



National Audit Office's report on its activities to the 2014 parliamentary session



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HELSINKI 2014

To Parliament

Under section 6 of the Act on the National Audit Office (676/2000), the National Audit Office (NAOF) must submit a 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 and central government finances from the viewpoint of Parliament, summaries of the audit findings that are of key importance to Parliament and the findings concerning the implementation of the positions issued by Parliament on the basis of the reports of its Audit Committee. The report also presents a review of the National Audit Office's activities and their effectiveness during the 2013 budget year.

The report is based on the performance audits, financial audits, compliance audits and fiscal policy audits conducted by the National Audit Office and its activities as an expert body. The most important audit findings presented in this report are from the financial audits that were completed in spring 2014 and that cover the 2013 budget year. The performance and compliance audits and follow-ups to them conducted by the end of August 2014 are included in the report.

The most important findings and recommendations laid out in the fiscal policy audits and monitoring are included in a separate report submitted to Parliament on 22 May 2014 (K 15/2014 vp). Fiscal Policy Audit and Monitoring Report.

The National Audit Office submitted a separate report to Parliament on the audit of the final central government accounts and on the report on the final central government accounts on 22 May 2014 (K 16/2014 vp).

Helsinki 15 September 2014

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The National Audit Office's report on its activities to the 2014 parliamentary session has two main themes: the prerequisites for implementing the Government's structural policy programme and good governance.

Even though, on the basis of the audits, it is still not possible to report on the implementation of the structural policy programme or the achievement of the targets laid out in it we have nevertheless made an attempt to assess the prerequisites of the programme.

By adhering to good governance, government actors are able to operate in a performance-oriented and effective manner, which also facilitates the implementation of the structural policy programme.

Prerequisites for the implementation of the structural policy programme

The measures laid out in the section on labour market and working careers are, on the basis of the audits, appropriate and feasible. However, the limited number of the implementation tools makes it more difficult to achieve some of the targets. Weak economic growth underlines the importance of the measures impacting the structure of the labour market.

In its inputs into the development of intangible capital, Finland has put more emphasis on traditional research and development than other countries. Almost 50 per cent (about 900 million euros) of all research and development funding provided by the state goes to promoting general academic research. The most important recipients are universities and the Academy of Finland. Even though there has been a lot of attention on the development of funding models, they do not give enough consideration to the application of research findings in such areas as cooperation with companies.

Good governance

The public sector can only operate successfully if it relies on target-oriented management practices and it is steered in an efficient manner.

The National Audit Office has assessed the prerequisites for implementing the Government's structural policy programme

Weak economic growth highlights the need for measures improving competitiveness and impacting the structure of the labour market

Consideration should be given to ensuring that public funding allocated to scientific and basic research will have practical benefits

In general, the steering systems of individual administrative branches are functioning reasonably well. However, more use should be made of economic analyses in the preparation of strategies for administrative branches. The strategies should also be clearly linked with economic planning. At the same time, however, there should be a critical review of the number of the strategies and special consideration should be given to the perspective of their implementation.

There has been an improvement in the trueness and fairness of the information on operational efficiency contained in the final accounts of the accounting offices in recent years. The information would, however, be more usable if the figures on operational efficiency and the manner in which they are presented was harmonised and clarified.

The comprehensiveness of the economic efficiency targets set by the ministries and the information on them presented by the accounting offices in their reviews of operations are used as the criteria for assessing the success of the performance guidance. On the basis of the audit, one accounting office in two has workable performance guidance arrangements, when assessed in this manner. Compared with the previous years, there has been little change in the proportion of accounting offices that are guided by adequate economic efficiency targets and that present true and fair information in their final accounts.

The National Audit Office has assessed the legislative drafting process in the Ministry of Transport and Communications, Ministry for Foreign Affairs and the Ministry of Finance. Conclusions on how the legislative drafting process should work in a unified Government can be made on the basis of the audits.

A number of audits contain critical observations of the manner in which the effectiveness of laws is evaluated. The National Audit Office has on several occasions recommended that the Government should establish a unit for supervising the quality of the effectiveness evaluations.

In the drafting of laws, support for employment and economic growth has manifested itself as the introduction of different types

Strategic planning in administrative branches should be more clearly connected with economic planning

About half of all accounting offices have workable performance guidance practices

The National Audit Office recommends that a unit monitoring the quality of the effectiveness evaluations of legislation should be established

of state aid and tax cuts. Many of these legislative changes have had major economic impacts. In its report to the 2014 parliamentary session, the National Audit Office draws attention to the ex-post assessment of the impacts and cost-effectiveness of the economic stimulus measures.

The views concerning the benefits generated by export financing are not based on adequate facts. As the state has substantial and growing liabilities there are grounds for obtaining more solid information about the benefits of export financing to central government finances.

Effectiveness of the audit operations

The effectiveness of the work carried out by the National Audit Office is, to a large extent, a result of the preventive and accountability impacts of the audits and monitoring. However, the National Audit Office also monitors and assesses the implementation of the positions adopted by Parliament on the basis of the audits and the implementation of the opinions that NAOF has presented in its audits.

In its report to the 2014 parliamentary session, the National Audit Office draws attention to the fact that in its annual report, the Government has not reported on the tax gap and the amount of unpaid taxes in a manner required by Parliament.

As part of its audits, the National Audit Office monitors the implementation of the opinions contained in the performance audits. Even though, in international standards, the proportion of the recommendations that are implemented remains high, the percentage has nevertheless declined. The implementation of the recommendations concerning the decision-making knowledge base is particularly slow and only a small proportion of them becomes reality.

As the state's export liabilities grow, there should be more information about the ways in which export financing benefits central government finances

Especially the implementation of the recommendations concerning the knowledge base of decision-making has proceeded slowly and only a small number of them have been implemented



Inputs into good governance are needed as part of structural reforms

According to the audits conducted by the National Audit Office and the expert opinions based on them, Finland should invest in the strengthening of good governance in a new manner. Priority should be on the improvement of decision-making based on information and evidence in the drafting of laws. In order to improve the quality of the effectiveness evaluation of legislation and for quality assurance, the Government should have an independent advisory body for evaluating the effectiveness of laws and an effectiveness evaluation support unit. Implementation of open data would be another development priority in effectiveness evaluation.

The societal importance of the ethics of good governance and the expectations concerning ethical conduct by public sector actors are becoming stronger. Innovation and bold reform should also be put forward as ethical principles of good governance. With the information and communications technology revolution, the relationship between humans and information systems on the one hand and the relationship between humans and information technology on the other has become one of the most important ethical issues in good governance.

An unprecedented structural change is under way

A profound restructuring process is reshaping Finland and its public administration. The information and communications technology revolution is starting to have an impact on the economy and our daily life. It produces robots and artificial intelligence and continuously networking smart devices, making them into an omnipresent technology that impacts all aspects of our life. According to a

Does artificial intelligence supersede human intelligence?

number of analyses, the amount and depth of artificial intelligence will exceed the combined capacity of human intelligence around 2045.¹ In addition to artificial intelligence, big data and their analytics and the processing of data by means of effective algorithms are reshaping work and expert activities. Administration will become administration of information.²

A large proportion of the traditional academic and administrative work will be replaced with intelligent systems. In the highly productive and efficient expert work of the future, the ability to develop and apply software and algorithms will be integrated into core expertise in special fields. In fact, the new division of labour and value creation will become one of the major issues of our society.

As the restructuring proceeds, the expectations of citizens, companies and all members of society towards public administration are also changing. Meeting of earlier expectations and the performance of the traditional core tasks of the public sector also require reforms.³ The medium-term prospects for Finland's general government finances are weak, which should encourage us to introduce comprehensive reforms in the way in which public administration works and services are provided.

The updating and development of good governance practices are essential elements of the restructuring of public administration. The message conveyed by the audits conducted by the National Audit Office and its expert opinions is that Finland should invest in the strengthening of good governance in a new manner. Good governance and smoothly functioning public institutions strengthen public trust, which in turn help to generate cost savings.⁴

Good governance is a fundamental right

Good governance is an ethical principle based on the Constitution of Finland and the Charter of Fundamental Rights of the European Union. It governs the administration of law and the public sector and serves as an objective for the development of public administration. Adherence to the rule of law by the state is also one manifestation of good governance. It applies to the Government as a central government body and particularly as a law-drafting body.⁵

Redistribution of work and value creation is a major societal issue

Good governance provides a solid and trustworthy basis and useful instruments for implementing structural change

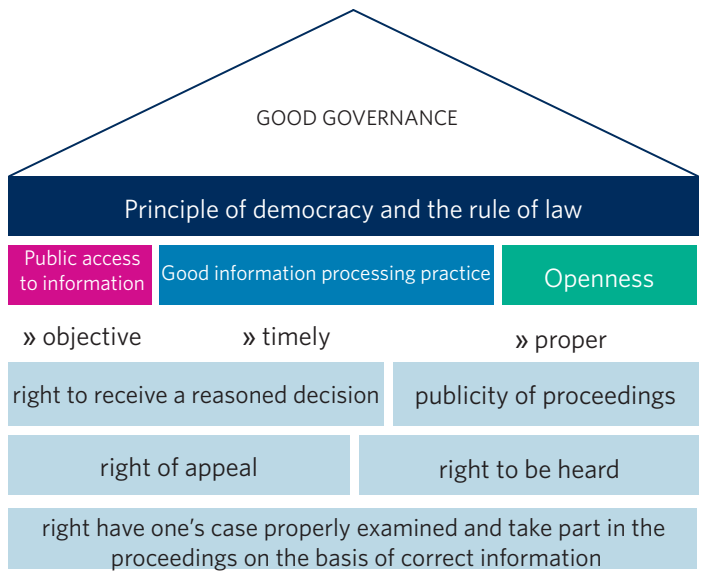


Figure 1: Constitutional principles founded on good governance.

From the perspective of future administration, the management of ICT operations and automated processes, interaction between information systems and humans and the legal and ethical principles concerning the interaction and the principle of openness, protection of personal data and information security are important areas of good governance and its ethics.

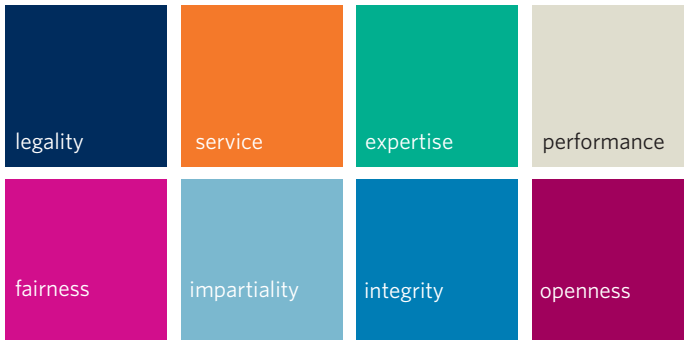


Figure 2: The most important ethical values of Finland's public administration (According to the questionnaire surveys commissioned by the Ministry of Finance).⁶

There is no mention of innovativeness or promotion of innovation in the Finnish values of good governance identified in the questionnaire surveys. The new ISSAI standards of the International Organisation of Supreme Audit Institutions (INTOSAI), which entered into force at the start of 2014, lay out innovativeness and the promotion of innovation as ethical values of external auditing and external auditing professionals. There are good grounds for characterising innovativeness and bold reform as ethical principles of good governance in general.⁷

Reforms and innovativeness are also values of good governance

Performance guidance has not replaced strict normative steering

Performance guidance as a steering system provided administrative operating units with a great deal of operational freedom. Accountability was intended to provide a counterweight for operational freedom. The task of management accounting should be the production of information for management and for ensuring accountability that can be used in external accounting, performance accounting and management and steering and budgeting by the

Administrative steering is characterised by a conflict between detailed normative steering and performance-based thinking

ministry. Accounting was considered as an important management and control system. The administrative values applied in performance guidance include professional management and steering.

In practice, it proved impossible to successfully combine performance guidance with a steering model which is on a legalistic basis and often founded on budgetary and project steering and practices that are based on narrowly focused expert knowledge.⁸ The financial audits conducted by the National Audit Office and the observations made as part of the steering system audits show that there is more internal normative steering in the public administration. At the same time, the findings of the performance audits indicate that general performance guidance is in danger of becoming a mere routine without any steering power.⁹

Professional steering in financial and productivity matters and the use of the information supplied by management accounting at managerial level have not developed as envisaged in performance guidance thinking. According to the information collected for financial audits, economic efficiency targets had been set for 52 per cent and productivity targets for 77 per cent of all central government activities. However, productivity and economic efficiency can be measured because true and fair economic efficiency data covered 72 per cent and productivity data 65 per cent of all central government activities. The relative good quality of productivity measurements is partially a result of the fact that the central government productivity statistics developed by Statistics Finland have been accepted as a productivity indicator. Statistics Finland is now in the process of ending the gathering of central government productivity statistics. For this reason, ministries and agencies should again examine how and with what indicators they will steer, manage and measure productivity. As the public administration is undergoing reforms, it also needs tools for productivity assessment and management.

The fact that not even the most extensive social and administrative reforms have been accompanied by systematic cost-benefit analyses or business case calculations clearly shows that there is a need for more professional financial management methods. For

Ministries should sharpen economic and productivity management so that management could be on a professional and expert basis

example, the rationale for the Government proposal for state ICT shared service centre projects does not present clear process cost comparisons concerning the benefits of the reform. The Organisation for Economic Co-operation and Development (OECD) has also drawn attention to this in its public governance reviews on Finland.

Expertise often means expertise in a specific sector. When we are confronting complex and wicked problems, there is a need for special expertise in specific fields and the ability to combine professional and academic perspectives. The social and health care reform is an example of a development project in which there is a need for an innovative approach across different areas of expertise. The need for such an approach becomes more important as there is a shift from organisational solutions toward content reforms as part of the Government's structural policy programme, which was launched in 2013 and aims to solve the sustainability gap in Finland's general government finances. Another recent example is the development of electronic case management and archiving. Here too, there is a need for multi-sectoral cooperation and innovativeness across sectoral boundaries instead of an approach in which individual organisations and experts focus on their own concerns.

In fact, strengthening of the culture and value basis of multi-professional and multi-disciplinary expert cooperation is one of the most important development priorities in the ethics of good governance. Thus, the Ministry of Finance, the Prime Minister's Office and the ministries in individual areas of responsibility should examine how the steering systems and the ethical foundations of the administration could be strengthened in this area.

Public sector actors are expected to show more consideration to ethical matters

The number of scandals covered by the media has increased in all Nordic countries, including Finland. The scandals have also become more personal in nature.¹⁰

The ethical standards observed by actors in public administration and politics have not been weakened. Citizens and part-

Strengthening the prerequisites for multi-disciplinary and multi-professional cooperation and innovativeness in ministries is an important development priority in good governance

The increase in the number of scandals highlighted in the media shows that the public sector is expected to act in a more ethical manner

ners now expect the public sector and the management of public and publicly owned companies to observe higher moral and ethical standards. Traditional operating models and the position of authority derived from the status of a respected institution are no longer enough. The position of authority must be earned by presenting the facts in an open manner.

The relationship between morals, ethics and justice has varied in the course of history. In multicultural societies of the Antiquity, personal ethics played an important role. In the Western world (including Finland), the role of morals based on common views and the religion has weakened as a result of secularisation and multiculturalism even though it is still possible to identify certain universal ethical principles based on fundamental and human rights. In many respects, legal regulation has replaced religion and morals as the institution guiding societies.

There are signs that people are again putting more emphasis on personal ethics and this also applies to the ethics of those working in public administration.

In social philosophy, ethics have sometimes been called as the art of exercising liberty and innovativeness. In such case, ethics, as a form of assuming responsibility for one's actions, means the seeking of new knowledge and innovations and new encounters. Personal ethics means taking responsibility for oneself and for others. Ethics develop in interaction with other people and institutions and for this reason personal ethics also assume a joint meaning that goes beyond individuals.¹¹

When we are working to strengthen the ethical practices and introducing legal standards that are in accordance with good governance we must continuously make choices between an approach based on strict rules and an approach based on more relaxed values and principles.

Detailed rules and procedural instructions are part of rule-based development. Ethical rules can also be made into codes of conduct, which are the result of joint discussions and agreement.

We are witnessing the new coming of ethics

Legal and ethical steering of good governance is a balanced entity consisting of detailed rules and more general values and principles

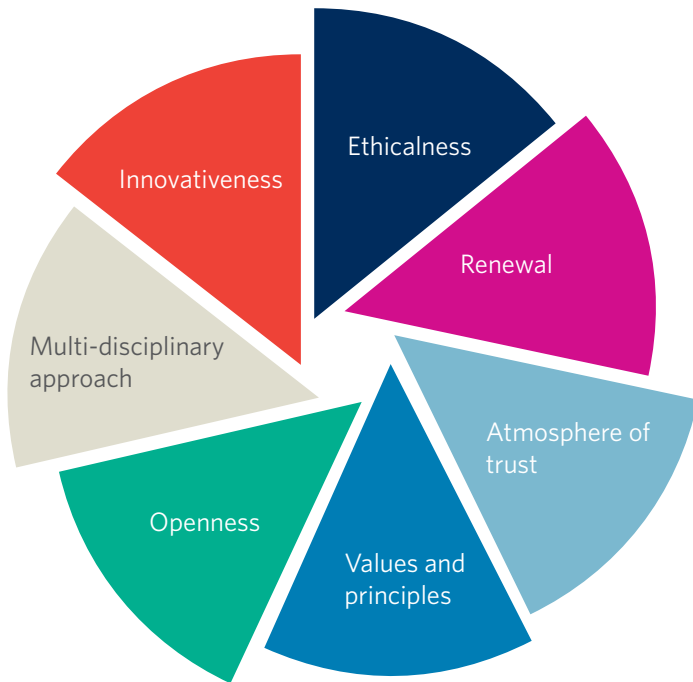


Figure 3: Characteristics of good governance

Principle-based regulation and ethics are founded on joint principles and the parties involved are encouraged to apply them through a constant dialogue. Even though good governance can only become reality if both approaches are applied, an approach based on principles and values, combined with the use of common sense, is usually a better basis for the service principle and innovativeness than an approach relying on detailed rules.

A steering model based on values and principles will provide stronger support for reforms

Most of the recommendations issued by the National Audit Office and the Parliamentary Audit Committee in 2013 are in the process of being implemented

After the National Audit Office had submitted the report on its activities to the 2013 parliamentary session, the central government has, under the coordination of the Prime Minister's Office and the Ministry of Finance, launched a number of concrete measures aimed at strengthening good governance and the ethics of political activities. Some of the measures will directly strengthen the ethics of good governance. After Prime Minister Jyrki Katainen's cabinet had discussed the matter, the Prime Minister's Office issued guidelines on 11 February 2014 on the relationship between the duties of a minister and an election campaign. The guidelines give ample consideration to the recommendations of the National Audit Office. The measures aimed at improving the openness, regulation and supervision of election campaign and political party financing introduced in Finland have received recognition from the Council of Europe and the European Commission.

After the issue had been discussed at the cabinet evening session and a meeting of permanent secretaries, the cabinet approved the code of conduct for improving the quality of political decision-making, drafting by public servants and implementation on 21 May 2014. The guidelines and the code of conduct are a response to the concerns and observations highlighted by the National Audit Office and the Parliamentary Audit Committee in the report of the National Audit Office on its activities to the 2013 parliamentary session.

Structures and relationships between the political leadership and senior public servants and the associated need for legislative changes are being more extensively studied by a parliamentary committee appointed by the Government on 30 January 2014. The committee, chaired by Tapani Mäkinen, MP, is assessing the structure of a unified Government, reform needs and the ways of improving the prerequisites for strategic decision-making by the Government. The overall issue of steering systems is being examined

A steering policy is being developed for the Government

and developed as part of the steering system project (OHRA) set up by the Prime Minister's Office.

The Ministry of Finance appointed an advisory council on the ethics of public servants on 28 May 2014. The task of the council is to issue general recommendations concerning the ethics of public servants. The cooperation between the Government and permanent secretaries and their role in the management tasks jointly performed by the Government public servants has also been substantially improved.

This means that many of the development challenges highlighted by the National Audit Office have been tackled.

In addition to the completion of the development projects that have already been initiated, there are also good grounds for continuing the daily work to strengthen good governance and the ethics of good governance in practice. The Government taking office after the 2015 parliamentary elections should make the code of conduct an integral part of political decision-making and to create an atmosphere of trust and a cooperation-based relationship between political leadership and senior public servants.

It is no longer possible to rely on the old law-drafting model

Based on the lessons learned from law-drafting development projects, the experiences in other Western countries and the many recommendations issued by the OECD, Finland needs a unit guarding the drafting of laws and other areas of normative steering. The task of the unit should be the supervision and promotion of the quality of effectiveness evaluations as an independent expert. The unit could also highlight situations where the aims in question could not be achieved with the proposed steering instruments.

Experts involved in international cooperation on the development of regulation have become increasingly convinced of the usefulness of such units. The Regulatory Policy Committee (in Britain), Normenkontrollrat (Germany), Regelrådet (Sweden),

Best practises must be made better-established and the atmosphere of trust strengthened

There is a need for a body providing oversight and guidance in the evaluation of the effectiveness of legislation and in the steering of legislation

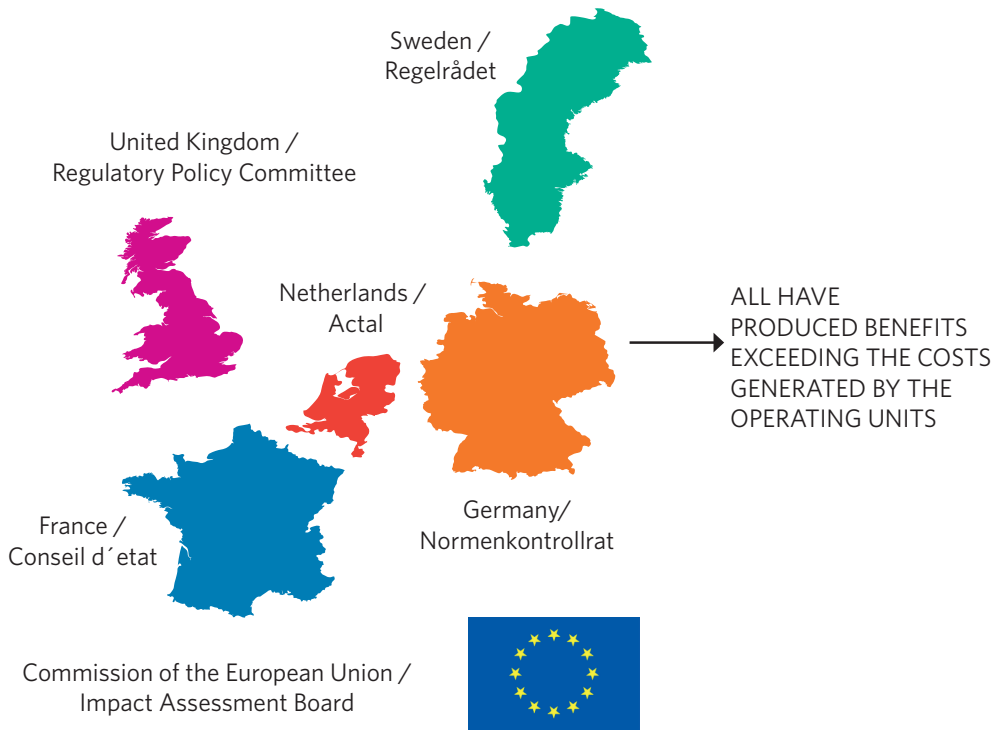


Figure 4: Countries that have units evaluating the effectiveness of legislation.

Actal (the Netherlands) and the Impact Assessment Board (European Commission) have all generated benefits that exceed the costs arising from the operating units.¹² After the constitutional amendments introduced in France in 2008, such evaluations have been the responsibility of the Council of State (Conseil d'Etat), which acts the country's supreme administrative court and as an independent evaluation body.¹³

Medium-term and long-term economic policy challenges and a rational application of EU's legislation concerning economic policy steering and coordination at national level are strong arguments in favour of the strengthening of effectiveness evaluation. Rational

application of the agreements and legislation concerning the steering of Union's economic policy is also fully in accordance with Finland's own national interests. In the economic policy of Finland and many other countries, the emphasis is on the implementation of structural reforms by such means as legislative amendments, which means that the spending limits procedure alone is no longer sufficient as a fiscal policy management tool. Under the budgetary frameworks directive of the European Union (2011/85/EU), central government and local government finances and social security funds must be governed by clearly laid fiscal policy rules, which means that the decision-making must be steered by fiscal policy objectives. Central government decision-making in relation to local government finances as a whole is crystallised through legislation and other legislation-based norms. The same applies to social security funds.

The upper limit of obligations, agreed as part of the Government's structural policy programme, will be an important macro-economic steering tool for local government finances in Finland. It describes the changes in costs incurred by municipalities as a result of central government measures (especially legislation). The upper limit of obligations is well-justified because it helps to ensure the implementation of the constitutional funding principles in the economic relationship between central and local government and because the local government finances and the obligations of municipalities are not in balance at the moment. When measured using national accounts concepts, local government finances are clearly in deficit.

The effectiveness evaluation of the obligations of the municipalities and their monitoring should be made more effective. From the perspective of economic growth and competitiveness, it is especially important to closely monitor the impacts of legislation on competition and the administrative burden of companies and private citizens. Sharpening and supervising effectiveness evaluations are thus directly linked with the implementation of the structural policy programme and the meeting of the challenges arising from economic and administrative restructuring.

Economic policy needs make it necessary to sharpen the manner in which the effectiveness of legislation is evaluated

Finland should now, without the slightest hesitation, establish an advisory council as part of the Government evaluating the effects of legislative proposals and an independent effectiveness evaluation support unit. The advisory council would consist of external experts of effectiveness evaluation. The advisory council and the support unit (functioning as its secretariat) should be responsible for assessing the adequacy of the effectiveness evaluation (especially the evaluation of cost impacts) of legislative proposals. They should also be responsible for highlighting situations where the proposed regulatory or steering instrument would not, in the light of the effectiveness evaluation and information provided by experts, be the right way to achieve the desired social impacts. Like legal revision, the opinion issued by the council could be obligatory. Making the opinions accessible to public would also serve as an added incentive for good law drafting and encourage the advisory council for high-quality evaluation work.

The Government should also, as part of its operating principle, agree on a procedure in which the minister responsible for the quality assurance of the evaluations would under the Government's rules have the right to stop and return to drafting proposals in which critical opinions have not been adequately considered.

The advisory council and the unit supporting it would thus serve as expert bodies as part of the Government. A model in which the unit and the advisory council would be part of the Prime Minister's Office or the Ministry of Finance would be best suited for the Finnish system of government. This is because these ministries are responsible for the tasks concerning the management of joint Government processes and functions.

The advisory council and the unit could be a very lightweight organisation. Between 3 and 5 part-time members and between 4 and 5 experts would be enough. The organisation could be by means of transfers of public servants to new posts and prioritisation of tasks.

In practice, good governance and administration also includes adherence to the process model of good law drafting and the use of open knowledge and open data. The creation of the law-drafting process model available in the Finlex database has, as such, been a successful development project.¹⁴

The Government should take a step towards establishing an advisory council for evaluating the effectiveness of legislation

The advisory council would act as an expert body serving the Government

A lean organisation and transfers of public servants to new posts will make a substantial difference

There has been little use of open data in legislative drafting

In modern data management, the material for legislative drafting projects should be available on the Government's website and the Government Project Register in accordance with the standards applying to open data.

Even though Finland is proud of its openness principle we still have a lot of work to do in the implementation of open data. The audit observations indicate that there have been important legislative projects in which the effectiveness evaluation has been carried out by entering a few notes on excel tables.

Good governance is an export product

Good governance could well be a global export product. It is in Finland's national interest to have the principle of good governance implemented as extensively as possible in the international community and in the European Union. Finland clearly has a great deal to contribute to international development, while at the same time Finland can attract results of international development efforts.

In recognition of its role in international cooperation, the National Audit Office was elected as First Vice President of EUROSAI (European Organisation of Supreme Audit Institutions) for the period 2014–2017 in the summer of 2014. Finland will be responsible for supporting the Netherlands in its task to lead the organisation and in representative duties. The Turkish court of auditors will serve as the Second Vice President of the organisation.

The aim of the Dutch and Finnish presidencies is to promote reforms in external audit and control. Innovations in public administration, financial management and external audit and the role of external audit as a promoter of innovations will be important themes. The second main theme comprises open administration and open data and the analytics of big data. The aim is to be able to use citizen communications applying analytics, data visualisation and social media in the efforts to ensure accountability and good governance. Development of the ethical frameworks of good governance and their application is also on EUROSAI's agenda.

National Audit Office appointed as Vice-President of EUROSAI

Open data, analytics and promotion of innovations are the aims of the EUROSAI Presidency

INTERNATIONAL ORGANISATIONS REPRESENTING BODIES CONDUCTING EXTERNAL AUDITS OF GENERAL GOVERNMENT FINANCES

INTOSAI

The International Organisation of Supreme Audit Institutions (INTOSAI) brings together courts of auditors and offices auditing central government finances in the UN member states and international organisations. INTOSAI prepares and adopts the international ISSAI audit standards for external audits of general government finances and draws up INTOSAI Gov standards and guidelines for good governance in general government finances. Important INTOSAI Gov guidelines include those concerning the internal control and risk management of general government finances and public administration.

For more information about the activities of INTOSAI, visit:

www.intosai.org

International ISSAI standards and INTOSAI Gov guidelines:

www.issai.org.

EUROSAI

The European Organisation of Supreme Audit Institutions, (EUROSAI) is a regional group of INTOSAI covering all of Europe. EUROSAI has the courts of auditors and offices auditing central government finances in 49 European states and the European Court of Auditors as its members. The task of EUROSAI is to promote the application and development of ISSAI standards and the implementation of the international recommendations concerning the good governance of general government finances. EUROSAI supports, through international cooperation, the development of external audit and the implementation of the principles of accountability and good governance in its member states.

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1 Monitoring of the positions adopted by Parliament

The National Audit Office monitors the measures taken as a result of the reports that it submits to Parliament. In addition to concrete action, the monitoring also covers the implementation of the reporting obligation.

The positions adopted by Parliament concern issues in which the process of introducing changes is often slow and they pertain to matters that are highly important for society at large. For this reason, the National Audit Office also usually monitors the positions adopted by Parliament after the Government has submitted the reports requested by Parliament.

During the current government term, Parliament has requested the Government to submit reports in connection with the reports of the National Audit Office or the audits conducted by NAOF have concerned the reporting required by Parliament in the following parliamentary communications: 50/2010 vp; 17/2011 vp; 25/2011 vp; 10/2012 vp; 18/2012 vp and 1/2014 vp.

In its communication 50/2010 vp, Parliament called for the Government to report on the implementation of the following measures in the 2011 report on final central government accounts:

- 1 Parliament calls for the Government to take measures to clarify and improve the knowledge base, openness and transparency of the central government spending limits. The knowledge base of the spending limits must provide Parliament with better prerequisites for decision-making in the field of spending limits and for monitoring concerning compliance with the spending limits and the implementation of the targets.
- 2 Parliament calls for the Government to assess separately for each fund if the essential requirements for arranging the activities and funding through an off-budget fund laid down in section 87 of the Constitution still exist.
- 3 Parliament calls for the Government to take measures to change the structure of the spending limits procedure so that a mechanism is introduced that allows profitable transport infrastructure investments that pay themselves back and intermediate reviews of such projects.
- 4 Parliament calls for the Government to examine whether tax subsidies should be included in the spending limits procedure. For example, deciding on the total amount of tax subsidies should be part of the fiscal policy rules.

- 5 To ensure the sustainability of local government finances, Parliament calls for the Government to include in the central government spending limits a binding limit on how much funding the Government can allocate to the local government sector during the spending limit period through legislative and other means.
- 6 Parliament calls for the Government to take measures to make the spending limits procedure more flexible so that appropriations can be better allocated within and between administrative branches.

IMPLEMENTATION OF MONITORED POSITIONS (Points 1-6)

After the separate report of the National Audit Office pertaining to the points (K 21/2010 vp), the National Audit Office has been assigned with the task of acting as an independent monitoring body in Finland for fiscal policy within the meaning of the EU's fiscal policy agreement, the budgetary framework directive and the regulation on common provisions for monitoring and assessing draft budgetary plans. The task covers the monitoring of the preparation and execution of the multi-annual plan for central government finances, ensuring the reliability of macro forecasts and supervision of compliance with the Stability and Growth Pact. The Government must either defer to the opinions publicly adopted by the National Audit Office or publicly state why not.

The most important findings laid out in the fiscal policy audits and monitoring performed by the National Audit Office are contained in a separate report submitted to Parliament each year. In 2014, the National Audit Office submitted the following separate report to Parliament: Fiscal Policy Audit and Monitoring Report 2014 (K 15/2014 vp) In accordance with its task, the National Audit Office will submit a similar report to Parliament each year.

In its communication 50/2010 vp, Parliament called for the Government to include the following entities (7 and 8) and the requirements for preventive preparation (9) in the reports on final central government accounts, starting with the 2011 report:

- 7 Parliament calls for the Government to submit to Parliament an annual report on state ownership steering.
- 8 Parliament calls for the Government to include both mar-

ket-based and special assignment companies and the information on them in the revised ownership steering report to be submitted to Parliament. The contents of the report must be sufficiently informative and detail how the Government has promoted the principles and objectives of corporate social responsibility.

- 9 Parliament calls for the Government to take measures aimed at ensuring the operating prerequisites of the Government financial controller's function so that the proposed reporting on Government ownership steering can be implemented.

