

# Finland

## **National Audit Office of Finland – Fiscal Policy Evaluation**

**Established:** Independent monitoring and evaluation of fiscal policy function established as of January 2013.

**Enabling legislation:** Constitution of Finland (1999), Act on the National Audit Office of Finland (2000, amended 2012), Act on the Implementation and Application of the Provisions of the Treaty on Stability, Co-ordination and Governance in the Economic and Monetary Union and on the Requirements of the Frameworks of Public Finances (2012).

**Mandate:** To monitor compliance with the Fiscal Policy Act (869/2012) and its provisions, including setting and compliance with the fiscal policy rules, the quality of macro-economic forecasts, and the adequacy and effectiveness of corrective fiscal policy measures in case of correction mechanism.

**Budget:** EUR 0.7 million (2015).

**Staff:** Four assigned to the IFI function (2015).

## 1. Context

As a member state of the European Union and the euro area, Finland is bound by the fiscal rules set in the European Stability and Growth Pact and the Fiscal Compact, including the medium-term objectives established in the stability programmes. Finland has also a system of national fiscal rules in place: an expenditure rule which sets a cap for central government spending for the electoral period<sup>1</sup> which has been complemented by balanced budget and deficit targets.<sup>2</sup> Both European commitments and the national fiscal rules informed the debate on establishing an independent fiscal institution (IFI).

The tasks of independent monitoring and evaluation of fiscal policy, and oversight of fiscal policy rules and the automatic correction mechanism were assigned to the National Audit Office of Finland (NAOF)<sup>3</sup> as part of Finland's implementation of the new EU requirements. In this regard, Finland sought to meet its obligations and to ensure long-term sustainability of public finances and credibility of fiscal policy. A key issue raised by the parliament was the quality of the European Commission's economic forecasting and analyses. The parliament's Finance Committee was concerned about the significant uncertainty associated with estimates of the structural balance, in particular that the estimation method used by the European Commission may not properly take into account the unique features of the Finnish economy. The Finance Committee requested that the NAOF assess the structural balance using the European methodology and to assure the quality of the European Commission calculations. In addition the Finance Committee emphasised the need to have an open dialogue with the European Commission in order to confirm that the commission's methodology provides an unbiased assessment of the structural features of the Finnish economy. It was in this context that the Finance Committee indicated that a fiscal council appointed by the government would be useful (Finance Committee Report VaVM 38/2012).<sup>4</sup>

Although the legislation establishing the NAOF as the Finnish independent fiscal institution was passed in the context of Finland's European commitments, the mandate of the NAOF to provide independent monitoring and evaluation of fiscal policy also grew out of the need to monitor national fiscal rules and to improve accountability and increase the credibility of fiscal policy. Finland has had a system of national fiscal rules in place since the early 1990s, the most significant of which are the "spending limits" (expenditure rule). The spending limit system was reformed in 2003 following the 2002 OECD review of budgeting in Finland. In 2006, the Ministry of Finance appointed an expert working group to explore further reforms. Referring to the experience of the Swedish National Institute for Economic Research, the Danish Economic Councils and the Belgian High Council of Finance, the working group recommended the independent external evaluation of the implementation of the spending limits. External monitoring was deemed desirable provided it was backed by solid expertise in macroeconomics, the budget and public finances. Without such expertise, the working group feared that a system of external monitoring could lead to erroneous statements, which would cause "confusion, unfounded

mistrust in the functioning of the spending limits system”.<sup>5</sup> The Ministry of Finance considered the NAOF had sufficient knowledge and expertise to carry out this external monitoring role (Ministry of Finance, 2007).

The NAOF launched an ongoing annual audit programme which audits compliance with the expenditure ceilings, as well as the accuracy of the information on the governmental fiscal policy. Since 2008, the results of these audits are presented to the parliament each spring. The NAOF also developed broader “effectiveness audits” with a macroeconomic orientation and, in early 2011, launched “fiscal policy audits”. Also in early 2011, the NAOF presented a first “electoral period report” on the effectiveness of the expenditure ceilings as a fiscal policy governance tool. Electoral period reports aim to provide an external assessment of the government’s fiscal policy before parliamentary elections, thus implementing OECD recommendations on budget transparency. The parliament has welcomed this new approach.

