

National Audit Office's separate report to Parliament on the audit of the final central government accounts 2022 and the Government's annual report



NATIONAL AUDIT OFFICE'S
REPORTS TO PARLIAMENT

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on the audit of the final central government accounts
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To Parliament



The Government has submitted to Parliament the Government's annual report for 2022 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 2022 and submits this separate report to Parliament under section 6 of the Act on the National Audit Office (676/2000).

Helsinki 2 June 2023

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Main content



Based on the financial audit of the final central government accounts, the final central government accounts for 2022 have been prepared in accordance with all relevant provisions.

Based on the financial audits, the National Audit Office draws attention to the procedures that are in violation of the Budget and the key budget provisions and that are also in violation of the provisions on central government finances laid down in the Constitution of Finland. Ten accounting offices were issued with qualified opinions on regularity on account of these 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 2022 budget year.

In essential respects, the Government Annual Report covers the matters required under statutes. Even though the societal impact targets set out in the budget proposal are adequately covered, there are inadequacies in reporting on operational efficiency and cost-effectiveness. The implementation of the key objectives of the Government Programme is extensively discussed. The overall state of sustainable development is well covered in the annual report. Reporting by ministries on sustainable development measures in the ministries' own administrative branches now gives a better picture of the success and effectiveness of the actions.

As a whole, the Government Annual Report provides a comprehensive picture of general government finances. General government budgetary targets are only briefly described. The financial position of central government should be covered in more detail.

1 Financial audit report on final central government accounts for 2022

The National Audit Office submits this financial audit report on the audit of the final central government accounts for the 2022 fiscal year. The audit was conducted by Financial Audit Counsellor Susanna Falck, Senior Auditor Isa Lempinen, Principal Financial Auditor Anna-Marja Kari, and Principal Financial Auditor Mari Brusila. The audit was supervised by Senior Director for Financial Audit Vainö Viherkoski, CPFA.

The audit was conducted in compliance with the National Audit Office's financial audit manual, and it was targeted at 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, on which the final accounts are based. The audit was also targeted at the procedures that ensure the integrity and accuracy of the information in the consolidated accounting and in the preparation of the final central government accounts.

Final 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, were examined in sufficient detail to determine whether the final central government accounts and the notes to them had been prepared correctly in material respects.

Expenditure (approximately EUR 350,000) that should have been allocated to 2023 has been allocated, in violation of the budget and section 5a of the State Budget Decree, to 2022 under item 30.20.20 (Veterinary services and control of plant pests, variable appropriation). With this procedure, the variable appropriation has been carried over in violation of section 7 of the State Budget Act.

Expenditure (EUR 104,000) that, based on the payment decision, should have been allocated to 2023 has been allocated, in violation of the budget and section 5a of the State Budget Decree, to 2022 under item 29.40.51 (Research funding of the Academy of Finland, variable appropriation). With this procedure, the variable appropriation has been carried over in violation of section 7 of the State Budget Act.

Expenditure (EUR 2.0 million) that, based on the payment decision, should have been allocated to 2023 has been allocated, in violation of the budget and section 5a of the State Budget Decree, to 2022 under item 26.40.63 (Support paid to customers of reception activities, variable appropriation). With this procedure, the variable appropriation has been carried over in violation of section 7 of the State Budget Act.

Expenditure (EUR 297,153) that should have been allocated to 2023 has been allocated, in violation of the budget and section 5a of the State Budget Decree, to 2022 under item 28.90.20 (Developing shared information and knowledge management in the public sector, three-year deferrable appropriation in the budget for 2020). With this procedure, the deferrable appropriation has been carried over in violation of section 7 of the State Budget Act.

Refunds of expenditure (EUR 20,653) that should have been allocated to previous years have been entered, in violation of the budget, under item 25.10.50 (Compensations paid to private legal aid attorneys, variable appropriation).

Part of the appropriation under item 33.01.04 (Operating expenses of state-run mental hospitals, two-year deferrable appropriation) has been used, in violation of the budget, for paying transfer expenditure (EUR 211,482 million).

