



National Audit Office's separate report to Parliament on the audit of the final central government accounts 2019 and the Government's annual report



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To Parliament

The Government has submitted to Parliament the Government's annual report for 2019 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 2019 and submits this separate report to Parliament under section 6 of the Act on the National Audit Office (676/2000).

Helsinki, 5 June 2020

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Main content

Based on their financial audit, the final central government accounts for 2019 have been prepared in compliance with all relevant provisions.

Based on the financial audits, the National Audit Office draws attention to procedures that are in violation of the state budget and 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 such violations. The National Audit Office submitted a total of 61 financial audit reports on the financial audits of ministries and other accounting offices for the 2019 budget year.

The Government's annual report provides information on the relevant issues required by law. The reporting on the objectives set by the Government Programme is comprehensive, but the large number of objectives weakens its strategic perspective. The comprehensiveness of the reporting is satisfactory, as the report provides information on most issues under the budget chapters. As a whole, the reporting is very concise, which is the desired trend for annual reports. The report provides information on the state of sustainable development from three perspectives but does not report clearly on the measures taken by the Government itself to implement the report on sustainable development.

As a rule, the report deals with general government finances comprehensively. The picture that the Government's annual report provides of the state of general government finances and its parts in 2019 is concise but includes the essential information. Because of the coronavirus situation, the outlook of general government finances is exceptionally uncertain, and the report presents no projections of general government finances. The National Audit Office considers this justified under the present circumstances, taking into account the document's fundamental purpose as a report on 2019. The information content of the Government's annual report and the risk overview of the Ministry of Finance should be further developed as a whole to reduce the amount of overlapping information.

1 Financial audit report on final central government accounts for 2019

The National Audit Office submits this financial audit report on the audit of the final central government accounts for the 2019 budget year. The audit was performed by Financial Audit Counsellor Susanna Falck, Principal Financial Auditor Mari Brusila, and Principal Financial Auditor Anna-Marja Kari. The audit was supervised by Deputy Director Väinö Viherkoski, CPFA.

The audit was performed in compliance with the National Audit Office'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 the 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 final central government accounts and the manner in which they are presented, as well as the bookkeeping on which they are based, have been examined in sufficient detail to determine whether the final central government accounts and the notes to them have been prepared correctly in essence.

Expenditure (EUR 0.6 million in total) that should have been allocated to 2019 under the accruals principle have been allocated to 2020 under item 28.92.20 (Participation of the European Union in compensating for travel expenses, two-year deferrable appropriation) in violation of the state budget and section 5a of the State Budget Decree. If the expenditure had been allocated correctly, the appropriation for 2019 would have been exceeded by EUR 0.6 million. According to section 7 of the State Budget Act, deferrable appropriations shall not be exceeded.

Expenditure (EUR 0.8 million in total) that should have been allocated to 2019 been allocated to 2020 under item 25.10.50 (Compensations paid to private legal aid attorneys, variable appropriation) in violation of the state budget and section 5a of the State Budget Decree. If the expenditure had been allocated correctly, the variable appropriation for 2019 would have been exceeded by EUR 0.3 million. With this procedure, the estimated appropriation has been carried over in violation of section 7 of the State Budget Act.

The appropriation under item 26.01.29 (VAT expenses in the administrative branch of the Ministry of the Interior, variable appropriation) has been used for paying interest expenses (EUR 228,000) in violation of the state budget. The appropriation under item 29.01.02 (Operating expenses of the Finnish National Agency for Education, two-year deferrable appropriation) has been used for paying a discretionary government transfer to a government agency (EUR 0.9 million) in violation of the state budget.

Under item 31.40.50 (Discretionary government transfers for implementing the nationwide broadband project, three-year deferrable appropriation), the authorization has been exceeded by EUR 1,440,000.

Contracts which extend beyond the deferrable appropriation period and for which no authorization as referred to in section 10 of the State Budget Act has been budgeted have been financed from item 31.10.20 (Maintenance of the basic transport infrastructure, two-year deferrable appropriation). This is in violation of section 7(3) of the State Budget Act.

The authorization granted under item 29.10.01 (Operating expenditure of general education, two-year deferrable appropriation) in the budget for 2017 has been exceeded in violation of the budget (EUR 1.5 million). The maximum for the annual use of the authorization was exceeded in 2019 in violation of the budget (EUR 0.5 million).

