

Main findings and opinions of the National Audit Office

Steering system in the administrative sector of the Ministry of Finance

The audit covered the practices, procedures and systems applied by the management of the administrative sector used for steering the operations. The main question on which the audit focused was the following: To what extent is the steering system in the administrative sector capable of ensuring adequate performance and accountability? In accordance with the model used by the National Audit Office, the audit focused on planning, management and reporting and accounting and assessment supporting them and internal control.

There are significant differences between the administrative sector of the Ministry of Finance and other administrative sectors. The ministry's departments and the agencies of the administrative sector are powerful actors, which perform their tasks in an independent manner. This often occurs without adequate coordination and cooperation with other actors in the administrative sector. Such an operating culture is not a good basis for steering operations at administrative sector level.

Developing the strategy used as a basis for steering at administrative sector level still requires additional inputs

The administrative sector no longer applies the operational and financial planning procedure. In 2012 it was replaced with strategy documents involving the ministry and a number of different actors, which are in effect for one government term, and multi-year performance target documents connected with them. Based on the comparisons between the contents of the administrative sector's budget proposal, supplementary budgets, state budget proposal and budgetary outturn statements and spending limits decisions, there is no reason to question compliance with the administrative sector's financial planning or budgets. Financial planning is technically connected with the performance guidance process, which means that the planning documents contain the statutory performance targets, spending limits and multi-year targets.

Strategy work in the administrative sector has progressed considerably over the last few decades. The administrative sector has a large number of

strategies formulated on different bases. Their form or role is not well-established, which makes it more difficult to apply the strategies in the actual steering of operations.

The Ministry of Finance prepares its own strategy, which is based on the Government Programme, Government Programme implementation plan and a four-year budget framework. The strategy is expected to serve as the most important strategy document for the entire administrative sector. The aim of the strategy process is also to incorporate the targets and measures laid out in the Government Programme in the administrative sector's practices. However, in the current strategy document the focus of these targets is on the ministry itself and it is not clear from the steering documents how the strategy is used as an instrument for steering the administrative sector as a whole. The problem is that the main purpose of the strategy is to implement the Government Programme and for this reason there is little attention to the basic functions of the administrative sector and the steering of the sector. The performance agreements of the agencies are mainly based on their own strategies and there is no clear link between the targets and higher-level strategies.

Even though, officially, the ministry attaches great importance to its strategy document, audit observations indicate that strategic planning or management do not play a central role in the ministry. Despite the strategy, the ministry's departments operate on a sectoral basis and rely on their own role as experts. There is little comprehensive steering in the administrative sector even though the nominal aim of the strategy document is to promote such approach. Even though the strategies play a role in performance guidance, they do not have much in common with other areas of management. Instead of presenting genuine strategic choices, the ministry's strategy resembles a catalogue of measures under consideration. Because the indicators are inadequate it is difficult to assess how well the strategy has been implemented and whether the necessary accountability requirements have been met.

The setting of budgetary targets is an insufficient basis for steering and management at administrative sector level

The effectiveness targets laid out for the administrative sector of the Ministry of Finance by the Government are long-term targets and it is difficult to determine whether they can be achieved. The targets are of general nature and as such they do not only apply to the Ministry of Finance but rather to the Government as a whole. The actor (Ministry of Finance) may only play a limited role concerning any changes in the process. In terms

of management and monitoring, the targets cannot be considered workable and they are not sufficiently effective as concrete steering tools.

In the main title, the effectiveness and performance targets of the administrative sector are divided unevenly: most of the effectiveness targets only applied to one function and most functions had not been given any effectiveness targets. Less than one third of all items had been given performance targets. The number of targets was high. There are very few indicators in the rationale of the main title.

The numerical effectiveness targets laid out in the budget are not sufficiently clear from the performance guidance documents of all actors. Some of the actors describe target-related activities in their performance guidance documents but fail to present any targets. There are also differences concerning the stated performance targets and personnel targets between the performance guidance documents of the administrative sector.

