

## **Introduction to Finland's financial administration**

The foundations of national financial administration in Finland are laid down in Chapter 7 of the Constitution. More detailed financial administration requirements are prescribed in the Budget Act and Budget Decree as well as in the Act on Charge Criteria of the State.

Besides legislative instruments, the following are key instruments in the planning, management and control of government finances:

- multi-annual operating and financial plans of the ministries and government agencies;
- overall spending limits set by the Government for the ministries;
- annual Budget and supplementary budgets;
- reporting and auditing of central government finances; and
- report on the final central government accounts.

In line with international developments, Finland introduced performance guidance and performance budgeting as well as budget steering according to spending limits in the early 1990s. Commercial accounting was introduced in 1998. The current budgeting and financial administration systems have a lot in common with the systems of other European economies such as Sweden, the Netherlands and the United Kingdom. Within a broader international context, the Finnish system has adopted accrual-based budgeting, which is applied both in New Zealand and Australia. A formal decision to adopt this system has not been made in Finland, but in practice accrual budgeting is applied to a large extent. Transfers are budgeted on a cash-basis, but the general principle applied in other expenditure is accrual-based budgeting. Moreover, commercial accounting produces accrual-based returns and expenses statements.

### **Operating and financial plans as well as spending limits**

The purpose of the multi-annual operating and financial plans is to produce the necessary information for implementing and supervising the implementation of the Government's economic policy. A further aim is to ensure that the Government's operating guidelines are incorporated in the ministries' internal steering processes for the administrative branches by linking together the Government's targets with the ministries' operating policies and functions.

Operating and financial plan information on the spending limits of the administrative branches together with data on government revenue, central government debt and debt servicing form one of the cornerstones in Government economic and financial policy-making. This takes on a concrete form when the Government arrives at a decision in the government discussion on the spending limits and agrees on the division of the spending limits among the administrative branches for the next four years.

### **Contents of the budget proposal**

The Budget includes estimates for annual revenue and appropriations for annual expenditure as well as the purpose and other budget justifications for the appropriations. The gross budgeting principle is the main budgeting principle used. The revenue estimates in the Budget must cover the appropriations in the Budget. In Finland, part of the cumulative surplus and net borrowing can be taken into account when covering appropriations.

The Budget consists of the General Strategy and Outlook, summary tables, the Budget Statement and appendices.

## **Formulation of the budget proposal**

The formulation of the budget proposal starts in March each year following Government approval of the spending limits of the ministries. Based on these spending limits and on regulations issued by the Ministry of Finance, budget formulation progresses in the ministries, which issue their own guidelines to the government agencies and bodies under their mandate. The agencies draw up their draft budgets in the course of the spring. The ministries then formulate a draft budget for the whole of their administrative branch from the plans submitted by the agencies. This draft budget is handed to the Ministry of Finance in May. In addition, ministries can propose changes to their spending limits, based on reasoned proposals, and the proposed changes are submitted to Government together with the budget submission.

The ministries' draft budgets are processed at the Ministry of Finance in the course of the spring and summer. The Minister of Finance reaches a decision on a proposal for a budget submission by mid-July and hands the decision to the ministries. The proposal is simultaneously released on the Internet, and from then on all preparatory material related to the ministries' budget formulation becomes public.

Based on the Ministry of Finance position paper, a series of negotiations are held between the Ministry of Finance and each ministry over the spending limits with a view to settling any differences of opinion on the size of appropriations. Following the round of negotiations, the whole of Government handles the draft budget drawn up by the Ministry of Finance in the Government budget session in mid-August, which normally lasts one to two days. The Government endorses the contents of the budget proposal substantively in the budget session.

Once the Ministry of Finance has finalised the Government budget submission, the proposal is presented to the General Assembly of the Government and to the President of the Republic and is submitted to Parliament for handling at the start of the autumn session. Once the Finance Committee has presented its report on the proposal, the Budget is approved in the Parliament plenary session in December.

## **Supplementary budget**

Should there be need for any essential changes to the Budget, supplementary budget proposals can be presented to Parliament. The same procedures used in formulating the Budget are generally applied in formulating supplementary budget proposals.

## **Implementing the Budget**

Once the Budget has been approved the ministries must confirm a breakdown of budgetary accounts for their administrative branch for implementing the Budget. The breakdown must be specified at least to the degree of detail specified by Parliament. The breakdown forms the basis for budget accounting, which is used to monitor the execution of the Budget. Government returns and expenses are also monitored by commercial accounting. To make the preliminary performance targets outlined in the budget proposal more tangible, the ministries carry out performance target negotiations with the agencies under their mandate. Once performance agreements have been contracted with the agencies, the ministries must make their performance targets public.

The key regulations from the viewpoint of budget execution are the general ordinances on budget implementation endorsed by the Government.

## **Reporting on the execution of the Budget**

The Government submits a Financial Status Report to Parliament outlining how well performance targets have been met. The report is handed to Parliament at the start of the autumn session, in other words at the same time as the budget proposal. The report sets out the effectiveness of each administrative branch. Administrative branches also report on budget execution and performance targets in their reports on operations by administrative branch, which are submitted to Parliament in mid-May.

## **Financial control**

Parliament supervises national financial supervision and the execution of the Budget. To this end, there is an Audit Committee in Parliament, which reports its main supervisory observations to Parliament. The Audit Committee was set up in 2007 by merging the tasks of government financial audits and the parliamentary auditing of the administrative and audits sub-committee of the Finance Committee.

Moreover, an independent National Audit Office (NAO) is in charge of auditing national financial administration and Budget execution. The NAO performs annual audits and performance audits, and, where necessary, extraordinary audits. The NAO communicates audit for further action to both the audited agency and the ministry under whose mandate the agency operates, and also to the Audit Committee in Parliament and to the Ministry of Finance. The NAO presents a report on its operations annually to Parliament.

Senior management in government agencies are responsible for internal control to ensure the legitimacy and effectiveness of financial activities, to safeguard the assets held by agencies and to secure correct and appropriate information on financial activities and agency operations in line with management and external steering requirements. Agency management must also arrange for internal auditing where it is deemed necessary following internal control measures. The purpose of internal auditing is to clarify the timeliness and appropriateness of internal control procedures and to conduct any auditing requested by senior management.