The authorization granted under item 29.10.02 (Operating expenditure of general education, two-year deferrable appropriation) in the budget for 2018 was used in 2019 in violation of the budget and section 10 of the State Budget Act. The authorization had not been carried over in the budget for 2019.

Expenditure (EUR 2.4 million) that should have been allocated to 2020 has been allocated to 2019 under item 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 variable appropriation has been carried over in violation of section 7 of the State Budget Act.

As a whole, the information on authorizations submitted to the State Treasury for the purpose of preparing the final central government accounts can be considered true and fair. The information on authorizations provided in the final central government accounts corresponds to the information obtained in the centralized monitoring of authorizations.

The state budget outturn statement has been prepared in compliance with relevant provisions.

The central government statement of revenue and expenditure and balance sheet have been prepared in compliance with relevant provisions.

The notes to the final central government accounts are presented as required by the State Budget Decree.

The state's consolidated accounting is organized in compliance with the State Budget Decree.

Attention should be paid to the amount of liabilities presented in note 12 to the final accounts (State securities and guarantees, and other multi-annual commitments). According to the note, the securities and guarantees set out in the final central government accounts of 31 December 2019 amounted to EUR 44.76 billion in total, while the multi-annual commitments totalled EUR 20.87 billion. The amount of various central government liabilities has continued to increase, and it has grown substantially even after the preparation of the final accounts.

Internal control

Internal control related to the final central government accounts has been assessed in a risk analysis and audited in connection with the audits of consolidated accounting, final central government accounts, and the final accounts of central government agencies and institutions. Internal control has also been assessed in an audit of the internal control of centralized processes in financial administration.

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

The audit of the bookkeeping of the Finnish Transport Infrastructure Agency (FTIA) found such deficiencies in the itemization and redemption of assets completed in 2019, used by and transferred to Traffic Management Finland Group, that require measures from the FTIA.

The audit of the bookkeeping of the Finnish Immigration Service found such deficiencies related to compliance with the budget that require measures from the Finnish Immigration Service.

The accounting vouchers of the Development and Administrative Centre for the ELY Centres and TE Offices and the Finnish Transport Infrastructure Agency do not fully comply 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 by section 46 of the State Budget Decree.

The internal control of the performance accounting, contract and supplier management and information systems of the Government ICT Centre Valtori was found to have such deficiencies that require measures from Valtori.

Audits of the monitoring of authorizations found such deficiencies in internal control that have caused the authorization to be exceeded and that require the Ministry of Transport and Communications and the Finnish National Agency for Education to take appropriate measures.

According to the opinion formulated in connection with the audit of the final central government accounts, the information in the consolidated accounting on which the final central government accounts are based does not contain any material misstatements.

National Audit Office's opinion of the final accounts

The final central government accounts for the year 2019 have been prepared in compliance with the valid statutes.

Helsinki, 11 May 2020

Tytti Yli-Viikari
Auditor General

Susanna Falck
Financial Audit Counsellor

2 Compliance with the state budget and key budget provisions

The National Audit Office issued a total of 61 financial audit reports on the financial audits of ministries and other accounting offices for the 2019 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.

The number of accounting offices issued with a qualified opinion on regularity was the same as in 2018. However, since many of the cautions concerned more than one issue in the same financial audit re-port, the total number of cautions was 10 (10 in 2018).

Table 1: Financial audit reports for 2019

Administrative branch	Financial audit reports in 2019	Qualified opinions on regularity 2017	Qualified opinions on regularity 2018	Qualified opinions on regularity 2019
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	2	-	1
Administrative branch of the Ministry of the Interior	7	-	1	1
Administrative branch of the Ministry of Defence	3	-	-	-
Administrative branch of the Ministry of Finance	12	1	1	1
Administrative branch of the Ministry of Education and Culture	6	1	-	1
Administrative branch of the Ministry of Agriculture and Forestry	4	-	-	-
Administrative branch of the Ministry of Transport and Communications	4	-	2	2
Administrative branch of the Ministry of Economic Affairs and Employment	8	3	1	1
Administrative branch of the Ministry of Social Affairs and Health	6	-	-	-
Administrative branch of the Ministry of the Environment	3	-	-	-
In total	61	9	7	7

In its financial audits, the National Audit Office 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 on account of the observations.