The large number of different numerical effectiveness targets and the lack of indicators suggest that the activities are not adequately prioritised. It is difficult to see any connection between numerical effectiveness targets and targets at main title level because the targets at main title level are of very general nature and the link is not clearly defined in the budget. Few of the numerical effectiveness targets can actually be considered as targets because most of them are of general nature and describe activities, functions or a state of affairs. The same can be said about the stated performance targets. The targets should be concretised by describing the methods that will help to achieve them and it should also be possible to measure the achievement of the targets. The parties responsible for the achievement of the targets should also be clearly defined.

The personnel targets are also unevenly divided between the items. A large number of targets are presented under different headings, which makes comparisons between targets and an overall assessment of the administrative sector's personnel targets difficult. It seems that there has been no overall assessment of the personnel targets in the administrative sector, which can be considered a shortcoming in terms of target-setting, achievement of the targets and management. The targets should also be considered in the actors' performance guidance documents.

There have been improvements in the practical implementation of performance guidance in the last few years

The task-specific organisation of the administrative sector is not optimal as regards performance guidance. The ministry's organisation is not oriented towards operating its administrative sector as the line organisation mainly exists for the purpose of performing the ministry's own tasks. In

their main tasks, the ministry's traditional departments focus on areas outside the administration coming under them. Moreover, in each department there is usually only one person that is responsible for an agency's performance guidance process. This creates the risk of narrow managerial substance competence lacking adequate resources.

The management groups of the ministry are now able to focus on their tasks better than before. This provides a better basis for examining issues concerning the steering of the administrative sector as a whole. The Permanent Secretary does not have any staff that would ensure the knowledge basis and appropriate preparation of decisions. In recent years, Administrative Governance and Development has been responsible for the technical preparation and implementation of performance guidance. This arrangement has opened up new opportunities to consider issues pertaining to the administrative sector as a whole at the ministry's highest decision-making level.

The current organisation of the administrative sector involves steering and management risks. However, they do not prevent the administrative sector from being steered or managed in a manner that ensures high operational performance.

The performance guidance process has been extensively developed during the past few years. Previously, the content of the performance guidance of the agencies in the administrative sector was strongly determined by their own development prerequisites. There were substantial differences in the operating practices and guidance approaches between the ministry's departments. There were also significant differences in the content of the performance guidance documents and the setting and form of the practical targets. The issue of performance guidance was not approached from administrative sector level. Administrative Governance and Development has assumed a more central role in the management, development and coordination of performance guidance in the administrative sector. In performance guidance and performance negotiations, the ministry's departments are responsible for the substantive matters of the administration coming under them.

The essential success factor of appropriate performance guidance is the quality of the performance targets. Determining of the societal impacts involves substantial challenges. Because of an inadequate set of targets, it is not possible to manage and develop productivity and economic efficiency at administrative sector level. The audit findings suggest that there are no structures in which the implementation of the strategic targets in the administrative sector would be transferred in the performance agreements of the administration coming under it.

The administrative sector does not have any unified strategy forming the basis of its management procedures. This means that performance management is not on a multi-year basis, which is a major shortcoming. During the interviews it became clear that a unified strategic basis for the coming government term is in the process of being built. The aim is to construct a new strategy for the administrative sector that would also form a basis for the targets laid out in the sector's budget and in the performance agreements between the ministry and its agencies.

Many of the persons in charge of the ministry's departments were of the view that performance guidance is not the right way to steer central government agencies. Direction and steering of the resources in the administrative sector is to a large extent on a problem-oriented basis and are outside the performance guidance procedure currently in use. The existing management team approach in the ministry was not seen as an important means of coordinating resources in the administrative sector or a major tool for active performance guidance. Thus, it seems that in the administrative sector of the Ministry of Finance, performance guidance is primarily an instrument for planning, verifying and monitoring operations.

Somebody must be in charge of law-drafting

The Ministry of Finance is the most important law-drafting ministry, both in terms of the number of government proposals and their economic importance. In the ministry, by far the largest number of legislative proposals comes from the Tax Department.

