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

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To Parliament

The National Audit Office has audited the final central government accounts for 2011 and the descriptions of central government finances and the financial management of the state as well as the effectiveness of activities in the Report on the Final Central Government Accounts for 2011, which has been submitted to Parliament as the Government's report on central government finances and compliance with the budget according to section 46 of the Constitution, and on the basis of section 6 of the Act on the National Audit Office (676/2000) submits this separate report to Parliament on its audit.

Helsinki, 22 May 2012

Auditor General Tuomas Pöysti

Assistant Auditor General Marjatta Kimmonen

Main content

On the basis of the financial audit of the final central government accounts, the National Audit Office notes that the accounts for 2011 have been prepared in accordance with provisions.

On the basis of the audit of the fiscal policy information base, the estimate of underspending in relation to the spending limits that is presented in the Report on the Final Central Government Accounts for 2011 can be regarded as providing a true view. The National Audit Office considers it good that the Ministry of Finance has continued precise reporting on compliance with the spending limits in the Report on the Final Central Government Accounts for 2011.

In Finland the cyclic aspects and long-term objectives of fiscal policy are in conflict with each other now that the debt crisis in the euro area has worsened. Resolving this conflict requires that special attention must be paid to strengthening prerequisites for economic growth and measures aimed at improving public sector productivity and increasing the employment rate.

The National Audit Office draws special attention to the development of expenditure outside the spending limits. The spending limits procedure's possibilities in ensuring the sustainability of public finances are reduced by their narrow coverage. The Ministry of Finance's working group memorandum on the development of the spending limits system has clearly presented the purpose of the spending limits system: The purpose of spending rules is to restrict the total amount of spending that taxpayers must pay for. In the opinion of the National Audit Office, making an exception concerning the transfer of revenue from the public service broadcasting tax cannot be considered consistent with this fundamental purpose of the spending limits system.

An essential part of ministries' responsibility for administration within their purview according to section 68 of the Constitution is that ministries report to Parliament on the use of the funds appropriated to them in the budget for each fiscal year. It is the task of the National Audit Office as an independent external auditor of the financial management of the state and the state budget to audit the information in the final central government accounts and the Report on the Final Central Government Accounts to see if they present a true and fair view.

On the basis of the audit of information on social effectiveness in the final central government accounts, the Report on the Final Central Government Accounts does not provide a true and fair view of the achievement of social effectiveness objectives in all respects. Reporting has not been prepared in a uniform manner in different administrative sectors and does not cover all social effectiveness objectives linked to the use of state funds. Special attention should be paid to verifying accountability connected to the use of funds if the Government's activity report and the Report on the Final Central Government Accounts are combined in form of the Government's annual report.

In 2011 and 2012 the Government and the Ministry of Finance have improved the way in which information concerning liabilities and associated risks is presented in parliamentary documents. The audit did not observe essential errors in information concerning the state's liabilities and associated risks in the final central government accounts for 2011 or the Report on the Final Central Government Accounts. The examination and analysis of risks in the Report on the Final Central Government Accounts needs to be improved in order to provide a more comprehensive picture.

The evaluation of financial impacts and risks associated with measures aimed at managing the crisis in the euro area needs to be improved so that Parliament can obtain a reliable and correct overall picture. The Ministry of Finance has developed the evaluation of the financial impacts and risks associated with measures aimed at managing the crisis in the euro area in the commentary to a government proposal (34/2012) that was submitted to Parliament on 26 April 2012 concerning the approval of an agreement on the establishment of the European Stability Mechanism.

The debt crisis still causes uncertainty and risks for the development of central government finances and the state's financial position. Sovereign debt and large borrowing requirements in the euro area combined with dampened economic prospects, economies' competitiveness problems and the sustainability gap in public finances have become a source of financial instability and a factor slowing economic growth. There are still considerable pressures and risks associated with the accessibility and price of state borrowing. The markets are still distrustful of lending to several countries in the euro area.

In the opinion of the National Audit Office, the information reported on central government debt management provides a true and fair view of central government debt and related risks. In evaluating risks attention should, however, be paid to maintaining Finland's credit rating and possibility to implement an effective debt management strategy.

The report contains the National Audit Office's evaluation of matters concerning which Parliament has required a response from the Government in the Report on the Final Central Government Accounts.

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1 Financial audit report on the audit of the final central government accounts for 2011

The National Audit Office issues this financial audit report on the audit of the final central government accounts for 2011. The audit was conducted by Financial Audit Principals Aila Aalto-Setälä and Riitta-Liisa Heikkilä. The audit was supervised by Assistant Auditor General Marjatta Kimmonen.

The audit was conducted in according with the National Audit Office's financial audit manual and concerned the final central government accounts as referred to in section 17 a of the State Budget Act and the provision of true and fair information with necessary notes as referred to in section 18 of the Act insofar as they concern the state budget economy. The audit included the budget outturn statement, the income and expenses statement, the balance sheet, the funds statement and notes as well as the central bookkeeping on which the information in the final central government accounts is based. The audit also focused on procedures aimed at ensuring the unalterability and correctness of information in central bookkeeping and in preparing the final central government accounts.

The final central government accounts

The content and presentation of the financial statements in the final central government accounts and the accounting on which they are based have been examined to the extent required to determine whether the financial statements and notes have been prepared correctly in essential respects.

The examination of the budget outturn statement revealed that 0.2 million euros of revenues from co-financed activities was recognised in item 31.10.78.1.10 (Certain transport infrastructure projects, 3-year transferable appropriation), contrary to the budget and section 3 a of the State Budget Act.

In item 32.30.80 (Loans for Finnish Export Credit Ltd's refinancing activities, estimated appropriation) repayments of loans (24.4 million euros) from funds in the same item were recorded as revenues, contrary to section 3 a of the State Budget Act.

In item 32.50.64 (EU and national financing for EU structural fund programmes during the programming period 2007–2013, estimated appropriation) interest on advance payments (0.5 million euros) was recorded as a deduction, contrary to the budget and section 3 a of the State Budget Act.

Expenditure that should have been allocated to 2012 (totalling 0.4 million euros) was recorded as expenditure for 2011 in items 26.40.30 (State compensation to municipalities, estimated appropriation), 29.80.52 (Profits from the Finnish National Lottery and lotteries to promote the arts, estimated appropriation), 30.01.22 (Joint research, 3-year transferable appropriation in the 2009 budget) and 32.50.43 (Regional development aid, 3-year transferable appropriation in the 2009 budget), contrary to the budget and section 5 a of the State Budget Act. The improper allocation of expenditure has resulted in the extension of an appropriation's period of use contrary to section 7 of the State Budget Act.

The appropriation in item 31.10.20 (Transport infrastructure management, 2-year transferable appropriation) has been used to cover expenditure (1.4 million euros) that should have been recorded in item 31.10.77.1.1 (Development of the transport network, E18 Hamina bypass, 3-year transferable appropriation) according to the budget. Of this amount 0.2 million euros should have been allocated to 2010 and 1.2 million euros to 2011 according to the budget. If expenditure had been recorded correctly, the project-specific appropriation in item 31.10.77.1.1 would have been exceeded by 0.8 million euros.

In item 31.10.76 (Procurements of and compensation for land and water areas, estimated appropriation) 2.8 million euros in expenditure that should have been allocated to 2011 according to the budget was recorded as expenditure for 2012. Contrary to the budget and section 3 a of the State Budget Act, revenues associated with land procurement were recognised in the item. If expenditure had been allocated correctly to 2011, the appropriation would have been exceeded by about 2.7 million euros. If the effect of revenues is taken into account, the allocation error and overspending were higher than this.

The financial audit of accounting units also revealed some cases in which an appropriation was used for a purpose contrary to the budget and section 5 of the State Budget Decree. Among other things these concerned the use of an appropriation to remunerate persons appointed to permanent posts from an appropriation that was not intended for this purpose.

The audit of information concerning authorisations found that in item 31.10.78 (Certain transport infrastructure projects), a project-specific authorisation for Lusi–Vaajakoski was exceeded by 4 million euros. According to section 10 of the State Budget Act an authorisation may not be exceeded.

The application period of unused authorisations (83.3 million euros) granted to regional councils from an authorisation in item 32.50.64 (EU and national financing for EU structural fund programmes during the programming period 2007–2013, estimated appropriation) was extended contrary to section 10 of the State Budget Act, since authorisations could not be renewed according to the final accounts of the Ministry of Employment and the Economy.

Shortcomings were found in information concerning authorisations that was sent to the State Treasury for the drafting of the final central government accounts. Consequently the information in the budget outturn statement in the final central government accounts concerning authorisations, their use and expenditure resulting from their use cannot be considered reliable in all respects.

Otherwise the financial statements have been prepared as required by budget legislation.

The information in Note 12 (Government guarantees, pledges and other commitments) still contains some errors and the risk of errors. The way in which information is presented has been developed with the reform of the final accounts template.

The information in the note concerning the Finnish state's liabilities for financial stabilisation arrangements in the euro area has been presented in the form of calculated shares based on the Ministry of Finance's final accounts. Loan receivables have been evaluated at their nominal value with regard to capital. The way in which information is presented has been developed, and essential errors were not found in information concerning the state's commitments in Europe and the euro area.

The notes to the final central government accounts have been presented as required by the State Budget Decree.

The state's central bookkeeping has been arranged in accordance with the State Budget Decree.

Internal control

Internal control of the final central government accounts has been evaluated in a risk analysis and checked in connection with the audit of central bookkeeping, the final central government accounts and agencies' final accounts.

According to the view that was formed during the audit of the final central government accounts, internal control of central bookkeeping has been meant to ensure that the central bookkeeping information that is the basis of the final central government accounts does not contain essential errors.

The National Audit Office's opinion on the final central government accounts

The final central government accounts for 2011 have been prepared according to existing regulations.

Helsinki, 22 May 2012

Auditor General Tuomas Pöysti

Principal Financial Auditor Aila Aalto-Setälä

2 Compliance with the budget and key provisions regarding it

The National Audit Office submitted 86 financial audit reports concerning fiscal year 2011 for ministries and agencies, including 60 accounting offices and 26 other agencies.