IMPLEMENTATION OF MONITORED POSITIONS

(Points 7-9)

Parliament called for the Government to submit an annual report on ownership steering, separately for market-based companies and special assignment companies. In particular, Parliament called for reporting on the companies' corporate social responsibility. The National Audit Office has audited the annual report (previously known as the report on final central government accounts) and the information on societal impacts each year and in this connection the reporting on ownership steering has also been audited.

In its annual report, the Government has reported on matters required by Parliament. Corporate social responsibility issues, such as remuneration of the management and payment of taxes, are discussed in chapter 3.1 of the annual report. Market-based state ownership in companies is discussed in chapter 3.2. Investments and sales of shares, corporate restructurings and corporatizations by the state, dividend income and dividend yield rates have been comprehensively reported.

A ministry-specific report on the special assignment companies that are not steered by the Prime Minister's Office is contained in chapter 3.2 of the annual report. As regards these companies, the reporting on different matters or the manner of reporting is not on a unified basis. However, the key indicators and the companies' core business are presented in a concise and clear manner. The reporting on ownership policy principles mostly covers remuneration systems even though it may not be the most important principle in these companies.

In its communication 17/2011 vp, Parliament called for the Government to report on the implementation of the following measures in the 2011 report on final central government accounts:

- 10 Parliament calls for the Government to take the necessary measures to ensure that borrowing exceeding the liquidity requirements is discontinued.
- 11 Parliament calls for the Government to take appropriate note of the measures that are mentioned in the report on the basis of budgetary positions.

IMPLEMENTATION OF MONITORED POSITIONS

(Points 10–11)

The positions of points 10 and 11 have been implemented in the manner required by Parliament.

In its communication 25/2011 vp, Parliament called for the Government to report on the implementation of the following measures in the 2011 report on final central government accounts:

- 12 Parliament calls for the Government to monitor what practical improvements in the field of quality and productivity of legislative drafting have been achieved with the procedures of the 'Sujuvampaan lainvalmisteluun' (Towards a more efficient legislative drafting process) project and how the legislative drafting resources have been strengthened and to report on the results to Parliament as part of the report on final central government accounts in spring 2013.
- 13 Parliament calls for the Government to prepare and introduce a joint case management and information system for the Justice and Internal Affairs Administrations so that it will also in scheduling terms allow the entry into force of the pre-trial investigation and coercive measures legislation and to report on the matter as part of the next final central government accounts.

IMPLEMENTATION OF MONITORED POSITIONS

(Points 12-13)

The National Audit Office regularly audits the quality of legislation from economic perspective as part its audits. In 2013, the National Audit Office prepared a thematic plan concerning the audits of the quality of legislation in the coming years. As background material, Professor Jyrki Tala prepared a report on the problems and development priorities pertaining to the quality of legislation. There are no plans to initiate performance audits focusing on the quality of legislative drafting but as laid out in the thematic plan, quality of legislation will be a focus area in performance audits whenever possible Fiscal policy audit is currently examining the quality of the tax legislation as part of an audit covering the reliability of the knowledge base of the fiscal policy.

As part of the audits of the steering systems in the Ministry of Finance and the Ministry of Transport and Communications, the National Audit Office conducted separate audits of the legislative drafting and management in both ministries. The topic is discussed in chapter 4.1 of this report.

In its communication 10/2012 vp, Parliament called for the Government to report on the implementation of the following measures in the 2012 report on final central government accounts:

- 14 Parliament calls for the Government to consider the problems that have been highlighted in the report on the use, allocation and supervision of discretionary government transfers and to ensure that the expertise and training of the operators in the sector improves so that in the future all appropriate provisions are known, observed and supervised. The Government must also examine how the provisions in sections 15 and 36 of the Act on Discretionary Government Transfers have been applied in practice and whether such matters as impacts on competition have been assessed.
- 15 Parliament calls for the Government to take measures and, without delay, use the powers laid down in the Act on Information Management to issue decrees on such matters as open interfaces. Simultaneously with the decisions on social and health care service structures and on organisational responsibilities, the competences and responsibilities required by the information management structure must be laid out in a manner that states explicitly which operators are ultimately responsible for the matter.

In its communication 18/2012 vp, Parliament called for the Government to report on the implementation of the following measures in the 2012 report on final central government accounts:

- 16 Parliament calls for the Government to report on the estimated tax gap and the amounts of unpaid taxes, changes in them, the most important factors affecting the changes and the impacts of the measures taken to reduce the tax gap and the amount of unpaid taxes, each year in the report on the final central government accounts, starting with the 2013 report, in connection with the factors affecting central government finances and tax revenue.
- 17 Parliament calls for the Government to ensure that in the implementation of the central government premises services better consideration is given to the agencies' premises needs and particularly to the change requirements in the premises and that new users can be found for vacant premises as quickly as possible.
- 18 Parliament calls for the Government to take appropriate note of the measures that are mentioned in the report on the basis of budgetary positions.
- 19 Parliament calls for the Government to take appropriate note of what has been stated in the report above on the deletion of the positions adopted by Parliament at the initiative of the Audit Committee.

IMPLEMENTATION OF MONITORED POSITIONS

(Points 14-19)

In its annual report, the Government has not reported on the tax gap and the amount of unpaid taxes in the manner required by Parliament.

In its communication 1/2014 vp, Parliament called for the Government to take the following measures:

- 20 Parliament calls for the Government to take measures to examine the need for reform in the financing of election campaigns and political parties.

IMPLEMENTATION OF MONITORED POSITIONS

(Point 20)

The Ministry of Justice started examining election campaign and political party financing in the autumn of 2014.

2 Operational performance

Performance guidance will only work if the ministries provide agencies with appropriate performance targets and the information on them contained in the final accounts are true and fair. In administrative steering it is always essential to reconcile the resources with the objectives concerning the results achievable with them. In performance guidance, the development of operational efficiency and the development of service capacity must be reconciled with the management of productivity and economic efficiency. The objectives and information concerning productivity and economic efficiency are key to successful performance guidance. Irrespective of the steering system, they also provide a basis for the overall assessment of the effectiveness, service capacity and operational efficiency.

There has been a clear improvement in the trueness and fairness of the information on operational efficiency as a result of performance guidance. The information would, however, be more usable if the figures on operational efficiency and the manner in which they are presented was harmonised and clarified. Presenting key indicators in a clear and uniform manner would simplify accounting procedures and make the preparation of the reviews of operations more efficient.

There is still room for improvement in performance guidance. If in the assessment of the state of performance guidance, the setting of productivity and economic efficiency targets and the presentation of true and fair information on them are combined, it transpires that only one accounting office in three had been set adequate productivity and economic efficiency targets and presented in its final accounts true and fair information on the manner in which they are implemented.

A total of 40 per cent of all accounting offices have been set productivity and economic efficiency targets

Productivity and economic efficiency are reported in a fairly comprehensive manner

When assessed on the basis of operational efficiency, performance guidance only works in one accounting office in three

2.1 Operational efficiency

The grounds for the budget proposal must lay out the societal effectiveness and operational performance targets of the proposal. They are one basis for the Government in its administrative steering and for Parliament when it decides on appropriations and assesses the meeting of targets.

Each ministry must approve its performance targets without delay after Parliament has published the state budget. The agencies must give true and fair information on their operational performance in their final accounts and reviews of their operations.

Operational performance is divided into operational efficiency, output and quality management. Quality management also includes the examination of service capacity. As part of the financial audit, the National Audit Office has also assessed the comprehensiveness of the productivity and economic efficiency targets approved by the ministry concerned.

Setting of targets is a slow process

The productivity and economic efficiency targets approved by the ministries are still inadequate. Comprehensive economic efficiency targets had only been approved for 54 per cent of the accounting offices. In the performance agreements, ministries had set productivity targets for a slightly lower proportion of the accounting offices (51 per cent). When the productivity and economic efficiency targets are assessed together, it transpires that only about 40 per cent of all accounting offices had been set adequate targets.

When the productivity and economic efficiency targets are assessed on the basis of ordinary operating expenses, it transpires that the economic efficiency targets cover 52 per cent and the productivity targets 77 per cent of the central government operations (in 2012 the figures were 53% and 75% and in 2011 they were 53% and 74 %, respectively).

In overall terms, there have been few changes in the setting of operational performance targets in recent years. However, some form of productivity and economic efficiency targets could be set for all agencies and ministries.

Only accounting offices are obliged to produce final accounts

Provisions on the final accounts of central government agencies are contained in the State Budget Act and in the State Budget De-

Target-setting is based on budget legislation

	Economic efficiency	Productivity
2011	50%	40%
2012	53%	45%
2013	54%	51%

Figure 5: Presenting targets as figures

cree. Only the agencies that the Ministry of Finance has ordered to operate as accounting offices are, under the State Budget Decree, obliged to prepare final accounts calculations and final accounts that also include a review of operations. Even though ministries also continue to set performance targets for other agencies, they do not have any comprehensive obligation to report on operational performance in their final accounts.

Economic efficiency is comprehensively reported

Under the State Budget Decree, the review of operations must, as part of the description of performance, present a description of operational performance (including key indicators) and a comparison with the performance targets set.

The purpose of the financial audits is to verify that the figures on operational performance are true and fair. In this case, the audit serves as a basis for assessing whether the information on profitability, economic efficiency, chargeable services and their profitability and the cost-effectiveness of the jointly funded activities is true and fair.

The information on economic efficiency (or the cost information provided instead of them) was found to be true and fair in 61 accounting offices, which is 91 per cent of all accounting offices (in 2012, 58 accounting offices and in 2011, 53 accounting offices).

Most of the figures provided by accounting offices in their final accounts concern costs and other corresponding quantities, which account for 66 per cent of the information presented. Even though some accounting offices include a large number of economically important agencies, under the State Budget Decree it is only possible to examine the presentation of true and fair figures at the level of accounting offices.

The productivity figures were found to be true and fair in 61 accounting offices, which is 91 per cent of all accounting offices. The information on productivity was found to be fair in 65 accounting offices, which is 97 per cent of all accounting offices (in 2012, 60 accounting offices or 94%, and in 2011, 53 accounting offices or 88%). They were considered true in 61 accounting offices, which is 91 per cent of all accounting offices (in 2012, 58 accounting offices or 91%, and in 2011, 53 accounting offices or 88%).

When the comprehensiveness of the true and fair figures on productivity and economic efficiency are assessed on the basis of ordinary operating expenses of the agencies, true and fair economic efficiency information covered 72 per cent and productivity information 65 per cent of the central government activities (in 2012, the

Reporting obligation is based on the State Budget Act

True and fair information

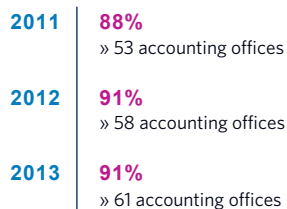


Figure 6: Economic efficiency information in final accounts

True and fair information

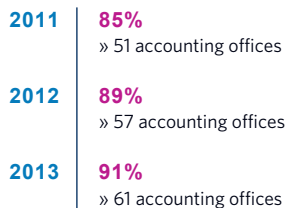


Figure 7: Productivity information in final accounts

Operational efficiency is fairly comprehensively reported

figures were 58% and 64%, and in 2011, 52% and 59%, respectively). When assessed in this manner, there has been an improvement in the comprehensiveness of the figures from the previous years.

When the information on operational efficiency is assessed as a whole, the figures presented by 62 accounting offices, or 93 per cent of all accounting offices, could be considered true and fair (in 2012, 56 accounting offices or 88%, and in 2011, 52 accounting offices or 87%).

The ministries have presented most of the economic efficiency figures as cost information by result area or using a corresponding breakdown. The manner of presentation can be considered as adequate and it is also in line with the model recommended by the inter-ministerial accounting working group (Report of the Ministry of Finance working group 1/2006). Even when assessed in this manner, the information supplied by the Ministry for Foreign Affairs and the Ministry of Employment and the Economy could not be considered true and fair.

There has been an improvement in the trueness and fairness of the information on operational efficiency in recent years. The information would, however, be more usable if the figures on operational efficiency and the manner in which they are presented was harmonised and clarified. Presenting key indicators in a clear and uniform manner would also simplify accounting procedures and make the preparation of the reviews of operations more efficient.

Presenting of information should be on a clearer and a more uniform basis

Chargeable services are adequately reported

Under the State Budget Act, the monitoring of the profitability of chargeable services must be organised so that their annual results can be presented as part of the final accounts unless the chargeable services are only provided in a small scale. Under the State Budget Decree, reviews of operations must provide information on the profitability of chargeable services and a comparison with the targets set. The requirement for true and fair information has been further tightened by the order of the State Treasury under which service-specific cost-effectiveness calculations must be presented.

According to consolidated accounting, the revenue of the central government's chargeable services totalled 1.2 billion euros. Of this total, public-law services provided under the Act on Criteria for Charges Payable to the State accounted for 0.4 billion, services with market-based pricing for 0.5 billion and services priced under special legislation for 0.4 billion. The amounts were unchanged from the previous year.

The requirements concerning the monitoring and reporting on chargeable services are laid down in the State Budget Act

In 2013, the accounting offices providing chargeable services referred to in the State Budget Act totalled 56 (compared with 53 in 2012 and 50 in 2011). The ministries had set performance targets for chargeable services for 38 accounting offices, which is 68 per cent of all accounting offices providing chargeable services (in 2012, for 39 such accounting offices or 74%, and in 2011, for 36 such accounting offices or 72%).

The audits showed that a total of 51 accounting offices (91 per cent of all accounting offices providing chargeable services) had presented true and fair information on their chargeable services and the annual results they generated. In the year before, the same applied to 46 accounting offices or 87% of the 53 accounting offices providing chargeable services.

When the comprehensiveness of the true and fair information on chargeable services is assessed on the basis of revenue generated by chargeable services, true and fair information covered 92 per cent (in 2011 and 2012: 86%) of all chargeable services.

Concerning the presentation of final statement information on chargeable services, the overall situation can be considered fairly good. In 2013, a qualified opinion on regularity concerning the shortcomings in the presentation of the annual results of the chargeable services was contained in the financial audit report of one accounting office (in 2012 and 2011 one and two accounting offices, respectively).

There has been progress
in the reporting on
chargeable services

2.2 State of performance guidance on the basis of operational efficiency

Performance guidance will only work if the ministries provide agencies with appropriate performance targets and the information on them contained in the final accounts are true and fair.

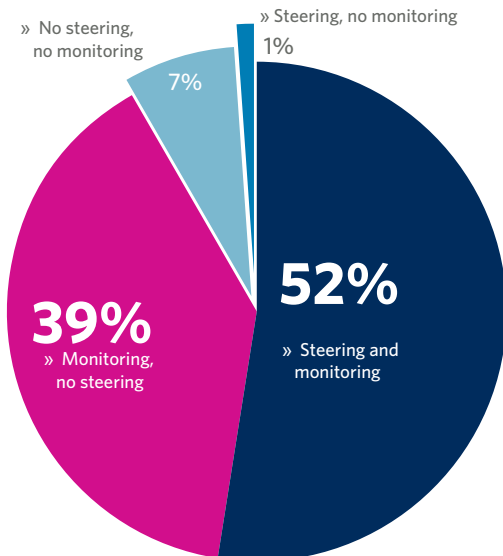
One purpose of performance guidance is to reconcile the development of operational efficiency and service capacity with the management of costs. Economic efficiency targets and the information concerning their implementation are thus essential to successful performance guidance. Irrespective of the steering system, they also provide a basis for the overall assessment of the effectiveness, service capacity and operational efficiency.

Success of performance guidance can, on the basis of financial audits, be assessed from the perspective of economic efficiency steering and reporting. The comprehensiveness of the economic efficiency targets set by the ministries and the information on them presented by the accounting offices in their reviews of operations are used as the assessment criteria.

Compared with the previous years, there has been little change in the proportion of accounting offices that are guided by adequate economic efficiency targets and that present true and fair informa-

There is a need for the coordination of aims and resources in administrative steering

Setting of targets and reporting on them are a single entity



One accounting office in two is steered and monitored on the basis of economic efficiency criteria

Figure 8: Comprehensiveness of the target-setting and true and fair reporting in reviews of operations.

tion in their final accounts. On the basis of the audit, one accounting office in two has workable performance guidance arrangements, when assessed in this manner.

When assessed on the basis of ordinary operating expenses, it means that the figure for all central government activities is only 51 per cent (in 2011 and 2012: 37%). The increase in comprehensiveness in 2013 was partially a result of the fact that the Finnish Transport Agency was found to have provided true and fair information on economic efficiency in its final accounts.

There has been a slight improvement in the presentation of true and fair information on economic efficiency during the past three years. A total of 91 per cent of all accounting offices presented true and fair information on economic efficiency in their final accounts. In 2012 and 2011, the figures were 91 per cent and 88 per cent, respectively. The readiness of the accounting offices to present economic efficiency information remains higher than the readiness of the ministries to steer them with economic efficiency targets.

Economic efficiency targets had been set for 36 accounting offices, which is 54 per cent of all accounting offices. Of them, 35 (97%) presented true and fair information in their reviews of operations (for 2012 and 2011, the figures were 94% and 97%, respectively). Correspondingly, 26 (84%) of the 31 accounting offices which had not been set economic efficiency targets, presented true and fair information. For 2012 and 2011, the figures were 87% and 80%, respectively. The shortcomings concerning performance guidance are clearly in the area of target-setting.

If in the assessment of the state of performance guidance, the setting of productivity and economic efficiency targets and the presentation of true and fair information on them are combined, it transpires that only 36 per cent of all accounting offices had been set adequate productivity and economic efficiency targets and presented true and fair information. For 2012 and 2011, the figures were 30% and 25%, respectively. Correspondingly, the accounting offices for which the productivity and economic efficiency targets set by the ministries were not considered adequate and that have not provided true and fair productivity and economic efficiency figures accounted for nine per cent of all accounting offices (compared with 9% in 2012 and 13% in 2011).

One accounting office in four has used the productivity index published by Statistics Finland as a productivity figure. If Statistics Finland discontinues the production of the index in its current form, this will also have an impact on the adequacy of the information presented in final accounts.

The willingness to present economic efficiency information is higher than the willingness to use these aims for steering

Productivity and economic efficiency steering by ministries works in one accounting office in three

There is room for improvement in the implementation of performance guidance

3 The Government's structural policy package

The long-term aim of the Government's structural policy programme is to bridge the sustainability gap in general government finances resulting from changes in the age structure of the population and to reform the institutional framework of economic activities so that the basis for economic growth can be strengthened. It is clear that the National Audit Office does not have any audit findings concerning the achievement of the targets laid out in the recently prepared structural policy programme. However, based on already completed audits and the follow-ups to them and other information collected as part of them, it is possible to present a number of overall observations and views regarding the prerequisites for implementing the structural reforms. In this chapter, the focus is on issues concerning employment and working careers and the intangible capital strengthened by education, training and research as an important factor contributing to improved competitiveness. The structural policy programme lays out a number of measures concerning the raising of the employment rate and the reforming of the structures of education, training, research and funding.

3.1 Labour market and working careers

According to the preliminary figures published at the end of May, the Finnish gross domestic product had decreased by 0.4 per cent during the first quarter of 2014 on a year-on-year basis.¹⁵ The previous period of economic growth of longer duration had been recorded in 2011, which means that, in practical terms, Finland is in recession for the third year running. Slow economic growth will further weaken employment prospects. In such a situation, ensuring the success of measures impacting the structures of the labour market is very important.

Labour market measures in the structural policy package

- 1 Pension system reform
- 2 Making it easier for ageing workers to remain in working life
- 3 Reducing alcohol consumption
- 4 Making pre-primary school more obligatory
- 5 Updating vocational education offerings
- 6 Providing university students with higher study grants
- 7 Providing more apprentice training places
- 8 Developing general upper secondary education
- 9 Reallocation of the home care allowance
- 10 Job alternation leave reform
- 11 Examining the options for equalising the costs of parenthood
- 12 Rapid employment of the unemployed by putting various programmes on a more efficient basis
- 13 Retraining of unemployed
- 14 Development of participatory social security
- 15 Expanding employment service centres to cover the whole country
- 16 Making TE Offices more efficient
- 17 Developing the application and payment of wage subsidies
- 18 Municipalities' funding responsibility for long-term unemployed will become more comprehensive
- 19 Accepting work outside the commuting area if one-way travel time does not exceed 90 minutes
- 20 Applying for short-term employment relationships will be made easier
- 21 Removal of incentive traps
- 22 Guaranteed income limit of 400 euros for recipients of housing allowance for six months after employment
- 23 Monitoring and additional measures concerning working careers agreement will be on a tripartite basis
- 24 Changes to labour legislation will be examined
- 25 Examination of issues such as underpayment problems will continue on a tripartite basis
- 26 Improving the chances of foreign graduates to remain in Finland

The section 'Labour market and working careers' of the structural policy programme lists a total of 26 structural policy measures. Based on recent audit observations, it is possible to give estimates of the chances of success of some of the measures. On the basis of the audits, most of the measures are justified and feasible

but the limited number of the implementation tools means that not all of the targets can be achieved.

One of the aims of the structural policy programme is to make it easier for ageing workers to remain in working life. The target is well-justified as it helps to raise the employment rate. On the basis of the findings of the audit 'Rehabilitation as a means of prolonging working careers' (2/2013), the funding allocated to rehabilitation maintaining working capacity can be used significantly more efficiently without any consequent increase in costs. Instead of providing rehabilitation for relatively healthy people with reasonable working capacity, the resources should focus on persons who are already showing clear signs of weakening working capacity and who really need rehabilitation and can benefit from it. Healthy people with good working capacity should not be rehabilitated with public funds. If it is the question of preventive action, it, too, should have empirically verifiable effects. In accordance with the Government Programme, a comprehensive review of the rehabilitation systems is under preparation.

The aim of the structural policy programme is to reduce alcohol consumption. According to the audit 'Rehabilitation as a means of prolonging working careers', high consumption of alcohol increases the likelihood of disability pension. However, the problem is that there are few credible instruments as the passenger imports permitted by the EU limit the range of tools available to the Government. Even though consumption can be slowed down by means of higher taxes or sales restrictions the risk is that as domestic sales decline, passenger imports will increase. It is already well-known that some of the alcohol imported from Estonia is sold 'under the table'. In fact, the only instrument available is the provision of information but the effectiveness of such efforts is questionable.

The structural policy programme also aims to improve employment prospects of the young people and extend their working careers from the beginning. The aim is to reform the supply of vocational education in a manner that takes more flexibly into account the demand for it on the labour market. On the basis of the audit 'Management of youth unemployment' (8/2014), the measure is justified. Young people often have unrealistic ideas of what kind of education or training is useful. For example, care of horses is a very popular field of training but there is little demand for such skills on the labour market. In the focusing of education and training resources, priority should be given to employment aspects. The National Audit Office is in the process of conducting an audit of study and vocational counselling.

Rehabilitation resources should be reallocated

High alcohol consumption increases the risk of disability

At the moment, the funding for vocational upper secondary education and training (about 1.7 billion euros) is allocated in accordance with the number of students in schools and unit prices for individual fields of education. For this reason, it should be examined whether the resources should, at least partially, be allocated in accordance with the employment prospects of the students graduating from them. The decisions concerning the location of schools and the continuation of their activities are influenced by strong local interests. For municipalities, especially for those in remote areas, schools located within their boundaries are of great importance. Nevertheless, what may be economically justified at local level may not necessarily be justified at national economic level. However, this is a difficult regional policy issue.

According to official statistics, the unemployment rate among young people (aged 15-24) in Finland stood at 20 per cent in 2013. The media usually interpret these statistics by stating that 'one young person in five is out of work'.

However, when youth unemployment is examined, a number of factors should be taken into account. The official unemployment rate is based on the labour force survey conducted by Statistics Finland. The labour force survey is a monthly questionnaire survey, in which about 12,000 persons are interviewed. In the labour force survey, full-time students are also considered as unemployed if they have sought work and are ready to accept work. The number of young people registered as unemployed is much low-

Employment opportunities should be one criterion in the allocation of education and training resources

Youth unemployment is not as common as official figures suggest

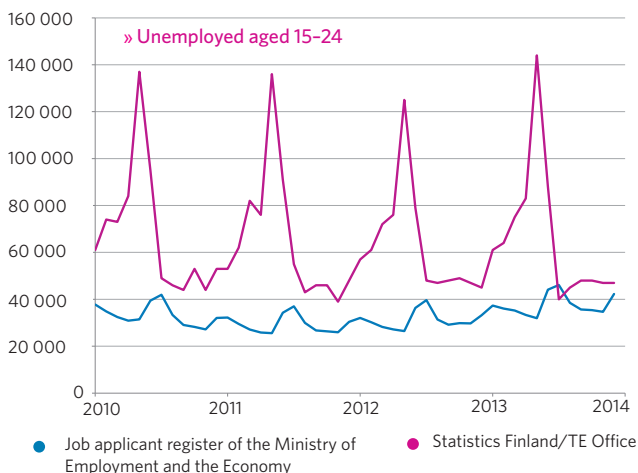


Figure 9: Youth unemployment according to job applicant register and labour force survey in 2010-2013. The official unemployment rate is based on the labour force survey.

er that the figure given in the labour force survey, as shown in Figure 9. The gap is at its widest in May when the spring terms of educational institutions about to end. If the average for the period 2010-2013 is calculated, the number of unemployed youngsters in the job seeker register has been about 33,000. According to the labour force survey, the number of unemployed youngsters has been twice as high (about 65,000).

It should also be noted that the unemployment rate is calculated as the proportion of the unemployed of the labour force and not of the population of the same age. Labour force comprises the unemployed and employed persons. Such groups as full-time students, conscripts and fathers and mothers staying at home are outside the labour force. The proportion of registered unemployed youngsters (aged 15-24) of the population of the same age was only six per cent in 2013. Moreover, the duration of unemployment among the young is much shorter than among adults. There is a large number of short periods of unemployment among young age groups that are connected with transition from one life stage to another.

What is said above is not meant to downplay the problem of youth unemployment. One should, however, remember the definitions used in each set of statistics when the statistical data is interpreted and used as a basis for decision-making.

One of the measures laid out in the structural policy programme is the raising of the age of compulsory schooling to 17. In practice,

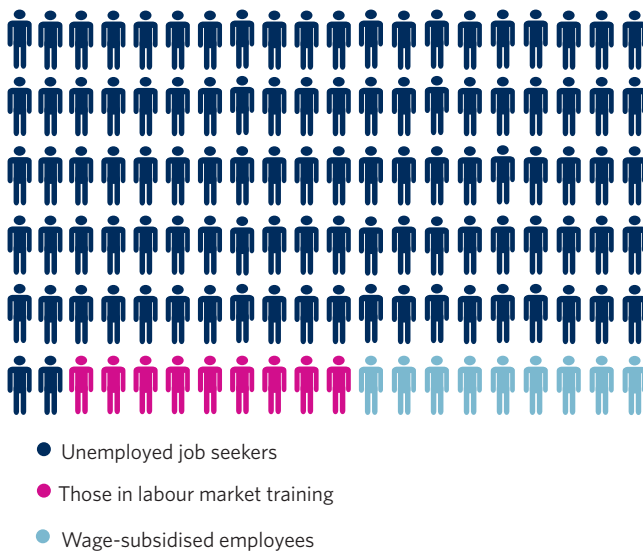


Figure 10: New labour market training and wage subsidy periods for unemployed job seekers aged 20-29.¹⁶

the change would only apply to about two per cent of all young people (those who do not apply for upper secondary education in the joint application process). However, the raising of the age of compulsory schooling also means that one age class must be provided with education material for one additional year, which will significantly increase education material costs. There are no comprehensive studies of the costs and benefits of the raising of the age of compulsory schooling.

The aim of the structural policy programme is to speed up the employment of the unemployed and reduce the bureaucracy pertaining to wage subsidies. The audit of the management of youth unemployment showed that some of companies still consider the use of wage subsidies too bureaucratic, which makes it more difficult for young people to enter subsidised jobs. The public administration should examine all ways to reduce bureaucracy so that it can be ensured that wage subsidies are always used in a proper manner. The measure aimed at improving the wage subsidy application and payment procedures is thus justified.

Bureaucracy in connection with wage subsidies should be reduced

Figure 10 shows the percentage of the new wage subsidy and labour market training periods of the total number of unemployed youngsters in 2013. During the year, the number of unemployed youngsters totalled about 175,000. It should be noted that the unemployment periods among young people are often very short and they may be over before the wage subsidy measures even reach the

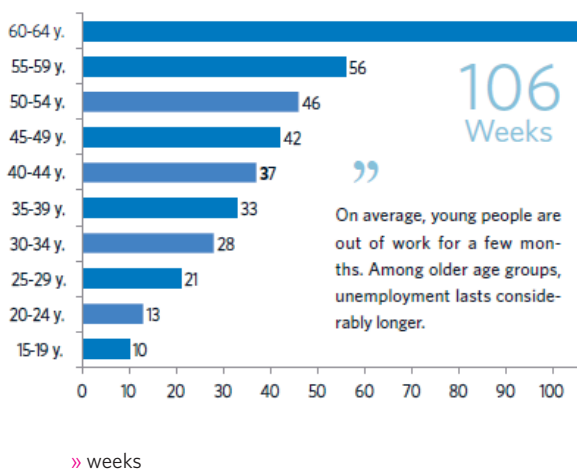


Figure 11: Average duration of unemployment among unemployed job seekers in different age groups in December 2013.¹⁷

planning stage. On average, young people are out of work for a few months. Among older age groups, unemployment lasts considerably longer (Figure 11). On average, unemployed persons over the age of 50 can already be considered long-term unemployed (their unemployment has lasted for more than a year).

A new system of long-term wage subsidies for ageing long-term unemployed has been proposed as one way of helping the unemployed to find work quickly. Based on the findings of the audit 'Helping the long-term unemployed find jobs and preventing marginalisation' (229/2011), the measure is justified because conventional labour market instruments are often ineffective in the case of ageing people who have been out of work for prolonged periods. These persons often need long-term solutions tailored to their needs. Returning to working life after many years of unemployment is not easy. Special solutions may be more expensive than basic measures but the costs will be recouped if the persons in question can return to working life and their drift towards exclusion can be prevented. There are persons for whom wage subsidies lasting until the end of their working careers may be the only way to keep them in working life. In overall economic terms, this may, however, be a better solution than a situation where the person in question becomes an alcoholic and marginalised and gradually turns into a major user of social and health care services.

According to the structural policy programme, there is also a need to enhance a number of other ongoing programmes (such as the immigrant integration programme and the action programme for people with partial work ability). On the basis of the audit 'Integration of immigrants in social and health care' (3/2014), immigrants do not always have access to the social and health care services that they need, which means that there are grounds for making the programme more efficient. This may be relevant to immigrants' employment prospects. Drawing attention to the employment prospects of foreigners is particularly important because work-based immigration only accounts for a small proportion of immigration and the workforce-boosting impact of immigration. On average, the employment rate among immigrants is substantially lower than among the mainstream population. However, there are significant differences in employment rates among immigrants, depending on the grounds for immigration, gender and other background factors.

The structural policy programme also aims to make employment services more effective. During the past ten years, the resources of the labour administration have, in the name of the central government productivity programme, been reduced by about

Long-term unemployed need solutions tailored to their needs

Cuts in the labour administration's resources have led to slightly longer periods of unemployment

a fifth, which has caused a slight increase in the duration of the average unemployment periods. This was one of the observations in the audit 'Management of youth unemployment'. Personnel reductions lead to longer queues and more cursory service, which particularly affects young customers. Thus, the central government productivity programme has negatively affected the efforts to manage unemployment. TE Offices cannot operate smoothly and provide high quality services if they do not have enough personnel. At the same time, however, there are significant differences in productivity between the offices and the good practices applied at more efficient offices should, as far as possible, be copied in other offices.

Figure 12 shows the trends in the person-years of TE Offices and the flow to unemployment lasting for more than three months in 2006–2012.¹⁸ The latter figure describes the prolonging of the unemployment and it is defined as the percentage of unemployment periods of more than three months of the new unemployment periods. In the calculations made as part of the audit, consideration has been given to fluctuations in the national economy, regional unemployment rates and local characteristics of the TE Offices.

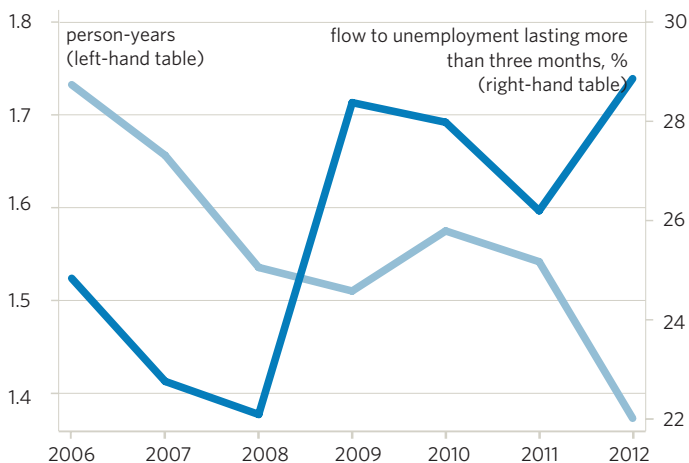


Figure 12: TE Offices' person-years/1,000 persons belonging to labour force and the flow (%) to unemployment lasting for more than three months in 2006-2012.¹⁹

3.2 Intangible capital as a factor boosting competitiveness

The strategic plan for implementing the Government Programme - spearhead projects and responsibilities contained the section 'Työn ja yrittämisen kilpailukyvyyn edistäminen' (Strengthening competitiveness of work and entrepreneurship). The section contained a subsection 'Koulutuksen ja tutkimuksen rakenteiden ja rahoituksen uudistaminen' (Renewing the structures and funding of education, training and research).

