

# Conclusions and recommendations of the National Audit Office

## Uniformity of the budget

The compliance audit was targeted at the uniformity of budget procedures, and it was conducted based on the budget and supplementary budgets for 2019. As a compliance audit was concerned, the uniformity of the procedures was audited primarily from the perspective of the requirements laid down in provisions and regulations. The National Audit Office has highlighted good budgeting practices through recommendations and presented proposals for developing the internal control of the budgeting process.

The purpose of the audit was to provide answers to the following questions:

1. Do different administrative branches have uniform procedures for drafting the budget?
2. Have the procedures for drafting the budget been unified in 2015–2019?

## Budget drafting procedures are not uniform

Different administrative branches did not have uniform procedures for drafting the budget for 2019. The drafting procedures were not unified in 2015–2019, and non-uniformity has only increased in the budget for 2020.

There is non-uniformity in the class structure of the budget, in the uses of the items, and in the principles for allocating revenue and expenditure. The non-uniformity is caused especially by the extensive use of mixed items, salary payment from items other than the operational expenditure items, the large number of extensive and varied item decisions, and deviation from the allocation principles laid down in the State Budget Decree.

The class structure of the main titles in the budget is an essential part of the systematics in budget drafting. It links appropriations with the targets set for cost-effective operations. There are clearly defined criteria for the class structure of the budget, but they have not been complied with adequately. In the budget for 2020, the class structure is even weaker in the main titles of the Ministry of Transport and Communications and the Ministry of Economic Affairs and Employment, where all operating expense items of agencies and institutions are budgeted under one class unlike in the other main titles.

## Derogations from the drafting regulation should only be applied with consideration

The budget drafting provisions and regulations enable different budget solutions in similar situations. However, during the past 20 years, central government has made significantly more exceptional budget solutions that, under the budget drafting regulation, should be used only for a special reason or in an exceptional situation. The exceptional solutions are often derogations from a main rule laid down in the State Budget Decree. In other words, the accounting offices have started to apply the budget drafting regulations too flexibly, which has undermined the uniformity of the budget.

The Ministry of Finance has issued a new budget drafting regulation, which entered into force on 1 May 2020. The new regulation includes clearly tighter requirements related to exceptional procedures. The

changes made to the drafting regulation are very good and support the aim to unify and clarify the drafting of the budget.

The ministries should make sure that they take the changes in the drafting regulation into account when drafting their budgets. The drafting regulation should be complied with in the same manner as provisions and regulations in general, i.e. derogations should be applied only after careful consideration and for a justified reason. The Ministry of Agriculture and Forestry and the Ministry of Economic Affairs and Employment, in particular, should pay attention to the budget procedures applied in their administrative branches.

#### Uniform budgeting promotes compliance with the budget and efficient management of central government finances

Uniform budgeting clarifies the budget monitoring practices and thereby supports efficient management of central government finances and the achievement of productivity targets in financial administration. Uniform and clear budgeting facilitates budget decisions and promotes compliance with the budget. All this is essentially related to Parliament's work as well.

Clear and uniform budgeting, particularly as regards the budget structure and item decisions, would make it easier to implement the budget and promote harmonization of administrative processes also in electronic systems. It is possible, for example, to significantly increase the efficiency of different government aid processes, as the related budget procedures are highly diverse. The types, allocation criteria and use of authorizations are often different, although similar discretionary government transfers are concerned. As a rule, it would be possible to unify the budget procedures of similar government transfers and grants, such as operating grants or project subsidies. This would ensure that they are processed in a uniform manner in the budget, budget accounting, commercial accounting, and any monitoring of authorizations. Material efficiency gains would require harmonization of not only the budget but also the regulations related to government transfers and grants.

#### Recommendations of the National Audit Office

1. The Ministry of Finance should strengthen the budget proposal process to enable it to take action, through uniform procedures, in the case of proposals that are contrary to the drafting regulation.
2. The Ministry of Finance and the other ministries should develop controls related to budget preparation and the processing of budget proposals. The controls would ensure uniform budgeting and compliance with good budgeting practice.
3. When preparing their budgets, the ministries should take into account the tightened requirements laid down under sections 7.4.3 to 7.4.5 in the new drafting regulation.
4. When the ministries prepare their budget proposals and the Ministry of Finance compiles the budget proposals, they should ensure that the class and item structure comply with the budget drafting regulation.
5. The ministries should simplify the breakdown of accounts to reduce the administrative burden caused by an excessively detailed breakdown.
6. The Ministry of Finance and the other ministries should clarify and unify the budgeting of various compensations and membership fees of international organizations.