

# National Audit Office's Annual Report to Parliament 2023



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NATIONAL AUDIT OFFICE'S  
REPORTS TO PARLIAMENT

R 19/2023 VP





# National Audit Office's Annual Report to Parliament 2023

R 19/2023 vp



# To Parliament



The National Audit Office of Finland (NAOF) audits the legality and cost-effectiveness of central government finances and compliance with the Budget in accordance with section 90 of the Constitution of Finland. Under section 6 of the Act on the National Audit Office (676/2000), the National Audit Office hereby submits the report on its activities to Parliament.

The report presents the conclusions made on the basis of the audit findings concerning the current state of central government finances and public administration as well as summaries of the audit findings that are of material importance to Parliament. The report also presents a review of the National Audit Office's activities during the annual report period (September 2022–September 2023).

The annual report is based on the fiscal policy audits, financial audits, compliance audits, performance audits and expert activities of the National Audit Office. The annual report contains 71 financial audit reports covering the budget year 2022 as well as 13 separate audit reports and 19 follow-up reports.

During the annual report period, the National Audit Office submitted the following separate reports to Parliament:

- Report on the oversight of election campaign funding in the 2022 county elections, 26 September 2022 (R 23/2022 vp)
- Fiscal policy monitoring and audit report on the 2019–2022 parliamentary term, 16 December 2021 (R 25/2022 vp)
- Report on the oversight of political party funding 2022, 28 February 2023 (R 6/2023 vp)
- Separate report on the audit of the final central government accounts 2022 and the Government's annual report, 2 June 2023 (R 16/2023 vp).

Helsinki 12 September 2023

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# Auditor General's review: Exceptional crises highlight the importance of sustainable fiscal management

The significant challenges faced by public finances underline the importance of a cost-effective central government and transparent use of public funds. Through its audit activities, the National Audit Office helps to ensure that public funds are used in compliance with the law and Parliament's decisions and that the accountability of the central government is implemented. The oversight tasks of the National Audit Office promote the transparency of public activities and decision-making.



The current year 2023 is important for Finland's public administration. The negotiations conducted after the parliamentary elections of last spring resulted in Finland's most important political document: the Government Programme, which contains the objectives and policy orientations of the new Government.

The new government term has begun in a challenging situation, and placing public finances on a sustainable path requires determined and broad-based measures. It has long been known that the economic and administrative policy environment is significantly affected by, for example, climate change and the ageing population. In addition, general government finances have been hit by exceptional crises – the Covid-19 pandemic and Russia's war of aggression in Ukraine – which have led to a substantial increase in central government expenditure. This year, the economic outlook has also been affected by the energy crisis, inflation and rising interest rates.

To support the preparation of the Government Programme for the new parliamentary term, the National Audit Office (NAOF) published its [viewpoints](#) on key topics in economic and administrative policy for the first time. The viewpoints address, for example, means of achieving balanced general and central government finances to support the sustainability of the state's fiscal management in the coming years. The viewpoints are based on the key findings and conclusions of the NAOF's audits and fiscal policy monitoring, published during the 2019–2023 parliamentary term.

## The National Audit Office will continue to work effectively and efficiently

The current year is also important for the National Audit Office. We now operate in a new line organisation with a new management system in the Audit, Monitoring and Oversight and Shared Services Units. The aim of the reorganisation was to clarify responsibilities and to better support the implementation of the NAOF's core tasks: audit and oversight.

The significant challenges faced by Finland's public finances highlight the importance of a well-functioning and cost-effective central government as well as sustainable and transparent use of public funds. It is important that the accountability of the central government is implemented as this makes it possible to ensure that public funds are used in compliance with the law and Parliament's decisions. The National Audit Office aims to promote the achievement of these objectives through its audit activities.

The NAOF also aims to promote transparency in public administration and decision-making through its oversight activities. We oversee election campaign and political party funding within the powers conferred on us by legislation, and we are preparing for the introduction of the Finnish Transparency Register in 2024.

In 2023, the National Audit Office will overhaul its strategy for the period 2024–2030 and in this work, consider the impacts that future change factors are anticipated to have on the NAOF. The new strategy will focus on ensuring that the NAOF will be able to perform its statutory tasks effectively and efficiently, taking into account the anticipated impacts of the future change factors on both the NAOF and the central government. In preparing the strategy, we have utilised our employees' strong competence and their views on the NAOF's activities and field of operations.

## The annual report compiles the key conclusions of our audit and oversight activities

In this annual report, we present, as usual, the most important findings of our audit and oversight activities and key conclusions regarding the state of central government finances and public administration during the annual report period, from September 2022 to September 2023. The report also presents the NAOF's activities and effectiveness.

Chapter 1 compiles the observations made in the audits related to **risk and continuity management**. Active risk and continuity management are needed both in the central government and in state-controlled companies. This ensures that society will function in all circumstances and that at the same time, attention is paid to the risks and liabilities the central government is exposed to. Government resolutions on the state's risk management policy and ownership policy are currently being prepared. We consider it important that the new government resolution on the state's ownership policy highlights the importance of not jeopardising the state's strategic interests by way of decisions made by the state owner or the state-owned company itself.

Chapter 2 presents a summary of **the financial audit reports of the central government accounting offices**. In the 2022 financial audits of the accounting offices, we issued more cautions than in the previous year on shortcomings in internal control and errors in financial statements or in operational efficiency data. The uniformity of the Budget has improved, which makes it easier to decide on the Budget, promotes the central government's compliance with it and enhances the state's fiscal management and financial administration.

Chapter 3 focuses on **the audits targeted at benefit and service systems**. The coordination of social security benefits and the services related to them as well as boosting incentives for work have been some of the key goals in the preparation of the social security reform. During several parliamentary terms, efforts have already been made to make public service systems and various permit processes more effective, for example by taking customer needs into account and by means of digitalisation. Audits targeted at different systems show that improvements have been achieved but there is still work to do. The overall management of the different systems can be improved by specifying the division of tasks between the service providers and by clarifying and harmonising the steering practices. More attention should still be paid to customer needs and regional special features in the development of services as the shortcomings identified will not be solved if the digitalisation of services is service provider driven.

Chapter 4 deals with the key findings of **the audits related to infrastructures**. Infrastructures, such as ICT systems, transport infrastructure and building stock, are an important part of the government's fixed assets. The lifecycle management costs arising from infrastructure maintenance and repair backlog should be presented comprehensively in the budget proposals and the General Government Fiscal Plan together with new investments and acquisition costs. Common goals, acquisition and management procedures as well as monitoring practices are also needed for the lifecycle management of fixed assets.

Chapter 5 deals with the conclusions of the audits related to the **financial information and statistics** that provide the basis for decision-making. Medium-term projections and fiscal statistics provide a reliable basis for fiscal decision-making. However, in our audits, we have repeatedly drawn attention to shortcomings in government proposals regarding the assessment of the economic impacts of reforms. We also find it important that statistics on local government finances and the finances of wellbeing services counties are produced on a centralised basis so that uniform financial data is available for decision-making. Correctly timed foresight reports and centralised coordination of information would increase the use of foresight information in decision-making and put the Government's foresight activities on a more structured basis.

Chapter 6 compiles information on **the activities and effectiveness of the National Audit Office**. The benefits of our auditing depend on how comprehensively our audits cover the central government and how public administration implements the recommendations made in our audits. Based on our monitoring, public administration has implemented most of the recommendations issued in our audits. Public administration also uses discretion as to when and where it implements the recommendations, taking into account both financial and operational aspects.

**Sami Yläoutinen**  
Auditor General



# 1 Risk and continuity management is key to the responsible management of central government finances

Ensuring that the functions for which central government is responsible can continue without interruptions in all situations is a key task of the government. This requires an active risk management policy at different levels of central government and in state-controlled companies. The focus in the risk and continuity management of central government is on safeguarding the functions that are important for the functioning of central government and society at large as well as on adequate monitoring of the risks to central government finances, government guarantees and liabilities and sufficient access to information on them. Proper functioning of state ownership steering plays a significant role in the latter area.

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**Systematic and proactive risk and continuity management ensures the functioning of central government in all situations**

The purpose of risk and continuity management in central government is to safeguard the continuity of the functions that are government responsibilities in normal conditions, during disruptions occurring in normal conditions and in exceptional circumstances.

It was noted in the audit (20/2018) carried out in 2018, which discussed risk management in central government and ensuring the continuity of the government agencies' operations during disruptions occurring in normal conditions that there is room for improvement in the plans of government agencies to ensure the continuity of their operations. According to the audit findings, centralisation of internal services of central government and new networked operating models require the management of continuity risks across agencies' boundaries. Based on the audit follow-up, risk and continuity management have been developed in the manner required by Parliament. In 2018, Parliament called for the Government to define risk management procedures at different levels of central government by the end of 2020. In accordance with the proposal of the working group that prepared the matter,

a risk management division was established under the Advisory Board on Internal Control and Risk Management. The task of the division is to prepare a government resolution on Government's risk management policy and to coordinate risk management at Government level. The first term of the division will end on 31 December 2024. The Government Financial Controller's Function has also received additional resources for its risk management activities on a temporary basis. With the help of the additional resources, a glossary of concepts explaining central government's financial risks and liabilities and the steering of implementation will be prepared, and the national framework and norms for risk management will be developed.<sup>1</sup>

Based on a survey conducted by the Advisory Board on Internal Control and Risk Management in summer 2019, government agencies, state funds and unincorporated state enterprises have produced fairly accurate definitions of risk management principles. A large proportion of government agencies had also prepared separate risk management policies and risk management action plans. There are also plans to include the perspective of risk management in the performance management processes of individual ministries. Because of the security situation, particular attention has been paid to the development of the risk management and continuity of the services provided by the Government ICT Centre Valtori.<sup>1</sup>

### Supervision of the strategic interests of ownership steering in state-owned companies is largely based on the trust between the owner and the company's management

At the end of 2022, the state had holdings in 69 companies. In 2022, the turnover of the companies owned by the state directly or through the investment company Solidium Oy totalled about EUR 144 billion, and the companies employed about 300,000 persons.

In strategic-interest companies, state ownership is based on both economic investor interest and on strategic interest that is essential or critical for the functioning of society. In these companies, the strategic interest concerns such matters as national defence, security of supply, maintaining infrastructure or ensuring that the obligation to provide basic services is met. There are differences between companies concerning the extent to which the strategic interest is part of their operations. The State of Finland currently has controlling interest over 17 strategic-interest limited liability companies. The ownership steering of fifteen of these companies is the responsibility of the Ownership Steering Department of the Prime Minister's Office, while two of the companies are steered by the Ministry of Finance. The Ownership Steering Department is responsible for the companies' strategic interests, which it prepares in cooperation with the line ministries.

The National Audit Office has audited the functioning of the ownership steering of strategic-interest companies. It was concluded in the audit that for the functioning of society, the most significant risks related to the strategic interest of the companies should be identified and assessed at government level as part of the management of administrative and financial risks pertaining to central government.<sup>2</sup>

Based on the audit, the Ownership Steering Department of the Prime Minister's Office has in many ways worked to ensure that it receives sufficient information on the state of the companies and their compliance with the government resolution on ownership policy. The department has ensured that the companies have risk management processes and analysed the risks and opportunities of the companies. However, the department does not comment

on the companies' risk level, risk-taking capacity or the functioning of their risk management practices. In its capacity as owner, the central government discusses risks with the companies and assesses their risk levels in relation to the companies' financial capacity but does not participate in the companies' risk management process. Through the members appointed to the board of directors, central government can influence the companies' risk management policies and ensure that they have all necessary risk-management functions in place. In fact, ownership strategic work is largely based on confidential communications between the owner (central government) and the companies' management and representatives. For this reason, it is difficult to assess the impact of ownership steering on the companies' performance.<sup>2</sup>

### The government resolution on ownership policy should be specified with regard to the risks to the government's strategic interests

The owner exercises direct influence to ensure that the decisions of the general meeting are in accordance with its interests. In recent years, the general meeting guidelines issued to the companies each year by the Ownership Steering Department have emphasised the importance of comprehensive and up-to-date risk management. The auditor is expected to provide an overview of the material observations related to the financial audit, which can be considered to include any findings concerning material shortcomings in risk management. This was stated for the first time in the guidelines issued in autumn 2021. In the guidelines issued in autumn 2022, companies are also requested to present an overview of their risks and risk management at the general meeting as part of the review of the financial statements. The Ownership Steering Department may also make enquiries to request situational awareness information from companies or groups of companies on how the threat and realisation of major international risks affect the companies' business operations. In the view of the National Audit Office, it may be necessary for the government owner to intervene in the financing and risk management of the companies more extensively and in a more binding manner by issuing guidelines in significant and problematic risk situations.<sup>2</sup>

It is clearly stated in the government resolution on ownership policy that a company's board of directors and management must bring essential matters to the owner's attention. On the basis of the audit, it should also be stated in the government resolution that the risks to the government's strategic interests should, if necessary, be discussed between the company, the Ownership Steering Department and the line ministry. It was previously stated in the government resolution that the strategic interests of the government should not be endangered by the actions of the state owner or by the decisions taken by the company's bodies. The National Audit Office recommends that this statement or a similar entry should be reinstated in the government resolution.<sup>2</sup>

The Ownership Steering Department of the Prime Minister's Office has launched an update of the government resolution on ownership policy. As part of the work, the strategic interests and special assignments of all state-owned companies will also be updated. Priorities in the development of state ownership steering during the parliamentary term 2023–2027 are active ownership, accountability, comprehensive security and centralisation of ownership steering.

There has been an increase in government guarantees granted to Finnfund and the interest income received by the company since 2014, while at the same time, Finnfund's sales profits and dividend income have decreased

Finnfund (Finnish Fund for Industrial Cooperation Ltd) is a special assignment company under the ownership steering of the Ministry for Foreign Affairs. It is almost wholly owned by the state, and its purpose is to promote economic and social development in developing countries by offering companies operating in them equity risk financing, long-term investment loans, mezzanine financing and special expertise in investments in developing countries.

Finnfund has made between 20 and 30 new investments each year with a total value of between EUR 200 and 250 million. The loans granted by the company accounted for about 40 per cent of the company's investment portfolio in 2020. For this reason, interest income accounts for a significant proportion of the company's financial income. The company's interest income increased more than five-fold between 2014 and 2020, while its sales profits and dividend income decreased during the same period (Figure 1). At the end of 2021, the balance sheet value of Finnfund's investment assets totalled EUR 657 million. Finnfund's tied equity and share portfolio have been boosted by the increases in share capital made by the government with a share issue subject to a charge. In 2020, the government boosted Finnfund's share capital by an extra EUR 50 million in addition to an annual investment of EUR 10 million.<sup>3</sup>

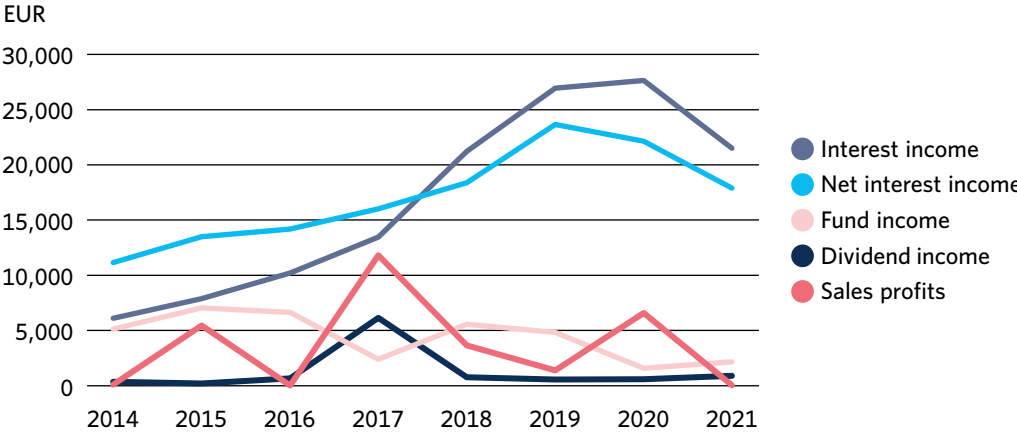


Figure 1: Changes in Finnfund's financial income and net interest income in the period 2014-2021. Source: Finnfund's financial statements<sup>3</sup>

The government guarantees granted to Finnfund as part of contingent liabilities account for only 1.4 per cent of all government guarantees. However, government guarantees increased by about EUR 77 million between 2017 and 2021. Since 2015, the State of Finland has financed Finnfund with two long-term convertible bonds. In 2016, Finnfund signed an agreement with the State of Finland on a EUR 130 million subordinated convertible bond with a loan period of 40 years. The government has the right to convert the loan, in whole or in part, into Finnfund's shares. At the end of 2019, Finnfund agreed with the government on a second convertible bond, which has a value of EUR 210 million. The terms of the loan were otherwise the same as in 2016 with the exception that the loan is automatically converted



into the company’s share capital in its entirety if the company’s equity ratio drops to 10 per cent. Between 2014 and 2021, Finnfund’s equity ratio decreased steadily from about 70 to 40 per cent (Figure 2).