Part of the appropriations under item 33.01.25 (Electronic national client information systems of healthcare and social welfare, three-year deferrable appropriation in the budget for 2020) and 33.03.25 (National competence centres, three-year deferrable appropriation in the budget for 2020) has been used, in violation of the budget, for paying VAT expenses (totalling EUR 134,280) belonging to item 33.01.29 (VAT expenses of the administrative sector of the Ministry of Social Affairs and Health, variable appropriation).

Part of the appropriation under item 26.30.02 (Operating expenses of the Emergency Response Centre Administration, two-year deferrable appropriation in the budget for 2021) has been used, in violation of the budget, for paying VAT expenses (EUR 139,283) belonging to item 26.01.29 (VAT expenses of the administrative sector of the Ministry of the Interior).

Off-budget funding (EUR 30,872) corresponding to the VAT expenses paid from item 25.01.29 (VAT expenses of the administrative sector of the Ministry of Justice) has been entered, in violation of the budget, under item 25.40.01 (Operating expenses of the Criminal Sanctions Agency, two-year deferrable appropriation).

Overall, 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 provided in the final central government accounts on authorizations corresponds to the information in centralized authorization accounting.

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

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

The notes to the final central government accounts have been presented in the manner laid down by the State Budget Decree.

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

Internal control

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

The audit of the accounts and internal control of the State Department of Åland revealed shortcomings that require the State Department of Åland to take measures. In the audit of the accounts of the State Department of Åland, it was found that the good accounting practice laid down in Section 14 of the State Budget Act had not been complied with.

The internal control of certain financial management tasks referred to in section 12b of the State Budget Act has been assessed in connection with the risk analysis and audited in connection with the audits of service production processes. The internal control of the customer service processes in the Government Shared Services Centre for Finance and HR was found to have shortcomings that require the Services Centre to take 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.

The National Audit Office's opinion of the final accounts

The final central government accounts for the year 2022 have been prepared in compliance with the valid statutes.

Helsinki 10 May 2023

Sami Yläoutinen
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 2022 budget year.

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

Table 1: Financial audit reports for 2022

Administrative sectors	Financial audit reports (No.) 2022	Qualified opinions on regularity (No. of accounting offices) 2020	Qualified opinions on regularity (No. of accounting offices) 2021	Qualified opinions on regularity (No. of accounting offices) 2022
Office of the President of the Republic of Finland	1	-	-	-
Prime Minister's Office	1	1	-	-
Administrative sector of the Ministry for Foreign Affairs	1	1	-	-
Administrative sector of the Ministry of Justice	6	1	1	2
Administrative sector of the Ministry of the Interior	7	1	1	2
Administrative sector of the Ministry of Defence	2	1	-	-
Administrative sector of the Ministry of Finance	12	-	2	2
Administrative sector of the Ministry of Education and Culture	6	2	1	1
Administrative sector of the Ministry of Agriculture and Forestry	4	-	-	-
Administrative sector of the Ministry of Transport and Communications	4	1	1	1
Administrative sector of the Ministry of Economic Affairs and Employment	8	3	1	-
Administrative sector of the Ministry of Social Affairs and Health	6	-	2	2
Administrative sector of the Ministry of the Environment	3	-	-	-
Total	61	11	9	10

The number of accounting offices issued with a qualified opinion on regularity has remained almost unchanged in 2020–2022. A qualified opinion on regularity may include several specified cautions on regularity. Therefore, the number of cautions on regularity may exceed the number of accounting offices issued with a qualified opinion on regularity. The total number of cautions on regularity issued in 2022 was 10, as only one caution on regularity was issued to each of the accounting offices. In 2021, cautions on regularity totalled 13 (qualified opinion on regularity issued to 9 accounting offices) and in 2020, they totalled 14 (qualified opinion on regularity issued to 11 accounting offices). Based on the number of cautions on regularity, the development has thus been positive.