It comprises the following measures:

- 1 Renewing of the steering, funding and structures of the education, training and research system so that their quality and societal effectiveness can be strengthened:
 - Reforming the funding base of general upper secondary education
 - Renewing the funding system and structures of vocational education
 - Reforming the funding and structures of universities of applied sciences and the funding of traditional universities.
- 2 Reforming of the student financial aid system so that it supports full-time studies and more rapid completion of studies. As part of the reform, the deficiencies in the student financial aid of upper secondary level students will be corrected and the position of students with families will be examined.
- 3 Making state-owned sectoral research institutions into large entities. Division of labour in basic research between universities and sectoral research institutions will be clarified so that sectoral research institutions can be made part of universities. Cooperation between them will be strengthened. The administrative role of the Research and Innovation Council will remain unchanged and its coordinating role in the setting of priorities for sectoral research and in national research infrastructure policy will be strengthened.
- 4 Funding for research, development and innovation (RDI):
 - Ensuring adequate RDI funding and clarification of the division of labour between actors in public growth and RDI funding
 - Initiating research infrastructure policy
 - Examining the introduction of RDI tax incentives.

It is stated in the Government's structural policy programme that as part of the efforts to manage sudden structural change a plan for better foresight analysis of labour and education needs will be prepared so that it will be easier to respond to labour skill challenges in the long term and in situations characterised by rapid structural change. The aim is to focus vocational education and the offerings of universities of applied sciences and traditional universities in accordance with the anticipated labour force needs.

On the basis of the audit results, it is not possible to make a comprehensive assessment of the implementation of the strategic implementation plan of the Government Programme and the structural policy programme or the achievement of the targets concerning the reforms in the structures and funding of education and research laid out in them. Intangible capital and its management play a central role in the promotion of economic competitiveness. The audit findings concerning the structures and resources of education, training and RDI activities from competitiveness perspective are examined below.

Education, training and research contain an important dimension of the competitiveness of societies in economic and other spheres, while at the same time they are also one of the most important 'infrastructures for the future' in Finnish society. Education, training and research all augment the intangible capital and national wealth. According to the estimates of the World Bank, human capital and trust or social capital (which is traditionally at high level in Finland) account for as much as 2/3 of all economic growth. As 'infrastructures for the future', education, training and research and the broad range of impacts that they generate are a major factor contributing to the competitiveness of Finnish work and entrepreneurship.

The problems affecting Finland's economic growth in recent years show, however, that the relationship between RDI activities on the one hand and the well-being and competitiveness of society at large on the other is not unambiguous or mechanic. Many indicators show that Finland is competitive in terms of RDI. This has not prevented an economic slowdown in Finland. The ability of research, development and innovation to generate economic growth and well-being mainly depends on how institutions and their structures and practices support and encourage the process, on the prevailing operating culture and on the overall integrity and level of synergy of the tangible and intangible resources of society at large. In this respect, Finland's performance is no more than fair and is weakening rather than going in the positive direction.

From the perspective of economic competitiveness, the challenge of Finland is to be able to extensively gather and use tangible and intangible capital alongside RDI activities

Public sector should play a stronger role in the overall management of intangible capital

Moreover, the success of intangible capital and its subfactors is not merely a matter of the appropriations in the core of the structural policy programme and the formal structures of the organisations. Appropriations and structures of the RDI activities and the intangible and structural capital contained in them are only one part of the success of education, training and research and the competitiveness of work and entrepreneurship that they help to create. In fact, the high level of RDI spending and the focus on structures in problem-solving, which has traditionally been considered a Finnish strength, has according to recent international analyses and assessments proved to be slightly one-sided.²⁰

In order to correct the situation, there should also be more attention to all areas of intangible capital (human, social, structural and relational capital) in the management of RDI activities. If there is no workable way of managing the whole, excessive focus on the structures and material resources of RDI activities, education and training will lead to operational distortions, strategic or tactical part-optimisations and continuous growth in the transaction costs arising from the combination of the different parts of the system. The Government has recently adopted a resolution launching a policy programme on intangible value creation.

RDI activities should also be examined as a whole

Production of accurate diagnoses and assessments is made more difficult by the fact that, at the moment, there are no adequate prerequisites for a comprehensive and systematic assessment of RDI activities within the system or outside it. Managed separation from an approach excessively emphasising structures and tangible resources (appropriations) and a sectoralised operating culture involves a long-term challenge concerning the management of RDI activities, which the Government and Parliament should seize without delay.

At the moment, the Government does not have any RDI and skills policy or strategy, which would enable it to manage changes in RDI and skills as a whole. Likewise, the Government has not adopted a broad-based overall agenda (such as a transition policy), which would outline a broad-based innovation policy and an integrated policy and strategy for research, development, innovation, education and training. The public management structures and processes appear and overlap in the structures and processes of the central government in different ways. The Research and Innovation Council acts as an advisory expert body for the Government. Except for the Government, there is no party in Finland that

is responsible for the administration, resources and overall coordination of research, development, innovation, education or training.

As regards structures, the Government's structural package focuses on education, training and research. In financing, innovation is also high on the agenda. As a result of the decisions referred to above, education, training, research, expertise and innovation are not discussed in the structural package as a single entity as the focus is on the listing of individual development needs and measures. This means that insufficient consideration is given to the relationships between different parts of the extensive field of RDI activities and expertise. The solutions presented in the education, training and research section of the structural package mainly put together a large number of unfinished issues in the management of RDI activities. This means that the plan does not provide prerequisites for target-oriented, well-focused or balanced development work and the assessment of its end result. This creates the risk that the development work does not support the system as a whole but is focused on the individual elements of a fragmented system and the most topical issues.

The narrowness and fragmented nature of the development work has been highlighted in the audits on various occasions and the following shortcomings and failures are the most important ones listed in them:

- Rather than being questioned, education, training and research structures have been continuously expanded;
- As the economic situation is getting worse, there is a danger of an uncontrollable counteraction or corrective action as efforts are made to transform resources contained in structures into savings, benefits of scale generated by larger units or new resources without a broad-based starting point and maps steering the development work;
- At the moment, the management of the extensive system of RDI structures, financing and activities is on an inadequate and inefficient basis and there is too much focus on the perspective of the sectoral ministries responsible for education, training, research and entrepreneurship;
- Even though the main input and resources of education, training and research are contained in the human resources, the perspective of human resources in the prerequisites of education, training and research is often overshadowed by structural and appropriation issues and is examined only occasionally and from a narrow viewpoint;
- Structural development is not the only development approach as the focus should be on the quality of the activities, on which

Focus should be shifted from parts into the whole and from tangible to intangible capital

long-term effectiveness and overall economic considerations are also based;

- Development has had a narrow focus and the perspective should be broadened from structures and one-sided performance measurements to improvements in service capacity and to making structures more customer-oriented and geared towards working life;
- In the development of structures, more consideration should be given to the differing needs and expectations of administrative branches, and demand and customer-orientation.

In the last few years, the structures of Finland's education system have been developed from a variety of different bases and the emphasis has, to a varying degree, been on such issues as the role of specialised educational units, need for division of labour and cooperation and the workability of centralised management solutions. In the policy document 'Education and Research 2011-2016', the focus of the specific measures directed at the structure of the network of actors is on universities. As a result of structural measures, the number of universities has already declined from more than 20 to 14.

The reforming of the structures and financing of education involve a long-term process with a multitude of aims and levels. It comprises one-off measures, staged measures (such as the two-stage reform of the funding of universities of applied sciences), direct measures (such as the efforts to provide higher rewards for performance and impacts) and indirect measures (such as influencing the operational and structural decisions made at universities of applied sciences by reforming the funding criteria). In practice, the policy measures overlap and influence each others' prerequisites in a manner that is difficult to anticipate. In order to ensure that the development process remains manageable, there should be more focus on the combined effects of reform projects, which may be unexpected and undesirable. The joint effects of individual measures and legislative changes should be carefully examined before any decisions are made. In order to make better use of the links between education and training activities and the broader issue of intangible capital, a more broad-based and structuralised change management and control is needed to steer the changes in RDI activities and expertise.

The new act on the universities of applied sciences entered into force at the start of 2014. In the first stage, a licence procedure and a new funding system supporting structural development of the network of actors were introduced to speed up the restructur-

Changes in the education and training structures have not yet been completed: is it possible to keep the process under control?

ing of the network. The aim is to introduce a similar model for upper secondary level education.

The audit 'Foresight analysis and the dimensioning and targeting of education' (222/2011) showed that on upper secondary level, too, the structural development of vocational education must in addition to information steering and voluntary activities also be accompanied by more obligatory and programme-based measures. Accordingly, the Ministry of Education and Culture launched an action programme aimed at strengthening the service and cooperation capability of upper secondary level education and training at the start of 2013. The programme also aims to achieve improvements in structural efficiency by increasing shared use of facilities, support services and teaching resources with higher education institutions. The second basis for structural development is the implementation of the youth guarantee, which steers the decision-making concerning the size and location of educational institutions. At the moment, it is impossible to produce an overall picture of the adequacy of the measures taken as part of the broad-based development work. The overall impacts of the reforms will only be visible in the longer term.

So far, the development measures in the field of education and training have primarily taken place within and between individual levels of education. Individual fields of education as an entity formed by different levels of education must be examined from a new perspective in the future. Neither has the Finnish Higher Education Evaluation Council (now the Finnish Education Evaluation Centre) analysed the education system at this level. The main challenge facing the Finnish Education Evaluation Centre, which started operations in May 2014, is to provide a sufficiently broad overall picture of the functioning of this extensive system.

The foresight analysis of educational, training and labour force needs is in the process of being developed as part of the Government's structural policy programme so that the labour market can function better and Finland's competitiveness can be strengthened. The aim of the programme is to have a situation where comprehensive foresight information and optional scenarios serve decision-making concerning educational offerings and create a better basis for parallel measures taken by different actors. The audits 'Foresight analysis and the dimensioning and targeting of education - focusing on vocational education for young people' (171/2008) and 'Foresight analysis and the dimensioning and targeting of education' (222/2011) conducted by NAOF showed that there is a clear need for foresight analysis in education and training but that there are shortcomings and contradictions in the definition of the aims

There is a need for both information steering and more obligatory and programme-based measures at upper secondary level

The targets laid out for the foresight analysis of education, training and workforce needs have been made more specific and there are plans to make foresight information more transparent

of the foresight analyses. No target level had been set for the foresight analysis as the targets mainly involved a description of the foresight analysis or what it should be. It has become clear in the audit follow-ups that the targets set by ministries for the foresight analysis of education, training and labour force needs have been made more specific and harmonised, the division of responsibilities between administrative branches has been clarified, organisation of foresight analysis at ministry level has been updated and there have been efforts to produce a nationwide foresight analysis model under the coordination of the Prime Minister's Office. The aim is to make foresight information more transparent by preparing a number of scenarios and by presenting them to stakeholders for discussion. The aim is to have a situation where societal actors can be engaged in a more extensive and in-depth debate on foresight information already during the early stages of the foresight work.

The structural reforms in sectoral research and at universities are only having a slow impact and there is no certainty of their overall impacts

The Government resolution on comprehensive reform of research institutes and research funding of 5 September 2013 will revamp the structures of sectoral research. The decision will provide a basis for more strategic management of RDI activities. The decision is in the process of being implemented.

Both the reform concerning the funding and structures of sectoral research and the university reform involve a long-term process containing a multitude of targets that is gradually being implemented at a number of different levels. At the moment, it is not possible to give any definite assessment of the success of either of the reforms. One of the key challenges of both reforms is to create and maintain a trust-based cooperation culture and social capital during the implementation of the reform that allow the updated structure, the new structural capital and human knowledge and expertise capital to be used more effectively in the future.

The follow-up to the audit of the management of the universities' human resources showed that as a result of the reform, the university staff has partially lost its identity and takes a critical view of the change. The staff has also lost some of the trust in the internal management of the universities. Moreover, the follow-up information also suggests that the university reform has not brought any substantial improvements in the strategic management of the universities' operations. The view is that bureaucracy at universities has actually increased after the reform.

Changes in the structures of sectoral research and the university reform are still in their initial stages

So far the university reform has not led to any significant improvements in the strategic management of universities

At the same time, the implementation of the sectoral research reform involves risks that concern the ability of the Prime Minister's Office to organise complicated research coordination processes and the ability of the funding and research organisations to adjust, in a balanced manner, to the cuts in resources resulting from the reorganisation of sectoral research. Both risks should be monitored in the coming years. The change in the operating culture is more important than changes in structures and strategies but the process is slow and requires a large number of different support measures.

In connection with the audits organised by NAOF and the workshops charting the state of Finland's RDI activities arranged by NAOF and Sitra in 2012, the need arose to examine the RDI activities as a joint success factor that should be supported by the nation as a whole, as a strategic approach and as a large-scale input of resources. When RDI activities are examined from both angles, there is also a need (expressed in policy documents) to take more carefully considered risks and a need to maintain operational transparency and accountability. Developments in the last few years have shown that instead of blanket cuts or increases in RDI resources, there should be new ideas and operating approaches. They should be based on a clearer definition of the purpose of public sector activities. This would make it possible to increase the transparency of RDI funding by clarifying the objectives of the activities and to introduce a new model for managing RDI funding risks on their basis.

A large number of reforms concerning the funding of different educational levels are being planned. The aim of the reforms is to clarify education funding systems, to broaden the funding criteria (universities) and to make them more performance-oriented and impact-oriented (such as using the employment of the graduates as a basis) and to have funding criteria that reward efficiency (reducing the percentage of drop-outs).

The findings of NAOF's audit 'Structural arrangements in secondary education' (11/2012) suggest that indicator-based performance funding functions well as part of an educational steering and funding system. However, there have been problems with the transparency of the criteria and indicators. In order to ensure the continuation of balanced development, the funding criteria must reward both performance and quality.

Reforms in the field of education, training and research require clarification of the role of the public sector and abandonment of the approach based on increases and cuts

Instead of introducing blanket cuts or increases in RDI resources, new ideas and operating approaches must be found

Combining customer, quality, performance and effectiveness orientation in the funding of education, training and research is a challenging task

The entire RDI life-cycle - from inputs to impacts - is in trouble

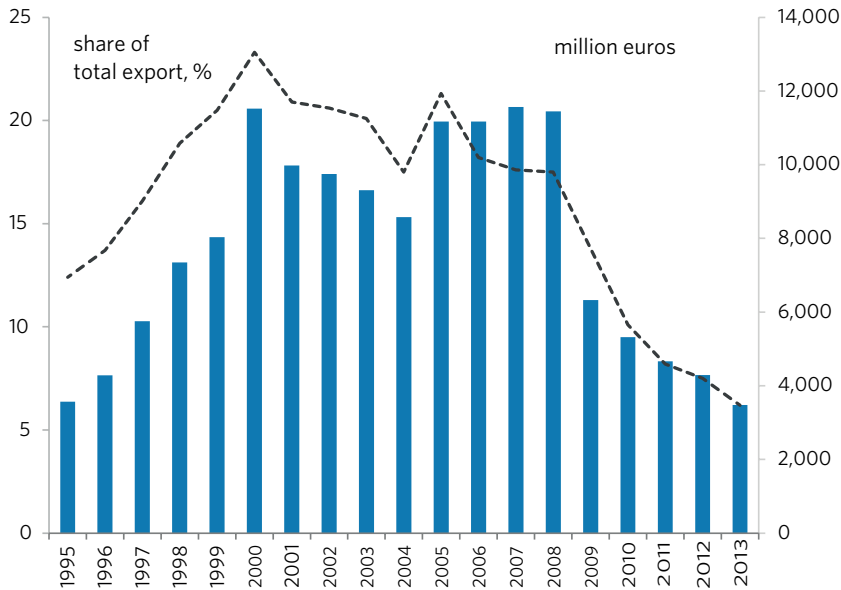


Figure 13: Finnish high-technology exports between 1995 and 2013.²¹

According to the foreign trade statistics of the Finnish Customs, Finnish exports of high-technology products decreased by one fifth in 2013, totalling slightly less than 3.5 billion euros. The sector now only accounts for six per cent of Finland's total exports. Last decade its share was more than 20 per cent in some years. In imports, too, the proportion of high technology has declined. Last year, the sector accounted for less than ten per cent of Finland's imports. The value of imports totalled less than 5.6 billion euros, which was six per cent less than in 2012. Figure 13 shows the downward trend in Finland's high-technology exports in the longer term.

The figures show that particularly as a result of the structural changes in the ICT sector, Finland's high-technology production and the creation of new technologies maintaining economic growth are threatened. There has also been a downward trend in research and development inputs for many years. In 2012, research and development expenditure totalled about 6.8 billion euros. Companies accounted for 4.7 billion, universities for 1.5 billion and the non-university public sector for almost 700 million euros of this

total. The overall spending was about 330 million euros lower than in the previous year. In the 2014 state budget, appropriations and budget authority in the field of research and development total 1.96 billion euros. This is 42 million less than in the previous year. Research expenditure (excluding government debt servicing costs) accounts for 3.8 per cent of government spending. Public RD funding accounts for about one per cent of the gross domestic product.

The European Commission has drawn attention to the weakening in the effectiveness of the research and development spending and the fact that there are too few companies carrying out RDI activities.²² In its assessment of macroeconomic imbalances published in March 2014, the Commission also takes a closer look at the role and effectiveness of Finland's RDI activities from the perspective of the national economy and general government finances.²³ In its assessment, the Commission also highlights the downward trend in companies' RDI intensity and the fact that the target for RD intensity (research and development inputs should be four per cent of the GDP) is becoming increasingly difficult to reach. In a separate report to Parliament (Fiscal Policy Audit and Monitoring Report 2014, K 15/2014 vp), the National Audit Office highlights its concern about the growth basis of the Finnish economy and particularly about the prerequisites for potential growth in the long term. In this respect, overall productivity trends in the national economy and especially its ability to generate innovations and make effective use of them are key factors. Thus, success of the RDI activities is an increasingly important element of economic growth and well-being. However, the factors hampering the effective use of the RDI system and innovations are becoming increasingly visible. The conclusions drawn by the European Commission are very similar to those presented by the National Audit Office.

From the perspective of the use of innovations, it is not merely a question of organising the narrowly defined field of RDI activities and its funding. In fact, we have to take a broader view of the mechanisms that generate expertise (human capital) and lead to the use of innovations. For example, healthy competition plays an important role in the introduction and launching of innovations.

Despite a slowdown and in some respects an actual decline, Finland is still highly placed internationally, especially in EU's competitiveness rankings (IUS 2013) and the comparisons produced by the World Economic Forum. Finland was also among the top ten countries in the 2014 Social Development Index. However, an increasing number of comparison barometers (such as IMD 2013 and TekBARO 2012) show that Finland's overall position has weakened. There are many factors behind the differences between the

Consideration should be given to ensuring that public funding allocated to scientific and basic research will have practical benefits

comparisons, such as differences in methods, differences in time-spans between the sets of material used and the complexity of the phenomenon in question.

Weaknesses in measurements and evaluations make it more difficult to define the development needs

The impact chains and mechanisms of RDI activities are often of very long duration. For this reason, in addition to the carrying out of impact measurements, it is also necessary to develop ways of measuring and evaluating human, institutional and other intangible knowledge, expertise and structural capital. Finland should continue to follow developments in international measurement and evaluation methodologies. Recent analyses (EU's INNODRIVE, OECD's Knowledge Based Capital 2013 and Sustainable Nordic Welfare programme) show that Finland has fallen slightly behind other countries, such as its Nordic neighbours.

In its inputs in the development of intangible capital, Finland has put more emphasis on traditional research and development than other countries. At the same time it has become clear that a substantial part of the growth attributed to technological factors has been generated by intangible capital. Recent analyses, evaluations and development trends mean that Finland should take a bolder and a more strategic look at the overall issue of the management of intangible capital, the structures coordinating RDI activities and the traditional funding arrangements that are oriented towards science, technologies and supply, without forgetting the long-term nature of RDI activities.

The planned expansion of the funding criteria of universities of applied sciences and traditional universities highlights the quality factors in a more diverse manner than before. There has also been a slight strengthening of the role played by effectiveness and internationalism in the funding criteria. During the last few years, resources have been directed at the development of indicators measuring the societal effectiveness of research and development. However, as the Research and Innovation Council, the body involved in the steering of the development work, has stated in its opinion on the recent programme review, funding models do not give adequate consideration to the use of research findings in such areas as cooperation with companies. Based on the changes described above, the development of indicators and evaluations should be accelerated but the process should also be developed into a more diverse measurement and management of the intangible RDI capital and its transformations.

A substantial part of the growth attributed to technological factors has actually been generated by intangible capital

The work to update funding structures has been fragmented and progress has been slow

All public-sector providers of RDI funding have been recently evaluated. Measures aimed at improving the content and structures of the funding are in the process of being prepared. The act on additional cuts in research and development spending between 2013 and 2015 entered into force on 1 January 2013. In its mid-term policy review in February 2013, the Government decided that the act will only remain in force until the end of 2014. In its decision on spending limits, the Government decided to abandon the cuts in RDI spending after 2014. Tekes and the Ministry of Employment and the Economy will produce an effectiveness evaluation of the cuts in RDI spending, using the figures for 2013 as a basis. The first results will be available in early 2015.

No new measures have been prepared as part of policy on the clarification of the division of labour between public growth and RDI funding laid out in the strategic implementation plan of the Government Programme. A decision has been made to establish a venture capital investment function in Tekes as of 1 July 2014, which will focus on early-stage venture capital investments. The international evaluation of the Finnish Industry Investment was published in January 2014. The evaluation also contains proposals concerning the clarification of the division of labour between the actors taking part in the funding. It has been decided that Finvera's venture capital investment operations will be transferred to a venture capital investment company operating under Tekes. The process, which will involve a transitional period, will be completed by 2017.

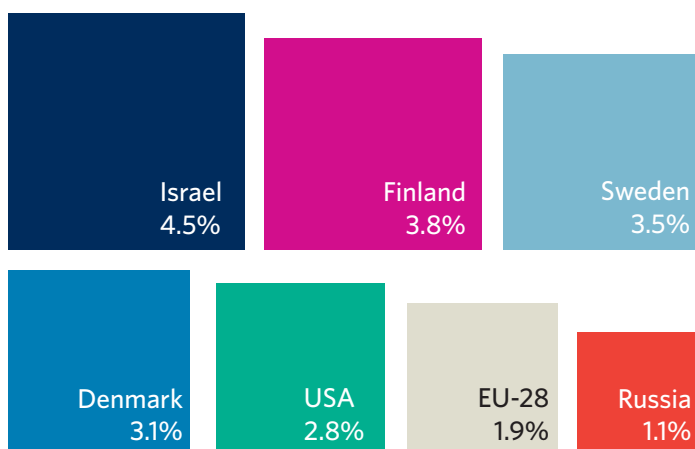


Figure 14: GDP percentages of research and development funding in a number of countries.

There was a rapid growth in research and development funding in Finland until 2010. In 2007, the Government decided to increase research and development funding so that it would account for four per cent of the gross domestic product. The target was already reached in 2009 but this was because of an economic downturn and a drop in Finland's gross domestic product. Research and development funding peaked in 2010, when it totalled almost seven billion euros. Companies accounted for almost five billion and the state for about two billion of this total.

In Finland, the downward trend in funding is mainly the result of a decline in private sector R&D investments

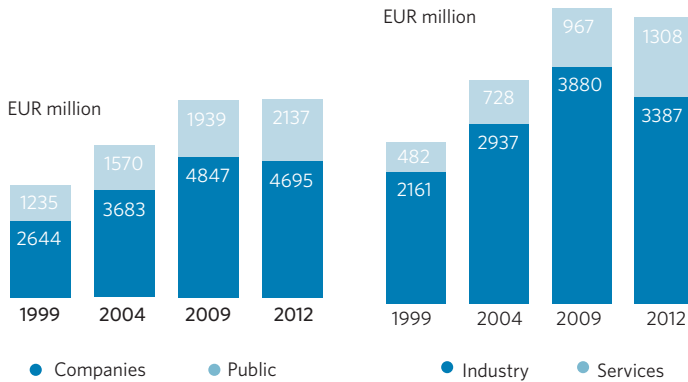


Figure 15: Changes in research and development funding between 1999 and 2012.

Figure 16: Funding by private service sector

There was a rapid growth in research and development spending by companies until 2010. The growth was more rapid than in state funding, which means that the proportion of the private sector of the total funding has increased. Research and development spending by industries totalled about 2.6 billion euros in 1999 but in 2010, the sum was already more than 3.9 billion. Since then RD spending went on a decline, totalling about 3.4 billion euros in 2012.

The growth in research and development spending in the service sector has been even more rapid. Unlike in other sectors, there has also been a steady increase in RD spending in the service branch after 2010. In 1999, the service sector spent less than 500 million euros on research and development. In 2010, the spending passed the one billion mark and in 2012, it already totalled more than 1.3 billion euros. However, the increase in RD spending in the service sector has not fully compensated the decrease in industrial RD

spending and there has been a slight decline in overall RD spending by companies since 2010.

State spending on research and development also peaked in 2011, when it totalled almost 2.1 billion euros. Since 2011, total spending has declined and at the moment it is less than two billion. In the year 2000, RD spending totalled about 1.3 billion euros. In proportional terms, the biggest increases in the 2000s have in the funding provided through Tekes and the Academy of Finland. In 2014, the funding provided by Tekes totalled 513 million and the funding by the Academy of Finland 322 million euros. Funding by both agencies has declined after 2011. At the same time, however, the funding provided by universities has continued to increase during the economic downturn, totalling 578 million in 2014.

Funding provided by state-owned research agencies totalled about 282 million euros in 2014. There has been a slight decline in this funding in the past few years. In quantitative terms, other research funding has continued to grow, totalling about 227 million euros in 2014. Research funding by university central hospitals is an exception among state actors. It has been in continuous decline, totalling slightly more than 31 million euros in 2014. As recently as 2000, research spending by university central hospitals was almost twice as high (59 million euros).

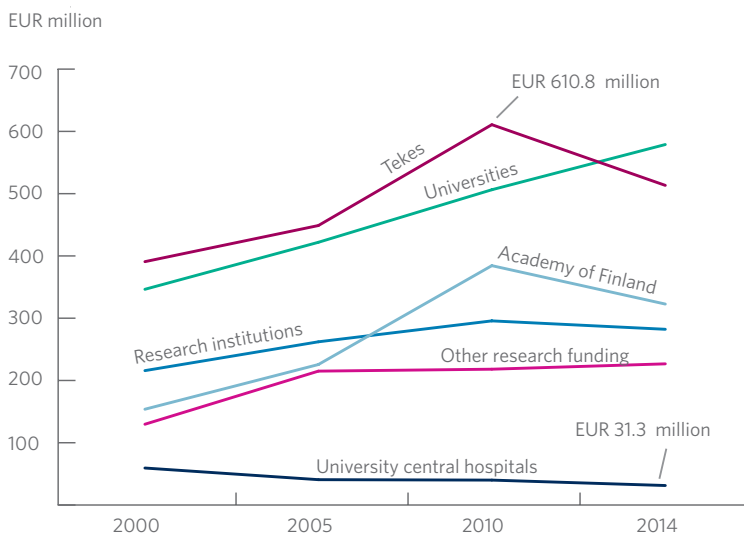


Figure 17: Changes in funding provided by central government actors in the 2000s.

Almost 50 per cent of all research and development funding provided by the state (about 900 million euros) goes to promoting general academic research. The most important recipients are universities and the Academy of Finland. About one fifth of all funding (about 350 million euros) goes to promoting industrial production and technology. Societal policy and services (which includes such sectors as health care, environmental protection, transport, telecommunications, international relations, culture and economic research) accounts for 260 million euros of the funding. Energy research receives about 175 million euros. Defence research accounts for slightly more than 40 million, space research for slightly less than 40 million and research on soil, water and the atmosphere for slightly less than 30 million of the total.

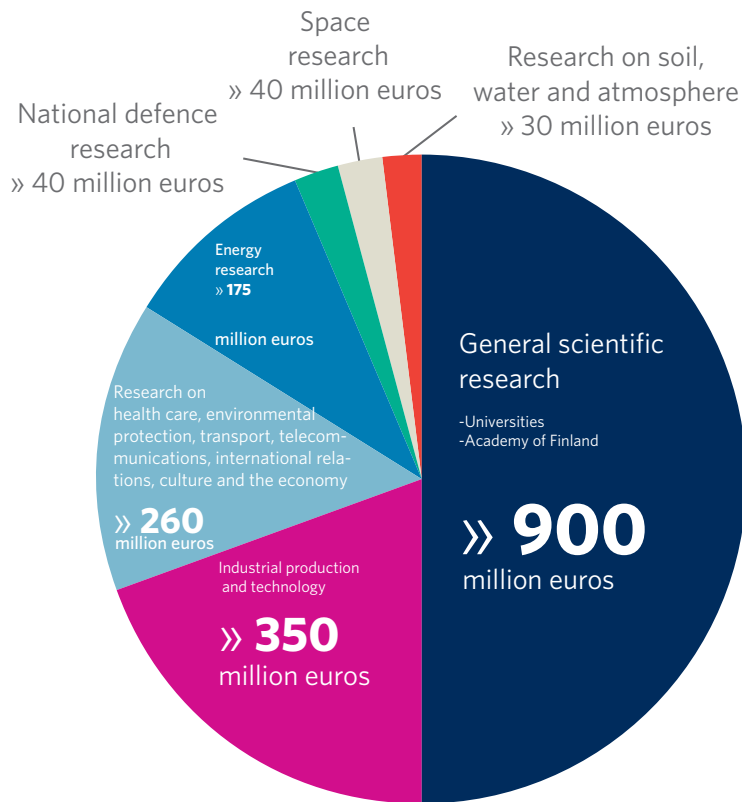


Figure 18: Breakdown of state funding for research and development.

4 Implementing the principles of good governance

Good governance is a precondition for long-term, successful and effective operations. The basis for good governance in public administration is laid down in the Administrative Procedure Act. Management and steering are in the core of the adherence to the principles of good governance. Other main principles of the Administrative Procedure Act are equal treatment of the customers of the public administration and cooperation between the authorities. Good governance also means correctly timed reaction to important societal needs, without forgetting the associated processes of legislative drafting, risk management, monitoring and accountability.

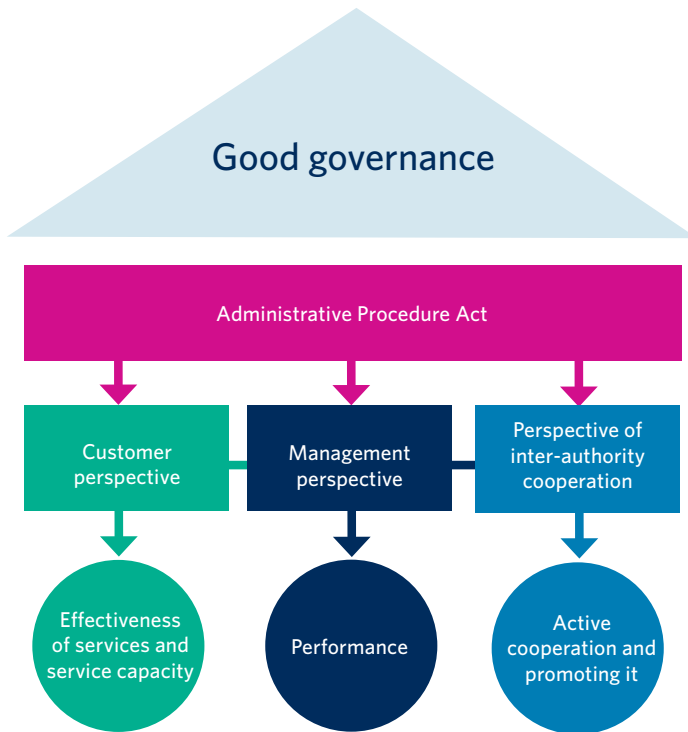


Figure 19: Perspectives of good governance

4.1 Management and steering

Under the service principle of good governance, customers attending to their administrative business must be able to access administrative services in a proper manner and the authorities must perform their duties so that the desired results can be achieved. Target-oriented management and effective steering of operations can be considered as preconditions of good performance (management perspective of good governance). Good governance also includes the management of law-drafting, which is discussed in more detail in section 4.4 of this report.

In overall terms, the steering systems of administrative branches are reasonable well-managed. However, in the preparation of strategies for administrative branches, more use should be made of economic analyses and the strategies should be clearly linked with economic planning. The number of strategies should be critically reviewed. It is also important to examine the matters from the perspective of implementation.

The evaluation of the effectiveness of the operations of administrative branches should also be developed. In the view of the National Audit Office, it is essential to improve the process of target-setting and target evaluation. Performance and economic efficiency indicators should also be developed.

At the moment, the funds in administrative branches are on an off-budget basis and, in economic terms, they may be quite substantial. The ministries should steer the funds in their administrative branches more comprehensively and conclude with them performance agreements laying out performance targets. The risks of economically important funds should be assessed more extensively.

Management systems should be developed by defining the responsibilities and the position of the managers. Management involving more than one administrative branch is a particular problem. The lack of a genuine management structures means that nobody is actually in charge. This leads to operational inefficiency. It also leads to a strong silo mentality, in which individual administrative branches only manage their own tasks and attempts to engage in cross-administrative cooperation fail. Under section 10 of the Administrative Procedure Act (434/2003), good governance means active promotion of cooperation between the authorities and the ability to carry out such cooperation.

