyoto objective. Data for 2011 is preliminary.

in 2008–2012. The Kyoto obligations can be met through domestic emissions reduction measures and by buying emission permits under the flexible mechanisms of the Kyoto Protocol. These mechanisms comprise the Joint Implementation (JI) projects, the Clean Development Mechanism (CDM) and international Emissions Trading (ET). The mechanisms aim to increase the cost-efficiency of emissions reduction measures by targeting action at areas where it is the most optimal from the economic perspective. Finland's starting point is to use the Kyoto project-based mechanisms mainly to supplement and secure the cost-efficient implementation of the emissions reduction action taken by the non-EU ETS sectors.

The National Audit Office has assessed the success of the procurement programme implementing the acquisition of units under the Kyoto flexible mechanisms. The audit found that purchasing activities have been satisfactory but could be improved.⁶⁷ Some problems in the organisation of purchasing activities and shortcomings in the monitoring of implementation were noted in the audit. It is important from the mechanism purchase effectiveness perspective that the unit costs of emission unit purchases are lower than the costs of other emission reduction policies. According to the audit, the evaluation of procurement costs had not been uniform in all respects. Some essential expenditure items had not been taken into consideration in bilateral purchases. Carbon funds in particular would have required more detailed calculations on yield and costs expectations.

Follow-up on the audit shows that the Ministry of Employment and the Economy, Mi-

nistry for Foreign Affairs and Ministry of the Environment have developed their activities after the audit as recommended in the audit.⁶⁸ The practical implementation of the measures is, however, yet to be completed in some respects. This, however, is largely due to the fact that the Kyoto commitment period is drawing to its close and the specific details of the second period are not yet available.

Preparation of climate and energy strategy was not transparent enough

The EU outlined policies for the post-Kyoto period to 2020 in the climate and energy package published in 2008. At the EU-wide level greenhouse gas emissions must be reduced by 20% and the share of renewable energy sources in final energy consumption must be increased to 20%. The legally binding target for Finland in non-ETS sectors is to achieve a 16% reduction in emissions from the 2005 level and to increase the share of renewable energy to 38% of final energy consumption. In addition, the EU has set a 10% minimum target for biofuels in transport to be achieved by each Member State. Published in 2011, the EU low-carbon Roadmap calls for an 80% reduction in emissions by 2050. This is also the long-term vision included in Finland's Foresight Report on Long-Term Climate and Energy Policy.

Finland adopted the targets set by the EU in the 2008 Climate and Energy Strategy. According to the National Audit Office's findings, the preparation of the Climate and Energy Strategy was organised efficiently, but the opportunities offered for participation

⁶⁷ National Audit Office performance audit report Emissions trading – flexible mechanisms under the Kyoto Protocol (200/2009).

⁶⁸ Follow-up report on the National Audit Office performance audit report Emissions trading – flexible mechanisms under the Kyoto Protocol (200/2009).

were not very extensive.⁶⁹ Transparency was reduced by the fact that there was no easy access to the materials produced during the strategy formulation work. The strategy document is also difficult to understand.

Energy production accounts for around 80% of Finland's greenhouse gas emissions. Consequently, the Climate and Energy Strategy has a strong focus on the energy sector, and the strongest role in the process was played by the largest actors in the energy sector. The strategy does not, however, contain innovative initiatives on issues such as decentralised energy production. Moreover, the strategy does not contain new initiatives seeking synergies between fields such as climate policy and public health.

In the National Audit Office's view, the transparency of climate and energy policy formulation should be increased. Because the success of climate policy also depends of consumers, the citizen's perspective could help better ensure effective policy implementation. Deeper dialogue could also build bridges between central government policy steering and municipalities' practical climate action; there is currently a rather large gap between the two.

More cost-efficiency data required

According to the National Audit Office's findings, the climate policy information base varies from one sector to another.⁷⁰ Data on production-based emissions is more easily available than data on emissions relating to consumption. It would be important from the consumer perspective to have access to

information not only to support policy-making but also to facilitate decisions made by consumers.

In the Climate and Energy Strategy formulation process the shortages in the information base were to do with the number and cost-efficiency of the alternatives examined. The cost-efficiency of the various steering instruments was not systematically evaluated in the formulation of the Climate and Energy Strategy. Many challenges are associated with the generation of cost-efficiency data. The assessment of efficiency is affected by issues including the chosen perspective, target-setting and period. For example, the cost-efficiency of the energy use of peat is poor as regards reductions in greenhouse gas emissions but at the same time it helps reach other objectives. Individual policy measures also have combined effects that can be mutually supportive or conflicting.

There has been a major increase in global demand for fossil fuels, with hundreds of billions spent every year on supporting their production and use. Future price forecasts are uncertain, particularly regarding oil. Opportunities to implement measures found cost-efficient may also be limited. According to research, as regards renewable energy sources, increasing the share of forest chips is, for example, a lot more cost-efficient for the State than the emissions reductions achieved through the use of wind power or biogas reactors. The potential of forest chips is, however, limited, so other renewable energy sources will also be needed to reach the target. Alongside these, the cost-efficiency of transport biofuels is particularly low if their global impacts are taken into consideration.

⁶⁹ National Audit Office performance audit report Mitigating climate change – The preparation and implementation of the national climate and energy strategy (235/2011).

⁷⁰ National Audit Office performance audit report Mitigating climate change – The preparation and implementation of the national climate and energy strategy (235/2011).

In the opinion of the National Audit Office, cost-efficiency data is important from the viewpoint of political choices and for the achievement and monitoring of climate policy success. It also increases policy predictability as improved cost-efficiency data may reduce the need for rapid changes in direction. Policy continuity is emphasised in the emissions trading sector in particular, but it is also important for choices made by consumers. Regardless of the challenges relating to cost-efficiency data, the National Audit Office finds it necessary to pay sufficient attention to the economic impacts and cost-efficiencies of emission reductions in the future.

Determined efforts made to promote renewable energy

According to the targets set by the EU, Finland is to raise its share of renewable energy sources to 38% of final energy consumption from the current rate of around 30%. The achievement of this objective calls for government support. Increases in renewables also involve other objectives, such as increasing energy independence, employment and regional policy perspectives and supporting the sector's technology exports.

According to the National Audit Office's findings, the most rapid progress in the implementation of the Climate and Energy Strategy has been made in efforts to increase the share of renewables, with support measures taken including the introduction of the feed-in tariff.⁷¹ Implementing the feed-in tariff through budgetary funding is, however, an expensive solution from the central govern-

ment finances perspective. The construction of wind power has not – regardless of the feed-in tariff – taken off in accordance with the objective set due to land use disputes.

In the National Audit Office's view the promotion of renewables can help reduce dependence on energy imports. To some extent the increased use of renewables also decreases greenhouse gas emissions. These issues also raise reservations.⁷² The net effect of renewables usage on greenhouse gas emissions varies from one form of energy to another and also depends on the level of emissions from the renewable energy production chain. Therefore the percentage targets originating from the EU primarily ensure an increase in the share of renewable energy, but their impact on greenhouse gas emissions remains unclear. The National Audit Office regards it as important to clarify the costs and emission impacts of the various types of support as carefully as possible and to present any alternative calculations in a completely transparent manner.

There are also risks related to increases in the share of renewable energy. Forest industry by-products are the biggest and most cost-efficient way to produce renewable energy. Surplus of energy consumed by forest industry facilities can be used by energy plants and other properties. A contraction of the forest industry would have negative effects on efforts to increase the share of renewable energy sources. Another risk, albeit unlikely over the short term, is a potential change in international emission calculation methodology resulting in the biofuel emission factor being changed from zero to some degree of emission source.

71 National Audit Office performance audit reports Promoting renewable energy (213/2010) and Mitigating climate change – The preparation and implementation of the national climate and energy strategy (235/2011).

72 National Audit Office performance audit report Promoting renewable energy (213/2010).

73 National Audit Office performance audit reports Promoting renewable energy (213/2010) and Mitigating climate change – The preparation and implementation of the national climate and energy strategy (235/2011).

It is clear on the basis of the audits that the EU renewable energy target overlaps with the emission reduction target.⁷³ The obligation to increase the share of renewables may reduce the steering effect of emissions trading. It may also affect the opportunity to opt for more cost-efficient measures as the renewables objective has to be promoted at the same time. Therefore the partly contradictory objectives set by the EU are reflected in national climate policy. National leeway is, however, available in many issues. The EU has set the indicative target of increasing energy efficiency by 20% by 2020. Finland's own target for increased efficiency is 11% of the final consumption of energy. In the National Audit Office's view the national leeway could have been used for increases in energy efficiency, which is a cost-efficient emission reduction method. Energy efficiency and energy savings can help reduce not only greenhouse gas emissions but also the renewables obligation level as this is calculated on the basis of final energy consumption.

Emission reduction effects of transport biofuels questionable

According to the audits conducted, the biggest efficiency risks from the viewpoint of emissions reductions are to do with increases in biofuels for transport.⁷⁴ The use of biofuels reduces dependence on oil and seeks to cut down greenhouse emissions. Although biofuels are statistically classified as zero-emission fuels, in practice their life-cycle emissions vary depending on the production method.

Finland has raised its national bioenergy

target from the 10% set by the EU to 20%, with advanced second-generation biofuels counting double. The risk in the production of first-generation grain ethanol and traditional rapeseed diesel in particular is that increases in their use have hardly any impact towards reductions in greenhouse gas emissions. The global increase in biofuel demand also appears to compete with food production, which raises food prices and aggravates the food crisis. Biofuels also involve risks relating to biodiversity and social problems to do with land use. The National Audit Office considers that sufficient attention should be paid to the above factors when making decisions on increases in the use of biofuels for transport. The National Audit Office also regards it important to take cost-efficiency and efficiency in the reduction of greenhouse gas emissions into consideration in efforts to promote renewable energy.⁷⁵

Traffic and emissions increased by urban sprawl

One of the climate and energy policy objectives and land use objectives is to achieve an integrated urban structure and reduce the need for transport. According to the National Audit Office's findings, urban sprawl of Finland's largest growth centres has continued regardless of the objectives adopted.⁷⁶ Urban sprawl results in increased dependence on cars as households outside the built-up areas often need two cars. Opportunities for the provision of well-functioning public transport are also poor in sprawling urban areas. The provision of local services near residents is also difficult.

⁷⁴ National Audit Office performance audit reports Promoting renewable energy (213/2010) and Mitigating climate change – The preparation and implementation of the national climate and energy strategy (235/2011).

⁷⁵ National Audit Office performance audit report Promoting renewable energy (213/2010).

⁷⁶ National Audit Office performance audit report The state's role in increasing the supply of lots and creating a more compact urban structure (208/2010).

⁷⁷ National Audit Office performance audit report The state's role in increasing the supply of lots and creating a more compact urban structure (208/2010).

In sparsely populated areas construction decisions are made on the basis of individual permits, with no systematic steering of planning taking place on the basis of land use plans. Impacts accrue over the long term, and it may be difficult to discern the link between individual permit decisions and the overall development of urban communities. Consequently, the impacts of the steering of urban structures are – unlike many other steering instruments – long-term in nature. If urban sprawl is allowed to take place, the areas will be tied to a carbon-intensive structure for a long time.

Urban sprawl in peripheral areas has a negative effect on the sustainability of public finances as dispersed construction generates higher costs than a more compact structure. Dispersed construction increases infrastructure construction and maintenance costs as well as costs arising from the provision of basic services. At the same time the residential costs in dispersed settlements are increased by transport costs in particular. The potential rise of oil price in particular and increases in transport costs pose a risk to car-dependent households. Indirect cost pressures are also experienced by the central government via issues including central government transfers to local government, but there is very little structured data available about them. Larger traffic volumes increase the costs payable by the central government for greenhouse gas emission reductions.

In the National Audit Office's view, the steering of dispersed construction in growing urban areas has been a failure.⁷⁷ One of the reasons for this is Finland's rather extensive basic construction rights and the non-coordi-

nation of municipal land use planning in regional issues. There is also room for improvement in cooperation between municipality-driven land use planning and the transport system planning carried out by the central government. According to the audit conducted, the State does not have a horizontal approach to the development of the urban structure, which weakens the capacities to reach the emission reduction targets set.

Support to climate technology yet to provide much value for money

According to the National Audit Office's calculations, in 2011 around €550 million or around one per cent of budget appropriations was allocated to costs relating to climate change.⁷⁸ Central government funding doubled in 2008–2012 (Figure 7). The biggest increases were seen in appropriations relating to research and development and the promotion of renewable energy. The amount of funding alone is not an indicator of efficiency, however.

Research, energy and climate technology and innovation are regarded as a key issue for the achievement of the objectives in the 2008 Climate and Energy Strategy. Between 2008 and 2011, appropriations relating to the climate and energy theme in research, development and innovation increased by almost 80% and formed the largest expenditure item in climate and energy funding.

The largest supporter of research, development and innovation in Finland is the Finnish Funding Agency for Technology and Innovation (Tekes). Tekes provides around half of its

⁷⁷ National Audit Office performance audit report The state's role in increasing the supply of lots and creating a more compact urban structure (208/2010).

⁷⁸ National Audit Office performance audit report Mitigating climate change – The preparation and implementation of the national climate and energy strategy (235/2011).

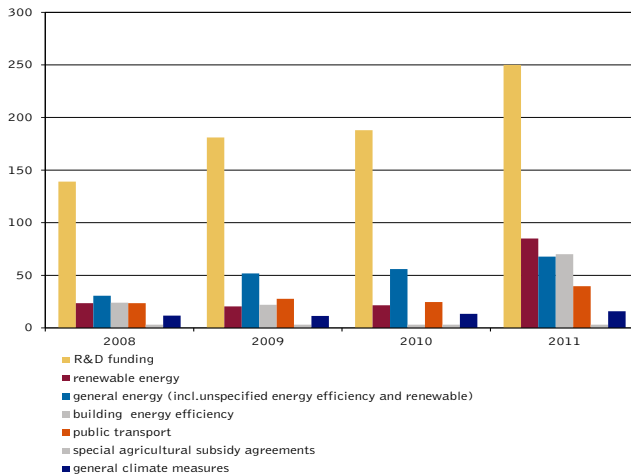


FIGURE 7 Appropriations supporting climate change action in the 2008–2011 budget proposals.

support to enterprises, universities and research institutions via programmes. The National Audit Office evaluated five support programmes with a climate and energy focus regarded as the most representative by Tekes. According to the audit, project support provided by Tekes has yet to considerably promote the achievement of climate and energy policy objectives. For example, Tekes aid has – at least so far – not resulted in commercial successes to any noteworthy extent. It should, however, be noted that the commercialisation of innovations in the energy and climate sector may take several years.

The fact that no clear and measurable climate and energy policy objectives have been set for the programmes and projects can be regarded as a key weakness. Climate objectives are nothing but a mention in the programme objectives. Therefore the basic conditions for programme effectiveness are missing from the climate and energy policy perspective. According to the National Audit Office, the ex post evaluations of projects

commissioned by Tekes have not achieved their purpose, either. They are too formulaic, often carried out too early, with the questions not covering issues such as greenhouse gas emission effects in conjunction with climate and energy projects. Data on the outcomes of supported projects in relation to the investments made would facilitate comparisons between climate policy instruments.

Climate policy effectiveness reduced by opposite incentives

In addition to climate funding, climate policy effectiveness would be increased by climate issues also being taken into consideration, where possible, in such use of central government funds that is not directly targeted at climate change. After the financial crisis one of the economic recovery measures used was targeting funds at issues such as the renovation of buildings, which sought to safeguard employment in the construc-

79 National Audit Office performance audit report Support for energy and climate technology (227/2011).

tion sector. The 2009 supplementary budget provided budget authorisations to grant more than €400 million for this purpose. The National Audit Office drew attention to whether the use of funds could have been targeted to support issues such as energy efficient construction without compromising on the employment effects.⁸⁰

The effectiveness of climate funding is reduced by such use of funds that steers development to the opposite direction from the climate policy perspective. The Kyoto Protocol also requires the gradual reduction or elimination of such contradicting support or tax incentives. According to the National Audit Office's findings, at the time of the audits no systematic review of opposite support had been carried out in Finland.⁸¹ It is particularly easy to forget the examination of tax subsidies as these do not constitute government expenditure but, instead, revenue not received.

Opposite tax subsidies include reimbursements of energy taxes to industry and agriculture, which are energy intensive as regards the energy efficiency objective. The transport sector also has forms of support that favour private car use and provide an indirect incentive for private car use. These include the company car benefit, tax-free parking benefit provided by the employer and deduction of travel expenses in income taxation. The latter exceeded all the climate costs in 2008. The travel expense deductions are based on a different set of objectives that seeks to increase labour mobility. According to the National Audit Office, the contradictory objectives make it particularly important to have access to up-to-date and calculated

data on the societal and central government costs of support, including climate costs.

The National Audit Office finds that a climate budget or climate funding assessment included in the General Strategy and Outlook of the Budget could increase the transparency of climate funding. In the National Audit Office's view the impacts of tax subsidies should also be assessed regularly from various perspectives.

Climate policy performance

Many challenges are associated with the assessment of the effectiveness and performance of climate policy. Key performance issues alongside policy effectiveness are the costs on which the objectives set are reached. Therefore it is important from the central government finances perspective to achieve the emissions reductions in the most cost-efficient way. Cost-efficiency must be examined diversely enough: mere short-term examination and focusing on the cheapest measures may not result in the best possible performance over the long term. In addition to climate and energy policy, greenhouse gas emissions are affected by several other factors such as economic trends, energy prices and weather conditions. Therefore only preliminary observations could be made on climate policy performance on the basis of the audits.

On the basis of the audits, Finland appears to be able to reach the Kyoto target (2008–2012) of stabilising emissions at the 1990 level – possibly even without the Kyoto flexible mechanisms. The implementation of Fin-

80 National Audit Office performance audit report Mitigating climate change – The preparation and implementation of the national climate and energy strategy (235/2011).

81 National Audit Office performance audit report Mitigating climate change – The preparation and implementation of the national climate and energy strategy (235/2011).

land's climate policy can be regarded as sufficient as regards progress towards the Kyoto target, although its effectiveness is partly due to the economic situation. Lack of information about whether or not emission reductions have been cost-efficient makes the assessment of performance difficult.

It may prove more challenging to reach the 2020 target set by the EU. The non-EU ETS target of a 16% reduction in emissions is nationally divided between different sectors in Finland's Climate and Energy Strategy. If a sector does not reach the reduction target, this must be compensated for by other sectors. According to the audits, there are sectoral differences in progress made towards the objective. Most non-EU ETS emissions come from transport (40%), and the emission reduction target set for it is 15%. According to the audits, the transport sector has systematically implemented several emission reduction measures. Good progress made in the reduction of emissions from new cars has, however, been virtually cancelled out by an increase in the number of kilometres driven, and current measures are not enough to reach to emission reduction target.

The second-biggest non-EU ETS sector emission source is agriculture (15% of emissions), with its emissions reduction target set at 13%. It appears to be difficult to reach the target as there is currently hardly any knowledge of efficient emission reduction measures. For agricultural policy reasons, it has not been regarded as possible to employ the most efficient known method: restrictions on peatland cultivation.

At the same time the steering of land use and urban structures lacks the key prerequisites of the realisation of effectiveness as issues relevant to it are administered under several administrative branches and levels. Therefore it may be necessary to use the flexible mechanisms in order to reach the 2020 target.

Implementation aiming at the increase in the share of renewable energy sources has created prerequisites for considerable growth in the use of renewables. The target is ambitious and its achievement depends partly on issues beyond climate and energy policy steering, such as the development of forest industry production in Finland. Any increases in energy consumption will also make it more difficult to reach the objectives. On the basis of the audits, increased energy efficiency could be an efficient way to reduce greenhouse gas emissions and to reach the renewable energy target. It is also possible that the EU will raise the emissions target from 20% to 30%, which would mean an increase in the Finnish non-EU ETS target to around 23%.

6 Education, research and innovation policy and the Finnish innovation system and environments

Conclusions and positions

Education, research and innovation (ERI) activity consists of institutions, provisions, procedures, organisations and the learning, competence and knowledge practices created in these.⁸² The National Audit Office has assessed the whole comprising ERI activity in contexts including seminars, expert workshops, actual audits and more broad-based analyses. On the basis of these it can be assessed that decisions are made by Parliament about the funding and structures of public ERI activity without currently being able in practice to have an efficient impact on ERI activity as a whole.

The National Audit Office finds that, instead of general increases or cuts in ERI activity resources, new types of thinking and operating models should be found in the future. These should be based on a clearer definition of the purpose of public activities, increased transparency in ERI funding enabled by this through the clarification of objectives set for ERI, and a new type of ERI funding risk management founded on these.

Support for research and innovation must be determined in accordance with expres-

sions of Parliament's will and targeted in a more refined, courageous, selective and sustained manner at existing as well as new uses. Operational funding implementation must also involve the retargeting of resources. To increase the effectiveness of public support, the line between fiscal policy and ERI policy should also be crossed in a new way.⁸³ All in all the governance of ERI activity is expected to be more capable of restricting, encountering and tolerating complexity at the same time in the future.

According to several assessments and policies, the special strengths of the Finnish innovation system include internationally high ERI input targets, confidence in science and technology and positive attitudes towards them coupled with flexible governance solutions. The National Audit Office finds it important to be able to maintain these strengths in a sustainable manner in the future too. For this to be achieved, information about ERI activity must meet the needs of society, citizens and decision-makers as utilisers of information in a more structured and open manner.

⁸² The terminology and abbreviations used in the field are not totally precise and, for example, the abbreviation RDI used in Chapter 1 of this report refers more to general development activity in working life, enterprises and communities.

⁸³ Julkisen kasvurahoituksen ja yritystukijärjestelmän kehittäminen. Selvitysmiehen raportti. Työ- ja elinkeinoministeriön julkaisu 29/2010, Helsinki 2010, pp. 61–62.