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 is to enable the audited accounting office to take measures as soon as possible based on the observations. Accounting offices can rectify incorrect practices or transactions contrary to budget already during the financial year prior to the adoption of the final accounts and the issue of the financial audit report.

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 accounting office 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 efficient implementation of and compliance with the budget. It is also essential for budgetary decision-making and the implementation of the budget that the decisions made during the budget preparation are consistent and unambiguous. A uniform budget also promotes effective and efficient management of central government finances. The aim of the financial audits conducted by the National Audit Office is also to promote uniform and clear preparation and drawing up of the budget in all administrative sectors.

3 Performance data in the Government's annual report

The Government's annual report provides information in material respects on the issues required by law. The societal impact targets included in the budget proposal are reported on adequately, but there are shortcomings in the reporting on operational performance and cost-effectiveness. Comprehensive information is provided on the implementation of the key objectives included in the Government Programme. The general state of sustainable development is described well in the annual report. The ministries' reports on sustainable development measures taken in their own administrative sectors provide a better picture than before of the efficiency, economy, and effectiveness of these measures.

The annual report covers the issues required by legislation

The Government's annual report for 2022 presents in essence the issues laid down in the State Budget Act (423/1988, sections 17 and 18) and specified in the State Budget Decree (sections 1243/1992, section 68a–b). The contents of the annual report are mainly adequate and in compliance with legislation.

According to section 68b (1)(4) of the State Budget Decree, the annual report shall present the most important summary information on the achievement of the operational performance targets set for the ministries' administrative sectors and their agencies and institutions and on the development of the operational performance. Information presented in the annual report on the achievement of the operational performance targets varies, and the requirements set for textual content are met only partly. The information provided in the annual report consists mainly of a general description of activities and finances, and the development of performance is hardly discussed. Several administrative sectors (e.g. the Ministry of Economic Affairs and Employment, the Ministry of Agriculture and Forestry, and the Ministry of Transport and Communications) refer to the performance

targets of the agencies in their administrative sector and their achievement only in separate documents attached to the annual report (annual reports of agencies and institutions). This does not fully meet the requirement set for providing summary data, and the presentation of summary tables should be considered. However, the requirements for the contents and form of the audit report lead to a shortage of space, and in practice, it is often impossible to present performance data.

The Government's annual report 2022 continues to have challenges in presenting the cost-effectiveness of measures, although more administrative sectors than in the previous years present information on the cost-effectiveness of measures. The best administrative sectors to present indicators are the Ministry of Justice and the Ministry of Defence, and also the Ministry of Education and Culture, the Ministry of the Interior, and the Ministry of Economic Affairs and Employment. The requirement for cost-effectiveness data in the annual report has already previously proved to be a challenge, and the aim for a concise report that presents only the essential information does not allow data to be presented comprehensively.

Impact targets are reported on adequately; the ministries' own assessments of their target achievement vary

The annual report contains sector-specific information on the achievement of the impact targets set out in the justifications for the main titles in the budget proposal. The number of societal impact targets corresponds to what is laid down in the regulation on drawing up budget proposals: according to the regulation, each ministry shall present a few impact targets in the justifications for the main titles. The budget proposal contains a total of 51 impact targets, all of which are reported on in the annual report. The number of targets has remained at the level of the previous years.

The annual report provides sector-specific information on all the targets presented in the justifications for the main titles, and the targets are presented consistently in the documents. Overall, the reporting on the impact targets is adequate and comprehensive.

In addition to reporting on the impact targets, the ministries assessed on a five-step scale (weak–excellent) in the annual report how well they had succeeded in achieving their impact targets. The assessments are the ministries' own and based on their overall assessments of the achievement of the targets. Therefore, the assessments are not comparable and do not objectively describe the achievement of the impact targets.

The administrative sectors' assessments of the achievement of the impact targets have changed to some extent from the previous year. The dispersion of the assessments has increased: 3/51 of the grades had improved, while 6/51 had deteriorated. Of the targets, 3/51 were assessed to have been achieved excellently (0/51 in the previous year), 34/51 well (42/51), 12/51 satisfactorily (9/51), and 2/51 adequately (0/51).

