



National Audit Office's separate report to Parliament on the audit of the final central government accounts 2018 and the Government's annual report



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To Parliament

The Government has submitted to Parliament the Government's annual report for 2018 as the report laid down in section 46 of the Constitution of Finland on its activities, management of central government finances and compliance with the state budget and on the measures that the Government has taken on the basis of the decisions of Parliament.

The National Audit Office has audited the final central government accounts contained in the report and the descriptions of central government finances, national financial administration and operational performance for the budget year 2018 and submits this separate report to Parliament under section 6 of the Act on the National Audit Office (676/2000).

Helsinki, 31 May 2019

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Auditor General

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Main content

Based on the financial audit of the final central government accounts, the National Audit Office of Finland (NAOF) states that the final central government accounts for 2018 have been prepared in accordance with all relevant provisions.

Based on the results of the audits, the NAOF draws attention to the procedures that are contrary to the state budget and in violation of the key budget provisions and that are also in contravention of the provisions on central government finances laid down in the Constitution of Finland. A total of 7 accounting offices were issued with qualified opinions on regularity on account of these violations. The NAOF issued a total of 63 financial audit reports on the financial audits of ministries and other accounting offices for the 2018 budget year.

The Government's annual report contains the performance data required under law. It also details the impact targets presented in the rationale of the main title of the budget proposal. In terms of the strategic Government Programme, the annual report covers the objectives specified in the Government Programme, with the exception of long-term strategic targets.

The reporting on sustainable development has improved from the previous year, but it could still be further developed by clarifying the objectives against which the current situation is compared, as well as by providing a more detailed account of the measures proposed in the budget proposal.

The Government's annual report contains the details of the state of central government and general government finances required under law. For example, the report provides information on compliance with fiscal policy rules, the achievement of the Government's objectives, the main risks to central government finances, as well as assets and off-balance sheet liabilities. Conclusions and recommendations issued by the NAOF on earlier occasions are also considered in the report. However, it would be useful to describe the information content in more detail, especially the descriptions concerning local government finances, taxation and central government liabilities and risks.

1 Financial audit report on final central government accounts for 2018

The National Audit Office of Finland submits this financial audit report on the audit of the final central government accounts for the 2018 budget year. The audit was performed by Principal Financial Auditor Riitta-Liisa Heikkilä, JHTT, and Financial Audit Counsellor Susanna Falck. The audit was supervised by Senior Director for Financial Audit Väinö Viherkoski, JHT.

The audit was performed in accordance with the NAOF's financial audit manual, and it covered the final central government accounts referred to in section 17a of the State Budget Act and the notes required for providing the true and fair information referred to in section 18 of the act, to the extent that they concern on-budget entities. The audit covered the budget outturn statement, statement of revenue and expenditure, balance sheet, cash flow statement, notes and the consolidated accounting used as a basis for the final accounts. The audit also covered the procedures that ensure the integrity and accuracy of the information in the consolidated accounting and in the preparation of final central government accounts.

Final central government accounts

The contents of the calculations contained in the final central government accounts and the manner in which they are presented, as well as the accounting used as their basis, have been examined in sufficient detail to determine whether the calculations of the final central government accounts and the notes to the final accounts have, in essential parts, been prepared correctly.

Several multi-annual transport infrastructure projects not authorised in the budget are funded under item 31.10.20 (Basic transport infrastructure maintenance, two-year deferrable appropriation). The Finnish Transport Infrastructure Agency should clarify the project budgeting so that multi-annual transport infrastructure projects extending beyond the deferrable appropriation period are budgeted separately and monitored under the authorisation procedure set out in section 10 of the State Budget Act.

The appropriation allocated under item 22.02.75 (Repairs and renovations, three-year deferrable appropriation) has been exceeded by EUR 562,621 in violation of the state budget and section 7 of the State Budget Act. Revenue (EUR 1,204,690) belonging under department 12 has been entered on item 24.01.74 (House-building, three-year deferrable appropriation from 2017) in violation of the budget. If the revenue had been entered under department 12 in accordance with the budget, the appropriation in item 24.01.74 would have been exceeded by the same amount.