Education, research and innovation (ERI) activity under pressures for change

One of the most important tasks of education, research and innovation (ERI) activity is to maintain societal practices and help decision-makers and other actors to adapt to changing circumstances economically and appropriately within the limits set by the resources available at the time. This also calls for capacity for renewal from ERI activity itself. In the current global transition ERI activity is expected to have new kinds of capacities to think differently and question societal practices as well as being able to support and renew them. This means the effectiveness paths of innovation becoming more divergent and diverse and calling for increasingly targeted measures. In addition to decision-makers, information is needed by employment organisations, developers, researchers and evaluators, whose cooperation has not progressed as hoped.

At the same time those governing the activities are expected to provide orchestration rather than steering and to be capable of finding a balance between the various subfunctions and tasks and environments involved in ERI activity. This calls for a new kind of balancing act between issues such as the societal utilisation and accountability of ERI activity and the capacity-building required by it. All this takes place in a setting where environmental changes are taking place rapidly while the basic nature of the societal and cultural timespan of ERI activity still remains long.

Basic ERI solutions must be determined with a view to the big picture

Finland aims to increase the share of education, research and innovation expenditure to four per cent of GDP. In 2010 around €7 billion was spent on research and development in Finland, up €185 million on the year before. The expenditure is estimated to increase by a further €180 million in 2011. The Government also aims to make Finland the most competent nation in the world by 2020.

The functioning and competitiveness of the Finnish competence and innovation systems consist of several factors. These include tangible and intangible inputs, ways of thinking, structures as well as operating and information practices. Finland has a lot of strengths in all of these. Recent years have also increasingly seen the emergence of signs of weaknesses and uncertainty about whether our innovation system's current basic solutions match the new circumstances and Finland's status as part of the international economic, technological and cultural transition.

According to the Evaluation of the Finnish National Innovation System conducted in 2009, the complexity of the innovation system has increased to such an extent that its governance and steering have become more difficult and capacity for service delivery has been reduced⁸⁴. The evaluation report proposed a thorough reassessment of ERI activity that would cover the basic starting points, objectives, organisation and tools of the entity formed by ERI activity.

The mid-term evaluation of the Strategic Centres for Science, Technology and Innova-

84 Vouglers, R (ed.): Evaluation of the the Finnish National Innovation System – Full Report. Helsinki 2009.

tion and the recent evaluation of the Finnish Funding Agency for Technology and Innovation – Tekes underline the need for improved coordination, clearer definition of responsible actors and the need to adopt the broad governance perspective as the starting point of development.⁸⁵ To avoid formulaic solutions based too one-sidedly on the needs of governance or development, the reform of ERI activity as a whole will require more diverse information practices along the lines of those adopted in the preparation of foresight reports. Instead of narrow examinations polarised around development, renewal and accountability, in the future capabilities will be needed for the governance of ERI activity based on broad-based and diverse participation, interaction and experiment procedures built on complexity and systems thinking.

The National Audit Office finds it important for the problems and strengths of ERI activity to be determined more clearly from the perspective of the entire range of RDI activity in the future. Decades of changes in the environment of ERI activity, numerous partial reforms and a broad spectrum of policy instruments, continuous additional investments, poor information base, low accountability requirements and shortcomings in tools for the governance of the whole have each individually and all together prevented the need for changes in ERI activity being seen as an entity.

Lack of information about ERI activity is currently a particular problem as it can easily have repercussions in other problems and affect their management. It is difficult to draw conclusions on the functioning and competitiveness of the Finnish innovation system

as there are many indicator frameworks and these are not commensurate with each other (such as IUS, STI, WEF, EIS, CIVISTI). There are no uniform and reliable international-level indicators or evaluation practices available that could be used to obtain a uniform and sufficiently unambiguous view of the quality of the Finnish competence and innovation system as a whole. For example, the Indicator database maintained by the Government currently only covers two indicators directly relevant to R&D: R&D expenditures by sector, and patent applications. Therefore strengthening innovation network information management is an important development direction for the Finnish innovation system.

Commissioned by the Research and Innovation Council, the Academy of Finland and Tekes have prepared a proposal for an evaluation framework for the societal impacts of research and technology. This is currently undergoing further preparation. The National Audit Office has participated in the work of the International Organization of Supreme Audit Institutions (INTOSAI) to develop internationally comparable indicators for various policy and operating areas (Key National Indicators). The National Audit Office finds it important to continue the development of national effectiveness indicators. Because impact chains and mechanisms in ERI activity are often very long-lasting, evaluations and indicators relating to human, institutional and other intangible knowledge and intellectual capital should be developed alongside the use of effectiveness indicators. We are only taking our first steps in this respect in international comparison as well.

The extensive competence and innovation

85 Johan Wallin (ed.), Philip Cooke, Arne Eriksson, Tomi Laamanen and Patrik Laxell: Capabilities for innovation activities. Impact Study. Helsinki 2012, pp. 44, 69–73 and Kaisa Lähteenmäki-Smith, Petri Uusikylä, Katri Haila, Antti Eronen, Pekka Kettunen: Network governance and the Finnish Strategic Centres for Science, Technology and Innovation. Tekes Review 280/2011, pp. 47–48.

system evaluation and development project proposed for Finland in the international evaluation has so far not taken place. The National Audit Office regards it important to conduct this overall assessment. It should also be expedited as, following the evaluation completed in 2009, the world economy has entered an extensive recession, which has created new challenges and uncertainties.

Assessments of and conclusions on the functioning of the innovation system are also made more difficult by the fact that certain important national evaluations that are directly related to or touch upon ERI activity are currently underway or only about to be launched (Strategic Centres for Science, Technology and Innovation, research institutions, infrastructures, the state of scientific research in Finland). Several compulsory programmes important for ERI activity, such as the research and innovation programme, are also in the pipeline. The Government Foresight Report 2013 introduces a new way of bringing together and achieving broader programming of activities of ERI funding organisations and key ministries. The Committee for the Future also plays a key role in this work.

At the moment the development of ERI activity is primarily based on evaluations. In its audit on R&D evaluation activities the National Audit Office pointed out problems relating to independence, credibility and accountability⁸⁶. The international evaluation of the Finnish innovation system also paid attention to these problems. To compile research, foresight and evaluation activities serving the Government, a Government wor-

king group has been appointed to coordinate the Government's research, foresight and evaluation activities, with its tasks including the formulation of a strategic research and evaluation plan supporting the implementation of the Government Programme.

Insufficient renewal in ERI activity

Several studies and evaluations have found Finnish society's learning, competence and innovation practices to be of a high level, including internationally. According to research, the human capital produced by Finnish education and research is at world class level. In addition, issues such as the established cooperation between Finnish educational, research and development organisations have produced high-quality social capital for Finland. According to assessments by the World Bank, these factors account for around two-thirds of the wealth of nations.

According to a recent research project, Finland's capability to utilise the immaterial intellectual and knowledge capital it creates is, however, lower than its capability to create it. The biggest problem is that the downward development trends can be seen particularly in those areas of knowledge capital that have the strongest impact on the nation's economic growth.⁸⁷This is leading into a situation where – although Finland still remains among the leading nations in terms of R&D investments per GDP – Finland's opportunities to look after citizens' welfare and the resources required for this are deteriorating. According to recent statistics on the national economy there has, for example, been a con-

86 National Audit Office performance audit report R&D evaluation activities (157/2008).

87 Pirjo Ståhle: Tuottaako kansallinen tietopääoma talouskasvua? Tieteessä tapahtuu 4–5/2012, pp. 1–2.

tinuous decrease in the exports of high technology and the number of international patents has dropped considerably in the 2000s. This indicates a failure to renew the Finnish economy as desired.

Incapability to utilise high-quality education and research to shake society's structures and achieve a radical reform of economic activity can, however, be attributed to several issues. Most likely the causes can be found rather in the weaknesses of the governance and steering of ERI activity than in problems in education, research and innovation practices as such. It is, however, often difficult to draw the line between these. The international evaluation of Finnish innovation activities regarded the incentives provided for actors to produce internationally oriented and nationally focused research and education as insufficient.

Even more important than this from the perspective of operational renewal is the fact that some governance and steering practices actually directly slow down and even obstruct the renewal of ERI activity. In workshops organised by the National Audit Office and the Finnish Innovation Fund Sitra in 2011, the notion was crystallised whereby the renewal of Finnish ERI activity is slowed down by conflicts of interest between actors, avoidance of financial and operational risks, firm perception of being international forerunners, and tendency to focus more on words than action.

The workshops also strengthened the view that, to create a foundation of objectives and means for the generation of new things, Finland needs, above all, a new kind of operating culture and not necessarily any

new development documents. This calls for openness for new perspectives, release of the public-sector innovation potential, strengthening of customer relationships and lifecycle thinking, and experimental thinking and operating models. On the basis of the international evaluation, the formulation of coordinates of ERI activity as regards principles and practice has remained unclear in Finland's national innovation strategy. What should Finland aim at in renewal, in what proportions and how, and how much should rather be preserved than changed? On the basis of the evaluation the unclarity also applies to key choices of methods. Finnish innovation activity has not been renewed through determined and controlled renewal of ERI activity but rather in individual elements, often drifting via small steps and compromises.

The establishment of Strategic Centres for Science, Technology and Innovation has been based on informed and systematic decision-making. An extensive overall evaluation of these is currently under preparation and will be completed by the end of the year. The Centres were founded upon traditional strengths. On the basis of the mid-term evaluation, most of the programmes are formulated in a rather traditional manner avoiding risks and multidisciplinary challenges: 'From the point of view of cooperation and goal achievement this can be seen as a practical solution but the approach is not very future-oriented and innovation-driven.'⁸⁸ Similar criticism has also been presented regarding universities' choices of Strategic Centres.

The single most important reform of ERI activity and its governance is included in the

88 Kaisa Lähteenmäki-Smith, Petri Uusikylä, Katri Haila, Antti Eronen, Pekka Kettunen: Network governance and the Finnish Strategic Centres for Science, Technology and Innovation. Tekes Review 280/2011, p. 47.

reform of the Universities Act. When the Act entered into force the management of universities' most important resources – human resources – was also seeking its starting points and was manifested more clearly in documents than in practices⁸⁹. According to a recent report submitted to Parliament by the Ministry of Education and Culture on the implementation of the Universities Act, the impacts of the legislative reform have been more visible in universities' strategic management than in human resources policy. Administrative organs have been reorganised and their working methods have changed, rectors' status has been strengthened, and the size of universities' subunits has increased. Smallish strategic allocations (1–5% of annual budget) have been made in most universities, stakeholder cooperation has increased, and financial management and spending discipline have improved. Employer procedures in the field on human resources policy have become established. There have not been any extensive redundancies, but the amount of fixed-term contracts has not been reduced either. According to the evaluation report, personnel views on the reform and universities' internal governance procedures are quite critical, but the report refrains from drawing any far-reaching conclusions. This is justifiable as the evaluation took place at a very early stage considering the nature of the reform and, for example, universities with increased autonomy have not even reached a mutual understanding of what their aims should have been. From the National Audit Office's viewpoint both the Strategic Centres for Science, Technology and Innovation and the university reform illustrate

the governance problems faced in a situation where active measures are required but where the ultimate role of public authorities and policy 'between' the market and ERI actors would require urgent specification (see the section on the rationalisation of resources for ERI activity below).

Shortcomings in governance of wholes in ERI activity

Building ERI activity as a whole and directing it to make it functional and in line with society's needs or objectives does not take place spontaneously. Instead, it calls for governance methods that provide support and maintain the whole. In Finland there have been no efforts to standardise the relationships between education, research and innovation actors, and heavy cooperation and interaction structures have been avoided. This has created many advantages for a small country, including flexibility and low governance and transaction costs. The problems of the governance model have become more clearly visible in efforts to switch from science and technology policy to innovation policy and further to broad-based innovation policy.

The policy shift requires capacity for renewal in ERI activity but also an information base that supports the whole, governance tools that help create the whole and work well, and enough political will to make this happen. All these involve problems that slow down and obstruct change. In practice, the broadening of the base of innovation policy is also affected by issues including the slow-

89 National Audit Office performance audit report Universities' human resource management (206/2010) and seminar report: Yliopistojen inhimilliset voimavarat–Näkökulmia ja pohdintoja (National Audit Office's studies and reports 2011).

ness of the sectoral research reform, delays in the implementation of the innovation strategy and the scattered nature of the systems of support for ERI activity.

On the basis of the National Audit Office's audit of R&D evaluation activities, information relating to ERI activity is currently narrow in scope and fragmented from the viewpoint of policy-level decision-making. Information produced has a focus on ERI actors' own needs and interests or the internal information needs and practical routines of steering administration. Because of the absence of sufficient guarantees of the production of independent information, its supply is currently low and affected by measures to generate economic savings. At the moment there is not enough comprehensive and up-to-date information, clear institutional responsibilities or secured capacities available for use as a basis of the governance of ERI activity as a whole. There is not, however, any up-to-date overall evaluation of the capability of governance to support the whole of ERI activity available at the moment.

The National Audit Office will not endeavour to make a separate assessment of the capability of political target-setting and opinion-formation to support the governance of the whole as regards ERI activity. Development needs identified at the workshops organised by the National Audit Office and Sitra are determining the vision and formulating or sharpening the strategy, developing decision-making and preparation, reorganising evaluation activity, providing Members of Parliament and ministers with high-level assistants to improve the utilisation of information, and reviving the joint information and innovation forums.

On the basis of the international evaluation, the most important development challenge of the Finnish innovation system is im-

proving the governance of the whole in ERI activity. Not much progress has been made in this so far. The innovation system challenge listing drawn up by the Research and Innovation Council, which is included in the innovation policy guidelines for 2011–2015, does not mention the governance of the whole at all. Governance issues are only indirectly covered in separate policy themes. The innovation policy report submitted to the Parliamentary Commerce Committee also virtually ignored the theme of governance of the whole.

The political steering of governance involves issues that have been overlooked or to which no clear solutions have been found. Policy information management has been developed, but no new tools have been found for policy harmonisation or the handling of policy wholes. In addition, the lack of involvement of the Ministry of Finance in innovation policy formulation clearly pointed out by the international evaluation remains unsolved.

The National Audit Office finds it important to eliminate the polarities such as research versus technology or accountability versus development that have persistently affected ERI governance. When pursuing this, it is important to avoid structures that are too heavy and expensive. Also to be avoided is the move of the polarity created by the division into science and technology to a new dimension (ERI activity versus other actors).

The structural measures to reduce the sustainability gap introduced in the Programme of Prime Minister Jyrki Katainen's Government include the 'realignment of innovation policy'. This does not refer to the launch of a broad overall project proposed by the international evaluation but to projects of individual organisations such as Finnvera, Tekes and VTT underway or to be launched during the Government's term in office.

The term 'innovation' appears 127 times in the Government Programme and is used in a vast variety of contexts. The Research and Innovation Council's Research and Innovation Policy Guidelines for 2011–2015 contain seven basic policy lines. At total of 22 policies have been formulated for strategic development, and there are eight structural development policies listed in the document. Seven policies are provided for human resource development in ERI activity.

These policies are implemented by strong ministries, several independent funding organisations and autonomous universities as well as municipalities and numerous intermediary organisations. This is likely to result in it being impossible to govern the whole range of development measures in practice. It is also very difficult to evaluate the success of activities. According to a recent assessment made in a PhD thesis, for example, the 70 different programmes targeted at municipalities could not be shown to have any impacts in practice.

Inflexibilities in Finnish governance and operating culture extending beyond the field of ERI can also be found at the root of these problems. Within public administration, the governance of the whole in ERI activity and cooperation between actors are made more difficult by the siloisation between and within ministries and administrative sectors, inappropriate targeting of budget and economic steering and several other established boundaries. A particular governance challenge between the public and private ERI sectors is created by the relationship between market-based steering and other societal regulation.

Therefore the development of the governance of the whole as regards ERI activity will also require more sustained attention from the highest decision-makers.

Use of ERI resources requires rationalisation

At the workshops organised by the National Audit Office and Sitra, the use of resources was considered from the perspective of the prerequisites for rational use of resources. Development needs identified included, firstly, that public authorities' ERI tasks and steering role should be determined more clearly. Secondly, the basic choices relating to resource use should be made to match the purpose of public activities. Thirdly, a balance should be found in the use of the various types of funding. Programming activity should also be rationalised.

In the National Audit Office's opinion, globalisation, economic transition and the sustainability gap of public finances should not result in ill-considered cuts in the field of ERI activity, but they should not lead into the separation of ERI resources from the rest of the economic and social framework and development either. It was found at the workshops that, instead of the size of R&D inputs, debate should progress to the consideration of what is the State's natural role in ERI activity, where inputs should be targeted and how inputs should be implemented. The latter aspect involves many difficult questions such as what kinds of transformations between intangible capital (human capital, relational capital, structural capital) and other capital (monetary capital, fixed capital) in the field of ERI activity should be favoured and how the central yet little-known area relating to the national economy (productivity) that is included in it should be measured and developed.

According to the international evaluation, in 2009 there were more than a thousand innovation policy instruments in use in Finland, several hundreds of public organisations and programmes and thousands of public officials

with daily contacts with enterprises. This has led into poorer accessibility of support systems and at the same time the grabbing of several different types of support for the same activity – ‘forum shopping’.

The same phenomenon has been detected in audits conducted by the National Audit Office. The tasks and responsibilities of organisations, authorities, support systems and other instruments are often unclarified and overlapping. In addition, in issues such as the extremely extensive programming activity there is, in practice, no procedure in use to also separately assess how necessary and meaningful the various measures are as regards the whole.

From the central government finances perspective the policy steering of ERI activity has until recently been weak and interfaces between ERI and financial policy actors limited. This has also been visible in the fact that the assessment and anticipation of the central government finances impacts of measures is insufficient at all levels of ERI governance. Efforts have recently been made to strengthen contacts between financial and innovation policy. Changes justified by the broad-based innovation policy are currently under preparation. These involve the introduction of new instruments alongside supply-based support on the basis of the 2012

spending limits decision: R&D tax incentive, capital investment tax incentive, and the increase of the presumed acquisition cost of private capital investments to 50%.

The scattered nature of the system as a whole is increased by EU measures. According to a recent estimate, there are more than 2,000 clusters, 70 different national policies and hundreds of regional programmes in the field of innovation in the EU⁹⁰

Addressing the support systems, instruments and processes is all the more important because the assessment of the performance and effectiveness of Finnish ERI activity has progressed slowly in international comparison. An audit conducted by the National Audit Office revealed that, in a comparative analysis of 21 OECD countries, Finland was the only one where accountability and efficiency were totally absent among the primary aims and motivations of R&D evaluation⁹¹. Development work in this field has, however, continued since the audit

90 Antti Hautamäki, Kaisa Oksanen: Suuntana innovaatiokeskittymä. 2012, p. 69. Jyväskylän yliopisto, Agora Center.

91 National Audit Office performance audit report R&D evaluation activities (157/2008).

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7 Quality legislation as part of financial decision-making

Conclusions and positions

As its key messages to Parliament, the National Audit office refers to its earlier observations regarding quality legislation.⁹² There remains room for improvement in the realisation of the principles of good legislative drafting put forward in the Better Regulation Programme.

Firstly, the unnecessary openness to interpretation in legislation and its central concepts is liable to lead to extra costs and problematic situations from the viewpoint of the equal treatment of citizens. Secondly, there remain shortcomings in the thorough evaluation of regulatory alternatives when planning legislative amendments, although the Government Programme, for example, provides little room for manoeuvring in this respect. A third repeated key finding is problems associated with impact assessments, in particular their thin knowledge base, and a lack of systematic monitoring of impacts.

The challenges to Finnish law-drafting policy lie in the practical implementation of regulation of lesser quantity but higher quality, improvements in assessing the impacts of legislation, and the implementation of secure and efficient information government.⁹³ The efforts made to respond to these challenges in the form of development projects should

be pointed out as a positive finding.⁹⁴ Advances have been made in creating the prerequisites for quality legislation and legislative process management in the ministries. The current Government's legislative agenda is also better integrated with the Government Programme and its key priorities.

With reference to the slim results of earlier development projects, attention in the project should nonetheless be paid especially to the creation of a consistent governmental management system for workflow and document management to support legislative drafting and the implementation of legislation.⁹⁵ Another important development target is the monitoring of the implementation and impacts of legislation. The greater the degree of uncertainty to which the impacts of legislation can be assessed in advance, the more important it is to arrange for careful impact follow-up.

Quality in legislation hinges on the legislation being capable of steering activity in the direction desired by the legislator. Quality legislation is also about realistic objectives relative to the available resources. Increasing attention should be paid to two factors in drafting and deciding on legislation: the substantive clarity of legislation and the resources required for its implementation. When insufficient regard is given to resour-

92 R 17/2011. National Audit Office's report to Parliament on its activities for the 2011 parliamentary session.

93 Study of the National Audit Office. Lainsäädäntöpolitiikan mahdollisuus ja haaste (5/2011)

94 A key tool here is the procedures outlined in the Effective Legislative Drafting project, see Ministry of Justice publication series 39/2011: Towards more effective legislation through the process model. III interim report of the Effective Legislative Drafting project.

95 See also the comments of the National Audit Office on the above-mentioned interim report (303/31/2011).

cing at the law-drafting stage, the implementing authorities are forced to prioritise their activities and, at worst, even to neglect their statutory duties.

Quality of legislation as an audit topic

The impacts of new legislation on issues such as local and central government finances and the duties of the authorities or other organisations are commonly assessed in Government proposals. According to the Bill Drafting Instructions, the assessment of impacts entails a concrete and as realistic as possible evaluation of the effects of the legislation on the activities and job descriptions of those responsible for its implementation at the grass-roots level.

Multiple attempts at amending or clarifying poorly drafted legislation lead to a regulatory spiral and fragmented legislation. This gives rise to extra work at both the ministries and in Parliament, with ripple effects also to implementation and citizens. Partial reforms as well as fixed-term and experimental legislation have the same consequence. Parliament should be able to focus on enacting laws rather than rectifying technical deficiencies in legislation.