Administrative development should be on a systematic basis and be founded on a clear idea of the aims. In development work involving more than one administrative branch, there should be

The steering systems of individual administrative branches are working reasonably well

Management involving more than one administrative branch may lead to a situation where nobody is in charge

mechanisms for interaction and cooperation between administrative branches. Development measures should be systematic so that when a change-over is made to a new system or activity, the workability of the new approach must be ensured and the assessment and monitoring of performance organised.

Even though steering systems in administrative branches create prerequisites for successful operations there is still room for improvement

On the basis of the audits of steering systems conducted by the National Audit Office, the systems provide a fairly good basis for determining the performance and responsibilities in administrative branches. At the same time, the audit follow-ups show that ministries have continued to develop their steering systems. However, from the perspective of steering and management, the following observations concerning development can be made.

The National Audit Office has assessed steering systems of individual administrative branches between 2009 and 2014 as follows:

- Steering system in the administrative branch of the Ministry of Social Affairs and Health (196/2009)
- Steering system in the administrative branch of the Ministry of Defence (223/2011)
- Steering system in the administrative branch of the Ministry of Employment and the Economy (234/2011)
- Steering system in the administrative branch of the Ministry of the Environment (220/2011)
- Steering system in the administrative branch of the Ministry of the Interior (19/2012)
- Steering system in the administrative branch of the Ministry for Foreign Affairs (12/2013)
- Steering system in the administrative branch of the Ministry of Finance (9/2014)
- Steering system in the administrative branch of the Ministry of Transport and Communications (14/2014)

Many administrative branches produce a large number of different strategies. This may create the risk of overlapping strate-

gies, conflicting policies at different strategic levels or complex and economically inefficient strategic planning processes. Audit observations suggest that not enough use has been made of economic analyses in the preparation of strategies and that there have been no comprehensive assessments of the possible economic impacts of the strategies either. Strategy processes have not always been linked with economic planning. When the number of strategies is large, there is also the risk that the perspective of implementation is not adequately prioritised.

Highly comprehensive and as such well-justified societal effectiveness targets have been laid out for individual administrative branches. However, the number of targets is often too high and in many cases they are also quite general in nature. They describe the day-to-day operations of the administrative branches rather than the actual setting of targets. Audit observations suggest that logical and clear target hierarchies are not always created. This means that the agencies coming under ministerial performance guidance do not have performance targets that are clearly derived from societal effectiveness targets, which is a basic requirement for successful performance guidance. However, many ministries have developed performance guidance processes in their administrative branches and there has also been progress in target-setting.

From the perspective of steering and management, the essential problem is also that the desired level of societal and operational targets is not always given clearly enough and not enough attention is paid to the assessment of the achievement of the targets. The link between the targets and the resources is not given. Even though in projects carried out by Statistics Finland and individual administrative branches efforts have been made in recent years to develop the ways of measuring productivity, productivity indicators are rarely given. The same applies to economic efficiency indicators. Administrative branches rarely conduct evaluations of the effectiveness of their own operations. There have, however, been improvements in the manner in which effectiveness information (targets, assessments of how they are achieved and grounds for the assessments) is presented in the Government's annual reports.

Off-budget funds are an exception to the principle of unity and narrow the budgetary powers of Parliament. Some of the funds are highly significant economically and their operations involve substantial economic risks. According to the findings of steering system audits, there are shortcomings in the manner in which the risks are identified, assessed and presented. The administration and operations of the funds in the ministries' administrative branches have not been developed on the basis of uniform prin-

Making targets operational is proving difficult

Steering of funds should be on a firmer basis

ciples. Moreover, ministries do not conclude performance agreements with all of the funds, which means that the funds do not have clear performance targets.

There is room for improvement in the prerequisites for successful management and steering

Operations can only be successful if the persons in charge of them have an appropriate status and adequate resources and tools at their disposal. The conclusion made in the performance audit of public legal aid (5/2014) was that if public legal aid will also in the future be organised on the basis of legal aid districts, the position and powers of the legal aid directors should be clarified.

Each legal aid district is headed by a legal aid director, while each legal aid office is headed by a leading public legal aid attorney. The legal aid director is responsible for ensuring that the district's performance targets are met and, as party to the performance negotiations concerning the district, the director is also responsible for meeting the performance targets laid out in the performance agreement. These responsibilities also include tasks the management of which would require tools for steering legal aid offices and, if necessary, for intervening in their operations. There are currently no such tools. More explicit steering by the Ministry of Justice would support legal aid directors vis-à-vis the offices in the districts.

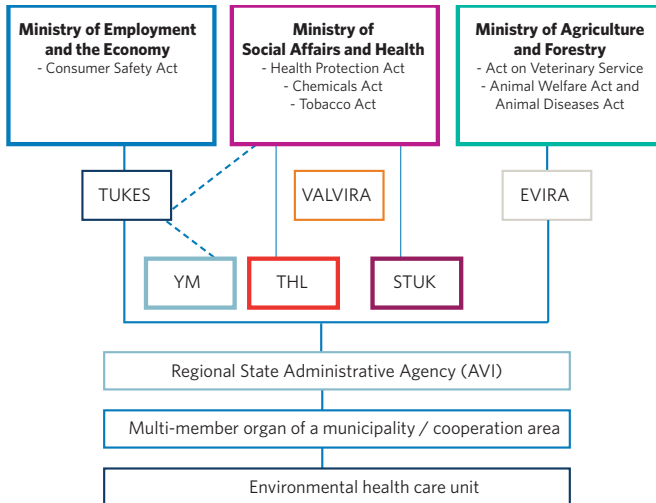
Environmental health care comes under the responsibility of the Ministry of Social Affairs and Health, Ministry of Agriculture and Forestry and the Ministry of Employment and the Economy. In addition to the above ministries, municipal environmental health care is also steered by central agencies and Regional State Administrative Agencies. However, the practical aspects of environmental health care are mainly the responsibility of the municipalities.

It was found out in the audit of environmental health care (7/2014) that even though official and unofficial cooperation procedures have been established between ministries and central agencies for coordinating the activities none of the ministries taking part in the activities is clearly in charge of all aspects of the environmental health care. At the same time, central agencies continue to emphasise their own tasks and roles. No single responsible actor has been assigned overall responsibility for the management of the activities. As a result of the differentiated nature of the administrative model, the total number of the steering inputs from central agencies to local-level authorities has reach substantial levels and there has not been enough coordination of the steering.

Management instruments are lacking

Management and steering involving more than one administrative branch is a challenging task

Management responsibilities may be unclear



TUKES = Finnish Safety and Chemicals Agency
 Valvira = National Supervisory Authority for Welfare and Health
 Evira = Finnish Food Safety Authority
 THL = National Institute for Health and Welfare
 STUK = Radiation and Nuclear Safety Authority
 The Ministry of the Environment (YM) guides TUKES in the implementation of the Chemicals Act. (www.stm.fi).

Figure 20: Organisation of environmental health care.

It makes sense that at different levels of administration the aim is to achieve results in networks and network-based cooperation. When the steering process involves a large number of actors, it is important to ensure that the number of steering messages in the network of actors does not become unmanageable. In fact, network-based steering of activities involving a large number of authorities is one of the development challenges in administrative steering systems.

The performance audit covering case management and electronic archiving (11/2014) focused on the most important parties steering archiving, which are the National Archives Service (the authority implementing and steering archiving), Ministry of Education and Culture (which steers the National Archives Service) and the Ministry of Finance (which develops and steers the general information administration and information systems). It was found out in the audit that there has only been slow progress towards achieving the targets set for case management and electronic archiving. It was suggested that this is because the ministries responsible for promoting electronic archiving have not been sufficiently committed to the matter and have therefore not made clear decisions aimed at achieving the targets. Moreover, there is

Common will is sometimes lacking

no common will among the ministries in question to promote electronic archiving. The targets are based on each actor's own situation and are at different levels.

The ministries steering electronic archiving and case management have not seen eye to eye in important issues and have failed to implement many of the identified development tasks. This may also be because it has not been possible to assign a decision-maker to a problem or the decision-maker has, for some reason, been unwilling to make a decision in the matter.

On the basis of the audit, there has been no comprehensive approach to the development of case management and electronic archiving. According to NAOF, the main actors responsible for steering electronic archiving should together determine the duties and responsibilities of each actor that are not clearly laid out in the new Archives Act, the work on which is currently in progress. They should also speed up the transition to electronic archiving by preparing an implementation plan for the next few years that is binding on all actors. The key issues concerning electronic archiving and the matters pertaining to its content that are central to effective operations and decision-making and the fundamental problems or issues of prestige identified in the development of operations should in the future be brought to the meetings of ministries' permanent secretaries for consideration.

There is no comprehensive approach to the development of electronic case management

Development of the office and service point infrastructure should be on a systematic and long-term basis

The development of the network of public legal aid offices was examined in the audit of public legal aid (5/2014). It was found out in the audit that the development of the network has not been on the basis of a national or district-specific plan laying out the size of the network of offices and service points, regional distribution, size and personnel structure of the offices and service points or the content of the services provided at different offices and service points. Thus, the development has not been on the basis of an overall assessment of the need for or availability of public legal aid services at national or district level and the principles and requirements concerning the merging of the offices have not been laid out in a uniform manner. Most of the mergers of public legal aid offices have taken place as leading public legal aid attorneys have retired or moved to other tasks. As a basis for the development of the network of public legal aid offices, there should have been a comprehensive plan concerning the size and regional distribution of the office and service point network, size and personnel structure of

the offices and service points, and the content of the services available at different offices and service points.

If it was found out in the audit of the state IT shared service centres (3/2013) that the establishment of service centre organisations for managing ICT tasks in different administrative branches or for the shared central government needs has been on a case-by-case basis and that the decisions concerning their establishment made at different times have not been on the same basis. This has resulted in a large number of solutions and characteristics specific to individual service centres. The audit findings indicate that the ministerial steering of the service centres is also on a case-by-case basis, which may actually have increased the steering differences between the service centres.

It was also found out in the audit that, contrary to what had been planned, no unified performance indicators had been drawn up for the state IT shared service centres as part of the establishment of the Government IT Shared Service Centre (VIP). No decisions aimed at harmonising the concepts in use have been made, no attempts have been made to harmonise the operations of service centres specific to administrative branches and no tools have been created for making comparisons between them. This means that no reliable or comparable knowledge base has evolved that could be used in the assessment of the operations, operational efficiency or economic efficiency of the IT shared service centres.

No common assessment method has been planned

New systems must remain in use as long as the new ones are not operational

The audit of the steering system in the administrative branch of the Ministry of Transport and Communications (14/2014) highlighted the fact that the rapid introduction of new transport policy concepts is a major challenge to proper planning, management and reporting in the administrative branch. The definitions and contents of new concepts have not always been clear or advanced enough when compared with the earlier concepts, which may result in inadequate overall steering.

An example of this is the (as such reasonable) attempt to change over to transport system thinking in which the transport system consists of a large number of differently steered elements. The development of the clear steering instruments comprising this entity and the indicators describing success takes time. Therefore it is important not to give up the existing information and steering systems describing the state of transport infrastructure before workable systems describing the broader transport policy entity have been developed to replace them.

4.2 Risks and contingent liabilities of the state

A risk is a possibility that something undesirable occurs. Private actors are responsible for the consequences of their own activities and decisions that involve risks. In accordance with its role, the state has broader liabilities than other actors: it may also have to assume responsibility when other parties have created an undesirable situation and are unable to take responsibility for the damage.

Factors beyond human control may also cause undesirable situations and raise the question of whether only those affected by the damage should bear the consequences or whether the state should also share some of the responsibility. For example in flood damage, the state has intentionally withdrawn from sharing responsibility so that it can be ensured that the responsibility of the individuals in the anticipation and reduction of risks would not be diluted. The best economic results will only be achieved if the risks and any costs arising from them are fully considered at all levels of decision-making.

When a company takes risks, the aim is to generate profits. However, when the business fails the company may go bankrupt, in which case the owners may start operations again, free of any liabilities. By taking intentional risks, the state too may set the achievement of the good of society as its aim. However, the state cannot absolve itself of its responsibilities through bankruptcy as it may also have to bear the ultimate responsibility in difficult situations.

The obligatory nature of the cost liability of the state is situation-specific. When the state places a contract or concludes other similar transactions it assumes responsibility for future costs in the most direct and obligatory manner. Such direct cost liabilities rarely involve any substantial risk for unanticipated costs. If such risks occur they can be managed through effective financial management. Moreover, the responsibility is usually of obligatory nature if the state has participated in the taking or causing of the risk, intentionally or otherwise. At the same time, liabilities involve ample opportunities for discretion as the need of the state to react has resulted from the action taken by others or other factors beyond the control of the state and the state has not made any prior commitments in the matter. In such cases, the liability is often largely dependent on random risk factors that are difficult to control but it may also be a result of trends that are already known (such as demographic changes).

State has more extensive financial liabilities than other actors and in many areas it carries the ultimate responsibility

By taking intentional risks, the state may set the achievement of the good of society as its aim

The direct or random nature of the liability is an essential character of the state's liabilities. The liabilities may also be classified on other grounds. One important ground for classifying them is to determine whether the liability is based on an agreement, a statute or some other publicly expressed ground or whether it is a question of an unspoken expectation that the state will ultimately assume responsibility for the costs. Using these dimension as a basis, Polackova presents the state's liabilities as a four-section field (Figure 21).²⁴

Responsibilities	Direct	Random
Publicly expressed	for example: Contract	audit: Export financing
Un-spoken	for example: Adjustment of expenditure to demographic changes, even if there were no provisions on the matter	audit: Management of and responsibilities for oil spills from vessels in the Gulf of Finland

Figure 21: Classification of state liabilities

Well-considered risk-taking by the state should be particularly well-justified

In its publicly expressed liabilities, the central government can be expected to be much more clearly aware of the risks and the achievable benefits than in unspoken liabilities. The sphere of events that may result in unspoken liabilities is endless and, in this respect, uncontrollable. The most probable of these liabilities should be identified and preparations should be made for them to the extent that it is economically or otherwise feasible.

The National Audit Office has audited two activities of very different types, which are both connected with the state liabilities that are dependent on random factors, as shown in Figure 21: export financing (audit is in progress) and the management of and responsibilities for oil spills from vessels in the Gulf of Finland (2/2014). In export financing, the liabilities of the state are publicly expressed and based on agreements. At the same time, however, in oil spills from vessels, the liabilities are of the unspoken type even though in practice there is a clear understanding that they exist. Despite the differences, in both cases the risks and any state liabilities result

from factors beyond the control of the state and may be substantial: hundreds of millions or even billions of euros. A fund has also been established for both purposes for financing risk-prevention, paying compensations or for otherwise covering existing liabilities.

There are no solid facts about the risks and benefits of export financing

Through the state-owned company Finnvera and its subsidiary, the Finnish government takes part in export financing arrangements by providing export credit guarantees, interest equalisation and export credits. For example, export credit guarantees, the most important of these arrangements, mean contracts for which the state assumes liability and commitments that are made to cover the risk of losses arising from exports or foreign investments. Thus, in this situation there is a risk factor that is beyond the control of the state (failure of an export contract), for the consequences of which the state has publicly assumed liability. However, the assumption of liabilities is not free as the state should, through fees collected as part of the arrangements, recoup all the investments that it makes in export financing. Occasionally the risk may, however, result in substantial cost liabilities, which will considerably exceed the fees collected by the state as part of the financing arrangements, and in, the worst case, the state revenue generated by the export credit guarantees. For such risks, there are two reserves the purpose of which is to ensure that Finnvera is able to fulfil its commitments and, in the long run, to equalise any annual imbalances in revenue and expenditure.

Figure 22 shows the liabilities accumulated by the state as a result of export financing (export credit guarantees and special guarantees), the calculated annual risks arising from the liabilities and the reserves ensuring that the risks can be covered. There was a substantial growth in liabilities between 2006 and 2013, from slightly over five billion to about 11 billion euros. As a result, the calculated risk has also grown, though not in the same proportion as the liabilities. There has been a similar trend in the growth of the reserves. In 2006, they were well in excess of the calculated total risk. After this they stabilised on the same level as the risk and now they slightly exceed the total risk. However, here too it should be noted that according to calculations there was a decline in the total risk between 2010 and 2013 even though at the same time there was a considerable increase in liabilities.

Between 2006 and 2013 the liabilities grew from slightly over five billion to about 11 billion euros

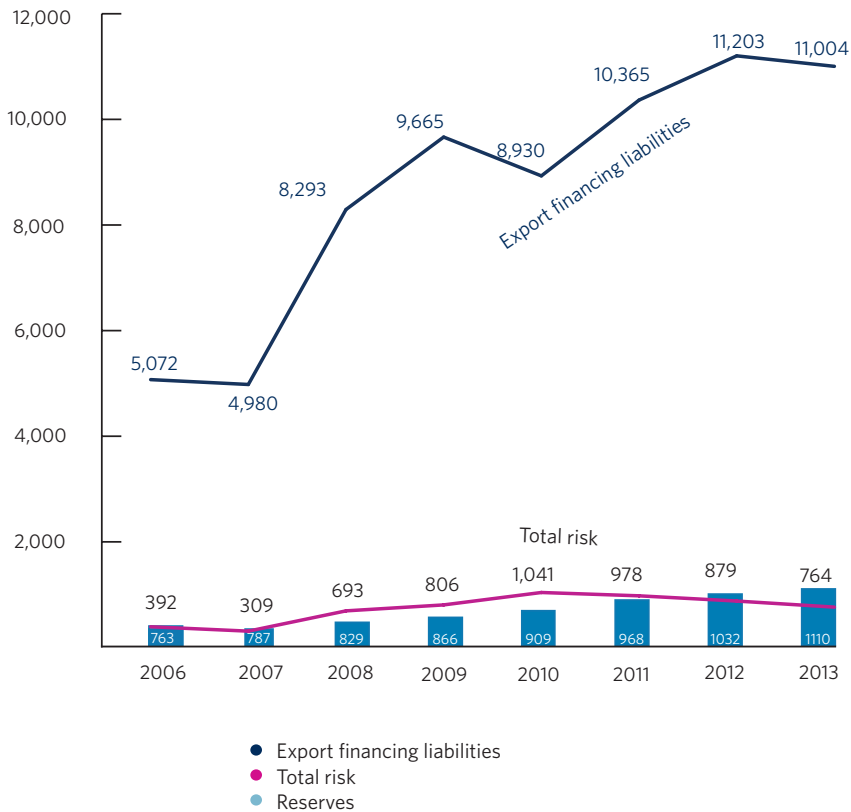


Figure 22: State's export financing liabilities, total risk and reserves between 2006 and 2013.²⁵

The decisions already made may further significantly increase state liabilities. Moreover, during the audit currently under way, the Ministry of Employment and the Economy has estimated that the need for financing will also grow after the decisions already made. It may even be possible to double or triple the liabilities on a needs basis under the current policy.

When the state makes prior commitments to meet an intentional risk, responsible decisions should be made on the basis that the risk level is known and that the benefits of the risk-taking exceed the costs. Under the act on export financing, the purpose of the activity is to promote internationalisation and export trade. According to the audit findings, both the risk levels and the benefits they generate should be examined more carefully.

The total risk is estimated with a calculation model that is sensitive to selected default values. It has been found out in the audit currently in progress that, in its capacity as the party steering the activities, the Ministry of Employment and the Economy has

not been sufficiently familiar with the functioning of the calculation model and, consequently, with the sensitivity of the estimated risk to different basic values. Moreover, the calculation of the risk level is made more difficult by the small number of the projects receiving financing, as a result of which the statistical risk model is not suited for the purpose. For this reason, a single and seemingly accurate risk figure should not be the only piece of risk information presented.

It was found out in the audit that the financial supervision of export financing is inadequate, which also makes risk management more problematic. Under existing legislation, financial supervision of export financing is the responsibility of the Ministry of Employment and the Economy. However, the ministry does not have adequate quantitative or qualitative resources to perform the task. Finnvera should be provided with credible financial supervision, either as a function performed by the ministry or otherwise if the Financial Supervisory Authority does not assume responsibility for the task.

Moreover, the views concerning the benefits generated by export financing are not adequately based on facts. It is probably difficult to reliably determine how many export contracts would fail to materialise if the state provided less export financing. The view is that the state can recoup most of the export financing costs and for this reason there has been little willingness to limit the growth in liabilities as, in the opinion of those involved, this might substantially slow down Finland's export trade. As the state liabilities have already reach considerable levels and are still growing it would be necessary to receive more solid evidence of the benefits of export financing.

The state could reduce its export financing risk by limiting its contingent liabilities. However, this might affect society at large by reducing exports. Thus, the state needs to seek a balance between the costs incurred by the central government and society at large as a result of export financing and the benefits that it generates. It is not always possible to make such straightforward evaluation-based choices, one example of which is the management of oil spills from vessels.

As a result of oil spills from vessels, the state may incur liabilities amounting to billions of euros that are difficult to manage

In the management of oil spills from vessels it is not possible to directly weigh the ratio between the risk on the one hand and its

costs and benefits on the other. For example, in the Gulf of Finland the state must accept the fact that oil transports that are mostly between foreign ports cause a certain threat to the archipelago environment. The state can, however, reduce the actual risk contained in this by applying a range of different management instruments. Even though there are differences between the two, the application of the instruments for managing oil spills from vessels can and should, like export financing, also be examined from the perspective of economic feasibility. The management of oil spills from vessels is not only a matter of selecting the optimal level of the management costs but also of the process of determining who should be liable for the costs.

The 'polluter pays' principle is generally accepted as the basis for compensations in environmental damage. In oil spills from vessels, the principle is not sufficiently comprehensive in all respects. In order to prevent and contain oil spills from vessels it is, both from the perspective of the environment and the economy, reasonable to make different types of contingency arrangements, which generate costs already before any accident has occurred. This kind of contingency planning serves all oil transporters (though it is of more use to careless transporters than to those acting with care) and it would not be reasonable to make those who actually cause the oil spill liable for the contingency costs after the accident has happened. For example, a large proportion of the response vessels have already been amortised before they have even been deployed in oil spills. For this reason, there are good grounds for examining the assignment of the contingency costs separately from the assignment of the actual oil spill response costs. The 'polluter pays' principle should be supplemented with the 'party causing the risk pays' principle.

The management of oil spills from vessels in the Gulf of Finland involves a broad range of different measures aimed at reducing the risk of shoreline pollution and damage to organisms (such as legislative steering, control of shipping, fairway maintenance, pilotage, vessel inspections and the purchase and maintenance of response and waste management equipment suitable for different sea areas). The aim is to prevent oil spills and, should they occur, contain them in an effective manner and ultimately to remove and eliminate oil waste from the shores in an effective manner.

In principle, the costs arising from such contingency measures should be assigned to those who are causing the risk for an oil spill. In practice this is only partially possible: foreign operators sailing in international waters account for most of the risk in the Gulf of Finland and it is impossible to charge them any risk fees. It is much

The polluter pays principle is not comprehensive enough in oil spills from vessels

easier to impose risk charges on nuclear power plants operating on Finnish territory.

However, it has been possible to partially implement the 'party causing the risk pays' principle in oil transports by charging an oil protection fee for oil that is imported to and transported through Finland. The fees are paid to the Finnish Oil Pollution Compensation Fund. The problem is that, in practice, a single Finnish oil company pays almost all of the fees, which means that they only cover a small proportion of the risk. In such a situation, the state has been forced to assume responsibility for a large proportion of the contingency costs. In principle, this can be compared with a situation where the state is responsible for the cost of preventing any external security threat that cannot be collected from other parties.

Thus, in the assignment of the oil spill contingency costs, one can also see more generally justifiable ways of solving the matter. However, it was found out in the audit that the principles and practical solutions impacting the situation have not been examined in a systematic or documented manner. The National Audit Office has recommended that a funding strategy should be prepared for the Finnish Oil Pollution Compensation Fund. The division of responsibility for response costs between the state and the parties causing the risk should be examined and justified as part of the strategy. In connection with this, the National Audit Office recommended that the Ministry of the Environment should again assess the chances to expand the basis of the funds collected for the Finnish Oil Pollution Compensation Fund in a manner that would better reflect the 'party causing the risk pays' principle.

If there is a major oil spill from a vessel and the first response fails the actual accident costs may, according to an estimate made as part of the audit, amount to billions of euros if the worst case scenario becomes reality. The likelihood of such a scenario has not been considered low: In the Gulf of Finland, the tanker density is even higher than in the Strait of Hormuz. Moreover, the fairways are shallow and rocky and there is also a large amount of other vessel traffic. When an oil spill occurs, primary responsibility always lies with the owner of the vessel. In major oil spills, the polluter and those behind it do not, however, compensate all costs: the tanker insurance policies and the international compensation funds have a ceiling (859 million euros), and the assets (about 20 million euros) of the Finnish Oil Pollution Compensation Fund are not adequate to cover such damage. This means, that if the worst case scenario becomes reality, the state may have to assume a cost liability amounting to billions of euros so that the archipelago environment can be restored to its prior condition and the compensations paid.

The state has been forced to assume responsibility for a large proportion of the oil risk contingency costs

The National Audit Office has recommended that a funding strategy should be prepared for the Finnish Oil Pollution Compensation Fund

The costs resulting from a major oil spill from a vessel might reach billions of euros if the worst case scenario is realised

Even though the liability of the state is not legally binding, in practice the state probably could not simply decide to leave some of the oil on the shores. However, the thoroughness of the cleaning would have to be considered, which would make a great deal of difference to the amount of the final costs. In connection with this, the National Audit Office issued recommendations concerning the development of the contingency plan. For example, it was proposed that the plan should also lay out the criteria for discontinuing the response operations. The need to define the reasonable level of the response operations also derives from the fact that the international compensation funds must be presented with well-justified and documented calculations concerning the claims for compensation.

The way in which the costs ultimately paid by the state can be reduced may to a great extent depend on the effectiveness of the instruments for managing oil spills from vessels. According to the audit, the management system is generally well-functioning. The systems aimed at preventing the risk of oil spills from vessels were found to be particularly cost-effective. The greatest need for improvements concerned waste management: intermediate storage of the collected oil, transport of oil waste from the intermediate storage units and the final disposal of the waste. The fact that, according to the audit, an oil spill of 30,000 tonnes may require transport capacity involving 60,000 lorry loads in areas with poor roads gives an idea of the scale of the waste management effort. Moreover, with the current capacity of the waste treatment plants, the disposal of the waste may take up to three years. If the response organisation had mobile oil waste treatment plants (thermal desorption units), these would greatly ease the transport problem and facilitate the waste disposal process.

The costs ultimately paid by the state may to a great extent depend on the effectiveness of the instruments for managing oil spills from vessels

4.3 Service capacity of the public administration

In the following, the service capacity of the public administration will be examined in the light of recent audits and follow-ups. Follow-ups have shown that the audits have helped to improve the service capacity of the public administration. However, according to the audits 'Integration of immigrants in social and health care' (3/2014), 'Public legal aid' (5/2014), 'Environmental health care' (7/2014) and the 'Management of youth unemployment' (8/2014), there are shortcomings in the ability of the public administration to provide customers with service.

There are shortcomings in the service steering provided by the authorities

Providing customers with advice and guidance is part of good governance. Despite the obligations laid down in the Administrative Procedure Act, there are shortcomings in the manner in which customers are provided with advice and guidance, which negatively affect the quality of the services. In a fragmented service system, those who need services do not necessarily know how to seek the right services.

It was found out in the audit of public legal aid that even though the advisory services reach customers, it may be difficult for the customers to understand the entity of different advisory services and to outline the role of the advice provided by public legal aid offices in them.

A multi-faceted service system also creates problems for immigrants. On the basis of the audit of immigrant integration, immigrants are not familiar with the social and health care service system.

Information on the services is often only available in Finnish and Swedish, the official languages of Finland, which makes it more difficult for immigrants to seek the services that they need. The authorities do not have enough time to provide immigrants with advice. In practice, immigrants receive information about services from other immigrants or organisations. In large cities, there are good experiences of advisory services provided in the immigrants' own languages in which the customers receive service in several different languages.

Lack of information on the service system makes services less accessible

147 languages

In 2012, a total of 147 different languages were spoken in Finland.

195,511
foreign citizens

At the end of 2012, there were 195,511 foreign citizens living in Finland.

3.6%
foreigners

Foreign citizens account for 3.6 per cent of the Finnish population.

200 million euros
for integration

The state spends about 200 million euros on the promotion of immigrant integration each year.

17,000
immigrants each year

According to Statistics Finland, annual net immigration is estimated at 17,000 persons.

80% in working age

About 80 per cent of the immigrants are in working age.

16% unemployed

Unemployment rate among foreign citizens stood at 16 per cent in 2012.

Figure 23: Immigration in figures

Service provided early may save costs in the long run

Provision of advice on public services is being concentrated in joint service points. Public Service Info, the advisory service of the public administration, was launched at the end of 2013. Customer Service 2014, a joint project by the Ministry of Finance and the municipalities, is also making progress. The view is that joint service points will ensure the availability of the services as the network of offices is being reduced. The joint service points do not yet cover all public services. The most important actors in the joint services are the municipalities, Kela, police departments, local register offices, employment and economic administration and the Finnish Tax Administration. At the moment, there are a total of 193 joint service points.

The aim of the development of the advisory services should be to reach customers at the right time. Seeking services early could prevent the need for more complex and expensive services. This is also the aim of the new Social Welfare Act, which is currently in preparation and in which the emphasis is on customer-orientation, correctly timed support and smooth referral to services.

Electronic services do not reach all customers

More and more electronic services are offered to customers using public services. When functioning properly, electronic services speed up the process of attending to one's business and improve work productivity. Customers can also be provided with new types of services. For example, the Finnish Social Insurance Institution (Kela) has opened a service on its website allowing consumers to make comparisons between the average fees charged for private health care services.

However, electronic services do not reach all customers. For example, the implementation of the youth guarantee has shown that electronic employment services cannot replace personal service. The personnel of the TE Offices and many of the customers have been satisfied with electronic services. However, the view is that especially young customers benefit from personal service and thorough discussions with adults. Personal guidance provided as part of public services also helps persons for whom it is difficult to find work, immigrants and customers of public legal aid. The conclusion of the audit of public legal aid was that the electronic system has not facilitated the use of the services as expected. Public legal aid customers have not used electronic services or completed electronic applications for legal aid. According to the conclusions reached in the audit, access to public legal aid has not improved in this respect.

There are regional differences in the access to public services

There are substantial differences in the access to public services in both public legal aid and child welfare. According to the audit of public legal aid, there may be substantial differences in waiting times between public legal aid offices. Similar observations have been made in audits of child welfare, mental health services and the services for the elderly and people with disabilities. The social and health care reform will provide an opportunity to reduce regional differences and to increase equality among the customers. According to the Administrative Procedure Act, this should also be the aim in all public services.

Access to public services can be improved by providing low-threshold services tailored to specific customer groups. In particular, customer groups in a weak position can best be reached by providing them with local services which can also be used without prior appointment. There are good experiences of low-thresh-

There are good experiences of low-threshold services

old services in such areas as public legal aid, services intended for socially excluded youngsters, mental health services and intoxicant services. Improvements in accessibility can also contribute to the availability of the services. For example, in the audits of public legal aid and child welfare it was found out that inconvenient or expensive transport connections may prevent customers from seeking services.

Client plans are not always effective

Client plans laying out the services needed by the customer and their aims are part of many public services. The audits have, however, shown that the aims laid out for client plans in the legislation do not necessarily become reality. Especially the number of client plans for families is still low, regardless of whether it is the question of immigrant families or child welfare customers. Moreover, there is not always enough time to update the plans.

The client plans should promote cooperation between the authorities in the coordination of services. For example, in the initial assessments and integration plans prepared for immigrants under the Act on the Promotion of Immigrant Integration (1386/2010) the need for services should be extensively examined. In practice, in the initial assessments and integration plans made at TE Offices the emphasis is on language training and employment history. TE Offices do not always have time to examine the need for social and health care services, for example.

The effectiveness of the integration plans is also weakened by the fact that immigrants do not consider the plans important and are not committed to observing them. At the same time, the relationship between the initial assessment and the integration plan on the one hand and other client plans on the other is unclear to many public authorities applying the Act on the Promotion of Immigrant Integration.

On the basis of the audit, the ministries responsible for the services should, by applying steering, ensure that the client plans are drawn up and implemented in accordance with the aims laid down in the law. For example, in child welfare client plans are of great importance to all parties. The role of the client plans is highlighted in services where staff turnover is high.

Immigrants are not provided enough advice on how to use services

There is plenty of room for improvement in multi-professional cooperation

The authorities have an obligation to cooperate with each other. The aim of the cooperation is to ensure that services can be organised in a more efficient and flexible manner. From the customer's perspective, cooperation between the authorities can speed up and simplify matters. Cooperation may even be crucial for the availability of a service.

However, the results of a number of audits indicate that there are frequently problems with cooperation. Barriers between administrative branches hamper multi-professional cooperation between authorities at all levels. Common obstacles include territorial thinking, lack of common language, insufficient knowledge of the special expertise of the other party and the broad range of different confidentiality provisions. Workable relations between individuals and cooperation networks seem to support cooperation.

The role of cooperation is highlighted in cross-administrative functions. For example, implementing the youth guarantee at local level requires cooperation between the authorities. Under the Youth Act, the municipalities must have a counselling and service network for young people for the overall planning of multi-sectoral cooperation between local-level authorities and the development of its implementation, in which the youth, education, social and health care services and the labour and police administration are represented. There are, however, shortcomings in the flow of information between the authorities and the cooperation does not function in the manner laid down in the act. Similar conclusions were made in the audit of immigrant integration. The objectives laid down in the Act on the Promotion of Immigrant Integration (1386/2010) for cooperation between the authorities have not become reality. Both the municipalities and TE Offices are of the view that when the first act on immigrant integration was in effect, integration plans were prepared as a joint effort but that because of insufficient resources, there is no longer any regular cooperation.

more than **800** million euros
Annual child welfare expenditure

» Non-functioning of cooperation between child welfare and mental health care has a significant negative impact on the chances of child welfare clients to receive mental health services.