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

Clarity and uniformity of the budget have a significant impact on both efficient implementation of the budget and compliance with it. It is essential for budgetary decision-making and the implementation of the budget that the solutions made during the budget preparations are consistent and unambiguous. A uniform budget also promotes effective and efficient management of central government finances. The National Audit Office has promoted uniformity of the budget through its own operations. The National Audit Office will issue a report on a separate audit related to the development of uniformity of the budget in the autumn of 2020.

3 Performance data in the Government's annual report

The annual report provides information on the relevant issues required by law. The reporting on the objectives set by the Government Programme is comprehensive, but the large number of objectives weakens the strategic perspective. All ministries except one report on the achievement of the objectives set out in the justifications for the main titles in the budget proposal for 2019. One ministry reports on its more recent, strategic objectives. The comprehensiveness of the reporting is satisfactory, as the report provides information on most issues under the budget classes. As a whole, the reporting is highly concise, which is the preferred trend for annual reports. For this reason, the cost-effectiveness of even significant functions is only described briefly or mentioned in passing. The report discusses the state of sustainable development from three perspectives but does not report clearly on the measures taken by the Government itself to implement the report on sustainable development.

The annual report covers the issues required by legislation in essence

The Government's annual report for 2019 includes in essence the twelve issues laid down in sections 17 and 18 of the State Budget Act and specified in sections 68a–b of the State Budget Decree. In this respect, the contents of the annual report are adequate and in compliance with legislation.

The cost-effectiveness, i.e. the relation between costs and outcomes or effects, is not presented comprehensively or systematically in the annual report. Describing the costs and effects can be considered a particularly demanding task: central government operations aim to influence large-scale social phenomena, and it is difficult to differentiate between the impacts of central government finances and other factors. The descriptions of the different administrative branches provide only limited information on the achievement of the operational performance targets (State Budget Decree, section 68b(1)(4)) and on the development of the finances and operational performance of unincorporated state enterprises and funds (State Budget Decree, section 68b(1)(5)).

The reporting on the Government Programme is comprehensive – the large number of objectives weakens the strategic perspective

Prime Minister Marin's Government Programme includes seven strategic themes, which in turn include a total of almost 70 different objectives. The strategic themes are of different scope, and the objectives also vary from

extremely extensive entities to highly detailed policy lines. Because the Government Programme sets such a large number of objectives with diverse contents, the reporting on them in the annual report is uneven. On the one hand, the annual report deals with large-scale entities, and on the other, with detailed measures.

The section of the annual report dealing with the Government Programme is very concise: there are only 2–3 pages on each strategic theme. It is therefore obviously impossible to report on the implementation by separately assessing the achievement of each individual objective. Regardless of this, the reporting is comprehensive. The annual report covers about three quarters of the 67 objectives set by the Government Programme if the criterion applied is that the objective is described or mentioned in the annual report. As there was a change of Government in the report year, it will not be possible to assess the actual effectiveness until in the coming years.

The annual report covers the impact targets set out in the budget proposal with the exception of one ministry

The annual report provides information per ministry on the implementation of 55 impact targets. Overall, the reporting on the impact targets is adequate.

The targets reported on in the annual report are the same as those presented in the justifications for the main titles in the budget proposal with the exception of the targets of the Ministry of Social Affairs and Health. The Ministry of Social Affairs and Health decided on new impact targets for its consolidated strategy in the summer of 2019, and its reporting in the annual report is based on them. This is clearly stated at the beginning of the chapter.

The number of objectives corresponds quite well to the budget proposal regulation, according to which each ministry should present a few impact targets in the justifications for the main titles.

The annual report is relatively comprehensive but does not describe issues under all budget classes

The purpose of the Government's annual report is to disclose how the Government has used the appropriations granted to it by Parliament in the budget and how cost-effectively they have been used. In recent years, the aim has been to make the annual report more concise.

In view of the conciseness aim, the annual report provides relatively adequate information on the cost-effectiveness of the use of appropriations. The assessment of the implementation of the societal impact targets is more comprehensive than before, as the ministry-specific sections have been structured according to the impact goals. The annual report also provides information on most issues under the budget classes – however, not on all issues. The use of appropriations is not reported on comprehensively or systemati-

cally. Operations not related to the impact targets is not reported on as comprehensively as before.