The impression received of the quality of law-drafting at the ministerial level, for example in the Ministry of Social Affairs and Health, is somewhat more positive than expected a priori. Although the ideal laid out in the drafting instructions is not always achieved in day-to-day efforts, the Ministry's drafting process may nonetheless be deemed

to satisfy the basic requirements: effective drafting organisation and planning system with no shortcomings in expertise or competencies. The drafting instructions currently in use are sufficient in terms of both quantity and quality.

Problems are mainly associated with drafting resources, their prioritisation and timetabling. Room for improvement can also be found in the comprehensiveness of the reasoning of bills, the investigation of their constitutionality, and in entry-into-force provisions. More transparent procedures must be created especially for the drafting of extensive, cross-sectoral bills in order for the viewpoints of the various ministries and stakeholder groups to be truly reconciled. An important and value-added role in improving the quality of legislation is also played by the Unit of Legislative Inspection at the Ministry of Justice, yet based on the audit observations of its resources and their allocation, the Unit at present is not capable of coping with all of its duties.

The conclusions and recommendations of the National Audit Office are based on performance audits of child welfare services, the legislative drafting process at the level of ministry, and the effectiveness of the Government's legislative agenda, as well as on a fiscal policy audit concerning the reliability of the information on financial stability measures in the euro area provided to Parliament in parliamentary documents.⁹⁶ The role of legislative inspection in the Ministry of Justice has also been examined in the context of the audits.

⁹⁶ National Audit Office performance audit reports Child welfare (6/2012), Legislative drafting at the Ministry of Social Affairs and Health (12/2012) and audit concerning the Government's legislative agenda, currently under preparation. National Audit Office's fiscal policy audit: Parliament's access to information regarding financial stability arrangements in Europe (163/51/2012), partial audit report published in the National Audit Office's separate report to Parliament on the audit of the final central government accounts for 2011 and the Report on the Final Central Government Accounts, R 14/2012, pp. 21–22 and 28–37.

Formulation of legislation unnecessarily vague in places

The Child Welfare Act (417/2007) is an extensive piece of legislation; the Government proposal on the Act (HE 252/2006) ran to more than 200 pages. The audit showed excessive vagueness in the formulation of certain sections of the Act to such an extent that interpretation as to substance had to be sought from the Government proposal, which itself is also unclear in many places. This results in the substance of the sections largely being determined on the basis of the interpretation given by the party applying the law, a state of affairs which does not serve to foster the equal treatment of child welfare service clients.

The problems associated with the linguistic form and technical legal aspects of the Child Welfare Act were apparent in sections such as section 77.3 concerning funds for promoting independence. According to the section, municipal bodies responsible for social services have the right to decide on the time of payment of the funds for promoting independence, which in principle must be given to a child or young person in the process of gaining independence on the termination of after-care or, for a special reason, at the latest when the person concerned becomes 21 years of age. The provision can be interpreted to read that a certain sum of money has been set aside for all persons transferring into after-care, in a special account with funds to cover expenses associated with gaining independence. According to the audit, this is not the case, however. The provision in all likelihood refers to the payment and handover of funds for gaining independence accruing from the personal assets of the child or young person, not to funds contributed by the municipality.

When such funds are referred to in general terms as 'funds for gaining independence' or special care is not taken to emphasise that the funds in question are contributed by the municipality, two groups of service clients are confused. One of the groups consists of young persons to whom perhaps substantial funds may have accrued from personal income, assets or receivables. The use of such funds is monitored by social workers for the duration of after-care. The second group consists of young persons who have insufficient or no funds for gaining independence. In respect of these young persons, social workers ensure that the funds for gaining independence contributed by the municipality are used systematically (as provided in the client plan) and appropriately for expenditure approved by the social workers to support and promote independence.

Similar problems and examples associated with the Act on Client Fees in Social Welfare and Health Care are covered in Chapter 4.3 (Child welfare).

Regulatory alternatives not given sufficient consideration upon amendment of legislation

The Child Welfare Act has been in force for more than five years. In this time, it has been amended on eleven occasions. All of these amendments may not have been necessary. According to the audit findings, the amendment which entered into force at the beginning of 2011 (1380/2010), for example, does not appear to have resulted in any changes in open care practices, nor does it appear to have guaranteed child welfare service clients or their families access to open care services. According to the audit, child welfare workers have always sought to provide

their clients with all services they deemed essential. As a rule, child welfare workers will not even consider services which are unavailable in their particular municipality.

The amendment of section 36 of the Child Welfare Act is an example of how comments from the various parties are requested upon the amendment of legislation, yet the comments provided are ignored in the final legislative proposal. The example also shows how upon the amendment of legislation, no assessment is made as to whether such amendment is warranted in the first place. Neither are possible regulatory alternatives examined. Issues worth considering include whether the law needs to be amended at all or whether the same outcome might be achieved through decree, guideline, recommendation or ear-marked central government transfers. An examination of regulatory alternatives might result in a finding that the objective of the amendment could be achieved with lower administrative costs and by lighter means of steering.

Evaluation of resources required for implementation not thorough enough

The Government proposal for the new Child Welfare Act⁹⁷ was held in part to involve clarification of the earlier Act. Consequently, municipalities were not deemed to require any substantial additional resources to execute their new duties, which for the most part were perceived to be accomplishable with existing resources. The Government proposal moreover gave only a very rough estimate as to the additional costs arising from the implementation of the Act.

Adequate human resources are a vital condition to the achievement of the aims of child welfare. In the Government proposal, the es-

97 Government proposal HE 252/2006

timates of additional social workers required for open care were mainly based on the timely performance of investigations of the need for child welfare measures. The impacts of the systematic and goal-oriented approach introduced by the Child Welfare Act on the workload of open-care social workers were not, however, taken into account when estimating the need for additional social workers in open care. Had the time spent on indirect client work as well as the different needs of children, young persons and families been taken into account in the Government proposal's estimates, the human resource requirements would in all likelihood have been considerably higher than estimated.

Although the inadequacy of social worker resources in child welfare services relative to the objectives set was well known when the current Act was enacted, the new Act still further increased the duties of social workers in open care. The ensuing problems are discussed in Chapter 4.3 (Child welfare).

Legislative drafting in the Ministry of Social Affairs and Health effective for the most part

The audit of legislative drafting in the Ministry of Social Affairs and Health had the aim of evaluating how the various aspects of legislative drafting in the Ministry work in practice. The main issue in the audit was to determine if the Ministry complies with the principles of good legislative drafting determined by the Government. The audit consisted of three parts, the first focusing on whether legislative drafting in the Ministry was managed systematically and in accordance with stated objectives. The second part introduced a more in-depth perspective through case review, while the third part was

an evaluation of the effectiveness of legislative proposals from the perspective of parliamentary consideration and decision-making.

Based on the audit findings, the overall assessment of legislative drafting at the Ministry of Social Affairs and Health is fairly positive. The Ministry's legislative work is demanding, as legislation in its administrative sector has significant impacts on citizens, central and local government finances, and the social partners in the labour market. The legislation drafted as well as the drafting procedures vary between the various departments of the Ministry, which introduces a certain degree of difficulty to the management of legislative drafting. A functioning and non-bureaucratic overall impression was nonetheless received of process management in drafting. As a rule, the Ministry also complies with the principles of good legislative drafting determined by the Government and the Ministry of Justice.

The most important shortcomings in the drafting process have to do with the scarcity of available human resources and time. Drafting personnel often perceive the volume of legislation to be drafted as excessive and the timetables as too tight. The timetables are largely dictated by the Government Programme, which determines the majority of the bills to be drafted during the government term. Commissions outside the Government Programme's legislative agenda must also be carried out, however. The Ministry's leadership should indeed pay attention to providing sufficient human resources and reasonable timetables for commissions beyond the scope of planned drafting work. This would foster both the wellbeing of drafting personnel and the quality of the work.

The Ministry has undertaken a range of measures, such as support to the performance of impact assessments, in order to syste-

matically develop the conditions for good legislative drafting. In most cases, the drafting official has the support of a partner or working group, and the drafting proper may also be carried out in a working group. On the other hand, drafting officials may not receive adequate support from their immediate supervisors as far as the progress of the drafting and content policy are concerned. Further support might be provided by increasing the participation of supervisors in all stages of drafting.

The audit indicated that the document management software used at the Ministry failed to provide adequate support for drafting. In future, the aim should be for the Government to have a uniform workflow and document management system to support the drafting and implementation of legislation. Further steps should also be taken in utilising the websites of ministries to provide information about legislative projects.

The audit found that the guidelines for legislative drafting officials serve the preparation of Government proposals in terms of technical and systematic presentation. Despite improving readability and consistency, the guidelines nonetheless remain only one component in good legislative drafting. The problems with preparation or content are often unrelated to the guidelines or compliance with them. Instead, they are more to do with the complexity of the Ministry's operating environment and the related political priorities. In evaluating the quality of legislative drafting and legislation, attention should always be paid to the complexity of the field of activities and to the political guidance available.

Legislation must make up a whole that is cohesive and consistent in terms of technical legal aspects, substance and impacts. This presents a particular challenge in the admi-

nistrative sector of the Ministry of Social Affairs and Health owing to the high number of bills as well as the degree of fragmentation of existing legislation and its constant state of flux.⁹⁸ Audit findings indicated that clearly over half of all Government proposals were approved without amendment in the 2007–2010 parliamentary sessions. When assessed as a whole, the amendments were fairly minor, although there were also considerable needs for amendment in individual cases. Technical and other issues with bills were mostly seen in respect of extensive legislative proposals. The committee counsels of Parliament nonetheless considered legislative drafting in the Ministry of Social Affairs and Health to be fairly good.

The audit findings indicate that the reasoning of some of the bills prepared by the Ministry of Social Affairs and Health was absent, on occasion in material respects, or not comprehensive, while in other cases the reasoning put forward was erroneous or misleading. The reasoning is of particular importance if for no other reason than to allow the need for regulation to be realistically appraised during drafting and parliamentary consideration. Bills should regulate all key aspects of the matter in question.

In legislative drafting, attention must also be paid to the constitutionality of the bills and existing legislation as well as to entry-in-force provisions and justification for enactment procedure. Room for improvement can also be found in impact assessments. These should be prepared comprehensively and with care, inclusive of uncertainty factors.

As the legislative body and the highest organ of government, Parliament has a constitutional right to obtain reliable and sufficiently comprehensive information for decision-making purposes. This is accomplished when Parliament is given a true and fair view

of the matter at hand and the circumstances impacting on decision-making to satisfy the needs of its legislative power and the weighing of alternatives which this power entails. Such information should be provided to Parliament in the reasoning of Government proposals.⁹⁹ Circumstances impacting on the matter at hand and decision-making also include the impacts of and alternatives to regulation.¹⁰⁰

Should it become necessary to considerably amend proposals at the committee stage in order to rectify legal technical mistakes and other deficiencies, the focus in the consideration of bills shifts from enactment to a continuation of drafting. The Ministry should ensure that sufficient resources are allocated and expertise directed to the problematic areas of legislative drafting. Besides improving the drafting work of public officials, the political leadership of the Ministry should also commit to an open drafting procedure and ensure a disruption-free working environment especially at the final stages of the drafting. Attention in the audit was also paid to the requirements of Parliament being given adequate time to consider bills and of legislative proposals being submitted as complete wholes.

Benefits of the Government's legislative agenda to better legislative policy yet to become visible

The purpose of the audit of the Government's legislative agenda is to determine if the agenda has helped improve the quality of legislative drafting and legislation. Attention in the audit was paid to the preparation of the agenda, its contents and strategic linkages, and its implementation and realisation.

Based on the audit findings, it appears the

98 The same challenge has arisen also in respect of the Aliens Act, see National Audit Office performance audit report Work-based immigration (13/2012).

99 Report of the Parliamentary Audit Committee 4/2012, p. 9

100 The Impact Assessment Guidelines for legislative drafting 831 The diverse assessment of impacts and examination of regulatory alternatives required therein seek to realise Parliament's need for information, see the Government Guidelines on Impact Assessment in Legislative Drafting, Ministry of Justice publication 2008:4.

legislative projects included in the 2007 legislative agenda were selected at random, and the agenda lacked both clear objectives and clear means of monitoring. The principles of good legislative drafting outlined in 2006 were not tangibly incorporated into the agenda. The use of abstract and partly inconsistent terminology to express principles as well as legislative policy measures undermined the conditions for improving the quality of legislation. Moreover, the advantages of the actions required were emphasised at the expense of costs and other drawbacks. Cost/benefit analysis was lacking. A positive observation was the attention paid in the agenda to the administrative burden arising from legislation. The scope here was narrow, however, and failed to cover all costs arising from legislation and affecting economic growth and international competitiveness.

Particular attention in the audit was paid to the vagueness and non-commensurateness of the selection criteria employed when including projects subject to special follow-up. Tax legislation, for example, was wholly unrepresented among the projects selected despite the justified assumption of such legislation being of social and economic significance. Neither was there a clear linkage between the legislative projects selected and the policy programmes and topics subject to special follow-up agreed in the Government Programme, which undermines the potential for using the legislative agenda as a tool for the implementation of the Government Programme.

The legislative projects included in the 2007 agenda also presented a fair amount of legal technical and even constitutional issues that necessitated rectification, to a varying degree, during parliamentary consideration. Tasks in the nature of legislative inspection should not be undertaken as a part of parlia-

mentary consideration, however.

The significance of following up the impacts of legislation, especially in respect of new kinds of legislation, also came up during the audit. Materially divergent views as to the impacts of reform raised at the drafting stage are a compelling – yet far from being the only – argument for arranging follow-up. The manner in which follow-up is to be organised and implemented in practice should ideally be outlined already in the reasoning of the legislative proposal. Worthy of note is the fact that, although the projects of 2007 were characterised as being subject to special follow-up, their implementation nonetheless went without effective monitoring. This undermines the credibility of the legislative agenda, as do the failures in adhering to the timetables agreed for such legislative projects.

While the situation with the 2011 agenda was better in many respects, the link to the Effective Legislative Drafting project and its procedures remained unclear. An obvious improvement over the 2007 agenda came from the legislative projects included in the agenda representing all three priority areas of the Programme of Prime Minister Katainen's Government.

According to the audit, the Unit of Legislative Inspection at the Ministry of Justice has been tasked with duties in monitoring impact assessments and legislative drafting guidelines which it is incapable of performing with its current resources. Legislative inspection duties were scaled back in the Ministry's new rules of procedure, which took effect in March 2012, the unit now having responsibility to verify that the structure of Government proposals is consistent with the instructions issued by the Government.

Better quality through legislative inspection and cooperation

The point of departure for the study on the effectiveness of legislative inspection was section 30 of the Government Rules of Procedure (Act 262/2003), according to which bills and draft decrees must be submitted to the Ministry of Justice for inspection. The requirement does not apply to urgent legislative proposals, however. Inspection may also be foregone in respect of draft decrees of minor significance. Inspection in the Ministry of Justice is carried out by the Unit of Legislative Inspection, whose role is to inspect the formulation of the statute. The activities of the Unit are therefore directly relevant to the quality of legislation. The purpose of the study was to examine the practical interpretation of section 30 of the Government Rules of Procedure. Possible proposals for enhancing the substance of statutes and, consequently, the activities of the Unit of Legislative Inspection were also examined.

The data set for the study comprised the Government Proposals inspected by the Unit of Legislative Inspection in the years 2009 and 2010 as well as the list compiled in the Unit of the acts and decrees inspected and published in the Statute Book of Finland. The time frame examined in respect of inspected and uninspected statutes was 2007–2010. The study also utilised interviews with the staff of the Unit of Legislative Inspection and questionnaires among law-drafting staff at ministries.

Under section 30 of the Government Rules of Procedure, the submission of legislative proposals for inspection is the rule, and non-inspection should therefore constitute the exception. According to the statistics compiled in the study, 86% of the acts published in the 2007–2010 electoral term

were submitted to the Unit of Legislative Inspection. The corresponding figure for decrees was only 26%. The decrees submitted for inspection break down as follows: Government decrees 48%, presidential decrees 19% and ministerial decrees 16%. In other words, far fewer draft decrees than bills are inspected. The statistics allowed two typical cases to be determined among non-inspected statutes. Firstly, more than 50% of acts enacted to bring international treaties into force (blanket acts) and other acts concerning international treaties were left uninspected. On average, 20% of budgetary acts also went without inspection.

The responses to the questionnaire indicated that the justifications of urgency and minor significance are given a narrow interpretation. The urgency justification has been applied, for example, to certain budgetary legislation. With translation services and the Unit of Legislative Inspection alike overwhelmed by the volume of legislative proposals considered in connection with the budget proposal, time does not allow the submission of all proposals for inspection. The justification of minor significance, meanwhile, has been applied in numerous circumstances. Firstly, amendments of a technical nature to bills and draft decrees have constituted grounds for non-inspection. Secondly, blanket acts and decrees are seldom submitted for inspection owing to the minor significance of the matter. Thirdly, some ministerial decrees were deemed to be of minor significance and their inspection was therefore usually omitted.

Overall, the study indicates that the application of section 30 of the Government Rules of Procedure is less comprehensive than the wording of the provision requires. In the interests of more efficient allocation of the resources of the Unit of Legislative Inspec-

tion, the study suggests that the minor significance justification could be amended to cover not only draft decrees but also blanket acts and acts concerning technical amendments. A separate mention of ministerial decrees should also be incorporated into the provision. The rule could be for ministerial draft decrees to be exempt from submission to the Unit of Legislative Inspection except for decrees which are of significance in principle. The propriety of proposed acts or decrees with regard to the hierarchy of legislation indicated in section 80 of the Constitution would therefore also in future come subject to review in legislative inspection.

In addition, greater attention in the activities of the Unit of Legislative Inspection could be paid to preliminary inspection, i.e. advisory services provided by the unit prior to submission of the actual proposed statute. Preliminary inspection facilitates the actual inspection, in addition to which in cases such as tripartite negotiations it provides the window during which any problematic issues with the legislative proposal may still be addressed. Increased communication with the Unit of Legislative Inspection would also be warranted at the committee stage in cases where legislative proposals are amended.

The study revealed that the inspections carried out by the Unit of Legislative Inspection are valued at the ministries and that the amendments proposed by the inspecting officials are taken seriously. In addition to the unit attending to the consistency and cohesiveness of the entire statute environment, its officials – who are not actual substantive experts in legislative proposals – also act as test subjects for the comprehensibility of proposed legislation. The study gives rise to the

collective finding of the inspections performed by the Unit having a direct effect of improving the quality of legislation, as the framework of ordinary law drafting by the ministries does not cater for the build-up of expertise in legal writing and procedure held by the Unit.

The relevance of cooperation between the various ministries as well as between different professional groups within ministries to the quality of law drafting and the associated impact assessments has been highlighted in general in the performance audits and fiscal policy audits performed by the National Audit Office. The significance of legislative process management and cooperation between and within ministries to the quality of legislation has been touched upon in contexts including the audit of legislative process management included in the audit of the steering system in the administrative sector of the Ministry of Employment and the Economy and in the fiscal policy audit regarding the reliability of the information presented to Parliament in parliamentary documents concerning the measures taken to ensure financial stability in the euro area.¹⁰¹

General and legislative process management within and between ministries as well as appropriate resources and realistic time-tables create the preconditions for cooperation which enhances quality. Bringing together expertise in different fields is of particular importance to proper impact assessments. In matters related to the legislation and activities of the European Union, impact assessments need to be perceived as a continuation of the impact assessments presented in EU basic memoranda in connection with the procedure of considering Union matters

101 National Audit Office performance audit report The steering system in the administrative sector of the Ministry of Employment and the Economy (234/2011).

laid down in sections 96 and 97 of the Constitution. The impact assessments already presented in the procedure of considering Union matters could justifiably be complemented and expanded upon in the impact assessments related to preparations for implementing national legislation and EU obligations. Whenever possible, the same basic groupings and information structures should be employed in the impact assessment.

It is essential that a true and fair view of all circumstances and impacts material to the matter be presented to Parliament for its consideration of alternatives and decision-making, both in the procedure for considering Union matters and in national law drafting. Based on the audit findings, well-organised cooperation within and between ministries clearly improves the qu-

ality of law drafting and legislation especially in legislative projects involving difficult questions extending into impact assessment and more than one branch of law. According to the National Audit Office's observations, issues such as cooperation between various experts within the Ministry of Finance and between the Ministry of Finance and the Ministry of Justice have improved the quality of parliamentary documents concerning financial stability arrangements in the euro area.¹⁰²The National Audit Office is of the view that cooperation both between ministries and among the experts in different knowledge areas within ministries should indeed be enhanced in order to improve the quality of legislative drafting and assessment of impacts.

102 National Audit Office fiscal policy audit: Parliament's access to information regarding financial stability arrangements in Europe (163/51/2012), partial audit report published in the National Audit Office's separate report to Parliament on the audit of the final central government accounts for 2011 and the Report on the Final Central Government Accounts, R 14/2012, pp. 21–22 and 28–37

8 Current state of central government finances and administration

8.1 Compliance with the budget and related key provisions

Shortcomings in compliance with the budget

The National Audit Office submitted financial audit reports for 86 agencies for fiscal year 2011. This included 60 agencies that had been designated as accounting units by the Ministry of Finance and on this basis must prepare final accounts containing financial statements and a report on operations according to the State Budget Decree. In addition the National Audit Office submitted financial audit reports for 26 agencies that do not prepare final accounts but are operationally significant agencies for which a ministry has set performance targets and which are directly accountable to a ministry with regard to budget implementation and their operational performance.

Financial audits for fiscal year 2011 revealed improper procedures in 14 accounting units and four other agencies that by themselves or together with other improper procedures were considered contrary to the budget or key provisions concerning it to such a degree that a qualified opinion on regularity was included in the financial audit report. In 2010 a qualified opinion on regularity was included in the financial audit report for 16 accounting units and five other agencies.

In 2011 the number of qualified opinions was three less than in 2010. As the cautions concerned several different matters, their number totalled nearly 40.