» Better cooperation could prevent exclusion of children and youngsters suffering from mental health problems and reduce costs incurred by society at large.

97,875 children and youngsters
were registered as child welfare
clients in 2012

PROBLEMS AFFECTING THE COOPERATION:

- » Territorial thinking
- » Lack of common language
- » Inadequate knowledge of the other party's special expertise
- » Confidentiality provisions

COOPERATION WILL HELP TO REDUCE OVERLAPPING WORK AND COSTS

From the perspective of central government finances, the aim of the social and health care reform to have seamless service chains between different social and health care services is well-grounded.

Figure 24: Problems with child welfare and cooperation.

Steering of a large number of actors may weaken the service capacity of the public administration

Smoothly functioning steering of public services can promote the organisation of services. The role of steering in the service capacity of public administration was highlighted in a follow-up, which showed that better steering of the actors has had a positive impact on the organisation of housing services for persons with intellectual disabilities.

The steering does not always work as intended. The audits give examples of how the service capacity of the public administration can be significantly weakened if the activities are steered by more than one party that have not coordinated the steering tasks with each other. In the audit of environmental health care it was concluded that the steering of the activities has taken place without adequate coordination between the actors. The number of actors in environmental health care is exceptionally high. The Ministry of Social Affairs and Health, Ministry of Agriculture and Forestry and the Ministry of Employment and the Economy are at the highest level.

At the level of central agencies, the activities are steered by the National Supervisory Authority for Welfare and Health (Valvira), Finnish Food Safety Authority (Evira) and the Finnish Safety and Chemicals Agency (Tukes).

There is no dialogue between the parties responsible for steering

For the coordination of environmental health care, official and unofficial cooperation procedures have been set up between ministries and central agencies. However, none of the ministries involved in the activities can be said to be in charge of the environmental health care as a whole.

The Government should examine the management structures in environmental health care and the need for regional administrative level in the steering of the activities. In practice, the regional administrative authorities have only played a minor steering role for many years, which is a result of the strengthening of the municipal cooperation areas. It was also noted in the audit that in order to make steering more credible, the supervisory obligations provided by central agencies to municipalities and the resources available to the municipalities should be in balance.

The imbalance between the activities and the resources was also highlighted in the audit of immigrant integration according to which the activities that are laid out for organisations in the Government's immigrant integration programme should be proportional to the funding received by the organisations.

The audit of immigrant integration in social and health care also showed that the responsibilities and roles of the Ministry of Social Affairs and Health, Regional State Administrative Agencies and ELY Centres in the steering of social and health care are unclear. There is not enough steering and it does not meet the needs of social and health care. In the view of municipalities, the Ministry of Social Affairs and Health and Regional State Administrative Agencies should provide more explicit guidelines and updated information on the health and well-being of immigrants. Finding out who is entitled to social and health care services and who pays for them gives a great deal of work for social and health care actors.

The steering of immigrant integration is also negatively affected by the fact that there has been little cooperation between the Ministry of Employment and the Economy and the Ministry of Social Affairs and Health in integration matters. One example of the lack of cooperation is the fact that the most important official guidelines have not been prepared jointly by the two ministries, which means that the social and health care perspective is missing from them. In practice, the ELY Centres are the only bodies steering immigrant integration.

Under the Act on the Promotion of Immigrant Integration, Regional State Administrative Agencies should also provide steering in integration at local government level. Their steering role and cooperation with ELY Centres are still in the formative stage. The division of labour between ELY Centres and Regional State Administrative Agencies also needs to be clarified.

A critical approach should be taken to the three-tier structure of public administration

There has been little cooperation between the Ministry of Social Affairs and Health and the Ministry of Employment and the Economy in immigrant integration

The steering problems of social and health care are tackled in the Government's structural policy programme. According to the programme, the problem in social and health care services has been that the state does not have enough steering instruments in relation to the ways in which statutory tasks and obligations are implemented and in which they function. Therefore, one aim of the reform of the social and health care services currently under preparation is to ensure adequate and credible steering.

Adequate and competent staff is a prerequisite for good services

The Government productivity programme has led to a reduction in the number of staff in public services. It was noted in the audit of the preparation and management of the Government production programme (207/2010) that since 2005 the main aim of the programme seems to have been to reduce the number of staff and not to improve productivity. According to the audit, there should be more valid grounds for the levels of the targets concerning the reductions in person-years. In the audit, references were also made to the opinion of the Parliamentary Audit Committee according to which better consideration should be given to the performance and service capacity of the agencies in the implementation of the productivity programme.

The personnel of the TE Offices were reduced by about one fifth between 2006 and 2012. According to the audit of the management of youth unemployment, the reductions have led to a slight lengthening in the periods of unemployment. The reform of TE Services introduced at the start of 2013 also seems to have negatively affected the services provided for the customers. The customers who need personal assistance and support in their efforts to find work are the losers in this process.²⁶

The impacts of the productivity programme on service capacity have not yet been assessed in all administrative branches. The conclusion in the audit of public legal aid was that the personnel of legal aid offices have been reduced by about 50 in the past few years as a result of the productivity programme and the adjustment of appropriations. According to the Ministry of Justice it is, however, still too early to assess the impacts of the productivity programme on the availability of legal aid services.

In addition to the number of staff, the service capacity of the public administration also depends on the competence of the personnel. Audit results suggest that in some public services, the skills of the personnel are in need of improvement. For example in the

The impacts of the productivity programme have not yet been assessed

audit of immigrant integration, the conclusion was that in its steering, the Ministry of Social Affairs and Health should pay attention to staff skills so that the service system would be in a better position to meet the service needs of immigrants. In child welfare there are also wide differences between staff skills and there is also substantial regional variation. Together with limited personnel resources in social welfare, they make it more difficult to achieve child welfare objectives.

It is essential to evaluate the effectiveness of public services

Evaluation of the effectiveness of public services is a prerequisite for ensuring that the increasingly limited resources can be allocated in a productive manner. In order to determine the effectiveness of the services, monitoring data covering long periods is needed and there are still many services for which such information is not yet available. Another problem is that even though information is collected it is not used in the development of the services. For example, the Ministry of Justice should decide how the information produced by the system for evaluating the quality of the public legal aid will be used in the steering and development of public legal aid. Between 2010 and 2012, the annual expenditure of public legal aid totalled between 64 and 68 million euros. Public legal aid offices accounted for about 27 million and the compensations paid to private attorneys for providing public legal aid between 36 and 41 million of this total.

The evaluation of the effectiveness of public sector services is made more difficult by complicated causal relationships. The effects of the services may also only be seen after many years. For example, it was concluded in the audit of the management of youth unemployment that a reliable assessment of the effects of the youth guarantee introduced in 2013 should be carried out when the guarantee is fully operational and enough statistical information on its results is available. On the basis of the evaluations of the social guarantee (introduced in 2005), the social guarantee helped to make the service process for young people in employment offices more effective. Youth unemployment declined and participation in employment measures increased after the introduction of the guarantee. The social guarantee had a particularly positive impact on the situation of those youngsters who in other respects too had good chances of finding work. At the same time, however, the guarantee was less effective in the case of those youngsters who needed more support than young job seekers in general after the introduction of the guarantee.

Cuts in resources make effectiveness evaluations increasingly important

4.4 Quality of legislative drafting

The National Audit Office has assessed legislative drafting in three ministries as part of the audit of their steering systems (12/2013, 9/2014 and 14/2014). The three ministries are the Ministry of Transport and Communications, the Ministry for Foreign Affairs and the Ministry of Finance. The audits showed that there are major differences in the management of legislative drafting between ministries.

In the Ministry of Transport and Communications, the management is closely involved in the drafting process. Legislative projects are discussed in three different management teams and at least the most important of them also go through three drafting stages. The Ministry of Transport and Communications has a public servant who is responsible for the development of legislative drafting. The ministry's controller also helps to ensure the quality of the drafting process.

In the Ministry for Foreign Affairs, the Legal Service, or more specifically its Unit for EU and Treaty Law, drafts legislation and also acts as the ministry's general support and quality assurance unit in the drafting process. If it is question of an extensive drafting project, the unit's representative may serve as a member of the ministry-internal drafting group. In smaller drafting projects, the unit checks whether the proposal has been drafted in accordance with the guidelines for preparing treaties.

At the same time, legislative steering at the Ministry of Finance is characterised by independence of the departments and units and a low degree of coordination in the drafting process between departments and units. The management does not monitor legislative drafting in a systematic manner. In the audit of steering systems, it was difficult to get an overall picture of the drafting process and its development in the Ministry of Finance. It is also recommended in the audit of the preparation of indirect taxation (4/2014) that there should be more cooperation between departments of the Ministry of Finance.

The audits also show that in different ministries, legislative drafting processes contain features that are the result of such factors as regulatory differences between administrative branches.

The Ministry of Finance is the most important law-drafting ministry, both in terms of the number of laws and their economic importance. A relatively large proportion of the legislation drafted by the Ministry of Finance is based on national needs. This is because the Ministry of Finance drafts Government proposals that

There is no uniform approach to legislative management in the Government

There are many structures in the Ministry of Transport and Communications that support the process of legislative drafting

There should be more cooperation between the individual departments of the Ministry of Finance

Legislative drafting processes of individual administrative branches have their own distinctive characteristics

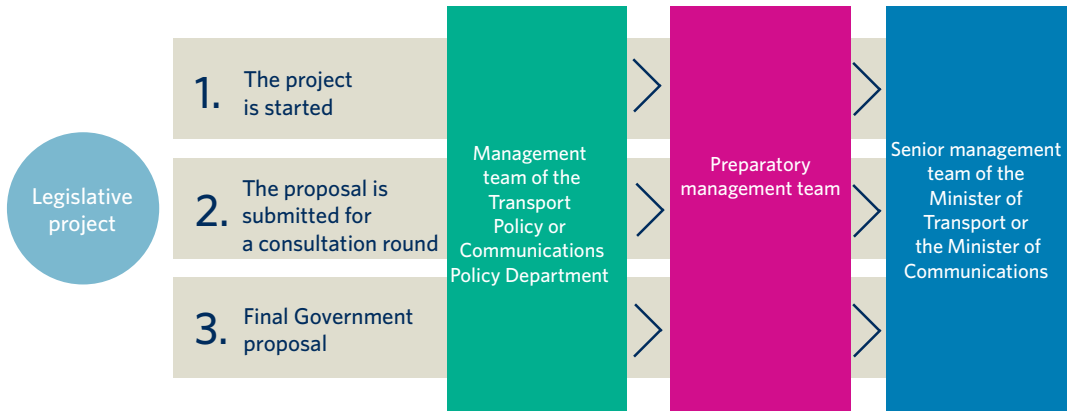


Figure 25: An example of how a ministry's management team processes a legislative project. Ministry of Transport and Communications

concern changes in taxation, local government, regional administration and administration in general.

In the Ministry of Transport and Communications, a large proportion of the legislative proposals are based on EU legislation.

At the same time, the legislative proposals drafted in the Ministry for Foreign Affairs are nearly always based on international treaties and conventions. The second special feature of the Ministry for Foreign Affairs is that its public servants change tasks on a regular basis. This makes it more difficult to accumulate experience on legislative drafting. The Legal Service mainly employs public servants on a permanent basis.

On the basis of the audit results, conclusions can be made of how the legislative management process should function in the unified Government. At least the following principles are considered important:

- Drafting of legislation is identified as one of the core tasks of the Government.
- Political leadership is committed to the principles of good legislative drafting and follows the progress of the legislative projects.
- A quality assurance system exists for the drafting process.
- Public servants responsible for legislative drafting in different units are capable of seamless cooperation, if necessary.
- There is a clear division of roles between public servants involved in the drafting process who are liable for their acts in office and political decision-makers.

Legislative drafting should be genuinely identified as one of the core tasks of the Government

The code of conduct approved by the Government in its cabinet evening session in May 2014 will clarify the last-mentioned prin-

ciple, the division of roles between the public servants responsible for the drafting process and political decision-makers. Under the code of conduct, state secretaries should not act as presenting officers and it is also emphasised in the document that state secretaries are not in a supervisory position vis-à-vis the public servants responsible for the drafting process.

The evaluation of the effectiveness of the laws should be supervised

A number of audits contain critical observations of the manner in which the effectiveness of laws is evaluated. The National Audit Office has on several occasions recommended that the Government should establish a unit supervising the quality of the effectiveness evaluations.

In September 2013, the Ministry of Employment and the Economy started an important trial project in which it has assessed the impact of Government proposals on enterprises. So far, the ministry has given slightly more than 50 opinions to different ministries. The trial project is to continue until the end of the government term. In its audit of the preparation of indirect taxation, the National Audit Office concluded that especially the assessments of corporate impacts should be improved.

The establishment of an effectiveness evaluation board and unit that would assess effectiveness evaluation and the appropriateness of regulatory proposals from the perspective of the achievement of policy goals has been discussed in the Government steering system project, which is part of the central government reform project.

Stimulus measures require speedy preparation, which, however, also involves risks

Economic growth has been slow in recent years. A broad range of different measures have been taken to boost economic growth and employment. In legislative drafting this has manifested itself as the introduction of different types of state aid and tax cuts. Many of these legislative changes have had major economic impacts.

When there are measures that are hoped to stimulate the national economy or quickly boost economic growth and employment rates, those preparing the measures rarely have enough time to consider their impacts. At the same time, the measures must be prepared quickly because it is extremely important to time the stimulation correctly (during a downturn). The principles governing good legislative drafting may not prevent effective economic stimulus.

There is still room for improvement in the manner in which the effectiveness of legislation is evaluated

Economic inputs in stimulus are often substantial

It is, however, important to understand that a quick preparation of stimulus measures involves risks. Quick preparation may leave the knowledge base of the preparation process insufficient, which in turn increases the risk for wrong decisions. The risk is made higher by the fact that the costs of stimulus measures are usually high.

A good example of the problems involving stimulus is the cyclical renovation grant scheme under which a total of 260 million euros were paid in grants. The grant scheme was used for supporting housing renovations between 2009 and 2011. The aim was to stimulate construction and boost employment in the construction sector. The audit conducted by the National Audit Office on the subject (6/2014) showed that the introduction of the grant system in question was prepared extremely quickly under the close steering of the Minister of Housing. It was not possible to fully adhere to the principles of good legislative drafting. Quick preparation was essential because the aim of the legislative amendment was to improve the employment situation in the construction sector during a downturn.

The audit shows, however, that the renovation grant scheme was problematic in many ways. If there had been more time for discretion in the drafting process the grant system may not have become reality. As there had been little spare production capacity in renovation before the introduction of the grant scheme, the scheme led to higher renovation prices. The renovation grant scheme was partially justified by arguing that workforce would move from new construction to renovation. However, as the skills requirements for the two sectors are different, the workforce in new construction will not easily move to renovation. Another problem was that the sum provided as renovation grants was twice as high as originally envisaged because the aim was to provide grants to all those who had applied for them. The decision on the extension of the grant scheme should primarily have been based on the need for additional stimulus.

It would be important to conduct an ex-post assessment of the impacts and cost-effectiveness of the stimulus measures. In that case there would be more information about stimulus instruments if it becomes necessary to resort to them in the future. Many of the audits conducted by the National Audit Office show that ministries do not monitor the actual effects of the laws in a systematic fashion. We recommend that the ministries should themselves conduct or commission from external actors follow-ups to all important legal reforms.

In the last few years, the shift has increasingly been from stimulus to the correction of the structural economic problems. More

The impacts of stimulus should be assessed

time can be spent on the preparation of structural reforms. However, it is not always clear whether it is a question of a stimulus measure that aims to achieve temporary acceleration of economic growth in the short term or whether it is a question of a structural reform that aims to achieve more rapid economic growth in the long term on a permanent basis.

The Government has implemented most of the resolutions approved by Parliament

The National Audit Office has conducted an audit, determining whether the Government has implemented the measures called for by Parliament in its resolutions. The result of audit was mainly positive. The Government had submitted the reports requested by Parliament within the specified time and drafted the legislation that Parliament had requested. The audit covered all 193 resolutions approved by Parliament during the 2007–2010 parliamentary term.

By approving a resolution, Parliament issues a call for the Government to take measures. The measure may concern the preparation of a report, drafting of legislation or granting of funds for a purpose. Parliament approves the resolutions in connection with the adoption of legislative proposals.

It was found out in the audit that the views concerning the effectiveness of the resolution procedure depend on what is deemed to be the purpose of the procedure. The resolution procedure can also be considered as a tool enabling Parliament to steer the Government or an instrument for Members of Parliament to convey a political message. It was not assessed in the audit whether the Government had fully implemented the resolutions in accordance with their spirit.

The audit highlighted ways of improving the resolution procedure which has been in use for many decades.

- Reducing the number of resolutions would make individual resolutions more effective.
- The resolution procedure should be more interactive. At the moment, it is almost entirely based on written documents.
- There should be enough time for follow-ups so that their effects could be seen in society at large.

Reducing the number of resolutions would make individual resolutions more effective

- The annual reporting on the resolutions should be streamlined.
- If would be possible to limit the validity of the resolutions so that they would only be in effect for one parliamentary term or five years.

The recommendation adopted by the Speaker's Council in October 2013 also lends support to the efforts to limit the validity of the resolutions. At the moment, about one half of the resolutions remain in effect six years after their adoption and the oldest resolution that is still in effect is from 1992.

4.5 Management of economic stimulus measures

The long-term impacts of economic stimulus should be considered in the preparation of policy measures.

In situations involving economic stimulus the long-term impacts of the choices should also be made clear. It is also important to direct the stimulus at markets where the stimulus measures do not cause unnecessarily negative effects. This requires that a sufficient knowledge base is available when stimulus measures are prepared.

Efforts to stimulate the national economy often involve choices. Sectors are usually given longer-term strategic targets. At the same time, in situations involving economic stimulus, the aim is to influence the employment and economic situation in the short term by introducing measures that have quick impact. In fact, economic stimulus may lead to a situation where it is in conflict with long-term aims and it may also generate non-monetary costs. The Government should also assess the longer-term effects of the stimulus instruments. The benefits and costs of the stimulus instruments should also be clearly presented so that Parliament could assess the appropriateness of economic stimulus.

It was noted in the performance audit covering the cyclical renovation grant scheme (6/2014) that the renovation grant scheme for housing corporations introduced with the aim of stimulating the construction sector was not in line with the longer-term strategic aims of renovation construction. The measures taken by the state did not support systematic or long-term property development as, according to the audit findings, the cyclical renovation grant scheme mainly prompted housing corporations to speed up their renovation projects and to act on a short-term basis. At the same time, however, it was also noted in the audit that the grant scheme forced housing companies to speed up their decision-making processes, which are usually quite slow. Many housing companies were able to start renovation projects that they not managed to start by then.

The renovation strategy for 2007–2017 prepared by the Ministry of the Environment lays out the systematic, long-term and strategic maintenance of Finland's building stock as the vision for renovation construction. There is a great need for systematic development of property maintenance: at the moment renovation accounts for about six per cent of Finland's gross domestic product,

The cyclical grant scheme was not in line with the long-term renovation strategy

which is one of highest figures in Europe. In fact, experts have estimated that the percentage cannot be raised any further and that there should be more focus on the prioritisation and systematic nature of the renovations.²⁷

When stimulus is planned, the markets to be stimulated should be carefully analysed. The aim should be to ensure that the state does not take any measures that would unnecessarily interfere with the markets. The effectiveness of economic stimulus is based on the fact that competition in the stimulated markets functions properly and that there is workforce available that can meet the higher demand arising from the stimulus. In such a situation, stimulus does not have any impact on commodity prices.

According to the audit of the cyclical grant scheme, the decision to direct stimulus at renovations in housing companies was, however, based on a considerable reduction in the volume of new construction and not on a reduction in renovation volumes. It can also be seen on the long run that renovation volumes are not as dependent on economic cycles as new construction.

The fact that stimulus was also directed at renovation was based on an assumption that operators and workers could move from new construction to renovation. However, on the basis of the audit findings, the markets for new construction and renovation seem to be quite different. In the short term, there is no smooth movement of the workforce from new construction to renovation. Moreover, the demand for renovation was already quite high before the introduction of the cyclical grant scheme.²⁸ During the cyclical grant scheme, there were signs that the demand for renovation design and construction services in the renovation markets exceeds the supply. This in turn meant that to some extent, the cyclical grant scheme helped to increase renovation contract prices.

Effectiveness losses arising from stimulus measures should be minimised

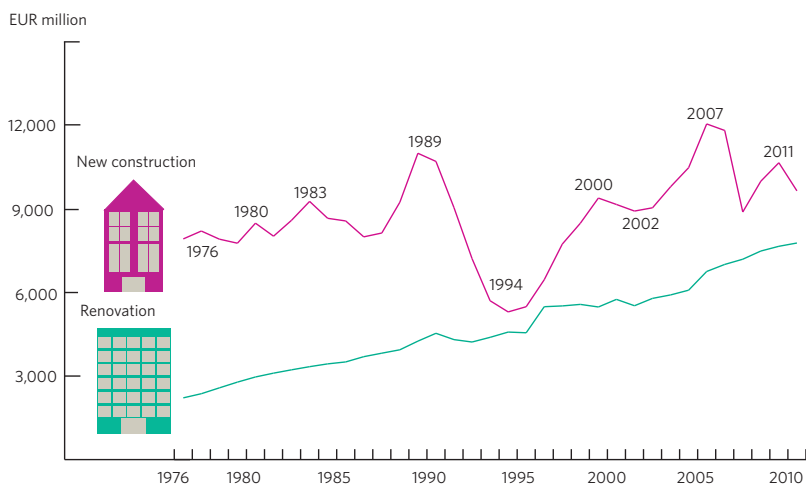


Figure 26: Total output of new construction and renovation in 2000 prices. The chart is only indicative because renovation statistics are incomplete.²⁷

5 State of central government finances and administration

For the 2013 budget year, the National Audit Office submitted a total of 67 financial audit reports on the basis of the audits of accounting offices.

5.1 There were shortcomings in the adherence to the state budget and the key budget provisions

The financial audits for the 2013 budget year revealed improper procedures in 11 accounting offices that on their own or together with other improper procedures were considered contrary to the budget or key budget provisions in such a way that a qualified opinion on regularity on them was included in the financial audit report. In 2012, a qualified opinion on regularity was included in the financial audit reports of 16 accounting offices.

The number of qualified opinions on regularity issued in 2013 decreased by five, compared with 2012. As the cautions concerned a broad range of different issues, they totalled about 30. Several qualified opinions on regularity were included in the financial audit reports of the Centre for Economic Development, Transport and the Environment for South Savo and the Finnish Defence Forces. In other accounting offices the qualified opinions on regularity mainly concerned specific issues.

The main reasons for the qualified opinions on regularity concerned the use of appropriations or authorisations that was contrary to the budget. These resulted in a total of 23 cautions in the financial audit reports on eight accounting offices. The cautions of this group concerned the use of an appropriation or authorisation that was contrary to the budget, allocation of expenditure in a manner that was contrary to the budget, carrying over of an appropriation or authorisation in violation of section 7 of the State Budget Act, entering revenue on a gross-budgeted expenditure item in violation of section 3 a of the State Budget Act and actual exceeding of an authorisation. Based on the results of the audits, the National Audit Office thus draws attention to the procedures that are contrary to the state budget and in violation of the key provisions concerning it and that are also in contravention of the pro-

A total of 11 accounting offices received qualified opinions on regularity

A total of about 30 cautions were issued

Compliance with the budget should be an important consideration

visions on central government finances laid down in the Constitution of Finland.

Shortcomings in the organisation of performance accounting and the presenting of information on operational efficiency led to cautions in the financial audit reports on four accounting offices. Organisation of performance accounting is a key prerequisite to presenting information on operational performance in the final accounts. In overall terms, there has been a slight improvement in the situation from the previous year.

Qualified opinions on regularity usually concern sectors of economic management or specific procedures. Thus, one should not conclude from the qualified opinions on regularity that one sixth of the central government finances fails to meet the regularity requirement laid down for them. Furthermore, a qualified opinion on regularity does not mean that it would be based on a misuse of central government funds. When the importance of qualified opinions on regularity is assessed, consideration should also be given to the different sizes of the agencies' budgets. However, a qualified opinion on regularity should always be considered a serious matter in respect of the economic management of the agency and the purpose of the financial audits is to report on procedures that involve a deviation from proper budget practices.

The conclusion based on the results of the financial audits of the accounting offices is that continuous attention should be paid to the organisation of internal control, as laid down in section 24 b of the State Budget Act, and the principles of good governance. According to the audit conclusions, a workable, efficient and economically efficient internal control also requires a clear division of responsibility between the shared service centres and their customer flows in matters concerning internal control. For this reason, there should be continuous attention on the division of responsibility in internal control.

Performance accounting is reasonably well-managed

A qualified opinion on regularity is a serious matter but it does not mean that funds have been misused

Workable and efficient internal control arrangements should be an important consideration

5.2 Obligation to report on the measures concerning the cautions contained in the audit reports

Under section 5(1) of the Act on the National Audit Office, the auditee and the ministry under whose administrative branch the auditee operates, must notify the National Audit Office of the measures that have been taken on the basis of the cautions contained in the audit report.

The financial audit report specifies the cautions that require the above-mentioned reports and the deadline for submitting them. The adequacy of the measures is audited in connection with the next audit. Even though qualified opinions on regularity are usually also matters requiring a report, the obligation may also be imposed as a result of cautions that have not resulted in a qualified opinion on regularity.

Reporting obligation is based on the Act on the National Audit Office

Financial audit reports in 2013

Reporting obligations
2011 2012 2013

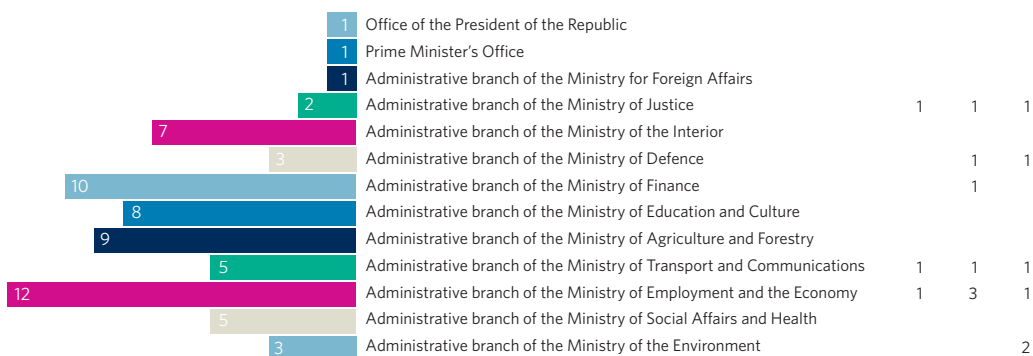


Figure 28: Cautions concerning final accounts in figures

Even though qualified opinions on regularity were included in 11 financial audit reports, the accounting offices were only issued with six reporting obligations. Not all of the matters concerning qualified opinions on regularity involve measures on which the parties concerned should be obligated to submit reports to the National Audit Office.

Shortcomings in the organisation of performance accounting

and the presenting of information on operational efficiency led to a reporting procedure in three financial audit reports (compared with four in 2012 and three in 2011). Shortcomings concerning accounting and the monitoring of authorisations led to the imposition of a reporting obligation on two accounting offices and shortcomings in internal control procedures on one accounting office. The effectiveness of the reporting obligations contained in the previous year's financial audit reports were examined in the 2013 financial audits. In the 2012 financial audit reports the reporting obligation was imposed on seven accounting offices. In four of them, the reporting obligations were renewed in full or in part in 2013 (in 2011 and 2012, the obligation of three accounting offices was renewed).

5.3 Budget procedures

One financial audit report contained a caution concerning budget procedures in 2013. The caution concerned the clarification of the allocation of expenditure. In 2012, the caution concerning budget procedures was issued in connection with five financial audit reports.

One caution was issued concerning budget procedures

5.4 Final accounts of accounting offices

Under section 21 of the State Budget Act, the final accounts and reports on operations prepared in order to implement accountability must contain true and fair information on compliance with the budget and the revenue and expenditure and financial position of the agencies. The requirement only applies to the agencies that operate as accounting offices under the decision of the Ministry of Finance.

A total of 11 financial audit reports contained cautions on final accounts and notes to them.

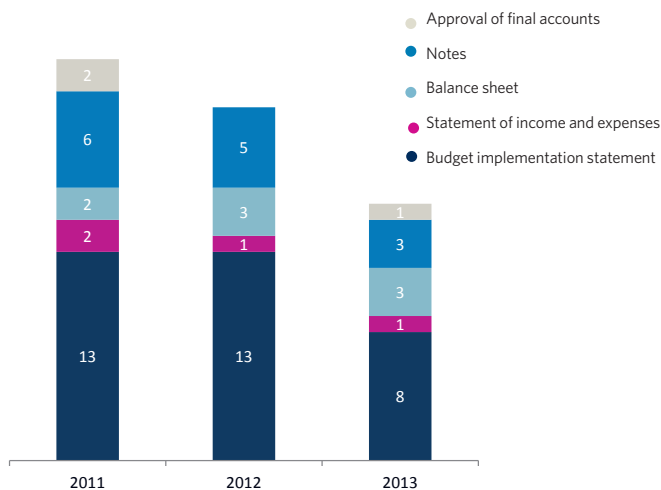


Figure 29: Cautions concerning final accounts in figures

The budget implementation statement contains the information on budget revenue and expenditure and the information on authorisations and their use. The cautions in this group concerned the use of appropriations that was contrary to the budget, entry of expenditure on a gross-budgeted expenditure item and allocation of expenditure in a manner that was contrary to the budget so that it resulted in a carrying over of the appropriation. More than 20 such cautions were issued.

In 2013, authorisations were used by a total of 25 accounting offices. Three accounting offices were cautioned about the presentation of authorisation information or the use of authorisations. The main reasons were shortcomings in the carrying over of the

Accounting offices prepare final accounts

A total of eight accounting offices received cautions concerning the budget implementation statement

Monitoring of authorisations is part of the monitoring of the implementation of the budget

authorisations and the organisation of the monitoring of authorisations. One financial audit report contained a caution concerning the exceeding of an authorisation, while a caution concerning the carrying over of an authorisation was included in two financial audit reports.

One accounting office was cautioned about its revenue and expenditure statement, while three accounting offices were cautioned about their balance sheets. The cautions concerning balance sheets were issued in connection with the appreciation of assets and the way in which it is presented in the balance sheet.

Three accounting offices were cautioned about shortcomings in the notes to the final accounts. In the financial audits, particular attention was drawn to such notes that significantly supplement the information presented in the final accounts. The most important of them are the details on state securities and guarantees and other liabilities. In order to ensure true and fair information, the principles governing the preparation of the notes and the manner in which liabilities are presented in the final accounts should be clarified and harmonised.

The details of liabilities are the most important notes to the final accounts

5.5 Internal control and risk management

In the financial audits conducted by the National Audit Office, internal control has been assessed as part of a risk analysis and audited in connection with the auditing of accounts, monitoring of authorisations and performance accounting and separately in connection with certain other audits. These have included the ICT audits conducted as part of the financial audits, and separate compliance audits. In its performance audits, the National Audit Office has assessed the risks connected with administrative steering systems and operational chains and their management and internal control, particularly from the perspective of their societal impacts and performance of the activities and the provision of a true and fair picture of the economy and operations. The shortcomings noted in steering, operating and reporting systems are also shortcomings in internal control and risk management at Government level and in the administrative branches of individual ministries.

Asset transfers and use of assets in the European Union are also covered by the financial audits. In the audits, attention has been drawn to the accuracy of the accounts, the legality of the activities, operational steering and particularly on different issues concerning asset management and the organisation of internal control. The audit positions have been reported to the accounting offices that the audits concern or that are responsible for rectifying the shortcomings.

Summaries of internal control based on financial audits

When the proportion of the accounting offices issued with cautions concerning internal control as part of their final accounts is examined there seems to have been a slight increase in the number of accounting offices where material shortcomings requiring measures were found.

The proportion of accounting offices with no material shortcomings in the arrangements of internal accounting control constituted 85 per cent of all accounting offices (in 2012, 86% and in 2011, 78% of all accounting offices). However, a total of 12 per cent of all accounting offices were found to have material shortcomings in internal accounting control arrangements requiring action by the accounting office (in 2012, 9 % and in 2011, 13 % of all accounting offices).

Internal control ensures that the principles of good governance are observed in central government finances

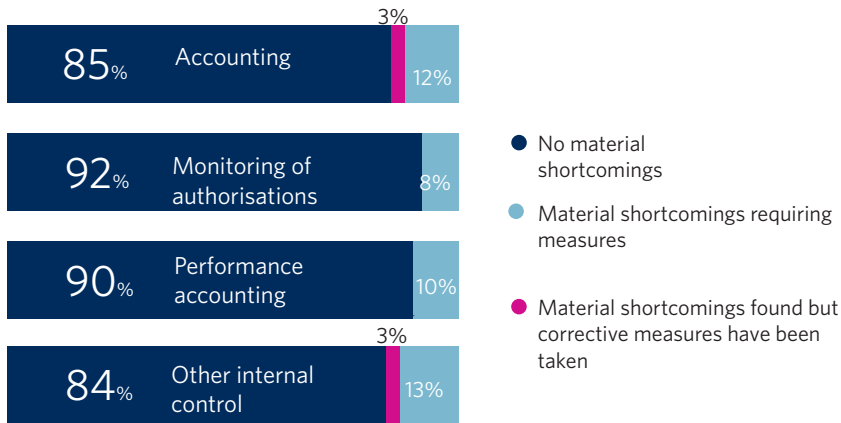


Figure 30: Internal control in 2013 in figures

Authorisations were used by a total of 25 accounting offices. Eight per cent of them were found to have material shortcomings in the monitoring of authorisations warranting caution that would require measures by the accounting offices (in 2012 and 2011, the figures were 22% and 17%, respectively). When assessed in this manner, the situation concerning the monitoring of authorisations has improved from previous years.