Both Finnfund bonds have been treated in the Budget as financial investments outside central government spending limits because the company’s investments are expected to retain their value and return to the government with interest. The substantial debts accumulated by the company may also lead to a significant decrease in equity ratio. Based on the audit, loan financing outside central government spending limits impacts central government finances but it is not subject to the restrictions set by the expenditure objective. However, the mechanism may lead to a situation where instead of equity financing, loan financing is favoured in Finnfund’s financing.<sup>3</sup>

The primary objective of the companies financed by Finnfund is to generate financial returns. The yield target set for Finnfund’s five-year average has been more than 2 per cent since 2014, and before that year, the target was even higher. Based on the audit, Finnfund has failed to achieve its financial return targets since 2011. Finnfund has expanded its operations and further expansion is planned. For this reason, attention should be paid to Finnfund’s investment activities and the criteria on which they are based.<sup>3</sup>

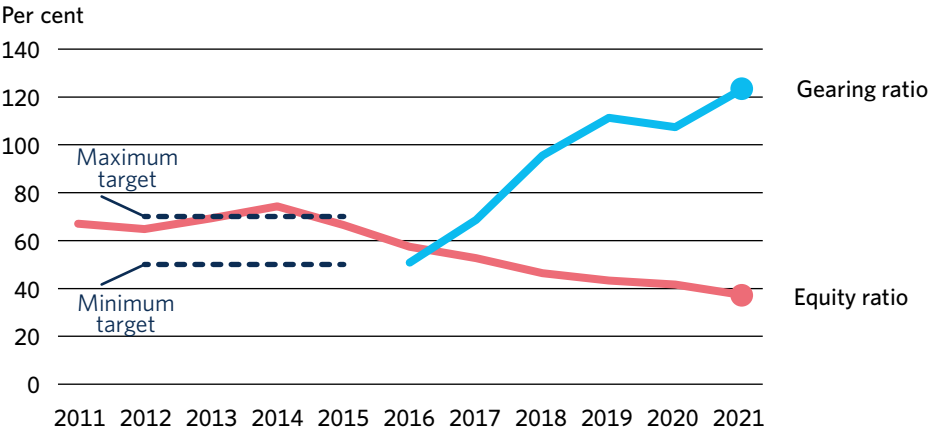


Figure 2: Finnfund’s equity ratio and its performance targets in the period 2012–2015 and Finnfund’s gearing ratio in the period 2016–2021. Source: Government’s Annual Reports 2017–2021, Appendix 4 Corporate ownership; Finnfund, ownership steering memoranda.<sup>3</sup>

**Finnfund’s ownership steering has not encouraged the company to produce more specific development impact targets**

Development impacts are expected to arise when the requirements set for Finnfund’s investment objects concerning location, sector and sustainability are realised in the financed projects and when the investments are of sufficient size. However, based on the audit, Finnfund’s ownership steering has not required the companies to present any concrete development impact targets. Furthermore, Finnfund has not prepared any description of its development impact targets as its strategic focus has been on how to promote development in the countries where the investments are made. Finnfund has also developed instruments for

ex-ante assessment and measurement of project-specific impacts. In the future, however, it should prepare clear development impact targets for its activities, on the basis of which the assessment and monitoring of project-specific development impacts can be improved.<sup>3</sup>

The objectives set by the state ownership steering encourage Finnfund to invest in high-risk projects. The main purpose of the special risk financing instrument has been to encourage Finnfund to invest in higher-risk projects with significant impacts. With the instrument, the government has pledged to partially compensate Finnfund for its investment losses. For this reason, the ownership steering should take into account the financial and other risks incurred by the government as a result of Finnfund's activities and any liabilities arising from them (including hidden ones). However, based on the audit, Finnfund's ownership steering has not produced any assessment of to what extent the government can increase its financing in Finnfund.<sup>3</sup>

Finnfund uses a systematic investment process in which investment destinations are assessed from the perspective of financial and other risks. Finnfund's development impacts should play a more important role when project decisions are made, and when selecting investment destinations, Finnfund should assess the risks and potential development impacts and the relationship between them. However, the projects that Finnfund will select for its investments are not necessarily known when fund investment decisions are made.

Finnfund receives most of the investment proposals from a network of established operators, which may be inaccessible to local companies operating in the developing countries. Finnfund monitors the risks associated with its investment activities at project-specific basis and at portfolio level. To diversify and manage risks, risk management has set a variety of different target distributions and restrictions for Finnfund's investment portfolio. Finnfund finances projects using different investment instruments that differ according to the risks they involve and Finnfund's participation in the activities of the investment destination. Finnfund is able to participate in the operations of companies funded with a loan instrument less extensively than in the operations of companies funded by equity financing.<sup>3</sup>

### Recommendations of the National Audit Office concerning state ownership steering

In the ownership steering of strategic-interest companies, the government should continue the identification of risks arising from the endangering of the companies' business continuity and take further measures to develop methods to obtain and provide additional information on risk management. It should also be assessed whether corporate economic analyses could include periodic analyses of the level of the company's risk management system.<sup>2</sup>

The Ownership Steering Department of the Prime Minister's Office should take into account the views of the ministries steering the companies when the ownership strategic interest of the companies is determined or updated.<sup>2</sup>

In Finnfund's ownership steering, more attention should be paid to the financial and other risks and potential liabilities that Finnfund's operations may cause to the state. The ownership steering should also determine how much financing can be granted to Finnfund and which instruments can be used for this purpose.<sup>3</sup>

## Joining international organisations may involve government guarantees and liabilities

By concluding treaties with international organisations, the member states undertake to accept responsibility for existing commitments and liabilities. For this reason, before joining international organisations, Finland should identify the financial impacts of the accession and determine whether, as part of the accession, it must grant government guarantees or whether the decision to join the organisation requires parliamentary approval. The Government proposal must present the liabilities or financial impacts arising from the accession and their scope in sufficient detail.

According to the follow-up on the compliance audit of financial liabilities of the government in international organisations (3/2018), the need for better identification of and reporting on government liabilities has been generally recognised in such projects as the project to develop central government group accounting. However, information on the memberships in international organisations and the related financing contributions is not collected in a centralised manner as separate monitoring of such matters has not been considered necessary. Monitoring of international memberships and the related financing contributions should therefore be part of the day-to-day development of financial management processes and systems.<sup>4</sup>

## Risks arising from the interest subsidy loans granted by the Housing Finance and Development Centre of Finland (ARA) should be assessed in more detail

The Housing Finance and Development Centre of Finland (ARA) provides its individual and corporate customers with government grants, subsidies and guarantees for housing and housing construction. ARA's task is to ensure through steering and monitoring that central government support is channelled to residents and that rental housing corporations comply with the provisions, regulations and instructions concerning state-subsidised housing construction and do not generate more income for their owners than is permitted by law. The government supports the construction, repair and acquisition of affordable rental and right-of-occupancy housing with long-term interest subsidy loans guaranteed by it. The government pays interest subsidies for the loans when the interest exceeds the basic deductible interest laid down in the Decree on Interest Subsidies. Interest-subsidised dwellings are subject to a cost rent, which means that tenants may be charged rent up to the amount required to cover the financing costs of the dwelling and the maintenance costs arising from property maintenance. ARA monitors the manner in which the cost rents are determined. At the end of 2021, ARA dwellings that are supervised by ARA and that are in use and subject to restrictions totalled about 400,000. More than half of them were ordinary rental dwellings. In 2021, ARA used 97 per cent (EUR 1.75 billion) of its interest subsidy authorisation.

Based on the audit of ARA's operations, the use of subsidised loans is hampered by the long maturity and the backloading of the repayment programme. In the future, Municipality Finance Plc may be the only provider of financing for long-term subsidised loans, as financial institutions are reluctant to fund interest subsidy loans. Guarantee liability risks of the government are largely determined in the credit granting stage, which the State Treasury is unable to influence even though it plays a key role in the risk management, financial rehabilitation measures and insolvency procedure of ARA's housing stock.<sup>5</sup>

Based on the audit, ARA has comprehensive control over the revenues collected by corporate customers but shortcomings were identified in the guidelines and monitoring of compliance with the principle of non-profit-making and cost rents and maintenance charges. The shortcomings in supervision arise from insufficient steering and monitoring resources, problems with information systems, inadequate guidelines for monitoring and inspections as well as the absence of systematic monitoring. The National Audit Office recommends that these shortcomings should be corrected.<sup>5</sup>

In March 2023, the Government approved an amendment to the Decree on Interest Subsidies to improve the terms and conditions of the long-term interest subsidy model for housing construction. Prior to the amendment, the basic deductible interest on rental housing construction was temporarily reduced to 1.7 per cent until 31 December 2023. Under the amendment to the Decree on Interest Subsidies, the basic deductible for interest on the interest subsidy loan paid by the borrower will be set at 2.3 per cent from the beginning of 2024 (the rate had previously been 2.5 per cent). The interest subsidy payment period will also be extended to cover the entire loan period. Increasing the interest subsidy will ease the pressures to increase cost rents and maintenance charges and it will thus improve the position of residents.

#### National Audit Office's recommendations on supporting housing and housing construction

Cooperation and sharing of information between ARA and the State Treasury should be improved so that in the future the State Treasury would be able to participate in the assessment of the eligibility of high-risk funding applicants and receive up-to-date information on the criteria for granting ARA funding.<sup>5</sup>

When funding is granted, particular attention should be paid to the risks arising from the combined effect of permanent restrictions on right-of-occupancy housing and predicted migration.<sup>5</sup>

ARA should monitor the proceeds entered as revenue by corporate customers more effectively.<sup>5</sup>

#### In the strategic capability projects of the Finnish Defence Forces, it is important to ensure cost transparency and external quality assurance

The audit the National Audit Office completed in 2020 of the Finnish Defence Forces' Squadron 2020 and HX fighter projects produced information on the long-term cost impacts and risks of the projects. The National Audit Office has followed up the projects continuously because they have a significant impact on central government finances. In spring 2022, after the decision to purchase the fighters, the HX project was renamed the F-35 project. The first of the new F-35 multi-role fighters are expected to arrive in Finland in 2026. The Squadron 2020 project of the Finnish Navy is now two years behind schedule.

The construction of the first hull should start at the RMC shipyard in Rauma at the beginning of 2024. External quality assurance has been one of the instruments used to ensure the progress of the projects. Based on the follow-up, risks have been identified and assessed thoroughly in the projects. However, both projects involve significant financial and other risks on which the projects can only have limited influence. It is important to ensure that the costs arising from the projects are transparent and that decision-makers and society are kept adequately up to date on the progress of the projects.<sup>6</sup>



**The chapter is based on the following audits and follow-ups:**

- 1 Follow-up report of 15 June 2023 on the audit *Risk management and continuity of operations in central government* (20/2018)
- 2 *State-owned companies of strategic interest – risk management and ensuring business continuity* (8/2023)
- 3 *Finnfund's investment activities and risk management* (3/2023)
- 4 Follow-up report of 13 April 2023 on the audit *Financial liabilities of the Government in international organisations* (3/2018)
- 5 *The Housing Finance and Development Centre of Finland (ARA) as the housing policy implementing body* (2/2023)
- 6 Follow-up report of 29 December 2022 on the audit *Expenses of and funding for the strategic capability projects of the Finnish Defence Forces* (8/2020). The follow-up report is confidential (Restricted, TL IV, section 24 (1)(10) of the Act on the Openness of Government Activities (621/1999)).


**For more information on the themes discussed in this chapter and the relevant audits, please see the online version of the annual report at**

<https://www.vtv.fi/en/publications/national-audit-offices-annual-report-to-parliament-2023/>.



## 2 The number of cautions on the final accounts of government agencies increased

In the financial audit reports for 2022, a total of 12 central government accounting offices were issued with cautions on errors and shortcomings in the financial statements and notes to the financial statements or in the operational efficiency data. There has been a substantial increase in the number of cautions issued to the accounting offices on true and fair information in the final accounts compared to 2021 when a similar caution was issued to five accounting offices.



Under section 90 of the Constitution of Finland, the National Audit Office is responsible for auditing the management of central government finances and compliance with the Budget. Each year, the National Audit Office audits the final accounts of the central government, ministries, other government agencies obliged to submit final accounts, and three off-budget funds.

### One in three accounting offices was issued with a caution on shortcomings in final accounts or financial management procedures

In the financial audit report, the National Audit Office states whether the information on final accounts and operational efficiency is true and fair, whether internal control is effective and whether the budget has been complied with. The National Audit Office issued 61 financial audit reports to central government accounting offices for 2022 (see Table 1).<sup>1</sup>

A total of 21 (34 per cent) of the audited accounting offices received at least one caution, as material shortcomings were found in their final accounts or financial management procedures. The most significant change compared to the previous year took place in the financial statements and notes to the financial statements or in the operational efficiency data, on which cautions were issued to 12 accounting offices. Only five accounting offices received a similar caution for 2021.<sup>1</sup>

Table 1: Results of the 2022 financial audits by administrative branch and accounting office.<sup>1</sup>

✓ No cautions                      ! Cautions

Accounting office	True and fair information in the final accounts *	Internal control	Compliance with the budget
<b>Office of the President of the Republic</b>	✓	✓	✓
<b>Prime Minister's Office</b>	!	✓	✓
<b>Ministry for Foreign Affairs</b>	✓	✓	✓
<b>Ministry of Justice</b>	✓	✓	✓
Legal Register Centre	✓	✓	✓
Criminal Sanctions Agency	✓	!	!
Prosecution Service	✓	✓	✓
Finnish Courts	✓	✓	!
National Enforcement Authority	✓	✓	✓
<b>Ministry of the Interior</b>	✓	✓	✓
Emergency Response Centre Agency	✓	✓	!
Finnish Immigration Service	✓	✓	!
Emergency Services Academy	✓	✓	✓
National Police Board	!	!	✓
Finnish Border Guard	✓	✓	✓
Finnish Security and Intelligence Service	✓	✓	✓
<b>Ministry of Defence</b>	✓	✓	✓
Finnish Defence Forces	!	✓	✓
<b>Ministry of Finance</b>	✓	✓	✓
State Department of Åland	!	!	!
Digital and Population Data Services Agency	!	✓	✓
Regional State Administrative Agency for Southern Finland	✓	✓	!
Financial Stability Authority	✓	✓	✓
Statistics Finland	✓	✓	✓
Finnish Customs	✓	✓	✓
State Treasury	✓	✓	✓
VATT Institute for Economic Research	✓	✓	✓
Finnish Government Shared Services Centre for Finance and HR	!	!	✓
Government ICT Centre Valtori	✓	✓	✓
Finnish Tax Administration	✓	✓	✓

\* Final accounts and operational efficiency data



Accounting office	True and fair information in the final accounts *	Internal control	Compliance with the budget
<b>Ministry of Education and Culture</b>	✓	✓	✓
National Archives	✓	✓	✓
Finnish Heritage Agency	✓	✓	✓
Finnish National Agency for Education	✓	!	✓
Academy of Finland	✓	✓	!
Governing Body of Suomenlinna	✓	✓	✓
<b>Ministry of Agriculture and Forestry</b>	✓	✓	✓
Natural Resources Institute Finland	✓	✓	✓
National Land Survey of Finland	✓	✓	✓
Finnish Food Authority	!	✓	✓
<b>Ministry of Transport and Communications</b>	✓	✓	✓
Finnish Meteorological Institute	✓	✓	✓
Finnish Transport and Communications Agency	✓	✓	!
Finnish Transport Infrastructure Agency	✓	✓	✓
<b>Ministry of Economic Affairs and Employment</b>	!	!	✓
Development and Administrative Centre for the ELY Centres and TE Offices	!	!	✓
Energy Authority	✓	✓	✓
Geological Survey of Finland	✓	✓	✓
Funding Agency Business Finland	✓	✓	✓
Finnish Competition and Consumer Authority	✓	✓	✓
Finnish Patent and Registration Office	✓	✓	✓
Finnish Safety and Chemicals Agency	✓	✓	✓
<b>Ministry of Social Affairs and Health</b>	✓	✓	!
Finnish Medicines Agency	!	✓	✓
National Supervisory Authority for Welfare and Health	✓	✓	✓
Social Security Appeal Board	✓	✓	✓
Radiation and Nuclear Safety Authority	✓	✓	✓
Finnish Institute for Health and Welfare	!	✓	!
<b>Ministry of the Environment</b>	!	✓	✓
Housing Finance and Development Centre of Finland	✓	✓	✓
Finnish Environment Institute	✓	✓	✓

For more details of the cautions issued to accounting offices, see the online version of the annual report at <https://www.vtv.fi/en/publications/national-audit-offices-annual-report-to-parliament-2023/>.