The most significant reasons for qualified opinions on regularity concerned the use of funds or budget authorisations contrary to the budget. Ten financial audit reports contained such cautions. Cautions in this category had to do with the application of an appropriation or budget authorisation for a purpose contrary to the budget, the allocation of expenditure contrary to the budget, the extension of an appropriation or budget authorisation in such a way that it signified the extension of its period of use contrary to the budget, the recording of income in a gross budgeted expenditure item or the exceeding of an appropriation or budget authorisation. Almost 30 cautions were issued in this category.

Shortcomings in arranging performance accounting and in presenting information concerning operational efficiency again led to cautions in a few financial audit reports. Shortcomings in the monitoring of the profitability of chargeable activities or the presentation of annual results for chargeable activities led to a qualified opinion on regularity in two financial audit reports. Shortcomings in other information concerning operational efficiency and the arranging of performance accounting were the reasons for cautions to six accounting units. Arranging performance accounting is the precondition particularly for presenting information concerning operational performance in final accounts. On the whole the situation has improved from the

preceding years.

Qualified opinions on regularity generally concern specific areas of financial management or individual procedures. Consequently the conclusion cannot be drawn that about one-fifth of the State's financial management as a whole does not meet the requirement of regularity. Nor does a qualified opinion on regularity mean that an abuse of central government funds is involved. It should also be kept in mind when evaluating the significance of a qualified opinion on regularity that agencies vary in size financially. A qualified opinion on regularity should, however, always be regarded as a serious matter for the financial management of the agency in question, and the purpose of financial audit is to report on procedures that signify a deviation from regular compliance with the budget.

It has been found on the basis of financial audits of agencies that attention still needs to be paid to the arrangement of internal control in accordance with section 24 b of the State Budget Act and the principles of good governance. In the opinion of the National Audit Office, special attention should be paid to efficient internal control methods and arrangements and to preventing gaps in internal control. The State Budget Act and the State Budget Decree should be supplemented so that provisions also support appropriate procedures in operating models where responsibility for tasks has been divided among several actors.

8.2 Obligation to provide information on measures taken as a result of remarks in audit reports

According to section 5(1) of the Act on the National Audit Office, an auditee and the ministry in whose sector the auditee is included must inform the National Audit Office regarding what measures have been taken as a result of the remarks presented in an audit report.

Financial audit reports specify the remarks that require information on measures together with a deadline for providing infor-

mation. The adequacy of measures is examined in conjunction with the next audit. Qualified opinions on regularity generally also imply such an obligation, but information on measures can be required even if remarks have not led to a qualified opinion on regularity.

Table 4 presents the breakdown of remarks requiring information on measures by administrative sector over a three-year period.

TABLE 4: REMARKS IN FINANCIAL AUDIT REPORTS REQUIRING INFORMATION ON MEASURES FOR FISCAL YEARS 2009–2011

| | Financial audit | Remarks requiring information | | |
|---|-----------------|-------------------------------|------|------|
| | reports in | on measures in | | |
| | 2011 | 2009 | 2010 | 2011 |
| 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 | 2 | | |
| Administrative sector of the Ministry of Finance | 15 | 2 | | |
| Administrative sector of the Ministry of Education and Culture | 7 | 3 | 1 | |
| Administrative sector of the Ministry of Agriculture and Forestry | 9 | 1 | | |
| Administrative sector of the Ministry of Transport and Communications | 5 | 3 | 1 | 1 |
| Administrative sector of the Ministry of Employment and the Economy | 27 | 1 | 2 | 2 |
| Administrative sector of the Ministry of Social Affairs and Health | 5 | | | |
| Administrative sector of the Ministry of the Environment | 3 | | | |
| | 86 | 13 | 5 | 3 |

The number of remarks requiring information on measures fell compared with the year before. Shortcomings in the arrangement of performance accounting and the presentation of information on operational efficiency led to remarks requiring information on measures in three financial audit reports (4 in 2010, 8 in 2009). Shortcomings in the use of appropriations or budget authorisations resulted in remarks requiring information in two financial audit reports and those relating to internal control procedures in one financial audit report.

The impact of the reporting requirements included in the previous year's financial audit reports was examined in conjunction with the 2011 financial audits. A total of five government agencies had been assigned with reporting requirements in financial audit reports for the year 2010. The requirement was repeated fully or in part for three of these in 2011 (3 in 2010, 7 in 2009).

In 2011 the Ministry of Education and Culture and the Ministry of Transport and Communications were cautioned in financial audit reports about budget procedures. Remarks concerned the allocation of certain transfers to the budget year and the entry of the purpose of use of appropriations into the budget. Cautions concerning budget procedures were issued in two financial audit reports in 2010.

Budgeting and budget authorisation monitoring concerning transport infrastructure projects

As part of a compliance audit on the budgeting of authorisations and authorisation procedures covering the entire budget, the National Audit Office conducted an audit in the 2011–2012 auditing period of budgeting procedures concerning authorisations for transport infrastructure projects administered by the Finnish Transport Agency, the

monitoring of authorisations, control measures for authorisation recording procedures and the correctness and adequacy of the information presented in the Finnish Transport Agency's final accounts. A separate compliance audit report 10/2012 was published on the audit.

It was found in the audit that in the budgeting, use and monitoring of authorisations for transport infrastructure projects and in the presentation in the final accounts, key provisions and regulations concerning them have not been complied with.

The budget authorisation procedure is precisely regulated at the constitutional level. Its regular application ensures the exercise of Parliament's budgetary power so that Parliament maintains real decision-making power over central government expenditure. If the budget authorisation procedure is de facto applied in a way that is contrary to provisions, administration does not have real authority granted by Parliament to make agreements and commitments covering future years. In budgeting concerning transport infrastructure projects, challenges are posed by projects' different funding solutions, the broad scope and long duration of projects, and index-linking. The budgeting of some projects does not correspond to the State's real commitment or costs incurred by the State. The presentation of the use of authorisations and resulting costs in the budget should be clarified.

The audit also found that the Finnish Transport Agency has made agreements and orders using authorisations that have not been at its disposal when the orders or agreements were made. Under section 10 of the State Budget Act, an authorisation may only be used during the financial year covered by the budget in which it is included. Some documents concerning the use of authorisations

have not been included in authorisation monitoring and the use of authorisations has not always been documented adequately. There are errors in the reporting on authorisations in the final accounts. Good financial management requires the good management of authorisations and other long-term agreements and commitments.

8.3 Budgeting procedures

In 2011 the Ministry of Education and Culture and the Ministry of Transport and Communications were cautioned in financial audit reports about budget procedures. Remarks concerned the allocation of certain transfers to the budget year and the entry of the purpose of use of appropriations into the budget. Cautions concerning budget procedures were issued in two financial audit reports in 2010.

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8.4 Accounting units' financial statements

Table 5 presents information on remarks in financial audit reports concerning financial statements over a three-year period. Since 2010 the requirement set in section 21 of the State Budget Act that, in their final accounts and reports on operations compiled in order to implement accountability, government agencies must also provide true and fair information on their compliance with the budget, their revenues and expenditure and their financial position has, according to the State Budget Decree, only applied to agencies that operate as accounting units on the basis of a decision issued by the Ministry of Finance.

Remarks concerning financial statements and their notes were included in 18 financial audit reports.

The budget outturn statement contains information on revenues and expenditure as well as information on budget authorisations and their use. Remarks regarding budget outturn statements were issued to 13 accounting units on the basis of financial audits for 2011, which is one less than the figure for 2010. Remarks concerned the use of an appropriation for a purpose contrary to the budget, the exceeding of appropriations, the recording of income in a gross budgeted expenditure item and the allocation of expenditure in such a way that it signified the extension of the period of use of an appropriation. Almost 30 cautions were issued in this category.

In 2011 budget authorisations were in use in 24 accounting units. Remarks concerning the presentation of information on budget

authorisations or the use of authorisations were issued to five accounting units. Key reasons were shortcomings in arranging the monitoring of authorisations. One agency was cautioned for exceeding an authorisation.

Two accounting units were cautioned concerning their income and expenditure statement and another two concerning their balance sheet. Remarks concerning the balance sheet had to do with the valuation of assets and its presentation in the balance sheet.

Differences in valuation principles, slack procedures in defining asset and capital items and determining their value, and gaps in the monitoring of fixed assets continue to weaken the usefulness of the balance sheet to some extent. Under section 66 a of the State Budget Decree, fixed assets are entered in the balance sheet on the basis of the acquisition cost, with further specification provided in the relevant State Treasury order. The inclusion of acquisition costs corresponding to funding received from external sources in some cases in the acquisition costs of the balance sheet forms an exception to the principle laid down in the State Budget Decree whereby only costs incurred by the State are included in the acquisition cost, and guidelines concerning this should be provided by taking into consideration in the State Budget Decree the situations in which the principle of using the acquisition cost as the basis can be deviated from in the final accounts of accounting units and, consequently, those of the central government.

Five accounting units were cautioned about shortcomings in notes to financial sta-

tements. Financial audits particularly drew attention to information in notes that can be regarded as supplementing the information presented in financial statements in an essential way, most importantly information

concerning state securities and guarantees and other commitments. The financial audit reports for two accounting units contained remarks concerning the approval of final accounts.

TABLE 5: ACCOUNTING UNITS CAUTIONED ABOUT FINANCIAL STATEMENTS

| | Number of remarks in | | |
|-------------------------------------|----------------------|------|------|
| | 2009 | 2010 | 2011 |
| Budget outturn statement | 19 | 14 | 13 |
| Income and expenditure statement | 4 | 2 | 2 |
| Balance sheet | 10 | 3 | 2 |
| Notes to financial statements | 5 | 5 | 6 |
| Examination of financial statements | | | |
| Approval of final accounts | | | 2 |

8.5 Current state of internal control and risk management

Internal control has been evaluated in financial audits conducted by the National Audit Office using risk analysis and has been examined in connection with the audit of accounting, the monitoring of budget authorisations and performance accounting both in the course of audits and separately in connection with other audits. Performance audits conducted by the National Audit Office have evaluated risks associated with administrative steering systems and operational chains and how these are managed as well as internal control particularly from the perspective of activities' social effectiveness and performance as well as the presentation of a true and fair view of economy and activities as a whole. Shortcomings that have been observed in steering, operational and reporting systems are also shortcomings in internal control and risk management at the Government and ministerial sector levels.

The transfer of funds between Finland and the European Union and the use of such funds is also examined as part of financial audit. Audits have drawn attention not only

to the correctness of accounting and regularity but also to the steering of activities and, in particular, various issues concerning the management of funds and the arranging of internal control. Audit positions have been reported to those accounting units that have been covered by audits or are responsible for correcting shortcomings.

Table 6 contains information in summary form describing the current state of internal control in administration.

On the basis of the number of agencies that have been cautioned with regard to internal control, the situation appears to have remained unchanged from the previous year as far as accounting is concerned. The share of accounting units in which no essential shortcomings were observed in the internal control of accounting was 78% (80% of agencies in 2010, 69% in 2009). Essential shortcomings in the internal control of accounting that required corrective measures were observed in 13% of accounting units (14% of agencies in 2010, 21% in 2009).

TABLE 6: INTERNAL CONTROL IN FISCAL YEAR 2011 (AUTHORISATIONS IN 24 AGENCIES)

| | Accounting | Monitoring of authorisations | Performance accounting | Other internal control |
|---|------------|------------------------------|------------------------|------------------------|
| a) no essential shortcomings | 78% | 79% | 82% | 80% |
| b) essential shortcomings, but corrective measures taken | 8% | 4% | 2% | 5% |
| c) essential shortcomings that required corrective measures | 13% | 17% | 17% | 15% |

As regards the monitoring of authorisations, essential shortcomings in internal control arrangements that required corrective measures were observed in 17% of accounting units with budget authorisations (26% of accounting units in 2010, 13% agencies in 2009).

Key provisions concerning performance accounting can be found in section 16 of the State Budget Act. More detailed provisions are laid down in the State Budget Decree, which requires that agencies must arrange performance accounting along with other accounting so that it produces the essential information required for their external steering as well as the information required in their final accounts and report on operations.

With regard to performance accounting the situation in administration from the perspective of internal control appears to be roughly the same as the previous year. Financial audits observed essential shortcomings on the basis of which audit reports called for corrective measures in 17% of accounting units (20% of accounting units in 2010, 22% of agencies in 2009). Shortcomings in accounting are also usually the reason for shortcomings in the presentation in reports on operations of true and fair information on economy, productivity, the profitability of chargeable activities and cost-effectiveness for jointly financed activities in most cases.

The financial rules that are required by the State Budget Decree are a key tool in the arrangement of accounting units' internal control. Financial audits for 2010 found that financial rules were adequate in 88% of accounting units (90% of accounting units in 2010, 96% of accounting units in 2009).

According to the State Budget Decree, the report on operations must contain an assessment of the regularity and adequacy of internal control and risk management together with a statement on the current state

of internal control and essential development needs in this respect. Financial audit reports addressed remarks on this statement to two accounting units (3 accounting units in 2010, 4 agencies in 2009). Remarks mainly concerned the preparation of the statement. Management has generally focused attention on the development and evaluation of internal control and risk management. Audits indicated that essential differences still remain in procedures among agencies. Statements provide clear coverage of the current state of internal control and not only of areas being developed. Management's responsibility for internal control should be underlined in statements. In statements and background memoranda, attention should be paid to continuity from year to year.

System audits

The main purpose of the system audits that are conducted in connection with financial audits is to ensure that key internal control procedures and information security arrangements linked to systems and their operating environment are appropriate. System audits primarily examined financial administration systems and systems producing information for them as well as systems connected with their operating environment. A total of nine system audits were conducted during the 2011 audit round.

Audits focused on one ministry, two agencies and the Government Shared Services Centre for Finance and HR, which was the subject of three audits. One of these was a normal system audit concerning the accounting unit, while the other two, concerning systems administered by the Shared Services Centre, approached the subject from the viewpoint of service provision for customer agencies and compliance.

In addition to the above audits, two audits focused on agencies using the KIEKU information system and one on an agency launching the KIEKU system. In 2011 the National Audit Office obtained expertise and background information regarding the KIEKU system and monitored system launches.

Key matters that were examined in audits included risks associated with the use of systems and related management, controls, access rights and other internal control procedures. Arrangements and documentation relating to information security and IT functions and the organisation of information government were also examined. In examining the Shared Services Centre's systems from the viewpoint of the production of services, key matters regarded the coherence of processes, access rights, controls and general information security arrangements, and the segregation and documentation of tasks, procedures and responsibilities.

Key audit findings concerned the management and control of access rights, segregation and organisation of tasks and the division of labour, logical protection, the clarification of responsibilities and monitoring procedures, methods descriptions and documentation, contracts and information security documents. Audit findings were reported in connection with financial audits. Key findings of audits concerning the Government Shared Services Centre for Finance and HR were also reported in conjunction with the compliance audit of the Centre

Internal audit

According to the State Budget Decree, the management of a government agency must arrange internal audit if there are grounds for this in view of the internal control procedures required in sections 69 and 69 a of

the Decree. The purpose of internal audit is to allow management to determine whether internal control is appropriate and adequate and to perform the audit tasks specified by management. The arranging of internal audit must be in line with general standards and recommendations. Internal audit procedures and internal audit's status in the organisation are prescribed in internal audit guidelines.

According to financial audits for 2011, internal audit was arranged by 40 or 67% of accounting units (75% of agencies in 2010, 61% of agencies in 2009).

Measured in person-years, internal audit appears to have remained unchanged compared with the previous years. Internal audit required about 99 person-years in 2011 (97 person-years in 2009 and 2010). Outsourced services accounted for around 10 person-years of the total (8 person-years in 2010, 11 person-years in 2009). Among the accounting units that carried out their own internal audits in 2011, the input of internal audit using their own personnel was around one person-year or less in 17 accounting units (15 accounting units in 2010, 19 accounting units in 2009).

Internal audit guidelines were considered appropriate in 39 accounting units or 98% those accounting units that had internal audit (75% of agencies in 2010, 97% in 2009).

Arrangement of internal control for service processes provided by the Finnish Government Shared Services Centre for Finance and HR

The arrangement of HR and financial administration processes provided by the Finnish Government Shared Services Centre for Finance and HR and its regularity were audited in a compliance audit conducted by the

National Audit Office in 2010 and 2011. The audit covered the Shared Services Centre and its customer agencies. A separate compliance audit report 7/2012 has been provided on the audit.

The audit found that the provision and arrangement of HR and financial administration tasks transferred to the Shared Services Centre and the arrangement of internal control of key information systems has not in all respects been in compliance. In practice confusion in the propriety and adequacy of internal control and responsibility for arranging internal control has resulted from the responsibility prescribed in the State Budget Act and Decree being viewed as agency-specific and being ultimately up to the management of customer agencies alone. The Act and Decree should more clearly recognise the Shared Services Centre as a key actor in arranging the internal control of the State's HR and financial administration processes.

The determination of responsibility for internal control on the basis of agency structure does not support the requirements regarding process-based activities in the most efficient way. Central government finances and state administration subordinate to the Government ultimately form a whole, and risks, risk management and internal control procedures should be examined from the viewpoint of the objectives and interests of this whole. Internal control should be arranged with the whole consisting of the HR and financial administration process in mind. This can help avoid gaps and overlaps in the arrangement of internal control. Key provisions concerning the arrangement of internal control should be developed so that different ways of arranging HR and financial administration tasks are taken into consideration. At the same time the role of the service agreement in delegating responsibility for internal control and arran-

ging related tasks should also be strengthened.

Internal control has been arranged properly only if all parties act according to agreed responsibilities. The service agreement alone cannot create sufficient prerequisites for the arrangement of proper internal control as the division of responsibilities between the parties takes place at a very general level. The risk of differing methods and lack of control is increased by processes where the performance of functions and the practical instructions for internal control and the steering effect of the automated controls of information systems is not sufficient. On the basis of the audit, the National Audit Office recommends the adequate documentation of HR and financial administration process functions as well as related risk management elements and internal control measures in key documents guiding activities. The development of internal control and risk management should also be supported through the central government's shared steering.

Outsourcing of functions emphasises the importance of the functioning of service provision information systems and automated controls. From the viewpoint of the efficiency of internal control and functions, the information systems and their automated controls used by the Shared Services Centre in service provision do not in all respects support the centralisation of HR and financial administration functions in the Shared Services Centre.

Attention must also be paid to the information security of systems used in the performance of tasks and the overall information security arrangements of the Shared Services Centre. Uniformity regarding information security has not been achieved in all processes and customer environments.

8.6 State of the management and supervision of EU funds in Finland in 2011

According to the principle of equal protection, as part of performance audit, financial audit and compliance audit the National Audit Office examines the transfers, management and supervision of EU funds in the same scope and according to the same principles and procedures that apply to national funds. The National Audit Office does not use statistical monetary unit sampling and so it is not possible to assess the amount of monetary misstatement on this basis.

In addition to the regularity of accounting and the legality of activities, financial audits conducted by the National Audit Office pay attention to appropriate steering and, in particular, various issues regarding the management of funds and the arranging of internal control. The main emphasis in financial audits is on auditing internal control according to budget legislation using analytical means. In some cases audits have also included the limited testing of key controls. Performance audits conducted by the National Audit Office focus on the effectiveness of measures financed entirely or partly with EU funds.

Financial audits concerning aid to projects and undertakings funded fully or in part from the Rural Development Fund were conducted on the Centre for Economic Development, Transport and the Environment for North Ostrobothnia and the Agency for Rural Affairs. With regard to the European Regional Development Fund (ERDF), an audit of the transfer of EU funds and internal control focused on the Centre for Economic Development, Transport and the Environment for Satakunta. An audit relating to the European Social Fund focused on the Ministry of

Employment and the Economy.

The National Audit Office's audits of aid to projects and undertakings co-funded from the Rural Development Fund paid attention to the procedures relating to recording of technical assistance and self-produced projects at Centres for Economic Development, Transport and the Environment. There have been shortcomings in the recording procedure as regards the recognition of the Centres' consumption expenditure under accounts 30.10.61 (EU contribution to rural development, variable appropriation) and 30.10.62 (State funding contribution to rural development co-funded by the EU). As regards the Centres' self-produced projects, audits also paid attention to entry of other funding in the budget in accordance with the principle of matching revenue with expenditure. The audit of the Agency for Rural Affairs recommended that the Agency check the processing of advances paid by action groups in the making of payments. In the coming programming period it would be justifiable to handle any advances paid by action groups more transparently in national provisions. The audit found that national working hours monitoring at Centres for Economic Development, Transport and the Environment did not sufficiently support the internal control of technical assistance because the launch took place at the end of the year.

The audit of ERDF funds found individual shortcomings in the verification of costs in the verification of eligibility of expenditure. Otherwise the audit found that the eligibility of costs had been appropriately ensured using accounting printouts and other documents in conjunction with each payment

instalment. Measures taken to ensure the eligibility of costs were also documented appropriately at the payment stage.

The audit of European Social Fund (ESF) funds covered the functionality as regards decision processing of the EURA 2007 system used in the administration of structural fund tasks to ensure the national maximum amounts of funding are not exceeded. The audit provided several recommendations to avoid the recurrence of the shortcomings and defects. The audit detected some decisions where the maximum contribution had been exceeded without providing an appropriate justification. These were noteworthy from the viewpoint of compliance with legislation, although they were not large in terms of amount.

It was found in the financial audit of the Finnish National Board of Education (FNBE) that information in certain budget items, such as item 32.50.64 (EU and national financing for EU structural fund programmes during the 2007–2013 programming period) concerning available authorisations and use of authorisations did not contain expenditure for the entire project duration. Authorisation usage (€9.6 million) in 2011 did not cover the entire amount to which a commitment was made. As procedures had been similar in preceding years, the renewed authorisation (€7.1 million) and unused authorisation (€4.6 million) were based on corresponding recognition procedures. The procedures were to do with the practices and recognition guidelines of the Ministry of Employment and the Economy.

