

Central government liabilities - presentation and consideration in planning and monitoring documents

In individual budgets an increasingly common practice is to tie appropriations to long-term commitments. For example, projects based on authorizations or co-financed with private funds can increase liabilities in the coming years. A significant part of liabilities are undertaken outside the budget process, however.

Knowledge of the real amount, nature and timing of liabilities should be the basic starting point for financial decision-making. Reliable information is important when liabilities are undertaken, since new forms of financing can weaken the transparency of central government finances and financial management. A good information base is also important to ensure that new procedures do not result in unsound and cost-inefficient solutions.

It is vitally important for the implementation of good governance and financial management that decision-making concerning the allocation of central government resources and timing are based on a true and fair view of the current state of finances, including liabilities that must be paid off in the coming years. Furthermore, to ensure transparency, information from which one can form a true picture of future liabilities must be available.

The audit focused on the attention paid to liabilities that will be or may be financed from the state budget in the coming years in the state budget process and in the Report on the Final Central Government Accounts.

The main question was whether central government liabilities receive attention in a proper and transparent way in financial planning, decision-making and monitoring.

Key data included the sections of the Report on the Final Central Government Accounts, budget proposals and spending limits decisions concerning liabilities in fiscal years 2007-2010.

On the basis of the audit, the answer to the main question is that liabilities as a whole are not presented properly as a basis for deci-

sion-making and taken into consideration in financial decision-making and monitoring at the highest level. A true picture of liabilities as a whole cannot be obtained from the commentary to the state budget or from the Report on the Final Central Government Accounts. Judging from the content of the documents that were examined in the audit, liabilities and the development of net assets are not considered transparently and properly in financial planning and decision-making.

The audit found that the most important financial planning and monitoring documents do not systematically examine the broadly defined content of liabilities as a whole. Individual liabilities are dealt with as part of the economic survey or in presenting forecasts. Central government liabilities are not described in a way that would allow the formation of a proper picture of their size and possible impacts in the coming years, however. The audit was unable to find any overall examination of central government liabilities or even a catalogue of liabilities.

Reporting on state guarantees and securities as well as certain other commitments complies with current guidelines. Reporting does not include any evaluation of the real liabilities that could materialize as a result of guarantees and securities, however. The state budget proposal fails to discuss these liabilities. Reporting on authorizations and the use of authorizations is quite detailed, but it takes something of an expert to locate reporting on authorizations in the second volume of the Report on the Final Central Government Accounts, which contains financial statements.

According to observations made by the National Audit Office's Financial Audit unit, the information on liabilities that has been presented in the Report on the Final Central Government Accounts has repeatedly proved incomplete. The Government financial controller's function has also pointed out that information concerning multiannual contract liabilities does not present a true and fair view.

The National Audit Office considers that shortcomings in the reliability of the information that is presented in the Report on the Final Central Government Accounts concerning liabilities should be corrected by developing guidelines and eliminating differences in the application of guidelines together with producers of basic data. Furthermore, the liabilities discussed in the Report on the Final Central Government Accounts should be properly broken down

according to the categories used in the general commentary to the budget proposal. The budget proposal should also indicate the total amount of authorizations and their breakdown by type of liability.

The National Audit Office considers that liabilities as a whole should be presented systematically each year in the justifications for key financial decisions and in descriptions of the current state of finances in monitoring documents. Preparing the necessary descriptions could promote the formation of an electronic databank in which central government liabilities would be listed, broken down into categories and evaluated in money terms. It would also be useful to describe the breakdown of liabilities in the coming years and to examine liabilities in relation to economic indicators or estimates of budget spending limits in the coming years.