

Conclusions and recommendations of the National Audit Office

Budget procedures

The purpose of the compliance audit was firstly to determine whether the state budget has been prepared in accordance with statutes and regulations.

In the view of the National Audit Office, the statutes and regulations laying down provisions on the preparation of the state budget have, in essential parts, been complied with. However, under these statutes and regulations there is room for different types of budget solutions. Good budget practices should be developed by, for example, having more fixed and maximum appropriations when it is the question of discretionary appropriations. In budgeting based on expenditure type, there should be fewer mixed items. These are budget items in which appropriations for expenditure under more than one expenditure type have been budgeted. Pay-related expenditure should, as a rule, be budgeted under operating expenditure items. In some cases, there is a need for clarifying the resolutions stating how the appropriations should be spent. There should be fewer deviations from the expenditure allocation principles laid down in the State Budget Decree in the decisions on appropriation items.

The National Audit Office presents the following grounds for its opinions and conclusions supplementing its opinions.

As regards net budgeting, there is some variation in the manner in how references to net budgeting are included in item decisions. As regards standard items, there are different practices in administrative branches concerning how net budgeted appropriations are presented in item decisions.

Under the Ministry of Finance regulation on operational and financial planning and the preparation of spending limits and draft budgets (TM 1101, 23.3.2011), an appropriation must be budgeted as a fixed appropriation unless, for a specific reason, the appropriation is budgeted as variable appropriation or deferrable appropriation. It was noted in the audit that fixed appropriations only accounted for a small proportion of the 2014 draft budget. Even if consideration is given to the maximum appropriations used in the budgeting of discretionary appropriations under variable appropriation items, fixed appropriations only accounted for 1.3 per cent of all appropriations in the 2014 draft budget. The National Audit Office points out that budgeting should be in accordance with the budget preparation regulation. This means that discretionary appropriations should be budgeted as fixed appropriations or fixed maximum appropriations. However, transfers that are discretionary in terms of their size and payment dates, can be budgeted as deferrable appropriations if there are good reasons for doing so.

It was also noted in the audit that there were two items in which the budgeting of the appropriation as variable appropriation was not considered to be in accordance with the budget preparation regulation.

Under the itemisation principle laid down in section 84, subsection 1 of the Constitution of Finland (731/1999), the state budget must be clearly structured and the appropriations itemised in such detail that Parliament can make effective use of its budgetary power. Under section 5 of the State Budget Decree, expenditure in the budget shall be classified under budgetary items according to the objective or the

Discretionary appropriations should be budgeted as fixed appropriations or fixed maximum appropriations

As a rule, personnel pay expenditure should only be budgeted under operational expenditure items

nature of the expenditure. Expenditure is divided according to type into consumption expenditure, transfer expenditure, investment expenditure and other expenditure. The number of mixed items (items in which appropriations for expenditure under more than one expenditure type have been budgeted) is fairly large. Especially pay expenditure is often budgeted under items other than expenditure items. It was also noted in the audit that the draft budget contains a large number of appropriations concerning the payment of compensations and procurement of outsourced services that have been budgeted under operating expenditure items or transfer items.

There are a small number of items in the 2014 draft budget in which the purpose of the appropriation is not given as clearly and explicitly as necessary. This is particularly the case when the budgeted appropriation can be used for discretionary government grants or transfers in general. The draft budget contains a small number of detailed and long item decisions. According to the information obtained in the audit, this is because ministries want to keep the number of items low and to ensure that the appropriations contained in the policy programmes can be comprehensively monitored. However, a large decision section makes it more difficult to arrange the monitoring of the implementation of the budget on the basis of budget accounting. It should only be applied when there are particularly good operational reasons for using it. Good, clear and cohesive budgeting also makes it easier to improve productivity.

Allocation principles deviating from those laid down in sections 5 a and 5 b of the State Budget Decree have been extensively used in draft budgets. The most commonly applied allocation principle laid down in the decree is the payment decision basis, which is used in the budgeting of discretionary government grants. Use of other allocation principles should be properly justified. When the expenditure allocation principle is selected it should be ensured that in budget accounting the expenditure can actually be allocated to the budget year as laid out in the state budget.

The second purpose of the audit was to determine whether all administrative branches apply the same budget preparation procedures.

In the view of the National Audit Office, all administrative branches have, in essential parts, complied with the statutes and regulations laying down provisions on the preparation of the state budget. However, under these statutes and regulations there is room for different types of budgeting solutions. It was noted in the audit that there have been differing procedures in such areas as net budgeting, allocation of transfers, use of mixed items, budgeting of pay expenditure under items other than operating expenditure items and the budgeting of international membership fees and funding contributions. Only a small number of appropriations are budgeted as fixed and in two administrative branches they are missing altogether. The differing procedures are partly connected with different tasks and agency structures of the administrative branches.

The third purpose of the audit was to determine whether there have been changes in the budget preparation procedures between 2001 and 2014.

In the view of the National Audit Office, in overall terms there have not been any substantial changes in the preparation procedures. At the same time, the budget has become more comprehensive and coherent. There are now more options for using net budgeting. Based on the audit findings, there have not been any major changes in the use of mixed items. Appropriations under items other than those concerning pay and

Providing clear item-specific justification would make it easier to monitor implementation of the budget and improve productivity of the financial administration

Allocation principles deviating from those laid down in sections 5 a and 5 b of the State Budget Decree should only be used when there are particularly good reasons for doing so

operating expenditure are increasingly being used for employing personnel. There has been a substantial increase in the use of allocation principles deviating from those that are laid down in sections 5a and 5 b of the State Budget Decree. Changes in the state budget structure are partially connected with the changes in the manner which the agencies are structured.

Recommendations of the National Audit Office

1. Budgeting of compensations and membership fees in international organisations should be on a clearer basis.
2. The budget provisions concerning the employment of permanent public servants with the technical assistance provided as part of EU programmes and the number or person years that they work should be on a clearer basis.
3. The Ministry of Finance should introduce a more obligatory item decision model as part of the budget preparation regulation, laying down the minimum content of the decisions.
4. References to all related appropriations or revenue budgeted under different main titles or items would promote transparency in cross-administrative budgeting.
5. Coherent budgeting would clarify budget monitoring practices and support efficient management of finances and the achievement of the productivity targets set out for the financial administration.
6. Ministries should develop controls connected with budget preparation and the processing of draft budgets. The controls would ensure coherent budgeting and compliance with good budgeting practice.