Finally, the establishment of an IFI has entered the debate in part due to feedback from international organisations. The 2010 and 2012 OECD economic surveys in particular recommended establishing an IFI to reinforce a long-term perspective in fiscal policy. Finland has historically fairly low or manageable levels of government debt compared to many other European countries. But debt surged during a serious recession in the early 1990s and in 2009 the Finnish economy took a serious hit from the external shock following the financial crisis (with GDP reduced by 8%). A key medium-term and long-term issue for public finances is a clear sustainability gap following mainly from the comparatively rapid ageing of the population. Productivity and efficiency in the public sector are also important issues given the large size of Finland’s public sector.<sup>6</sup>

There is broad support in parliament for independent monitoring of fiscal policy and that part of the legislation was adopted unanimously. The act itself was controversial, however, due to fundamental disagreements over the nature and merits of the European Fiscal Compact, with one major opposition party coming out against the ratification of the Fiscal Compact. The NAOF is under the constitutional authority of the parliament. However, an alternative arrangement was proposed in debates: that a fiscal council, comprised mainly of academics, be established under statutory authority of the government with tasks such as providing policy recommendations and costings of electoral platforms. This proposal was widely discussed in academic circles and in economic periodicals and culminated in a group of leading economists presenting a proposal to the Ministry of Finance for such a fiscal council with a broad mandate.

The NAOF has also called upon the government to establish a fiscal council in several fiscal policy audit and evaluation reports and opinions (see, for example, the NAOF Special Report to the parliament on the effectiveness of spending limits, K 21/2010). Ultimately, Finland decided to separate independent monitoring and assessment functions from broader and more academic *ex ante* policy recommendations (or policy advice) to Government. Independent monitoring and evaluation is assigned to the NAOF under the statutory authority of the legislature, while the Economic Policy Council has a mandate to give *ex ante* policy advice. The government appointed the first Economic Policy Council, comprised of academics, in spring 2014 for a five year term. The council’s first report was published in January 2015. The NAOF co-operates and co-ordinates its work with the Economic Policy Council in order to avoid duplication.

In November 2014 the NAOF reorganised its work on fiscal policy evaluation and monitoring. The IFI function – “Fiscal Policy Evaluation” – was separated from the audit departments in order to clarify and strengthen it in accordance with international best practices and to give a distinct identity to its role and products. It is an independent function in the National Audit Office of Finland headed by the Executive Director for Fiscal Policy Evaluation.

## **2. Relationship with the executive and the legislature**

The NAOF is an independent institution under constitutional authority of the parliament. It is part of the legislative and supervisory powers of the parliament but has functional independence. Section 90(2) of the constitution guarantees the independence of the NAOF and the act on the NAOF provides further protections regarding the independence of the function of the Auditor General (head of the NAOF).<sup>7</sup>

The NAOF presents an Annual Parliamentary Report to the parliament at the same time that the government presents its budget proposal. The legislation governing fiscal policy monitoring seeks to ensure that the NAOF forwards all reports on the structural balance and all opinions on the adequacy and sufficiency of government measures to parliament. The NAOF may also present Special Parliamentary Reports to the parliament at its own discretion. The parliament has a statutory right of access to all work carried out by the NAOF as necessary for its oversight functions. The NAOF regularly provides evidence and expert opinions to parliamentary committees.

Parliament’s Audit Committee scrutinises the financial statements and management reports of the NAOF and prepares a report on them for the plenary. Parliament’s Audit Committee also provides the plenary with an assessment of the Annual Parliamentary Report and other work of the NAOF. The NAOF special Reports on Fiscal Policy Evaluation (the Annual Fiscal Policy Evaluation Report and the Electoral Period Reports which present the mid-term review and end of the electoral period review) are also discussed by the Parliament’s Finance Committee which gives an opinion on them to the Audit Committee. According to the constitution, the parliament may steer or instruct the NAOF only by a general act of the parliament that respects the criterion for independence set in the constitution and other constitutional laws.

The government is required to respond publicly to NAOF reports and recommendations and does so in practice. In addition, the government responds to observations or recommendations made by the parliament on the basis of NAOF Parliamentary Reports.

As noted above, the NAOF co-operates and co-ordinates its work with the Economic Policy Council. In addition, the council will be subject to audit, oversight and evaluation by the NAOF. Finland has several private economic research institutes which prepare economic forecasts. Some, along with the Bank of Finland, provide sustainability analyses and all provide some level of policy advice on, and monitor the effects of, economic and fiscal policies.