Cautions on the final accounts of the accounting offices may concern the financial statements and the notes to them or information on operational efficiency, such as cost recovery calculations on chargeable activities. Cautions on the financial statements and notes to them were issued to ten accounting offices and cautions on operational efficiency data to three accounting offices, as one accounting office received both cautions. The most important single reason for the cautions was note 12 to the financial statements (Granted state securities, state guarantees and other commitments) as four accounting offices were issued with cautions on shortcomings in them.<sup>1</sup>

In addition to the shortcomings concerning true and fair information in the final accounts, cautions were also issued in other financial audit opinion areas. Internal control cautions were issued to seven accounting offices, and a qualified opinion on regularity was issued to ten accounting offices.<sup>1</sup> Only one accounting office (State Department of Åland) received a caution in all three opinion areas. The State Department of Åland was also obliged to report on shortcomings in good accounting practices and internal control. The reporting obligation means the obligation imposed on the management of the audited entity to report on the measures taken by the audited entity to correct the shortcomings that had prompted the caution. The reporting obligation was also imposed on the Finnish Food Authority, the Ministry of Economic Affairs and Employment and the Finnish Government Shared Services Centre for Finance and HR (Palkeet).<sup>1</sup>

In recent years, a number of accounting offices have repeatedly received a financial audit report containing a caution (modified opinion). Three accounting offices have received a caution in at least seven successive years. These are the Development and Administrative Centre for the ELY Centres and TE Offices, Palkeet, and the Ministry of Economic Affairs and Employment.<sup>1</sup>

## Fewer cautions on regularity were issued – however, procedures violating the budget are still common

The National Audit Office issues a qualified opinion on regularity to an accounting office if the budget or the key budget provisions have not been complied with in all respects. A qualified opinion on regularity usually concerns one area or procedure of financial management and thus, receiving it does not mean that the government agency's or central government's finances have been managed unlawfully or that government funds have been misused. However, a qualified opinion on regularity should always be considered to be a serious matter with regard to the financial management of the government agency in question.<sup>1</sup>

Ten of the 61 financial audit reports issued by the National Audit Office contained a qualified opinion on regularity,<sup>1</sup> and the number of accounting offices issued with a caution on regularity remained more or less unchanged in the period 2020–2022: 11 accounting offices in 2020, 9 accounting offices in 2021 and 10 accounting offices in 2022. The total number of the cautions on regularity may be higher because one accounting office may receive one or more cautions on regularity on a specific matter. In 2022, all qualified opinions on regularity contained only one caution on regularity and thus their total number was ten. In 2020 and 2021, a number of accounting offices received more than one caution on regularity and thus their total number was higher than in 2022: 14 cautions on regularity for 2020 and 13 cautions on regularity for 2021.<sup>1</sup>

The incorrect procedure prompting the opinion on regularity may be related to compliance with the budget or internal control. In recent years, most of the cautions on regularity concerning compliance with the budget have been issued because the accounting office has used an appropriation in the wrong budget year or for a purpose to which it was not allocated in the budget. Cautions on regularity concerning internal control may also be based on non-compliance with other budget provisions. In the final accounts for 2022, the most common reason for the caution on regularity was that budget expenditure had been allocated to the wrong budget year in violation of the budget and section 5a of the State Budget Decree (1243/1992). Moreover, in all cases, in addition to the allocation error, the procedure had also extended the use of the appropriation in violation of section 7 of the State Budget Act (423/1988). This prompted the National Audit Office to issue a caution to four accounting offices.<sup>1</sup>

Qualified opinions on regularity are fairly evenly distributed between accounting offices in different administrative branches. Based on the financial audit reports for 2022, two accounting offices in the administrative branches of the Ministry of Justice, the Ministry of the Interior, the Ministry of Finance and the Ministry of Social Affairs and Health received a qualified opinion on regularity. In the five-year time series, the only administrative branches where accounting offices have not received any qualified opinions on regularity are the Ministry of Agriculture and Forestry and the Ministry of the Environment.<sup>1</sup>

### Key findings of the National Audit Office on the financial audits of central government accounting offices in 2022

Compared to 2021, there was an increase in the number of cautions concerning the financial statements and notes to the financial statements or the operational efficiency data of the accounting offices.

Three accounting offices have received a financial audit report containing a caution (modified opinion) in at least seven successive years.

The number of accounting offices receiving a caution on regularity remained almost unchanged between 2020 and 2022.

### Progress has been achieved in ensuring uniformity of the budget - the development work should continue

It was noted in the audit of the uniformity of the budget (11/2020) that the budget drafting procedures used between 2015 and 2020 were not unified, and that the guidelines for drafting the budget had not been fully complied with. The National Audit Office recommended that the controls related to budget preparation and the processing of budget proposals should be improved and the breakdown of the budget accounts simplified. The National Audit Office carried out follow-ups on the audit in two phases (in 2021 and 2022). Based on the second phase of the follow-up, such measures as better controls and fewer mixed items have enhanced budget uniformity. In addition, proposals contrary to the budget preparation

regulation have also been addressed more vigorously than in the past. The development work should continue. Based on the follow-up, the class and item structure of the main titles have not been subject to any major development measures. Moreover, the account breakdown has not been simplified, which is also the result of the new items reserved for the Recovery and Resilience Facility. In the future, the National Audit Office will assess the appropriateness and uniformity of budget procedures as part of the annual financial audit process.<sup>2</sup>

### Shortcomings in support and grants to non-profit organisations have been addressed by public administration

A number of irregular procedures and deficiencies in internal control were identified in the audit of support granted to non-profit organisations (11/2019). Shortcomings were identified in such areas as the payment and supervision of grants and their advances, publication of calls, rules and conditions of grants, and the submission of information to the Cabinet Finance Committee. Deficiencies were identified in the administrative branches of the Ministry of Agriculture and Forestry, Ministry of Education and Culture, Ministry of Social Affairs and Health and Ministry of Economic Affairs and Employment. It was also noted in the audit that the legislation on grants should be updated. In particular, the legislation concerning the Finnish Institute of Occupational Health was in many respects outdated. Based on the follow-up, most of the audited entities had taken corrective action. The National Audit Office will continue the monitoring in connection with financial audits.<sup>3</sup>

### No shortcomings were identified in related party relationships and transactions in central government

From the perspective of transparency, legality and the principles of good governance, it is important that the transactions with related parties of central government are in accordance with the law and that the internal control procedures related to them are adequate and appropriate. It was examined in the audit whether errors or misuse can be identified in central government related party transactions and whether internal control related to the processing of the related party transactions is appropriately organised.

Based on the audit, the senior public officials of central government accounting offices had connections to a total of 477 different organisations, 236 of which were associations, 157 companies and 84 foundations. About a quarter of the organisations had carried out transactions with central government actors. No shortcomings were identified in the audited related party transactions between central government and its related party persons and organisations. No material shortcomings were identified in the information content of the declarations of interests of the senior management, compliance with the declaration obligation or the organisation of the monitoring of the declarations. At the same time, it is not possible to transparently identify from the final accounts of the central government accounting offices whether an accounting office has had transactions with parties that could be considered related parties of the accounting office in question.<sup>4</sup>

## There is room for improvement in the control of self-assessed taxes

Self-assessed taxes include value added tax and excise duties. The taxpayer is responsible for calculating, reporting and paying the self-assessed taxes. In the 2022 Budget, self-assessed taxes accounted for about 65 per cent (EUR 29 billion) of all central government tax revenue. The Act on the Tax Procedures for Self-Assessed Taxes (768/2016) entered into force in 2017. Based on the audit, the procedures for self-assessed taxes have been harmonised so that the act contains general provisions on the procedures as well as provisions on certain harmonised procedures, such as tax periods, tax returns, payment and imposition of taxes, penalties and appeals.<sup>5</sup>

Legislation-based implementation clarifies the taxation procedures for self-assessed taxes. Improving administrative efficiency was also one of the objectives of the reform. The purpose of both legislation and practical taxation activities has been to minimise the number of tax decisions, especially in value-added taxation. Based on the audit, the line between an authority-initiated and a taxpayer-initiated taxation change is vague. For many years, the Finnish Tax Administration focused on controlling large companies and companies with international operations. However, this goal was abandoned when the emphasis shifted to the proactive guidance procedures applied by the Large Taxpayers' Office. Proactive guidance is considered an effective way of targeting guidance to large customer groups, even though clear indicators are missing.<sup>5</sup>

Based on the audit, the control of VAT returns per tax period has decreased significantly, and the control is only loosely based on selection, which is a well-established way of channelling transactions to processing mainly on a risk basis. The provision on selection allows for a different degree of examination in automated taxation. The National Audit Office is of the view that a procedure in which only some of the VAT returns selected with the same control rules are controlled does not promote the achievement of the objectives of consistent taxation. The risk of the procedure is that the guarantees of good governance are not realised and the legal protection of the taxpayer is endangered.

It is stated in the audit that the procedures for tax control and guidance of taxpayers vary, and the Act on Tax Assessment only contains provisions on the principles and practices of a small number of guidance and control methods used by the Finnish Tax Administration. Moreover, the handprint of value added tax control presented as an indicator of the effectiveness of value added tax control in the final accounts of the Finnish Tax Administration gives an essentially incorrect picture of the effectiveness of the control.<sup>5</sup>

## Recommendations of the National Audit Office on the control of self-assessed taxes

It should be assessed how the prerequisites for the control of self-assessed taxes, particularly value added taxes, and the reliability of its indicators could be improved, also taking into account the tax control duties of Finnish Customs in excise taxation. The need to regulate new methods of guidance and control by the Finnish Tax Administration should also be assessed, and legislation should be developed so that it would boost the efficiency of the taxation process while promoting the correctness of taxation and treating taxpayers equally.<sup>5</sup>



The chapter is based on the following audits and follow-ups:

- 1 *Financial audits of central government accounting offices 2022*
- 2 Follow-up report of 28 December 2022 on the audit *Uniformity of the budget* (11/2020)
- 3 Follow-up report of 15 December 2022 on the audit *Supporting non-profit organisations, and certain exceptional procedures* (11/2019)
- 4 *Related party relationships and transactions in the central government* (6/2023)
- 5 *Taxation procedures for self-assessed taxes* (1/2023).

For more information on the themes discussed in this chapter and the relevant audits, please see the online version of the annual report at

<https://www.vtv.fi/en/publications/national-audit-offices-annual-report-to-parliament-2023/>.





### 3 Compatibility of benefit systems and functioning of service systems are based on client needs

Coordination of social security benefits and the services provided as part of them as well as boosting incentives for work have been some of the key goals in the preparation of the social security reform. For several parliamentary terms, digitalisation and better focus on client needs have been two of the instruments used to make public service systems and permit processes more effective. The audits of a number of separate systems show that improvements have been achieved but there is still work to do.

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#### General housing allowance has become an important form of support for households with low earned income

To overhaul the housing allowance scheme, the parliamentary committee preparing the social security reform proposed in its interim report on 16 March 2023 that an extensive study should be carried out to find answers to the following questions:

- How should housing allowance be allocated to different beneficiary households (low-income earners, students and diverse families with children) by municipality class or commuting area?
- Has the existing earned-income deduction (earnings disregard) boosted the income, well-being or employment of housing allowance recipients?
- How would an increase in the maximum housing costs providing eligibility for housing allowance impact the number of social assistance recipients?
- What have been the impacts of the abolition of means testing?

The audit conducted by the National Audit Office provides partial answers to these questions.<sup>1</sup> In its audit of general housing allowance, the National Audit Office examined the effectiveness of the earned-income deduction as an incentive to part-time work and as an instrument to reduce structural unemployment. Earned-income deduction, which was

introduced in 2015, means that when the amount of housing allowance is determined, EUR 300 is deducted each month from the earned income of each adult household member. The auditors also examined the incentive effects of the earned-income deduction and the compatibility of housing allowance with study grant and social assistance.

Based on the audit, since the introduction of the earned-income deduction, general housing allowance has become an important form of support, especially for households with low earned income.<sup>1</sup> The deduction boosts the disposable income of benefit recipients who are at work and thus it also reduces the need for social assistance. This was also the aim when the earnings disregard of general housing allowance and unemployment security was introduced. The introduction of the earned-income deduction of housing allowance increased the amount of housing allowance granted to earned-income households and the number of households eligible for general housing allowance. The proportion of earned-income households of general housing allowance recipients increased from 24 to 39 per cent between 2015 and 2019 (Figure 3). Students are not included in the figures.<sup>1</sup>

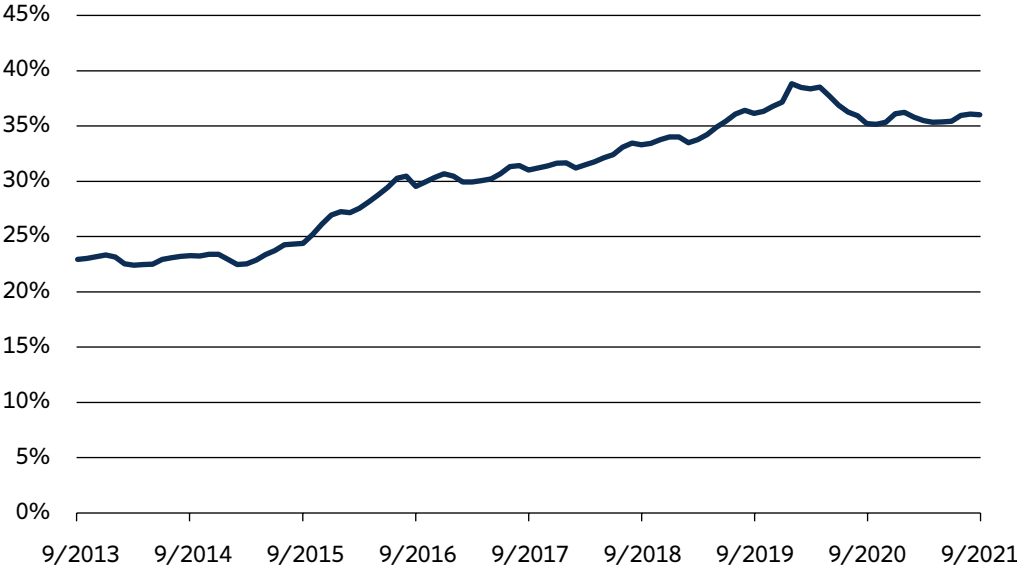


Figure 3: Percentage of earned-income households of all households receiving general housing allowance between September 2013 and September 2021. Students are not included in the figures. Source: Kela's housing allowance register.<sup>1</sup>

**Even though the earned-income deduction of general housing allowance encourages benefit recipients to work part-time, social assistance is also extensively used to cover housing costs**

Incentive traps include situations where income from work does not significantly boost disposable income or where combining earned income and benefit income is particularly difficult for an individual and may cause interruptions to income.

Based on the calculations made in the audit using the SISU microsimulation model, part-time work does not become an incentive trap for typical households receiving general housing allowance.<sup>1</sup> Earned-income deduction makes part-time work more attractive to single-parent families living in the Helsinki region and receiving labour market subsidy. Likewise, one-person households receiving labour market subsidy do not face any employment-related incentive traps when their monthly income is between EUR 100 and 2,000 (see Figure 4). Without the earned-income deduction, the participation tax rate of unemployed one-person households in the Helsinki region would be nearly 80 per cent, which means that it would already be close to the theoretical unemployment trap with monthly income of EUR 600.<sup>1</sup>

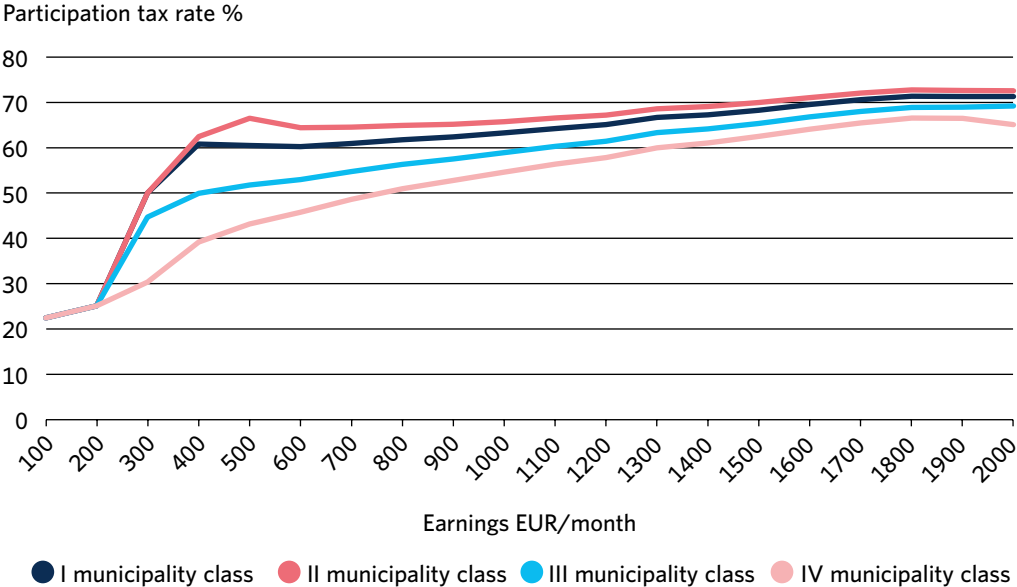


Figure 4: Participation tax rate of an unemployed one-person household receiving housing allowance and labour market subsidy, in all municipality classes (under legislation in force in 2022). The housing costs given are the average costs of unemployed one-person households in each municipality class in December 2021. Source: SISU model.<sup>1</sup>

Based on the calculations produced by the National Audit Office, earned-income deduction has made part-time work the most economically attractive option for higher education students receiving general housing allowance and study grants as their participation tax rate remains below 50 per cent throughout the country.<sup>1</sup> Despite these economic incentives for work, students should be able to assess both the impacts of their own income on study grants and the impacts of the income of adult members of their households on general housing allowance. However, the problem for students is that the general housing allowance is determined on the basis of the calculated average income of the household for the coming year whereas the study grant is determined on the basis of the student's personal income.<sup>1</sup>

Housing allowance recipients living outside the Helsinki region (especially those with low earned income) have stronger incentives for employment than households in the Helsinki region. This is because the housing costs are lower outside the Helsinki region, which means that unemployment security and general housing allowance can better meet the housing costs.

However, a significant proportion of the housing costs is also covered with social assistance: at the moment, basic social assistance recipients use nearly 50 per cent of the assistance to pay housing costs. Using social assistance weakens the economic incentives for work, and strict means-testing makes participation in work more bureaucratic. If the conditions for receiving housing allowance are tightened, recipients must cover a higher proportion of their housing expenditure with social assistance. The high cost of housing thus makes it more difficult to reduce the need for long-term social assistance, one of the objectives of the social security reform.<sup>1</sup>

## Housing Finance and Development Centre of Finland (ARA) helps to ensure social housing construction

Affordable state-subsidised ARA housing construction supplements market-based supply of housing and mitigates the impacts of business cycles. Agreements on land use, housing and transport (MAL agreements) between central government and large cities have proved an effective instrument to implement a long-term housing policy. The Housing Finance and Development Centre of Finland (ARA), a party to the MAL agreements, provides grants, subsidies and guarantees for affordable housing construction. ARA also steers and supervises the use of the ARA housing stock.