Financial audits for fiscal year 2011 revealed improper procedures in 14 accounting offices and four other agencies on the basis of which one or more cautions were issued that constituted procedures contrary to the budget or key provisions regarding it and concerning which a qualified opinion on regularity was included in the financial audit report. The figures given for 2010 and 2011 are comparable, and roughly the same number of reports was issued. In 2009 the universities were part of the state budget economy and the number of reports was higher; consequently figures concerning qualified opinions are not comparable with other years.

	FINANCIAL AUDIT REPORTS IN	QUALIFIED OPINIONS ON REGULARITY IN		
	2011	2009	2010	2011
Office of the President of the Republic	1			
Prime Minister's Office	1	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	2		
Administrative sector of the Ministry of Defence	3	2	1	1
Administrative sector of the Ministry of Finance	15	3	3	2
Administrative sector of the Ministry of Education and Culture	7	16	5	2
Administrative sector of the Ministry of Agriculture and Forestry	9	1	2	2
Administrative sector of the Ministry of Transport and Communications	5	4	1	2
Administrative sector of the Ministry of Employment and the Economy	27	5	7	7
Administrative sector of the Ministry of Social Affairs and Health	5	2	1	1
Administrative sector of the Ministry of the Environment	3			
	86	37	21	18

The total number of agencies receiving a qualified opinion on regularity fell by three compared with 2010. Cautions concerned different matters and totalled 35.

The most significant reasons for qualified opinions on regularity concerned the use of an appropriation or authorisation contrary to the budget. Ten accounting units received such cautions in their financial audit report. Cautions in this category had to do with the use of an appropriation or authorisation for a purpose contrary to the budget, the allocation of expenditure contrary to the budget, the extension of the period of use of an appropriation or authorisation contrary to the budget, the recording of revenues in a gross budgeted expenditure item and the exceeding of an appropriation or authorisation. Nearly 30 cautions were issued in this category.

Shortcomings in arranging performance accounting and in presenting information on operational efficiency led to the issuing of cautions in five accounting units' financial audit reports. Arranging performance accounting is a precondition for presenting information concerning operational performance in final accounts. As a whole, the situation improved slightly compared to the previous year.

On the basis of financial audits of accounting units, attention still needs to be drawn to arranging internal control in accordance with the provisions in 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 effective internal control methods and the closing of gaps in internal control. The State Budget Act and the State Budget Decree should be supplemented so that they also support proper procedures in operating models in which responsibility for tasks has been delegated to multiple actors.

Qualified opinions generally concern a particular area of financial management or specific procedures. Consequently the conclusion cannot be drawn that about one-fourth of the state's financial management as a whole does not meet the requirement of regularity or that an abuse of state funds is involved. In evaluating the significance of a qualified opinion on regularity one must also keep in mind that agencies vary in size financially. A qualified opinion on regularity should always be regarded as a serious matter for the agency in question, however. The purpose of financial audit is to report on procedures that signify a deviation from regular compliance with the budget and key provisions regarding it.

3 Reporting required by Parliament in the Report on the Final Central Government Accounts

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

1 Parliament calls for the Government to take measures to clarify and improve the information base, openness and transparency of the central government spending limits. The information base must give Parliament better preconditions for decision-making regarding the spending limits and the monitoring of compliance with the spending limits and their implementation.

2 Parliament calls for the Government to evaluate for each fund whether there are still essential grounds as required in section 87 of the Constitution to arrange activities and financing through off-budget funds.

3 Parliament calls for the Government to take measures to change the structure of the spending limits procedure so as to include a mechanism that allows the making and interim review of transport investments that are profitable and pay for themselves.

4 Parliament calls for the Government to study whether tax subsidies should be included in the spending limits procedure. Deciding on the total amount of tax subsidies, for example, is justified as part of fiscal policy rules.

5 To ensure the sustainability of local government finances Parliament calls for the Government to include in the central government spending limits a ceiling on how much the state can allocate expenditure to the local government sector during the spending limits period through legislative and other means.

6 Parliament calls for the Government to take measures to increase the flexibility of the spending limits procedure so that appropriations can be allocated better inside and between administrative sectors.

7 Parliament calls for the Government to report on the implementation of the measures in points 1–6 in the Report on the Final Central Government Accounts for 2011.

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

8 (1) Parliament calls for the Government to take the necessary measures to eliminate borrowing in excess of liquidity needs.

9 (2) Parliament calls for the Government to give proper consideration to the measures concerning budget statements that have been noted in a report.

10 (3) Parliament calls for the Government

to report on the implementation of measures in the next Report on the Final Central Government Accounts.

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

11 (2) Parliament calls for the Government to prepare and introduce a joint management and information system for the justice and interior administration so that also with respect to the timetable it allows the entry into force of criminal investigations and coercive measures legislation and to report to Parliament in the next Report on the Final Central Government Accounts.

Reporting by the Government

The Government has reported on the points required by Parliament in the Report on the Final Central Government Accounts. Points 1–6 were connected to the National Audit Office's separate report to Parliament on the effectiveness of the central government spending limits procedure as a fiscal policy instrument (R 21/2010 vp). In its follow-up the National Audit Office will report to Parliament on the matter. In point 8 the Government has reached a solution as required by Parliament. With regard to point 11 the Government has taken the measures required by Parliament and a solution will be reached in 2014 according to plan.

Point 8

In point 8 Parliament called for the Government to take the necessary measures to eliminate borrowing in excess of liquidity needs. The Constitutional Law Committee issued a statement on the matter (4/2001) in which it noted that the budget covering requirement does not require the full withdrawal of a budgeted loan if this is not necessary for liquidity.

In 2011 about 1.7 billion euros of loans budgeted by Parliament were not withdrawn because the state's liquidity did not require net borrowing according to the budget. Any portion of a loan that is not withdrawn reduces the state's interest costs, although a precise estimate of actual savings has not been made. The matter has proceeded in the manner called for by Parliament. In 2011 the possibility not to withdraw part of a loan according to the new interpretation could not be utilised fully, and consequently savings in the coming years will probably be larger than in 2011.

4 Information on social effectiveness in the Report on the Final Central Government Accounts

4.1 The National Audit Office's opinions

In auditing information on social effectiveness in the Report on the Final Central Government Accounts, administrative sectors' reporting was evaluated in relation to the objectives set for administrative sectors in the budget. The audit of information on social effectiveness for 2011 was conducted in the same way as for 2010. This also allowed made it possible to evaluate the development of the quality of reporting. In addition to information on social effectiveness, the process used in preparing the Report on the Final Central Government Accounts for 2011 was examined in the administrative sectors.

On the basis of the audit, the Report on the Final Central Government Accounts does not provide a true and fair view of the achievement of social effectiveness objectives in all respects. Reporting has not been prepared in a uniform manner in different administrative sectors and does not cover all social effectiveness objectives related to the use of state funds. The matter will be underlined in the future if the Government's activity report and the Report on the Final Central Government Accounts are combined in the form of the Government's annual report. The current way in which the Report on the Final Central Government Accounts is prepared, in which setting objectives and reporting on their achievement take place separately, does not allow the proper verification of accountability. Collecting effectiveness information in connection with final account information also leads to problems, timetables are too tight for collecting this kind of information, and preparation is often left up to ministries' financial units. In developing performance management and reporting, special attention should be paid to verifying accountability connected to the use of funds. The proper verification of accountability would require the planning of reporting when objectives are set. For the sake of coverage the Government should ensure that the Government and ministries report to Parliament on all the objectives that have been set. In addition ministries' management should make a better commitment to preparing reporting.

On the basis of the audit, the administrative sectors' presentation of effectiveness information in the Report on the Final Central Government Accounts has generally improved, with a few exceptions. The coverage of the evaluation of the achievement of set objectives has particularly improved. Nearly all the administrative sectors presented at least an evaluation of the achievement of objectives set in the budget on a scale ranging from poor to excellent.

The preparation of reporting on social effectiveness information in the Report on the

Final Central Government Accounts is done hastily. Furthermore reporting still takes place separately from the setting of objectives. On the basis of the audit the situation could be improved by planning reporting better in connection with the setting of objectives.

Accountability is reporting on objectives connected to the use of funds

In previous years audits have noted that one problem in the Report on the Final Central Government Accounts is that reporting has often been limited to describing activities and the measures that have been taken in an administrative sector. The two previous years the financial controller, who supervises the preparation of the Report on the Final Central Government Accounts, has instructed the administrative sectors to prepare a table outlining the achievement of objectives. This has clearly improved the coverage of reporting. The requirement has also indirectly improved the quality of reporting in general. Even in descriptive sections more attention has been paid to the achievement of objectives and the presentation of indicators describing the achievement of objectives.

The administrative sectors have mainly conducted a self-evaluation of the achievement of objectives. A few administrative sectors also presented the reasoning behind their evaluations. In these cases an objective and an evaluation of its achievement as well as the indicators on which the evaluation was based were successfully combined in a concise form. When the Government's reporting to Parliament is reformed in the coming year, this kind of approach could lead to clearer reporting.

In spite of the financial controller's instructions, all the administrative sectors did not present the achievement of objectives in table form. As a result no information was presented on some objectives, and in some cases reporting was limited to describing measures. The failure to comply with instructions is also an indication that the Government's accountability as a whole is poorly implemented in the Report on the Final Central Government Accounts. The ministries have acted independently in preparing the Report on the Final Central Government Accounts. The implementation of accountability varies with regard to individual ministries. Attention should be drawn to this matter in reforming the Government's reporting.

The preparation process is not linked to the setting of objectives

The ministries mainly prepare effectiveness information for the Report on the Final Central Government Accounts in a similar process. A ministry's management issues preparation instructions for this purpose around the beginning of the year. These instructions refer to or are appended to the instructions that have already been issued by the financial controller. The preparation instructions give a particular unit responsibility for collecting effectiveness information. In some cases the prepared text has to be approved by the ministry's management group, while in other cases the approval or decision method is left open. Ministries' instructions mainly refer to a ministry's effectiveness objectives and call for reporting to concentrate on them. A few ministries also drew attention in their own instructions to the section of the financial controller's instructions asking for a summary of a ministry's objectives and their achievement in table form.