### Box 1. Role of the legislature in the budget process

Finland has a parliamentary system of government with a unicameral parliament known as the Eduskunta. The government's budget proposal is presented in September and approved before 25 December. Parliament can amend the budget proposal as it sees fit; however, revenue based on acts of Parliament may only be amended by legislative amendments. The parliament uses its amendment powers in practice, each year making changes that signal politically important topics; but overall the amount of these changes is only around 0.1% of the total budget (for example, EUR 50.1 million compared to the budget total of EUR 54 billion). While the vote on the budget is not considered a confidence vote, significant rejection of the overall economic policy line of the government would in practice be a vote of confidence.

The budget details and taxation legislation are referred to the Finance Committee for action, but the implementing legislation is referred to the respective sectoral committees. The budget is adopted in a single reading by the parliament and the vote is based on a report prepared by the Finance Committee. Committee hearings on the budget typically call on several hundred experts, including ministers, senior public servants, representatives from trade unions and civil society, experts and local government officials. A small team in the Research Services office provides some analytical support on economic and budgetary questions.

### 3. Legal basis for establishment

The National Audit Office of Finland is established by Section 90(2) of the Constitution of Finland and its access to information is provided in Section 90(3) of the constitution. Monitoring of fiscal rules is partly based on this general external audit and evaluation mandate and partly on the specific new role assigned in the Act on the National Audit Office of Finland (14.7.2000/636, amended by Act 21.12.2012/870) and the Act on the Implementation and Application of the Provisions of the Treaty on Stability, Co-ordination and Governance in the Economic and Monetary Union and on the Requirements of the Frameworks of Public Finances (21.12.2012/869), the Fiscal Policy Act of 2012.

The NAOF establishes its own rules of procedure (by decree issued by the Auditor General) and working methods in accordance with the constitutional independence provided in Section 90.

### 4. Mandate

The parts of the NAOF mandate linked to its function as an IFI are: independent monitoring and evaluation of fiscal policy, oversight of fiscal policy rules, and the audit and the evaluation of the information basis for, and effectiveness and governance of, fiscal policy including the quality of official macro-economic forecasts and sustainability of public finances.

While the mandate is expressed in broad terms in the Constitution, it is clearly defined in Section 5 of the act to implement the EMU requirements which specifies monitoring and evaluation of adherence to the fiscal rules and obligations under the fiscal compact. In addition, the legislation specifies that the NAOF shall, in the case of exceptional circumstances referred to in the Fiscal Compact, assess in a public opinion whether the policy measures taken by the government to improve the structural balance of the general government are adequate and sufficient.

The broad Constitutional mandate allows NAOF Fiscal Policy Evaluation to study the appropriateness and relevance of the European Union fiscal policy rules to the long term needs of Finland's national economy and the sustainability of public finances. This is included in the NAOF Fiscal Policy Evaluation work programme.

Monitoring includes:

- oversight of the setting of the fiscal rules required by the Fiscal Compact and the Budgetary Frameworks Directive 2011/85/EU;
- assessment of the quality of the macro-economic forecasts;
- assessment of whether the government has fulfilled its obligations to propose and take measures to improve structural balance; and
- assessment of whether fiscal policy is exercised in accordance with medium-term objectives.

An automatic correction mechanism is triggered in the event of significant observed deviations from the medium-term objective or the adjustment path towards it. The NAOF has several obligations related to this process, in particular to evaluate if the actions taken by the government are sufficient to correct the observed imbalance in the public finances.

Institutional coverage includes the whole general government, including state finances, the central bank and state transfers to actors in other sectors of the economy. It does not cover the resources of local government or the social security funds. Extra-budgetary funds, state-owned enterprises and decentralised agencies are within the audit mandate.

The legislation leaves the timing of reporting mainly to the discretion of the NAOF, apart from the Annual Parliamentary Report in autumn.