The audit of the FNBE recommended that procedures be changed in a manner whereby the full amount to which a commitment has been made for the budget year be recognised as authorisation usage in projects. The budgeting of authorisations should also be amen-

ded accordingly. Attendance to this will require measures by the Ministry of Employment and the Environment. The National Audit Office has produced Compliance Audit Report 1/2011 on Finnish Regional Councils as managers of EU funds, which covers corresponding issues relating to the use and monitoring of budget authorisations.

Financial audits concerning EU funds did not reveal any other material shortcomings relating to internal control in the audited entities.

In fiscal year 2011, performance audits were conducted on the utilisation of the European Globalisation Adjustment Fund (EGF)¹⁰⁰ to provide support in abrupt structural change. In its audit report on supporting areas of abrupt structural change (2/2012), the National Audit Office paid attention to Finland having applied for EU EGF funding for only one case in 2007 although the EGF had provided financing for similar structural change taking place in other EU Member States. A total of €330.1 million has been paid out from the EGF for 74 different projects. With applications accepted and under consideration included, the average amount of EGF funding amounts to €4,716 per person. Following the audit, the Ministry of Employment and the Economy launched the process to apply for EGF funding for support measures for employees made redundant at the Nokia Salo facility

103 The European Globalisation Adjustment Fund (EGF) was established by Regulation (EC) No 1927/2006 of the European Parliament and of the Council in 2006. The purpose of the EGF is to provide support to workers primarily in areas and sectors that suffer from the globalisation of the economy.

8.7 State of the management and supervision of EU funds in Finland in 2011

State aids are a major expenditure category in the budget, and provisions concerning the granting, payment and application of state aids are laid down in various acts. Internal control is tasked with ensuring the regularity of state aid procedures.

In connection with financial audits the National Audit Office examined state aid procedures in eight accounting units. Findings regarding the internal control of state aids can be broken down as follows:

| | Year 2009 | Year 2010 | Year 2011 |
|---|--------------|--------------|--------------|
| a) no essential shortcomings | 59% | 67% | 50% |
| b) essential shortcomings, but corrective measures taken | | 6% | 13% |
| c) essential shortcomings that required corrective measures | 41% | 28% | 38% |

In 2011 financial audits focusing on state aids were conducted in 17 accounting units or agencies. It can be stated on the basis of audits conducted in recent years that agencies have paid attention to administrative procedures concerning state aids. Nevertheless, one in two audits conducted in 2011 found such shortcomings in internal control that require measures to be taken. Most of these are to do with individual shortcomings in administrative processes relating to issues including segregation of tasks, information systems, clarity of provisions and correctness and sufficiency of information used as a basis for state aid decisions.

Funding from betting and lottery proceeds to promote sports and physical education, science, the arts and youth work

The aim of the compliance audit of funding from betting and lottery proceeds to promote sports and physical education, science, the arts and youth work was to examine whether legislation and guidelines had been complied with in granting and paying funds and recovery of funds and whether the internal control of the funding process had been properly arranged and whether funds had been used for the purpose for which they were granted and whether true and fair information had been provided on the use of funds. A separate compliance audit report 14/2012 has been provided on the audit.

The audit pertained to discretionary government transfers granted from lottery proceeds and administered by the Ministry of Education and Culture. Transfers administered by the Ministry of Education and Culture have been granted to final recipients in four ways. The Ministry has granted funds directly to the final recipient or the ministry has allocated funds to another central government authority, which has granted funds, or the Ministry has granted funds to an association or foundation, which has granted funds to the final recipient on the basis of authority prescribed in legislation (government aid authority), or the Ministry has granted funds to an association or foundation, which has transferred funds to the final recipient on the basis of section 7(2) of the Act on Discretionary Government Transfers.

In 2011 funding covered by the audit amounted to €309.4 million, of which around 76% was granted to non-profit organisations. Local authorities were granted around 12% and businesses 9% of the funding. The audit examined the different systems so that the purposes for which proceeds from money lotteries, pools and betting are used under section 17 of the Lotteries Act (1047/2001) were all covered comprehensively.

The audit found that the Ministry of Education and Culture had not complied with legislation and guidelines concerning the funding process in all respects. One shortcoming was that the Ministry had not taken care of the proper and adequate monitoring of grants as required by section 5 of the Act on Discretionary Government Transfers. Furthermore, the Ministry of Education and Culture had, contrary to section 12 of the Act on Discretionary Government Transfers, often paid funds in a manner that is unnecessarily frontloaded and has taken place before the costs funded have been incurred.

According to the audit, such shortcomings relating to decision procedures, the monitoring of the use of funds and the payment of funds were found in the arrangement of the internal control of the funding process that require appropriate measures to be taken by the Ministry of Education and Culture.

The audit also found that the Ministry's funding decisions and the standard terms and restrictions appended thereto have not set requirements for the monitoring of the use of funds and the provision of information on the use of funds in a sufficiently unambiguous way. During the course of the audit the Ministry has revised standard terms and restrictions, but these should be further developed taking into consideration the shortcomings noted in the audit report.

The Ministry of Education and Culture has delegated the power to authorise discretionary government transfers increasingly extensively to associations and foundations on the basis of section 7(2) of the Act on Discretionary Government Transfers. The most important delegations in terms of amount of money as well as procedures were based on the additional entry as revenue of lottery proceeds included in the 2010 supplementary budget, of which a total of €12.6 million was allocated for youth employment under a variety of employment subsidy models. With recipients further granting funding, the granting process has involved extensive discretion as regards the granting of funds and de facto exercise of public powers. The problem is that under section 124 of the Constitution of Finland (731/1999), public administrative tasks may only be delegated to others than public authorities by an Act or by virtue of an Act. According to section 124, however, tasks involving significant exercise of public powers may only be delegated to public authorities. As the Act on the Public Employment Service (1295/2002) contains specific provisions on employment subsidy, the subsidy practices involving less strict terms used in the granting of funding were not regarded as appropriate on the basis of the audit.

According to section of the Lotteries Act, the Government may decide to leave undistributed a minimum of 20% of the appropriations referred to in section 18 each year. The undistributed amount must be distributed within five years. On the basis of the audit the risk whereby a considerable increase in the annual amount of funding appropriation may result in the inappropriate use or accumulation of funding should be pointed out. Therefore it is recommended that section 21 of the Lotteries Act be applied in a manner

whereby, regardless of the profit made by the Finnish National Lottery for an individual accounting period, the total volume of funding granted from lottery proceeds be maintained at a constant level.

Discretionary government transfers granted from lottery proceeds are primarily governed by the Act on Discretionary Government Transfers (688/2001). As regards the use of transfers and the monitoring of transfers use, the Act on Discretionary Government Transfers differs materially from the provisions of the Act on Slot Machine Funding Assistance (1056/2001). According to the Act on Slot Machine Funding Assistance, funds may only be used for purposes in accordance with the funding decision and, if the purpose of use is not specified in the decision, the funds must be used for the purpose specified in the application. The audit of funding from slot machine proceeds conducted in 2011 found that the purpose of use is specified briefly in funding decisions and that applications for funding did not always specify the purpose of use unambiguously enough. The audit also revealed cases where the textual parts of the funding decision and the funding application were in conflict with each other. The Act on Discretionary Government Transfers states unambiguously that discretionary government transfers may only be used for the purpose stated in the discretionary government transfer decision. The Act on Slot Machine Funding Assistance lays down more specific provisions about acceptable costs that for funding provided from lottery proceeds are specified in the terms of the funding decision. Under the Act on Slot Machine Funding Assistance, targeted operations funding may only be used for separate costs arising from the funded activity less separate operational income. The audit conducted in 2011 showed

that the specification, verification and interpretation of separate costs have proven to be difficult and require special monitoring. According to the standard terms and restrictions applied to special funding granted by the Ministry of Education and Culture, special funding may be used for costs arising from the funded activity. Consequently, funding may be also be used for other separate costs if there is a causal connection to the funded activity. It can be stated on the basis of the audit that organisations funded by the Ministry of Education and Culture have, as a rule, applied the general allocation principles well and that there are considerable differences between the Ministry's units as regards the approval of general costs.

Unlike the Act on Discretionary Government Transfers, the Act on Slot Machine Funding Assistance lays down provisions concerning accounting and audits. According to the Act on Slot Machine Funding Assistance, accounting must take place not only as laid down in the Accounting Act but also in a manner enabling the reliable monitoring of funding use on the basis of accounting documents. As regards funding provided by the Ministry of Education and Culture, the connection between the monitoring of funding use and accounting is formed under the standard terms and restrictions for special funding that were specified further at the end of 2011.

The Ministry of Education and Culture does not provide funding recipients with financial guidance like the Slot Machine Association does. The Ministry of Education and Culture does not inspect funding recipients with the exception of individual cases. The Slot Machine Association conducts several dozens of inspection visits every year.

8.8 Current state of central government procurement

According to the information in the central government accounts, central government procurements totalled about €6.0 billion in 2011, including €0.5 billion in procurements of fixed assets. The National Audit Office has strived to correct shortcomings in procurement activities by focusing audits on procurements of both goods and services and by examining all stages of the procurement process.

In 2010 the National Audit Office conducted an extensive compliance audit concerning compliance with the joint procurement obligation referred to in section 22 of the State Budget Act.

Procurement procedures were examined in conjunction with the financial audits of three accounting units in 2011. Of those three agencies, one was found to have such shortcomings that require measures by the agency. The shortcomings were to do with procurement procedure and documentation.

In addition to auditing, the National Audit Office has, through its expert activity, sought to promote good attendance to procurement by, for example, organising an ICT procurement forum in cooperation with the Ministry of Finance.

8.9 Abuses and complaints regarding the management of central government finances and reports of abuses

The National Audit Office makes sure abuses are handled efficiently in state administration

Abuses come to the attention of the National Audit Office on the basis of its audit activities or reports of abuses under section 16 of the Act on the National Audit Office, according to which a state authority, agency, business enterprise or state fund must immediately report any abuse of funds or property which it manages or for which it is responsible to the National Audit Office.

On the basis of reports as well as other information that comes to light in audits, the National Audit Office monitors and considers abuses in administration together with their consequences for central government finances and measures to prevent abuses. On the basis of the monitoring of abuses, the threshold for authorities to report an offence or request an investigation concerning abuses involving their own activities can in some cases be considered too high. Requests for an investigation and other appropriate measures after abuses have been observed should be viewed as part of efficient internal control.

In 2011 government agencies filed 22 reports concerning abuses as required by law (20 in 2010). Government agencies also submitted 13 other reports of abuses to the National Audit Office in 2011 (6 in 2010). These involved abuses that agencies are not required by law to report to the National Audit Office, but which agencies chose to report nonetheless. These cases have generally concerned non-compliance with rules by reci-

ipients of state aids. Reports of abuses have been divided among several different administrative sectors.

The National Audit Office must report any offence that it observes in its audit activities involving funds or property which a state authority, agency, business enterprise or state fund manages or for which it is responsible, unless the auditee has made a report or the offence can be regarded as negligible considering the circumstances.

The National Audit Office did not report any offences in 2011. Due to findings obtained in conjunction with the financial audit of a central government agency, the National Audit Office required that the agency submit a report of an offence as required by section 17(1) of the Act on the National Audit Office as there was reason to suspect that certain public officials employed by the agency had committed an offence in public office. The agency reported the matter to the Police. The District Court found one person guilty of fraud and another accessory to fraud but exempted both from penalties as the right to prosecute had already become time-barred. One of the accused was, however, sentenced to pay damages to the State.

In another case the director-general of a central government agency was suspected of committing means of payment fraud by misusing the State's credit card. The National Audit Office required that the agency submit a report of an offence. The District Court sentenced the public official to a fine for violation of official duty and means of payment fraud. The public official has paid back the

unlawfully obtained funds.

The Ministry of Employment and the Economy and the Agency for Rural Affairs, which administer EU aids, also submit copies of their reports to the European Union on the monitoring of aids under Commission regulations to the National Audit Office. Reports are made for each structural fund quarterly. The National Audit Office received 43 such reports for 2011 (34 reports for 2010). The figure includes both new and follow-up reports.

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

The National Audit Office received 13 reports concerning the ERDF (6 for 2010). Five of these were new and eight were follow-up reports. The amount of funds in question ranged from €25,244 to €387,264 (from €36,391 to €252,288 for 2010).

The National Audit Office received eight reports concerning the ESF (3 for 2010). Six of these were new and two were follow-up reports. The amount of funds in question ranged from €17,772 to €114,949 (from €0 to €35,994 for 2010).

The Agency for Rural Affairs submitted 22 reports to the National Audit Office for 2011 (25 for 2010) on the basis of Commission Regulation (EC) No 1828/2006 and (EC) No 1681/94, amended by Commission Regulation (EC) No 2035/05. This included nine new reports and 13 follow-up reports. The amount of funds in question ranged from €11,385 to €200,000 (€6,754 to €244,050 for 2010).

Reports of abuses and reports of irregularities to the EU tell something about the cur-

rent state of internal control. The aim is to prevent abuses by emphasising the importance of internal control in agencies. According to section 65 of the State Budget Decree, an accounting unit's report on operations must include a statement regarding the assessment of internal control and essential developmental needs in this area. It must also include information on errors and abuses in summary form.

Representatives of the National Audit Office participated in a Nordic expert conference themed on abuse. The topics covered the country-specific situation concerning abuse and the supreme audit institutions' (SAIs) concrete response measures. Special attention was paid to the application of the ISSAI standards and the abuse-related standards included in them by the Nordic SAIs.

One in five complaints leads to measures

Anyone who suspects irregularities or improprieties in the management of central government finances can submit a complaint to the National Audit Office. Complaints can be submitted in a matter that concerns the complainant, on behalf of another person or together with other persons. Complaints must pertain to past activities or events. The National Audit Office's scope of activity does not cover advance financial control. Therefore the National Audit Office will not attend to complaints pertaining merely to how a matter should be organised in the future or what the politically appropriate approach would be.

The National Audit Office received 67 complaints during the year. The figure the previous year was 48. Complaints were submitted by private individuals as well as or-

ganisations. In their opinion a body falling within the National Audit Office's mandate had acted irregularly or improperly. Complaints were broken down fairly evenly between different sectors that fall within the National Audit Office's mandate. They concerned government agencies, recipients of state aids, state-owned companies and the use of EU funds.

The National Audit Office does not investigate a complaint if the matter is more than five years old unless there are special reasons to do so. The agency has also received numerous enquiries regarding what authority citizens can turn to for redress. If a matter does not fall within the National Audit Office's mandate, it strives to direct citizens to the appropriate authority or body.

In investigating complaints, the National Audit Office has requested further information from the authority in question if necessary. Around 40% of complaints did not require measures by the National Audit Office. Around 25% of complaints concerned matters that do not fall within the National Audit Office's mandate. Such complaints often regarded the finances or activities of local authorities or the Social Insurance Institution of Finland (Kela). In decisions regarding complaints that were issued during the reporting year, the National Audit Office noted in about 15% of cases that the matter had been examined or would be examined in conjunction with an audit. In about 10% of cases the National Audit Office called for an agency to take corrective measures to eliminate an irregularity or impropriety. Roughly 10% of complaints were forwarded to another body, often a ministry, to resolve. In such cases the ministry was asked to report what measures it has taken as a result of the complaint. The following paragraphs present summaries of four complaint matters that had broader significance

River Tenojoki fishing compensations unpaid for 20 years

The act on compensation for losses arising from the agreement on River Tenojoki fishing regulations and certain stipulations of the regulations has been in force since 1991. According to the act, fishing rights holders are to be paid full compensation if the fishing regulations prevent them from exercising their fishing rights or considerably restrict their opportunity to exercise this right. The compensation is paid from central government funds. Compensation matters are decided upon under a separate survey, applications for which are submitted to the District Survey Office. According to the complaint, these compensations have remained unpaid for more than 20 years. A written question on the same topic was also submitted in Parliament to the Government in 2010.

In its decision concerning the complaint, the National Audit Office paid attention to the fact that the act concerning Tenojoki River fishing compensations has been in force for more than 20 years and the central government's liability for compensation extends to 1972. All compensations for this period of around 40 years remain unpaid. There are no calculations by authorities available on the size of this expenditure, but the amount of compensation, including interest, will be considerable. The delay in the implementation of the act on the Tenojoki River fishing compensations has resulted from legal cadastral surveys still remaining incomplete and related legal proceedings.

No compensations under the act on Tenojoki River fishing compensations have been paid so far. The National Audit Office regards the current situation as unreasonable from the viewpoints of citizens' legal protection as well as the central government payment obligation.

Considering the points presented above and the fact that the preparation of the act was initially launched as a result of a letter to the Government submitted by the Chancellor of Justice in 1979, the National Audit Office also sent its decision to the Chancellor of Justice for information and possible measures.

Relocation of the management and headquarters of the Finnish Forest Research Institute to Joensuu

In October 2011 the Government issued an order for the management and around 25 members of headquarters staff of the Finnish Forest Research Institute to move to Joensuu, eastern Finland, by the beginning of 2014. According to the complaint, this resolution was not based on careful assessments and consideration required by regionalisation decisions. A decision was made to relocate the Finnish Forest Research Institute to Joensuu without an assessment or analysis based on the development needs of forest research and forest-based industries. The decision came as a total surprise to the Institute. The presentation memorandum of the Government resolution presents a group of justifications for the relocation decision which, according to the complaint, are not accurate.

The Parliamentary Audit Committee issued its statement about the regionalisation of central government functions in 2011 and sent the statement to the Government for consideration.

The starting points and objectives of the regionalisation of government premises were as such supported by the Committee. According to the Committee, the problems encountered in regionalisation had been partly caused by shortcomings in the steering and monitoring of regionalisation projects. The

Committee found that the original key objective of regionalisation had been to increase the efficiency of regional policy and promote the country's balanced regional development. There has, however, been a focus on Southern Finland in regionalisation measures. This has been due to regionalisation having to a large extent progressed on the basis of ministries' individual decisions without any more comprehensive coordination or steering. In the Committee's opinion the State's aim should be to strengthen, through its own measures, the capacities of the least successful regions in particular.

In its report to the Audit Committee, the Government promised to also pay attention to the reduction of transitional problems and issues including the better assessment and monitoring of human resources impacts. The Committee regarded it as important that the State be an exemplary employer and follow the principles of good human resources policy in organisational transitions.

In its decision regarding the complaint, the National Audit Office found that the Ministry of Agriculture and Forestry and the Finnish Forest Research Institute must, when preparing and implementing the relocation of the management and headquarters of the Finnish Forest Research Institute to Joensuu, comply with the above-mentioned operating principles that were required from the Government by the Parliamentary Audit Committee.

External evaluation to take place on the Tax Administration's electronic services

A complaint drew attention to the increased number and complexity of enterprise reporting and the increased complexity of identification brought about by the Tax Administration's switch from the TYVI identification to the KATSO identification system. The KATSO service was regarded as clumsy by the complainant. A written question on the matter was also submitted in Parliament to the Government in 2010.

Provisions concerning the supply of electronic services are laid down in the Act on Electronic Services and Communication in the Public Sector. According to the Act, authorities must ensure that services are technically as compatible and user-friendly as possible from their customers' point of view.

In its decision concerning the complaint, the National Audit Office found that the Tax Administration must ensure its service launches take place in stages and allowing sufficient transitional periods. Sufficient measures must be taken to prepare for peak periods in service usage, taking into consideration issues relating to customers' legal protection, particularly as regards compliance with statutory time limits and the issue of possible sanctions. The National Audit Office found that the administration of TYVI services has not been arranged appropriately either. Consequently, the Ministry of Finance should conduct a legality assessment regarding TYVI activities and take any measures necessary.

The National Audit Office required that the Ministry of Finance inform the Office about the measures taken by it to rectify the shortcomings observed in the Tax Administration's activities and to solve the problems found in the administration of TYVI services.

In its reply the Ministry of Finance informed the National Audit Office as regards the shortcomings found in the administration of TYVI services that the Ministry will request a statement by an independent party concerning the legality of the administration of TYVI activities. The Ministry also informed that it will commission a usability assessment (user friendliness) of the KATSO identification system in 2012. The KATSO system will be developed further on the basis of the assessment.

Non-compliance with the Act on Public Contracts

According to a complaint submitted to the National Audit Office, the National Board of Antiquities purchased the supervision of prisoner work at the Häme Castle from a private enterprise without using a competitive bidding procedure. The National Audit Office found in its decision concerning the complaint that the National Board of Antiquities did not conduct a competitive bidding procedure on the procurement contract in accordance with the Act on Public Contracts. Instead, it used a direct award.

The National Audit Office emphasised that the National Board of Antiquities must ensure it operates in compliance with the Act on Public Contracts and that projects are subjected to competitive bidding as laid down in the Act. The purpose of the Act on Public Contracts is to increase the efficiency of the use of public funds, promote high-quality procurement and safeguard equal opportunities for companies and other communities in offering service contracts under competitive bidding for public procurement. Cooperation between the National Board of Antiquities and the Criminal Sanctions Agency must also be arranged in compliance with the provisions of the Act.

9 Key audit findings by administrative sector

9.1 Office of the President of the Republic

Current state of administration on the basis of audits

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

According to the financial audit report, the

Office of the President of the Republic complied with the budget and the key provisions regarding it. The information describing operational efficiency presented in the final accounts was considered true and fair.

9.2 Prime Minister's Office

Current state of administration on the basis of audits

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

The Prime Minister's Office did not set targets regarding economy and productivity but the operational efficiency information presented on these in the final accounts was nonetheless considered true and fair.

Certain shortcomings in internal control having to do with the arrangement of performance accounting and requiring corrective measures were discovered in connection with the financial audit of the Prime Minister's Office.

The finance policy audit Commitments to the euro area's financial stability arrangements (4/2012) concerned the administrative sector of the Prime Minister's Office.

9.3 Administrative sector of the Ministry for Foreign Affairs

Current state of administration on the basis of audits

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

A qualified opinion on regularity that was included in the financial audit report for the Ministry for Foreign Affairs concerned the arrangement of performance accounting. The shortcomings in performance accounting also led to remarks requiring information.