The key provisions on performance accounting are laid down in section 16 of the State Budget Act. Further provisions on the matter are contained in the State Budget Decree under which accounting and performance accounting must be arranged so that they produce the essential information required for the external steering of the agency and the information required for final accounts and the review of operations.

Regarding performance accounting, it seems that from the perspective of internal control the situation is more or less unchanged from the previous years. Financial audits revealed material shortcomings on the basis of which corrective action is required in financial audit reports in 10 per cent of all accounting offices (in 2012 and 2011, the figures were 16% and 17%, respectively). Shortcomings in accounting are usually also the reason for the shortcomings concerning the trueness and fairness of the manner in which information on economic efficiency, productivity, profitability of chargeable services and cost-effectiveness of jointly funded services is presented in the reviews of operations.

The financial rules laid down in the State Budget Decree are a key instrument in the organisation of internal control in accounting offices. In the 2013 financial audits, a total of 93 per cent of all accounting offices were found to have proper financial rules (in 2012 and 2011, the figures were 94% and 88%, respectively).

There have been improvements in the monitoring of authorisations and performance accounting

Most accounting offices have proper financial rules

Under the State Budget Decree, the review of operations must provide an assessment of the proper state and adequacy of the internal control and the risk management carried out as part of it and a statement based on the assessment detailing the state of internal control and the key priorities. No cautions concerning the statement have been included in financial audit reports in recent years. The audit findings reveal that there are still differences between agencies concerning the procedures. In addition to the development priorities, the agencies should also issue explicit statements on the state of internal control. The statements should highlight the responsibility of the management in the area of internal control. The statements and their background memoranda should also in the future draw attention to the continuity of statements issued in different years.

Internal audit

Under the State Budget Decree, the management of an agency must arrange internal auditing if there are special grounds for it as a result of the internal control procedures required under sections 69 and 69 a of the same decree. The purpose of internal auditing is to ascertain to the management that proper and adequate internal control procedures are in place and to carry out the auditing tasks laid down by the management. In internal auditing, consideration must be given to the general standards and recommendations applying to it. The orders concerning the internal auditing procedures and the role of internal auditing in the organisation are given in the standing orders for internal auditing.

The results of the 2013 financial audits show that internal auditing was provided in 49 accounting offices or in 73 per cent of all accounting offices (in 2012, in 72% and in 2011 in 67% of all accounting offices).

When assessed on the basis of the person-years allocated to the purpose, the volume of internal auditing seems to have remained unchanged from the year 2012. A total of about 92 person-years was allocated to internal auditing in 2013 (For 2012 and 2011, the figures were 93 and 90 person-years, respectively). The proportion of outsourced services has remained largely unchanged (11 person-years in 2012 and 2013 and 10 person-years in 2011). A total of 43 of the accounting offices with internal auditing also made use of their own personnel inputs in the work. In 24 of them, the internal auditing input involving the agencies' own personnel was a maximum of one person-year (for 2012 and 2011, the figures were 18 and 17 accounting offices, respectively).

The way in which internal audit is organised in an accounting office is at the discretion of the management

A total of 44 accounting offices were deemed to have proper standing orders for internal auditing, which was 90 per cent of all those accounting offices in which internal audits are conducted (In 2012, the same applied to 91% and in 2011 to 98% of all accounting offices).

System audits

The main purpose of the supplementary system audits that are conducted as part of the financial audits is to ensure that the key internal control procedures, other controls and information security arrangements connected with the systems and their operating environments are properly organised and that the integrity of the data processed in the systems can be safeguarded. In information security audits, the focus is on administrative, operational and document security. In system audits, the focus was on financial and personnel administration systems and systems generating information for them and the arrangements connected with their operating environments. In the 2013, the focus was on the audit of the new shared financial and personnel administration system (Kieku system).

System audits are an important part of financial audits

A total of 14 system audits were conducted by the National Audit Office and five of them were follow-ups to previous year's audits.

System audits were conducted in three ministries, seven agencies and the Finnish Government Shared Services Centre for Finance and HR. One system audit was conducted as part of the compliance audit of energy subsidies. One of the system audits carried out in the agencies was conducted in connection with the tax revenue compliance audit, which was carried out as part of the financial audit of the Finnish Tax Administration. Two system audits were conducted in the agencies using the Kieku system. There were also two system audits in connection with the introduction of the Kieku system and two follow-up audits.

The most important matters covered by the audits were controls relating to the use and the administration of the use of systems, access rights, authorisations and administration of authorisations, division of labour concerning the use, documentation of the procedures used and other internal control procedures. Arrangements and documentation concerning information security and ICT functions and the organisation of ICT functions were

There have been several audits of the Kieku system and the manner in which it has been introduced

also audited. In the audit of the introduction of the Kieku system, the focus was on the introduction process at project-level and the level of accounting offices, particularly the planning, implementation, documentation and guidelines of the introduction.

In the audits of the Kieku system, the main development priorities concerned the manner in which the system can be supervised, and its usability and functions and documentation. It was found out in the audits of the introduction of the Kieku system that there are shortcomings in the guidelines concerning project level and the level of accounting offices and in the planning of the introduction. It was also found out that improvements are needed in the way in which the information security concerning Kieku can be supervised, in documentation and in system usability.

It was noted in the follow-up audits that corrective measures had been taken but that the measures had not yet been fully implemented. The audit results are discussed in connection with financial audits.

Tax revenue

As part of the 2013 financial audit of the Finnish Tax Administration, the National Audit Office conducted a separate internal control audit of the income taxation process of the customers of the Individual Taxation Unit. The audit was conducted on the income taxation of the tax year 2012.

The audit has also included an audit of the client registration and annual control processes and an audit of tax withholding and the tax prepayment processes. The aim was to ensure that the internal control of the income taxation process is properly organised. The audit of the tax withholding and tax prepayment processes concerned the procedures of the tax year 2013.

The aim of the audit was to ensure that the performing and organisation of the tasks are in accordance with the law, other lower-level regulations and the guidelines and orders issued and that the internal control of the income taxation process is properly organised. The main aim of the properly organised internal control is to manage the risks of errors and misuse in connection with income taxation that may widen the tax gap should they become reality. The aim of the audit was also to ensure that the principles governing the steering of the income taxation process and the internal control procedures are organised so that they support adherence to legislation and harmonised and fair taxation practices and procedures with respect to taxpayers.

The internal control of the income tax process was audited as part of the financial audit

The audits included a separate system audit of the Individual Taxation Unit and the Corporate Taxation Unit. The system audit covered the information systems and general information security matters pertaining to the income taxation processes of individual and corporate customers. The aim of the system audit was to ensure that specific aspects of the procedures that help to safeguard the availability, correctness, integrity and confidentiality of the information needed in taxation and the processing of tax revenue are adequate and properly organised.

The audit of the income taxation process revealed shortcomings in internal control arrangements as a result of which the Finnish Tax Administration should take measures. In most respects, the internal control of the tax withholding and tax prepayment processes is, however, properly organised.

From the perspective of internal control and proper state and adequacy of risk management, the main requirement is that internal control procedures make it reasonably easy to identify the errors and negligence concerning tax returns that require measures by taxpayers or the Finnish Tax Administration aimed at ensuring compliance with the law. The large number of customers and limited resources of the Finnish Tax Administration, and complex information systems and tax legislation pose challenges to the identification of tax risks and the effective organisation of internal control.

The Finnish Tax Administration has started an extensive updating of the taxation processes and information systems. Improvements in the effectiveness of internal control should mainly be by automating taxation process functions and the internal control procedures included in them that would improve the real-time nature of taxation and tax control and ensure adherence to legislation. When information systems are developed, the Finnish Tax Administration should make better use of the information contained in its applications and registers in customer risk assessment processes. The Finnish Tax Administration has determined that improvements can be achieved in quality control procedures of the taxation processes.

The development of tax legislation should allow the effective organisation of the functions and internal control of taxation processes so that the tax gap can be narrowed, high level of tax ethics maintained and effectiveness of tax control ensured. This would reduce the risk of internal control in the control process and allow the Finnish Tax Administration to direct tax control more extensively at essential issues where there is room for interpretation. Simplification and streamlining of the tax legislation would also reduce the quality management risks connected with taxation processes.

Workable internal control should be a major consideration in the information system upgrading project

Internal control of the taxation process can be made more effective by introducing legislative improvements

Procurement

A follow-up to the 2010 compliance audit on the implementation of the joint procurement obligation was conducted as part of the 2013 financial audit.

The follow-up concerned the measures that the Ministry of Finance had taken after the compliance audit report (23.11.2011 52/259/2010). In its follow-up, the National Audit Office examined how the ministry had steered centralised government procurement and supervised adherence to the joint procurement obligation since the issuing of the compliance audit report.

There have been few changes in the state of affairs since the issuing of the compliance audit report. Government's annual reports for 2009, 2010, 2011 and 2012 all report on central government procurement in the same manner. The volume of joint procurement is included in the overall sales volumes of Hansel Ltd. Adherence to the joint procurement obligation is not reported in the annual reports. There is some information on joint central government procurement in the Government's annual report for 2013. According to the view based on the follow-up, the ministry's decisions concerning the list of the products coming under the joint procurement obligation are up to date.

One of the development recommendations contained in the report commissioned by the State Procurement Advisory Board that the role of the Ministry of Finance in the steering of the central government procurement should be strengthened and that instead of relying on recommendations, the steering of the procurement should perhaps be on a more obligatory basis. If the steering role of the Ministry of Finance is strengthened by legislative means, the responsibility for monitoring the implementation of section 22 a of the State Budget act should also be taken into account. In the view of the National Audit Office, the ministry already has the competence and the obligation to steer and monitor the implementation of and adherence to the joint procurement obligation.

5.6 State of the administration and supervision of EU funds in Finland in 2013

The transfer, administration and supervision of EU funds are audited in accordance with the principle of equal protection as part of the performance audits, financial audits and compliance audits conducted by the National Audit Office.

The audits are performed in accordance with the same principles and procedures as the audits of national funds.

As the National Audit Office does not conduct the audits as statistical monetary unit sampling, the total monetary error cannot be estimated on the basis of the audits.

In the financial audits conducted by the National Audit Office, attention is on the accuracy of the accounts, the legality of the activities, proper state of operational steering and, particularly, on issues concerning asset management and the organisation of internal control. In the financial audits, the focus is on the analytical auditing of the internal control laid down in the budget legislation. In some cases, the audits have also included testing of specific aspects of key controls. The performance audits conducted by the National Audit Office focus on the effectiveness of the measures wholly or partially financed through EU funding.

In the 2013 budget year, the audits of the transfer of European Union funds dealt with project and business subsidies part-financed by the European Agricultural Fund for Rural Development in the ELY Centre for Central Finland, in a local action group and in the Agency for Rural Affairs.

As in 2012, it was pointed out in the audit that the system under which local action groups receive advance payments from municipalities should be based on more explicit legal provisions or lower-level provisions based on the law. It transpired in the audit covering the budget year that municipalities located in the area of an action group have been able to provide projects financed through the action group with temporary funding, which in some cases has been equal to the public financing available for the projects. If the intention of the legislator has been that temporary funding provided by a municipality is not considered public financing, this should already be clear from the Act on Support for Rural Development or from the documents produced during the drafting of the act. The auditors have also drawn attention to the fact that under section 21 of the Act on Support for Rural Development (1443/2006), the

The principle of equal protection guides the audit of EU funds

Proper internal control was a priority in financial audits

Practices governing the advance payments for projects that are co-financed by the European Agricultural Fund for Rural Development should be clarified

applicant must possess sufficient economic prerequisites to carry out the project. If the applicant is able to meet this requirement, it is questionable whether it needs temporary public funding that is equal to the public financing contribution.

As in 2012, it was again concluded that the system for administering rural development project subsidies contains a risk that after the recovery carried out by the ELY Centre the project can still receive large amounts of public financing (such as funding provided by the municipality). This is because central government authorities do not have the competence to recover funds provided by municipalities and because ELY Centres do not monitor recovery processes involving other types of public financing.

It was noted in the audit that there are substantial differences between ELY Centres in the amounts of advance payments for rural development paid from state funds. According to the audit, this may suggest that ELY Centres apply different guidelines to the payments. From the perspective of equal treatment of the beneficiaries, there are grounds for applying more uniform practices.

It was also noted that the practice concerning the eligibility of the general government actors for VAT refunds in the European Agricultural Fund for Rural Development was changed during 2013 as a result of the audits conducted by the European Court of Auditors and the European Commission.

The audit concerning the European Social Fund covered the role of Finnvera plc, a state-owned specialised financing company, as a body distributing structural funding provided by the European Union and the state. The importance of the definition of the concept of unpaid voluntary work and any guidelines by the Ministry of Employment and the Economy in the matter were also examined.

It transpired in the audit that the role of Finnvera plc in the administration of structural funding is in many respects different from the manner in which other bodies distributing EU funds, such as central government accounting offices, operate. The competence of Finnvera to grant EU funding for venture capital investments on the basis of national provisions is laid down on the Act on Credits and Guarantees provided by the State-Owned Specialist Financing Company (445/1998) and the amendments to it. However, there are no references to the special character of the financing arrangements as part of EU funding in the national provisions and guidelines concerning structural funds. This makes it more difficult to get an overview of the structural funding administered by Finnvera. However, an agreement on the general procedures concerning the structural funding distributed by Finnvera has been concluded with competent EU authorities. It was noted

In projects financed by the European Social Fund, the audits covered the role of Finnvera plc as the body distributing the financing

in the audit that the description of Finnvera's administration and supervision system is outdated. The audit contains recommendations concerning such issues as the information content of the auditors' opinions appended to Finnvera's payment applications, matching of information contained in different information systems, and on-the-spot checks.

When the concept of unpaid voluntary work was examined, it transpired that the Ministry of Employment and the Economy has not issued any guidelines on the concept of unpaid voluntary work in structural fund projects. The ministry has not issued any opinions on whether such costs arising from unpaid voluntary work as travel expenditure and meal costs can be considered eligible for aid. It was therefore recommended in the audit that the ministry should issue a uniform interpretation of the eligibility of costs arising from unpaid voluntary work, especially if the intention is to issue guidelines concerning the eligibility of unpaid voluntary work that are stricter than the EU requirements.

Regarding the European Regional Development Fund, the audit covering the transfers of EU funds and their internal control focused on the ELY Centre for Lapland and the ELY Centre for North Ostrobothnia.

It transpired in the audit of the financing provided by the European Regional Development Fund that there were shortcomings in the verification of the eligibility of the expenditure, which concern the checking of the applicants' right to sign for a project and the recording of working hours in the projects. There were also shortcomings in the documentation of the eligibility of the travel costs and attendance fees of the steering group and a number of purchases. It was concluded in the audit that ELY Centres should react to changes between cost categories early enough and decide on changes to funding in order to ensure that actual project costs and the costs approved for the project do not differ from the content of the cost categories laid out in the funding decision. Concerning adherence to the reporting instructions and the eligibility of the advertising costs, it was stated that the eligibility of the advertising costs must already be checked in connection with the payment controls before the grants are paid. Otherwise, the audit revealed that the eligibility of the costs had been properly ensured and documented using accounting printouts and other documents in connection with the payment batches. It was recommended that the descriptions of the ELY Centres' administration and control systems should be supplemented by entering in the descriptions the monitoring and supervision of the durability of operations and the project selection criteria, as laid down in the guideline of the ad-

In the audits of the financing granted by the European Regional Development Fund, the focus was on the eligibility of the expenditure

ministrative authority (TEM/976/09.10.02/2013). It was also recommended that there should be a comprehensive up-to-date monitoring of the recovery measures.

The financial audits of EU funds conducted by the National Audit Office revealed no other material shortcomings concerning internal control of the audited areas.

The Finnish agricultural subsidies administration has complied with the provisions applying to it. There have been no errors resulting in major financial corrections. In this respect, the system works well.

The aim of the provisions and measures is to ensure that matters can be inspected, laws are adhered to and everything is carried out in a proper manner and no consideration is given to the effectiveness of the measures. However, from the perspective of accountability, the situation is not satisfactory as the inspections mainly help to ensure that beneficiaries are treated equally and the purpose is not to ensure that the aid is effective.

The complex nature of the agricultural subsidies administration and the administrative burden has also been recognised as a problem. The Finnish agricultural subsidies administration is structured differently than in comparable countries. In Finland, there are four administrative layers, while in most other comparable countries there are only two or at most three layers. As a result of the complexity, steering of the entity is difficult and there is no monitoring of the overall costs. Total costs incurred by central government are estimated at 60 million euros each year. Almost one third of this is paid by the municipalities, while the remaining two thirds are direct state liabilities.

The complexity of the agricultural subsidies administration was highlighted in the performance audit

5.7 Current state of the administration and supervision of government aid

Government aid is a major area of expenditure in the state budget and there are provisions on granting and paying it and on the supervision of its use in a number of different laws. The state of the administration and supervision of government aid and subsidies has been audited in internal control audits conducted as part of financial audits and in separate compliance audits. The purpose of internal control is to ensure that the procedures concerning government aid are on a proper basis. The compliance audits conducted in 2013 covered energy subsidies and central government transfers to local government to cover costs arising from basic social assistance.

Energy subsidies

The audit covered the subsidies contained in the 2013 state budget that were allocated for energy subsidies. The statutory basis of the energy subsidies consists of a large number of acts and decrees the most important of which are the Act on the Refund of Excise Duties on Certain Energy Products used in the Agriculture (1403/2010), Act on Excise Duty on Electricity and Certain Fuels (1260/1996), Act on Excise Duty on Liquid Fuels (1472/1994), Government Decree on General Conditions concerning the Granting of Energy Subsidies (1313/2007 and 1063/2012) and the Act on Production Subsidy for Electricity produced from Renewable Energy Sources (1396/2010). The common feature of all energy subsidies selected for the audit was that the sums allocated to them in the state budget have grown substantially in recent years. The economic importance of the matter was the main reason for the audit.

The purpose of the energy tax subsidies is to support employment and industries. Energy tax subsidies are used to promote the competitiveness of professional activities and energy-intensive industries and the competitiveness and use of renewable energy sources. Energy tax subsidies are a form of statutory government aid. They are granted and paid by the Finnish Tax Administration and Finnish Customs. In the 2013 state budget, the energy tax subsidies were budgeted on the item 28.91.41 (energy tax subsidies, variable annual appropriation) and they totalled 269.1 million euros.

Energy subsidies are an economic steering instrument, the aim

There are many acts and decrees that apply to energy subsidies

The aim is to have a more efficient and environmentally friendly energy system

of which is to steer the energy system towards solutions that are more efficient and optimal from the environmental and climate perspective. Energy subsidies are granted and paid by ELY Centres and the Ministry of Employment and the Economy. A total of 108.4 million euros in energy subsidies was budgeted on the item 32.60.40 (Energy subsidies, variable annual appropriation) of the 2013 state budget.

The production subsidies for renewable energy are paid as feed-in tariff the purpose of which is to increase the production capacity of electricity generated by means of renewable energy sources and to improve the competitiveness of woodchip compared with other fuels. The subsidies are granted and paid by the Energy Market Authority. A total of 125 million euros in production subsidies for renewable energy was budgeted on item 32.60.44 (Production subsidies for renewable energy, variable annual appropriation) in the 2013 state budget.

It was found out in the audit that the application for, granting and payment of and the supervision of the use of energy tax subsidies, energy subsidies and production subsidies for renewable energy have mostly been in accordance with national provisions. There were shortcomings in the supervision of the granting stage of the energy tax subsidies granted by the Finnish Customs and the use of the energy subsidies granted by ELY Centres. Not all requirements concerning the energy tax subsidies granted by the Finnish Customs that are directly derived from the legislation have been taken into account. Moreover, it also emerged that in the granting of the subsidies by the Finnish Customs there were shortcomings in the manner in which statutory information was requested and the guidelines issued by the Finnish Customs were observed. It was noted that as regards the supervision of the use of the energy subsidies there were shortcomings in the adherence to the Decree on General Conditions concerning the Granting of the Subsidies (1313/2007 and 1063/2012). ELY Centres do not control the use of government aid by means of on-the-spot checks. Moreover, the ELY Centres have not always requested the beneficiaries to submit all statements and information that are required under the decree before making aid payments. In overall terms, the supervision of the government aid granted by the ELY Centres as energy subsidies cannot be considered adequate.

The internal control of the production subsidies for renewable energy granted by the Energy Market Authority is in most respects adequate. Shortcomings have emerged in the organisation of the internal control of the energy tax subsidies granted by the Finnish Customs and the Finnish Tax Administration and the en-

National legislation has been mostly complied with

Even though ex-post control of the energy subsidies is important, the role of prior control should also be remembered

ergy subsidies granted by the ELY Centres. The Finnish Customs should ensure that the prior control of the energy tax subsidies is workable, that its resources are properly focused and that adequate resources are allocated for ex-post control. The economic materiality of the matter must also be taken into consideration. It emerged that there are shortcomings in the organisation of the internal control of the energy tax subsidies granted by the Finnish Tax Administration concerning which the Finnish Tax Administration has already taken measures. In the organisation of the internal control of the energy subsidies granted by the ELY Centres, shortcomings emerged concerning unified practices, documentation of preparation documents, adequate guidelines and control of the use of the subsidies.

The purpose of the audit was also to ensure whether the audited government aid was in compliance with the state aid provisions of the EU. The audit of the energy tax subsidies granted by the Finnish Customs showed that efforts have been made to ensure that the minimum requirements laid down for the national legislation in the Council Directive restructuring the Community framework for the taxation of energy products and electricity (2003/96/EC, hereafter 'Energy Taxation Directive') have been taken into account in the national legislation. Even though a detailed and comprehensive comparison between the national legislation and the Energy Taxation Directive is outside the scope of this audit, it should be noted that the concept of value added influencing the amount of the subsidy is defined differently in the Energy Taxation Directive than in the national legislation. Because of the different definitions, it has been impossible to determine conclusively whether the minimum refund levels for energy-intensive enterprises laid down in the directive can be achieved in Finland by means of national energy taxation legislation.

Article 1 of the Commission regulation on general block exemption (800/2008/EC, hereafter 'General Block Exemption Regulation') prohibits the application of the regulation to companies in difficulty. The Finnish Customs did not check the economic situation of the companies applying for energy tax subsidies in 2013 or before that year. The risk is that the national energy tax subsidies paid to a company in difficulty under the General Block Exemption Regulation is a form of state aid that is in violation of the state aid provisions of the EU. Under an amendment to the national legislation introduced at the beginning of 2014, the Finnish Customs can no longer grant support to companies in difficulty. As the General Block Exemption Regulation is directly applicable in the Member States, the Finnish Customs should examine whether it

The Energy Taxation Directive defines the concept of added value differently than national legislation

Payment of subsidies to companies in difficulty should be examined

could recover any of the subsidies from companies that were already in difficulty before 2014. The ban on granting aid to companies in difficulty laid down in the General Block Exemption Regulation also applies to the electricity taxation subsidy laid down in the Act on Excise Duty on Electricity and Certain Fuels. The Finnish Customs should examine whether it is possible to carry out an assessment of the economic situation of the recipients of electricity tax subsidies.

According to the mandatory wording of the Energy Taxation Directive, the tax exemption must apply to most of the energy products included in the system of refunds on tax-free use. As the state collects the tax on tax-exempt energy products, the companies must be refunded the tax if certain conditions are met. As such tax revenue is not revenue that the state is entitled to, the budgeting should be examined from the same perspective. The conclusion reached in the audit was that the refunds should not be budgeted as transfers as they could be budgeted as reductions in revenue instead.

Central government transfers to local government to cover costs arising from basic social assistance

Social assistance is last-resort financial assistance the purpose of which is to provide a person and a family with the minimum income needed for a life with human dignity. The Act on Social Assistance (1412/1997) helps to put into effect section 19(1) of the Constitution of Finland, which contains provisions on the right to social security. Under the provision, all those that cannot obtain the means necessary for a life of dignity have the right to receive indispensable subsistence and care.

In accordance with its last-resort nature, social assistance is meant to secure at least the minimum income if a person or the person liable to provide him/her with maintenance is not able to meet his/her prime responsibility of income in a manner laid down in more detail in the Act on Social Assistance. Thus, social assistance is, as a rule, intended to help individuals and families in short-term economic difficulties. However, for many years there has been an increase in the level of dependency on social assistance and the number of long-term clients has remained high.

Social assistance consists of basic social assistance, supplementary social assistance and preventive social assistance. The manner in which social assistance is structured and funded was changed at the beginning of 2006 by separating basic social assistance from the general central government transfers for social and health care. The state pays 50 per cent of the basic social as-

The Act on Social Assistance is a tool for implementing the right to social security

sistance costs incurred by municipalities as central government transfers. Supplementary and preventive social assistance is paid by the municipalities and the state contributes to the costs by providing the municipalities with general central government transfers (amounting to 29.57% of the costs). The general central government transfers are also used to cover personnel, premises and other similar costs arising from social assistance work. Basic social assistance accounts for about 90 per cent of the social assistance expenditure.

In this audit, we examined the central government transfers to local government to cover costs arising from basic social assistance. The central government transfers are budgeted on item 33.60.35 of the state budget (central government transfers to local government to cover costs arising from basic social assistance, variable annual appropriation). In the year 2013, municipalities were granted a total of 318.8 million euros in central government transfers to cover costs arising from social assistance.

The aim of the audit was to provide an opinion based on reasonable assurance on whether the central government transfers that are paid to municipalities to cover costs arising from basic social assistance are in compliance with the law, whether the municipal practices concerning the granting of basic social assistance are, in most respects, on a uniform basis and whether the municipalities have provided true and fair information for the payment of central government transfers.

According to the audit, Regional State Administrative Agencies have approved and paid the advance payments of central government transfers in accordance with the Act on Social Assistance. Regional State Administrative Agencies have, in most respects, approved the final amounts paid as central government transfers in accordance with the Act on Social Assistance. Regional State Administrative Agencies have paid the final instalments of the central government transfers or reclaimed the excessive transfers in accordance with the Act on Social Assistance.

On the basis of the audit, the basic social assistance is properly separated in municipal accounting. Most of the basic social assistance expenditure (in large cities more than 90 per cent) is usually based on information collected from the assistance system. The link between the basic social assistance expenditure of each social assistance decision and the accounts of the local authority is, in most respects, traceable. The data contents of the assistance systems should be developed so that supplementary and preventive social assistance expenditure would already be more clearly detailed in the types of decisions and reason codes, which would facilitate internal control of the assistance process.

Advance payments have been paid in accordance with the Act on Social Assistance

The approval of the advance payments of the central government transfers is a technical procedure and the advance payments are adjusted at the end of the year. The advance payments of central government transfers can thus be paid in monthly instalments that are reasonably correct and of equal amounts already during the budget year.

A period of three months is a sufficiently long time for approving the final amount of the central government transfers. It is important to ensure that the approval is not a mere formality and that the report on central government transfers is carefully examined in the Regional State Administrative Agency. As the advance payments are reviewed at the end of the budget year, the specification and payment of the final central government transfer does not have any practical effect on the economic position or solvency of the municipality.

There are differences in the granting practices of basic social assistance between municipalities. The fact that there are differences between granting practices has an impact on the financing relationship between central and local government, position of municipalities vis-à-vis each other and the equality of citizens.

The demarcation between social services provided by municipalities for which central government transfers for basic services are granted and the basic social assistance funded on the basis of the costs arising from it is not sufficiently clear. Particularly the way in which housing services are defined and financed should be clarified.

Making use of their constitutional rights, municipalities use broad case-by-case discretion when granting social assistance. However, the Ministry of Social Affairs and Health should clarify the general guidelines of the granting practices. Particular consideration should be given to the right to social assistance, reduction of the basic amount, income and assets that are taken into account during the assistance specification period and reclaim practices.

The National Audit Office draws attention to the principle derived from the Act on Social Assistance under which no basic social assistance can be granted without social assistance calculation and that no basic social assistance can be granted if the calculation shows a surplus. If social assistance has to be granted without calculations, it should be granted as supplementary or preventive social assistance.

According to the audit, municipalities have provided the required sum-based details of the costs of basic social assistance, which are based on the reports on central government transfers and the signed extracts of the accounts appended to it. However, expenditure that does not entitle municipalities to central government transfers has been presented as actual costs.

There are differences in the granting practices between municipalities

Expenditure not belonging to central government transfers has been included in the reports on central government transfers

The audit revealed substantial expenditure that municipalities had erroneously included in the reports on central government transfers concerning basic social assistance. Because of the shortcomings revealed in the audit, municipalities should be required to base the reports on central government transfers on signed final accounts and the reports should be audited by municipal auditors. The financial audits should provide conclusive proof that the information can be properly derived from municipal accounts and that the expenditure is, in material respects, based on the provisions laid down in the Act on Social Assistance. It is especially important to ensure that the reports on central government transfers concerning basic social assistance do not contain any expenditure arising from the provision of municipal social services.

Funding for organisations and foundations to promote health and social welfare

The compliance audit report 'Funding for organisations and foundations to promote health and social welfare' was issued in 2012. In the audit follow-up, the National Audit Office examined what measures had been taken on the basis of the opinions presented in the audit report.

The Act amending the Act on Slot Machine Funding Assistance (366/2013) was adopted on 24 May 2013 and it entered into force on 1 June 2013. In the amendments to the Act on Slot Machine Funding Assistance (hereafter 'Funding Act'), consideration was given to a number of opinions listed in the audit report. From the perspective of the opinions laid out in the audit report, the most important amendments were made to the following provisions: section 7 (Funding decision); section 13 (Funding granted for specific activities); and section 18 (Accounts and auditing). Section 3 of the Ministry of Social Affairs and Health Decree on certain Deadlines that apply to Slot Machine Funding and the Format of the Auditor's Report (453/2013) also contains provisions on the format of the auditor's report.

It is stated in the Government proposal that resulted in the legislative amendment (HE 11/2013 vp) that the report of the National Audit Office also contained a number of other development proposals, which do not, however, necessarily require legislative amendments but improvements in the way in which the Finland's Slot Machine Association (RAY) and the Ministry of Social Affairs and Health operate.

The aim of the follow-up was to determine how the granting and monitoring of government aid has been developed and how

The opinions presented in compliance audits have been taken into account in the changes to the Act on Slot Machine Funding Assistance

the obligation to apply the Act on Public Contracts has been considered in the funding process.

Some of the shortcomings revealed in the funding process have been corrected by means of legislative measures and by taking measures supplementing them. The manner in which specific uses of the funding are laid down in the law can still be considered a normative weakness. Under section 7(2) of the Funding Act, the decision on granting the funding must adequately specify the purpose of the funding. Under section 9 of the act, the funding may only be used for the purpose specified in the funding decision. If the use of the funding has not been specified in the funding decision, the funding must be used for the purpose referred to in the application. On the basis of the audit, the conclusion is that even though the original purpose of the funding may have been given in the first application, in well-established projects the applications for the year may only list the changes to the previous year. Occasionally, there were differences between the application and the section of the funding decision detailing the purpose of the funding. On the basis of the audit, the purpose of the funding may not be sufficiently clear from the applications either. The audit also revealed cases in which there were discrepancies between the text of the funding decision and the application. However, in the future, there will be less room for interpretation because the use of targeted operations funding and special funding is no longer limited to separate costs as they can also be allocated to expenditure arising from the activities for which the funding is provided.

The above-mentioned normative weakness and its potential effects are offset by a number of development measures. The most important of them are the development of performance monitoring, extensive reporting obligation of the auditor, development of auditing, and clear guidelines concerning the approval of overheads and in the setting of the obligation to monitor working hours. If the development measures are carried out as planned, they will significantly improve the manner in which the use of the funding is monitored. The funding granting criteria have also been made more specific. However, the development work should be continued.

Even though it is not necessary to continue the follow-up, the National Audit Office will continue to monitor the slot machine funding process as part of overall monitoring of the administrative branch and, when necessary, will perform separate audits in the branch.

Shortcomings in the grant process have been rectified through legislation and other development measures

5.8 Authorisations of state enterprises to conclude derivative contracts

In the performance audit of the derivative contracts of Fin via Corporation (15/2013), the National Audit Office drew attention to the fact that the system of norms applying to state enterprises does not explicitly define whether state enterprises are allowed to conclude derivative contracts without specific parliamentary authorisation. The ambiguous situation may be problematic if a state enterprise makes use of derivatives. Non-hedging derivative commitments may theoretically involve unlimited risks that, when realised, may be similar to an increase in the debt liabilities of the state enterprise in question.

It is explicitly laid down in the parliamentary resolution on amending the Government's borrowing authority (739/2009) that Parliament authorises the Government or, within the limits laid out by it, the Ministry of Finance or the State Treasury to conclude interest rate and currency swaps and other derivative contracts necessary for managing the risks connected with government debt servicing.

There are no explicit provisions on the chances or limits of state enterprises to use derivative contracts.