## 5. Functions

The main functions of NAOF fiscal policy evaluation are:

- Evaluating, from a macroeconomic and governance perspective, the quality and reliability or accuracy of information used to prepare and take decisions on fiscal policy (including tax policy), and the quality and accuracy of reporting on the implementation and results of fiscal policy. This includes potential risks to meeting fiscal policy objectives, whether fiscal policy was effective in achieving stated policy objectives, the sustainability of public finances and economic stability in the long-term, and the specific objectives established by the parliament and the government;
- Evaluating adherence to, and the effectiveness of, fiscal policy rules in terms of macroeconomic stability and the sustainability of public finances;
- Policy analyses, opinions and assessments related to fiscal policy;

Fiscal policy evaluation is subject to NAOF methodological guidelines for independent multi-disciplinary evaluations. Assessments generally combine both qualitative and quantitative analyses, as well as risk assessments where possible.

NAOF fiscal policy audits, which support the work done at NAOF Fiscal Policy Evaluation, look at the volume and trends of government spending and revenue in relation to the spending limits. They draw on statistics and other relevant information. In addition, the NAOF assesses the monitoring by the Ministry of Finance and compares the results. In assessing the structural balance, the NAOF evaluates Ministry of Finance estimates and then prepares its own independent analysis of the long-term structural balance.

The sustainability of public finances is an ongoing audit and evaluation question. The NAOF provides qualitative analysis of Ministry of Finance sustainability analyses, as well as the ministry's policy scenarios, assumptions and application of the assumptions. NAOF analysis is benchmarked against sustainability analyses performed by other actors and expert opinions in the literature.

In addition, the NAOF undertakes alternative sustainability analyses in co-operation with an independent economic research institute. These analyses test different assumptions and policies using a dynamic general equilibrium model that includes actual health statistics and stochastic population forecasts. This model is used to highlight potential uncertainties associated with variables that affect the sustainability of public finances and to provide a quantitative stochastic assessment of the scale of these different scenarios.

The NAOF does not prepare forecasts. It can, however, assess the quality of the government's economic forecasting (and the quality of tax revenue estimates) and did so in the first electoral period report to the parliament.<sup>8</sup> The NAOF does not have a role in *ex ante* policy advice, costings and costings of electoral programmes. Related work performance audits may, however, evaluate cost assessments and the impact of individual government proposals.

The NAOF regularly gives opinions and expert testimonies to parliamentary committees (most frequently to the Audit Committee, Constitutional Law Committee and the Finance Committee, although they also receive requests from sectoral committees). It may also give opinions to government when asked; provided it has the resources and that the request falls under its mandate.

## 6. Work programme

The NAOF prepares a work programme for fiscal policy audits and evaluation covering each electoral period (for example, 2011-14). This allows for the timing of the work programme to be aligned with the government programme, which is the most important steering document for fiscal policy. Moreover, spending limits and other targets are set by electoral period. The general electoral period plan for fiscal policy audit and evaluation is then translated into the annual audit and activity plan of the NAOF for four years. The Executive Director for Fiscal Policy Evaluation is responsible for approving the electoral period plan and proposing the concrete audit and action plan to be integrated into the larger NAOF Audit Plan approved by the Auditor General.

The plan is decided in part based on systematic risk analyses and working environment analyses. An important tool in this regard is the national economic and central government finances risk analyses which identifies and reviews trends, challenges and risks for the national economy and economic policy affecting central government finances and fiscal policy.

The NAOF has complete independence in its choice of topics for analysis. Nevertheless, it has established general principles for choosing topics: assessment tasks following from European treaties and legislation concerning fiscal policy rules and fiscal policy objectives; the economic significance of a topic to national economy and government finances; accuracy, relevance, materiality and importance of information to the parliament; and the significance of information to the general public debate on fiscal policy issues.

The NAOF responds to parliamentary requests, and government ministries and agencies regularly ask NAOF representatives to participate as experts in various working

groups. As long as participation in these working groups does not create conflicts of interest or serious resource constraints, NAOF accepts these invitations.

The NAOF Advisory Board is consulted on the NAOF work programme, and more informal consultations are held with various other stakeholders such as parliamentary committee chairs, the Prime Minister's Office, Ministry of Finance and other ministries and academia.

Key products for fiscal policy evaluation are as follows:

- End of electoral period: the electoral period review report to the parliament (Special Parliamentary Report) serves in part to inform fiscal policy objectives in the coalition agreement negotiations.
- The mid-term electoral period report to the parliament (Special Parliamentary Report) which is timed to serve as an input to the government's mid-term review of its programme at the end of February before decisions on the General Government Fiscal Plan and adjustments to fiscal policy are made in March. The General Government Fiscal Plan includes fiscal targets for all general government sectors as well as macro guidance for local governments and the central government spending limits.
- Once a year Fiscal Policy Evaluation submits a report to the plenary of the Parliament. The report covers compliance with national and EU fiscal policy rules, as well as an assessment of whether the objectives set for the fiscal policy have been reached, transparency in Government reporting on fiscal policy, and an assessment of reporting on sustainability.