According to the ministries' own assessments, the administrative sectors that have shown the most positive development in the achievement of impact targets have been those of the Ministry for Foreign Affairs and the Ministry of Economic Affairs and Employment. The Ministry for Foreign Affairs assessed that it had achieved two impact targets excellently. There has been a clear deterioration in the administrative sector of the Ministry of Social Affairs and Health, which was the only ministry that assessed that some of its impact tar-

gets had been achieved only adequately. Societal impact during the government term has also weakened in the administrative sector of the Ministry of the Interior (weakening of internal security).

The reporting on the Government Programme focuses on the crises during the Government term and the objectives achieved

Under section 68a (1.1) of the State Budget Decree, the Government's annual report shall present an review of the Government's key policy themes and an assessment of their development. The Government Programme is implemented through the Government's Action Plan, which is divided into seven strategic themes. Each strategic theme is further divided into 4–8 project groups or action areas, under which individual projects are carried out. The Government's Action Plan contains 231 projects or measures in total.

The report section of the Government's annual report contains information on the implementation of the Government Programme and on the key changes that have affected the Government's activities. The reporting for 2022 is marked by measures related to the Covid-19 epidemic, Russia's war of aggression in Ukraine, and Finland's accession to the North Atlantic Treaty (NATO). As regards the measures defined in the Government Programme, the reporting is recapitulative and, taking into account the reporting of the previous years, also comprehensive. The Government's annual reports during the government term of Rinne–Marin have covered almost all of the 231 projects in the Government Programme and most of the measures entered in the Government Programme.

As a rule, the annual report has reported well on the projects marked for completion in 2022 in the action plan of the Government Programme. However, all strategic themes of the Government Programme include several projects to be completed or terminated at the end of the government term (4/2023). It would also be important to report on the progress or completion of these projects during the forthcoming Government Programme.

The Government Programme includes a total of 774 measures, of which 90% are estimated in the annual report to be implemented by the end of the government term. These 774 measures include not only projects or reforms but also general policies and continuous activities. In the case of continuous activities, the assessment of success varies by actor: partial achievement of objectives that extend beyond parliamentary terms may be assessed either as completed or uncompleted activities. From the expression “will not be completed during the current parliamentary term”, it cannot therefore be directly concluded that the measure has failed (e.g. carbon neutrality by 2035). Correspondingly, objectives marked as completed may refer to activities that are continuous and extend beyond parliamentary terms.

Reporting on sustainable reporting has improved

Under section 68a of the State Budget Decree, the annual report shall provide information on the Government's key policy themes and an assessment of their development. One of these themes is sustainable development, which is reported on in the annual report in its own sub-chapter under the implementation of the Government Programme and also in detail in the performance section of each ministry.

The audit found the text in the report section of the annual report on sustainable development measures relevant and reliable. The text corresponds to the reporting format of the previous year, with the exception that for 2022, the annual report reports on a larger number of measures implemented and directly assesses Finland's success in achieving the sustainable development goals (SDGs). In the annual report, the state of sustainable development is described in relation to relevant benchmarks, i.e. the UN's SDGs and the situation in other countries. In addition, the annual report provides information on the state of sustainable development in Finland based on indicators and the objectives set by Society's Commitment to Sustainable Development. The information is derived from reliable sources: SDG comparisons by international organizations and the monitoring system of the Commission on Sustainable Development, which is based on approximately 40 indicators and ten monitoring baskets formed from them.

Detailed sustainable development objectives are set specifically for each ministry in the justifications for the main titles of the budget proposal. Correspondingly, Appendix 1 to the Government's annual report provides information on the measures each ministry has taken to achieve the objectives. The audit found that the sector-specific sustainable development objectives and measures set out in the justifications for the main titles in the budget proposal are comprehensively reported on in the Government's annual report in the descriptions of the ministries' operational performance.