The ministries prepare effectiveness information for the Report on the Final Central Government Accounts along with their own final account information for different agencies. The collecting of social effectiveness information for the Report on the Final Central Government Accounts is done hastily. The person responsible for collecting information typically spends a couple of weeks on this work, in addition to the time spent in ministries' departments. The use of resources for this purpose is not monitored separately, however.

The information in the Report on the Final Central Government Accounts is collected from several sources. Typical sources are different registers and monitoring systems. Special evaluations or studies are not performed for the Report on the Final Central Government Accounts. Partly it involves matters for which monitoring information does not exist. In this case evaluating the achievement of an objective is based mainly on an expert appraisal.

Reporting in the Report on the Final Central Government Accounts is still a separate process and is not directly linked to the setting of effectiveness objectives by a ministry. This is clearly visible in the preparation of the Report on the Final Central Government Accounts. In order for reporting to focus on evaluating the achievement of set objectives, special attention has been drawn to the matter both in the financial controller's instructions and in many administrative sectors' own instructions. In spite of this information is not provided in the Report on the Final Central Government Accounts on all the objectives that have been set. The achievement of objectives has not even been evaluated on a scale ranging from poor to excellent in all respects.

The separate nature of the reporting process is also visible in the fact that it is often genuinely difficult to report on set objectives. In setting objectives thought has not been given to how their achievement can be evaluated and reported.

4.2 Audit findings on the presentation of effectiveness information

This section includes examples of findings on which the National Audit Office's opinions are based. Emphasis is placed on matters related to the process used in preparing the Report on the Final Central Government Accounts, since the preparation process was a special focus of the audit this time.

The Ministry of Finance and the Prime Minister's Office did not present effectiveness objectives or evaluate their achievement in table form according to the financial controller's instructions. The Ministry of the Interior presented objectives partly in table form, but it evaluated the achievement of objectives in a way that differed from the financial controller's instructions. The instructions were the same as the previous year in this respect. Failure to comply with the instructions reflects the ministries' independent position in preparing the Report on the Final Central Government Accounts.

Mostly, however, the ministries presented objectives in table form according to the financial controller's instructions. In their tables the Ministry of Justice and the Ministry of the Environment also presented the criteria used in evaluating the achievement of objectives. This structure including an evaluation of the achievement of objectives together with criteria improved the credibility of reporting. The structure also ensured the coverage of reporting and improved its quality.

The Ministry of Employment and the Economy was the only ministry that prepared a permanent process description regarding the preparation of the Report on the Final Central Government Accounts. The description makes it easier to manage the preparation process and ensures the quality of preparation in connection with personnel changes. The Ministry of Defence also described the preparation process in its instructions for preparing the Report on the Final Central Government Accounts for 2011.

In most ministries responsibility for collecting effectiveness information for the Report on the Final Central Government Accounts has been given to the ministry's financial unit. However, the financial unit is generally quite far from a ministry's actual area of responsibility, which effectiveness information concerns. Since the effectiveness information in the Report on the Final Central Government Accounts is not produced systematically, the need for cooperation among different units is underlined. Units in areas of responsibility have better knowledge of evaluations or studies in their own sphere that can be utilised in preparing effectiveness information and are thus in a better position to report on matters.

Several ministries did not report on the achievement of all objectives. The Ministry of Education and Culture did not report on the achievement of objectives regarding the quality of education and research. The Ministry of Transport and Communications and the Ministry of Social Affairs and Health reported on the achievement of objectives in an inconsistent manner. Although the text said that some objectives had not been achieved, their achievement was indicated as satisfactory or good in table form. The Ministry of Transport and Communications reported on some objectives in a different form in the budget and in the Report on the Final Central Government Accounts. At the Ministry of Agriculture and Forestry there were also differences between the budget and the Report on the Final Central Government Accounts, with the latter presenting more gauges and indicators regarding objectives than the budget.

4.3 Audit method

The audit concerned the information on social effectiveness that was presented in the Report on the Final Central Government Accounts. Social effectiveness refers to the achievement of the objectives that have been set for social policy and the role of policy measures in achieving objectives. For the sake of accountability in the Report on the Final Central Government Accounts the audit focused on the use of funds and effectiveness achieved through the use of funds.

The audit of effectiveness information in the Report on the Final Central Government Accounts for 2011 was conducted in the same way as the audit of information for 2010.

The audit mainly looked at the adequacy of information in the Report on the Final Central Government Accounts but also examined the accuracy of reported information to some extent. The adequacy of information was evaluated by identifying the effectiveness objectives that were set for administrative sectors in the 2011 budget. Reporting on the final central government accounts was analysed in relation to these objectives. Adequate reporting means providing information on the achievement of all effectiveness objectives or related development. It also includes reporting on any significant use of funds even when objectives have not been set.

The main question was:

– Does the Report on the Final Central Government Accounts provide a true and fair view of the achievement of social effectiveness objectives in an administrative sector?

The main question was supplemented with the following subquestions aimed at evaluating the quality of objectives and information in the Report on the Final Central Government Accounts:

– Were social effectiveness objectives presented in the budget?
– Were objectives essential for the administrative sector and functional from the viewpoint of management and monitoring?
– Was information provided in the Report on the Final Central Government Accounts concerning all the objectives that were set in the budget?
– Was information on the achievement of objectives in the Report on the Final Central Government Accounts of high quality?

The audit looked mainly at objectives and related reporting. In evaluating the quality of objectives and reporting, criteria were findings made in the course of the National Audit Office's audit and expert work.

The process used in preparing the Report on the Final Central Government Accounts for 2011 was also examined with the help of a questionnaire concerning all administrative sectors. Drafters of the texts in the Report on the Final Central Government Accounts were interviewed by phone and e-mail to find out what instructions had been given for this purpose in the administrative sector, how the text is drafted in the administrative sector and what resources were available for preparation. The aim of interviews was to find general problem areas in the administrative sectors' preparation of the Report on the Final Central Government Accounts.

The audit was conducted according to the National Audit Office's performance audit manual.

5 The central government spending limits procedure and the fiscal policy information base

5.1 The National Audit Office's opinions

The National Audit Office audits compliance with the central government spending limits annually. On the basis of the audit, the estimate of underspending in relation to the spending limits that is presented in the Report on the Final Central Government Accounts for 2011 can be regarded as providing a true view. Consequently, according to the spending rules set out in the Government Programme, 200 million euros can be carried forward to 2012 for one-off expenditure items, the spending limits notwithstanding. The National Audit Office considers it good that the Ministry of Finance has continued precise reporting on compliance with the spending limits in the Report on the Final Central Government Accounts for 2011.

The National Audit Office draws special attention to the development of expenditure outside the spending limits. The spending limits procedure's possibilities in ensuring the sustainability of public finances are reduced by their narrow coverage. The Ministry of Finance's working group memorandum on the development of the spending limits system has clearly presented the purpose of the spending limits system: The purpose of spending rules is to restrict the total amount of spending that taxpayers must pay for. In the opinion of the National Audit Office, making an exception concerning the transfer of revenue from the public service broadcasting tax cannot be considered consistent with this fundamental purpose of the spending limits system.

In 2011 and 2012 the Government and the Ministry of Finance have improved the way in which information concerning liabilities and associated risks is presented to Parliament for decision-making in parliamentary documents. The audit did not observe matters that would prevent the financial information in Government proposal 150/2011, Government statement 1/2012 and Government communications and statements submitted to the 2012 Parliament concerning crisis management in the euro area from being considered reliable in essential respects.

The evaluation of financial impacts and risks associated with measures aimed at managing the crisis in the euro area needs to be improved so that Parliament can obtain a reliable and correct overall picture. The Ministry of Finance has developed the evaluation of the financial impacts and risks associated with measures aimed at managing the crisis in the euro area in the commentary to a government proposal (34/2012) that was submitted to Parliament on 26 April 2012 concerning the approval of an agreement on the establishment of the European Stability Mechanism. Special attention should be paid to informing Parliament at the earliest possible stage in order to ensure Parliament's position in financial decision-making and Parliament's effective participation in the preparation of EU matters. In crisis management important economic decisions have repeatedly been made on a very fast timetable. With better preparation and by informing Parliament some of these situations could have been avoided at least to some extent. The state's risks should be evaluated as a whole and a systematic framework that includes the qualitative and quantitative examination of risks on the basis of the best available evaluation should be employed in classifying risks.

The audit did not observe essential errors in information concerning the state's liabilities and associated risks in the final central government accounts for 2011 or the Report on the Final Central Government Accounts. The Report on the Final Central Government Accounts does not include an overall evaluation of the effects of the state's liabilities and associated risks on the state's ability to meet its legal obligations, nor are risks examined with the help of a fully systematic framework according to international recommendations and standards. The examination and analysis of risks in the Report on the Final Central Government Accounts needs to be improved.

In the opinion of the National Audit Office, the information reported on central government debt management provides a true and fair view of central government debt and related risks. In evaluating risks attention should, however, be paid to maintaining Finland's credit rating and the possibility to implement an effective debt management strategy.

5.2 Audit of the spending limits procedure

To achieve a credible and stable fiscal policy, Finland has adopted fiscal policy rules aimed at curbing the rise in central government expenditure. An incoming Government decides on spending limits for the entire electoral term. The allocation of funds is then revised annually in spending limits decisions. Spending limits thus form a framework of fiscal policy rules that steer the Government's fiscal policy. The Government reports on compliance with the spending limits in the Report on the Final Central Government Accounts. The general strategy and outlook in the budget proposal and supplementary budget proposals have also provided information on compliance with the spending limits for the electoral term and the relation between the budget proposal or a supplementary budget proposal and the spending limits for the electoral term. The Ministry of Finance monitors compliance with the spending limits by comparing price and structurally adjusted expenditure development with the budget.

The National Audit Office audits the information base used in fiscal policy decision-making and compliance with the spending limits as well as the achievement of fiscal policy objectives. The results of the annual audit of compliance with the spending limits and the fiscal policy information base are included in the National Audit Office's separate report to Parliament on the audit of the final central government accounts and the Report on the Final Central Government Accounts.