## 7. Budget

Approximately EUR 0.7 million of the NAOF total budget of EUR 15.3 million is allocated directly to Fiscal Policy Evaluation. The Fiscal Policy Audit in the NAOF Performance and Fiscal Policy Audit Department supports the work of the IFI function (Fiscal Policy Evaluation). Their work is co-ordinated throughout the electoral period and in the annual work programmes prepared and approved by the Executive Director for Fiscal Policy Evaluation in concert with the Deputy Auditor General for Performance and Fiscal Policy Audit. The NAOF budget is set annually as part of the decision on the parliament's budget and is funded solely from the appropriation for the parliament. Funding in overall terms falls short in light of the broad mandate of the NAOF and in comparison to international benchmarks.

## 8. Staffing

### 8.1. Leadership

The Auditor General is elected by the parliament in a secret vote for a six-year, renewable term, following an assessment of candidates by the Audit Committee. Candidates are chosen through an open competition and must have a higher university degree, strong knowledge of public finances and state administration and proven leadership skills and experience. The Auditor General may be removed only by a decision of the plenary of the parliament for reasons specified by law (incapacity to perform in his or her functions and grave violations of official duties).

The Auditor General has full freedom to hire and dismiss staff within applicable legal constraints and the NAOF rules of procedure.<sup>9</sup> NAOF staff are part of the parliamentary service under the Act on the Civil Servants of the Parliament 1197/2003. The Auditor General makes all decisions "on presentation" which means that they are co-signed by a

rapporteur who is responsible for the substantive preparation of the decision and legality of the action. By law the appointments shall be merit-based.

The head of the IFI function at the NAOF is, pursuant to the NAOF rules of procedure, the Executive Director for Fiscal Policy Evaluation and is responsible for reports and opinions and leadership of work in this area. The Executive Director for Fiscal Policy Evaluation also acts as the rapporteur-general for the relevant reports presented to the plenary of the parliament. The Executive Director for Fiscal Policy Evaluation is a Member of the NAOF Executive Board and the Economic Counsel of the NAOF Executive Board. The Executive Director for Fiscal Policy Evaluation is a permanent civil servant, but his or her leadership function is assigned by the Auditor General.

According to the NAOF rules of procedure, the Executive Director for Fiscal Policy Evaluation must have: a higher university degree in a relevant field; strong knowledge of economics, audit, public finances and budgeting, and evaluation or scientific research activities, as well as proven leadership experience. The position can only be terminated if there is a restructuring of the organisation wherein no other task can be assigned for economic reasons, for inability to perform duties or for serious breaches of official duties (for example, not meeting objectives on a permanent basis). Procedures for dismissal are regulated in law and involve hearings of the persons concerned. The Executive Director for Fiscal Policy Evaluation is a full-time, paid position.

## **8.2. Staff**

The NAOF maintains a staff of approximately 140, but only four (including the Executive Director for Fiscal Policy Evaluation) are assigned to its IFI functions. Staff are recruited according to the processes in place for parliamentary civil servants and salaries and benefits are in line with those of the parliamentary service. In practice, salaries are higher than those of the government civil service.

Staff serving the IFI function all have a higher university degree or PhDs. They have backgrounds in economics, budgeting, finance, financial auditing and management and policy analysis and have held previous positions in academia and the Bank of Finland. The average age is around 40 years old. This team is supported by several administrative assistants, who have lower university or polytechnic degrees, and by the NAOF Head of Communications. Other departments within the NAOF also provide expertise to the team responsible for fiscal policy evaluation.

The NAOF may accept staff from government agencies or universities for temporary assignments provided they are qualified and their positions can be financed from the NAOF budget. The NAOF also co-operates with universities and research institutes in its analyses. For example, the NAOF carried out with a university a joint research project on spending limits. The NAOF also has had a joint research programme with an economic research institute using a dynamic general equilibrium model to analyse the sustainability of public finances, as well as fiscal policy rules and the structural balance. The NAOF Fiscal Policy Evaluation plans to commission studies or develop joint studies supporting the evaluation of fiscal policy on an annual basis.

