

Conclusions and recommendations of the National Audit Office

State funding for universities

A key issue in terms of the steering of universities by the Ministry of Education and Culture and interpretations on the financial status of universities is the contents of the universities' balance sheet items being comparable. Comparability of information on the financial status of universities improved in 2017, because the Ministry of Education and Culture issued a regulation (OKM/33/210/2017) on investment assets to be entered in fixed assets on 9 October 2017.

Most of the funding for the universities is core funding from the state. In 2017, the core funding amounted to EUR 1.8 billion. The Academy of Finland funded the universities with EUR 0.3 billion and the Finnish Funding Agency for Technology (Tekes) with EUR 0.12 billion in 2017.

Compared to the goals set by the Government in the university reform (liquidity indicator 1.5 and equity ratio 60%), the financial status of the universities has been very good in the recent years, based on the information depicting the universities' liquidity and solvency. As part of the implementation of its policy on institutions of higher education, the Ministry of Education and Culture should determine the financial target status of the universities, described with these indicators.

The Ministry of Education and Culture should include calculation formulae for the liquidity and solvency of universities in its financial administration instructions on accounting procedures (the code for the financial administration of universities). This is to ensure that the universities and the Ministry of Education and Culture calculate and interpret the information on the financial status according to the same principles. Furthermore, the Ministry of Education and Culture should provide instructions on how to calculate the indicators and what should be taken into account in the calculation in the case of a variety of group rearrangements.

No correlation between advances applied for and granted by the Academy of Finland and the universities' solvency indicators has been detected, i.e. there is no indication that universities with poorer solvency apply for advances and universities with better solvency do not. Based on the audit results, the solvency of a university does not play a role in the application for an advance, and decisions made by the Academy of Finland on the payment of advances are not, at least not systematically, based on any harmonised information on the solvency of the universities. In the future, when assessing the need to grant an advance, the Academy of Finland should utilise the information published by the Finnish National Agency for Education on the solvency of universities.

In the view of the National Audit Office, the key state financiers of universities, the Academy of Finland and Tekes, should use harmonised practices when determining the funding payment dates. Based on the audit, the conclusion is that the Academy of Finland should switch to a practice where the final instalment will not be paid until after the final report has been submitted.

It was observed in the audit that, depending on the cost structure of the university or a part thereof, the overhead percentages vary from 65% to 100%. What this means in practice is that when the state budget earmarks a specific sum for research, on average half of the sum is used for expenses other than necessary research expenses. Thus, the Ministry of Education and Culture should ensure that when making decisions about

the state budget, Parliament has a true and fair view of how the research funding paid from the state budget is actually used by the universities. The starting point with the full cost model is determining all the costs arising from a project. The model includes the risk that research funding is used to fund expenses that the state has already funded by means of core funding.

The universities' indirect personnel expense factors varied between 46 and 55 per cent. As the factor is meant to describe the same issue, i.e. indirect costs to the employer from hiring an employee, the differences between the universities seem high. Based on the audit findings, the National Audit Office recommends that the Ministry of Education and Culture investigate why the factors are so vastly different and harmonise the practices, if necessary.

Based on the audit it seems that monitoring systems for state subsidies for university projects funded by the Academy of Finland and Tekes essentially ensure that the subsidies are used for the purposes laid down in the funding decisions.

The universities have mostly properly arranged the processes for submission of the information laid down in the Decree of the Ministry of Education and Culture on Calculation Criteria for University Core Funding (Opetus- ja kulttuuriministeriön asetus yliopistojen perusrahoituksen las kentakriteereistä, 331/2016), in such a manner that the internal control of the processes ensures reliability of the generated information.

The code for financial administration does its part in harmonising the procedures and verify the content of information included in the financial statements of universities.

On the basis of the audit, the National Audit Office issues the following recommendations:

- The Ministry of Education and Culture should ensure that when making decisions about the state budget, Parliament has a true and fair view on targeting of the research funding paid from the state budget to immediate costs arising from the universities' research activities and other related expenses.
- The Ministry of Education and Culture should include in the code for financial administration calculation formulae for the liquidity and solvency of universities. The Ministry of Education and Culture should provide instructions on how to calculate the indicators and what should be taken into account in the calculation in the case of a variety of group rearrangements.
- As part of the implementation of its policy on institutions of higher education, the Ministry of Education and Culture should determine the financial target status.
- When assessing the need to grant an advance, the financiers of the universities should utilise the information published by the Finnish National Agency for Education on the solvency of universities.