The audit examines spending limits decisions, budget proposals and budgets together with preparatory documents, as well as the final accounts. Criteria include the transparency of decision-making and preparation as well as risks. The functioning and effectiveness of applied instruments are also examined from the viewpoint of fiscal policy objectives.

5.2.1 Compliance with the spending limits and the transparency of the spending limits procedure in fiscal year 2011

The fiscal year 2011 was an election year. During the electoral period 2007–2010 the spending limits for 2011 were adjusted according to price and structural changes. In autumn 2010 after revisions to the budget proposal the expenditure ceiling for 2011 was 38,072 million euros. In a supplementary proposal on 29 October 2010 the spending limits were again revised with price and structural adjustments so that the overall expenditure ceiling according to the spending rules in the Government Programme was 38,090 million euros at the 2011 price level. In a supplementary budget proposal for 2011 the total amount of expenditure covered by the spending limits was 37,731 million euros. This left an unallocated reserve of 59 million euros in addition to the 300 million euros reserved for supplementary budget proposals. Parliament added to the budget 59 million euros of expenditure covered by the spending limits.

The National Audit Office compared the 2011 budget proposal, the budget and the final central government accounts for 2011 with the spending limits decision that was issued in spring 2010 and the spending limits with price and structural adjustments prepared by the Ministry of Finance in connection with the drafting of the budget. To perform calculations the National Audit Office used the spending limits decision that was issued on 30 March 2010 with its revision of the spending limits decisions issued on 25 May 2007 adjusted to the 2011 price and cost level. The National Audit Office also had access to the Ministry of Finance's preparatory materials, which show indices and price and cost adjustments compared to the level on 30 March 2010. The index and price change percentages used in the 2011 price and cost level adjustment were taken directly from the Ministry of Finance's calculations.

In the calculation the division into expenditure included in the spending limits and expenditure outside the spending limits has been obtained annually from the Ministry of Finance in connection with the spending limits decision. The division for subsequent changes and additions has mainly been made by the National Audit Office. These changes concern, for example, items that have not been included in the spending limits or that have been combined or divided after the spending limits decision. Comparisons between the spending limits, the budget and the final accounts have always been carried out in the same way.

On the basis of the National Audit Office's audit, the estimate of underspending in relation to the spending limits that is presented in the Report on the Final Central Government Accounts for 2011, amounting to 220 million euros, can be regarded as providing a true view. Consequently, according to what was set out in the Government Programme, 200 million euros can be carried forward to 2012 for one-off expenditure items, the spending limits notwithstanding. It should be pointed out, however, that the calculations performed by the National Audit Office contain inaccuracies with regard to the division between expenditure included in the spending limits and expenditure outside the spending limits.

The Report on the Final Central Government Accounts for 2011 presented in table form the amount of expenditure included in the spending limits in the budget and supplementary budgets as well as the price and structurally adjusted level of expenditure covered by the spending limits. The table makes it possible to see how much the budget has remained below the expenditure ceiling. The National Audit Office considers it good that the Ministry of Finance has continued precise reporting on compliance with the spending limits in the Report on the Final Central Government Accounts for 2011.

5.2.2 The application of the spending limits in the 2012 budget and the first supplementary budget as well as the spending limits decision for 2013–2016

The first spending limits decision of the 2012–2015 electoral term was based on the "technical spending limits decision" that was issued in spring 2011. The basis for the spending level in 2012–2015 were decisions that had already been made and their effects on the level of spending in coming years. Thus the technical spending limits did not contain political lines. The spending limits decision in spring 2011 was prepared so that it formed a reliable basis for evaluating expenditure during the next electoral term in the government programme negotiations. In the Programme of Prime Minister Jyrki Katainen's Government it was agreed that central government expenditure included in the spending limits would be 1.2 billion euros less in 2015 than the figure in the spending limits decision of March 2011. The Government's first spending limits decision, covering the 2012–2015 electoral term, was submitted to Parliament on 5 October 2011 along with the Government's budget proposal for 2012. Two government proposals supplemented the 2012 budget proposal. The Government's first supplementary budget was submitted on 29 March 2012. According to calculations made by the National Audit Office, the level of expenditure in 2012 is within the spending limits after the first supplementary budget.

In its programme the Government committed to undertake further adjustment measures if indications are that the central government debt-to-GDP ratio is not shrinking and if the central government deficit shows signs of settling at over 1% of GDP. In connection with forecasts that were released in December 2011, the Ministry of Finance and the Bank of Finland estimated the need for adjustments in order to achieve the objectives in the Government Programme at about 5 billion euros. Estimates based on the forecasts that were released in March 2012 were lower than this. According to the baseline scenario in the forecast that was released by the Research Institute of the Finnish Economy (ETLA) in March 2012, for example, achieving the deficit objective would require 3.8 billion euros in further adjustments calculated at the 2015 level. In ETLA's baseline forecast Finland's GDP growth in 2012–2015 will be 2.2 per cent a year. In a better-case scenario growth would average 2.7 per cent and in a worse-case scenario 1.5 per cent. According to ETLA's forecast gross public debt will decline only in the better-case scenario, but even then the deficit objective will not be met.

In the light of forecasts it is clear that the Government must take further adjustment measures to stay within its programme. Attention must be paid to the timing of measures, however. Large-scale adjustment measures should not be undertaken during a period of recession or weak economic growth. In Finland the cyclic aspects and long-term objectives of fiscal policy are in conflict with each other now that the debt crisis in the euro area has worsened. Resolving this conflict requires that special attention must be paid to strengthening prerequisites for economic growth and measures aimed at improving public sector productivity and increasing the employment rate.

In the spending limits negotiations in spring 2012 the Government in accordance with its programme decided on further adjustment measures to stabilise the economy, based on the forecast released by the Ministry of Finance in March 2012. Further adjustment measures totalling 2.4 billion euros at the 2015 level were included in the spending limits for 2013–2016. New tax policy adjustment measures are expected to increase central government tax revenue by a net total of 1.2 billion euros at the 2015 level. Further adjustment measures will reduce the level of expenditure included in the spending limits according to the first spending limits decision for the electoral term by 1.2 billion euros at the 2015 level. The overall and annual spending limits for the parliamentary term were accordingly adjusted downwards by amounts equivalent to additional expenditure cuts. The spending rules for the electoral term are thus in line with the spring 2012 spending limits decision, which contains additional expenditure cuts totalling 249 million euros in 2013. Furthermore, the Government has taken the discretionary decision to lower the spending limits by 100 million euros in 2013. Indexation suspensions will also lower statutory price adjustments by 146 million euros in 2013. All in all expenditure cuts within the framework of the spending limits will come to 495 million euros in 2013.

To increase the transparency and openness of the spending limits procedure the Ministry of Finance has prepared a manual describing the preparation and maintenance of the spending limits for the 2012–2015 electoral term, which has been published on the ministry's website.[1] The intention is to update this manual at the beginning of each electoral term. The National Audit Office considers this a good addition to the transparency of the central government spending limits and the information base.

The National Audit Office draws special attention to the development of expenditure outside the spending limits, since the spending limits procedure's possibilities in ensuring the sustainability of public finances are reduced by their narrow coverage. Expenditure outside the spending limits according to the spending limits decision for 2013–2016 will total approximately 11.8 billion euros in 2013, which is 1.1 billion euros more than expenditure outside the spending limits budgeted for 2012, including the first supplementary budget for 2012.

According to a Government resolution that was approved on 21 December 2011 an exception from the spending rules agreed in the Government Programme was made in connection with the reform of financing for the Finnish Broadcasting Company, which will enter into force at the beginning of 2013. The current television fee will be replaced with a public service broadcasting tax in 2013. Revenue from this tax will be credited to the state budget and transferred to the State Television and Radio Fund. The transfer will be included in the budget as an expenditure item outside the spending limits. The matter and its nature as an exception are presented openly in the spending limits decision for 2013–2016. In the opinion of the National Audit Office, the open presentation of exceptions to spending rules is positive.

In a statement that it issued during the drafting stage the Ministry of Finance opposed making an exception to spending rules in the Government's proposal for the amendment of the Act on the Finnish Broadcasting Company and the Act on the State Television and Radio Fund (subsequently Government proposal 29/2012). The statement pointed out that handling the proceeds from an earmarked tax as an expenditure item outside the spending limits is an exception both from spending rules and from previous practice. For the credibility of the spending limits and fiscal policy rules in general it is good that attention is drawn to the inconsistency of the solution model in relation to the spending limits system and its objectives during the Government's preparation.

The nature of the transfer as an item outside the spending limits and the justifiability and consistency of the exception that was decided can be questioned. Certain expenditure items have been left outside spending rules in accordance with the Government Programme. Transferring the revenue from the public service broadcast tax to a fund cannot be compared to expenditure that is regarded as excluded from the spending limits system. The purpose of the spending limits system and fiscal policy rules in general has not been explicitly stated in the Government Programme or spending limits decisions. The

[1] Spending limits manual – Description of the preparation and maintenance of the spending limits for the 2012–2015 electoral term, Ministry of Finance 2012.

Ministry of Finance's working group memorandum on the development of the spending limits system has clearly presented the purpose of the spending limits system: The purpose of spending rules is to restrict the total amount of spending that taxpayers must pay for.

Making an exception concerning the transfer of revenue from the public service broadcasting tax cannot be considered consistent with this fundamental purpose of the spending limits system. The spending limits system and spending rules should be viewed as fiscal policy instruments. In this case the Finnish Broadcasting Company's special task and position and the need to ensure its editorial independence do not constitute requirements on the basis of which the transfer of tax revenues to a fund can justifiably be treated as an item outside the spending limits. Including the item in the total level of the spending limits would not signify an attempt to steer the content of public service broadcasting through the spending limits. Treating the transfer of revenue from the public service broadcasting tax as an item outside the spending limits cannot be considered logically and adequately justified.

The proper functioning of the spending limits as a fiscal policy instrument requires that their coverage is as large as possible. Consequently any exceptions to the spending limits system should be viewed negatively.