Staff are governed by the general rules in the Administrative Code and in the Act on Parliament's Civil Servants regarding conflicts of interests. In addition, the NAOF has its own internal ethical rules to avoid conflicts of interest based on international standards on auditing.

## 9. Access to information

Access to government information is guaranteed in Section 90(3) of the Constitution of Finland regardless of and over-riding secrecy provisions. The NAOF also has a specific right to information from the central bank guaranteed in law. In practice, access to information from the Ministry of Finance has been smooth and, particularly on the budget, even confidential internal analyses and data have been made available in a timely manner. The NAOF has a memorandum of understanding with Statistics Finland. One issue is that social security funds in Finland are, for the most part, provided by private insurance companies and neither the NAOF nor the Ministry of Finance have direct access to their information.

In addition, econometric and other statistical analyses for certain policy issues require access to secret data underlying the statistics (unit-level data on subjects used in statistical models which fall under statistical secrecy as defined in the EU law on the confidentiality of the unit level input data for statistics). In cases concerning entities not subject to the NAOF constitutional oversight, and where Statistics Finland is the source of information, the NAOF's access is no different than that of any researcher. This data concerns private companies and individuals and the procedures for granting research permission can make it difficult to get data in time. So far, this has not been an issue in the area of fiscal policy evaluation.

Access to statistical background data is unlikely to present a problem in macroeconomic-oriented work.

## 10. Transparency

All final NAOF reports are published on its website. Draft reports are sent to the executive (i.e. relevant government ministry) for comment prior to finalisation and then final reports are sent to the government and the parliament's Audit Committee and, for information, to other relevant parliamentary committees. The Fiscal Policy Evaluation reports tabled to the plenary of the Parliament are public by Constitution. NAOF methodologies are published and general manuals are available online. Preliminary studies are also public documents and available to any member of public upon request. The NAOF endeavours to make available its calculations on the structural balance and other significant working documents underlying its reports in accordance with the principles of open data.

The NAOF regularly issues a news release on all fiscal policy evaluation and parliamentary reports and holds news conferences or other types of information events (i.e. briefing breakfasts) for representatives of the media for electoral period reports and other reports of public interest. NAOF media policy calls for executives and members of staff to respond positively to requests for interviews to provide factual and objective communication. The Auditor General is regularly interviewed in the media, and responsible NAOF experts frequently comment on work published.

The function as IFI presents a challenge to the NAOF to demonstrate its credibility and reputation in this field through good-quality work that is well communicated. Given that the media often focus on NAOF criticisms of government, the NAOF will also be challenged to ensure that positive messages are also picked up and to demonstrate continually the non-partisan nature of its work. Background meetings and briefings are an important tool for communicating the results of NAOF analyses. This is true for the media as well as the academic community. The NAOF will continue to expand its interaction with the broader research community.

Parliamentary hearings, background briefings and meeting with government representatives are not made public, with the exception of the hearing of the Auditor General on the Annual Parliamentary Report which includes discussion on macroeconomic aspects and the sustainability of public finances from NAOF analyses. While reports are public there is broad consensus that confidential discussions between the NAOF and government ministries are necessary to tackle difficult issues. NAOF representatives have participated in Ministry of Finance-led expert assessments of the spending limits system and in drafting the recommendations for fiscal policy governance. They have also participated in projects led by the Prime Minister's Office to prepare recommendations on the strategic management of government. The NAOF considers this kind of more confidential work to be critical to its overall objectives to promote the sustainability of public finances and ensure reliable information for parliamentary decision-making and the public debate.

## 11. Governance, advisory support, monitoring and evaluation

The NAOF is planning to establish a Scientific Council to provide technical advice on, and evaluation of, NAOF work, in particular on methodological issues. The proposed role of the Scientific Council is described in the methodology manual on fiscal policy as assessing the quality of the work done and providing advice on preliminary studies and the work plan.

The audit manuals of the NAOF require the NAOF to seek systematic feedback on the quality and relevance of its work from those it has audited and other stakeholders. As part of its stakeholder relations, the NAOF maintains a statutory Advisory Board composed of: five MPs from the biggest parliamentary groups; two Permanent Secretaries of ministries; the Budget Director and the government Controller-General from the Ministry of Finance; one chief executive of a government agency; one professor representing university research; the Director-general of the Government Economics Research Institute; the Auditor General; and one member elected to represent the NAOF staff. The Advisory Board has a maximum term of three years.