As the description of cost-effectiveness in this year's annual report is based on the impact targets, the number of targets has an effect on the extent to which ministries report on their cost-effectiveness. The number of objectives per ministry varies between one and eight. When reporting on their administrative branches, the ministries have also interpreted differently how detailed "the summary of the most important information" required under the decree should be. The most comprehensive summaries include information on most agencies in the administrative branch, whereas the most limited ones include no information on agencies and institutions.

A concise report highlights the need for more detailed performance data

In recent years, the aim has been to render the annual report more concise, which has also succeeded. At the same time, cost-effectiveness is reported on more briefly and concisely. The annual report deals with only the most important issues, which are structured in this report according to the impact targets. This trend is partly problematic, as it may limit the assessments and reports on cost-effectiveness.

If the reporting is based on impact targets, and they relate only to certain parts of the main title, a part of central government finances falls outside the scope of the annual report. This is partly offset by the fact that the accounting offices report on the results of their use of funds in their own annual reports, which are referred to in the Government's annual report. However, the annual reports of the accounting offices focus only on their own operations instead of assessing entire policy measures – from ministries to operational actors and the societal impacts of operations. This is the purpose that the Government's annual report is considered to serve. The reliability and adequacy of the annual report would increase if conclusions were formed in an open and transparent manner and the background data and more detailed analyses were available to make it possible to drill down to the data. This type of data could be provided on the ministry's or the Government's website, for example. The aim should also be, under the leadership of the Ministry of Finance, to harmonize the interpretations of the different administrative branches regarding how the cost-effectiveness of policy entities is assessed.

The annual report describes the state of sustainable development but does not disclose the results of the Government's own actions

Under section 68a of the State Budget Decree, the annual report shall provide information on the Government's key policy themes and assess their development. One of such themes is sustainable development. In 2017, Prime Minister

Sipilä's Government submitted a report on the 2030 Agenda (VNS 1/2017 vp.) to Parliament, defining the focus areas and goals for sustainable development. In the report, the Government also committed to reporting on sustainable development to Parliament in its annual report. In the annual report for 2019, the Government reports on sustainable development for the third time.

Sustainable development is reported on appropriately: the report presents a picture of its state in Finland from the international perspective as well as the most important observations related to sustainable development on the national level. The ten indicator baskets of the national monitoring system are assessed annually. The indicator values of the baskets are interpreted, and this information is used in the annual report. The international and national indicator-based information is further supplemented with the views of a citizens' panel on the implementation and trends of sustainable development.

The sustainable development reporting does not disclose how the Government has promoted the implementation of the measures presented in the report of the previous parliamentary period (VNS 1/2017 vp.) or developed the two focus areas defined in the report. Nor does the annual report for 2019 cover the sustainable development measures presented by each administrative branch in their justifications for the main titles of the budget proposal. In this respect, the reporting is not adequate.

On the other hand, it must be pointed out that sustainable development is otherwise included in the Government's annual report. Prime Minister Marin's Government Programme is entitled "Inclusive and competent Finland – a socially, economically and ecologically sustainable society", and the structure of the Government's annual report conforms to that of the Government Programme. Sustainable development can therefore be said to be included in all reporting in the Government's annual report. There is, for example, a separate chapter entitled "Carbon neutral Finland that protects biodiversity", because this is also a separate chapter in the Government Programme.

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

The purpose of the audit was to assess whether the chapter on general government finances in the Government's annual report contains the information on 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 rule, the report deals with general government finances comprehensively. The information content of the Government's annual report and the risk report of the Ministry of Finance should be further developed as a whole to avoid the presentation of overlapping information.

State of general government finances

The picture that the Government's annual report provides of the state of general government finances and its parts in 2019 is concise but includes the essential information. Because of the coronavirus situation, the outlook of general government finances is exceptionally uncertain, and the report presents no projections of general government finances. The National Audit Office considers this justified under the present circumstances, as the document is fundamentally intended to be a report on 2019. The report states that the medium-term fiscal balance has weakened during the year and provides a situational picture of 2019 in light of the EU fiscal rules. The situational picture is in line with the independent fiscal policy monitoring assessment published by the National Audit Office in December 2019. However, this time the annual report does not present a comprehensive assessment of compliance with the rules. As the escape clause was activated in March 2020, the rules laid down in the EU's Stability and Growth Pact are not valid. It is therefore justified to deviate from the previous reporting practice.