Based on the audit of ARA's operations, most of the objectives of the MAL agreements and the performance targets set for ARA have been achieved but the financial instruments used by ARA do not fully meet the needs of developers and providers of funding.<sup>2</sup> Demand for ARA housing is maintained by population growth, affordable rents and low turnover of the dwellings. Especially in large cities, it is difficult to meet the demand for social housing construction with non-subsidised housing construction and the prevailing rental levels. In many cities, there is also a shortage of plots suitable for affordable housing construction. However, with certain exceptions, ARA does not grant interest-subsidy loans to medium-sized regional centres with between 50,000 and 100,000 inhabitants where population is not growing. Rental housing corporations in such cities have limited opportunities to finance new construction and renovation projects.<sup>2</sup>

## Recommendations of the National Audit Office for preparing the social security reform and boosting social housing construction

It should be decided to what extent the subsistence of households with low earned income should be supported with general housing allowance and to what extent with other benefits.<sup>1</sup>

Solutions should be developed to reduce the need to cover housing costs with social assistance, a benefit intended as last-resort and temporary assistance.<sup>1</sup>

Government proposals should include assessments of the objectives of the reforms, their impacts on central government finances, other impacts and of alternative ways to implement them.<sup>1</sup>

To boost social housing construction, the need for and feasibility of financing rental housing corporations in medium-sized regional centres with interest-subsidy loans granted by ARA should be examined.<sup>2</sup>

## The process of assigning beneficiaries of international protection to municipalities and the monitoring of the assignment process have improved, and persons in need of temporary protection are eligible for a municipality of residence

In order to streamline the asylum process, assignment of beneficiaries of international protection to municipalities and their transfer from reception centres to municipalities have been developed in a target-oriented manner, and the processes were comprehensively assessed in connection with the reform of the Act on the Promotion of Immigrant Integration (936/2022, HE 208/2022 vp). This was also the conclusion made in the follow-up on the audit discussing the same topic (2/2018). Development focus has been on the reception process, imputed compensations, assignment of quota refugees to municipalities and improving access to information. Monitoring of and reporting on the assignment process have also been improved in recent years. However, it could not be unequivocally concluded in the follow-up that existing information systems sufficiently support sharing of information between actors.<sup>3</sup>

As part of the same follow-up, it was also examined how Finland has implemented the European Union directive on temporary protection, which entered into force on 4 March 2022. The directive is intended for people fleeing the war in Ukraine. The temporary protection process is simpler and quicker than the normal asylum procedure. One step in the implementation of the directive was the preparation of the amendments to the Act on the Promotion of Immigrant Integration and the Reception Act that entered into force on 1 March 2023. Under these amendments, central government pays municipalities and well-being services counties compensation for providing services to beneficiaries of temporary protection who have been granted a municipality of residence. Beneficiaries of temporary protection may apply for a municipality of residence after they have lived in Finland for one year. Preparation of the legislative amendments was speeded up by a report on the right of

the beneficiaries of temporary protection to a municipality of residence (VN/6332/2022), which was completed in spring 2022. In the municipal placement targets of the Centres for Economic Development, Transport and the Environment (ELY Centres) for 2023, consideration has also been given to the beneficiaries of temporary protection.<sup>3</sup> The Ministry of the Environment also prepared a draft government proposal in spring 2023 proposing that the beneficiaries of temporary protection could be assigned to state-subsidised dwellings regardless of the duration of the residence permit granted. The purpose of the proposal is to facilitate the arrangement of housing in municipalities for persons that have fled the war in Ukraine.

In the view of the National Audit Office, the functioning of the system for assigning beneficiaries of international protection to municipalities can only be reliably assessed after the entry into force of the new Act on the Promotion of Immigrant Integration in 2025.

### Permit processes for work-based immigration have been speeded up but the family reunification process and the granting of professional practice rights in health and social services remain slow

Since 2003, promoting work-based immigration has been mentioned in the Government Programmes as an instrument to strengthen the Finnish economy and ease the situation in sectors facing from labour shortages. The National Audit Office of Finland has examined the administrative processes of the service system for work-based immigration.<sup>4</sup> Based on the audit, the work permit processes have been systematically improved after the administration of work-based immigration was transferred to the Ministry of Economic Affairs and Employment in 2020. The permit processes have been speeded up by such factors as automation and the appointment of additional permit officials. The two-week target time for the processing of residence permit applications of specialists, start-up entrepreneurs and their family members was achieved in 2021. The fast track service and D visa were introduced for these persons in June 2022.<sup>4</sup>

The D visa was expected to facilitate the fast track process so that specialists, start-up entrepreneurs and their family members can travel to Finland as soon as they have been granted residence permits. According to an official estimate, the permit process would be shortened by between one and two weeks, and this can only be achieved if the applications for a long-term visa and the residence permit are submitted simultaneously in the e-service. According to the audit findings, the fast track procedure and D visa have not, in the early stages of the new arrangement, boosted work-based immigration as expected, and their cost benefits should be assessed in the future. At the same time, however, other employees and entrepreneurs moving to Finland do not have access to the fast track service as they have to go through a two-stage permit process, which is considerably slower. In 2022, the process of granting a work-based residence permit for an employee lasted for an average of ten weeks. For nurses and practical nurses, the permit process can last between five or six weeks and several months. Temporary abolition of labour market testing for a number of healthcare and social welfare professions in autumn 2021 has speeded up the permit process in the Uusimaa region.<sup>4</sup>

A family member of a person lawfully residing in Finland can only be granted a residence permit on the basis of family ties if the applicant's livelihood in Finland has been secured. If, for example, there are two adults and two minor children in the family, the applicant must have a monthly net income of EUR 2,600. Even though the income limits are not absolute, they may pose a significant obstacle to foreigners in a number of professions. The need for information and authenticated documents and the oral interviews with the applicants in the Finnish diplomatic missions are the main reasons slowing down the application process for employees' family members. It is stated in the audit that a more extensive outsourcing of the residence permit tasks of Finnish diplomatic missions, remote interviews with the applicants and certification of employers would also speed up the processes used by the applicants and employers and help applicants to save travel costs. Amendments to the Aliens Act that entered into force on 23 February 2023 provide a basis for introducing these measures.<sup>4</sup>

In the audit, these issues were examined, by way of example, from the perspective of the health and social services sector where, according to estimates, thousands of foreign employees would be needed each year. However, work-based immigration is hampered by the fact that persons who have obtained healthcare and social welfare qualifications outside the EU and the EEA must be granted the right to practise their profession by the National Supervisory Authority for Welfare and Health (Valvira) before a work-based residence permit can be issued. Between 2018 and 2021, professional practice rights were granted to between 400 and 500 healthcare and social welfare professionals each year. To obtain the professional practice rights, the applicant must provide Valvira with sufficient proof of their language skills by submitting a language certificate. However, the employer is responsible for ensuring that the person in question has the language proficiency required for the task. Valvira may also require the applicant to complete compensatory measures or additional studies. A qualification path is available for persons trained as doctors and dentists, but nurses can only obtain the required qualifications by working in specific projects. However, no permanent funding has been allocated to the qualification training.<sup>4</sup>

### Recommendations of the National Audit Office to promote work-based immigration

Advisory, guidance, integration and settling-in services for work-based immigrants should be strengthened and provided on a permanent basis in all parts of Finland.<sup>4</sup>

Gaps in the knowledge base of work-based immigration should be investigated and rectified so that the data describing the grounds for issuing a residence permit can be combined with other national register data.<sup>4</sup>

The proposals set out in the strategic roadmap 2022-2027 to finance, develop and establish qualification training for foreign employees prepared by the working group examining how to ensure the adequacy and availability of personnel in health and social services should be implemented.<sup>4</sup>

## Training and coaching services provided by municipalities offer young people a path to working life

The purpose of the vocational education and training reform, which entered into force in 2018, was to make vocational education and training into a skills-based and customer-oriented system. The purpose of the follow-up on the audit of the preparation and implementation of the reform (2/2021) was to determine how educational offerings supporting employment have been promoted, how the commitment among employers to learning at workplaces has been surveyed and how the knowledge base behind funding decisions has been strengthened.<sup>5</sup> Based on the follow-up, actions of the education administration have made vocational institutions better placed to provide training supporting employability. Allocation of funding is now on a slightly more efficient basis than in the past, and measures have been taken to make the contents of vocational qualifications more flexible. Measures have been taken to strengthen the knowledge base of the funding based on the effectiveness of vocational education and training by automating the collection of feedback from students and work counsellors and by preparing the use of the National Incomes Register in the production of information on the placement of graduates in work or education. The knowledge base of workplace commitment has also been improved, and a pilot on the benefits of training compensation is under way. Even though a great deal of progress has been achieved, providers of vocational education and training should continue to expand the service and training offerings arising from the needs of working life.<sup>5</sup>

In autumn 2022, in the final report on the project to develop cooperation and provider structure in upper secondary education, it was proposed that the appropriation for vocational education and training should be divided into two funding paths: funding for compulsory education and funding for continuous learning. Allocation of the appropriation would be decided on in the Budget each year. Division of the appropriation would strengthen basic funding for compulsory education and simplify the criteria for determining the funding for vocational education and training. Division of the funding would also provide prerequisites for updating the criteria for the funding for continuous learning so that better consideration would be given in them to the objectives of education and training intended for the working-age population and the needs of business operators. At the same time, it could also ensure the profitability of organising educational and training modules that are smaller than qualification units.

The purpose of the workshops, which are mainly organised by municipalities, is to use coaching to improve young people's life management skills and capacity to access education and training, to successfully complete their education and training and after that to enter the open labour market or access any other service that they need. Based on the follow-up on the audit of youth workshops and outreach youth work, the purpose of the workshop activities and monitoring of the activities is to ensure that young people outside education, training and working life are able to participate in workshop activities intended for young people.<sup>5</sup> A new type of cooperation with education and training providers was started in workshops after the act on the preparatory education for upper secondary qualifications entered into force in 2022. However, extending compulsory education to the age of 18 might have greater impact in the coming years than any individual measures as it can be assumed to increase the number of young people completing upper secondary education. It could not be unequivocally determined in the follow-up what improvements have been achieved in the allocation of outreach youth work grants to the municipalities that need them most. Correct allocation of the grants in accordance with service needs can be reliably estimated on the basis of statistics.<sup>6</sup>



## Complex and fragmented nature of the service systems makes steering and management of the systems more difficult

Many of the public service systems and their administrative structures are complex and fragmented. The services are provided by a large number of actors in different administrative branches, some of them operating nationally and others operating on a regional or local basis. From the perspective of the service providers themselves, there is often ambiguity and overlap in their tasks and responsibilities, and this is also the view of many service users. A complex and fragmented service system is difficult to steer and manage. The objectives and tasks set for the system are difficult to implement, and the cooperation and sharing of information between the actors does not function properly. This has been the conclusion in several audits.<sup>4, 7-9</sup>

The complex nature of the public business service system has been known for many years to the parties responsible for managing the system. Measures have been taken to streamline the system; for example, services have been digitalised, service packages, paths and information systems have been built, and cooperation and sharing of information between service providers have been promoted. Based on the audit, improvements have been achieved but measures focusing on one part of the system or a single service do not solve the problems arising from the functioning and steerability of the system as a whole.<sup>7</sup>

Problems concerning the manageability of the business service system are also reflected in the fact that the service system is steered and developed on an actor-specific basis and there is little coordination at overall level. The audit revealed that based on short-term targets and performance-based indicators, it is not always possible to reach conclusions on the cost-effectiveness of the service system. Moreover, it is impossible to assess the economic efficiency and productivity of the service production because no information on the working time resources allocated to public business services is available. There are also problems concerning the availability of the shared customer-relationship management system of business service providers and the usability of the information. The National Audit Office recommends that the steering of the business service system and the division of labour between actors should be clarified and that the development of the operational indicators and information systems should continue.<sup>7</sup>

Digitalisation is also a key component in the national objectives for healthcare and social welfare, in which high priority is given to cooperation between wellbeing services counties, especially in the overhaul of client and patient information systems, and the development of healthcare and social welfare information production as a management tool.<sup>8</sup> However, based on the audit, the link between monitoring of the achievement of the objectives and steering remains unclear. The national hybrid steering model for healthcare and social welfare currently under development combines instruments for normative, resource and information steering. It is recommended in the audit that a national vision should be drawn up to support the digitalisation of healthcare and social welfare and that concrete objectives and monitoring indicators should be prepared.<sup>8</sup> The Ministry of Social Affairs and Health launched information management and digitalisation strategy work in healthcare and social welfare in cooperation with the wellbeing services counties in spring 2023. The purpose of the strategy work is to create common goals and development priorities for digitalisation and to agree on methods and measures and the division of tasks for the next ten years.

Based on the follow-up on the audit of the digitalisation of teaching and learning environments in general education, the responsibilities and tasks of digitalisation actors have not been changed after the audit in accordance with the National Audit Office's recommendations.<sup>9</sup> Measures have been taken to compile and update the steering and operating models for digitalisation in a comprehensive manner but the work has made only slow progress. However, more progress has been achieved in the work to develop the architecture for digitalisation information management. In the view of the National Audit Office, the steering and development of the digitalisation of general education between ministries, government agencies and municipalities should be strengthened by means of structural, resource, information and evaluation-based steering, taking into account tangible and intangible resources.<sup>9</sup>

### More attention should be paid to customer needs and regional special features in the development of public services

According to the audit findings, the availability of public business services and the provision of the services are generally at good level. However, there are regional differences in the provision of the services, and too often, services are provided from the perspective of the service providers.<sup>7</sup> Especially in Uusimaa, the provision of public business services lags behind the needs. Furthermore, the TE services reform 2024 (380/2023), to be introduced at the start of 2025, is seen as a potential risk for the sharing of information, cooperation and system steering between business service system actors. If the coordination of the services becomes more difficult, there may be regional variation in their quality and content.<sup>7</sup>

Observations on the consideration of customer needs were also made in the audit of Suomi.fi e-services.<sup>10</sup> As a rule, public administration organisations have an obligation to use Suomi.fi services, the purpose of which is to improve the availability and quality of public services and to boost the efficiency of public administration. Of the eight Suomi.fi service packages covered by the audit, three were extensively used in public administration at the time of the audit. As a whole, the service introduction processes are now running more smoothly than before, but there is not enough discussion on the service development needs with user organisations and there is little transparency in the setting of development priorities. It is recommended in the audit that the focus in the service development should be on essential needs and use cases that are ultimately reflected in the end users (citizens and companies). Strategic steering of Suomi.fi services should also be clarified, and more systematic and proactive development of services should be ensured by means of funding.<sup>10</sup>

The challenges arising from the digitalisation of the service system are also discussed in the audit of the healthcare and social welfare information systems.<sup>8</sup> The starting points of the wellbeing services counties are different: in some of them, information systems have already been harmonised whereas in others, information systems are fragmented. The situation in the transition phase has been closely monitored, and a roadmap for the period 2021–2023 was prepared to support the implementation of the reform. The implementation of the key ICT preparation tasks is part of the roadmap. The wellbeing services counties have been grouped into five collaborative areas, which are tasked with regional coordination, cooperation and development in healthcare and social welfare. The aim is to harmonise all key information systems (especially client and patient information systems) at the level of collaborative areas. In the view of the wellbeing services counties, adequate steering

has been provided during the transition phase but not enough consideration has been given to the differences between wellbeing services counties. Based on the audit, nationwide ICT steering has not sufficiently encouraged counties to cooperate with each other, and cooperation between collaborative areas should be more strongly supported. Information system cooperation between the counties is also carried out through inhouse companies, such as DigiFinland. It is recommended in the audit that the national digital services in healthcare and social welfare should be coordinated in accordance with the counties' needs.<sup>8</sup>

### Recommendations of the National Audit Office for improving the service systems

The overall management of the public service systems, such as health and social services, business services and education and training services, should be improved by specifying the division of labour between organisations operating within the systems and by clarifying and harmonising normative, resource and information steering.<sup>7-10</sup>

Services and their digitalisation should be developed systematically and in a proactive manner. This requires that essential customer needs and regional characteristics are identified and taken into account and that a stable funding base is ensured.<sup>7-10</sup>

#### The chapter is based on the following audits and follow-ups:

- 1 *General housing allowance – Overall reform of 2015, development of benefit expenditure, and employment of benefit recipients* (4/2023)
- 2 *The Housing Finance and Development Centre of Finland (ARA) as the housing policy implementing body* (2/2023)
- 3 Follow-up report of 22 December 2018 on the audit *Assigning beneficiaries of international protection to municipalities and developing the system of reimbursements paid to municipalities* (2/2018)
- 4 *Work-based immigration – Effectiveness and customer orientation of the immigration administration and recruitment of foreign labour in the health and social services sector* (13/2022)
- 5 Follow-up report of 27 April 2023 on the audit *Reform of vocational education* (2/2021)
- 6 Follow-report of 15 March 2023 on the audit *Effectiveness of youth workshops, and resources and efficiency of outreach youth work* (2/2020)
- 7 *Effectiveness of the public business service system* (5/2023)
- 8 *Funding and steering of the digitalization of healthcare and social welfare* (9/2023)
- 9 Follow-up report 27 December 2022 on the audit *Digitalization of teaching and learning environments in general education* (7/2019)
- 10 *Current status and development of the Suomi.fi services* (10/2022)

For more information on the themes discussed in this chapter and the relevant audits, please see the online version of the annual report at

<https://www.vtv.fi/en/publications/national-audit-offices-annual-report-to-parliament-2023/>.