According to the Government Programme, the Government will not use tax subsidies to circumvent the spending limits in any way that clashes with the purpose of the spending rule. An effort has been made to improve reporting on tax subsidies, and the Report on the Final Central Government Accounts now contains a description of major tax subsidies and with regard to fiscal year 2011 for the first time an evaluation of the effectiveness of tax subsidies. In connection with the ongoing audit of fiscal policy the National Audit Office has monitored reporting concerning tax subsidies in 2009–2011. In the opinion of the National Audit Office, the fact that in 2010 the scope and coverage of tax subsidies were studied and calculation methods were updated makes it possible to obtain a true and fair view of the amount of tax subsidies. It should be noted, however, that monitoring the timeliness of tax subsidies and developing and maintaining calculation methods require constant work. Consequently the National Audit Office will continue to monitor the development of tax subsidies and related reporting in future.

According to the Report on the Final Central Government Accounts 204 tax subsidies were identified in 2011. Calculated subsidies totalled 22.1 billion euros, but figures could not be calculated for about one-third of tax subsidies. Consequently it is not possible to estimate the total amount of tax subsidies.

5.3 The state's commitments to ensure financial stability in the euro area

5.3.1 Audit question and criteria

As part of the ongoing audit of fiscal policy the National Audit Office conducts an audit in which the audit question is the reliability of the information presented to Parliament in parliamentary documents concerning the state's commitments to ensure financial stability in the euro area and associated risks. The objective of the audit is to promote confidence in the information on which the preparation that is the responsibility of the Government and Parliament's decision-making are based. The audit is conducted according to the National Audit Office's fiscal policy audit manual. A fiscal policy audit report concerning the provision of a true and fair view of the state's commitments and related risks in the Report on the Final Central Government Accounts and particularly Note 12 has previously been completed.[2]

In accordance with section 3 of the Constitution, Parliament exercises legislative powers and decides on state finances. According to section 82 (2) of the Constitution, a state security and a state guarantee may be given on the basis of Parliament's consent. According to the commentary to this section of the Constitution and established practice, the maximum amount to which consent has been given must be indicated as precisely as possible.[3] According to the Constitutional Law Committee, the maximum amount must be specified as clearly and precisely as possible, but for associated obligations such as interest the maximum amount can also be specified verbally.[4]

According to section 94 of the Constitution, Parliament's approval is required for international obligations that contain provisions of a legislative nature, are otherwise significant or otherwise require approval by Parliament. In accordance with sections 96 and 97 of the Constitution, Parliament participates in the preparation of European Union matters. Finland's representatives must take into consideration the positions taken by Parliament in the procedure prescribed in sections 96 and 97 of the Constitution when acting in the European Union. Chapter 7 of the Constitution contains more detailed provisions on Parliament's decision-making power and obligation and right to supervise state finances. If risks associated with the state's commitments materialise, resulting costs are included in the state budget.

Owing to Parliament's position as the exerciser of legislative and fiscal power and as the supreme organ of state, Parliament must receive reliable and up-to-date information on which to base its decisions. This is ultimately a question of the basic preconditions for parliamentary decision-making and the parliamentary form of government.[5] The Constitution contains several provisions on Parliament's right to receive information. Al-

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2 Commitments to the euro area's financial stability arrangements – information on the binding character and riskiness of exposures in the Report on the Final Central Government Accounts, National Audit Office audit report 4/2012.

3 See Government proposal 1/1998 for a new Constitution, p. 135/II and the literature on constitutional law, particularly Vesanen Tauno: Valtiontaloutta koskevat eduskunnan ratkaisut ja hallituksen toimivalta, valtiosääntöoikeudellinen tutkimus, Finnish Lawyers' Association 1965, pp. 316–336. Vesanen draws attention to the interpretation of questions concerning government guarantees and pledges from the viewpoint of ensuring Parliament's budgetary and fiscal power insofar as an answer cannot be obtained directly from the wording of the Constitution.

4 Constitutional Law Committee statement 14/2011.

5 Mikael Hidén: Eduskunnan valiokuntien yleisestä tiedonsaantioikeudesta. Juhlajulkaisu Antero Jyränki. Publications of the Faculty of Law at the University of Turku, Juhlajulkaisut N:o 5, University of Turku, Turku 1993, pp. 33–40.

though this is not explicitly stated in the Constitution, Parliament's constitutional right to receive information can be considered to imply that information must be reliable in terms of content. As the exerciser of legislative and fiscal power (i.e. the power to decide on the state's revenues and expenditure as well as assets and commitments) based on the separation of powers prescribed in the Constitution, Parliament has the right to receive a true and fair view of the state's financial position, revenues and expenditure, the implementation of the budget, assets and commitments, as well as the results of the activities of the Government and administration.[6] This applies both to Parliament's decision-making before the fact and to reporting and Parliament's supervision of state finances under the Constitution after the fact. In a parliamentary form of government the Government's task is to provide reliable and comprehensive information to Parliament for decision-making. With regard to final account reporting, the reliability of information has been prescribed in section 18 of the State Budget Act as meaning the provision of true and fair information and on this basis a correct picture of the state's financial position and its development. Requirements concerning true and fair information in the final central government accounts are given concrete form in the State Budget Decree (1243/1992) and regulations issued by the Ministry of Finance and the State Treasury concerning final account reporting and bookkeeping. The most important instructions for the justifications and impact evaluations in government proposals submitted to Parliament are contained in guidelines for drafting government proposals and guidelines concerning cooperation between Parliament and the Government in EU matters.

On the basis of the Constitution Parliament receives information for decision-making on the state's international commitments that must be approved by Parliament as well as the giving of consent to government guarantees in the justifications in a government proposal. When Parliament participates in the preparation of EU matters and decision-making according to the Constitution, information is presented in EU memoranda linked to Union communications and Europe communications and their follow-up communications. In the procedure according to the Act on Government Guarantees for the European Financial Stability Facility (668/2010), Parliament considers whether to give its consent to a guarantee following the procedure for a Government statement prescribed in the Act. In this case the key source of information for Parliament is the Government statement. The essential thing is for Parliament to receive a correct picture of the matter from the official parliamentary document and supplements on which decision-making is based.

It is essential to make a distinction between liabilities and contingent liabilities. Contingent liabilities are not evaluated in the balance sheet, but essential information for decision-making must be provided concerning its development and particularly its materialisation.[7] In connection with financial stabilisation arrangements in the euro area it is also essential to make a distinction between real liabilities and calculatory maximum liabilities according to agreements concerning stabilisation funds.

Measures to ensure financial stability in the European Union have repeatedly been

[6] Audit Committee report 1/2011.

[7] This is also a principle in international accounting standards, see IAS 39 and IFRS 7 and 9.

considered by the Constitutional Law Committee. In a constitutional evaluation an essential question is to safeguard Parliament's fiscal power as prescribed in section 3 of the Constitution and in more detail in Chapter 7 of the Constitution. According to the Constitutional Law Committee it is necessary to examine the effect of liabilities on Parliament's budget and fiscal power as a whole.[8] In accordance with statements issued previously by the Constitutional Law Committee it is also necessary to examine how resulting liabilities and risks affect the Finnish state's possibilities to meet the obligations that it has under the Constitution.[9]

The criteria for the constitutional evaluation of the European Union's financial stabilisation arrangements that have been outlined by the Constitutional Law Committee also place requirements on the information that must be provided to Parliament in decision-making and the handling of EU matters, which must also be examined in reporting on the final central government accounts.

The Constitutional Law Committee pointed out in a statement (14/2011) that proposals' justifications must provide an adequate description of liabilities. Considering this statement as a whole together with other statements issued by the Constitutional Law Committee, particularly statement 25/2011, the description of liabilities should also include an examination of risks. In the light of the principles of democracy Parliament should have real possibilities to evaluate alternatives to and the effectiveness of the policy followed in crisis management, which requires sufficiently reliable information and analyses of alternative courses of action. This principle is derived from the Government's guidelines on good legislative drafting and evaluating the impact of legislation.

In practice Finland's options and room for manoeuvre are limited. Reporting on the final central government accounts and the evaluation of impacts on which decision-making is based also have, or at least can have, an important signal effect on financial markets and the public. This limits to some extent the presentation of different risk evaluations in legislative drafting and reporting related to crisis management on financial markets. It should also be pointed out that the information base used by the Government in preparing legislation depends in many respects on information that is obtained from organs in the euro area and the European Union.

5.3.2 Ensuring financial stability in the euro area in the sovereign debt crisis

The international financial crisis has evolved into a sovereign debt crisis in the euro area. Sovereign debt and large borrowing requirements combined with dampened economic prospects, economies' competitiveness problems and the sustainability gap in public finances have become a source of financial instability and a factor slowing economic growth. The International Monetary Fund (IMF) reckons that there are still considerable pressures and risks associated with the availability and price of sovereign borrowing. The markets are still distrustful of lending to several countries in the euro area.[10]

There are numerous reasons for the development of the sovereign debt crisis. Many countries did not take advantage early

[8] Constitutional Law Committee statement 25/2011, p. 3/II and Constitutional Law Committee statement 3/2012, p. 2/II.

[9] See particularly Constitutional Law Committee statement 5/2011.

[10] International Monetary Fund: Global Financial Stability Report, April 2012, available at www.imf.org/external/pubs/ft/gfsr/2012/01/pdf/text.pdf (page visited on 22 April 2012).

enough of the relatively good economic growth situation in the beginning of the 2000s to make reforms improving economic competitiveness and the sustainability of public finances. On the contrary, in some of the countries that are now in crisis or on the verge of crisis competitiveness has weakened. Governments in the euro area have become deeply indebted. In some of the countries that are in or on the verge of crisis lower interest rates resulting from the introduction of the euro led to intense private and public borrowing and growth in central government expenditure. Nor are the Economic and Monetary Union's agreements honoured. When financial and banking activities were integrated, supervision did not become supranational in a corresponding manner. Neither the European Central Bank nor any other actor had been given the role of a lender of last resort ensuring financial stability. The markets nevertheless operated under the tacit assumption that public authorities would ensure the financial system and the value of receivables.[11] In this situation the countries in the euro area took on contingent liabilities that are now materialising as actual commitments, for Finland among others.