A total of EUR 50,000 of net revenue has been allocated to revenue estimate item 12.2.8.25 (Coin revenues) in the 2018 state budget. According to the budget outturn statement concerning the budget of the Ministry of Finance, expenditure paid has exceeded the revenue accumulated in this item by EUR 3.0 million. This expenditure should have been covered by including an appropriation in the budget in accordance with section 3a, subsection 1 of the State Budget Act. A total of EUR 1.85 million in expenditure that should have been allocated to 2019 has been allocated to 2018 under items 26.40.21 (Reception of refugees and asylum seekers, variable appropriation) and 26.40.63 (Support paid to customers of reception activities, variable appropriation). This is in violation of the state budget and section 5a of the State Budget Decree. With this procedure, the estimated appropriation has been carried over in violation of section 7 of the State Budget Act.

The information on the authorisations submitted to the State Treasury for the purpose of preparing the final central government accounts can, as a whole, be considered true and fair. The information on the authorisations contained in the final central government accounts corresponds to the information obtained as part of the centralised monitoring of authorisations.

Other operational income includes EUR 1.390 billion of revenue from the sale of other shares that is not related to the sale but to the transfer of the shares to a limited liability company wholly owned by the state.

Virtual currencies included in the financial assets have not been valued in accordance with section 66c of the State Budget Decree. As a result, the financial assets are overvalued in the final accounts by around EUR 4.2 million.

The Finnish Transport Agency has entered in its accounts a depreciation of EUR 63.1 million concerning Traffic Management Finland Oy without adequate explanation. This is in violation of section 14 of the State Budget Act (423/1998) and section 66g of the State Budget Decree (1423/1992).

The budget outturn statement concerning the state budget has been prepared in accordance with relevant provisions.

Defence materiel is considered an exception in central government accounting because all costs resulting from its acquisition are treated as costs arising in the year of acquisition. Exclusion of defence materiel from the final accounts of the Finnish Defence Forces provides an incomplete picture of the value of the material in the possession of the Defence Forces.

In other respects, the central government statement of revenue and expenditure and the balance sheet have been prepared in accordance with relevant provisions.

The notes to the final central government accounts are presented in the manner required under the State Budget Decree.

Consolidated accounting is organised in accordance with the State Budget Decree.

Internal control

The internal control of the final central government accounts has been assessed in a risk analysis and audited as part of the audits of consolidated accounting, final central government accounts and the financial statements of central government agencies. Internal control has also been assessed in an audit of the internal control covering centralised processes in financial administration.

The internal control of the customer service processes in the Finnish Government Shared Services Centre for Finance and HR was found to have such deficiencies that require measures on the part of the Services Centre.

The organisation of performance accounting and the internal control of contract management and procurement procedures of the Government ICT Centre Valtori were found to have such deficiencies that require measures on the part of Valtori.

An audit of the organisation of internal control between Business Finland and Business Finland Ltd revealed deficiencies relating to the definition of the competence and organisation of the discretionary government transfer process that require measures on the part of Business Finland.

Accounting vouchers of the Development and Administrative Centre for ELY Centres and TE Offices and the Finnish Transport Infrastructure Agency do not fully accord with the requirements of section 44 of the State Budget Decree, and accounting vouchers related to discretionary government transfers have not always been archived as required in section 46 of the State Budget Decree.

According to the opinion formulated in connection with the audit of the final central government accounts, the information contained in the consolidated accounting and used as a basis for the final central government accounts does not contain any material misstatements.

The National Audit Office's opinion of the final accounts

The final central government accounts for the year 2018 have been prepared in accordance with the statutes in force.

Helsinki, 10 May 2019

Tytti Yli-Viikari
Auditor General

Riitta-Liisa Heikkilä
Principal Financial Auditor

2 Compliance with the state budget and key budget provisions

The National Audit Office of Finland issued a total of 63 financial audit reports on the financial audits of ministries and other accounting offices for the 2018 budget year.

Improper procedures were discovered in a total of seven accounting offices. These procedures were deemed to involve such violations of the state budget or key budget provisions that a qualified opinion on regularity on them was included in the financial audit report.

Compared with the previous years, the number of accounting offices issued with a qualified opinion on regularity has continued to decrease, which can be considered a highly positive development. However, as many of the cautions concerned more than one issue in the same financial audit report, the total number of cautions was 10 (13 in 2017).