## 4 Infrastructure lifecycle management means long-term management of central government finances

Infrastructures, such as ICT systems, transport infrastructure and building stock, are an important part of the government's fixed assets. The lifecycle management costs arising from infrastructure maintenance and repair backlog should be comprehensively presented in the budget proposals and the General Government Fiscal Plan together with new investments and acquisition costs. Common goals, acquisition and management procedures as well as monitoring practices are also needed for the lifecycle management of fixed assets.

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Sustainable financing solutions are needed for the lifecycle management of the information systems used by central government and wellbeing services counties

It is stated in the audit of central government information systems that the lifecycle perspective of information systems is recognised in central government but no common objectives have been set for their lifecycle management and there are no established practices for monitoring their repair backlog.<sup>1</sup> Successful lifecycle management of an information system requires that long-term planning starts at the system purchasing stage, and that risks arising from the ageing of the system are identified and managed. Factors affecting the maintenance costs of information systems, such as frequent updates, technological changes and end-of-life costs of the system, must also be taken into account. In principle, the budgetary process and the General Government Fiscal Plan provide a framework for the meeting of continuous maintenance and development needs as funding for the following four years can be proposed under the General Government Fiscal Plan. However, according to the audit findings, central government's funding solutions do not adequately support system lifecycle management, as the funding for the systems is based on short-

term plans and priority is given to new technology projects. As the value of automation cannot be calculated, the productivity potential of the systems is difficult to demonstrate when applications for funding are submitted. Moreover, a system to be decommissioned does not generate any savings for the financing of a new system.<sup>1</sup>

Developing the digitalisation and information management of the wellbeing services counties is estimated to cost between two and three billion euros over the next ten years. Well-functioning healthcare and social welfare services can be provided more efficiently with customer-oriented and reliable information systems as well as online and mobile services. This is expected to slow down the growth in healthcare and social welfare expenditure even though no specific savings targets have been set.

The healthcare and social welfare funding allocated to wellbeing services counties for ICT changes and digitalisation in 2021 and 2022 was examined in the audit.<sup>2</sup> Based on the audit, the counties were able to make the necessary changes to their ICT systems by the beginning of 2023, despite a shortage of experts and delays in the awarding of government grants. However, only a small number of wellbeing services counties had comprehensively included the costs arising from client and patient information systems in their investment plans. ICT investments accounted for about one billion euros of the planned investments presented by the wellbeing services counties in autumn 2022. This is about 11 per cent of all investment needs presented by the wellbeing services counties. According to the audit findings, the ICT costs of healthcare and social welfare will increase in nearly all wellbeing services counties over the next few years.<sup>2</sup>

A total of nearly EUR 700 million in government grants was awarded to the ICT change and digitalisation of healthcare and social welfare in 2021 and 2022. Grants from three different budget items were awarded on seven occasions (Figure 5, Table 2). However, only some of the government grants awarded under the Sustainable Growth Programme for Finland were earmarked for the development of information management and digital services. The government grant package was built in stages in accordance with the latest situational picture. Some of the government grants were awarded on the basis of imputed criteria and some of the wellbeing services counties received discretionary funding.<sup>2</sup>

Based on the audit, the criteria used to assess the government grant applications submitted by wellbeing services counties were not entirely transparent. For example, the application criteria were changed in the middle of the application process. There have also been overlaps in government grants for ICT change, both in terms of timing and content. Some of the grants budgeted in the Sustainable Growth Programme have also remained unused due to the strict eligibility criteria. According to the audit conclusions, a project-type funding model based on applications for government grants does not promote long-term implementation of ICT change or development of digitalisation. The activities should be steered through a single funding channel and by a single government grant authority so that the wellbeing services counties could carry out their ICT development work on a long-term basis.<sup>2</sup>

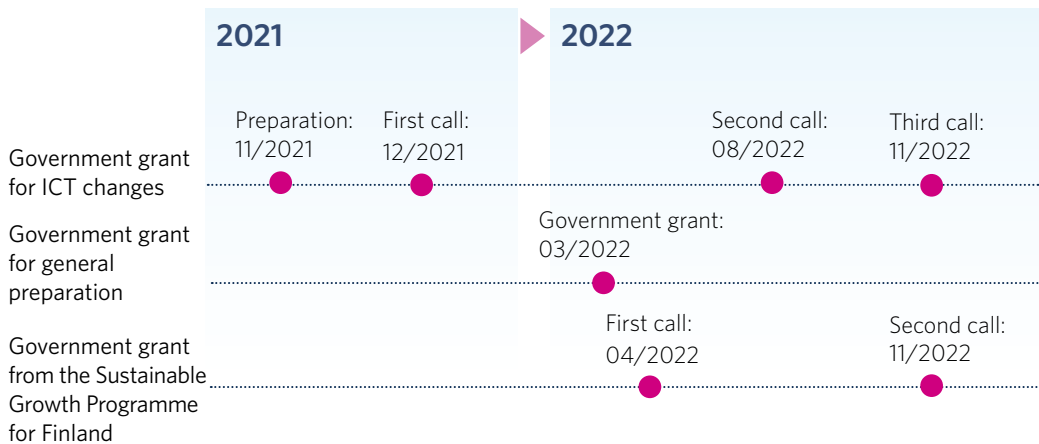


Figure 5: Timing of government grants in 2021 and 2022.<sup>2</sup>

Table 2: Government grants awarded from different budget items in 2021 and 2022.<sup>2</sup>

Government grant	Budget item	2021	2022	Total
ICT change	28.70.05	215,165,200	124,688,372	339,853,572
General preparation*	28.89.30	(62,019,000)	155,845,832	155,845,832
	*of which allocated to ICT change (estimate)	-	(66,790,149)	-
Sustainable Growth Programme for Finland (RRP)	33.60.61	-	289,181,576	289,181,576
<b>Total</b>	-	<b>215,165,200</b>	<b>569,715,780</b>	<b>-</b>

## Supplier dependency can become a risk for the lifecycle management of information systems

The long lifecycle of an information system can be a sign of successful system design, long-term maintenance and continuous development. The long lifecycle may also be due to supplier dependency, delays in the acquisition and introduction of the new system, or the fact that there has been no need for major changes in system-related functions and processes. Supplier dependency means that a customer has undertaken to use the technology of a specific supplier and as a result, the customer has less discretion in selecting new suppliers during the system lifecycle.

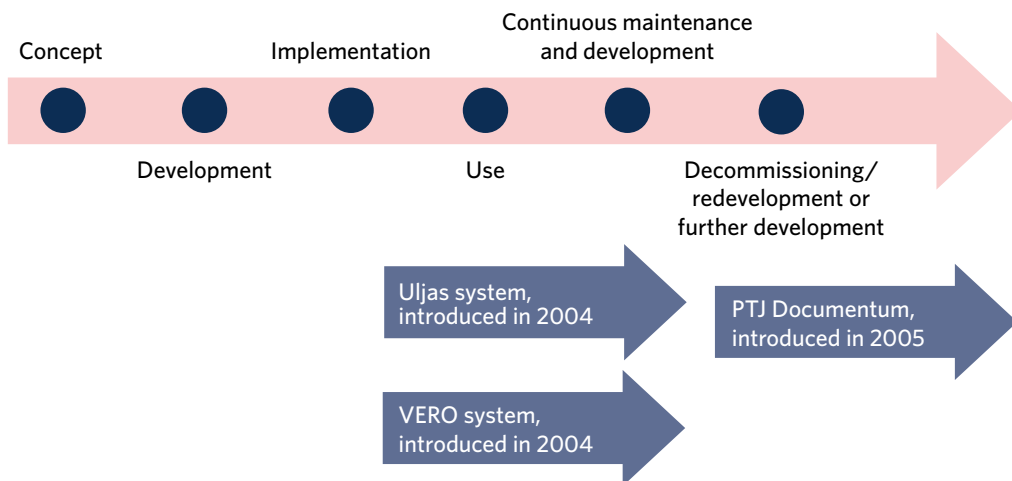


Figure 6: General lifecycle model and the lifecycle stage of the audited information systems. (Edited from the original: Kortelainen, Komonen, Laitinen, Valkokari & Hanski 2021).<sup>1</sup>

Three central government information systems were selected for the National Audit Office’s case audit, one of which is in use throughout the Government and two of which are used in government agencies in a specific administrative branch (Figure 6). All government agencies selected for the audit have sufficient expertise in the acquisition, contracting and management of information systems. Non-compliant contract procedures or material shortcomings in the information security of the systems concerned or in data processing controls were not identified in the audit.<sup>1</sup>

Based on the audit, supplier dependency may become a problem, especially in long-term information system agreements. It may also be difficult to withdraw from off-the-shelf solutions wholly in the possession of the supplier, which have become more common in recent years. Ways to reduce the risk of supplier dependency were examined in the audit. These include effective planning of the information system enterprise architecture, careful market research (also during system development) and using a negotiated procedure in competitive tendering. The procurement contract can be drafted in such a manner that sufficient intellectual property rights to the system remain with the customer. However, the terms and conditions governing intellectual property rights in long-term information system contracts may be difficult to interpret or be unfavourable for the customer. Over time, it may also be difficult to find out what amendments have been made to the contracts and to establish the relationship between different contracts and their precise content. Recently recruited staff members may also be less familiar with the content of the contracts concluded by their predecessors. The risk of supplier dependency can also be reduced by joint service purchases.<sup>1</sup>



## Joint procurements of services can save time and costs

In joint procurements, goods or services are purchased for more than one contracting entity at the same time. Joint purchases can generate direct or indirect cost savings and potentially higher-quality products. It was concluded in the audit (10/2020) that government agencies had mostly complied with the joint purchasing obligations but they did not have any uniform understanding of which products and services are covered by the joint purchasing obligation. The joint purchasing obligation applies to such items as computers and IT equipment, their parts and accessories but not to information system purchases. The monitoring of joint purchases was hampered by the fact that financial administration automation of joint purchases made by government agencies worked in the Handi system in the same way as in other purchases, and the purchases were not registered separately in the system. Furthermore, Hansel Ltd, which is responsible for the joint purchases, had assessed the economic, social and environmental responsibility of joint purchases but had not conducted sustainability audits because of the effort and costs involved. Based on the audit follow-up, more detailed specifications for the products and services covered by the obligation have been introduced, and development work on joint purchases has been carried out. Accounting offices are now able to monitor their purchasing contracts from a centralised information system. The decisions on the introduction of responsibility audits will be made in spring 2023.<sup>3</sup>

Wellbeing services counties are able to make purchases from their own inhouse companies without competitive tendering if the company generates a maximum of 5 per cent or EUR 500,000 of its turnover outside its owners and the owners exercise control over the company. Based on the findings of the audit of the digitalisation of healthcare and social welfare, wellbeing services counties utilised their inhouse companies in the purchases of ICT services during the transition phase. Some of the wellbeing services counties were of the view that inhouse companies were practically the only way to transfer the responsibility for organising the services in a secure manner within the timetable laid down in legislation and to ensure sufficient competence in the implementation of ICT changes. Based on the audit, inhouse companies were considered by the wellbeing services counties to be both important partners and problematic to steer.<sup>2</sup>

## Nationally produced digital services are essential for the interoperability of the information systems used by wellbeing services counties

DigiFinland Ltd develops national digital service solutions, especially for wellbeing services counties. The company was established in 2020 by merging SoteDigi Ltd and Vimana Ltd, two state-owned special assignment companies. The ownership structure of the company changed at the beginning of 2023 when the state transferred some of the company's shares without any consideration to the wellbeing services counties, the City of Helsinki and the HUS Group. The Finnish state still retains about one third of ownership and voting rights in the company. The company's funding is based on fees collected from its customers, and separate funding for major development projects is applied for from the government. Wellbeing services counties are not obliged to use the services supplied by DigiFinland and the company cannot provide services to municipalities or joint municipal authorities.

Kanta services are national digital services essential for the interoperability of healthcare and social welfare information systems. The fees collected from the users of Kanta services cover about half of the maintenance and development costs, and the other half comes from the Budget. Kanta services comprise several services that are at different stages of their lifecycle and there are also significant service-specific differences in terms of utilisation.

The added value that the digital and Kanta services provided by DigiFinland Ltd bring to the wellbeing services counties were assessed in the audit.<sup>2</sup> Based on the audit findings, the wellbeing services counties see potential in DigiFinland's operations when the services offered by the company meet client needs and are cost-effective compared to other services available. However, the counties have different starting points and different levels of digital competence, which is not the best basis for developing uniform national-level services. At the same time, wellbeing services counties must first introduce Kanta services in their own client and patient information systems before the information is available to end users through Kanta. Thus, the end user's experience of the services also depends on how the client and patient information systems of the wellbeing services county have been implemented.<sup>2</sup>

The key principles of communication that must be followed by the providers and producers of information system services are set out in the Client Data Act and other regulations. The systems must also meet the key requirements concerning interoperability, information security, data protection and functionality. Even though there have been improvements in Kanta services at general level, the objectives concerning their use and utilisation set out in the Client Data Act have not been fully met. At local level, the introduction of the functionalities offered by Kanta services has been slowed down by the waiting for the healthcare and social welfare reform and, in particular, uncertainty about the source of funding for the system development work. With regard to law enforcement, the problem is that individual actors do not always report deviations to the authorities as required under the Client Data Act.<sup>2</sup>

The wellbeing services counties are also responsible for emergency medical services. In the audit (9/2019), the absence of uniform national statistics on emergency medical services and indicators describing the activities was identified as an obstacle to resource planning in emergency medical services. Based on the audit follow-up, the knowledge base for emergency medical services is being developed so that the data in the ERICA emergency response centre system and the KEJO system used by the authorities can be combined in a manner that allows the data to be used for such purposes as the planning of resources for emergency medical services. The aim is also to integrate information on emergency medical services and treatment chains into the data production line of emergency medical services from the Kanta service's patient information archive, information management service and the care notification system Hilmo.<sup>4</sup>

## Recommendations of the National Audit Office for the lifecycle management of information systems and digital services

Investments and costs required to manage the lifecycle of the information systems used by the authorities should be included in the preparation of the Budget. The funding required for major ICT reforms should be taken into account in central government spending limits and budgets to enable long-term system lifecycle management.<sup>1,2</sup>

Uniform practices boosting productivity in such areas as the prioritisation of technologies, management of supplier dependency risk and funding of system development needs are needed in the lifecycle management of central government information systems.<sup>1</sup>

National digital healthcare and social welfare services should be coordinated so that they meet the needs of wellbeing services counties. Digital services should be developed systematically and on a long-term basis.<sup>2</sup>

## Maintaining the infrastructure and fixed assets under the responsibility of the government requires continuous lifecycle management and a long-term approach to the planning of investments

According to the findings of the audit (8/2016), the aid for and investments in broadband construction and projects have not been sufficient to safeguard the continuity of the operations of broadband companies. It was also found that participation in the aid programme projects had negatively impacted the finances of many of the participating municipalities. It was found in the first audit follow-up phase in 2020 that the impacts of the Broadband for All projects had not been sufficiently monitored and some of the projects of the Fast Broadband aid programme that ended in 2022 had negatively impacted the financial situation of key stakeholders. For this reason, the National Audit Office deemed it necessary to supplement the follow-up with a second follow-up in 2023. Based on the second follow-up, the monitoring of the aid programme has been improved and the financial impacts have been taken into account in the development of the programme and the associated legislation. An ex-post assessment of the aid programme has also been carried out. It was concluded in the follow-up that the aid programme has not caused any unreasonable financial losses to stakeholders. The municipalities providing funding for the projects have estimated that the aid programme had positive impacts on their vitality. Extensive investments in sparsely populated areas and areas outside built-up areas constituted a significant financial burden for the companies and cooperatives that had carried out the projects (especially in the early years) but the financial situation of the companies has improved since the end of the aid programme.<sup>5</sup>

It was recommended in the audit (12/2020) that when decisions on transport infrastructure investments are made, more consideration should be given to the impacts of new investments on infrastructure maintenance needs and the resulting maintenance and repair

costs and that the financial assessment of transport infrastructure repairs should be developed so that the measures can be compared and prioritised in a transparent manner. Based on the audit follow-up, the performance agreement of the Finnish Transport Infrastructure Agency sets targets for the overall economic and long-term management of the transport infrastructure, for improving the efficiency, quality and market performance of transport infrastructure management and for focusing transport infrastructure management measures according to customer needs and the state of the transport infrastructure.<sup>6</sup> Indicators and target levels have also been specified and they are monitored. Infrastructure maintenance costs are also included in budget proposals. It is required in the guidelines for preparing the 2024 Budget that an assessment of the cost impacts of transport infrastructure investments (development projects) should be carried out. More consideration to the investments and maintenance as a whole is also given in the 12-year national transport system plan prepared for the period 2021–2032.

