

# Conclusions and recommendations of the National Audit Office

## State's financing contribution to earnings-related daily allowance

The first aim of the audit was to provide an opinion based on reasonable assurance on whether the state's financing contribution to earnings-related daily allowance has been paid to the unemployment funds in accordance with all relevant provisions. According to the audit findings, the state's financing contribution to earnings-related daily allowance has been paid to unemployment funds in accordance with all relevant provisions, except for the earnings-related daily allowances paid for layoff periods under chapter 6(3)(1) of the Unemployment Security Act, which, under chapter 2(4)(2) of the Act on Financing Unemployment Benefits are not part of the state's financing contribution. According to the opinion issued by the Ministry of Social Affairs and Health, the earnings-related daily allowances paid for layoff periods will not be included in the state's financing contribution to be approved in autumn 2016.

Under chapter 6(3)(1) of the Unemployment Security Act, a recipient of earnings-related daily allowance who has not been in employment for a combined period of at least three years before becoming eligible for earnings-related daily allowance, will receive the earnings-related daily allowance for the last 100 days of the maximum allowance period in the same amount as basic unemployment allowance. It had been incorrectly entered in the data steering the payment systems used by unemployment funds that the daily allowance paid for the layoff period and specified in chapter 6(3)(1) of the Unemployment Security Act is entered as the state's financing contribution.

The specification of the payment systems used by unemployment funds resulted in a systematic error

On the basis of the audit, it is recommended that all unemployment funds should review the manner in which the provisions of chapter 6(3)(1) of the Unemployment Security Act are applied to the payment systems and that the corrections to the 2015 financing contributions should be entered in the payment statistics and the final financing contributions. According to the comments on the draft audit report, the corrections have been entered in the payment statistics and the final financing contributions.

On the basis of the audit, it is also recommended that when analysing the outturn statistics on the benefits paid by the unemployment funds, the Ministry of Social Affairs and Health should pay particular attention to ensuring that the items that are not eligible for central government transfers under law or the state budget do not include any central government transfers. Under section 31(1) of the Administrative Procedure Act, an authority shall see to it that a matter is adequately and appropriately clarified. This general duty of care means that an authority must obtain details of the facts relevant to the decision unless, because of the criteria concerning the sharing of the clarification duty, the responsibility lies with other parties.

The second aim of the audit was to provide an opinion based on limited assurance on whether the payment of the earnings-related daily allowances to the final beneficiaries has been in accordance with all relevant provisions. The conclusion based on the audit is that the earnings-related daily allowances have been paid to the final beneficiaries in accordance with all relevant provisions.

The third aim of the audit was to provide an opinion based on limited assurance on whether the internal control of the financing process is properly organised. Here the aim was to provide a general opinion on whether the administration of the state's financing contribution has been substantially in accordance with all relevant provisions and guidelines. Based on the audit findings, the conclusion is that even though the internal control of the financing process is, as a whole, properly organised, the Ministry of Social Affairs and Health should have a stronger role in the process.

The Ministry of Social Affairs and Health should have a stronger role in the process

In practice, the state's financing contribution is determined on the basis of the information supplied by the payment systems of the unemployment funds each month. There are two system suppliers delivering payment systems. Because the benefit decisions are made on a mass basis, the payment systems are highly automated. Under the agreements between the system suppliers and unemployment funds, the system suppliers are responsible for the proper functioning of the systems. However, in individual cases, the unemployment funds are responsible for ensuring the correctness of the benefit decisions and the information produced by the systems.

As a rule, the Financial Supervisory Authority does not audit the correctness of the benefit decisions or the proper functioning of the payment systems. The Ministry of Social Affairs and Health does not have any external obligation to supervise unemployment funds because under Finnish law, the supervision is the responsibility of the Financial Supervisory Authority. Each year, the ministry gives, on the submission of the Financial Supervisory Authority, its final approval to the state's financing contribution to earnings-related daily allowance. When making its decision, the ministry relies on the information produced by the payment systems of the unemployment funds, which is not systematically audited. This means that there is a material risk from the perspective of the correctness and completeness of the financing contribution. On the basis of the audit findings, it is recommended that the ministry should ensure that the payment systems of the unemployment funds are properly supervised and audited on a regular basis, especially when legislative changes are introduced.

The payment systems or the benefit decisions are not audited from the perspective of the state

Based on the audit findings, the National Audit Office would also like to draw attention to the audit and steering gap in the financing process and legislation. The Ministry of Social Affairs and Health does not have real steering powers and it is not in a position to ensure proper supervision of the earnings-related daily allowance process. Under Finnish law, the supervision is the responsibility of a party outside the Government and the Ministry of Social Affairs and Health cannot assign tasks to the Financial Supervisory Authority or steer its work by issuing administrative decisions.

#### Recommendations of the National Audit Office

1. Based on the audit findings, it is recommended that the options for strengthening the practical steering powers of the Ministry of Social Affairs and Health should be examined.
2. All unemployment funds should review the manner in which the provisions of chapter 6(3)(1) of the Unemployment Security Act are applied to the payment systems and correct the 2015 financing contributions so that they are in accordance with chapter 2(4)(2) of the Act on Financing Unemployment Benefits and enter the corrections in the payment statistics and the final financing contributions.

3. The Ministry of Social Affairs and Health should ensure that the state will not make any financing contributions to expenditure that is not eligible for state contributions under law or the state budget.
4. Especially when legislative changes are introduced, it should be ensured that the financing contributions are correct and that system suppliers and unemployment funds apply and interpret the legislation in a correct manner.
5. The Ministry of Social Affairs and Health should ensure that the payment systems of the unemployment funds are adequately and regularly supervised.
6. The Unemployment Insurance Fund should notify the ministry of any unclarity concerning the matching of the financing contributions without delay so that the contributions can be corrected in an effective manner. The corrections should be based on separate decisions by the ministry.
7. The Ministry of Social Affairs and Health should match the financing contributions in cooperation with the Unemployment Insurance Fund before it gives its final approval to the annual financing contribution.
8. The Ministry of Social Affairs and Health should provide the Unemployment Insurance Fund with up-to-date information about the financing contributions and statistics on a regular basis.