Under section 5(1) and section 8(1)(3) of the State Enterprise Act (1185/2002), a state enterprise requires parliamentary authorisation for raising loans, which is granted in connection with the consideration of the state budget. The State Enterprise Act (1185/2002) referred to above has been repealed by the Act on Unincorporated State Enterprises (1062/2010) repealed. However, like its predecessor, the new act does not contain any provisions on the use of derivative contracts in state enterprises. There are currently two state enterprises in Finland: Senate Properties and Metsähallitus. Senate Properties adheres to the new act, while Metsähallitus observes the old act (1185/2002) and the provisions issued under it until new provisions on this state enterprise are introduced.

On 7 May 2014, the Ministry of Agriculture and Forestry submitted a draft Government proposal for legislation concerning the reorganisation of Metsähallitus for a consultation round. Under the proposal, Metsähallitus would be a state enterprise referred to in section 84(4) of the Constitution of Finland. However, the 2010 act on state enterprises would not apply to Metsähallitus as the provisions concerning Metsähallitus would be laid down in a separate act on Metsähallitus. Metsähallitus would continue to function as a state enterprise group with market-oriented business operations structured as companies. Under the proposal, Metsähallitus would have the right to borrow money to finance its operations and the borrowing would have to be within the limits of the authorisation granted by Parliament in connection with the consideration of the state budget. The proposal does not contain any provisions on the use of derivative contracts in the Metsähallitus state enterprise. According to the detailed rationale of the proposal, the Government intends to issue a decree under which the Government would continue to decide on the terms and conditions of the borrowing by state enterprises.

As the state enterprises need parliamentary authorisation for borrowing money, the National Audit Office is of the view that it would also be logical to have explicit provisions on how state enterprises can use derivative contracts for risk-management purposes even though the financing and insurance operations of the state enterprises are market-based. From the perspective of the risks connected with derivative contracts, it would thus be appropriate that when state enterprises are authorised to borrow money they would be explicitly authorised to conclude derivative contracts for hedging purposes, if this is the purpose of the contract.

When state enterprises are provided with borrowing authority, it should also be stated that they have the right to conclude derivative contracts for hedging purposes, if this is the purpose of the contract

6 Abuses and complaints concerning central government finances and reports on abuses

The abuses come to the knowledge of the National Audit Office as a result of the audits conducted by NAOF or as reports on abuses submitted by administrative actors in accordance with section 16 of the Act on the National Audit Office. Under section 16 of the Act on the National Audit Office, a central government authority, agency, state enterprise or a state fund must without delay and notwithstanding secrecy provisions report to the National Audit Office on abuses occurring in its activities that concern central government funds or assets. Based on the reports and other information revealed in the audits, the National Audit Office monitors and examines abuses taking place in the central government and their impacts on central government finances and the measures taken in the central government to combat the abuses. Requests for investigation and other appropriate measures after abuses have been revealed should be seen as part of effective internal control.

The National Audit Office must file a criminal complaint about an offence that it has observed in an audit and that involves the activities of a central government authority or agency, state enterprise or state fund or that involves assets that any of the above has managed or assets under its responsibility unless the auditee has filed a criminal complaint and the act can be considered of minor nature, considering the circumstances.

The National Audit Office did not file any criminal complaints during 2013. In 2013 the National Audit Office received nine reports from state authorities concerning abuses of state funds or assets in their operations, as required by law (16 in 2012 and 22 in 2011).

The National Audit Office is responsible for ensuring that central government agencies deal with abuses in a proper and efficient manner



Figure 31: Complaints submitted by authorities concerning the abuse of state funds or assets.



Figure 32: Reports of abuses concerning the use of government aid

A total of nine cases involving suspected abuses by recipients of government aid (7 in 2012 and 13 in 2011) were also reported by central government agencies to the National Audit Office.

The National Audit Office also received copies of reports on the monitoring of aid from agencies administering EU aid. The reports on abuses have concerned a broad range of different administrative branches.

During 2013, the National Audit Office received only a small number of reports of abuses and their overall economic importance has been negligible. Below are some the abuses reported to the National Audit Office during the year: On 29 May 2013, the Ministry for Foreign Affairs submitted to the National Audit Office a report concerning suspected abuse of the project support granted for developing the Mozambican forest sector. The support had been granted through the Mozambican Ministry of Agriculture. Three special audits have been commissioned as a result of the suspected abuse, which amounts to about 1,340,000 euros, and the Finnish embassy in Maputo has been authorised to submit a request to investigate the matter to a competent authority. On 19 December 2013, The Centre for Economic Development, Transport and the Environment for Lapland also announced that it had submitted an investigation notification, which concerns business subsidies granted for rural accommodation operations on false grounds.

The agencies administering EU aid have also sent copies of the notifications concerning the supervision of the aid to the National Audit Office. The National Audit Office receives copies of the reports on irregularities concerning the supervision of the aid that the Ministry of Employment and the Economy and the Agency for Rural Affairs, the bodies administering EU aid, send to the European Commission in accordance with Commission regulations. The National Audit Office received a total of 40 reports on the year 2013 (compared with 20 reports for 2012). This total number comprises both new reports and follow-up reports. The Ministry of Employment and the Economy has submitted to the National Audit Office the reports on irregularities concerning the European Regional Development Fund and the European Social Fund, as required under Commission Regulation (EC) No 1828/2006, as amended by Regulation (EC) No 846/2009 and Regulation (EU) No 832/2010. A to-

The National Audit Office has received only a small number of reports of abuses and their overall economic importance has been negligible

tal of 14 reports concerning the European Regional Development Fund were submitted (compared with 4 for 2012). This total included six new reports and eight follow-up reports. The smallest irregularity amounted to 30,375 euros and the largest 550,000 euros (in the reports for 2012, the amounts were 25,002 and 264,600 euros, respectively). A total of three reports concerning the European Social Fund were submitted (compared with two for 2012). This total included two new reports and one follow-up report. The smallest irregularity amounted to 263,000 euros and the largest 353,992 euros (in the reports for 2012, the amounts were 38,802 and 51,709 euros, respectively).

For 2013, the Agency for Rural Affairs submitted to the National Audit Office a total of 23 reports in accordance with Commission Regulation (EC) No 1848/2006 and Commission Regulation (EC) No 1681/94, as amended by Regulation (EC) No 2035/05 (compared with 13 reports for 2012). This total included 18 new reports and 5 follow-up reports. The smallest irregularity amounted to 10,055 euros and the largest 89,112 euros (in the reports for 2012, the amounts were 28,782 and 280,736 euros, respectively).

The reports on abuses and the reports on irregularities submitted to the EU give some idea of the state of internal control. Internal control is the responsibility of the board of the agency and the top levels of its administration. Abuse can be prevented by emphasising the role of internal control in agencies. Under section 65 of the State Budget Decree, an accounting office must include in its review of operations an assessment and statement of assurance of the state of internal control and the most important development priorities in internal control. The review of operations must also include a summary of the abuses and errors.

One complaint in five resulted in action

A private citizen or an organisation suspecting that there have been irregularities concerning the legality of central government finances may submit a complaint to the National Audit Office. The complaint may concern the legality of central government finances or compliance with the state budget. A complaint may also be submitted on unlawful practices by state-owned companies. Separate complaints may also be submitted to the National Audit Office on the unlawfulness of election financing and financing of political parties on the basis of the Election Financing Act and the Act on Political Parties. A party may submit a complaint on a matter concerning itself but the complaint may also be submitted on behalf of others or jointly with other parties. The complaint must con-

A private citizen or an organisation suspecting that there have been irregularities concerning the legality of central government finances may submit a complaint to the National Audit Office

cern past activities or events. The National Audit Office does not have prior assessment as an area of responsibility. Thus, the National Audit Office does not investigate complaints that are solely directed at how a matter should be organised in the future or what would be politically the most appropriate approach.

During the year under review, the National Audit Office received a total of 51 complaints submitted by individual persons and organisations. In the previous year, the figure was 55. The complaints were roughly evenly distributed between the areas coming under the scope of audits of the National Audit Office. They concerned central government agencies, recipients of state aid, state-owned companies and the use of EU funds.

The National Audit Office does not investigate complaints concerning matters that are more than two years old, unless there are specific reasons to do so. In connection with the investigation of the complaints, the National Audit Office obtains the information it deems necessary from the authority involved. About 35 per cent of all complaints did not warrant any action on the part of the National Audit Office. In about 25 per cent of all complaints the National Audit Office did not have the competence to consider the matter. In many such cases, the complaint concerned the management of finances in municipalities or in Kela. In about 20 per cent of all decisions on complaints that it made during the year under review, the National Audit Office concluded that the matter has been looked into or that it will be examined in connection with audits. In about ten per cent of all cases, the National Audit Office required that a central government agency takes corrective measures so that the error or shortcoming can be eliminated. About ten per cent of all complaints were forwarded to other authorities (in many cases to ministries) for consideration. In such cases, the National Audit Office asked the ministry in question to provide information on the measures that it has taken as a result of the complaint.

In 2013, the National Audit Office received a total of 51 complaints

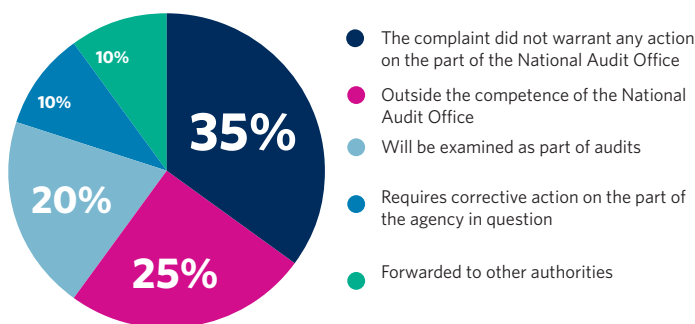


Figure 33 Follow-up measures resulting from the complaints received by the National Audit Office.

The National Audit Office has examined a complaint concerning the procurement of legal advisory services in connection with the collateral arrangements for Greece and Spain administered by the Ministry of Finance. In its decision, the National Audit Office issued an opinion on whether the Act on Public Contracts (348/2007) and the prerequisites for direct award laid down in the act are applicable to this arrangement. In the view of the National Audit Office, the contracts could be concluded as direct award under the urgency clause laid down in the section 27, paragraph 3 of the Act on Public Contracts. In its decision, the National Audit Office also issued an opinion on the documentation of the contracts and the procurement of the legal services concerning the assessment of the publicity legislation in connection with the collateral arrangements for Greece. In its decision, the National Audit Office drew particular attention to the shortcomings in the documentation of the contracts.

7 Key audit findings by administrative branch

7.1 Office of the President of the Republic

State of the administration on the basis of the financial audits

The Office of the President of the Republic operates as a single accounting office.

According to the financial audit, the budget and the key budget provisions have been complied with.

The information on operational efficiency presented in the final accounts was considered true and fair in the audit.

7.2 Prime Minister's Office

State of the administration on the basis of the financial audits

The Prime Minister's Office operates as a single accounting office.

According to the financial audit, the budget and the key budget provisions have been complied with.

Even though the Prime Minister's Office has not set itself any economic efficiency or productivity targets, the information on these areas presented in the final accounts in connection with operational efficiency figures was considered true and fair.

The information on productivity and economic efficiency was true and fair

7.3 Administrative branch of the Ministry for Foreign Affairs

State of the administration on the basis of the financial audits

The administrative branch of the Ministry for Foreign Affairs operates as a single accounting office.

The qualified opinion on regularity contained in the financial audit report on the Ministry for Foreign Affairs concerned the organisation of performance accounting. The shortcomings in performance accounting also resulted in the imposition of a reporting obligation.

The Ministry for Foreign Affairs had not set economic efficiency or productivity targets for its operations and its review of operations did not provide true and fair information of operational efficiency.

There is a need to improve performance accounting and target-setting

7.4 Administrative branch of the Ministry of Justice

State of the administration on the basis of the financial audits

There are two accounting offices in the administrative branch of the Ministry of Justice: the ministry itself and the Criminal Sanctions Agency.

According to the financial audit, the budget and the key budget provisions have been complied with in both accounting offices.

Both the ministry and the Criminal Sanctions Agency had been provided with productivity and economic efficiency targets. According to the financial audit, the information on operational efficiency presented by both accounting offices in their reviews of operations was true and fair

When the state of performance guidance is assessed on the basis of the setting of productivity and economic efficiency targets for the administrative branch of the Ministry of Justice and the true and fair final account information on them, the conclusion is that both the ministry and the Criminal Sanctions Agency are guided by adequate productivity and economic efficiency targets and base their reporting on true and fair information.

Performance audit observations

It was noted in the audit of public legal aid (5/2014) that the Ministry of Justice has responded to the challenges arising from cuts in appropriations and has actively developed the legal aid system. However, the development of the network of public legal aid offices has not involved any comprehensive plan based on the availability needs of the legal aid operations and services. Public legal aid and its overall organisation should be reassessed. If no changes are made to the existing system, the position and powers of the legal aid directors should be strengthened.

Two accounting offices

Both accounting offices have been provided with adequate targets

The information on operational efficiency was true and fair

7.5 Administrative branch of the Ministry of the Interior

State of the administration on the basis of the financial audits

There were seven accounting offices in the administrative branch of the Ministry of the Interior in 2013: the ministry itself, ICT Agency (HALTIK), Emergency Response Centre Administration, Finnish Immigration Service, Emergency Services College, National Police Board and the Finnish Border Guard.

According to the financial audit, the budget and the key budget provisions have been complied with in all accounting offices.

The productivity and economic efficiency targets set by the ministry for itself and the other accounting offices were considered adequate. The information on economic efficiency provided by all seven accounting offices was considered true and fair. Except for the National Police Board, the productivity information was considered true and fair.

Except for the ministry and the ICT Agency (HALTIK), all accounting offices in the administrative branch provided chargeable services on which they also supplied true and fair information in their final accounts.

When the state of performance guidance is assessed on the basis of the setting of productivity and economic efficiency targets for the administrative branch of the Ministry of the Interior and the true and fair final account information on them, the conclusion is that all accounting offices of the administrative branch except for the National Police Board are guided by adequate productivity and economic efficiency targets and base their reporting on true and fair information.

Seven accounting offices

All accounting offices have been provided with adequate targets

Six accounting offices provided true and fair information on operational efficiency

7.6 Administrative branch of the Ministry of Defence

State of the administration on the basis of the financial audits

There were three accounting offices in the administrative branch of the Ministry of Defence in 2013: the ministry itself, the Finnish Defence Forces and the Construction Establishment of Defence Administration.

The qualified opinion on regularity contained in the financial audit report on the Finnish Defence Forces concerned the exceeding of an authority granted in the budget and organisation of the monitoring of authorisations, monitoring of chargeable services and the presentation of their annual results and the organisation of performance accounting. These shortcomings also resulted in the imposition of a reporting obligation.

The audit showed that the ministry and the Construction Establishment of Defence Administration had been set adequate economic efficiency targets. The productivity targets set for the Finnish Defence Forces and the Construction Establishment of Defence Administration were considered adequate.

The information on productivity and economic efficiency presented by the ministry and the Construction Establishment of Defence Administration in their final accounts was considered true and fair. The Finnish Defence Forces and the Construction Establishment of Defence Administration provide chargeable services and the opinion of the National Audit Office was that the latter accounting office had also presented true and fair information on the services in its final accounts.

When the state of performance guidance is assessed on the basis of the setting of economic efficiency targets for the administrative branch of the Ministry of Defence and the true and fair final account information on them, the conclusion is that the ministry and the Construction Establishment of Defence Administration are guided by adequate economic efficiency targets and base their reporting on true and fair information. When the assessment also includes productivity, only the Construction Establishment of Defence Administration had proper performance guidance arrangements.

Three accounting offices

One accounting office received a qualified opinion on regularity

One accounting office has been provided with adequate targets

Two accounting offices provided true and fair information on operational efficiency

Performance audit observations

In the follow-up to the audit report 215/2011 (2004 report; Garrison structure and the command and administration system), the National Audit Office examined on the basis of the information produced for the Defence Forces reform whether the Finnish Defence Forces has improved its system of assessing economic effects. Based on the view that emerged from the follow-up, the economic effects of the Defence Forces reform, their documentation and the steering of the reporting periods and methods were on a proper basis.

The conclusion made in the follow-up to the audit of the steering system in the administrative branch of the Ministry of Defence (223/2011) was that manner in which the targets of the administrative branch are set in the budget proposal has improved since the audit. The ministry still has problems in its financial planning. Almost half of the authorisations approved in the state budget remain unused and the proportion of the defence materiel appropriation that is carried over has, despite a number of corrective steps taken by the ministry and the Finnish Defence Forces, continued to grow and in 2013 it already totalled 359 million euros.

The third follow-up concerned the audit that focused on the Finnish Defence Force's catering service and medical service (218/2011). After the audit, the catering service of the Finnish Defence Forces was made into a separate company (Leijona Catering Oy) and the purpose of the follow-up was to examine the costs of the catering service before and after the establishment of the company. Leijona Catering Oy has not yet generated any savings for the Finnish Defence Forces. However, the company has only been operational for little over two years and thus only preliminary conclusions of the restructuring can be made. In the view of the Ministry of Defence, the objectives set for the restructuring are, however, already being met after the first two years of operations. As regards medical service, there was a substantial drop in the demand for medical services in the Finnish Defence Forces during the period under review, which has led to a decrease in medical expenses.

7.7 Administrative branch of the Ministry of Finance

State of the administration on the basis of the financial audits

In addition to the ministry itself, there were nine other accounting offices in the administrative branch of the Ministry of Finance in 2013. Of these, the Finnish Tax Administration and the Finnish Customs play a key role in the collection of revenue for the state. The other accounting offices in the administrative branch are as follows: State Treasury, Statistics Finland, Finnish Government Shared Services Centre for Finance and HR, Government Institute for Economic Research, Regional State Administrative Agency for Southern Finland, State Department of Åland and the Population Register Centre.

According to the financial audit report, the budget and the key budget provisions have been complied with in all accounting offices.

Based on the findings made in the financial audits, the National Audit Office concluded that the Ministry of Finance has approved adequate economic efficiency targets for the Finnish Tax Administration, Finnish Customs, Statistics Finland and the Finnish Government Shared Services Centre for Finance and HR. In addition to the above accounting offices, the Population Register Centre and the Government Institute for Economic Research were also considered to have adequate productivity targets.

The information on productivity and economic efficiency provided by all accounting offices in the administrative branch was considered true and fair. Except for the State Department of Åland, all nine accounting offices providing chargeable services were found to have presented true and fair details of these services in their final accounts.

When the state of performance guidance is assessed on the basis of the setting of productivity and economic efficiency targets for the administrative branch of the Ministry of Finance and the true and fair final account information on them, the conclusion is that the Finnish Customs, the Finnish Tax Administration, Statistics Finland and the Finnish Government Shared Services Centre for Finance and HR are guided by adequate productivity and economic efficiency targets and base their reporting on true and fair information.

Ten accounting offices

Four accounting offices have been provided with adequate targets

The information on operational efficiency was true and fair

Five accounting offices were found to have such internal control shortcomings that require measures on the part of the auditees. The Kieku information system was extensively introduced in the administrative branch of the Ministry of Finance in 2013. It was concluded in the audit that there are material shortcomings in the implementation of conversions and archiving of receipts.

Material shortcomings
in the introduction of
the Kieku system

Performance audit observations

It was noted in the audit of the steering system in the administrative branch of the Ministry of Finance (audit report 9/2014) that there is little overall planning at the level of the administrative branch. The ministry's departments operate on a sectoral basis and rely on their own role as experts. The strategies are linked with performance guidance but they have few links with other areas of management. It was noted in the audit of the promotion of electronic archiving (11/2014) that the role of the Ministry of Finance in relation to case management and electronic archiving has not been specified. It remains unclear to what extent the case management and electronic archiving solutions come under shared central government ICT services that are independent of specific sectors.

It was noted in the follow-up to the audit of state aid for foundations and their supervision (210/2010) that the Ministry of Finance has not started to reform the Income Tax Act in the manner proposed in the audit. Neither has the ministry taken measures to examine the tax subsidies received by non-profit corporations, claiming that this would result in a substantial administrative burden.

7.8 Administrative branch of the Ministry of Education and Culture

State of the administration on the basis of the financial audits

In addition to the ministry itself, there were six other accounting offices in the administrative branch of the Ministry of Education and Culture in 2013.

A qualified opinion on regularity was included in the financial audit reports on three accounting offices. The qualified opinion on regularity contained in the financial audit report on the Ministry of Education and Culture concerned the processing of revenue on an expenditure item and the allocation of expenditure to the budget year. A procedure that is in accordance with the budget would in both cases have meant an exceeding of the appropriation. The qualified opinion on regularity contained in the financial audit report of the National Board of Education concerned the allocation of expenditure to the budget year. The procedure also meant the carrying over of the appropriation. The National Board of Antiquities was cautioned about the allocation of the use of an authorisation to the budget year.

According to an assessment made as part of the financial audits, the Ministry of Education and Culture has set adequate economic efficiency targets for the Academy of Finland, the National Board of Antiquities, the Governing Body of Suomenlinna and the Finnish National Gallery. Only the productivity targets set for the National Board of Education and the Governing Body of Suomenlinna were considered adequate.

Except for the Finnish National Gallery and the Centre for International Mobility CIMO, the financial audit information on productivity and economic efficiency of all accounting offices was considered true and fair. Except for the National Board of Education, all seven accounting offices engaged in chargeable services provided true and fair information on their chargeable services and their results for the budget year.

When the state of performance guidance is assessed on the basis of the setting of productivity and economic efficiency targets for the administrative branch of the Ministry of Education and Culture and the true and fair final account information on them, the conclusion is that there is only one accounting office with ad-

Six accounting offices

Three accounting offices received a qualified opinion on regularity

Two accounting offices have been provided with adequate targets

Five accounting offices provided true and fair information on operational efficiency

equate performance guidance. When the corresponding assessment is made on the basis of economic efficiency targets and the true and fair information on them, there is adequate performance guidance in three accounting offices.

Three accounting offices were found to have such internal control shortcomings that require measures on the part of the auditees. The shortcomings were caused by deficiencies in the management and organisation of accounting and performance accounting.

Four accounting offices received cautions concerning internal control

7.9 Administrative branch of the Ministry of Agriculture and Forestry

State of the administration on the basis of the financial audits

In addition to the ministry itself, there were eight other accounting offices in the administrative branch of the Ministry of Agriculture and Forestry in 2013.

According to the financial audit, the budget and the key budget provisions have been complied with in all accounting offices.

Except for the ministry, the economic efficiency targets set by the ministry are, according to the financial audits, adequate in all accounting offices, while the productivity targets are adequate in five accounting offices. The information on productivity and economic efficiency was found to be true and fair in all accounting offices of the administrative branch. The information on chargeable services provided by all eight accounting offices engaged in such services was considered true and fair.

When the state of performance guidance is assessed on the basis of the setting of productivity and economic efficiency targets for the administrative branch of the Ministry of Agriculture and Forestry and the true and fair final account information on them, the conclusion is that five accounting offices in the administrative branch have adequate performance guidance. When the corresponding assessment is made only on the basis of economic efficiency targets and the true and fair information on them, there is adequate performance guidance in all accounting offices, except for the ministry itself.

The Ministry of Agriculture and Forestry was found to have such internal control shortcomings in government aid procedures that require measures on the part of the auditee.

Performance audit observations

It was found out in the audit of environmental health care (audit report 7/2014) that the steering responsibility is divided between several ministries, central agencies and Regional State Administrative Agencies, which makes overall management more difficult. Overall responsibility for operational management has not been allocated to any single actor and there has been insufficient coordi-

Nine accounting offices

Five accounting office have been provided with adequate targets

All accounting offices provided true and fair information on operational efficiency

nation of the steering. The organisation of environmental health care must be closely connected with the reforms in the municipal structure and in central government and regional state administration. The audit covered the administrative branches of the Ministry of Agriculture and Forestry, Ministry of Social Affairs and Health and the Ministry of Employment and the Economy.

7.10 Administrative branch of the Ministry of Transport and Communications

State of the administration on the basis of the financial audits

In addition to the ministry itself, there were four other accounting offices in the administrative branch of the Ministry of Transport and Communications in 2013.

The cautions contained in the financial audit reports on the administrative branch of the Ministry of Transport and Communications led to qualified opinions on regularity in two financial audit reports. The qualified opinion on regularity contained in the financial audit report of the Finnish Transport Agency concerned the preparation of accounting vouchers. The qualified opinion on regularity contained in the financial audit report on the Finnish Communications Regulatory Authority concerned the allocation of an appropriation in a manner that was not in compliance with the budget.

The reporting obligation contained in the financial audit report of the Finnish Transport Agency concerned measures required by shortcomings in internal control of accounting.

According to the financial audit, only the Finnish Transport Agency and the Finnish Communications Regulatory Authority had presented adequate economic efficiency targets. In addition to the ministry itself, all accounting offices in the administrative branch were deemed to have adequate productivity targets.

The information on economic efficiency was considered true and fair in all accounting offices, except for the Finnish Transport Agency. At the same time, the view was that all accounting offices in the administrative branch had provided true and fair productivity information. The information on chargeable services was considered true and fair in all accounting offices providing chargeable services.

When the state of performance guidance is assessed on the basis of the setting of productivity and economic efficiency targets for the administrative branch of the Ministry of Transport and Communications and the true and fair final account information on them, the conclusion is that the Finnish Transport Agency and the Finnish Communications Regulatory Authority are guided by adequate targets and base their reporting on true and fair informa-

Five accounting offices

Two accounting offices received a qualified opinion on regularity

Two accounting offices have been provided with adequate targets

Two accounting offices provided true and fair information on operational efficiency

tion. However, the financial audit showed that in terms of productivity, performance guidance functions properly in all accounting offices of the administrative branch.

The audits of the ministry and the Finnish Transport Agency revealed such internal control shortcomings that require measures on the part of the auditees. This was due to shortcomings in accounting practices and the organisation of performance accounting. Based on the audit findings, the conclusion was that the Finnish Transport Agency should also pay attention to the organisation of internal control in the manner required under section 69 of the State Budget Decree.

Internal control should be improved in two accounting offices

7.11 Administrative branch of the Ministry of Employment and the Economy

State of the administration on the basis of the financial audits

In addition to the ministry itself, there were 11 other accounting offices in the administrative branch of the Ministry of Employment and the Economy in 2013.

The cautions contained in the financial audit reports led to qualified opinions on regularity in two financial audit reports. The qualified opinion on regularity contained in the financial audit report on the ministry concerned the placing of revenue on an expenditure item, which is in violation of section 3 a of the State Budget Act, carrying over of an authorisation and the organisation of performance accounting. The Centre for Economic Development, Transport and the Environment for South Savo acts as an accounting office that comprises a total of 15 ELY Centres. The qualified opinion on regularity contained in the financial audit report on the ELY Centre in question concerned the allocation of expenditure to the budget year, carrying over of an appropriation in violation of the State Budget Act, and the use of an appropriation in a manner that is not in compliance with the budget.

The reporting obligation was contained in the ministry's financial audit report. The reporting obligation imposed on the ministry again concerned the organisation of performance accounting.

According to the financial audits, the ministry had set adequate economic efficiency targets for five and adequate profitability targets for four of its accounting offices. All accounting offices, except for the ministry itself, were deemed to have presented true and fair information on productivity and economic efficiency. Except for the ministry itself, the information on chargeable services and its profitability was considered true and fair in all accounting offices providing chargeable services.

When the state of performance guidance is assessed on the basis of the setting of productivity and economic efficiency targets for the administrative branch of the Ministry of Employment and the Economy and the true and fair final account information on them, the conclusion was that there are three accounting offices that are guided by adequate economic efficiency targets and base their reporting on true and fair information. In economic efficiency, the

12 accounting offices

Two accounting offices received a qualified opinion on regularity

Three accounting offices have been provided with adequate targets

Eleven accounting offices provided true and fair information on operational efficiency

same applied to five and in productivity to four accounting offices.

One accounting office was found to have such internal control shortcomings that require measures on the part of the auditee. The shortcomings concerned the organisation of performance accounting.

The compliance audit of energy subsidies is discussed in chapter 5.7.

Internal control should be improved in two accounting offices

Performance audit observations

It was found out in the audit of the management of youth unemployment (audit report 8/2014) that the aims laid out for the youth guarantee were not achieved in 2013. There are many factors behind the poor results and the most important of them is probably the weak economic situation. It was noticed that the number of staff in TE Services had a small but statistically significant effect on the prolonging of the periods of unemployment. The audit also highlighted problems concerning the service process. These include the challenges that customer service staff working alone face when encountering young people with serious problems and the question of ensuring the quality and availability of the services for the young in a situation where the number of staff is being reduced.

It emerged from the follow-up to the audit of the steering system in the Ministry of Employment and the Economy (234/2011) that the ministry has continued the development of the steering system in its administrative branch by taking a number of correct measures. The ministry has clarified its strategic planning and daily operational planning processes and improved the manner in which the aims and indicators describing operational efficiency are presented in the budget proposals. The ministry has also improved the manner in which it manages its legislative drafting process.

It emerged from the follow-up to the audit of state aid for foundations and their supervision (210/2010) that the Ministry of Employment and the Economy and the Finnish Patent and Registration Office have taken measures with the aim of carrying out the supervision of foundations on a systematic basis and so that the costs incurred by the state as a result of the task will be fully covered. The overall reform of the Foundations Act is also making progress. At the same time, however, there has only been a slight improvement in the knowledge base of foundations' operations and finances.

7.12 Administrative branch of the Ministry of Social Affairs and Health

State of the administration on the basis of the financial audits

In addition to the ministry itself, there were four other accounting offices in the administrative branch of the Ministry of Social Affairs and Health in 2013.

According to the financial audit, the budget and the key budget provisions have been complied with in all accounting offices.

According to the financial audits, the Ministry of Social Affairs and Health had only set adequate economic efficiency targets for one accounting office in its administrative branch. There were still no productivity targets for any of the accounting offices in the administrative branch.

When the state of performance guidance is assessed on the basis of the setting of economic efficiency targets for the administrative branch of the Ministry of Social Affairs and Health and the true and fair final account information on them, the conclusion was that there is only one accounting office that is guided by adequate economic efficiency targets and bases its reporting on true and fair information.

The compliance audit of the central government transfers to municipalities to cover the costs arising from basic social assistance is discussed in chapter 5.7.

Performance audit observations

According to the audit of the integration of immigrants in social and health care (3/2014), the view in municipalities is that the Ministry of Social Affairs and Health and Regional State Administrative Agencies should provide guidelines and updated information on the health and well-being of immigrants. At the moment, the service system does not adequately reach customers in need of mental health services. Steering of the prevention and solution of social and health problems among immigrants would also require closer cooperation between the Ministry of Social Affairs and Health and the Ministry of Employment and the Economy.

Five accounting offices

One accounting office has been provided with adequate economic efficiency targets

All accounting offices provided true and fair information on operational efficiency

The conclusion was that all accounting offices had presented true and fair information on productivity, economic efficiency and the profitability of chargeable services in their final accounts

7.13 Administrative branch of the Ministry of the Environment

State of the administration on the basis of the financial audits

There were three accounting offices in the administrative branch of the Ministry of the Environment in 2013: the ministry itself, the Finnish Environment Institute and the Housing Finance and Development Centre of Finland.

The cautions contained in the financial audit reports led to qualified opinions on regularity in two financial audit reports. The cautions were issued because appropriations had been used in a manner that was not in compliance with the budget.

The reporting obligation was contained in the financial audit reports of the ministry and the Finnish Environment Institute. The reporting obligation imposed on the ministry concerned registration practices and decisions pertaining to the use of an appropriation. The reporting obligation imposed on the Finnish Environment Institute concerned shortcomings in project accounting.

The ministry has set economic efficiency targets for the Housing Finance and Development Centre of Finland. The productivity targets set for the Finnish Environment Institute were considered adequate. According to the audits, the information on productivity and economic efficiency presented by the ministry and the other accounting offices is true and fair. Only the Finnish Environment Institute was required to present figures for chargeable services and the information was deemed true and fair.

When the state of performance guidance is assessed on the basis of the setting of economic efficiency targets for the administrative branch of the Ministry of the Environment and the true and fair final account information on them, the conclusion was that there was one accounting office that is guided by adequate economic efficiency targets and bases its reporting on true and fair information. The same applies to productivity targets and the reports on them.

Performance audit observations

It emerged from the audit of the cyclical renovation grant scheme (6/2014) that the cyclical grants increased demand for renovation in housing corporations, which had a positive impact on the number of working hours in the construction sector. It has, how-

Three accounting offices

All accounting offices provided true and fair information on operational efficiency

ever, been impossible to determine the effect of the cyclical grants on employment in the construction sector. However, the cyclical grant scheme did not support long-term renovation in housing companies.

According to the audit of the management of and responsibilities for oil spills from vessels in the Gulf of Finland (audit report 2/2014), the management system is effective and oil spill response management arrangements have worked well even though it has not been necessary to test the arrangements in a major accident. However, on the basis of the audit, the post-spill clean-up and waste management, which are both the responsibility of the municipalities, are a risk factor. In 2009, Parliament called for the Government to examine the broadening of the funding base of the Finnish Oil Pollution Compensation Fund. However, a report on the matter did not produce any workable solution. According to the audit, not all options concerning the broadening of the funding base and the 'cause of risk' aspect have, however, been examined as thoroughly as necessary. For example, the introduction of a security of supply fee resembling an excise duty could be considered and its acceptability to the public examined.