Sovereign financial requirements are large. Sovereign borrowing and bank balance sheets have also become intensely interlinked. In this situation sovereign borrowing problems constitute a significant cause of instability for the real economy and its growth through the financial system and public demand. The European Union has strived to strengthen the coordination of economic policy and to improve the sustainability of public finances over the medium and long term. Structural reforms improving economic growth have been discussed, but adequate practical measures have so far been implemented only to a limited extent, particularly in large member states. Structural reforms take time before their results are visible in the improved position of public finances. Since sovereign debt in the euro area has not been brought under control through structural reforms, the situation remains uncertain. The debt crisis has tested the resilience of the common currency. Considering sovereign debt and problems regarding the sustainability of public finances, managing debt problems can be expected to continue in the euro area and the European Union for a long time. In the debt crisis the European Union has had to seek quick solutions in situations for which it has previously not made preparations on this scale.

The banking and financial sector has developed rapidly as a result of single market integration and globalisation, and a significant part of financial activities are now of a cross-border nature. Cross-border banking activities have become a channel for avoiding the financial crisis. It should be pointed out, however, that cross-border banking activities bring many social benefits and economic efficiency benefits and can balance regional disturbances. The interlinking of macroeconomic stability and the stability and sustainability of the financial system was not entirely foreseen.[12] The linkage between bank balance sheets and public finances strengthens public finances as one of the sources of macroeconomic stability risks and

[11] The International Monetary Fund presents its own evaluation of the reasons behind the debt crisis in the euro area, IMF World Economic Outlook, April 2012, Chapter 1, pp. 3–4.

[12] See for example Allen et al: Cross-Border Banking in Europe: Implications for Financial Stability and Macroeconomic Policies, Centre for Economic Policy Research (CEPR), London 2011.

a bearer of risks.[13] According to the IMF, reducing this linkage should be an important policy objective in the European Union.[14]

Arrangements ensuring the stability of the financial system were not built sufficiently in advance. One of the experiences of the financial and debt crisis is that a functioning monetary union requires the sufficient coordination of economic and fiscal policy – an economic union. And ensuring the stability and functioning of the financial system, even in situations in which there are market disturbances, requires arrangements at the level of the euro area and the European Union – a stability union. European Union law did not contain at the level of the Union's founding treaties or in the Union's secondary legislation provisions and regulations concerning the stability of the financial system as an objective of the Union or means and measures to ensure financial stability. The stability of the financial system as an objective of the Union is now set out in Article 136(3) of the Treaty on the Functioning of the European Union, which was added to the treaty by European Council Decision 2011/199/EU. With the crisis continuing in the European Union it has been necessary to build a stability system on a very rapid timetable, partly as a crisis management measure.

The foundation for financial stability is being created on the one hand with legislation and regulation concerning financial markets' activities and supervision and on the other hand with Union legislation concerning the steering of fiscal policy in the European Union and the euro area and related reporting. This regulation has developed rapidly, but its implementation and to some extent regulation itself is still under way.

A significant part of the financial stability system is the stabilisation funds that have been established in the European Union and the euro area. Borrowing through the European Financial Stabilisation Mechanism (EFSM) is guaranteed from the European Union's budget. The capital structure of the temporary stabilisation fund established by the member states in the euro area, the European Financial Stability Facility (EFSF), is very thin. Its access to financing and creditworthiness are based mainly on government guarantees that have been provided by the member states for the procurement of EFSF funds. The European Stability Mechanism (ESM), established by the member states in the euro area on the basis of Article 136(3) of the Treaty on the Functioning of the European Union through an intergovernmental agreement, is meant to be a permanent stabilisation fund.

The ESM has its own capital, consisting of 80 billion euros of paid-in capital and 620 billion euros of callable capital. Guarantees are not needed for the procurement of ESM funds; instead ESM's own capital serves as a security and a basis for its credit rating.[15]

Central banks' activities play an important role in the stabilisation system. The European Central Bank has not been given a direct role as a lender of last resort ensuring the stability of the financial system in the Treaty on the Functioning of the European Union. In practice the European Central Bank and the European central bank system, which consists of it and national central banks, have

[13] Attention has been drawn to the link between sovereign and bank risks in the euro area as a special matter of concern that requires political action in the OECD's evaluation of economics and economic policy in the euro area, see OECD Economic Survey: Euro Area, March 2012. OECD 2012.

[14] IMF World Economic Outlook, April 2012.

[15] Concerning the ESM treaty and the ESM's operating principles see Union Communication 27/2011 together with follow-ups as well as parliamentary committees' statements on the matter and Europe Communication 30/2012 on increasing the capacity of European stabilisation funds' firewalls. A consolidated version of the ESM treaty is available on the European Council's website at www.european-council.europa.eu/media/582911/14-tesm2.fi12.pdf (page visited on 10 April 2012). The approval of amendments to the ESM treaty and their entry into force in Finland will be considered by Parliament later in 2012.

assumed a significant role as a lender of last resort that ensures the stability of the financial system and performs related evaluations. The Finnish state's real liability position is thus influenced by the Eurosystem's Securities Market Programme, in which the ECB and national central banks have according to decisions made by the Governing Council of the ECB purchased bonds issued by member states in the euro area on secondary markets. The effect of the operation's volumes on the Eurosystem's balance sheet can be read on the Eurosystem's balance sheet, which is published weekly. The Bank of Finland is responsible for balance sheet risks associated with the Eurosystem, and the Parliamentary Supervisory Council supervises the Bank of Finland's activities and risks in this respect. The Government is responsible for preparing the general criteria and points of departure for risk management policy related to the Bank of Finland insofar as this concerns legislation regarding the Bank of Finland and the distribution of its profits and its balance sheet.

The activities of the International Monetary Fund (IMF) and any crisis financing provided through the IMF are likewise an important part of the system ensuring the financial stability of the euro area. The state's tasks having to do with IMF quotas are mainly carried out by the Bank of Finland. The Bank of Finland has taken care of quota subscriptions from its own funds, but in case of losses related to quotas the Bank of Finland has been given a government guarantee with Parliament's consent.

Risks, social benefits and alternative courses of action associated with the state's commitments must be evaluated against the background of arrangements ensuring financial stability as a whole.

The size of stability funds has been smaller than the estimated need. In crisis management the aim both in the European Union and in Finland on the basis of the Government Programme has been to keep support measures and states' liabilities to a minimum. One can think that this gives a strong signal to the markets that government is involved only to a limited extent in bearing credit and other risks associated with debts. The aim has thus been to avoid moral hazard. On the other hand the size of stability funds has been influenced by the difficulty to achieve a consensus required for unanimous decision-making. Consequently the dimensioning of stability funds has been smaller than the potential borrowing and other financial requirements of member states that are vulnerable to risk and their banks during the next two years. The OECD Economic Survey of the Euro Area that was published in March 2012 recommended a higher financing capacity for crisis funds based on calculations concerning the need for borrowing than what the Finnish Government in its setting of objectives considered justified for Finland and what the finance ministers in the euro area agreed on 30 March 2012.[16] According to the IMF's evaluation the need for bank support possibly financed partly from stability funds cannot be excluded. Bank balance sheets need to be strengthened without excessively restricting banks' lending.[17] Decisions to increase stability funds have been made successively so that previous decisions have not even been implemented before new crisis management decisions are made.

The above viewpoints should be taken into

[16] OECD Economic Survey: Euro Area, March 2012 compared to Europe Communication 30/2012 and the Euro Group's statement on 30 March 2012.

[17] IMF: World Economic Outlook, April 2012.

consideration in evaluating the activities of the Government and the Ministry of Finance as a provider of reliable information to Parliament. At issue are international and supranational arrangements in which the Finnish state's real influence is limited, despite the requirement of unanimity. In the activities of the European Union and the Euro Group key decision-making and preparatory documents also come quite late. The European Union's management of the debt and financial crisis has been marked by constant haste and repeated crisis decisions. This places national preparation and Parliament's participation in a very difficult situation.

In the crisis management situation the Union has adopted procedures that do not necessarily ensure high-quality and long-term preparation and that may weaken the implementation of democracy, the rule of law and the principles of good governance according to the Union's treaties as well as the legitimacy of the Union's activities.[18] The debt and financial crisis has also underlined the need to strengthen the Union's democratic legitimacy and the principles of good governance.[19]

5.3.3 Information in parliamentary documents as a basis for Parliament's decision-making

In financial stabilisation arrangements in the euro area the state's liability and risk position depends on several things. With regard to the EFSF interest and other financial costs have a significant effect on Finland's real liabilities and calculatory maximum liabilities. Interest costs depend on the maturity of the EFSF's fund procurement and interest rates. The amount of any future maximum liabilities and risks will also be affected by the shifting of a member state from a donor to a recipient of financial assistance. A member state receiving financial assistance does not participate in guaranteeing the procurement of funds that are used to finance its own assistance programme. The shift from a donor to a recipient does not change a member state's previously given guarantees. Liability risk is essentially influenced by the fund procurement strategy and operating models used by the EFSF. The Finnish state's risks are influenced prudentially by the collateral that Finland has received from Greece. In the permanent European Stability Mechanism (ESM) the state's liability and risk position is clearer than in the EFSF and the state's legal maximum liabilities are more precisely limited.

To obtain an overall picture of the state's liability and risk position and to evaluate the benefits and costs of stabilisation measures it would be useful to employ a systematic evaluation framework outlining measures' expected benefits and costs, taking into consideration interest and financing costs and classifying risks by type. It would also be reasonable to examine risks with quantitative and qualitative evaluations and to explain what measures are being taken to manage risks (risk management policy). The best possible estimate of risks is presented taking into

18 See also the Grand Committee's very critical statement (7/2011) regarding the Prime Minister's communication (90/2011) on preparations for the meeting of the heads of state of the euro countries and the meeting of the European Council on 8–9 December 2011, proposals concerning changes in the European Stability Mechanism (Union Communication 27/2011) and proposals to revise the European Union's treaties (Europe Communication 71/2011).