All NAOF work is subject to international peer review in accordance with international standards for government auditing. The last peer review was concluded in 2012 and concentrated on the application of the international standards and best practices in quality assurance and in audit manuals. The peer review concluded that the fiscal policy audit manual and the quality assurance system are in line with internationally accepted standards.

According to the fiscal policy audit manual, fiscal policy work should be subject to regular peer reviews by experts, including for example external experts from academia. All draft analyses are also subject to internal peer review by another member of the staff before being presented for comments or decision-making. The NAOF monitors whether its recommendations have been implemented and reports to the parliament on implementation.

## 12. Concluding remarks

While the NAOF is a well-established, long-standing institution with a good reputation, fiscal policy auditing and evaluation are new functions. With only limited resources and a very small staff, the NAOF faces many challenges as it attempts to build credibility in this new area and establish a reputation for robust, quality work.

Monitoring compliance with fiscal policy rules and assessing the effectiveness of fiscal policy touch on issues at the heart of the political agenda. This creates an additional challenge in terms of demonstrating high-quality work and integrity and communicating

the work in a sufficiently clear manner, while avoiding being perceived as political. For example, structural balance (structural deficit) appears to be a natural indicator for analysis of sustainable policy. But in an economy that is subject to structural changes, estimation of the potential output is difficult and controversial and so a seemingly neutral and technical task is actually one of the most hotly contested macroeconomic issues. Moreover, when analysing the sustainability of public finances, it has been challenging to communicate risk assessments and a stochastic view to political and policy debates which too often focus on trying to determine a “single true figure”.

The NAOF must also determine where to draw the line in terms of policy recommendations. While the NAOF does not traditionally give *ex ante* policy recommendations, with its new function it is broadly expected to give forward-looking recommendations based on its assessments. What is appropriate in this respect, for example, when pinpointing the adjustment measures and needs in detail? How can the NAOF maintain the established division of the tasks between policy preparation (the role of government) and supporting the parliament through monitoring and evaluation (the role of the NAOF)? In particular, how can the NAOF credibly assess the effectiveness of policies that it itself has recommended?

## Notes

1. The expenditure ceiling is only adjusted to reflect changes in price levels and structural changes in the budget. It is set in the Government Programme and is constitutionally subject to a vote in the parliament. The expenditure cap covers approximately four-fifths of the central government budget.
2. A useful overview of Finland’s fiscal policy rules and objectives in force up to 2015 can be found in, the Fiscal Transparency Evaluation of Finland IMF 2015. See in particular Table 2.5 on p. 46.
3. The office’s names in Finland’s official national languages are valtiontalouden tarkastusvirasto – finanssipolitiikan valvonta and statens revisionsverk – tillsyn över finanspolitiken. The National Audit Office has a long history in Finland. Established in 1695, and functioning continuously since 1824, it began conducting fiscal policy audits and evaluations in 2008 and was assigned a specific fiscal policy audit and evaluation function in 2011.
4. See the parliament’s web pages: [www.eduskunta.fi/FI/vaski/mietinto/Documents/vaum\\_38+2012.pdf](http://www.eduskunta.fi/FI/vaski/mietinto/Documents/vaum_38+2012.pdf).
5. Ministry of Finance: Kehyksen puitteissa 2007. The full English version of the report is on the Ministry of Finance website at: [www.2014.vm.fi/vm/en/04\\_publications\\_and\\_documents/01\\_publications/08\\_other\\_publications/20070213Fiscal/name.jsp](http://www.2014.vm.fi/vm/en/04_publications_and_documents/01_publications/08_other_publications/20070213Fiscal/name.jsp) (accessed in January 2012, no longer available online).
6. General government expenditure in Finland is approximately 56% in comparison to GDP.
7. The Auditor General is elected by the parliament in a secret vote, following an assessment of candidates by the Audit Committee. Candidates are chosen through an open competition.
8. The NAOF has, on occasion, included qualitative or quantitative comparisons on the accuracy of the economic forecasts in fiscal policy audit reports.
9. In practice, hiring includes a panel of several experts and other quality assurance measures.

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