The Ministry for Foreign Affairs did not set targets regarding economy and productivity and the information about operational efficiency presented in the report on operations was not true and fair.

Certain shortcomings in internal control requiring corrective measures were discovered in the financial audit of the Ministry for Foreign Affairs. The shortcomings had to do with the arrangement of performance accounting and certain balancing procedures in bookkeeping.

The performance audit Humanitarian aid (8/2012) concerned the administrative sector of the Ministry for Foreign Affairs.

Humanitarian aid

The objective of the audit was to examine the administration of humanitarian aid at the Ministry for Foreign Affairs, the connection between humanitarian aid and other development cooperation, Finland's influence in the international humanitarian aid system, and the results and impacts of humanitarian aid.

About 15 billion US dollars is spent on international humanitarian aid activities annually. In recent years Finland has provided €70–90 million a year in humanitarian aid, equal to roughly 10% of appropriations for development cooperation.

The audit indicates that the administration of Finland's humanitarian aid at the Ministry for Foreign Affairs has been arranged properly for the most part. There is room for improvement, however, in the Ministry's internal processes, aid guidelines, agreements regulating the use of aid, and the monitoring of the use of aid.

In the view of the National Audit Office, Finland's activities to influence international humanitarian aid efforts have been energetic and competent. Aid organisations and the donor community mainly have a positive picture of Finland as a donor and humanitarian actor.

One of the means for improving the effectiveness of aid and the achievement of sustainable development is to reinforce the link between humanitarian aid, crisis prevention and development measures. In order to further develop the entire humanitarian aid system and the activities of individual aid organisations, international humanitarian aid evaluations should be made more effective and the evaluation results should be better utilised.

9.4 Administrative sector of the Ministry of Justice

Current state of administration on the basis of audits

The accounting units in the administrative sector of the Ministry of Justice are the Ministry and the Criminal Sanctions Agency. Targets regarding economy and productivity were set for both the Ministry and the Criminal Sanctions Agency. In the financial audit, the information regarding operational efficiency that was presented in the report on

operations was also considered true and fair in respect of both.

The performance audit reported above in Chapter 7, Legislative drafting in the Ministry of Social Affairs and Health (12/2012), concerned in part also the administrative sector of the Ministry of Justice.

9.5 Administrative sector of the Ministry of the Interior

Current state of administration on the basis of audits

The accounting units active in the administrative sector of the Ministry of the Interior in 2011 were the Ministry and the National Police Board.

In addition to the Ministry and the National Police Board, the National Audit Office also issued financial audit reports for fiscal 2011 on five other agencies.

The targets regarding economy and productivity that were set by the Ministry of the Interior were considered adequate in respect of both the Ministry and the National Police Board. The information presented on economy and chargeable activities in respect of both was considered true and fair. The information on productivity included in the final accounts of the Ministry was considered true and fair.

Evaluating the current state of performance guidance in the administrative sector of the Ministry of the Interior on the basis of the setting of performance targets regarding economy and productivity and the presentation of true and fair information in final accounts in this respect, steered on the basis of sufficient economy and productivity targets, only the Ministry was considered to be an accounting unit reporting true and fair information.

The financial audit of the National Police Board found shortcomings in the internal control of certain financial and human resources service processes in respect of which the National Police Board should take corrective measures.

A follow-up of the performance audit Sha-

red Service Centre of the Ministry of the Interior (187/2009) concerned the Ministry's administrative sector. The audit, completed in spring 2009, found that the establishment of the Shared Service Centre of the Ministry of the Interior had succeeded reasonably well when examined from the viewpoint of the service centre. The Shared Service Centre was set up on a relatively fast timetable and with consideration to the requirements of relocation policy. The Shared Service Centre had successfully improved the efficiency of the financial and human resources administration services it provides by increasing productivity in the handling of purchase invoices and payroll accounting, among other things, and had provided services in an economical manner.

In its audit, the National Audit Office recommended identification of process owners in financial and human resources administration, preparation of a set of performance indicators for the service centre, and monitoring of the person-years committed to financial and human resources administration. Based on the audit, it appeared that many of the processes at the Shared Service Centre of the Ministry of the Interior were still in a transitional phase, with work measured in person-years having shifted at agencies from substance units to the finance unit but only to a lesser degree to the service centre. Overall, the person-years committed to the accounts payable process in State financial and human resources administration had decreased by only very little and had actually increased in the travel expense report process. The Natio-

nal Audit Office held that further development efforts should be targeted to high-volume processes and process components.

Based on information obtained for follow-up purposes, the development of person-years in financial and human resources administration has been monitored, process ownerships have been decided, and performance indicators have been set for service centre activities. The amount of person-years committed to the processes of highest volume had also been brought down between 2008 and 2010. With regard to payroll and remuneration accounting, the activities of State financial and human resources administration have also rated well in national benchmarking. An equivalent examination reveals the productivity of payables handling to remain poor. Based on the studies, the share

of work performed by the service centre varied among administrative sectors in a range of 7–21%, which may be taken to illustrate the different extents to which client agencies had assigned duties to the service centre. Owing to the low percentage shares and their high variation, it would be vital to determine the grounds on which client agencies have retained the performance of financial and human resources administration duties as well as the sufficiency and propriety of such grounds, taking into account the objectives set for consolidating State financial and human resources administration duties.

9.6 Administrative sector of the Ministry of Defence

Current state of administration on the basis of audits

The accounting units in the administrative sector of the Ministry of Defence in 2011 were the Ministry, the Defence Forces and the Construction Establishment of the Defence Administration.

A qualified opinion on regularity that was included in the financial audit report for the Ministry of Defence concerned the monitoring of the profitability of chargeable activities and the presentation of annual results for chargeable activities as well as the arrangement of performance accounting.

Financial audits found that adequate targets regarding economy had been set for the Ministry and the Construction Establishment of the Defence Administration. Productivity targets were considered adequate for the Defence Forces and the Construction Establishment of the Defence Administration.

The information concerning economy and productivity presented in the final accounts were considered true and fair not only in respect of the Ministry but also the Construction Establishment of the Defence Administration. Chargeable activities are pursued by the Defence Forces and by the Construction Establishment of the Defence Administration, and the latter was found to have presented true and fair information about these in its final accounts.

Evaluating the current state of performance guidance in the administrative sector of the Ministry of Defence with regard to the setting of performance targets regarding eco-

nomy and the presentation of true and fair information in final accounts in this respect, in the financial audits the Ministry of Defence and the Construction Establishment of the Defence Administration were found to have received adequate target-based steering and presented true and fair information.

The performance audit Management of premises in the Defence Administration (3/2012) concerned the administrative sector of the Ministry of Defence.

Management of premises in the Defence Administration

The audit sought to determine whether the management of the premises used by the Defence Administration had been effective and economical since the 2003 real estate reform. The Defence Administration's premises and real estate costs covered by the state budget totalled about €230 million in 2010, equal to roughly 10% of total expenditure in the administrative sector. On the basis of the audit, the premises can be deemed reasonably well to have supported the activities carried out in them. The audit revealed the degree of economic steering in the Defence Administration's premises management to be fairly low, however.

In the triple net rent model employed, Senate Properties is responsible for basic repair and renovation work and the Construction Establishment of Defence Administration for annual maintenance work. This permits a conflict of interest to arise between the parties as to sufficient level of maintenance. Due to factors including pressures to economise in central government finances, mainten-

ce has fallen short of the desired level. This may result in repairs and renovations having to be moved forward.

If an adequate level of maintenance is not reached in the near future, in the opinion of the National Audit Office there are grounds to shift to a rental system or steering that pays more attention to economy viewpoints and in which the level of maintenance and economy are better attended to. This would mean rearranging the tasks, administrative

position and organisation of the Construction Establishment of Defence Administration. In any case, the economic steering of the Defence Administration's premises management needs to be strengthened by means including more detailed determination of both adequate level of maintenance and volume of unperformed repairs on buildings, i.e. repair backlog.

9.7 Administrative sector of the Ministry of Finance

Current state of administration on the basis of audits

The administrative sector of the Ministry of Finance included nine accounting units as well as the Ministry in 2011. Among these, the National Board of Taxes and Finnish Customs are key collectors of central government revenues. The other accounting units in the administrative sector are the State Treasury, Statistics Finland, the Government Shared Services Centre for Finance and HR, the Government Institute for Economic Research, the Regional State Administrative Agency for Southern Finland, the State Department of Åland and the Population Register Centre.

The National Audit Office issued financial audit reports for fiscal 2011 on nine accounting units and five Regional State Administrative Agencies as well as the Ministry.

A qualified opinion on regularity was included in two financial audit reports in the administrative sector. The qualified opinion on regularity that was included in the financial audit report for the Ministry of Finance concerned the arrangement of performance accounting.

The qualified opinion on regularity that was included in the financial audit report for Finnish Customs concerned the monitoring of the profitability of chargeable activities and the presentation of annual results for chargeable activities as well as the arrangement of performance accounting and the preparation of balance sheet specifications in confirmation of the final accounts.

On the basis of the financial audits, the National Audit Office estimates that the Ministry of Finance approved adequate targets regarding economy only for the Tax Administration, Finnish Customs and Statistics Finland. Targets regarding productivity were likewise deemed adequate only in respect of Finnish Customs, the Tax Administration and Statistics Finland.

Information on economy was considered true and fair for all accounting units in the administrative sector except for the State Department of Åland. Information on productivity was considered true and fair for all accounting units in the administrative sector except for the Ministry and the State Department of Åland. Seven of the eight accounting units which pursue chargeable activities were found to have presented true and fair information on these in their final accounts.

Evaluating the current state of performance guidance in the administrative sector of the Ministry of Finance on the basis of the setting of performance targets regarding economy and productivity and the presentation of true and fair information in final accounts in this respect, three accounting units in the administrative sector of the Ministry of Finance received adequate target-based steering and presented true and fair information on economy and productivity, namely the National Board of Customs, the Tax Administration and Statistics Finland.

In the administrative sector of the Ministry of Finance, financial audits found shortcomings in financial rules in one accounting unit. In addition to the ministry, five agencies

were found to have shortcomings in internal control that required corrective measures. The key shortcomings concerned accounting and performance accounting as well as the monitoring of budget authorisations.

The compliance audit of the internal control of human resources and financial administration processes performed by the Shared Services Centre (7/2012), addressed above in Chapter 8, concerned the administrative sector of the Ministry of Finance.

The administrative sector of the Ministry of Finance was also the subject of the performance audit *Sickness absences and their monitoring in state administration* (5/2012) and the fiscal policy audit *Commitments to the euro area's financial stability arrangements* (4/2012).

Sickness absences and their monitoring in state administration

In state administration, the total costs of sickness absences came to nearly €260 million in 2009, and they took up about four per cent of working time.

Based on the audit, monitoring data on sickness absences are a significant support for management at central government agencies, but the data has not been utilised adequately. Sickness absence monitoring methods should indeed be developed for greater ease of use and reliability, with attention also paid to user training.

A problem coming to light in the audit was return to work after a lengthy absence, a demanding situation both for the person who has been ill and for the workplace community. Organisations should have in place agreed-upon procedures to support return to work. Partial sickness allowance could often provide a workable solution although, to

date, it has been little used.

The National Audit Office recommends that central government agencies take a more in-depth look at sickness absences in their own organisation and examine potential solutions suited to their particular needs. Occupational health services could serve as a strategic partner in this undertaking.

In discussing sickness absences it is important to remember that an employee's illness must be dealt with in the required manner and recovery often necessitates the kind of rest that is incompatible with continued work.

Commitments to the euro area's financial stability arrangements

In the year under review, Fiscal Policy Audit evaluated the reporting of commitments to the euro area's financial stability arrangements and of State liabilities in the report on the audit of final central government accounts (audit report 4/12 concerning commitments to the euro area's financial stability arrangements and the separate report on the audit of the Report on the Final Central Government Accounts, R 14/2012). Information on commitments that are not included in the State's balance sheet (government guarantees, pledges and other commitments) is presented in Note 12 in the Report on the Final Central Government Accounts. The amount of the State's commitments rose markedly in 2010 as a result of the euro area's financial stability arrangements. If these commitments fall due for payment, they will have to be financed out of the budget.

The State's commitments may have budget impacts for years to come or may tie budget funds only years from now. Consequently, in addition to the usefulness of the Report

on the Final Central Government Accounts, Parliament's fiscal power can be considered to require that reporting should indicate the amount of liabilities actually taken on by the State. The point of departure in the audit was to determine whether current reporting practice provides a true and fair view of the State's commitments as well as risks related to their materialisation.

The audit focused on reporting concerning financial liabilities incurred by the Finnish State as a result of the euro area's financial stability arrangements in the Report on the Final Central Government Accounts.

For an outsider looking at the final accounts to be able to form a true picture of the financial position of a reporting body, it is vital to obtain information on risks and what steps have been taken to mitigate them.

In the opinion of the National Audit Office, the case of the EFSF shows that numerical data alone are not enough to provide true and fair information on the size and binding character of complicated financial liabilities.

The content of verbal information and the way in which it is presented should support information that is provided in table form, for example by describing the nature and binding character of exposures in a standardised way.

The ongoing fiscal policy audit evaluates the reliability of the information supplied to Parliament in the reasoning of the Government proposal and in the national preparation procedures for Union matters and in other parliamentary documents. The audit also evaluates whether Parliament is given an overall view of the matters essential to their decision-making and the circumstances impacting on such matters. The findings in respect of spring 2012 were reported to Parliament in the separate report R 14/2012. According to the findings, the information in the Government proposal concerning the approval of the ESM agreement was free of material misstatement regarding Finland's commitments and risks.

9.8 Administrative sector of the Ministry of Education and Culture

Current state of administration on the basis of audits

The administrative sector of the Ministry of Education and Culture included six accounting units as well as the Ministry in 2011. The National Audit Office issued audit reports for fiscal 2011 on seven accounting units in the administrative sector.

A qualified opinion on regularity was included in the financial audit reports for two accounting units. The reasons for qualified opinions on regularity were failure to comply with the budget in the use of budget authorisation and allocation of expenses to the fiscal year. The allocation of expenses to the fiscal year also meant an extension of the period of availability of the appropriation contrary to the State Budget Act.

According to the financial audits, the Ministry of Education and Culture did not set adequate targets regarding economy and productivity for the agencies in its administrative sector. Targets regarding economy were still considered adequate only in the audits of the Academy of Finland, the National Board of Antiquities and the Finnish National Gallery. Targets regarding productivity were considered adequate only with regard to the Governing Body of Suomenlinna.

Information on economy presented in the final accounts was considered true and fair in all accounting units in the administrative sector except the Ministry. Information on productivity was considered true and fair in all

accounting units except the Ministry and the Governing Body of Suomenlinna. True and fair information on their chargeable activities and the annual results of these was presented by six of the seven accounting units which pursue such activities.

Evaluating the current state of performance guidance in the administrative sector of the Ministry of Education and Culture on the basis of the setting of performance targets and the presentation of true and fair information in final accounts in this respect, performance guidance in respect of economy has been implemented in only three accounting units.

Three agencies in the administrative sector of the Ministry of Education and Culture were found to have shortcomings in internal control that required corrective measures. These concerned the management and arrangement of bookkeeping and performance accounting.

The administrative sector of the Ministry of Education and Culture was the subject of the compliance audits Funding from betting and lottery proceeds to promote sports and physical education, science, the arts and youth work (14/2012) reported in Chapter 8.7 and The payment of state matching funds to universities (9/2012) concerning the capitalisation of universities, as well as the performance audit Structural arrangements in secondary education (11/2012), which is reported above in Chapter 4.

Capitalisation of universities

The compliance audit regarding the capitalisation of universities (9/2012) concerned the matching funds paid to universities by the State, which are based on the amount of capital donations collected by universities. With the State having paid universities over €733 million in matching funds and capitalising universities by a total of €836 million, matching funds are a financially substantial item.

The objective of the audit was to examine the regularity of the capital collection procedures which influence the size of matching funds, the propriety of the monitoring of the grounds for payment, the nature of the collected capital as genuine and new private capital according to requirements, and the propriety of the information provided on collected private funding. The audit was conducted in both foundation universities, ten public corporation universities and the Ministry of Education and Culture.

The audit found that universities' capital collection has been a long and multi-stage decision-making process that in most respects has been carried out properly. In evaluating the nature of donations on the basis of relevant documentation, the audit nonetheless found that universities have received in the form of matching funds from the State, contrary to the budget and decisions, unjust enrichment whose total amount is difficult to estimate due to the openness to interpretation of the conditions for collecting capital. Universities have received matching funds for donations that contain conditions or application purposes as well as donations made in a form other than money. The definition of genuine and new private capital has varied over the course of the collection of capital which started in 2008 and to some extent remains ongoing.

The Ministry of Education and Culture has not provided universities with guidelines on the collection permit procedure or with a deed of donation template that would have unequivocally satisfied the conditions for receiving matching funds. When the collection of capital began in 2008, the Ministry informed universities that they were to supply the Ministry, by 15 January 2011, with copies – inclusive of necessary supplementary information – of any deeds of donation, decisions or bank transfers which they wished to be taken into account when deciding on State's financial investments. The Ministry abandoned the requirement of supplying documents, however, and called for universities' own auditors to ensure that donations qualified for matching funds.

The matching fund notifications from universities to the Ministry of Education and Culture have been made according to different principles and contain numerous contributions which under decisions and guidelines do not qualify for matching funds or have been insufficiently documented. The control of grounds for payment has also been deficient in the Ministry of Education and Culture as well as in the universities.

Since capital collection documents have not had to be supplied to the Ministry of Education and Culture, the Ministry has not been aware of the effect of universities' different interpretations concerning eligibility for matching funds. According to the audit findings, this has resulted in the unequal treatment of universities in decision-making.

The National Audit Office considers that in bringing capital collection to a close, the Ministry of Education and Culture should ensure universities' equal treatment throughout the entire capital collection period. The Ministry should also ensure the recovery of any unjust enrichment received by universities from the State.

9.9 Administrative sector of the Ministry of Agriculture and Forestry

Current state of administration on the basis of audits

The administrative sector of the Ministry of Agriculture and Forestry included six accounting units as well as the Ministry in 2011. In addition to these, the National Audit Office also issued financial audit reports on the Agency for Rural Affairs and the Information Centre of the Ministry of Agriculture and Forestry.

Qualified opinions on regularity in the financial audit reports for the Ministry of Agriculture and Forestry and MTT Agrifood Research Finland concerned the allocation of expenses to the fiscal year and the application of funds contrary to the budget.

In the financial audits, the targets regarding economy approved by the Ministry were deemed adequate for all except the Ministry and the objectives regarding productivity for three agencies. The information that

was presented on economy as well as on productivity was considered true and fair in financial audits for the Ministry as well as all the accounting units in the administrative sector. True and fair information on their chargeable activities was presented by six of the seven accounting units which pursue such activities.

Evaluating the current state of performance guidance on the basis of the setting of performance targets regarding economy and the presentation of true and fair information in final accounts in this respect, the accounting units in the administrative sector of the Ministry of Agriculture and Forestry received adequate target-based steering and supplied true and fair information with the exception of the Ministry. With regard to productivity, only three accounting units received adequate target-based steering and supplied true and fair information.

9.10 Administrative sector of the Ministry of Transport and Communications

Current state of administration on the basis of audits

The administrative sector of the Ministry of Transport and Communications included four accounting units as well as the Ministry in 2011.

Remarks in financial audits in the administrative sector of the Ministry of Transport and Communications led to a qualified opinion on regularity for the Finnish Transport Agency and the Finnish Communications Regulatory Authority. The qualified opinion included in the financial audit report for the Finnish Transport Agency concerned not only several procedures that were contrary to the budget and the State Budget Act, but also the de facto exceeding of a budget authorisation and appropriation and the arrangement of performance accounting. The qualified opinion included in the financial audit report for the Finnish Communications Regulatory Authority concerned the use of funds contrary to the budget.

The remarks requiring information included in the financial audit report for the Finnish Transport Agency concerned measures necessitated by compliance with the budget and the key provisions concerning it as well as by shortcomings in internal control.

In the financial audits, the objectives regarding economy were considered adequate for the Finnish Transport Agency and the Finnish Communications Regulatory Authority while those regarding productivity were considered adequate for the Ministry as well as all agencies in the administrative sector.

Information on economy was considered true and fair in the Ministry and all accounting units except for the Finnish Transport Agency. Information on productivity was considered true and fair in the Ministry and all accounting units in the administrative sector. Information on chargeable activities was considered true and fair in all accounting units in the administrative sector which pursue such activities with the exception of the Finnish Transport Agency.

Evaluating the current state of performance guidance in the administrative sector of the Ministry of Transport and Communications on the basis of the setting of performance targets regarding economy and the presentation of true and fair information in final accounts in this respect, only the Finnish Communications Regulatory Authority received adequate target-based steering and supplied true and fair information on economy. With regard to productivity, the audit indicates that performance guidance evaluated thusly is effective in all accounting units in the administrative sector.

In the administrative sector of the Ministry of Transport and Communications, shortcomings were found in financial rules in one accounting unit. The financial audits of two accounting units in the administrative sector found such shortcomings in internal control that required corrective measures. The main reasons were shortcomings in arranging performance accounting and in managing book-keeping and the monitoring of authorisations. The Finnish Transport Agency should also pay particular attention to arranging in-

ternal control in the manner required under section 69 of the State Budget Decree.

The compliance audit on the budgeting of authorisations for transport infrastructure projects and the monitoring of authorisations (10/2012) addressed in Chapter 8.3 concerned the administrative sector of the Finnish Transport Agency.