Based on the follow-up of audit 5/2020, government agencies now take a longer-term approach to the planning of their investments in machinery and equipment and the guidelines for planning and monitoring investments are now more specific than in the past. However, the long-term planning of investments is not systematically monitored in the procurement units or in the Ministry of Finance. Moreover, the investment plans for fixed assets for the coming years are not summarised in the Government's financial plans. Even if the investment plan were not politically binding beyond the operational and financial planning period, long-term investment plans would give Parliament a more comprehensive picture of the expected trends in central government investment expenditure.<sup>7</sup>

Based on the findings of audit 14/2020, there was a solid basis for effective lifecycle management of central government building assets, as legislation promotes high-quality construction, management and maintenance of the building stock and creates an opportunity for using lifecycle costs as a basis for assessing costs in purchases and investment decisions. The state real estate strategy also aims to examine the lifecycle impacts of building assets comprehensively from different perspectives of the government's overall interest, and the government's premises strategy supports good building lifecycle management. The Ministry of Finance monitors the implementation of the strategies overhauled in 2021 with the help of the advisory boards it has appointed. It was recommended in the audit that the Ministry for Foreign Affairs should have established operating methods supporting the lifecycle management of properties located outside Finland and monitor their effectiveness. Based on the audit follow-up, the Ministry for Foreign Affairs has, since 2022, commissioned needs assessments of the sites it owns and leases and in connection with them, the criteria for leasing and owning sites have also been examined. Decisions to give up sites can also be made on the basis of the needs assessments. The Ministry for Foreign Affairs also reorganised its property management as of 1 April 2022. The key objective of the reorganisation was to bring construction and property maintenance in the same unit so that the operations can be coordinated on a centralised basis. The Ministry for Foreign Affairs also launched cooperation with the Senate Group in 2022. The aim is to utilise the expertise of the Senate Group in different areas of property and facility management.<sup>8</sup>

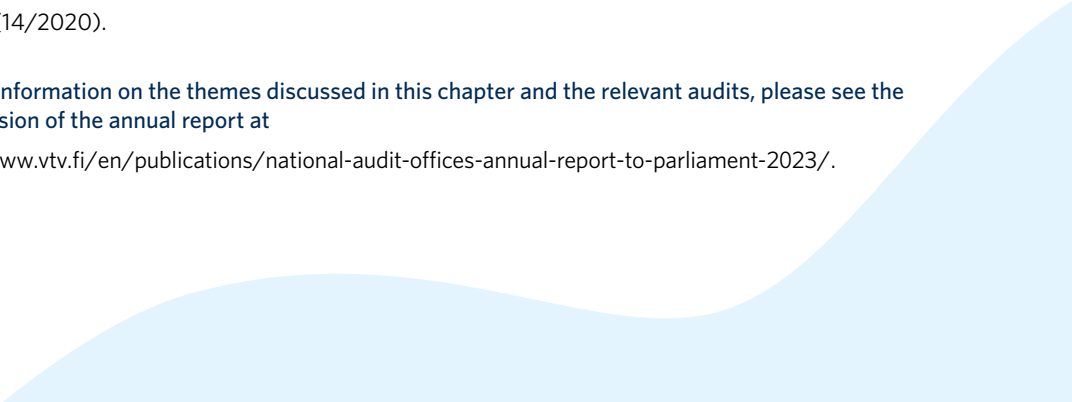


**The chapter is based on the following audits and follow-ups:**

- 1 *Legacy information systems* (7/2023)
- 2 *Funding and steering of the digitalization of healthcare and social welfare* (9/2023)
- 3 Follow-up report of 5 April 2023 on the audit *Implementation of joint procurements* (10/2020)
- 4 Follow-up report of 23 November 2022 on the audit *Impact of steering on the functioning of emergency medical services* (9/2019)
- 5 Follow-up report (additional follow-up) of 16 March 2023 on the audit *Support for the building of broadband network* (8/2016)
- 6 Follow-up report of 4 May 2023 on the audit *Lifecycle management of the transport network* (12/2020)
- 7 Follow-up report of 7 March 2022 on the audit *Lifecycle management of central government assets – machinery and equipment* (5/2020)
- 8 Follow-up report of 27 June 2023 on the audit *Lifecycle management of central government building assets* (14/2020).

**For more information on the themes discussed in this chapter and the relevant audits, please see the online version of the annual report at**

<https://www.vtv.fi/en/publications/national-audit-offices-annual-report-to-parliament-2023/>.





## 5 Centralised collection of financial information and statistics as well as high-quality foresight information provide the basis for decision-making

Medium-term projections and statistics on general government finances provide a reliable basis for fiscal and economic policy decision-making. However, consistent and comprehensive statistical data on the finances of municipalities and wellbeing services counties is needed to support decision-making, and this data should be produced on a centralised basis. Correctly timed foresight reports and centralised coordination of information would increase the use of foresight information in decision-making and put the Government's foresight activities on a more structured basis. In Government proposals, more attention should be paid to assessing the expenditure impacts of the proposed measures.

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There is still room for improvement in the reporting on projections in the General Government Fiscal Plan

In 2019, the National Audit Office examined whether there is any need for improvement in the manner in which the Ministry of Finance prepares its medium-term projections. In the audit (17/2019), the Ministry of Finance was urged to diversify its range of methods, in particular to produce a real-time assessment of the business cycle for medium-term projections. According to the audit follow-up, there is now better coordination between the macroeconomic forecast and the business cycle assessments prepared as part of medium-term projections. The Ministry of Finance has also published a methodological description of medium-term projections, which shows that deviations from the assumption that the output gap will close can be made in the medium term. However, these measures do not yet

eliminate the quality risk of the projections, which arises when the output gap estimate is retrospectively revised. The National Audit Office recommends that the definitions and comparability of development paths used in the reporting of medium-term projections should be improved. The target paths should also describe the estimated impacts of the planned measures on general government fiscal position.<sup>1</sup>

## Fiscal statistics provide a solid basis for fiscal policy decision-making

Economic forecasting, planning and decision-making are based on fiscal statistics. Compilation of national statistics is based on EU-level cooperation and the EU law, and the activities are also supervised by the EU. According to the audit conducted by the National Audit Office, fiscal statistics are reliable and internationally comparable. The statistics provide a reliable basis for fiscal policy and economic decision-making.<sup>2</sup>

Eurostat applies a wide range of systematic quality assurance methods focusing on methodological and classification issues on the fiscal statistics produced by EU Member States to ensure that the national statistics are comparable. For this reason, Statistics Finland itself makes only limited use of quality assurance when producing fiscal statistics, and its processes of compiling statistics are not externally reviewed. The National Audit Office recommends that Statistics Finland should strengthen its statistical quality assurance and the ability of external parties to assess the quality of fiscal statistics.<sup>2</sup>

## Statistics on the finances of municipalities, joint municipal authorities and wellbeing services counties should be organised on a centralised basis

The collection of data on local government finances was transferred from Statistics Finland to the State Treasury from the statistical year 2021 onwards as part of the overhaul of the collection of financial data from municipalities and joint municipal authorities (HE 60/2019). Until then, Statistics Finland collected the financial data required for statistics from municipalities and joint municipal authorities and used them to produce the annual and quarterly statistics on local government finances. The data was extensively used in the preparation of statistics on general government finances according to the national accounts, in the calculation of central government transfers and in the preparation of decision-making. In connection with the overhaul, Statistics Finland discontinued the compilation of statistics on local government finances, after which different actors have compiled sum data based on the original data collected from municipalities and joint municipal authorities for their own purposes. Thus, centralised statistics on local government finances are still needed as is financial data from the wellbeing services counties set up at the start of 2023. It is recommended in the audit that statistics on local government finances and the finances of wellbeing services counties should also in the future be produced on a centralised basis so that uniform financial data would be available for decision-making.<sup>2</sup>

The aim of the data collection reform was to ensure the availability of uniform, up-to-date and comprehensive information on the finances of municipalities, joint municipal authorities and other actors obliged to keep accounts, which would improve the usability of the data, especially in the preparation of the General Government Fiscal Plan and the



Budget. In the new model, data collection is based on data automatically run from the accounts. One aim of the overhaul was also to eliminate overlaps in the collection of official data and to ease the burden on municipalities and other parties arising from the obligation to supply information. However, it was concluded in the audit that there have been significant delays in the provision of information on local government finances. Moreover, in the new model, data quality assurance is decentralised among several actors, which may create blind spots in quality assurance and lead to unnecessary duplication of work in the data verification process.<sup>2</sup> However, the data collected with the new model does not currently cover all the data needed for Statistics Finland's statistics on general government finances, which means that Statistics Finland has to use its own data collection methods to obtain the missing data.

### Economic impacts of the reforms should be more comprehensively assessed in Government proposals

In its audits, the National Audit Office has repeatedly drawn attention to shortcomings in the assessment of the economic impacts of reforms in Government proposals. During this annual report period, the shortcomings were highlighted in two audits.

In the Government proposal (HE 60/2019), transferring the collection of the data on local government finances from Statistics Finland to the State Treasury was justified with cost savings. However, the savings that would be achieved were not estimated and no target for the savings was set in the proposal. In the Local Government Data Programme, which preceded the Government proposal, the savings were put at EUR 17 million by the year 2025. The Government also estimated in its proposal that the reform would bring minor savings to Statistics Finland and a number of other actors from 2022 onwards. Statistics Finland has later estimated that no cost savings can be expected in the coming years. The Government proposal also included spending increases. It was proposed that the permanent appropriation of the State Treasury should be increased by EUR 1.3 million from 2021. A total of EUR 5.5 million in separate funding was also allocated to the State Treasury for the period 2016–2020 for the collection of financial data on municipalities and joint municipal authorities.<sup>2</sup>

Finland's general housing allowance scheme was overhauled in 2015, and an earned-income deduction was introduced as part of the reform. According to the Government proposal (HE 52/2014) on the overhaul, maximum cost-neutrality would be a key goal, and the reform was estimated to increase the expenditure on general housing allowance by EUR 68 million each year. The estimate did not include the expenditure impacts of the earned-income deduction even though it was already known when the proposal was under preparation that the introduction of the deduction would increase annual expenditure by at least EUR 30 million (Figure 7). Based on the audit, the reform has increased general housing allowance expenditure considerably more than anticipated in the Government proposal. Estimates of the annual expenditure impacts of the reform have varied between EUR 150 million and EUR 259 million. In its proposal, the Government should have presented the uncertainties arising from the expenditure impacts and the calculations produced during the preparatory phase.<sup>3</sup>

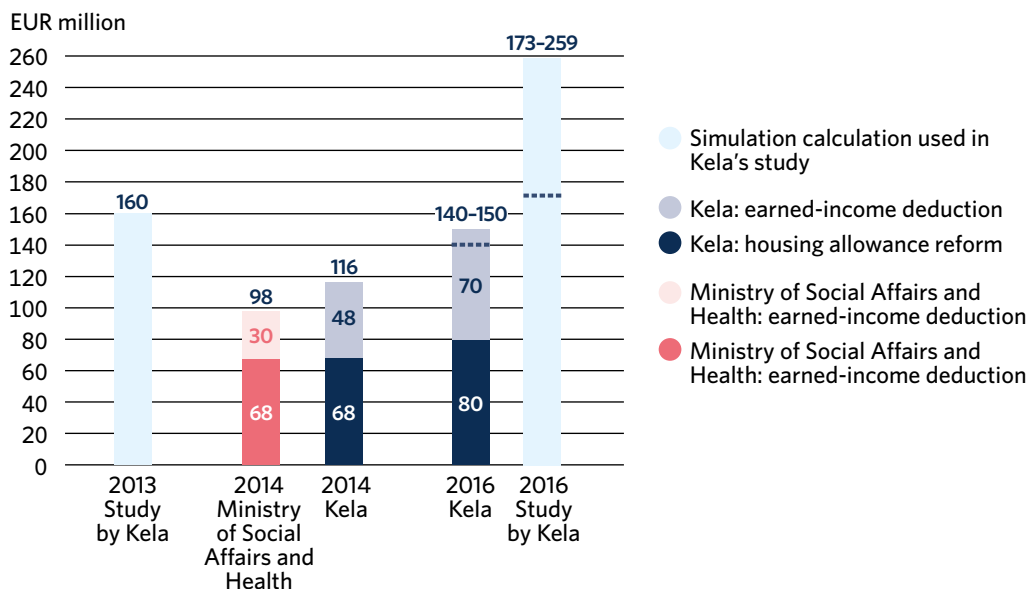


Figure 7: Total annual costs of the housing allowance reform in the period 2013–2016 – estimates produced by Kela and the Ministry of Social Affairs and Health.<sup>3</sup>

## Foresight information – an important instrument in Government’s strategic decision-making

In addition to the knowledge arising from research, foresight information based on the views of a broad range of experts is an important part of the knowledge base used in strategic decision-making. The inclusion of foresight information in the knowledge base of decision-making requires the pooling of diverse information and expertise and the utilisation of the potential offered by digital data processing. Like research data, foresight information should be processed in accordance with the Information Management Act and the models and principles of information management.

The National Audit Office has assessed the national foresight system that supports the Government’s strategic decision-making.<sup>4</sup> Based on the audit, the preparation process of the Government Report on the Future has supported foresight development in central government but the foresight activities in central government are not yet consistent or systematic as regards their purpose, objectives, operating methods or outputs. Producing systematic foresight information requires well-established processes, automated information production practices and development of the foresight capabilities of the actors preparing and implementing decisions. The fragmented nature of the foresight activities and uneven quality of the information constitute obstacles to the utilisation of foresight information in central government. Moreover, the responsibilities for producing foresight information, and the practices of coordinating and sharing the information in central government are not yet fully developed. Only a small number of central government units have their own foresight functions.<sup>4</sup>

Based on the audit, timely foresight reports and assignments arising from the preparation of policy measures would provide those drafting and making decisions with better opportunities to utilise foresight information in their work. Assignments and the preparation of reports would also put the foresight activities in government agencies on a stronger basis and strengthen their capacity to react to sudden changes in their operating environment. The cost-effectiveness of the foresight activities in government agencies could be improved by harmonising the information production process and by monitoring the resources and processes allocated to foresight. The knowledge base of Government decision-making would also be strengthened by a centralised coordinating support service combining information sources and maintaining location data on relevant information, even though the production of information would remain decentralised.<sup>4</sup>

### Recommendations of the National Audit Office concerning foresight and processing of financial information

Statistics Finland should have stronger quality assurance procedures for compiling fiscal statistics. Centralised compilation of statistics on local government finances and finances of wellbeing services counties should be improved so that the data can be used in decision-making.<sup>2</sup>

The expenditure impact calculations of the proposed measures and the uncertainties arising from them should be included in the Government proposals.<sup>3</sup>

The cost-effectiveness of the foresight activities and the usability of information should be improved by boosting the efficiency of the information production process and coordination of information and by ensuring that the Government monitors the resources allocated to foresight.<sup>4</sup>

#### The chapter is based on the following audits and follow-ups:

- 1 Follow-up report of 21 November 2022 on the audit *Medium-term projections in the planning of general government finances* (17/2019)
- 2 *Reliability of fiscal statistics* (12/2022)
- 3 *General housing allowance – Overall reform of 2015, development of benefit expenditure, and employment of benefit recipients* (4/2023)
- 4 *Monitoring of the operating environment and foresight activities to support strategic decision-making* (11/2022).

For more information on the themes discussed in this chapter and the relevant audits, please see the online version of the annual report at

<https://www.vtv.fi/en/publications/national-audit-offices-annual-report-to-parliament-2023/>.



## 6 The focus of the National Audit Office is on its core tasks and effective auditing

The usability and effectiveness of audit results depend on how the audits are focused on central government and how public administration implements the recommendations contained in the audits. The financial audits conducted by the National Audit Office cover all areas of central government, while fiscal policy, compliance and performance audits focus primarily on the administrative branches bearing the main responsibility for central government finances. Most of the recommendations issued in the audits are also implemented by public administration. The National Audit Office has assumed new tasks, overhauled its organisation and launched the preparation of a new strategy.



### The National Audit Office monitors the extent of its audit activities

In the period 2020–2022, the National Audit Office of Finland (NAOF) carried out between 81 and 84 audits and between 16 and 27 follow-ups each year. In the period January–August 2023, a total of 80 audits and 12 follow-ups were completed.

Most of the audits are financial audits, which in addition to the accounting offices in all administrative branches, also cover the final central government accounts, the Office of the President of the Republic, the Prime Minister’s Office, three off-budget government funds and two organisations under the Nordic Council of Ministers. Implementation of the recommendations issued in the financial audits of the accounting offices is monitored as part of the financial audit and for this reason, no separate follow-ups are carried out. Conclusions of the financial audits are discussed in more detail in chapter 2 of the annual report.

Table 3: Audit activities of the National Audit Office between 2020 and August 2023.

Audit activities	2020	2021	2022	1-8/2023
<b>All audits</b>	<b>82</b>	<b>84</b>	<b>81</b>	<b>80</b>
Financial audits	68	70	69	71
Separate audits of which	14	14	12	9
- Performance audits	9	6	9	6
- Compliance audits	1	4	0	2
- Fiscal policy audits	1	1	1	0
- Multi-type audits*	3	3	2	1
<b>Follow-ups on separate audits</b>	<b>18</b>	<b>27</b>	<b>16</b>	<b>12</b>

\*Multi-type audits are combinations of more than one audit type.

At its discretion, the National Audit Office carries out separate audits. In the period 2020–2023, about 60 per cent of them were performance audits (Table 3). The NAOF carries out separate audits comprehensively in different administrative branches, and most of them are based on the significant risks facing central government finances. Most of the separate audits are carried out in the administrative branches receiving the largest appropriations in the Budget: the Ministry of Finance, the Ministry of Economic Affairs and Employment, the Ministry of Social Affairs and Health and the Ministry of Education and Culture. Since 2020, more than 60 per cent of all separate audits have been carried out in these administrative branches (Figure 8).