The National Audit Office presents its own assessment on the management of general government finances in the fiscal policy monitoring report published in May 2020. The assessment focuses on the fiscal policy measures taken on account of the coronavirus crisis. The report also assesses compliance of the General Government Fiscal Plan of this spring with legislation, realism of the forecasts on which fiscal policy is based, and application of the central government spending limits procedure under the exceptional circumstances. In the report, the National Audit Office also gives its ex-post assessment of compliance with the spending limits rule in 2019. Furthermore, the National Audit Office updates its assessment of the development of general

government finances in 2019 in light of the EU rules. However, an ex-post assessment of compliance with the rules will not be made until the escape clause ceases to be valid.

Central government liabilities and risks

In central government, risk taking, assessment and management are decentralized to separate units. Therefore, the description of central government risks and liabilities in the Government's annual report follows the same structure. The liabilities and risks are reported in the annual report mainly as total liabilities: for example, guarantee amounts are presented relative to GDP or compared with the total amounts of other countries.

In the audit "Contingent liabilities of general government" (4/2018), it was found that risk assessment in central government is carried out at the level of individual agencies, and there are no minimum data requirements for increases of guarantee authorizations, for example. Risk limits should be defined for contingent liabilities related to government subsidization activities on the basis of an overall risk assessment. It would be important to develop the risk assessment and risk reporting to better highlight the different risks of different liabilities and to give more consideration to the combined impacts of the risks. The Ministry of Finance should promote the development of content requirements for the drafting of guarantee decisions and decisions to increase authorizations so that the financial impacts of such commitments are appropriately taken into account.

The Ministry of Finance is preparing a report on the need to develop the risk management of contingent liabilities. The report will also examine the need to introduce risk limits. In addition, it will examine issues related to the presentation of the economic impacts of commitments.

In its audit "Central government contingent liabilities", the National Audit Office also paid attention to the deficiencies in Finnvera's financial supervision. The National Audit Office recommended that the Ministry of Economic Affairs and Employment should specify the content requirements for risk reporting concerning Finnvera and ensure that the supervision of Finnvera complies with the legislative objective of supervision in accordance with the principles governing the supervision of credit institutions.

According to the Government's annual report, the working group on export financing and related risk management (VIRAKE) issued its report in July 2019. The working group recommended that the financial supervision, monitoring indicators and reporting related to Finnvera be further developed. The National Audit Office considers it important to increase the efficiency of the risk management and supervision of the Finnvera Group as part of the more extensive legislative work carried out in 2020 in relation to Finnvera's financing.

Under the State Budget Decree (section 68a), the Government's annual report shall include an assessment of the key economic risks related to central government operations and of their significance. However, the Decree does not specify what it means by the assessment of the significance of risks. The Government's annual report also refers to the risk overview prepared by the Ministry of Finance. It is also stated in the Government's annual report that the costs arising from the realization of central government liabilities can substantially burden general government finances and the national economy. This is considered to underline the importance of not only careful management of central government financial liabilities and related risks but also of monitoring and reporting on them.

The Ministry of Finance should specify the requirements set for risk reporting in the Government's annual report and the risk overview. The information content of the Government's annual report and the risk overview of the Ministry of Finance should be further developed as a whole to reduce the amount of overlapping information. Attention should be paid to the status of the Government's annual report as a parliamentary document and thereby as a key source of information for Parliament on central government liabilities and risks. The risk overview should preferably focus more on risk analyses and such supplementary information that has not been presented in corresponding format in the Government's annual report.

Reporting on central government finances

The total central government calculations (statement of revenue and expenditure and the balance sheet) are presented in the same manner as in previous years. They consolidate the final accounts of on-budget entities, off-budget funds, and unincorporated state enterprises to eliminate the impacts of internal items. The calculations give a more comprehensive picture of central government finances than the final central government accounts. The principles for preparing the total calculations are described clearly in the report. In view of the entire central government, substantial sections of central government finances (such as state-owned companies) still remain outside the calculations. Measures to introduce consolidated reporting in central government were launched in 2019 by a user need survey, which the National Audit Office considers justified from the perspective of transparent central government finances, the steering of central government, and the development of risk management.



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