In the administrative sector of the Ministry of Transport and Communications, a follow-up was arranged for three performance audits concerning the maintenance of transport infrastructure¹⁰⁴ The State's expenditure on basic transport infrastructure management in 2011 came to roughly €1,000 million, most of this sum being spent on maintenance. The follow-up revealed that progress had been made since the audits on the infrastructure maintenance inspections remarked upon. Marked improvements in the survey of infrastructure network condition data, for example, had been made since the audits. Advances had also been made in the estimation of maintenance costs, whereas less development to date had been seen in issues such as the presentation of the minimum level of infrastructure maintenance needs and financing needs. This minimum level would comprise the minimum measures required to safeguard to future generations the availability of transport infrastructure for its original purpose and to prevent technical deterioration to the point where repair costs begin to escalate.

The reports of the Finnish Transport Agency and the Ministry of Transport and Communications support the use of a certain sustained service level to describe the minimum need for infrastructure maintenance. In practice, this means a higher need for financing than when the minimum need for maintenance is defined by sustaining the availability to future generations of the technical infrastructure at the service level according to the original criteria. The various information presented to date regarding the minimum need for maintenance seems disconnected, and the data content of such information is given too little wider-perspective justification. In the opinion of the National Audit Office, the content of the minimum maintenance need should be presented in a clearer and less ambiguous manner as it has a marked impact on the financing needs for transport infrastructure management and on the information supplied to Parliament on the topic.

¹⁰⁴ National Audit Office performance audit reports Road maintenance since the Finnish road enterprise reform (126/2006), Maintaining rail infrastructure (159/2008), Maintaining waterways (182/2009)

9.11 Administrative sector of the Ministry of Transport and Communications

Current state of administration on the basis of audits

The administrative sector of the Ministry of Employment and the Economy included 12 accounting units as well as the Ministry in 2011. In fiscal 2011, the National Audit Office also issued financial audit reports on 14 Centres for Economic Development, Transport and the Environment.

Remarks in financial audit reports led to a qualified opinion on regularity in seven reports. These concerned the use of funds contrary to the budget, the booking of income in an expenditure item contrary to the budget and section 3a of the State Budget Act, the allocation of expenses to the fiscal year, the renewal of authorisation, information presented on chargeable activities and the arrangement of performance accounting. The allocation of expenses and renewal of authorisation had extended the period of availability of these contrary to the State Budget Act.

Remarks requiring information were again issued to the Ministry of Employment and the Economy concerning the arrangement of performance accounting and the treatment of interest income related to advances regarding transfers.

In the financial audits, the targets set by the Ministry regarding economy were considered adequate in respect of five agencies and those regarding productivity in respect of six agencies. Information on economy and productivity was considered true and fair in all accounting units except for the Ministry and the Centre for Economic Developme-

nt, Transport and the Environment for South Savo. Information presented on chargeable activities and their profitability was considered true and fair in all accounting units which pursue such activities with the exception of the Centre for Economic Development, Transport and the Environment.

Evaluating the current state of performance guidance in the administrative sector of the Ministry of Employment and the Economy on the basis of the setting of performance targets regarding economy and the presentation of true and fair information in final accounts in this respect, five accounting units received adequate target-based steering and presented true and fair information on economy. The equivalent figure with regard to productivity was six accounting units.

In the administrative sector of the Ministry of Employment and the Economy, shortcomings were found in financial rules in two accounting units. The financial audits of three accounting units found shortcomings in internal control that required corrective measures. These concerned the management of bookkeeping or the monitoring of budget authorisations and the arrangement of performance accounting.

The administrative sector of the Ministry of Employment and the Economy was subject to the performance audits Mitigating climate change – The preparation and implementation of the national climate and energy strategy (235/2011) reported in Chapter 5 and Supporting areas of abrupt structural change (2/2012) and Work-based immigration (13/2012) reported in Chapter 4.

The follow-up of the audit The state as a promoter of exploration and mining (145/2007) also concerned the administrative sector of the Ministry of Employment and the Economy. In this audit, the National Audit Office had considered the Mining Act to be out of date and called for its urgent overhaul. The overhaul has since been accomplished and the new Mining Act entered into force on 1 July 2011. The parliamentary Committees have held that, for the most part, the reform struck a good balance between the various, occasionally highly divergent interests. The scope of application was not amended in the new Mining Act, but the duties of mining promotion and mining permits have been separated under the current Act, a development considered important by the National Audit Office. Provisions under which mining permit holders must deposit adequate collateral for the purpose of termination and rehabilitation measures of mining operations were also incorporated into the Mining Act. Attention had been paid to this in the audit in the interests of realising the 'polluter pays' principle in the mining industry.

Under the new Mining Act, the responsibility for follow-up, rehabilitation measures and costs may in certain cases also transfer to the holder of the land or to the State. Based on the Act, the amounts of compensation expressed therein in euro figures will be very difficult to revise as the Act contains no grounds for the determination of such compensation and even the Government proposal contains only views in principle regarding these. Failure to revise the amounts of com-

pensation from time to time compromises the realisation and constitutionality of the steering purpose and other purposes of the Act.

Since the audit, the Ministry of Employment and the Economy had sought to enhance annual reporting and the claim reports monitoring system, but the practical application of the reforms has been incomplete. The new mining authority Tukes also states that it is ill placed to monitor compliance by permit holders with their duty to supply the reports on ore prospecting and exercise of mining rights as required under the Mining Act. Tukes states its priority to lie in clearing the backlog of applications. One option for allocating resources to the monitoring duties of the mining authority would be to redirect resources in the administrative sector of the Ministry of Employment and the Economy. Tukes has hired no in-house experts on nature and the environment. Outsourcing such expertise, which is essential to the fundamental duties of the authority, poses a significant risk to the proper performance of these duties.

The audit proposed consideration as to whether State-operated prospecting should be continued in Finland. The situation remains unchanged in this respect, and the Geological Survey of Finland continues to make a significant contribution to prospecting. Many of the aspects considered vital in the audit report are lacking from the proposal for Finland's minerals strategy prepared in 2010.

9.12 Administrative sector of the Ministry of Social Affairs and Health

Current state of administration on the basis of audits

The administrative sector of the Ministry of Social Affairs and Health included four accounting units as well as the Ministry in 2011.

Remarks in financial audit reports led to a qualified opinion on regularity for the Ministry concerning the use of funds contrary to the budget.

According to the financial audits, the Ministry of Social Affairs and Health had set adequate targets regarding economy for three accounting units in its administrative sector, whereas targets regarding productivity still remained to be set.

The information on economy, productivity and the profitability of chargeable activities presented in the final accounts was considered true and fair for all accounting units.

Evaluating the current state of performance guidance in the administrative sector of the Ministry of Social Affairs and health on the basis of the setting of performance targets regarding economy and the presentation of true and fair information in final ac-

counts in this respect, three accounting units received adequate target-based steering and presented true and fair information.

In the administrative sector of the Ministry of Social Affairs and Health, shortcomings were found in financial rules in one accounting unit. The financial audit of one accounting unit found shortcomings in internal control that required corrective measures.

The performance audits Child welfare (6/2012), reported above in Chapter 4, and Legislative drafting in the Ministry of Social Affairs and Health (12/2012), reported above in Chapter 7, concerned the administrative sector of the Ministry of Social Affairs and Health, as did the performance audit State aid for IT projects in social and health care (1/2012). Based on the audit report on the latter, the matter has been thoroughly addressed by the Parliamentary Audit Committee (report 2/2012) and the opinion included in the Committee report has been approved by Parliament.

9.13 Administrative sector of the Ministry of the Environment

Current state of administration on the basis of audits

The administrative sector of the Ministry of the Environment included three accounting units in 2011: the Ministry, the Finnish Environment Institute and the Housing Finance and Development Centre of Finland.

The Ministry has set performance targets regarding economy for the Housing Finance and Development Centre of Finland and the Finnish Environment Institute. Targets regarding productivity were not considered adequate in the financial audits. The information that was presented regarding economy and productivity was considered true and fair for the Ministry and the accounting units in its administrative sector. Only the Finnish Environment Institute was required to present

information on chargeable activities, and this information was considered to be true and fair.

Evaluating the current state of performance guidance in the administrative sector of the Ministry of the Environment on the basis of the setting of performance targets regarding economy and the presentation of true and fair information in final accounts in this respect, two accounting units received adequate target-based steering and presented true and fair information.

The performance audit Mitigating climate change – The preparation and implementation of the national climate and energy strategy (235/2011), addressed above in Chapter 5, concerned the administrative sector of the Ministry of the Environment.

10 The National Audit Office's activities and effectiveness

The National Audit Office is an independent external audit and control authority prescribed in the Constitution that operates outside actual state administration or administration under Parliament.

The National Audit Office's task prescribed in the Constitution is to audit the effectiveness and legality of central government finances and compliance with the state budget. The National Audit Office performs this task by carrying out performance audits, financial audits, compliance audits and fiscal policy audits. The National Audit Office operates in Finland as the national audit body under the Lisbon Treaty working in cooperation with the European Court of Auditors in the external control of Union funds.

In addition to its constitutional task, the National Audit Office is also tasked under the Act on a Candidate's Election Funding (273/2009) with the oversight of compliance with the obligation to disclose information about election funding, making the funding disclosures available to the public and examining the funding disclosures. Under the Act on Political Parties (10/1969, amended by 683/2010), the National Audit Office is prescribed with the task of supervising compliance with provisions concerning party subsidies, disclosures of election campaign expenses and funding and the formulation and submission of related documents and information by political parties, affiliated entities and associations referred to in party subsidy decisions.

10.1 The National Audit Office supports Parliament's power of opinion

The National Audit Office supports Parliament in the exercise of its legislative, financial and oversight power and is thus part of the constitutional system implementing and ensuring Parliament's fiscal power.

The National Audit Office's goal is to promote the effectiveness and quality of the financial management of the State. A key perspective is to ensure that the social policy objectives set in connection with legislation concerning the state budget and the collection and use of central government funds are achieved and that the Government and administration have taken the necessary measures to achieve them.

The results of the external auditing of central government finances for society and citizens, and consequently the social effectiveness of these activities, fall into three areas.

The most significant area with regard to the effectiveness of the National Audit Office's activities is the preventive and accountability impact of audits. Two other areas are ensuring access to economic efficiency and performance information and the functioning of internal control and steering as well as the concrete corrective and development measures that are taken as a result of audits. The task of ensuring these supports future economic decision-making by securing the information base required for decisions.

An international peer review of the functionality and compliance with international audit standards of the quality management and quality assurance of the National Audit Office was conducted in 2011 and 2012, with the international review report due for com-

pletion in 2012. The review is performed by a team of experts from the national audit offices of Sweden, Norway and the UK. The National Audit Office's quality group has produced a quality report for 2011. Based on renewed international standards and best practices, the quality report is available in Finnish on the National Audit Office website. The focus of quality assurance is on guidance and quality assurance during the audit process. Ex-post quality assurance and assessments of audits are carried out systematically by the National Audit Office.

On the whole the level of effectiveness of the National Audit Office is very good. Finland's ranking in Transparency International's Corruption Perceptions Index improved, with Finland and Denmark tying for second place in the results for 2011. This was partly due to the reform of Finland's election and party funding legislation and the sharpening of the supervision of election and party funding following the transfer of the task to the National Audit Office. There is confidence in Finnish resource management. Open discussion is carried out about problems relating to legislation and its implementation. The National Audit Office has contributed towards good and effective financial management and the prerequisites for discursive democracy and the reliable information required by it. An analysis conducted for the National Audit Office's report to Parliament showed that the preconditions for the efficient use of budgetary power by Parliament and the implementation of Parliament's positions concerning its budgetary power have improved.

The National Integrity System Assessment conducted by Transparency International on Finland examined the National Audit Office's role in the national integrity system. Its status and activities were regarded as excellent or very good. The National Audit Office also has an important role in the national integrity system maintaining good governance. A problem pointed out in the assessment is, however, that the resources of the National Audit Office are insufficient in relation to its workload and role in the maintenance and securing of good governance.

On the basis of international assessments of integrity systems, European national audit offices overall are among the most important contributors towards success in securing of good governance and transparency and action against corruption. Most countries experiencing difficulties due to the financial crisis have clear shortcomings in public accountability and responsibility and corruption problems that reduce their capacity to improve the state of public finances and national economic performance. External audits of central government finances are also at a level that is lower or more restricted than the requirements set in European standards in some of the European countries experiencing economic problems (such as Greece, Portugal, Spain and Romania).¹⁰⁵ There also appears to be a correlation between deficiencies in good governance, corruption and weaker institutions to support good governance and larger government deficits and weaker competitiveness. Weak regulation and control and shortcomings in issues including the funding of political activity have also contri-

buted towards the development of the financial crisis.¹⁰⁶

The National Audit Office's impact on supporting Parliament's budgetary and legislative power

The National Audit Office's audit activities are targeted on the basis of risks posed to central government finances and financial management. In 2011 the National Audit Office prepared a risk analysis of central government finances and the national economy to steer audit planning and analyses of risks and the operating environment. The risk analysis also supports the National Audit Office 2020 strategy formulated in 2012. The planning of the National Audit Office's activities is based on an assessment of strategic risks concerning the economy and central government finances and their operating environment, the state budget economy, ministries' administrative sectors and significant cross-sectoral issues as well as the National Audit Office's audit topics, according to risk analyses.

On the basis of reports issued by the Parliamentary Audit Committee, the National Audit Office monitors the implementation of Parliament's positions if these have required that the Government report on a matter or if the National Audit Office's audit activities have dealt with related matters.

Systematic follow-up on audit reports shows that 46% of the recommendations made by the National Audit Office were implemented in full or almost in full and 31% to

105 Money, Politics, Power, Corruption Risks in Europe, Transparency International 2012.

106 D. Kaufmann: Can Corruption Adversely Affect Public Finances in Industrialized Countries? The Brookings Institution. www.brooking.edu/opinions/2010/0419_corruption_kaufmann.aspx. and Kaufmann & Vicante: Legal Corruption. Economics and Politics, Vol 23 (2011), 195–219.

some extent. During the year under review a further specification was made to the interpretation of the Constitution concerning the application of the budget covering requirement and central government liquidity by the Constitutional Law Committee on the basis of the National Audit Office's performance audit report. The development of cash management enabled by this will generate annual savings amounting to around €20 million.

Financial Audit has helped maintain the perspectives of economic efficiency and productivity as well as internal control in accordance with the principles of good governance in central government finances and management. Capacities for the management of economic efficiency and good financial management have slowly improved.

The National Audit Office provided three compliance audit reports in accordance with the new ISSAI standard. In addition to verification of central government spending limits accounting, during the reporting year the focus of fiscal policy audits was on essential entries relating to the euro area's stability and responsibility in the Report on the Final Central Government Accounts. Reporting on these central government commitments and responsibilities has taken place in accordance with the recommendations issued by the National Audit Office in 2011.

The National Audit Office's impact on central government development and citizens' confidence in central government finances

The National Audit Office supports central government development work by operating in good interaction with administration and bringing up development needs and good practices during audit processes. Therefo-

re providing support for central government management is one of the dimensions of auditing. Auditing work is supplemented by expert activity that provides the Government and administration with support in their efforts to maximise quality and performance in central government financial management. The demand for expert activity clearly exceeds the resources available within the National Audit Office. Expert activity accounted for 13.4% of actual working hours performed in 2011. Experts from the National Audit Office participated in major projects of the Prime Minister's Office, Ministry of Finance and Ministry of Justice relating to the Government's strategic management and assessment, the central government spending limits procedure and fiscal policy steering as well as those relating to improved regulation and the development of bill drafting in the context of changing over to a new electoral period. The development of practices has been influenced by many recommendations based on audits conducted by the National Audit Office.

Citizens' confidence in the proper monitoring of central government finances is based on high-quality, objective and consistent auditing and expert work as well as communications concerning the performance of official tasks.

The National Audit Office's communications and public activities take place in compliance with the INTOSAI principles concerning reporting and publicity and the Act on the Openness of Government Activities (621/1999). Objective and constructive communications play an important role in the provision of support to discursive and knowledge-based democracy. At the same time the audited entities must be provided with the opportunity for confidential discussions with the National Audit Office. Therefore the

National Audit Office will focus on the development of good practices for communications and interaction and the ensuring of their consistent application in the future. A new media policy was adopted by the National Audit Office in 2011, emphasising the objectivity, responsibility and reliability of public communications.

The policy concerning public access to the audits conducted by the National Audit Office was made more specific in 2011 on the

basis of a report commissioned from Professor Olli Mäenpää. From now on the National Audit Office's audit reports and related government documents are public following the conclusion of each audit report.

According to international World Values Surveys, confidence in the Government and public administration is high in Finland. External auditing plays a specific role in the maintenance of justified confidence.

10.2 The National Audit Office promotes wellbeing at work and employee coping while at the same time implementing the stability and efficiency programme

The stability and efficiency programme launched by the National Audit Office in 2010 aims to adapt the Office's personnel number to the tighter budget situation. Therefore the National Audit Office has terminated its fixed-term employment contracts and will reduce the budgeted human resources figure from 150 person-years to 138 person-years. According to the policy adopted by the National Audit Office's management, from 2012 the agency's human resource planning will be based on 138 person-years. In 2011 a total of 144 person-years were recorded for the National Audit Office, while the figure for 2010 had been 148. The agency has reduced the number of fixed-term employees and the recruitment of new employees to replace those leaving the agency. A total of 74.8% of effective working time was allocated to external performances.

The education level of the agency's personnel is high, and personnel are highly committed to the activities. The average age of employees is 49.1 years. The sick leave rate is 37% below the overall rate for central government personnel. Telecommuting opportunities are available to provide a good framework for the flexible reconciliation of work and family life. According to a survey employing a burnout indicator carried out in spring 2011, some employees are experiencing stress. Efforts will be made to have a positive impact on the feeling of work-related stress through more careful planning and cooperation relating to coping and wellbe-

ing at work. According to the wellbeing at work survey conducted in late 2011, wellbeing at work has improved in the measured areas. A substance misuse prevention programme and an early intervention model were prepared by the agency in cooperation with personnel representatives.

The National Audit Office's costs in 2011 totalled €14.9 million (€14.98 million in 2010). Personnel costs excluding side costs in 2011 totalled €9.83 million (€9.78 million in 2010). According to the income statement, the National Audit Office's costs decreased by 2% compared with 2010.

In 2011 the price of the agency's external service production went down to €691 per performance day (€796 in 2010) mainly due to a change in working hours monitoring; more specific monitoring resulted in an increase in performance days although the number of person-years went down. A total of 90 financial audit reports, 3 compliance audit reports and 18 performance audit reports were completed. Findings from continuous auditing of fiscal policy were reported in a separate report to Parliament. The National Audit Office processed 58 complaint matters and 22 reports of abuse. The National Audit Office submitted a report to Parliament on the supervision of parliamentary election funding and carried out supervision of party funding in accordance with the Act on Political Parties.

The National Audit Office's managerial training has focused on wellbeing at work and

related management. Collaboration with employees has continued through open communication, and the agency's management group includes three employee representatives in accordance with the agreement made with the personnel organisations.

TABLE 7: EFFECTIVE WORKING TIME BY TYPE OF PERFORMANCE IN 2011

| Type of performance | Person-days | % of external |
|---|---------------------------|---------------|
| Financial audit | 7 566 | 35 |
| Compliance audit | 963 | 4 |
| Performance audit | 5 140 | 24 |
| Fiscal policy audit | 377 | 2 |
| Reports to Parliament | 312 | 1 |
| Management, external | 3 768 | 17 |
| External expert activities | 2 911 | 13 |
| Supervision of election and party funding | 647 | 3 |
| Indirect activities (support services, administration) | 7 315 | |
| Holidays and other paid leaves of absence, total | 7 641 | |
| Total working time | 36 640 | |
| External performances, total | 21 684 person-days | |
| External performances as % of total working time | | 60% |

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

**OBLIGATION TO INFORM THE
NATIONAL AUDIT OFFICE
REGARDING MEASURES**

**MINISTRY FOR FOREIGN
AFFAIRS' ADMINISTRATIVE
SECTOR**

MINISTRY FOR FOREIGN AFFAIRS

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

**MINISTRY FOR FOREIGN
AFFAIRS' ADMINISTRATIVE
SECTOR**

MINISTRY FOR FOREIGN AFFAIRS

Based on section 5(1) of the Act on the National Audit Office, the Ministry for Foreign Affairs must inform the National Audit Office by 15 August 2012 what measures it has taken to arrange performance accounting as prescribed in section 16 of the State Budget Act.

**MINISTRY OF DEFENCE'S
ADMINISTRATIVE SECTOR**

DEFENCE FORCES

On the basis of the audit it is our opinion that the budget and key provisions regarding it have been complied with except for the monitoring of the profitability of chargeable activities and the presentation of annual results and the arranging of performance accounting as prescribed in section 16 of the State Budget Act.

**MINISTRY OF DEFENCE'S
ADMINISTRATIVE SECTOR**

**QUALIFIED OPINION ON
REGULARITY**

**OBLIGATION TO INFORM THE
NATIONAL AUDIT OFFICE
REGARDING MEASURES**

**MINISTRY OF FINANCE'S
ADMINISTRATIVE SECTOR**

**MINISTRY OF FINANCE'S
ADMINISTRATIVE SECTOR**

MINISTRY OF FINANCE

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

NATIONAL BOARD OF CUSTOMS

On the basis of the audit it is our opinion that the budget and key provisions regarding it have been complied with except for the arranging of performance accounting and the presentation of the annual results of chargeable activities as prescribed in section 16 of the State Budget Act and the preparation of the balance sheet specifications to verify the financial statements referred to in section 64 of the State Budget Decree.

**MINISTRY OF EDUCATION AND
CULTURE'S ADMINISTRATIVE
SECTOR**

**MINISTRY OF EDUCATION AND
CULTURE'S ADMINISTRATIVE
SECTOR**

ACADEMY OF FINLAND

On the basis of the audit it is our opinion that the budget and key provisions regarding it

QUALIFIED OPINION ON REGULARITY

OBLIGATION TO INFORM THE NATIONAL AUDIT OFFICE REGARDING MEASURES

have been complied with except for the use of an authorisation intended to finance research projects (29.40 University education and research) for other types of projects (€2.61 million) contrary to the budget.