Table 1: Financial audit reports for 2018

	Financial audit reports in		Qualified opinions on regularity	
	2018	2016	2017	2018
Office of the President of the Republic of Finland	1			1
Prime Minister's Office	1		1	
Administrative branch of the Ministry for Foreign Affairs	1		1	1
Administrative branch of the Ministry of Justice	5	1	2	
Administrative branch of the Ministry of the Interior	7	2		1
Administrative branch of the Ministry of Defence	3			
Administrative branch of the Ministry of Finance	12		1	1
Administrative branch of the Ministry of Education and Culture	6		1	
Administrative branch of the Ministry of Agriculture and Forestry	5	3		
Administrative branch of the Ministry of Transport and Communications	5	1		2
Administrative branch of the Ministry of Economic Affairs and Employment	8	3	3	1
Administrative branch of the Ministry of Social Affairs and Health	6	1		
Administrative branch of the Ministry of the Environment	3	2		
	63	13	9	7

In its financial audits, the NAOF always aims to bring all material observations to the attention of the audited accounting office as early as possible in the process. This enables the audited accounting office to take immediate action regarding the observations.

The qualified opinions on regularity should not lead to a conclusion that central government finances are not in compliance with the legality requirement laid down for them or that the qualified opinions on regularity had been prompted by misappropriation of central government funds. However, a qualified opinion on regularity should always be considered to be a serious issue with regard to the financial management of the agency in question. Procedures that are in violation of the state budget and key budget provisions must always be addressed.

3 Monitoring of the positions adopted by Parliament

The National Audit Office of Finland monitors the measures arising from its reports to Parliament, as well as whether its auditing activities are relevant for a position adopted by Parliament. The NAOF also monitors how well the public administration actors comply with the reporting obligations laid down in the parliamentary positions.

The positions adopted by Parliament concern societally important issues and issues in which achieving change is often slow. For this reason, the NAOF also monitors progress in the issues highlighted by Parliament in its positions after the public administration has submitted the reports requested by Parliament.

The positions adopted by Parliament concern specific issues and they cannot be considered a separate category. For this reason, no conclusions on the overall trends in the public administration can be made on their basis alone. Certain positions adopted by Parliament, and how well the issues highlighted in those positions have been achieved, are discussed below in the light of audits performed by the NAOF. The total number of positions exceeds significantly the number of positions presented here. The numbers of the positions refer to the numbering of the register of parliamentary resolutions.

Table 2: The National Audit Office monitors the measures implemented on the basis of the positions adopted by Parliament

Position KAN 93

K 12/2014 vp - K 16/2014 vp - EK 37/2014 vp

The Government's annual report for 2013

The National Audit Office's separate report to Parliament on the audit of the final central government accounts and the Government's annual report for 2013

Parliament calls for the Government to assess the results, costs and productivity benefits of important ICT projects as part of the monitoring of the project portfolio and to report on the results to Parliament.

Digitalisation and benefits of ICT projects

The National Audit Office has examined how successfully digitalisation has been used in the public sector processes required for starting business activities. The aim of the audit was to determine the views of new entrepreneurs on the use of digitalisation in various support, advice and funding services, and permit application and notification processes. At present, the one-stop-shop principle has yet to be genuinely achieved in the services despite the aim of centralising all the services in the For companies section of the Suomi.fi website. Although government agencies recognise customer orientation as an important starting point, it has still been applied with varying results in the digitalisation of services. Customer orientation and the customer perspective should play a key role in the digitalisation of services directed at citizens and businesses, in addition to cost and productivity benefits for the authorities.

The National Audit Office has also examined the achievement of the targets set for centralised government ICT services and procurement. The centralisation has yet to produce all the envisaged benefits. Most of the savings achieved so far have been based on Hansel's framework arrangements. The NAOF continues to monitor the developments in this area and will assess the post-audit changes in 2021.

Audit Report 6/2019: Using digitalisation in public sector processes required for starting business activities

Audit Report 4/2019: Centralised ICT services and procurement

Position KAN 3/2017 vp

VNS 5/2016 vp - EK 8/2017 vp

Government Report on internal security

Parliament calls on the Government to secure the performance of the authorities in charge of internal security, i.e. the police, the Finnish Border Guard, the rescue services, the Emergency Response Centre Administration, Finnish Customs and the Finnish Immigration Service, as well as the prerequisites for the appropriate performance of their statutory duties more effectively than at present, for example, by significantly strengthening the funding base of these authorities.

Performance of the security authorities

The National Audit Office has assessed the effectiveness of the planning and organisation of police traffic control. The Ministry of the Interior should enhance the strategic steering of police traffic control to achieve the set security targets. Police traffic control is part of road safety work, which is jointly undertaken by a number of different actors. There has been a reduction in national steering and coordination over the past few years.

