

Conclusions and recommendations of the National Audit Office

Internal co-financing of on-budget entities as a source of funding for their activities

The audit was targeted at the co-financed internal activities of on-budget entities.

Co-financing means that a government agency receives funding from another on-budget entity. Co-financing can be used with activities for which funding is received without an obligation to provide direct consideration to the financier. Co-financed activities do not refer to the fulfilment of an agency's statutory official duties.

In 2019, central government's internal co-financing totalled approximately EUR 130 million.

The reason for conducting the audit was that the National Audit Office considered it necessary to examine the central government's internal co-financing as a whole. The purpose of the audit was to verify whether the central government's internal co-financing has been recorded correctly in the accounts, whether it is used in accordance with the legislation, and whether the budgetary power of Parliament is realized in its use.

The budget does not provide sufficient transparency on the payment of co-financing

The audit found that, at present, the budget does not provide sufficient transparency on the use of appropriations for co-financing and thereby on their transfer to another budget item. According to the Constitution of Finland (section 85), appropriations shall not be transferred from one budget item to another unless this has been allowed by the budget or by an act.

It is important that Parliament is informed in the budget decisions if an appropriation can be used to finance projects carried out by other agencies. If necessary, the budget decisions should specify the transfer authorization by defining the maximum amount of the appropriation that can be used for the purpose in question. The aim is to safeguard Parliament's budgetary power by preventing government agencies from amending Parliament's decision on the allocation of appropriations through their own decisions. According to the National Audit Office, a similar purpose of use should not be considered a sufficient authorization to transfer an appropriation to another budget item.

A large number of activities that are not co-financed are recorded in the internal co-financing account

The audit showed that a significant number of the projects treated as co-financed in the accounting were, in fact, not co-financed in nature.

Criteria for the nature of co-financed activities were defined in the audit based on legislation. Co-financed activities should be voluntary for the agencies participating in them and should not be based on an assignment. Co-financed activities should be jointly funded. These criteria do not apply to co-financing paid from EU funds insofar as they are subject to specific legislation.

Several of the projects selected to the audit sample did not meet these requirements. Some of the projects did not have or had a very small share of self-funding, whereas some of them were related to the fulfilment of statutory and permanent official duties. Activities related to the preparation of a legislative reform were considered comparable to statutory official duties. In addition, the audit sample included projects that were based on an assignment and commissioned research in nature. Some of the projects had to be considered paid activities as referred to in the Act on Criteria for Charges Payable to the State, whereby they could not be co-financed activities.

If a project does not meet the criteria for co-financing, the primary option is to budget the funds directly for their final user. In many cases, this would be more appropriate and administratively less complicated. Other options include granting the right to record in an appropriation without co-financing and using the account for the reimbursement of costs of co-operation. The boundary between co-financing and co-operation is partly unclear.

The revenue and expenditure of co-financed activities do not match

The revenue and expenditure of co-financed activities should mainly equal each other at the central government level, but this has not been achieved. In 2020, the differences between accounting offices in the recognition of revenue and expenditure totalled EUR 19 million, which can be considered a large amount.

The differences are due to the allocation and the fact that the agencies providing and receiving funding have interpreted the type of project funding in different ways. Differences in allocation are partly caused by ambiguity as to which allocation criterion is to be applied when consumption expenditure of internal co-financed activities of on-budget entities is financed from the transfer item.

Central government's internal co-financing is a suitable form of financing only in rare cases

If projects funded by the EU and projects that do not meet the criteria for co-financing, such as voluntarism and self-financing, are excluded, the number of projects registered as central government's internal co-financing is considerably smaller.

In addition to meeting the criteria set for co-financing, the use of co-financing should also be appropriate. If co-financing is used as a form of funding, it should provide some kind of added value – effectiveness or economic efficiency – as compared with direct budget funding.

The use of co-financing causes, to some extent, extra administrative work. It also steers government authorities to organize their activities as short-term development projects, through which it is difficult to achieve long-term results.

It is usually better to use permanent funding and permanent labour for a government agency's permanent basic activities.

Recommendations of the National Audit Office

1. The Ministry of Finance should ensure through issuing guidelines that the use of an appropriation for internal co-financing is clearly indicated in the budget.
2. The Ministry of Finance should ensure that, if internal co-financed activities of on-budget entities are financed from the transfer item, this expenditure is allocated on an accrual basis even when it has been indicated that the item as a whole is to be allocated on another basis.
3. The Ministry of Finance and the State Treasury should jointly specify the definitions of co-financed activities and co-operation so that it is easy for the accounting offices to understand what they mean and what the difference between them is.
4. The accounting offices should observe that internal co-financing cannot be used for assignments or for statutory official duties, nor can it be used for financing projects in full.
5. The Ministry of Finance and the State Treasury should instruct that the right to record is no longer to be used in the case of co-financed activities and that only invoicing or the payment application procedure is to be used.
6. The State Treasury should update the guidelines on the content of the decision to allocate an undistributed appropriation so that, if the right to record continues to be exercised in the case of co-financed activities or reimbursement of the costs of co-operation, the form of financing should be indicated in the decision.
7. The accounting offices should clearly indicate in their financing decisions, contracts, and any allocation letters, when they apply co-financing and what the actual financing contributions and cost items of the various parties are.
8. The accounting offices should see to it that the revenue and expenditure of co-financed projects are recorded consistently for the correct year.