The breakdown of separate audits by administrative branch varies from year to year and should therefore be monitored over a period of several years. Since 2022, more audits have been conducted in the administrative branches of the Ministry of Agriculture and Forestry, the Ministry for Foreign Affairs and the Ministry of the Environment, while there has been a reduction in the number of audits carried out in the administrative branches of the Ministry of Education and Culture and, to some extent, the Ministry of Economic Affairs and Employment, the Ministry of Defence and the Ministry of Transport and Communications.

Performance audits usually cover more than one administrative branch. This is because cooperation between administrative branches has been prioritised in the Government Programmes of recent parliamentary terms, and Government decisions are jointly implemented by administrative branches. During the annual report period (September 2022–August 2023), 13 audits were completed, eight (62 per cent) of which covered more than one administrative branch and five only one administrative branch. The follow-ups carried out during the same period covered 19 audits published between 2016 and 2021, of which nine audits covered one administrative branch and 10 audits (53 per cent) more than one administrative branch.

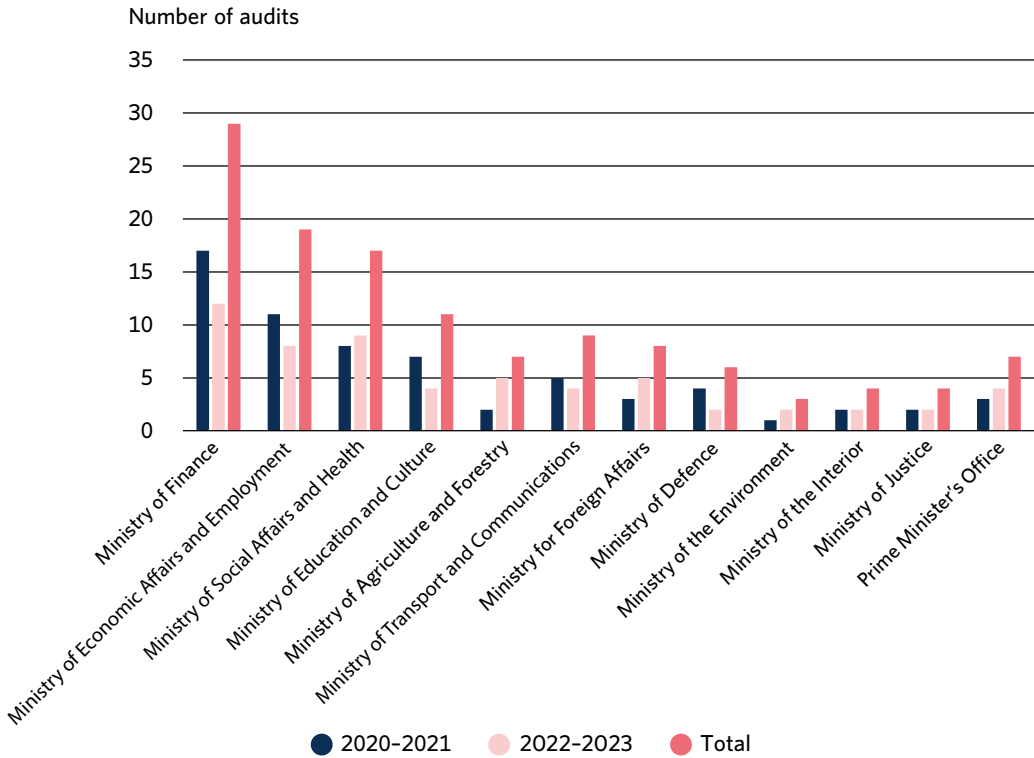


Figure 8: Breakdown (%) by administrative branch of the recommendations (n=252) which were issued in the 70 audits completed in the period 2014–2020 and on which follow-ups were carried out between January 2020 and June 2023.

Based on its audit conclusions, the National Audit Office issues recommendations to the audited entities. In the 70 audits completed between 2014 and 2023, the highest number of recommendations was issued to the administrative branch of the Ministry of Finance. This is understandable because the focus in the audits is on risks to central government finances. The number of recommendations issued to the administrative branches of the Ministry of Economic Affairs and Employment, Ministry of Social Affairs and Health and the Ministry of Education and Culture has also been in the same proportion as the number of audits conducted in these administrative branches. (See Figures 9 and 10.)

When the number of recommendations issued to individual administrative branches in the audits completed in the periods 2014–2020 (Figure 9) and 2020–2023 (Figure 10) is compared, it can be noted that the audits conducted in the 2020s have, in relative terms, contained more recommendations jointly issued to Government or key administrative branches, whereas fewer recommendations have been issued to the Prime Minister’s Office. This trend may have partially resulted from the fact that in recent years, some of the audits have covered extensive structural reforms and policy measures outlined in the Government Programmes, and the audits have focused on the preparation of Government decisions or the implementation of legislation.

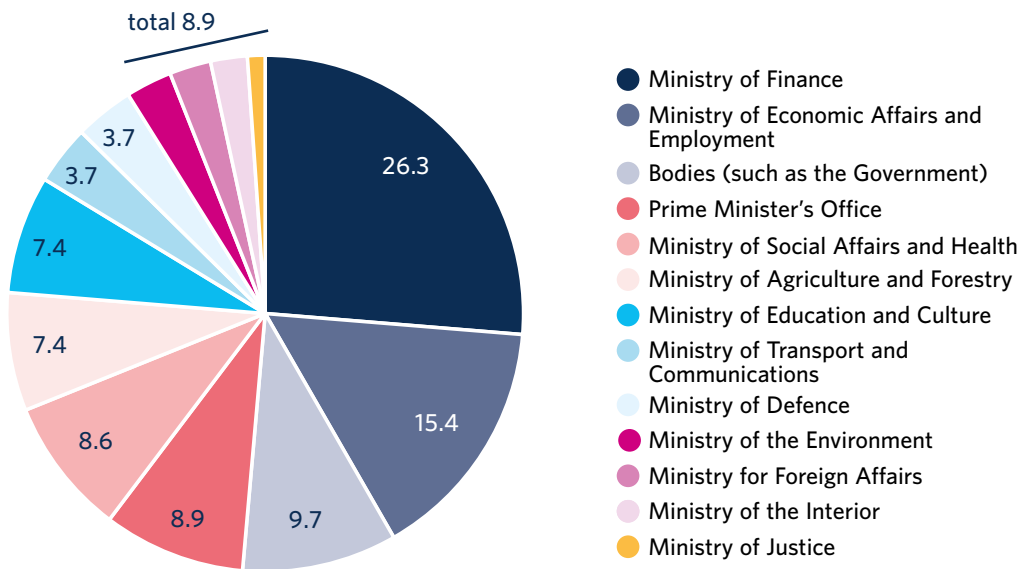


Figure 9: Breakdown (%) by administrative branch of the recommendations (n=252) which were issued in the 70 audits completed in the period 2014–2020 and on which follow-ups were carried out between January 2020 and June 2023.

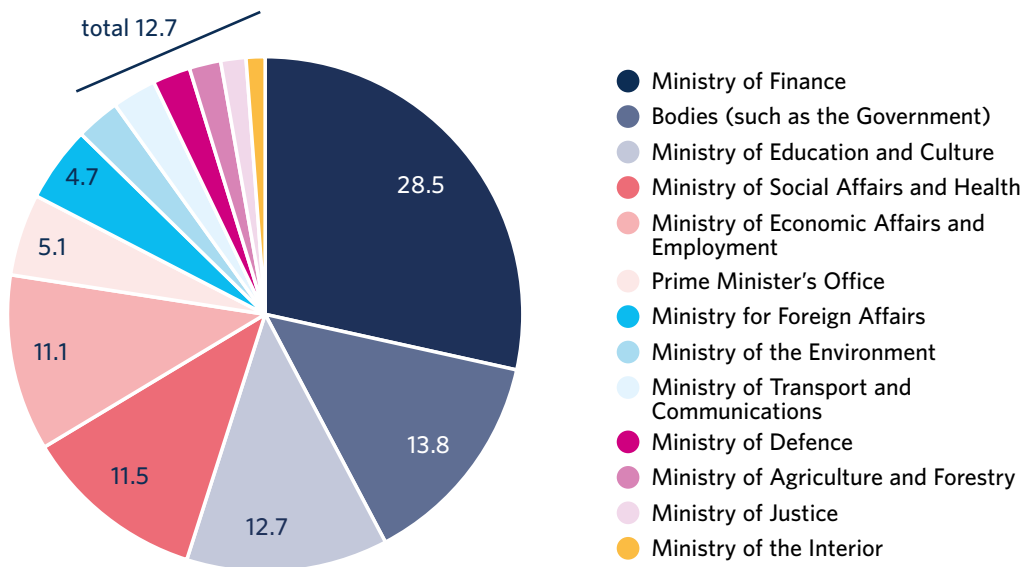


Figure 10: Breakdown (%) of the recommendations (n=194) issued in the 49 audits completed between 2020 and August 2023 by administrative branch.



### Central government actors have implemented most of the recommendations issued by the National Audit Office

In the follow-ups on the separate audits, the National Audit Office assesses the measures taken by public administration on the basis of the recommendations and conclusions issued in the audits. On average, the follow-ups are carried out about three years after the issuing of the audit report. The timing of the follow-up is determined on an audit-specific basis so that the audited entities have sufficient time to implement the recommendations.

Most of the recommendations issued by the National Audit Office are implemented by the audited entities. Based on the 70 follow-ups carried out between January 2020 and June 2023, about 35 per cent of the recommendations of the audits (n=252) had been fully or mostly implemented and about 47 per cent partially implemented. About 18 per cent of the recommendations had been insufficiently implemented or had not been implemented at all (Figure 11).

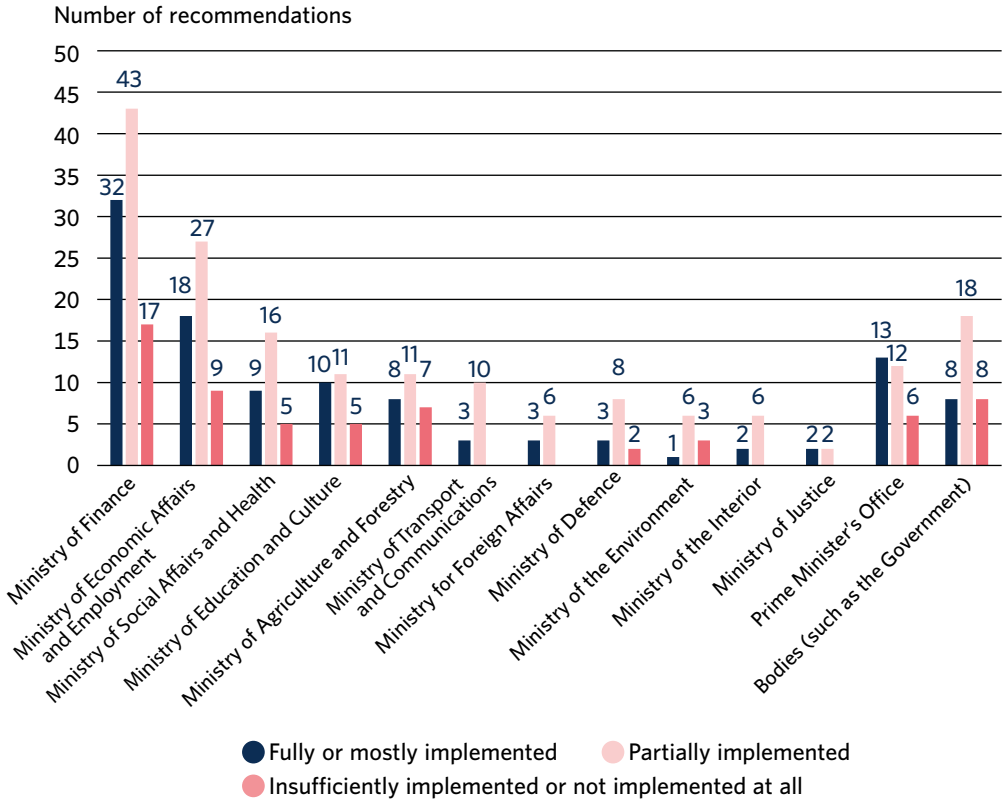


Figure 11: Implementation by administrative branch of the recommendations (n=252) which were issued in the 70 audits completed in the period 2014–2020 and on which follow-ups were carried out between 2020 and June 2023.

Based on the follow-ups, factors impacting the implementation of the recommendations include the fact that the implementation of the recommendation is still in progress during the follow-up or that the public administration actors in question do not have the resources to implement the recommendation. Implementation of the recommendation may also have been combined with ongoing public administrative development work or the preparation and implementation of reforms or legislation. Occasionally, other legislative or administrative measures may also have been taken and as a result, the recommendation has been implemented differently or it is no longer relevant. It has been noted in the follow-ups that the implementation of the recommendations issued to more than one administrative branch or actor requires particularly close cooperation between the public administration actors concerned and extensive reforms and changes.

## The National Audit Office has published viewpoints concerning the conclusions it has made in its audit, monitoring and oversight activities for the new parliamentary term

For the first time, the National Audit Office has published viewpoints on key economic and administrative policy topics that will be relevant to the achievement of balanced general and central government finances and to sustainable management of central government finances in the coming years. The purpose is to support the drafting of the Government Programme for the parliamentary term that began in April 2023. The viewpoints are based on the key findings and conclusions of the NAOF's fiscal policy monitoring as well as the audits and follow-ups published by the NAOF during the parliamentary term 2019–2023.

The viewpoints are divided into following main themes: 'A planned fiscal policy strengthens public finances', 'A clear division of responsibilities and established cooperation practices between public authorities provide support in the event of crises and disruptions', 'Effective benefits and public services help to secure the foundations of the welfare state', and 'External and internal changes challenge the central government to reform its operating practices'.

### Impacts of audit activities

Financial audits cover all areas of central government. Most of the discretionary separate audits and recommendations concern the administrative branches that bear the main responsibility for central government finances. The audits and recommendations often cover matters that require cooperation across administrative boundaries. Most of the recommendations issued by the National Audit Office are implemented by public administration.

The National Audit Office published viewpoints on key economic and administrative policy topics for the new parliamentary term. The viewpoints concern themes that are relevant to the achievement of balanced general and central government finances and to sustainable management of central government finances in the coming years.

## The National Audit Office overhauled its organisation in early 2023

The National Audit Office overhauled its organisation and management system during 2022. The aim was to clarify responsibilities and ensure better support for implementation of the agency's core task. From 1 January 2023, the National Audit Office has operated as a line organisation divided into the Audit, Monitoring and Oversight, and Shared Services Units. The Audit Unit is responsible for the carrying out and quality control of the audits and prepares the opinions of the National Audit Office that concern its sector. The Monitoring and Oversight Unit is responsible for fiscal policy monitoring and audits and for the oversight of political party and election campaign funding. The unit is also responsible for the transparency register and for processing complaints and reports on irregularities submitted to the NAOF. The Shared Services Unit comprises the joint functions that support the agency's activities and development: general administration, HR services, financial services, information management and premises services as well as communications and stakeholder coordination. All units are jointly responsible for competence development.

The National Audit Office will overhaul its strategy for the period 2024–2030 during 2023, and in this work, consideration will be given to the anticipated impacts of future change factors on the National Audit Office. The focus in the new strategy will be on the ability of the National Audit Office to perform its core tasks effectively and efficiently.

The new audit planning process, prepared during 2023, will ensure comprehensive monitoring of the operating environment and the focus of audits on essential matters. By developing audit procedures, the National Audit Office can ensure that data are extensively used in the audits. The National Audit Office has also launched a long-term development project to enhance the competence of its auditors.

At the end of 2022, fiscal policy monitoring published the fiscal policy monitoring and audit report for the 2019–2022 parliamentary term and by September 2023 two separate reports: an ex-post assessment of the accuracy of the Ministry of Finance's budgetary forecasts and a report on the role and efficiency of automatic fiscal stabilisers in Finland. Fiscal policy monitoring has updated the business cycle heatmap and the composite indicator derived from it, which it uses in its reporting. Fiscal policy audit supports the monitoring activities so that audit findings can produce topics that are subsequently monitored as part of the monitoring work. Two fiscal policy audits are under way in 2023.

The National Audit Office is overseeing the election campaign funding of the parliamentary elections held in spring 2023 and will submit a report to Parliament on its findings in December 2023. Preparations for the combined municipal and county elections in 2025 will continue as information system development work and the drafting of new guidelines. The report on the oversight of political party funding in 2022 was submitted to Parliament in March 2023. The audits of political party organisations in 2023 will be carried out in autumn 2023.

In 2023, the National Audit Office introduced an internal whistleblowing channel to implement the provisions on the protection of persons reporting breaches of EU and national law. The function responsible for complaints and reports on irregularities aims to streamline the processing of complaints and reports on irregularities and to promote the utilisation of information received through the function in audit planning and the monitoring of the NAOF's operating environment.

## Focus in the National Audit Office's international activities was on effective operations

The National Audit Office's international work involves work that is binding on audit communities and discretionary international cooperation in specific cooperation forums, in accordance with the agreed priorities. The most important cooperation forums are the International Organization of Supreme Audit Institutions (INTOSAI), its European regional organisation EUROSAI, Contact Committee of the Supreme Audit Institutions of the European Union, and the Nordic cooperation network. Through international cooperation, the National Audit Office receives useful information from other countries' audit institutions and international organisations on new methods and topical issues that it can apply in its own activities. At the same time, the National Audit Office can share its expertise with other audit institutions.