Audit Report 5/2019: Police traffic control

Position KAN 30/2017 vp

VNS 1/2017 vp - EK 27/2017 vp

Government Report on the implementation of the 2030 Agenda for Sustainable Development: Sustainable Development in Finland – Long-term, Coherent and Inclusive Action

Parliament calls for the Government to incorporate in all public procurement processes a requirement and an evaluation concerning the promotion of the objectives of the 2030 Agenda, for example, as part of the public administration's Commitment 2050 process.

Promotion of the objectives of the 2030 Agenda through acquisitions

The National Audit Office has examined the effectiveness of state measures in the promotion of cleantech acquisitions. Despite investments in bioeconomy and clean technology, the Government has not yet been successful in creating any significant market opportunities. This is because cleantech acquisitions are dispersed to a number of actors. At the central government level, cleantech acquisitions are also dispersed to a number of different ministries. Municipalities also play a key role in public sector cleantech acquisitions.

Audit Report 2/2019: State as a promoter of cleantech acquisitions – Implementation of cleantech procurements

Audit Report 3/2019: State as a promoter of cleantech acquisitions – Development of cleantech procurements in public administration

4 Information on societal impact in Government's annual report

The Government's annual report provides a sufficient view of the performance data required under law, as well as of the impact targets presented in the rationale of the main title of the budget proposal. In terms of the strategic Government Programme, the annual report covers the objectives specified in the Government Programme, with the exception of long-term strategic targets. The reporting on sustainable development has improved from the previous year, but it could still be further developed by clarifying the objectives against which the current situation is compared, as well as by providing a more detailed account of the measures proposed in the budget proposal.

The Government reports on all the set impact targets

The Government's annual report for 2018 contains the performance data required under law. It also provides an assessment of the achievement of all the 87 impact targets presented in the rationale of the main title of the budget proposal. In this respect, the contents of the annual report are sufficient.

Pursuant to budget provisions, each ministry should present in the rationale of the main title of the budget proposal a few impact targets, the progress of which must be covered in the Government's annual report. The 2018 budget proposal contained significantly more than merely a few impact targets (87 in total). In the 2019 budget proposal, the number of targets has been reduced.

According to the annual report, 82 per cent of the targets had been achieved to an excellent or good degree, and 15 per cent had been achieved to a fair degree. In three per cent of the targets, the level of achievement had been unsatisfactory. None of the targets had been poorly achieved.

The annual report covers the strategic Government Programme, with the exception of long-term targets

The annual report covers the objectives specified in the Government Programme, with the exception of long-term strategic targets. The Government Programme sets out targets for the different priority areas for both the current parliamentary term and the next ten-year period. The long-term targets are formulated so generally that it makes the monitoring of the achievement of these targets difficult. The Government's annual report does not directly discuss the ten-year targets but focuses on the monitoring of the achievement of the targets set for the current parliamentary term. Consequently, the long-term strategic impact of the Government Programme is not evaluated in the report.

It is recommended that the reporting on the strategic Government Programme be developed so that in addition to the targets achieved, the report would also cover potential undesirable side effects resulting, for example, from implemented expenditure adjustment measures.

Reporting on sustainable development has improved

The annual report covers sustainable development from two perspectives: the actual annual report part discusses the current situation of sustainable development in Finland, while the descriptions of the performance of individual ministries cover the key measures taken to promote sustainable development. The reporting structure is practical in the sense that the report covers both the current status of sustainable development and the key promotion measures taken.

The current situation of sustainable development in Finland is discussed from three perspectives:

- the priorities set out in the report (carbon neutral and resource smart Finland, as well as equal and competent Finland);
- international evaluations; and
- evaluations of the 'Citizens' Jury'.

On the other hand, based on the report, it is difficult to form an overall view of the progress made in different priority areas. This is further impeded by the fact that no clear targets are set for each priority area against which progress could be evaluated.

The reporting on sustainable development by individual ministries primarily covers measures taken to promote sustainable development. However, elements of the total of 23 sets of measures the Government has committed to implement in its report can be identified in the descriptions of the individual ministries. Thus, the reporting is sufficient in this respect. On the other hand, the reporting is not based on the measures presented in the report, which makes it difficult to form a clear picture of how successful the implementation of each measure has been.

Another way to evaluate the sufficiency of the reporting is to compare the reporting against the measures presented in the rationale of the main title of the 2018 budget proposal (under the heading 'Sustainable development'). The budget proposal specifies a total of 54 measures concerning sustainable development, of which 43 were discussed in some form in the performance reports. However, neither document provides a detailed description of these measures. Some of the measures can be interpreted as referring to extensive programmes, while some concern isolated, concrete actions. Enhancing the reporting in this respect would require the clarification of the contents of the budget proposal. It should also be noted that the sustainable development section was incorporated in the 2018 budget proposal at the final stage of drafting, so the drafting process of the section was brief.