19 See also Grand Committee statement 10/2011 regarding the Government Communication on a treaty to strengthen economic union (Europe Communication 122/2011).

consideration available information. Types of risk from the viewpoint of information needed for decision-making would be credit risk, interest risk, market risk and other risk influencing the value and price of a bond or other financial instrument, liquidity risk and counterparty risk. The evaluation and examination of risks should provide the maker of a financial decision grounds for evaluating the nature and extent of different risks in sufficient scope for decision-making.[20]

Significant government proposals from the viewpoint of the state's commitments have concerned the approval and amendment of the framework agreement for the European Financial Stability Facility and amendments to the Act on Government Guarantees for the EFSF. In future a government proposal on the approval of the ESM treaty will be significant in this respect. Government proposal 31/2011 on the amendment of the Act on Government Guarantees for the EFSF and the amendment of the EFSF framework agreement was prepared hastily and remained rough in terms of content.[21] Furthermore the commentary may have given an erroneous picture of the content of the proposal and the amount of the state's liabilities. In particular the government proposal did not make clear whether interest and costs were included in guarantee liability. In its statement the Constitutional Law Committee considered it necessary to clarify the legal position in a suitable connection since the Act on Government Guarantees for the EFSF needs to be updated anyway. The Constitutional Law Committee called for special attention to be paid to the clarity and precision of regulation concerning the state's financial liabilities and noted that proposals' commentary should comprehensively explain the content of liabilities.[22] In the opinion of the National Audit Office a comprehensive explanation of the content of liabilities means the quantitative and qualitative examination of liabilities and associated risks.

Government proposal 150/2011, which Parliament approved in the second reading on 27 April 2012, contains a clarification of the legal position as called for by the Constitutional Law Committee. The government proposal clearly explains the content of the guarantee and over-guarantee as well as the effect of the change in the EFSF's fund procurement method and operational guidelines on risks. The evaluation of financial impacts also includes an examination of risks. The proposal does not contain an examination of benefits and alternative models as referred to in the guidelines for drafting government proposals and the guidelines for impact assessment. On 26 April 2012 the Government submitted a government proposal to Parliament on the approval of the agreement on the establishment of the European Stability Mechanism (ESM) and an Act to bring into force regulations in its legislative field (Government proposal 34/2012). The government proposal examines risks associated with crisis management instruments. The evaluation of economic impacts includes an estimate of the size of total risks from Finland's viewpoint. For timetable reasons it has not been possible to include in this separate report to Parliament an evaluation of the reliability of the information in the government proposal.

Parliament participates in the handling of government guarantees for the EFSF's

[20] These are also a requirement set by International Public Sector Accounting Standards for public sector financial statements, IPSAS 30. A similar requirement is contained in the International Financial Reporting Standards (IFRS), which concern listed companies.

[21] Government proposal to Parliament on the approval of an agreement amending the EFSF framework agreement between Belgium, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Cyprus, Luxembourg, Malta, the Netherlands, Austria, Portugal, Slovenia, Slovakia, Finland and the European Financial Stability Facility as well as an Act on the approval of regulations in its legislative field and an Act to amend section 2 of the Act on Government Guarantees for the European Financial Stability Facility.

[22] Constitutional Law Committee statement 14/2011 on Ministry of Finance communication 1/2011.

fund procurement in the consideration of EU matters as prescribed in sections 96 and 97 of the Constitution and in the Government statement procedure according to the Act on Government Guarantees for the EFSF. The commentaries to government proposals and the Report on the Final Central Government Accounts for 2011 have emphasised that the granting of a guarantee is always based on Parliament's consent. Politically this is true. Legally in the Government statement procedure according to the Act on Government Guarantees for the EFSF, Parliament decided only on confidence in the Government. Within the framework of the maximum guarantee authorisation granted in the Act on Government Guarantees for the EFSF the Government can decide on guarantees for the EFSF's fund procurement. The Government can also be considered to have the best preconditions to evaluate the risks and justifiability of each guarantee commitment from the viewpoint of Finland's interests and to evaluate the effects of guarantees on the Finnish state's ability to meet its legal obligations. The Government and Finland's representatives in EU and euro area organs have a duty to take into consideration the positions presented by Parliament in the procedures according to sections 96 and 97 of the Constitution.

Government statement 1/2012, which was submitted on the basis of the Act on Government Guarantees for the EFSF and concerned the second aid package for Greece, contains plenty of detailed information on the package and its financing and risks. Stability risks, risks that can be spread through the banking system, the weakening of Greek debt sustainability and the legal criteria for determining Finland's liability are properly elucidated.[23] The statement contains a description of the public sector's participation in Greece's debt restructuring and Finland's collateral arrangement. On the basis of the audit, the brief description of the collateral arrangement for the aid package for Greece in the statement does not contain essential errors. A more detailed description is available on the Ministry of Finance's website.

The Government has submitted numerous Union communications and Europe communications to Parliament, together with follow-ups. The aim in accordance with the Constitution has been to keep Parliament up to date and provide information on the management of the debt and financial crisis. The documents submitted to Parliament are generally in line with guidelines concerning cooperation between Parliament and the Government in EU matters. Memorandums include an evaluation of financial impacts and an examination of risks as required by guidelines, but these often remain quite narrow or with regard to impacts refer to previously submitted documents. According to guidelines, memorandums and follow-ups focus on a particular question in EU decision-making, in which case other documents must be examined to obtain an overall picture of financial impacts. In fast-paced EU crisis management decision-making the risk is that the overall picture will not become sufficiently clear. On the basis of documents it may also remain unclear to what extent previous decisions are still in effect in the changing situation. This applies, among other things, to the use of EFSF leverage after the Euro Group reached a decision in principle on 30 March 2012 on the expansion of stabilisation funds' financing capacity. For this reason overall

[23] Government statement to Parliament on the Greek state's debt restructuring and a government guarantee for the European Financial Stability Facility's fund procurement for lending to Greece.

examinations at regular intervals are needed.

Europe communication 30/2012 on increasing stabilisation funds' capacity clearly points out the effects of interest risk and stabilisation funds' changing borrowing on the Finnish state's liabilities. Union communication 27/2011 on the ESM treaty gives a proper account of Finland's maximum liability and the effects of decision-making procedures on Finland's formal position. The examination of real alternatives as well as benefits and costs, taking into account financing costs, is more sketchy. The communication and its follow-up memorandum emphasise Finland's stand and efforts to see that the ESM's capacity is limited to 500 million euros and that any decision to increase its financing capacity will be made separately. In fact the crisis in the euro area proceeded in late 2011 to a situation in which increasing the financing capacity of stabilisation funds became more and more timely. An evaluation of the adequacy of stabilisation funds' capacity as a precondition for the effectiveness of stabilisation measures is not included in impact evaluations. Europe communications 25/2012, 16/2012 and 99/2010 explain the effect of the change in the EFSF's operating method and fund procurement strategy on Finland's risks. To provide a better overall picture, in examining risks and risk management it would be prudent to employ a systematic framework in future.

Some Europe communications and Union communication follow-ups have been submitted to Parliament on a very urgent timetable. This is due to the way in which Union organs and the Euro Group's high-level working group, which has become important in crisis management, supply important documents at the last minute. In some respects the situation is due to the need for rapid decision-making required by crisis management. There is too little time for the sufficiently careful preparation of such important financial decision-making. The Government's Europe communication procedure is intended to provide Parliament information at the earliest possible stage, and in the opinion of the National Audit Office the procedure can be started before all the Union's documents are ready. The Government's attention should be drawn to informing Parliament at the earliest possible stage.

From the viewpoint of Finland's liability and risk position the implementation measures taken in the EFSF and the ESM are also important. Procedures for informing Parliament of these measures should also be established.

In the opinion of the National Audit Office, the Government and the Ministry of Finance have improved reporting and the evaluation of the Finnish state's liabilities and risks as part of Parliament's decision-making procedures. Government proposal 151/2011 and Europe communication 30/2012 contain reliable basic information, and on the basis of the audit there is no reason to question their correctness. Likewise Europe communication 99/2011 on the EFSF's operational plans and increasing capacity with leveraging contains a description of operational models and their risks. On the basis of the audit there is no reason to question the correctness of this description. In order to provide an overall picture of liabilities and associated risks, it would be prudent to employ a systematic evaluation framework. To improve the preconditions for Parliament's financial decision-making it is also necessary to develop the examination of alternative operating models and scenarios and the presentation of overall benefits and costs according to guidelines for evaluating impacts.

5.3.4 The Report on the Final Central Government Accounts and the final central government accounts for 2011

In fiscal policy audit report 4/2012 Commitments to the euro area's financial stability arrangements – information on the binding character and riskiness of exposures in the Report on the Final Central Government Accounts, the National Audit Office evaluated whether current guidelines provide preconditions for the provision of a true and fair view of the state's commitments and associated risks in reporting. The audit report presented several recommendations. It particularly emphasised the need to make a distinction between calculatory maximum liabilities according to framework agreements concerning the EFSF and the ESM and real, legal commitments and particularly real guarantee liabilities for the EFSF's fund procurement. In evaluating the Finnish state's possibilities to meet its obligations under the Constitution, real commitments that have been made are decisive. Evaluating real and contingent maximum liabilities and associated risks according to the framework agreement and the ESM treaty is important for the state's risk management in order to obtain a picture of what financial consequences for the state economy possible weaker development in stabilising the euro area could have. The Ministry of Finance has changed the way in which liabilities are presented in the final central government accounts for 2011 and Note 12 according to the recommendations presented in the National Audit Office's fiscal policy audit.

A description of the state's commitments is included in Note 12 of the final central government accounts. According to Note 12 in the Report on the Final Central Government Accounts for 2011 government guarantees and pledges totalled 10.9 billion euros at the end of 2011. According to the tables in section 3.3. of the Report on the Final Central Government Accounts, commitments and liabilities resulting from stabilisation arrangements in the EU and the euro area total 5.7 billion euros. This estimate also include's Finland calculated shares of the IMF's, the EFSF's and the EU's balance of payments assistance. The tables in Note 12 present the Finnish state's real guarantee liability associated with each aid decision. Section 3.3. of the Report on the Final Central Government Accounts contains a very clear and comprehensive description of the Finnish state's financial commitments and liabilities related to the crisis in the euro area. Guarantee commitments given to the EFSF's fund procurement have been itemised and presented in table form. The table shows how the liabilities associated with the aid packages for Ireland and Portugal presented in Note 12 are formed.