The objectives set out in the justifications for the main titles have been rendered sharper and more concise compared with the previous years, even though the ministries' texts in the justifications for the main titles in the budget proposal do not fully correspond to the objectives addressed in the sustainable development section of the annual report. However, the correspondence between the texts of the budget proposal and the Government's annual report has improved from the previous years. The audit found that 10 administrative sectors reported well on the achievement of the sustainable development objectives, one reported on it partly well (the Ministry of Justice addressed the sustainable development objectives of the budget proposal for 2021 instead of those of the budget proposal for 2022), and only the reporting of the Ministry of Finance was not directly related to the objectives set out in the budget proposal. The scope of reporting varies: the Ministry of Economic Affairs and Employment, the Ministry of Agriculture and Forestry, and the Ministry of the Environment, for example, describe the achievement of the objectives quite thoroughly. Some ministries, particularly the Ministry of the Interior, also justifies well why it has not achieved some of the objectives during the report year.

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

As a rule, the Government's annual report deals with general government finances comprehensively. The targets set for the general government fiscal position have been described only briefly. The reporting on the central government financial position should be strengthened overall. The audit assessed whether the chapter in the Government's annual report on general government finances contains the information referred to in section 18 of the State Budget Act and section 68a of the State Budget Decree on the state of central and general government finances.



The state of general government finances

Under the State Budget Decree (section 68a), the Government's annual report shall include a review of the state of general and central government finances. Section 3.1, "State of general government finances", in the Government's annual report provides a concise and informative picture of the state of general government finances in 2022. The annual report describes the situation with the EU laws and regulations steering general government finances comprehensively. The general escape clause of the Stability and Growth Pact remained in force throughout 2022, which affected the assessment of compliance with the laws and regulations. The objectives set in the General Government Fiscal Plan for general government fiscal position are covered only briefly, and it does not appear clearly from the annual report whether the objectives have been achieved or not. The spending limits rule set in the Government Programme in 2019 was not complied with in 2022, but this is not clearly stated in the Government's annual report.

The National Audit Office will present its assessment on the management of general government finances in the memorandum of fiscal policy monitoring to be published in June 2023. The memorandum will assess, for example, the Government's Fiscal Policy and the economic forecast of the Ministry of Finance.

Central government liabilities and risks

Under the State Budget Decree, the Government's annual report shall include an assessment of the key economic risks related to central government activities and their significance. In addition, the annual report shall present a review of the revenue and expenditure of the whole consisting of on-budget activities, unincorporated state enterprises and off-budget state funds, as well as of the financial wealth position and off-balance sheet liabilities. Central government liabilities include state guarantees, callable capital, and debts and other liabilities, such as pension liabilities. In the annual report, risks are defined as deviations that have a negative impact on the central government fiscal position in relation to the projected development.

Central government debt is discussed in a separate subchapter of the annual report, while the risks associated with it are discussed in the subchapter on central government liabilities and risks. Central government debt is reported to have more than doubled from the level of 2007, but the growth of interest expenses on central government debt is described only briefly.

The amount of state guarantees has been growing in Finland for a long time. Half of the guarantee liabilities in force at the end of 2022 (totalling EUR 68.5 billion) were related to Finnvera and about a quarter to the National Housing Fund. Finnvera's activities are described extensively in the annual report. However, the annual report should, by means of different risk scenarios, describe in greater detail the adequacy of the risk reserves for export guarantee activities and the possible need for additional recapitalization.

It is stated in the annual report that it is difficult to form a complete picture of the central government's balance sheet position, as the central government has asset items in off-budget units. This complicates the risk management related to the balance sheet. In its previous assessments, the National Audit Office has drawn attention to the need to develop consolidated reporting for the central government, as it would improve the overall picture of the central government's financial position. The Ministry of Finance has set up a project to develop the final central government accounts (Valtike). The project has been tasked with, for example, assessing the need to develop consolidated final central government accounts. The National Audit Office finds the development project justified.



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