5 Examination of general government finances in the Government's annual report

The chapter of the Government's annual report discussing general government finances contains the details of the state of central government and general government finances required under section 18 of the State Budget Act and section 68a of the State Budget Decree. As a whole, the Government's annual report provides a comprehensive picture of general government finances. For example, the report provides information on the state of general government and central government finances, compliance with fiscal policy rules, achievement of the Government's objectives, the main risks to central government finances, as well as assets and off-balance sheet liabilities. Conclusions and recommendations issued by the National Audit Office on earlier occasions are also considered in the report. However, it would be useful to describe the information content in more detail, particularly the descriptions concerning local government finances, taxation and central government liabilities and risks.

State of general government finances and achieving the targets set by the Government

The Government's annual report provides an informative picture of the state of general government finances and the outlook for the future. The description complies with information gathered from other sources. The annual report covers the achievement of the targets set by the Government for general government finances during the parliamentary term. The National Audit Office has evaluated the achievement of these targets in the fiscal policy monitoring and audit report for the parliamentary term in the autumn of 2018. The evaluation presented in the report complies with the description provided in the annual report in essential respects.

As previously observed by the NAOF, the description concerning local government finances could be further improved. In its fiscal policy audit report (6/2018) assessing the effectiveness of the steering of local government finances, the NAOF recommended that the Ministry of Finance should monitor the implementation of the expenditure limit for local government finances more effectively, provide a better assessment of the financing principle in the Programme for Local Government Finances and improve the contents of the knowledge base for local government finances. This would also support the drafting of the description on local government finances provided in the annual report.

The descriptions of the annual report provide an incomplete overall view of the central government measures impacting local government finances. The prerequisites for achieving the financial position target set for the local government sector should be assessed as a whole to consider the net impact of the central government measures affecting local government revenue and expenditure. Figure 33 of the annual report attempts to illustrate the overall impact of these measures, but it remains unclear which of the measures have been taken into account when drafting the figure. Furthermore, it would also be important to discuss the uncertainties involved in the assessments.

Reporting on central government finances

The total calculations of central government finances (statement of revenue and expenditure and the balance sheet) are presented in the same manner as in previous years. They combine the on-budget entities as well as the final accounts of off-budget entities and state enterprises in a manner that eliminates the impacts of internal items. The calculations provide a more comprehensive picture of central government finances than the final central government accounts. The principles for preparing the total calculations are described in the report in a clear manner. On the other hand, the total calculations do not contain figures concerning, for example, state-owned companies and thus do not examine central government finances from the group-level perspective.

The NAOF's audit assessing the impact of tax law reforms and tax expenditure (19/2018), completed in 2018, has been taken into account the annual report, and the report presents some measures already initiated regarding the recommendations presented in the audit report. It would be useful if results of the development work were also discussed in future annual reports. Table 22 of the report provides an informative overview of various tax subsidies and assessments of their amounts in euros. However, the table does not list all the subsidies, and it remains unclear how the subsidies included in the table were chosen.

Assessment of the tax gap is important. At present, the annual report does not yet present any results regarding the development and expansion of the tax gap assessment work discussed in the report. The 2015 and 2016 reports covered, for example, the tax gap concerning excise duties, but the later reports do not include similar assessments. However, the 2018 annual report does describe different measures taken to narrow the tax gap, but it will be important to obtain further information about the impacts of these measures.

It will also be important for the report to provide a comprehensive view of the risks involved in central government finances. The costs arising from the realisation of the central government liabilities can substantially burden general government finances and the national economy. For this reason, it is important that the financial liabilities of central government and the risks

arising from them are carefully managed and comprehensively monitored and that reports on them are produced on a regular basis. From the perspective of the overall picture, the Government's annual report plays a key role even though more detailed information on liabilities and risks can be provided in other reports.

The State Budget Decree requires that the Government's annual report must contain an assessment of the most important economic risks arising from central government activities and their significance. In the light of this obligation (which also covers the assessment of the significance of risks), the section of the annual report describing the risks involved in state guarantees and other liabilities focuses too much on the presentation of the nominal values of the liabilities. The reporting should be supplemented with a clearer assessment of the overall central government risk position. Furthermore, the risks involved particularly in the state's export guarantee activities should be illustrated with scenario calculations that describe the potential losses arising from future operations, in accordance with the expected value and as unexpected losses.



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