The Ministry of Finance does not have any unified structure for the management of law-drafting as the departments and units are independent actors in the drafting process. The senior management of the ministry does not systematically monitor legislative projects during the drafting process and the ministry does not have internal quality assessment mechanisms. In the audit it proved difficult to form an overview of the law-drafting process in the Ministry of Finance.

The strength of the impact assessment is that they often examine the economic effects on a quantitative basis and that especially the changes in tax revenue are well presented. Alternative regulative instruments were only cursorily assessed.

Performance of the administrative sector is not clear from the reporting

On 30 April 2014, the Government submitted to the Parliament the 2013 report on its activities, management of central government finances and

adherence to the state budget and on the measures that the Government has taken on account of the decision of Parliament. The section of the annual report describing the performance of the Ministry of Finance shows, in table format, how well the effectiveness targets set out in the rationale of the main title of the state budget have been achieved. In this respect, the reporting is on a clear basis as it is directly linked with the targets.

In addition to the tables, the performance section of the report also discusses the responsibilities and tasks of the Ministry of Finance at general level under a number of headings. In this respect, the reporting is not directly linked with the targets and no information of the achievement of the targets is given, which makes these sections of the report rather obscure.

The reporting on the effectiveness, performance and personnel targets laid out for the administrative sector of the Ministry of Finance in the state budget in the Government's annual report cannot be considered of particularly high quality. The Government's annual report discusses the operations coming under the effectiveness targets in a general manner but does not contain any reporting on the targets themselves. A number of actors are ignored altogether or the reporting on them is not particularly relevant concerning the targets. The report also describes what has been done during the year but fails to assess the effectiveness of the measures. Some of the effectiveness, performance and personnel targets are not reported at all. It is difficult to assess the achievement of the targets on the basis of the reporting. In this respect, Parliament is also inadequately informed.

In the annual reports and reports on operations issued by the actors in the administrative sector, the targets are also inadequately covered and some of the targets are completely ignored. For some of the actors, the reports describe activities that are relevant to the targets set out for the actors but fail to provide any information on the targets. The link with the targets is not clearly described, which means that it is difficult to assess the achievement of the target. Most of numerical performance targets are described in the annual reports or reports on operations of the actors but the documents contain no details of the stated targets. Inadequate reporting makes it more difficult to monitor and assess the effectiveness and performance of the operations. Some of the targets are mentioned in Netra but there is little information about the manner in which they have been implemented.

Recommendations of the National Audit Office

1. The steering in the administrative sector should be based on a comprehensive strategy. The content of the main title of the administra-

tive sector in the state budget proposal and the targets of the sector's actors should be based on the ministry's strategic choices.

2. The setting of the targets concerning the effectiveness and performance of the administrative sector should be clarified. It should be clear from the targets laid out for the actors in the administrative sector how they are connected with higher-level targets. The targets should also be set so that it is possible to measure and monitor their implementation. The parties responsible for the achievement of the targets should also be clearly defined.
3. When the strategy and other steering documents of the administrative sector are updated, options for an optimal organisational structure should be considered and the choice made should be justified. This would reduce any steering-related uncertainty among current and future actors in the administrative sector.
4. In order to enable appropriate overall steering of the administrative sector, the performance targets and active performance guidance of the actors at unit and team level should be developed so that it can better serve the achievement of the higher-level targets.
5. If necessary, departments and units should cooperate and exchange information on good law-drafting practices. Using specific criteria, ex post assessment of legislative changes should focus on the most important amendments. It should be easier to find the current requests for opinions on the ministry's website.
6. Effectiveness assessment should, within the available resources, be a systematic part of the steering in the administrative sector and it should be clearly linked with the setting of the targets. It is not always possible to describe performance using simple indicators.
7. The reporting of the targets set out in the state budget and their achievement in the Government's annual report and in the annual reports and reports on operations issued by the actors in the administrative sector should be developed so that the reports will clearly describe the targets set and how well they have been achieved. The targets and the manner in which they have been achieved should also be comprehensively reported in Netra.