NATIONAL ART GALLERY

On the basis of the audit it is our opinion that the budget and key provisions regarding it have been complied with except for the entry of expenditure belonging to 2012 (totaling €111,000) contrary to the budget and section 5 a of the State Budget Decree as expenditure for 2011 from item 29.80.52 (Betting and lottery proceeds to promote the arts, variable appropriation). The procedure has resulted in the extension of the appropriation's period of use contrary to section 7 of the State Budget Act.

MINISTRY OF AGRICULTURE AND FORESTRY'S ADMINISTRATIVE BRANCH

MINISTRY OF AGRICULTURE AND FORESTRY'S ADMINISTRATIVE BRANCH

MINISTRY OF AGRICULTURE AND FORESTRY

On the basis of the audit it is our opinion that the budget and key provisions regarding it have been complied with except for the allocation of expenses in item 30.01.22 (Joint research, 3-year deferrable appropriation in the 2009 budget) belonging to 2012 (€16,200) to 2011 contrary to section 5 a of

QUALIFIED OPINION ON REGULARITY

OBLIGATION TO INFORM THE NATIONAL AUDIT OFFICE REGARDING MEASURES

the State Budget Decree. The procedure has resulted in the extension of the appropriation's period of use contrary to section 7 of the State Budget Act.

MTT AGRIFOOD RESEARCH FINLAND

On the basis of the audit it is our opinion that the budget and key provisions regarding it have been complied with except for the payment of an unrequited expense (around €32,000) contrary to the budget to another accounting unit from item 30.20.01 (Operating expenses of MTT Agrifood Research Finland).

MINISTRY OF TRANSPORT AND COMMUNICATIONS' ADMINISTRATIVE SECTOR

MINISTRY OF TRANSPORT AND COMMUNICATIONS' ADMINISTRATIVE SECTOR

FINNISH TRANSPORT AGENCY

FINNISH TRANSPORT AGENCY

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the following errors and shortcomings concerning the budget outturn statement and the presentation of information on performance:

- 1) The appropriation in item 31.10.20.1 (Basic infrastructure management, 2-year deferrable appropriation) was used contrary to the budget to pay salary expenses (totalling around €3 million) for persons appointed to permanent posts.
- 2) The appropriation in item 31.10.20 (Basic

Based on section 5(1) of the Act on the National Audit Office, the Finnish Transport Agency must inform the National Audit Office by 15 August 2012 what measures it has taken to address the procedures contrary to the budget and key provisions regarding it and the shortcomings in internal control.

infrastructure management, 2-year deferrable appropriation) was used to cover expenditure (totalling €1.4 million) that under the budget should have been recorded in item 31.10.77.1.1 (Development of the transport network, E18 Hamina bypass, 3-year transferable appropriation). Of this, €0.2 million should have been allocated to 2010 and €1.2 million to 2011. Had the expenditure had been recorded in accordance with the budget, the project-specific appropriation in item 31.10.77.1.1 would have been exceeded by €0.8 million.

3) In item 31.10.76 (Procurements of and compensation for land and water areas, variable appropriation) €2.8 million in expenditure that should have been allocated to 2011 was recorded as expenditure for 2012. Had the expenditure been allocated to 2011, the appropriation would have been exceeded by around €2.7 million. Contrary to the budget and section 3 a of the State Budget Act, revenues associated with land procurement were recognised in the item. If the effect of revenues is taken into account, the allocation error and overspending are higher than this.

4) €233,026 of revenues from co-financed activities were recognised in item 31.10.78.1.10 (Certain transport infrastructure projects, 3-year deferrable appropriation) contrary to the budget and section 3 a of the State Budget Act.

5) In item 31.10.78 (Certain transport infrastructure projects, 3-year deferrable appropriation) a project-specific authorisation for

QUALIFIED OPINION ON REGULARITY

OBLIGATION TO INFORM THE NATIONAL AUDIT OFFICE REGARDING MEASURES

Lusi-Vaajakoski was exceeded by €4 million. According to section 10 of the State Budget Act, an authorisation may not be exceeded.

6) Performance accounting has not been arranged in the manner required under section 16 of the State Budget Act.

FINNISH COMMUNICATIONS REGULATORY AUTHORITY

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the payment of salary expenses (totalling €263 791.86) for persons appointed to permanent posts, contrary to the budget, from item 31.40.50 (Discretionary government transfer for the implementation of a national broadband project, deferrable appropriation under the 2009 and 2010 budgets).

MINISTRY OF EMPLOYMENT AND THE ECONOMY'S ADMINISTRATIVE SECTOR

MINISTRY OF EMPLOYMENT AND THE ECONOMY

On the basis of the audit it is our opinion that the budget and key provisions regarding it have been complied with except for the use of the appropriation (€147,832.06) in item 32.50.43 (Regional development aid, 3-year deferrable appropriation the 2009 budget)

MINISTRY OF EMPLOYMENT AND THE ECONOMY'S ADMINISTRATIVE SECTOR

MINISTRY OF EMPLOYMENT AND THE ECONOMY

Based on section 5(1) of the Act on the National Audit Office, the Ministry of Employment and the Economy must inform the National Audit Office by 15 August 2012 what measures it has taken regarding the handling of interest income relating expenditure

QUALIFIED OPINION ON REGULARITY

OBLIGATION TO INFORM THE NATIONAL AUDIT OFFICE REGARDING MEASURES

contrary to the budget and section 5 a of the State Budget Decree for the payment of expenditure arising from expenditure decisions made in 2012, recording of repayments of loans (€24.4 million) contrary to the budget and section 3 a of the State Budget Act to item 30.32.80 (Loans for Finnish Export Credit Ltd's refinancing activities, variable appropriation), recording of certain interest income relating to advance payments of discretionary government transfers (€487,598.27) contrary to the budget and section 3 a of the State Budget Act to item 32.50.64 (EU and national financing for EU structural fund programmes during the 2007–2013 programming period, variable appropriation), extension of the period of use of a budget authorisation (€83.3 million) contrary to the budget and section 10 of the State Budget Act in item 32.50.64 (EU and national financing for EU structural fund programmes during the 2007–2013 programming period, variable appropriation) and the arrangement of performance accounting in the manner required by section 16 of the State Budget Act. As regards the deferrable appropriation, the procedure extended the period of use of the appropriation contrary to section 7 of the State Budget Act.

NATIONAL BOARD OF PATENTS AND REGISTRATION OF FINLAND

On the basis of the audit it is our opinion that the budget and key provisions regarding it have been complied with except for the entry of an unsettled balance in the balance sheet account (€27,900.75) contrary to the

re paid from item 32.50.64 (EU and national financing for EU structural fund programmes during the 2007–2013 programming period, variable appropriation) and the shortcomings detected concerning the renewal of budget authorisation under the same item as well as to arrange performance accounting as prescribed in section 16 of the State Budget Act.

budget into item 32.40.03 (Operating expenses of the National Board of Patents and Registration, 3-year deferrable appropriation).

CENTRE FOR ECONOMIC
DEVELOPMENT, TRANSPORT AND
THE ENVIRONMENT FOR SOUTH
OSTROBOTHNIA

On the basis of the audit, it is our opinion that the budget and key provisions regarding it have been complied with except for the payment of salary expenses (totaling €160,629) for persons appointed to permanent posts, contrary to the budget, from item 30.50.20 (Expenditure of water resources usage and management, 3-year deferrable appropriation under the 2010 and 2011 budgets).

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 key provisions regarding it have been complied with except for the allocation of expenses that should have been allocated to 2012 (€152,315) contrary to the budget and section 5 a of the State Budget Act to 2011 in item 26.40.30 (State compensation to local authorities, variable appropriation), the allocation of expenses that should have been allocated to 2009 (€10,000) contrary to the budget and section 5 a of the State Budget Act to 2012 in item 30.50.31 (Sup-

port for water supply and flood protection, 3-year deferrable appropriation in the 2010 budget), the payment of salaries of persons appointed to permanent posts (€160,629) contrary to the budget from item 30.50.20 (Expenditure from water resource usage and management, 3-year deferrable appropriation in the 2010 and 2011 budgets), payment of transfers (€202,236.67) contrary to the budget from item 32.01.02 (Operating expenses of the Centres for Economic Development, Transport and the Environment, 2-year deferrable appropriation) and procedures in verifying certain expenses that were contrary to good accounting practice as referred to in section 14 of the State Budget Act. As regards the deferrable appropriation, the recognition procedure extended the period of use of the appropriation contrary to section 7 of the State Budget Act.

CENTRE FOR ECONOMIC
DEVELOPMENT, TRANSPORT AND
THE ENVIRONMENT FOR CENTRAL
FINLAND

On the basis of the audit it is our opinion that the budget and key provisions regarding it have been complied with except for the payment of transfers (€202,236.67) contrary to the budget from item 32.01.02 (Operating expenses of the Centres for Economic Development, Transport and the Environment, 2-year deferrable appropriation in the 2010 budget).

CENTRE FOR ECONOMIC
DEVELOPMENT, TRANSPORT AND THE
ENVIRONMENT FOR UUSIMAA

On the basis of the audit it is our opinion that the budget and key provisions regarding it have been complied with except for the entry of expenditure belonging to 2012 (€152,315) contrary to the budget and section 5 a of the State Budget Decree as expenditure for 2011 from item 26.40.30 (State compensation to local authorities, variable appropriation). The procedure extended the period of use of the variable appropriation contrary to section 7 of the State Budget Act.

CENTRE FOR ECONOMIC
DEVELOPMENT, TRANSPORT AND
THE ENVIRONMENT FOR SOUTHWEST
FINLAND

On the basis of the audit it is our opinion that the budget and key provisions regarding it have been complied with except for the entry of expenditure belonging to 2009 (totaling €10,000) contrary to the budget and section 5 a of the State Budget Decree to 2012 in item 30.50.31 (Support for water supply and flood protection, 3-year deferrable appropriation in the 2010 budget).

**QUALIFIED OPINION ON
REGULARITY**

**OBLIGATION TO INFORM THE
NATIONAL AUDIT OFFICE
REGARDING MEASURES**

**MINISTRY OF SOCIAL AFFAIRS
AND HEALTH'S ADMINISTRATIVE
SECTOR**

**MINISTRY OF SOCIAL AFFAIRS AND
HEALTH**

On the basis of the audit it is our opinion that the budget and key provisions regarding it have been complied with except for the use of an appropriation in item 33.01.25 (National electronic customer data systems for social welfare and health care, 3-year deferrable appropriation) contrary to the budget for the payment of salary expenses (€0.6 million).

**MINISTRY OF SOCIAL AFFAIRS
AND HEALTH'S ADMINISTRATIVE
SECTOR**

FINANCIAL AND COMPLIANCE AUDIT REPORTS AND FISCAL POLICY AUDITS BY ADMINISTRATIVE SECTOR

147/53/11 Final Central Government Accounts
Fiscal policy audit
K 21/2011 National Audit Office's separate report to Parliament:
Effectiveness of the central government spending limits procedure
as a fiscal policy instrument

OFFICE OF THE PRESIDENT OF THE REPUBLIC

61/53/11 Office of the President of the Republic

PRIME MINISTER'S OFFICE

62/53/11 Prime Minister's Office
Fiscal policy audit
4/2012 Commitments to the euro area's financial stability arrangements

MINISTRY FOR FOREIGN AFFAIRS' ADMINISTRATIVE SECTOR

63/53/11 Ministry for Foreign Affairs

MINISTRY OF JUSTICE'S ADMINISTRATIVE SECTOR

64/53/11 Ministry of Justice
65/53/11 Criminal Sanctions Agency

MINISTRY OF THE INTERIOR'S ADMINISTRATIVE SECTOR

66/53/11 Ministry of the Interior
67/53/11 ICT Agency (HALTIK)
68/53/11 Emergency Response Centre Administration
69/53/11 Finnish Immigration Service
70/53/11 Emergency Services College
71/53/11 National Police Board
72/53/11 Border Guard
148/53/11 Fire Protection Fund

MINISTRY OF DEFENCE'S ADMINISTRATIVE SECTOR

| | |
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| 73/53/11 | Ministry of Defence |
| 74/53/11 | Construction Establishment of Defence Administration |
| 75/53/11 | Defence Forces |

MINISTRY OF FINANCE'S ADMINISTRATIVE SECTOR

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|-----------|---|
| 76/53/11 | Ministry of Finance |
| 77/53/11 | State Department of Åland |
| 78/53/11 | Regional State Administrative Agency for Southern Finland |
| 79/53/11 | Regional State Administrative Agency for Eastern Finland |
| 80/53/11 | Regional State Administrative Agency for Lapland |
| 81/53/11 | Regional State Administrative Agency for Southwestern Finland |
| 82/53/11 | Regional State Administrative Agency for Western and Inland Finland |
| 83/53/11 | Regional State Administrative Agency for Northern Finland |
| 84/53/11 | Statistics Finland |
| 85/53/11 | National Board of Customs |
| 86/53/11 | State Treasury |
| 87/53/11 | Government Institute for Economic Research |
| 88/53/11 | Finnish Government Shared Services Centre for Finance and HR |
| 89/53/11 | Tax Administration |
| 90/53/11 | Population Register Centre |
| | <i>Compliance audit</i> |
| 259/52/10 | 3/2011 Compliance with the joint procurement obligation (section 22 a of the State Budget Act) |
| 162/52/12 | 7/2012 The internal control of personnel and financial administration processes performed by the Shared Services Centre |
| | <i>Fiscal policy audit</i> |
| 29/51/11 | 4/2012 Commitments to the euro area's financial stability arrangement |

MINISTRY OF EDUCATION AND CULTURE'S ADMINISTRATIVE SECTOR

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| 91/53/11 | Ministry of Education and Culture |
| 92/53/11 | National Archives |
| 93/53/11 | National Board of Antiquities |
| 94/53/11 | National Board of Education |
| 95/53/11 | Academy of Finland |
| 96/53/11 | Governing Body of Suomenlinna |

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| 97/53/11 | Finnish National Gallery <i>Compliance audit</i> |
| 8/52/12 | 9/2012 The payment of state matching funds to universities |
| 277/52/11 | 14/2012 Funding from betting and lottery proceeds to promote sports and physical education, science, the arts and youth work |

MINISTRY OF AGRICULTURE AND FORESTRY'S ADMINISTRATIVE BRANCH

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| 98/53/11 | Ministry of Agriculture and Forestry |
| 99/53/11 | Finnish Food Safety Authority |
| 100/53/11 | Finnish Geodetic Institute |
| 101/53/11 | MTT Agrifood Research Finland |
| 102/53/11 | Tike, Information Centre for the Ministry of Agriculture and Forestry |
| 103/53/11 | National Land Survey of Finland |
| 104/53/11 | Agency for Rural Affairs |
| 105/53/11 | Finnish Forest Research Institute |
| 106/53/11 | Finnish Game and Fisheries Research Institute |

MINISTRY OF TRANSPORT AND COMMUNICATIONS' ADMINISTRATIVE SECTOR

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| 107/53/11 | Ministry of Transport and Communications |
| 108/53/11 | Finnish Meteorological Institute |
| 109/53/11 | Finnish Transport Agency |
| 110/53/11 | Finnish Transport Safety Agency |
| 111/53/11 | Finnish Communications Regulatory Authority <i>Compliance audit</i> |
| 242/52/11 | 10/2012 Budgeting and budget authorisation monitoring concerning transport infrastructure projects |

MINISTRY OF EMPLOYMENT AND THE ECONOMY'S ADMINISTRATIVE SECTOR

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| 112/53/11 | Ministry of Employment and the Economy |
| 113/53/11 | Energy Market Authority |
| 114/53/11 | Geological Survey of Finland |
| 115/53/11 | Finnish Competition Authority |
| 116/53/11 | National Consumer Research Centre |
| 117/53/1 | Consumer Agency |
| 118/53/11 | Finnish Tourist Board |
| 119/53/11 | Centre for Metrology and Accreditation |
| 120/53/11 | National Board of Patents and Registration of Finland |
| 121/53/11 | Tekes – the Finnish Funding Agency for Technology and Innovation |

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| 122/53/11 | VTT Technical Research Centre of Finland |
| 123/53/11 | Finnish Safety and Chemicals Agency (Tukes) |
| 124/53/11 | Centre for Economic Development, Transport and the Environment for South Ostrobothnia |
| 125/53/11 | Centre for Economic Development, Transport and the Environment for South Savo |
| 126/53/11 | Centre for Economic Development, Transport and the Environment for Häme |
| 127/53/11 | Centre for Economic Development, Transport and the Environment for Southeast Finland |

MINISTRY OF SOCIAL AFFAIRS AND HEALTH'S ADMINISTRATIVE SECTOR

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| 122/53/12 | Ministry of Social Affairs and Health |
| 123/53/12 | Finnish Medicines Agency |
| 124/53/12 | National Supervisory Authority for Welfare and Health |
| 125/53/12 | Radiation and Nuclear Safety Authority |
| 126/53/12 | National Institute for Health and Welfare <i>Compliance audit</i> |
| 232/52/10 | 2/2011 Funding for organisations and foundations to promote health and social welfare |

MINISTRY OF THE ENVIRONMENT'S ADMINISTRATIVE SECTOR

| | |
|-----------|---|
| 127/53/12 | Ministry of the Environment |
| 128/53/12 | Housing Finance and Development Centre of Finland |
| 129/53/12 | Finnish Environment Institute |
| 132/53/12 | Oil Protection Fund |

PERFORMANCE AUDIT REPORTS AND FOLLOW-UP REPORTS BY ADMINISTRATIVE SECTOR

Effectiveness information in the Report on the Final Central Government Accounts for 2011

PRIME MINISTER'S OFFICE

233/2011 VR Group: State ownership steering and purchases of passenger services

MINISTRY FOR FOREIGN AFFAIRS' ADMINISTRATIVE SECTOR

008/2012 Humanitarian aid012/2013

MINISTRY OF JUSTICE'S ADMINISTRATIVE SECTOR

216/2011 Evaluation of economic impacts of legislative projects

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

012/2012 Legislative drafting at the Ministry of Social Affairs and Health (12/2012)
Follow-up reports

169/2008 Administrative Courts

191/2009 Government subsidies to political parties

MINISTRY OF THE INTERIOR'S ADMINISTRATIVE SECTOR

226/2011 Cooperation between the Police and the prosecution service
Follow-up reports

139/2006 The asylum procedure

145/2007 Cooperation among the Police, Customs and Border Guard – particularly in combatting serious crim

187/2009 Shared Service Centre of the Ministry of the Interior

187/2009 Inrikesförvaltningens servicecentral

MINISTRY OF DEFENCE'S ADMINISTRATIVE SECTOR

215/2011 Government report on Finnish security and defence policy 2004: Garrison structure and the command and administration system

218/2011 Structural changes in the Defence Forces' catering service and medical service

223/2011 The steering system in the administrative sector of the Ministry of Defence

003/2012 The management of premises in the Defence Administration
Follow-up reports The procurement of TUULI class hovercrafts

MINISTRY OF FINANCE'S ADMINISTRATIVE SECTOR

- 219/2011 Central government liabilities – presentation and consideration in planning and monitoring documents
- 225/2011 Government premises and group steering
- 231/2011 The implementation of the government productivity programme and its impacts
- 005/2012 Sickness absences and their monitoring in state administration
Follow-up reports
- 127/2006 Promoting the consistency of taxation in the tax administration

MINISTRY OF EDUCATION AND CULTURE'S ADMINISTRATIVE SECTOR

- 222/201 Foresight analysis and the dimensioning and targeting of education and labour needs
- 011/2012 Structural arrangements in secondary education
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- 192/2009 The steering and funding system for basic education

MINISTRY OF TRANSPORT AND COMMUNICATIONS' ADMINISTRATIVE SECTOR

- Follow-up reports*
- 126/2006 Road maintenance since the Finnish road enterprise reform
- 159/2008 Maintaining rail infrastructure
- 182/2009 Maintaining waterways

MINISTRY OF EMPLOYMENT AND THE ECONOMY'S ADMINISTRATIVE SECTOR

- 224/2011 Urban and metropolitan policy
- 227/2011 Support for energy and climate technology
- 229/2011 Helping the long-term unemployed find jobs and preventing marginalisation
- 234/201 The steering system in the administrative sector of the Ministry of Employment and the Economy
- 235/2011 2011 Mitigating climate change – The preparation and implementation of the national climate and energy strategy
- 002/2012 Supporting areas of abrupt structural change
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Follow-up reports
- 072/2004 Finpro's activities
- 159/2008 Underhållet av bannätet
- 154/2007 The state as a promoter of exploration and mining
- 174/2008 Public employment services' position and priorities
- 176/2008 Lights on in the Nordic countries – Nordic cooperation in electricity emergency preparedness
- 189/2009 Promoting the development of electronic business
- 200/2009 Emissions trading – flexible mechanisms under the Kyoto Protocol

MINISTRY OF SOCIAL AFFAIRS AND HEALTH'S ADMINISTRATIVE SECTOR

- 217/2011 The implementation of national IT projects in social and health care
- 221/2011 Services for persons with disabilities in a changing municipal and service structure – state steering in arranging housing services for persons with intellectual disabilities
- 228/2011 Health insurance – particularly compensation for private medical and dental care
- 230/2011 Occupational safety and health enforcement
- 001/2012 State aid for IT projects in social and health care
- 006/2012 Child welfare
- 012/2012 Legislative drafting at the Ministry of Social Affairs and Health
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- 177/2008 Occupational health care and the prevention of alcohol-related problems
- 181/2009 The transparency of the formula-based government grant system for social welfare and health services
- 193/2009 Medical rehabilitation
- 194/2009 The effectiveness of legislation steering mental health services
- 196/2009 The steering system in the administrative sector of the Ministry of Social Affairs and Health

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- 220/2011 The steering system in the administrative sector of the Ministry of the Environment
Uppföljningsrapporter
- 162/2008 Metsähallitus – as a state enterprise and as a manager of nature conservation under the Ministry of the Environment
- 205/2010 State lending for housing production



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