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

Information on commitments that are not included in the state's balance sheet (government guarantees, pledges and other commitments) is presented in Note 12 in the Report on the Final Central Government Accounts. The amount of commitments presented in the note in the Report on the Final Central Government Accounts for 2010 rose by 9,859 million euros as a result of the euro area's financial stability arrangements, with guarantees and pledges totalling 17,210 million euros. If these commitments fall due for payment, they will have to be financed out of the state budget.

The state's commitments can have budget impacts for years to come or can tie budget funds years from now. Consequently, in addition to the usefulness of the Report on the Final Central Government Accounts, Parliament's fiscal power can be considered to require that reporting should indicate the amount of liabilities that the state has actually taken on. The point of departure in the audit was to determine whether current reporting practice provides a true and fair view of the state's commitments as well as risks related to their materialisation.

The audit focused on reporting concerning financial liabilities incurred by the Finnish state as a result of the euro area's financial stability arrangements in the Report on the Final Central Government Accounts. The main question was: Does Note 12 in the Report on the Final Central Government Accounts provide a true and fair view of the risks and binding character of exposures?

The main question was supplemented by the following subquestions:

1. Do current guidelines provide preconditions for the provision of true and fair information in reporting?
2. Are practices based on international standards that ensure the transparency of liabilities and resulting costs and a true and fair view of the

development of the state's financial position followed in budgeting funds related to the materialisation of commitments in Note 12 or activating them in the balance sheet?

The audit sought to determine how applicable current guidelines are in a changing operating environment. The evaluation was based on an analysis of implemented practices and interviews. The International Financial Reporting Standards (IFRS) were used as audit criteria. The audit was conducted by comparing official guidelines and implemented booking practices with the reporting recommendations in international standards. Guidelines' preconditions to guide the reporting of true and fair information was evaluated by examining actual reporting in relation to international standards.

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

In the opinion of the National Audit Office, the case of the EFSF shows that numerical data alone are not enough to provide true and fair information on the size and binding character of complicated financial liabilities. The content of verbal information and the way in which it is presented should support information that is provided in table form, for example by describing the nature and binding character of exposures in a standardised way.

The text in the Report on the Final Central Government Accounts lacks a standardised description of risks, risk management principles, objectives and measuring methods as well as possible changes in them compared to the previous reporting period. The National Audit Office supports making risk management principles in the Report on the Final Central Government Accounts transparent insofar as this is possible.

Note 12 alone does not provide a true and fair view of the riskiness and binding character of extremely complicated exposures; instead a verbal description is also needed in the text portion of the Report on the Final Central Government Accounts. Presenting information in verbal form is necessary at least whenever the size of a liability cannot be determined unambiguously or a numerical presentation in table form by itself does not provide an adequate picture of the complexity of a liability.