

Conclusions of the National Audit Office

Total central government balance sheet

Management of and reporting on central government assets, debts and liabilities are on a fragmented basis and it is difficult to have a clear view of the overall financial position of the central government. A total central government balance sheet or consolidated balance sheet could give a more comprehensive picture of the situation than on-budget entities.

The aim of the audit was to determine how reporting based on total or consolidated balance sheet has been developed and how the need to keep Parliament up to date and the international recommendations concerning this information-provision process have been taken into account in the work.

Government's annual report does not provide a sufficiently comprehensive picture of central government financial position

Under the State Budget Act, the Government's annual report must give true and fair information on such matters as the financial position of the central government. The Government's annual report describes the assets, debts and liabilities of the central government. However, the information is provided in a fragmented manner and on the basis of the figures presented in the report it is impossible to form an overall picture of the financial position of the central government.

The overview of central government risks and liabilities, published by the Ministry of Finance, provides a more transparent and concise picture of the central government financial position than the Government's annual report.

There has been little progress in the efforts to develop reporting based on total central government balance sheet

In 2009 and 2010, the Ministry of Finance appointed three working groups to examine how to develop reporting based on consolidated central government balance sheet and balance sheet management. The recommendations concerning consolidated balance sheet and balance sheet management presented by the working groups have not been implemented. According to the audit findings, there have been two reasons why no further consideration has been given to the recommendations put forward by the working groups. Firstly, the State Budget Act has been interpreted so that it does not require the inclusion of the total balance sheet or consolidated balance sheet in the annual report. The usefulness of the consolidated balance sheet has been questioned and the view has been that its benefits in relation to the required workload are too small. It has been suggested that the objectives set for consolidated balance sheet (including the steering of central government with the help of the balance sheet) are not entirely realistic.

Efforts to develop reporting based on total balance sheet should continue

The National Audit Office is of the view that a total balance sheet would make it easier to produce an overview of the central government financial position and to make the overview more transparent. At the

same time, however, it is also important to itemise different types of liabilities and to assess the risks associated with them. The recent reports of the Ministry of Finance on central government liabilities and the risks associated with them, published in 2015, are a step in the right direction. The current Ministry of Finance development projects aimed at developing reporting based on total balance sheet and monitoring of off-balance-sheet liabilities are also a positive signal. In the view of the National Audit Office, the efforts to develop reporting based on total central government balance sheet should continue.

International recommendations support reporting based on total balance sheet

The OECD and IMF have issued recommendations on how states should report on their financial position. According to the recommendations, reporting on central government financial position should be based on total balance sheet and consolidated balance sheet so that all assets, debts and liabilities are presented in a comprehensive, open and transparent manner.

Finnish Parliament has proposed that, in addition to adopting the total balance sheet approach, the State of Finland should also report on its liabilities in a comprehensive and correctly timed manner. There have also been suggestions in Parliament that funds should be included in on-budget entities and calls for better reporting on special assignment companies.

The National Audit Office is of the view that these suggestions should be seriously considered. The total balance sheet or consolidated balance sheet will only provide a comprehensive picture of the central government financial position if the reporting is transparent. For example, the content of calculations should be detailed, while debts and liabilities should be explained in words and not just in numbers.

Reporting on funds and company ownerships is not transparent

Efforts to include funds in on-budget entities have not made any progress even though the allocation of tax revenue is not in accordance with budget principles. Traditionally, the fund model has been justified by stating that it allows the Government to react rapidly to unforeseen situations. However, net budgeting of on-budget entities would provide a certain degree of flexibility in such situations if funds were included in on-budget entities. In its earlier opinions, the National Audit Office has recommended that the funds should be included in the spending limits system.

The National Audit Office is of the view that there has been a slight improvement in the reporting on state ownership in companies in recent years. However, it is impossible to form an analytical overview of the financial position of the state-owned companies on the basis of Government's annual report. The focus in the analysis is on individual companies but there are no overall conclusions.

Recommendations of the National Audit Office

Based on the audit, the National Audit Office issues the following recommendations:

1. Efforts to produce a total central government balance sheet should continue so that there can be a comprehensive picture of the central government financial position. In the development work, consideration should be given to both costs and benefits. For example, a balance sheet combining on-budget entities, funds and state-owned enterprises would describe the financial position of the “core central government”.
2. Reporting on state ownerships in companies should be on a more unified basis so that there can be a clearer overall picture of the financial position of state-owned companies.
3. The Government should, in Appendix 7 to the final central government accounts, present the estimated total market value of the
4. Shares in non-listed companies (fair value). In that case, the notes would provide a more accurate picture of the total value of the state-owned shares.
5. The description of the central government financial position contained in the Government’s annual report should be improved. All central government assets, debts and liabilities should be openly and transparently presented.
6. Inclusion of funds in the spending limits system should be systematically promoted.