8 Work and effectiveness of the National Audit Office

The National Audit Office is the supreme external audit institution in Finland, as laid down in section 90 of the Constitution of Finland. It audits central government finances and supervises fiscal policy and the financing of parties and elections. The National Audit Office is an independent body affiliated with Parliament. The aim of the National Audit Office is to ensure that central government finances and fiscal policy and the financing of elections and parties are in accordance with the principles of the rule of law, democracy and sustainable finances.

The effectiveness and added value of the National Audit Office in the management of Finland's general government finances are built on the results of different types of audits (fiscal policy, financial, compliance and performance audits). The National Audit Office is responsible for the oversight of political party and election campaign financing and it acts as the independent supervisor of central government finances.

8.1 NAOF is a highly trusted expert body

During the year under review, the strategic performance target of the National Audit Office was to promote effective and high-quality management of central government finances. Under the VTV2020 strategy, which was approved in early 2013 and which had been prepared in cooperation with the personnel, NAOF aims to provide prerequisites and support for sustainable reforms in central government finances and public administration.

The National Audit Office works to achieve its aims through the information that it produces and the interaction and public debate based on it. The chances of the National Audit Office to exercise its influence also depend on its reputation. A wide-ranging reputation survey was carried out during 2013 to assess the effectiveness of NAOF and the prerequisites for it. In the survey, Parliament, ministries, central government agencies, media representatives and citizens were asked to give their views on NAOF's work. A similar survey had already been conducted in 2008.

The results of the survey show that the National Audit Office is better known and held in higher regard than five years ago, particularly among Members of Parliament and in ministries. Citizens are now also more familiar with the work of NAOF. Independent decision-making is deemed as an operational strength of NAOF. According to the reputation survey, the National Audit Office has also successfully promoted openness of public administration, exemplary and professional operating practices and audit quality. The reports that the National Audit Office submits to Parliament on its activities each year have been used during parliamentary sessions. The reputation survey thus shows that the work to develop the annual reports submitted to Parliament, closer interaction with ministries and improvements in the capacity to provide the Government with services have produced results.

The main themes in the report on NAOF's activities to the 2013 parliamentary session were the need for a Government steering policy and the reliability of the knowledge base of decision-making. The report was one factor prompting the Government to initiate a high-level project to prepare a steering policy and it was also used in the formulation of the content of the policy. It also influenced the appointment and work of the parliamentary committee examining the Government's working practices and the clarification of the role of political decision-makers and senior public servants. In its cabinet evening session in May 2014, the Government approved a code of conduct concerning the roles of political decision-makers and senior public servants in accordance with the recommendations laid out in the report to the 2013 parliamentary session.

The external audit of central government finances conducted by the National Audit Office verified the reliability of the final accounts of the central government and its accounting offices as well as compliance with the budget and key budget legislation and the functioning of internal control. This creates fundamental confidence in the financial management of the State of Finland. Internal control has been an important element in financial audits as it provides a basis for good governance. The reliability of key financial information provides a basis for successful fiscal policy formulation and the steering and management of central government activities and finances.

Separately conducted compliance audits support the implementation of the lawfulness of central government finances and the principles of good governance from the perspective of development.

The reputation of the National Audit Office has improved during the past five years

The reform projects initiated by the Government in the field of steering policy have been influenced by the recommendations presented by NAOF in its annual report

Financial audits help to establish trust in central government finances

The 2013 legislation on state IT shared services and the establishment of the Government ICT Centre Valtori have also been influenced by the findings of the performance audits conducted by the National Audit Office. At the same time, the performance audit of the clarity of the target-setting for crisis management operations and the manner in which Parliament is provided with information also generated debate on the role of the National Audit Office in the assessment of security-related performance issues and its readiness to do so. Confidentiality of security issues is one reason why only actors like the National Audit Office are able to adequately assess the financial management of national defence and crisis management as outside experts.

The National Audit Office systematically monitors the implementation of the opinions laid out in the performance audits. On the basis of the follow-ups to the performance audits, the proportion of recommendations issued by NAOF that are implemented is high when compared with other countries. Some 68 per cent of the assessed recommendations are put into practice, at least in material respects. However, the percentage has dropped from the previous years. Especially the proportion of recommendations that are fully or almost fully implemented (18%) has fallen by almost one half from the previous year. Particularly the implementation of the recommendations concerning the knowledge base of decision-making has proceeded slowly, with only a small number of the recommendations becoming reality.

During the year under review, the National Audit Office submitted to Parliament the interim fiscal policy audit report on the 2011-2014 parliamentary term, which helped to provide a basis for a debate on central government finances and the assessment of the economic-policy decision-making in the Government. The conclusion of the National Audit Office was that the closing of the sustainability gap and stabilisation of general government finances require structural reforms. The audits have helped to improve the quality of the information received by Parliament and promoted confidence in Parliament's chances to influence matters. During the year under review, financial policy audit conducted an audit of the calculation of the structural or cyclically adjusted balance, verified the content of the calculation of the structural balance and helped to make the calculations more transparent.

Internationally, the National Audit Office has contributed to the implementation of accountability and openness in the banking union of the European Union and in economic policy coordination. Finland chairs the Network on Fiscal Policy Audit of national audit offices and courts of auditors of the EU. The National

The implementation of the recommendations concerning the decision-making knowledge base is making only slow progress

Fiscal policy audits help to improve the quality of the information supplied to Parliament and promote trust in the ability of Parliament to play an influential role

Audit Office played a central role in the arrangements of an extraordinary meeting of the Auditors General of the EU's national audit offices and Presidents of the EU's courts of auditors, which submitted a joint opinion to the President of the European Council for the European Council of June 2013 on the ensuring of openness and accountability and the monitoring that it requires. In fact, the European Council emphasized these issues in its conclusions.

During 2013, the National Audit Office concluded the process of monitoring the election campaign financing in the 2012 local elections. In the first anti-corruption report of the EU, which was published in early 2014, the European Commission supported the efforts to increase the openness of election campaign and political party financing. In the view of the European Commission, the Finnish system of ensuring the openness of political party financing and the monitoring carried out by the National Audit Office sets an example for the world.

In the view of the European Commission, the Finnish system of monitoring political party financing sets an example for the world

8.2 Development of expertise provides a basis for change management

The National Audit Office continued the implementation of its stability and efficiency programme in the field of personnel policy and finances. At the same time, the National Audit Office has been given important new statutory tasks. The number of person-years in the National Audit Office totalled 141, which was four more than in the previous year. The increase was a result of the employment of substitutes, ending of leaves of absence and work-arrangements in anticipation of the retirement of staff members. Anticipatory personnel policy and personnel planning are used by the National Audit Office to ensure the long-term effectiveness of its operations with existing funding levels.

In accordance with its strategic economic efficiency target, the National Audit Office aims to ensure that the rise in expenses and costs during the economic planning period does not exceed the rise in the consumer price index. Operating expenses increased by 5.8 per cent and costs by 5.4 per cent from 2012, which was more than the rise in the consumer price index during the same period (1.6 per cent). The price of a performance day for one person-year is also used as an economic efficiency indicator. In 2013, the price of a performance day increased by 2.5 per cent, amounting to 743 euros. During the monitoring period of the National Audit Office's stability and efficiency programme which started in 2011, operating expenses have increased by 3.2 per cent, while the price of a performance day has increased by 7.5 per cent. During the same period, the consumer price index has risen by 4.5 per cent. This means that, as regards costs, the National Audit Office is in the process of achieving its strategic economic efficiency targets but the cost target laid out for audit day has not been achieved.

A total of 74.3 per cent of the effective working hours of the National Audit Office was spent on external performances, which was slightly less than in the previous year. In 2013, more working days were spent on the development of expertise and internal development projects than in the previous year. The amount of advisory work provided to ministries and Parliament that supplements audit and monitoring is substantial; it accounts for 11.7 per cent of effective working hours. The demand for National Audit Office's expertise is on the increase.

The National Audit Office aims to ensure the effectiveness of its operations by means of an anticipatory personnel policy and personnel planning

In the field of costs, the National Audit Office is in the process of achieving its economic efficiency targets but the cost target per one audit day has not been achieved

External work accounted for 74.3 per cent of effective working hours

The quality of the management and supervisory work has improved and there is also greater trust in the role of the management in the maintenance of NAOF's operating prerequisites. Development of the working atmosphere, well-being at work and working methods is an essential part of the implementation of the National Audit Office's Strategy. Efforts have been made to reduce workloads by calculating resources more accurately and by planning their use. The measures that have been taken so far have had a positive effect on work management and have also brought about a slight reduction in the workload perceptions among staff members.

The number of sickness absences among the personnel decreased by 26.3 per cent from the previous year and is now well below central government average. A total of 11.9 person-days/person-year was spent on training, which was 13.3 per cent more than in the previous year. Development discussions (that take place separately from performance assessments) were conducted with each staff member.

Parallel to the implementation of the stability and efficiency programme, the National Audit Office has also invested in the development of skills. The skills development policy covers measures that help in the preparation of NAOF's skills chart, support the expansion and deepening of personnel skills and ensure the comprehensiveness of NAOF's skills areas in relation to its tasks.

There have been improvements in management and supervisory practices and workflow management

Development of expertise has been a focus area in the National Audit Office

Financial audit	6,823 pd 33% *	7,482 pd 37% *
Compliance audit	662 pd 3% *	548 pd 3% *
Performance audit	5,018 pd 23% *	4,567 pd 23% *
Fiscal policy audit	326 pd 1% *	287 pd 1% *
Reports to Parliament	327 pd 1% *	184 pd 1% *
External management	3,638 pd 17% *	3,490 pd 17% *
External expert activities	3,406 pd 15% *	3,037 pd 15% *
Oversight of election campaign and political party financing	424 pd 2% *	460 pd 2% *
Total external performances	20,623 pd	20,056 pd
External performances as % of total working hours	59%	59%
Indirect activities (support services, administration)	7,495 pd	6,533 pd
Holidays and other paid absences, total	7,495 pd	7,557 pd
Working hours, total	35,260 pd	34,145 pd

*) of external performances

Appendix 1 Qualified opinions on regularity and reporting obligations

QUALIFIED OPINION ON REGULARITY CONCERNING COMPLIANCE WITH THE BUDGET AND BUDGET PROVISIONS

ADMINISTRATIVE BRANCH OF THE MINISTRY FOR FOREIGN AFFAIRS

MINISTRY FOR FOREIGN AFFAIRS

On the basis of the audit, it is our opinion that the budget and the key budget provisions have been complied with, except for the arranging of performance accounting, as laid down in section 16 of the State Budget Act.

ADMINISTRATIVE BRANCH OF THE MINISTRY OF DEFENCE

FINNISH DEFENCE FORCES

On the basis of the audit, it is our opinion that the budget and the key budget provisions have been complied with, except for the exceeding of an authorisation on item 27.10.18 (Defence materiel procurement) by 13.3 million euros in the final accounts of the Finnish Defence Forces, which is in violation of section 10 of the State Budget Act, carrying over of an authorisation on item 27.10.01 (Operating expenses of the Finnish Defence Forces) and on item 27.10.18 (Defence materiel procurement), which is in violation of section 10 of the State Budget Act, and for the arrangement of the monitoring of the use of authorisations in accordance with section 15 of the State Budget Act, for the monitoring of the profitability of chargeable services, for the presentation of the annual results and for the arrangement of performance accounting in accordance with section 16 of the State Budget Act.

OBLIGATION TO REPORT TO THE NATIONAL AUDIT OFFICE

ADMINISTRATIVE BRANCH OF THE MINISTRY FOR FOREIGN AFFAIRS

MINISTRY FOR FOREIGN AFFAIRS

Under section 5(1) of the Act on the National Audit Office, the Ministry for Foreign Affairs must report to the National Audit Office by 22 August 2014 on the measures that it has taken to ensure that its performance accounting is in accordance with section 16 of the State Budget Act.

ADMINISTRATIVE BRANCH OF THE MINISTRY OF DEFENCE

FINNISH DEFENCE FORCES

Under section 5(1) of the Act on the National Audit Office, the Finnish Defence Forces must report to the National Audit Office by 15 August 2014 on the measures that it has taken to arrange the monitoring of the use of an authorisation in accordance with section 15 of the State Budget Act, to ensure that performance accounting is in accordance with section 16 of the State Budget Act and to verify the information on the use of the authorisation that, according to the 2013 final accounts, can be carried over.

Qualified opinion on regularity

Obligation to report to the National Audit Office

ADMINISTRATIVE BRANCH OF THE MINISTRY OF EDUCATION AND CULTURE

MINISTRY OF EDUCATION AND CULTURE

On the basis of the audit, it is our opinion that the budget and the key budget provisions have been complied with, except for the payment of a grant refund of 116,352 euros to item 29.80.40 (Compensation for the operating loss arising from Suomenlinna service traffic, variable annual appropriation), which is contrary to the budget and in violation of section 3 a of the State Budget Act. Without the refund allocated to the item, the variable annual appropriation of 2013 would have been exceeded by 6,180 euros. At least 160,078 euros in expenses on item 29.10.20 (Development of general education and children's day care, two-year deferrable appropriation) that should have been allocated to 2013 have been allocated to 2014, which is contrary to the budget and in violation of section 5 a of the State Budget Decree. If the expenditure had been allocated in accordance with the budget, the appropriation would have been exceeded by 82,701 euros.

NATIONAL BOARD OF ANTIQUITIES

On the basis of audit, it is our opinion that the budget and the key budget provisions have been complied with, except for the allocation of contracts made in 2014 as authorisations (1.7 million euros) for 2013 on item 29.80.04 (Operating expenditure of the National Board of Antiquities, two-year deferrable appropriation).

ADMINISTRATIVE BRANCH OF THE MINISTRY OF EDUCATION AND CULTURE

Qualified opinion on regularity

Obligation to report to the National Audit Office

FINNISH NATIONAL BOARD OF EDUCATION

The budget and the key budget provisions have been complied with, with the exception that expenditure that should have been allocated to 2014 has been allocated to 2013 as expenditure to item 29.30.20 (Training of education sector personnel, two-year deferrable appropriation in the 2012 budget), which is contrary to the budget and in violation of section 5 a of the State Budget Decree. Using the procedure, the Finnish National Board of Education has carried over a deferrable appropriation in violation of section 7 of the State Budget Act.

ADMINISTRATIVE BRANCH OF THE MINISTRY OF TRANSPORT AND COMMUNICATIONS

FINNISH TRANSPORT AGENCY

On the basis of the audit, it is our opinion that the budget and the key budget provisions have been complied with, except for accounting vouchers, which are not fully in accordance with sections 44 and 45 of the State Budget Decree.

FINNISH COMMUNICATIONS REGULATORY AUTHORITY

On the basis of the audit, it is our opinion that the budget and the key budget provisions have been complied with, except for the payment of the expenses arising from the decisions to grant broadband aid in 2012 and 2013 (8,390,222 euros) from item 31.40.50 (Discretionary govern-

ADMINISTRATIVE BRANCH OF THE MINISTRY OF TRANSPORT AND COMMUNICATIONS

FINNISH TRANSPORT AGENCY

Under section 5(1) of the Act on the National Audit Office, the Finnish Transport Agency must report to the National Audit Office by 15 August 2014 on the measures that it has taken as a result of the procedures that are contrary to the budget and in violation of the key budget provisions, and the measures that it has taken as a result of the shortcomings in internal control.

Qualified opinion on regularity

ment transfers for implementing the nationwide broadband project, three-year deferrable appropriation in the 2011 budget).

ADMINISTRATIVE BRANCH OF THE MINISTRY OF EMPLOYMENT AND THE ECONOMY

MINISTRY OF EMPLOYMENT AND THE ECONOMY

On the basis of the audit, it is our opinion that the budget and the key budget provisions have been complied with, except for the following errors:

- 1 Interest income totalling 111,878.74 euros connected with advance payments have been entered as deductions on item 32.50.64 (Funding contribution of EU structural funds and the state to structural fund programmes in programming period 2007-2013, variable annual appropriation), This is contrary to the budget and in violation of section 3 a of the State Budget Act.
- 2 The authorisations granted to regional councils (32.1 million euros) on budget item 32.50.64 (Funding contribution of EU structural funds and the state to structural fund programmes in programming period 2007-2013, variable annual appropriation) have been carried over in violation of section 10 of the State Budget Act.
- 3 Performance accounting has not been arranged in the manner required under section 16 of the State Budget Act.

Obligation to report to the National Audit Office

ADMINISTRATIVE BRANCH OF THE MINISTRY OF EMPLOYMENT AND THE ECONOMY

MINISTRY OF EMPLOYMENT AND THE ECONOMY

Under section 5(1) of the Act on the National Audit Office, the Ministry of Employment and the Economy must report to the National Audit Office by 22 August 2014 on the measures that it has taken in order to arrange performance accounting in a manner required under section 16 of the State Budget Act.

CENTRE FOR ECONOMIC DEVELOPMENT, TRANSPORT AND THE ENVIRONMENT FOR SOUTH SAVO

On the basis of the audit, it is our opinion that the budget and the key budget provisions have been complied with, except for the following errors:

- 1 A total of 314,903 euros in expenditure on items 32.70.30 (State compensation to municipalities, variable annual appropriation) and 30.40.51 (Promotion of the fisheries sector, two-year deferrable appropriation in the 2012 budget) that should have been allocated to 2014 have been allocated to 2013. This is contrary to the budget and in violation of section 5 a of the State Budget Decree. Using the procedure, the Centre for Economic Development, Transport and the Environment for South Savo has carried over an appropriation in violation of section 7 of the State Budget Act.
- 2 Salaries of permanent public servants (130,009 euros) have been paid from items 30.50.20 (Expenditure for water resources management and use, deferrable appropriation in the 2011 and 2012 budgets) and 35.10.22 (Certain environmental expenditure, deferrable appropriation in the 2012 budget), which is contrary to the budget. Salaries of temporary public servants (35,000 euros) have been paid from items 29.80.56 (Promotion of cultural exports, deferrable appropriation in the 2011 budget), which is contrary to the budget.

- 3 A total of 55,564.30 euros in government aid has been granted from item 30.40.77 (Construction and repair projects in the fisheries sector), which is contrary to the budget.
- 4 A total of 23,213.85 euros in deferrable appropriations have been paid from items 35.10.21 (Certain nature protection expenditure, deferrable appropriation in the 2011 budget) and 35.10.22 (Certain environmental expenditure, deferrable appropriation in the 2012 budget). This is contrary to the budget.

ADMINISTRATIVE BRANCH OF THE MINISTRY OF THE ENVIRONMENT

MINISTRY OF THE ENVIRONMENT

On the basis of the audit, it is our opinion that the budget and the key budget provisions have been complied with, except for the following errors:

- 1 The appropriation on item 24.20.66 (Neighbouring area cooperation, three-year deferrable appropriation in the 2011 budget) has been used to pay public servants' salaries, which is contrary to the budget.
- 2 A total of 97,812 euros of the appropriation on items 35.10.21 (Certain nature protection expenditure, three-year deferrable appropriation in the 2012 budget) and 35.10.22 (Certain environmental expenditure, three-year deferrable appropriation) has been used to cover the costs arising from deferrable expenses. This is contrary to the budget.

FINNISH ENVIRONMENT INSTITUTE

On the basis of audit, it is our opinion that the budget and the key budget provisions have been complied with, except for the use of an appropriation to pay salaries totalling about 285,000 euros from items 24.20.66 (Neighbouring area co-

ADMINISTRATIVE BRANCH OF THE MINISTRY OF THE ENVIRONMENT

MINISTRY OF THE ENVIRONMENT

Under section 5(1) of the Act on the National Audit Office, the Ministry of the Environment must report to the National Audit Office by 22 August 014 on the measures that it has taken as a result of the shortcomings in internal control.

FINNISH ENVIRONMENT INSTITUTE

Under section 5(1) of the Act on the National Audit Office, the Finnish Environment Institute must report to the National Audit Office by 15 August 2014 on the measures that it has taken as a result of the shortcomings in internal control.

**QUALIFIED OPINION ON
REGULARITY CONCERNING
COMPLIANCE WITH THE BUDGET
AND BUDGET PROVISIONS**

**OBLIGATION TO REPORT TO THE
NATIONAL AUDIT OFFICE**

operation, three-year deferrable appropriation in the 2011 and 2012 budgets) and 24.90.68 (Cooperation in the Baltic Area and Barents and the Arctic Region, three-year deferrable appropriation). This is contrary to the budget.

Appendix 2: Financial and compliance audit reports by administrative sector

130/53/13 Final central government accounts

Office of the President of the Republic

58/53/13 Office of the President of the Republic

Prime Minister's Office

59/53/13 Prime Minister's Office

Administrative branch of the Ministry for Foreign Affairs

60/53/13 Ministry for Foreign Affairs

Administrative branch of the Ministry of Justice

61/53/13 Ministry of Justice

62/53/13 Criminal Sanctions Agency

Administrative branch of the Ministry of the Interior

63/53/13 Ministry of the Interior

64/53/13 ICT Agency (HALTIK)

65/53/13 Emergency Response Centre Administration

66/53/13 Finnish Immigration Service

67/53/13 Emergency Services College

68/53/13 National Police Board

69/53/13 Finnish Border Guard

131/53/13 Fire Protection Fund

Administrative branch of the Ministry of Defence

70/53/13 Ministry of Defence

71/53/13 Construction Establishment of Defence
Administration

72/53/13 Finnish Defence Forces

Administrative branch of the Ministry of Finance

73/53/13	Ministry of Finance
74/53/13	State Department of Åland
75/53/13	Regional State Administrative Agency for Southern Finland
76/53/13	Statistics Finland
77/53/13	Finnish Customs
78/53/13	State Treasury
79/53/13	Government Institute for Economic Research
80/53/13	Finnish Government Shared Services Centre for Finance and HR
81/53/13	Finnish Tax Administration
82/53/13	Population Register Centre

Compliance audit

247/52/13	10/2014 Energy subsidies
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Administrative branch of the Ministry of Education and Culture

84/53/13	Ministry of Education and Culture
85/52/13	Centre for International Mobility CIMO
86/53/13	National Archives
87/53/13	National Board of Antiquities
88/53/13	National Board of Education
89/53/13	Academy of Finland
90/53/13	Governing Body of Suomenlinna
94/53/13	Finnish National Gallery

Administrative branch of the Ministry of Agriculture and Forestry

95/53/13	Ministry of Agriculture and Forestry
96/53/13	Finnish Food Safety Authority
97/53/13	Finnish Geodetic Institute
98/53/13	MTT Agrifood Research Finland
99/53/13	Information Centre for the Ministry of Agriculture and Forestry
100/53/13	National Land Survey of Finland
101/53/13	Agency for Rural Affairs
102/53/13	Finnish Forest Research Institute
103/53/13	Finnish Game and Fisheries Research Institute

Administrative branch of the Ministry of Transport and Communications

104/53/13	Ministry of Transport and Communications
105/53/13	Finnish Meteorological Institute
106/53/13	Finnish Transport Agency
107/53/13	Finnish Transport Safety Agency
108/53/13	Finnish Communications Regulatory Authority

Administrative branch of the Ministry of Employment and the Economy

109/53/13	Ministry of Employment and the Economy
110/53/13	Energy Market Authority
111/53/13	Centre for Economic Development, Transport and the Environment for South Savo
112/53/13	Geological Survey of Finland
113/53/13	Finnish Competition and Consumer Authority
114/53/13	National Consumer Research Centre
115/53/13	Finnish Tourist Board
116/53/13	Centre for Metrology and Accreditation
118/53/13	Finnish Patent and Registration Office
119/53/13	Tekes - the Finnish Funding Agency for Innovation
120/53/13	VTT Technical Research Centre of Finland
121/53/13	Finnish Safety and Chemicals Agency

Compliance audit

247/52/13	10/2014 Energy subsidies
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Administrative branch of the Ministry of Social Affairs and Health

122/53/13	Ministry of Social Affairs and Health
123/53/13	Finnish Medicines Agency
124/53/13	National Supervisory Authority for Welfare and Health
125/53/13	Radiation and Nuclear Safety Authority
126/53/13	National Institute for Health and Welfare

Compliance audit

326/52/13	12/2014 Central government transfers to local government to cover costs arising from basic social assistance
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Administrative branch of the Ministry of the Environment

127/53/13	Ministry of the Environment
128/53/13	Housing Finance and Development Centre of Finland
129/53/13	Finnish Environment Institute
132/53/13	Finnish Oil Pollution Compensation Fund

Appendix 3: Fiscal policy audits

013/2013	Audit of the structural balance calculation Separate report of the National Audit Office to Parliament: Fiscal Policy Audit and Monitoring Report 2014, K 15/2014
004/2014	Economic effects of changes in taxation – indirect taxation

Appendix 4: Performance audits and follow-up reports by administrative branch

Effectiveness information on the Government's annual report for 2013

Prime Minister's Office

007/2013	Good governance model in special assignment companies and in their ownership steering
001/2014	Implementing parliamentary resolutions (all administrative branches)
	Follow-up reports
212/2010	Policy programmes as steering instruments - with the health promotion policy programme as an example

Administrative branch of the Ministry for Foreign Affairs

012/2013	Steering system in the administrative branch of the Ministry for Foreign Affairs
	Follow-up reports
180/2009	Procurement of expert and research services at the Ministry for Foreign Affairs
203/2010	Complimentarity in development cooperation

Administrative branch of the Ministry of Justice

005/2014	Public legal aid
	Follow-up reports
216/2011	Evaluation of the economic impacts of legislative projects

Administrative branch of the Ministry of the Interior

	Follow-up reports
186/2009	Changes in financial administration in ministries, agencies and units

Administrative branch of the Ministry of Defence

009/2013	Military crisis management
	Follow-up reports
215/2011	The 2004 report: Garrison structure and the command and administration system
218/2011	Structural changes in the Defence Forces' catering service and medical service
223/2011	Steering system in the administrative branch of the Ministry of Defence

Administrative branch of the Ministry of Finance

001/2013	Custom's role in the combating of the shadow economy
003/2013	State IT shared service centres
005/2013	Success of tax auditing activities
009/2014	Steering system in the administrative branch of the Ministry of Finance
011/2014	Promotion of electronic archiving
	Follow-up reports
161/2008	The development and use of identification services in the public administration
185/2009	Vehicle Administration Centre's PALKO information system project
195/2009	Vehicle taxation
202/2010	Occupational safety in state workplaces
225/2011	Government premises and group steering in the administrative sectors of the Ministry of Justice, Ministry of Employment and the Economy and the Ministry of Finance

Administrative branch of the Ministry of Education and Culture

008/2013	Special needs education in basic education
017/2014	Steering and management of education, research and innovation
	Follow-up reports
206/2010	Universities' human resource management
171/2008	Foresight analysis and the dimensioning and targeting of education - focusing on vocational education for young people

222/2011 Foresight analysis and the dimensioning and targeting of education

Administrative branch of the Ministry of Agriculture and Forestry

004/2013 Administration of agricultural subsidies

Administrative branch of the Ministry of Transport and Communications

006/2013 Traffic safety

015/2013 Derivative contracts concluded by Finavia Corporation between 2009 and 2011

014/2014 Steering system in the administrative branch of the Ministry of Transport and Communications

Follow-up reports

2011/2010 Grounds for implementing transport infrastructure projects

Administrative branch of the Ministry of Employment and the Economy

008/2014 Management of youth unemployment

Follow-up reports

164/2008 National Emergency Supply Agency

201/2009 Current state of the Kainuu regional self-government experiment

210/2010 State aid for foundations and their supervision

213/2010 Promoting renewable energy

234/2011 Steering system in the administrative branch of the Ministry of Employment and the Economy

235/2011 Mitigating climate change: preparation and implementation of the National Climate and Energy Strategy

002/2012 Supporting areas of abrupt structural change

Administrative branch of the Ministry of Social Affairs and Health

- 002/2013 Rehabilitation as a means of extending working careers
- 003/2014 Integration of immigrants in social and health care
- 007/2014 Environmental health care

Follow-up reports

- 221/2011 Services for persons with disabilities in a changing municipal and service structure - state steering in arranging housing services for persons with intellectual disabilities
- 228/2011 Health insurance - particularly compensation for private medical and dental care
- 230/2011 Occupational safety and health enforcement

Administrative branch of the Ministry of the Environment

- 002/2014 Management of and responsibilities for oil spills from vessels in the Gulf of Finland
- 006/2014 Cyclical renovation grant scheme

Follow-up reports

- 183/2009 Regional environment centres as implementers of the Objective 2 programme
- 208/2010 The state's role in increasing the supply of lots and creating a more compact urban structure

References:

- 1 Different types of future scenarios have been presented in future research and economics literature and systematic work to identify and assess future development trends is also taking place in central government. The book by Louis del Monte opens up an interesting technological perspective concerning the potential and risks of artificial intelligence: *The Artificial Intelligence Revolution: Will Artificial Intelligence Serve Us or Replace Us?* Louis A Del Monte (2013). A collection of articles by leading economists Ignacio Palacios-Huerta (Ed.): *In 100 Years: Leading Economists Predict the Future*, Massachusetts Institute of Technology (2013). Economists such as Daron Acemoglu, Robert Shiller and Robert Solow also highlight technological change as the factor that will have the strongest influence on economic development in the coming century. In Schiller's view, technology will have a profound impact on risk management, while Solow analyses the changes in work and in the division of work.
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- 3 This was the main conclusion of the 2014 Congress of EUROSAI (European Organisation of Supreme Audit Institutions) and the central recommendation of the meeting to the member states, see <http://www.eurosai.org>.
- 4 This is also the conclusion Antti Kouvo made in his dissertation in the field of sociology, which he presented at the University of Turku in spring 2014. In the dissertation, Kouvo examined sources of generalised trust in society in an empirical manner. See Antti Kouvo: *Luottamuksen lähteet. Vertaileva tutkimus yleistynyttä luottamusta synnyttävistä mekanismeista*, Turun yliopisto, sarja C 381, Turku (2014).
- 5 A good presentation in Finnish of the different dimensions of good governance Ida Koivisto: *Hyvän hallinnon muunnelmat: julkisoikeudellinen tutkimus*, Suomalainen lakimiesyhdistys, Helsinki (2011).
- 6 The Ministry of Finance's Personnel and Governance Policy Department (Office for the Government as Employer) is working to strengthen ethics of good governance and ethics among central government public servants. Ethics among public servants is discussed in the report 'Civil service ethics -a study of the grounds of civil service ethics, its present state and areas of development, working group memoranda of the Ministry of Finance 8/2000' and Mirva Peiponen: *Arvot virkamiehen arjessa: selvitys virkamiesetiikan nykytilasta*. Valtiovainministeriön tutkimukset ja selvitykset 4/2007.
- 7 This was the main message of the 2014 Congress of EUROSAI (European Organisation of Supreme Audit Institutions) to its member states, see <http://www.eurosai2014.nl>.
- 8 The fact that legalistic operating logic has superseded performance guidance has also been highlighted in Finnish research on general government accounting, see for example, Timo Hyvönen, Janne Järvinen, Salme Näsi, Jukka Pellinen and Tapani Rahko: *Developing Public Sector Cost Accounting Systems - Case Finnish Defence Forces*, *Journal of Modern Accounting and Auditing* 7 (2) (2011), pp. 97-110 and Timo Hyvönen, Janne Järvinen, Jukka Pellinen and Tapani Rahko: *Institutional Logics, ICT and Stability of Management Accounting*, *European Accounting Review*, Vol. 18 (No. 2.) (2009), pp. 241-275.
- 9 This is clearly shown in the performance audit of electronic archiving and case management conducted by the National Audit Office.
- 10 Allen and Pollack have produced a good study of the number of scandals affecting political figures and the reasons behind them and the fact that they are becoming increasingly personal in nature Sigurd Allen and Ester Pollack (eds.): *Scandalous! The Mediated Construction of Political Scandals in Four Nordic Countries*, Nordicom, Gothenburg (2012).

- 11 This idea of ethics is based on the thinking of French social philosopher Michel Foucault, which has also provided inspiration for research on accounting. See concisely Michel Foucault: The Ethics of the Concern for the Self as a Practise of Freedom: An Interview Conducted by H. Becker, *Concordia: Revista Internacional de Filosofia*, Vol. 6 (1984). Katarzyna Kosmala: From Care of the Self for the Other: Neglected Aspects of Foucault's Late Work, *Accounting, Auditing & Accountability Journal*, Vol. 24 (No. 3) (2011), pp. 377-402.
- 12 A report compiled by Professor Jyrki Tala for the National Audit Office examines current international recommendations for the development of legislative drafting and how expert units established in different countries to conduct effectiveness evaluations have worked, see Jyrki Tala: Lainvalmistelun laatu ja kehittämistarpeet. Valtiontalouden tarkastusviraston selvitys 3/2013.
- 13 A concise description of the French practice is presented on the website of the French National Assembly, see <http://www2.assemblee-nationale.fr/decouvrir-l-assemblee/role-et-pouvoirs-de-l-assemblee-nationale/les-fonctions-de-l-assemblee-nationale/les-fonctions-legislatives/l-initiative-gouvernementale>.
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- 17 Figure 11: Source: Ministry of Employment and the Economy/job applicant register.
- 18 Source: University of Tampere/ Finnish Social Science Data Archive
- 19 See especially the INNODRIVE programme of the EU.
- 20 Source: http://www.tulli.fi/fi/tiedotteet/ulkomaankauppatilastot/tilastot/korkeateknologia/korkeateknologia13/liitteet/2014_M05.pdf
- 21 European Commission: Recommendation for a Council recommendation on Finland's 2014 national reform programme and delivering a Council opinion on Finland's 2014 stability programme, COM (2014) 427 final and Commission staff working document SWD (2014) 427 final, Assessment of the 2014 national reform programme and stability programme for Finland.
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 - Total risk = the highest estimated amount that the state may have to pay as a result of its liabilities
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