The description in section 3.3. of the Report on the Final Central Government Accounts concerning support for the euro area and the state's liabilities is based in many respects on the situation at the end of November 2011 and the report that was submitted to Parliament by the Ministry of Finance on 13 December 2011. It would have been more logical and in line with general principles concerning final account analysis to update the examination to the situation at the end of the year and the state's balance sheet. The Ministry of Finance has the capability to produce up-to-date information, since in any case it updates the amount of liabilities associated with supporting the euro area. For example the situation in March 2012 was published in a memorandum on the ministry's website on 24 April 2012.

Several places in the Report on the Final

Central Government Accounts draw attention to risks associated with the Finnish state's liabilities qualitatively and to some extent quantitatively. However, the examination does not contain a systematic framework with quantitative and qualitative analyses as recommended in international standards, as mentioned in section 5.3.1 of this report. The Report on the Final Central Government Accounts does not include vulnerability assessments if the crisis in the euro area continues or spreads. In the light of international accounting standards such vulnerability assessments would be recommendable and justified for the state's risk management. On the other hand very detailed vulnerability and risk analyses presented in public documents can give the markets signals that weaken the credibility of crisis management.[24]

The description in the Report on the Final Central Government Accounts covers basic matters regarding the state's risks, but it does not include sufficient information regarding the effects of the state's liabilities and their possible materialisation on the Finnish state's possibilities to meet its obligations under the Constitution in the way referred to by the Constitutional Law Committee. This kind of analysis should be presented to Parliament separately for its financial decision-making. The government proposal on the approval of the ESM treaty that was submitted to Parliament on 26 April 2012 includes this kind of analysis (Government proposal 34/2012).

The Report on the Final Central Government Accounts briefly goes over Finland's collateral arrangement in connection with the aid package for Greece. The report does not contain an evaluation of what share of Finland's liabilities have been covered with collateral, but this is apparent in Government statement 1/2012, for instance. A description of the main features and implementation of Finland's collateral arrangements in connection with the aid package for Greece is available on the Ministry of Finance's website. This is therefore not included in the Report on the Final Central Government Accounts.

The Report on the Final Central Government Accounts describes Finland's increased credit risk associated with Finland's loan receivables from Greece. In the state's bookkeeping and final accounts loan receivables have been evaluated at their face value with regard to capital, which means that write-downs have not been made. On the basis of section 66 c (1) of the State Budget Decree, loan receivables should be recorded in the final accounts at their face value, but not in excess of their probable value. The National Audit Office notes that the entries in the final central government accounts contain signal value in a way that is significantly different from final accounts in the private sector. Government statement 1/2012 explained to Parliament that the second aid package for Greece also included public sector creditors' debt restructuring, in which debts were exchanged for bonds with a longer maturity and lower interest rate. On the basis of information received in the audit, Finland has received interest rates according to agreements. Public sector loan receivables have in fact been treated differently from private sector receivables in the restructuring of Greek debt. Loan subsidies provided by states do not have corresponding markets that would describe directly the value of loan receivables. Consequently the National Audit Office does not have objections to the evaluations

[24] In its feedback on this separate report the Ministry of Finance notes that the partial application of international accounting standards cannot result in a consistent end result and that the need to reform the final central government accounts should be evaluated as a whole.

presented in the final central government accounts. As supplementary information from the external auditor the National Audit Office again draws attention to an expert evaluation made within the sphere of the IMF according to which Greece's debt sustainability is very vulnerable to delays in the results of structural reforms that are a condition in the new aid package or to unfavourable external conditions.[25] The debt sustainability risk associated with loan receivables and resulting increased credit risk should have been explained more clearly in order to provide a correct picture.

On the basis of the audit the National Audit Office notes that the information in the final central government accounts and the Report on the Final Central Government Accounts concerning the state's liabilities and associated risks does not contain essential errors. The Report on the Final Central Government Accounts does not include an overall evaluation of the effects of the state's liabilities and associated risks on the state's ability to meet its legal obligations. The examination and analysis of risks in the Report on the Final Central Government Accounts should be improved.

[25] See IMF: Transcript of the Euro Crisis Seminar, 20 April 2012, available at www.imf.org/external/np/tr/2012/tr042112b.htm and IMF European Department Seminar Presentation, available at www.imf.org/external/np/tr/2012/pdfs/042112.pdf (pages visited on 23 April 2012). A more official IMF expert evaluation is included in IMF Country Report No 12/57, Greece: Request for Extended Arrangement Under the Extended Fund Facility-Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Greece. Available at www.imf.org/external/pubs/ft/scr/2012/cr1257.pdf (page visited on 23 April 2012).

5.4 Information concerning central government debt and debt management

Central government debt and debt management are examined particularly from the viewpoint of whether a true and fair view is presented in final central government accounts reporting. Central government debt management refers to the measures that are taken by central government with regard to long-term and current debt. Debt management thus covers central government debt and cash management as well as related operations and risks. The strategic objective of central government debt management is to satisfy borrowing requirements and to minimise the long-term costs of borrowing at an acceptable risk level.

Central government debt increased in 2011, with 4.5 billion euros of new borrowing in net terms. Central government debt rose to about 79.7 billion euros in 2011. Interest costs on central government debt came to about 1.9 billion euros in 2011. In spite of adjustment measures the amount of central government debt will rise nominally over the medium term, since state budgets will remain in deficit throughout the electoral term. Growth in the central government debt ratio is expected to slow during the spending limits period and to turn slightly downwards in 2016.

Financial stabilisation arrangements in the euro area will increase central government debt. According to a decision made by Eurostat, debt incurred by the EFSF will be recorded as part of the debt of countries that have granted guarantees. This is in spite of the fact that it involves a guarantee that does not result in the need for borrowing in the state budget. Liabilities resulting from guarantees will be recorded in the debt of countries that have granted guarantees when the EFSF actually grants a loan to crisis countries. Eurostat will inform guarantor countries of the correct debt share. This will ensure that debts and receivables are recorded uniformly in the euro countries. In 2011 312 million euros was recorded in Finland's public debt on loans that the EFSF has granted to Ireland and Portugal. When the European Stability Mechanism (ESM) goes into operation in July 2012 the Finnish state's debt will increase by 1.44 billion euros as a result of the payment of its capital share. Thus stabilisation arrangements have not significantly increased Finland's debt burden up to now. It should be pointed out, however, that the materialisation of guarantee commitments in full would significantly increase Finland's debt.

The Report on the Final Central Government Accounts has presented the development of the state's debt position and the strategic objectives of debt management and has evaluated the effectiveness of the management of the active interest risk position. An estimate of the cumulative result of the active interest risk position in 2001–2011 is about 1.8 billion euros according to the Report on the Final Central Government Accounts. In other words, without the management of the interest risk position, interest costs on central government debt would have been higher by this amount. In the opinion of the National Audit Office, information concerning central government debt management provides a true and fair view of central government debt and related risks. In evaluating debt management risks attention should, however, be paid to maintaining Finland's credit rating and possibility to implement an effective debt management strategy.

The Finnish state presently has the best possible rating from three rating agencies, although one of these has placed Finland's credit rating under monitoring so that it may fall in the near future. In addition to its relative credit rating position it is very important for the Finnish state to maintain the best possible credit rating in the future. Maintaining this rating will influence interest and debt management costs, but above all will ensure broad possibilities to procure funds. With central government debt and interest costs on the rise and particularly owing to uncertainties related to the international economic operating environment, it is very important for commitment to the responsible management of public finances to support the maintenance of the Finnish state's credit rating on the best possible level.

The budget covering requirement has been interpreted in such a way that a loan included in the budget has been withdrawn in full even when this would not have been necessary for liquidity. Debt management procedures owing to the application of section 84 of the Constitution and the budget covering requirement resulting in unnecessary extra costs were ended in 2011, so that net borrowing was about 1.7 billion euros less than state budgets approved by Parliament would have required. In this respect reduced borrowing in comparison with the budgets approved by Parliament is not a consequence of the better than expected development of central government finances.

Section 84 of the Constitution and the budget covering requirement have previously been applied in central government debt management in such a way that the state budget has always been covered with borrowing even if the state would have had liquid funds from appropriations to take care of subsequent payments. As a result the state has increased debt more than liquidity would have required, which has led to debt management procedures that have resulted in unnecessary costs.

When it considered the National Audit Office's report (R 15/2008) Parliament called for the Government to provide Parliament an account of development policy lines for the state's cash management and the need to amend legislation regarding the budget and budget principles (Parliamentary communication 21/2008 – R 15/2008). When a government proposal (158/2010) to amend section 84 of the Constitution lapsed in the Constitutional Law Committee at the end of the electoral term, the Constitutional Law Committee was asked to take a position on the interpretation of the budget covering requirement prescribed in the Constitution. In its statement (4/2011 – R 12/2011) the Constitutional Law Committee took the position that the budget covering requirement in section 84 (2) of the Constitution applies expressly to Parliament when it decides on the content of the budget and that the budget covering requirement does not call for the withdrawal of a budgeted loan in full if withdrawing a loan is not necessary for liquidity. In its report (1/2011) the Audit Committee called for the Government to take the necessary measures to end borrowing in excess of liquidity needs.

After the Constitutional Law Committee's statement and the Audit Committee's report the State Treasury changed the application practice for section 84 of the Constitution in central government debt and cash management during 2011 so that borrowing in excess of liquidity needs based on the budget covering requirement ended. The Report on the Final Central Government Accounts says that net borrowing was about 1.7 billion euros less than state budgets approved by Parliament would have required.

Ensuring central government debt management, risk management and liquidity are critical functions. In the opinion of the National Audit Office, providing adequate resources for and developing these functions and operational risk management should be ensured.

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