The National Audit Office is responsible for the financial audits of the European Organization for Nuclear Research (CERN), the European Southern Observatory (ESO) and the Baltic Marine Environment Protection Commission (HELCOM) as well as the financial audits of the Nordic Culture Point and the Nordic Institute for Advanced Education in Occupational Health (NIVA), which are located in Finland and operate under the auspices of the Nordic Council of Ministers.

The National Audit Office participates in the activities of international umbrella organisations at organisational, working group and network level. The National Audit Office will chair the Working Group on Environmental Auditing (WGEA) of INTOSAI until 2025. The NAOF is also in charge of the Fiscal Policy Audit Network, which operates under the auspices of the Contact Committee of the Supreme Audit Institutions of the European Union. The National Audit Office also participates in international cooperation between independent fiscal institutions for instance in the EU IFI network.

### Internal activities of the National Audit Office

In 2023, the National Audit Office continued its operations as a line organisation focusing on its audit, monitoring and oversight tasks. A new strategy for the NAOF will be prepared during 2023.

Since 2022, the National Audit Office has prepared to audit the operations of well-being services counties as regards central government funding and the maintenance and oversight tasks of the transparency register.

## Right to audit expanded to cover the wellbeing services counties, and the NAO is preparing for its task as the registrar of the transparency register

Under the Act on Wellbeing Services Counties (611/2021) and the Act on Organising Healthcare and Social Welfare Services and Rescue Services in Uusimaa (615/2021), the National Audit Office has the right to carry out audits of the wellbeing services counties, organisations and foundations belonging to the wellbeing services county groups as well as the healthcare, social welfare and rescue services of the City of Helsinki and the organisations under the control of the City of Helsinki established for these tasks. The audits produce information on the finances and activities of the wellbeing services counties, their financial position and the special issues set jointly for the wellbeing services counties, thus ensuring that central government is able to supervise the organisation and provision of services mainly funded by central government and related to citizens' fundamental rights. The preparation of the audit activities covering wellbeing services counties began in 2022, and the first audits were launched in 2023.

In 2022, the National Audit Office also started preparations for its new statutory task, serving as the registrar and overseer of the transparency register. Under the Transparency Register Act (98/2022) companies, associations and foundations must report their lobbying activities directed at Parliament and ministries. The purpose of the Act is to improve the transparency of lobbying directed at preparation and decision-making and, consequently, to combat inappropriate lobbying.

With the entry into force of the Transparency Register Act, the National Audit Office will become the registrar of the transparency register on 1 January 2024 and start overseeing compliance with the reporting obligation. The National Audit Office will prepare for the tasks by setting up an information system for the transparency register by the end of 2023. The National Audit Office will also prepare and publish guidelines for the actors subject to the reporting and registration obligation, organise training and events for stakeholders and arrange meetings of the advisory board established for the transparency register. The advisory board has already been appointed and it started work in May 2023.

## New legislation relevant to the NAOF's audit, monitoring and oversight activities

### Section 128 of the Act on Wellbeing Services Counties (611/2021):

The National Audit Office has the right to audit the legality, appropriateness and cost-effectiveness of the activities and financial management of a wellbeing services county, the entities controlled by the county and the entities jointly controlled by counties as regards funding received from central government.

### Section 23 of the Act on Organising Healthcare and Social Welfare Services and Rescue Services in Uusimaa (615/2021):

The National Audit Office has the right to audit the legality, appropriateness and cost-effectiveness of the activities and financial management of the City of Helsinki's healthcare, social welfare and rescue services and the entities under the control of the City of Helsinki and established for these tasks as regards the funding received from central government.

### Section 9 of the Transparency Register Act (430/2023):

The National Audit Office acts as the registrar of the transparency register and oversees compliance with the reporting obligation. For this purpose, the National Audit Office shall:

1. guide and advise the actors subject to the reporting obligation to submit the notifications specified in this Act;
2. check that the actors subject to the reporting obligation who have submitted the registration notification have submitted notifications of their operations;
3. check that the notification of permanent discontinuation of the lobbying activities and advisory activities associated with the lobbying activities or the notification of the lobbying becoming a small-scale activity submitted by the actor subject to the reporting obligation meets the requirements laid down in section 7, subsection 3;
4. investigate suspected negligence related to the registration notification, notification of changes in basic information, notification of permanent discontinuation of the lobbying activities and advisory activities associated with the lobbying activities or notification of the lobbying becoming a small-scale activity and the notification of operations;
5. if necessary, request the actor subject to the reporting obligation to submit a new notification, to supplement the notification already submitted, or to submit the report referred to in section 10, subsection 1;
6. maintain and develop the electronic register;
7. appoint the advisory board referred to in section 11;
8. prepare an annual report on the activities and oversight of the register;
9. submit a report to Parliament on the operations and oversight of the register for each parliamentary term.

The National Audit Office may request the actor subject to the reporting obligation to submit a notification laid down in this Act, correct an error or inadequacy or submit the report referred to in section 10, subsection 1. The National Audit Office may impose a conditional fine to enforce the request.

# Publications of the National Audit Office

## 9/2022–8/2023



### Reports to Parliament

- R 21/2022 vp** National Audit Office's Annual Report to Parliament 2022
- R 23/2022 vp** Report of the National Audit Office on the oversight of election campaign funding in the 2022 county elections
- R 25/2022 vp** Separate report of the National Audit Office to Parliament: Fiscal policy monitoring and audit report on the 2019–2022 parliamentary term
- R 6/2022 vp** National Audit Office's report to Parliament on the oversight of the funding of political parties in 2022
- R 16/2023 vp** National Audit Office's separate report to Parliament on the audit of the final central government accounts 2022 and the Government's annual report

### Financial audit reports

#### Final central government accounts

- D/514/04.08.01/2022** Final central government accounts

#### Office of the President of the Republic

- D/492/04.08.01/2022** Office of the President of the Republic

#### Prime Minister's Office

- D/504/04.08.01/2022** Prime Minister's Office

#### Administrative branch of the Ministry for Foreign Affairs

- D/499/04.08.01/2022** Ministry for Foreign Affairs

#### Administrative branch of the Ministry of Justice

- D/469/04.08.01/2022** Ministry of Justice
- D/470/04.08.01/2022** Legal Register Centre
- D/480/04.08.01/2022** Criminal Sanctions Agency



D/490/04.08.01/2022 Prosecution Service  
D/496/04.08.01/2022 Finnish Courts  
D/500/04.08.01/2022 National Enforcement Authority

#### Administrative branch of the Ministry of the Interior

D/482/04.08.01/2022 Ministry of the Interior  
D/456/04.08.01/2022 Emergency Response Centre Agency  
D/466/04.08.01/2022 Finnish Immigration Service  
D/474/04.08.01/2022 Emergency Services Academy  
D/475/04.08.01/2022 National Police Board  
D/479/04.08.01/2022 Finnish Border Guard  
D/486/04.08.01/2022 Finnish Security and Intelligence Service

#### Administrative branch of the Ministry of Defence

D/476/04.08.01/2022 Ministry of Defence  
D/477/04.08.01/2022 Finnish Defence Forces

#### Administrative branch of the Ministry of Finance

D/506/04.08.01/2022 Ministry of Finance  
D/449/04.08.01/2022 State Department of Åland  
D/451/04.08.01/2022 Digital and Population Data Services Agency  
D/454/04.08.01/2022 Regional State Administrative Agency for Southern Finland  
D/478/04.08.01/2022 Financial Stability Authority  
D/494/04.08.01/2022 Statistics Finland  
D/495/04.08.01/2022 Finnish Customs  
D/501/04.08.01/2022 State Treasury  
D/502/04.08.01/2022 VATT Institute for Economic Research  
D/444/04.08.01/2022 Finnish Government Shared Services Centre for Finance and HR  
D/503/04.08.01/2022 Government ICT Centre Valtori  
D/507/04.08.01/2022 Finnish Tax Administration

#### Administrative branch of the Ministry of Education and Culture

D/471/04.08.01/2022 Ministry of Education and Culture  
D/459/04.08.01/2022 National Archives  
D/468/04.08.01/2022 Finnish Heritage Agency  
D/472/04.08.01/2022 Finnish National Agency for Education  
D/487/04.08.01/2022 Academy of Finland  
D/489/04.08.01/2022 Governing Body of Suomenlinna

### Administrative branch of the Ministry of Agriculture and Forestry

D/465/04.08.01/2022	Ministry of Agriculture and Forestry
D/463/04.08.01/2022	Natural Resources Institute of Finland
D/467/04.08.01/2022	National Land Survey of Finland
D/481/04.08.01/2022	Finnish Food Authority

### Administrative branch of the Ministry of Transport and Communications

D/461/04.08.01/2022	Ministry of Transport and Communications
D/457/04.08.01/2022	Finnish Meteorological Institute
D/462/04.08.01/2022	Finnish Transport and Communications Agency
D/508/04.08.01/2022	Finnish Transport Infrastructure Agency

### Administrative branch of the Ministry of Economic Affairs and Employment

D/498/04.08.01/2022	Ministry of Economic Affairs and Employment
D/452/04.08.01/2022	Development and Administrative Centre for the ELY Centres and TE Offices
D/453/04.08.01/2022	Energy Authority
D/455/04.08.01/2022	Geological Survey of Finland
D/458/04.08.01/2022	Funding Agency Business Finland
D/460/04.08.01/2022	Finnish Competition and Consumer Authority
D/473/04.08.01/2022	Finnish Patent and Registration Office
D/497/04.08.01/2022	Finnish Safety and Chemicals Agency

### Administrative branch of the Ministry of Social Affairs and Health

D/484/04.08.01/2022	Ministry of Social Affairs and Health
D/464/04.08.01/2022	Finnish Medicines Agency
D/483/04.08.01/2022	National Supervisory Authority for Welfare and Health
D/485/04.08.01/2022	Social Security Appeal Board
D/491/04.08.01/2022	Radiation and Nuclear Safety Authority
D/493/04.08.01/2022	Finnish Institute for Health and Welfare

### Administrative branch of the Ministry of the Environment

D/510/04.08.01/2022	Ministry of the Environment
D/450/04.08.01/2022	Housing Finance and Development Centre of Finland
D/488/04.08.01/2022	Finnish Environment Institute

### Off-budget funds

D/511/04.08.01/2022	Fire Protection Fund
D/512/04.08.01/2022	State Television and Radio Fund
D/513/04.08.01/2022	Finnish Oil Pollution Compensation Fund

## Summary reports

**10/2023** Summary report: Financial audits conducted in 2022

## Compliance, performance and fiscal policy audit reports

**10/2022** Current status and development of the Suomi.fi services, performance audit  
*Audited entities: Ministry of Agriculture and Forestry, Ministry of Economic Affairs and Employment, Ministry of Finance, Digital and Population Data Services Agency and the National Land Survey of Finland*

**11/2022** Monitoring of the operating environment and foresight activities to support strategic decision-making, performance audit  
*Audited entity: Prime Minister's Office*

**12/2022** Reliability of fiscal statistics, fiscal policy audit and performance audit  
*Audited entities: Ministry of Finance, Statistics Finland and State Treasury*

**13/2022** Work-based immigration – Effectiveness and customer orientation of the immigration administration and recruitment of foreign labour in the health and social services sector, performance audit  
*Audited entities: Ministry of the Interior, Ministry of Social Affairs and Health, Ministry of Economic Affairs and Employment, Ministry for Foreign Affairs, Ministry of Finance, Digital and Population Data Services Agency, Finnish Immigration Service, Statistics Finland and the National Supervisory Authority for Welfare and Health*

**1/2023** Taxation procedures for self-assessed taxes, compliance audit  
*Audited entities: Ministry of Finance and the Finnish Tax Administration*

**2/2023** The Housing Finance and Development Centre of Finland (ARA) as the housing policy implementing body, performance audit  
*Audited entities: Ministry of Finance, Ministry of the Environment, Housing Finance and Development Centre of Finland (ARA) and the State Treasury*

**3/2023** Finnfund's investment activities and risk management, performance audit  
*Audited entities: Ministry for Foreign Affairs and Finnfund*

**4/2023** General housing allowance – Overall reform of 2015, development of benefit expenditure, and employment of benefit recipients, performance audit  
*Audited entity: Ministry of Social Affairs and Health*

**5/2023** Effectiveness of the public business service system, performance audit  
*Audited entities: Ministry of Economic Affairs and Employment, Ministry for Foreign Affairs, Business Finland, ELY Centres, Finnvera and TE Offices*

- 6/2023**      Related party relationships and transactions in the central government, compliance audit  
*Audited entities: all ministries, State Treasury and Prime Minister's Office*
- 7/2023**      Legacy information systems, performance audit, compliance audit and system audit  
*Audited entities: Ministry of Finance, Ministry of Transport and Communications, Ministry of Justice, Prime Minister's Office, Government ICT Centre Valtori, Finnish Transport and Communications Agency, National Enforcement Authority and Legal Register Centre*
- 8/2023**      State-owned companies of strategic interest – risk management and ensuring business continuity, performance audit  
*Audited entities: Ministry of Transport and Communications, Ministry of Agriculture and Forestry, Ministry of Defence, Ministry of Economic Affairs and Employment, Ministry of Finance, Prime Minister's Office and the National Emergency Supply Agency*
- 9/2023**      Funding and steering of the digitalization of healthcare and social welfare, performance audit  
*Audited entities: Ministry of Social Affairs and Health, Ministry of Finance, wellbeing services counties, DigiFinland Oy, Finnish Institute for Health and Welfare and the National Supervisory Authority for Welfare and Health*

### Follow-up reports on compliance, performance and fiscal policy audits

- 8/2016**      Support for the building of broadband network, performance audit  
*Audited entities: Ministry of Transport and Communications, Ministry of Agriculture and Forestry, Finnish Transport and Communications Agency and the Agency for Rural Affairs*
- 2/2018**      Assigning beneficiaries of international protection to municipalities and developing the system of reimbursements paid to municipalities, performance audit  
*Audited entities: Ministry of the Interior, Ministry of Economic Affairs and Employment and the Ministry of Finance*
- 3/2018**      Financial liabilities of the government in international organisations, compliance audit  
*Audited entities: Ministry of Finance, Ministry for Foreign Affairs and the State Treasury*

- 20/2018** Risk management and continuity of operations in central government, performance audit  
*Audited entities: Ministry of Finance, Prime Minister's Office and the Government Financial Controller's Function*
- 7/2019** Digitalization of teaching and learning environments in general education, performance audit  
*Audited entities: Ministry of Education and Culture, Finnish National Agency for Education and the Prime Minister's Office*
- 9/2019** Impact of steering on the functioning of emergency medical services, performance audit  
*Audited entities: Ministry of Social Affairs and Health and the Ministry of the Interior*
- 11/2019** Supporting non-profit organisations and certain exceptional procedures, compliance audit  
*Audited entities: Ministry of Transport and Communications, Ministry of Agriculture and Forestry, Ministry of Education and Culture, Ministry of Social Affairs and Health, Ministry of Economic Affairs and Employment, Business Finland, Development and Administrative Centre for the ELY Centres and TE Offices, Finnish Forest Centre, Finnish Wildlife Agency, Finnish Institute for Health and Welfare, Finnish Institute of Occupational Health, Finnish Transport Infrastructure Agency and the TE Offices for Uusimaa, Pirkanmaa and Southeast Finland*
- 17/2019** Medium-term projections in the planning of general government finances, fiscal policy audit  
*Audited entity: Ministry of Finance*
- 1/2020** Transferring basic social assistance to the Social Insurance Institution of Finland: The significance of assessing the effects of implementation in the law-drafting process, performance audit  
*Audited entity: Ministry of Social Affairs and Health*
- 2/2020** Effectiveness of youth workshops, and resources and efficiency of outreach youth work, performance audit  
*Audited entity: Ministry of Education and Culture*
- 4/2020** Impacts of the TE Office reform in 2013, performance audit  
*Audited entities: Ministry of Economic Affairs and Employment, TE Offices and Development and Administrative Centre for the ELY Centres and TE Offices*

- 6/2020** Funding process, allocation of funds and follow-up of ESF projects during the 2014–2020 programming period, performance audit  
*Audited entities: Ministry of Economic Affairs and Employment, ELY Centres for Häme, South Savo, Central Finland and Northern Ostrobothnia*
- 7/2020** Provision and reforms of employment services in 2015–2019, performance audit  
*Audited entities: Ministry of Economic Affairs and Employment, TE Offices and Development and Administrative Centre for the ELY Centres and TE Offices*
- 8/2020** Expenses of and funding for the strategic capability projects of the Finnish Defence Forces, performance audit  
*Audited entities: Ministry of Defence and the Finnish Defence Forces*
- 10/2020** Implementation of joint purchases, compliance audit  
*Audited entities: Ministry of Finance, Hansel Ltd and the Finnish Government Shared Services Centre for Finance and HR*
- 11/2020** Uniformity of the Budget, compliance audit  
*Audited entities: all ministries and the Prime Minister’s Office*
- 12/2020** Lifecycle management of the transport network, performance audit  
*Audited entities: Ministry of Transport and Communications, Ministry of Economic Affairs and Employment and the Finnish Transport Infrastructure Agency*
- 14/2020** Lifecycle management of central government building assets, performance audit  
*Audited entities: Ministry for Foreign Affairs, Senate Properties and the Governing Body of Suomenlinna*
- 2/2021** Reform of vocational education, performance audit  
*Audited entities: Ministry of Education and Culture and the Finnish National Agency for Education*

## Other publications

- 11/2023** Fiscal policy monitoring assessment of the reliability of the economic forecasts of the Ministry of Finance





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