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## Annual auditor's summary

### Compliance audit of senior management procedures

The purpose of an annual auditor's summary is to discuss briefly the key observations and conclusions from the senior management procedure control environment compliance audit ("Control environment audit – procedures of senior management", hereinafter also referred to as the "compliance audit").

No separate audit report for a performed compliance audit is made. The key observations are included in the accounting office specific annual financial audit summaries, as well as in the 2015 audit reports, where necessary. A report on the audit is also submitted to the Parliament as part of the National Audit Office's annual report in September.

On 3 May 2016 at the draft stage, a rejoinder on this annual summary was requested from the Ministry of Finance (the Office for the Government as Employer). The rejoinder was taken into account in the annual summary. Feedback from the accounting offices is discussed in connection with the accounting offices' audit reports.

## 1 Summary and key conclusions

### Starting point

The attitude and awareness of the management on internal control procedures and their significance in management create the basis for the functionality of internal control and the principles of good governance in the entire organisation. If the senior management clearly indicate that they deem the agreed procedures and controls important, it is likely that the other employees will take this into account and make a conscious choice to follow the existing procedures.

The audit was conducted in all the accounting offices.

### Audit criteria

The fairness and impartiality of public servants create the basis for the activities of authorities. All authorities must take special care to act in an impartial manner and also to seem impartial from the perspective of stakeholders and citizens.

The audit criteria are based on the collective bargaining agreement on compensation for travel expenses (virka- ja työehtosopimus matkakustannusten korvaamisesta) and guideline of the Ministry of Finance on hospitality, benefits and gifts (ohje vieraanvaraisuudesta, eduista ja lahjoista; VM/1592/00.00.00/2010). The starting point with business trips is that the travel expenses must be based on the collective bargaining contract. The regulations on outside employment and disqualifica-

tion (sections 27 and 28 of the Administrative Procedure Act) verify the independence of the authorities.

### Audit conclusions

- 1 The first goal of the audit was to provide an opinion based on reasonable assurance on whether the senior management of the government agencies has followed the decreed, prescribed and agreed procedures. Based on the audit, the conclusion is that the decreed, prescribed and agreed procedures have been followed in all material respects.
- 2 Another goal of the audit was to provide an opinion based on limited assurance on whether the operations methods of the senior management of the government agencies support the creation of a functional control environment. As a whole, one can state that the compliance audit did not reveal any material issues in the operations methods of the senior management of the government agencies that do not support the creation of a functional control environment in the accounting offices.

### Key observations and development areas

Although most matters were fine based on the observations made during the audit, some deficiencies and development needs are mentioned below.

- 1 The procedures related to the payment of salaries were deemed appropriate for the most part. Some individual errors regarding fringe benefits were observed.
- 2 Only a couple of the accounting offices allowed the use of an official car. From the perspective of the state, granting the right to use an official car is not financially appropriate, particularly in case the potential user of the official car only has a limited number of business trips. In the view of the National Audit Office, the right to use an official car should be based primarily on a need to use an official car due to the nature of the person's duties.
- 3 During the audit, attention was paid to the fact that advisory council fees were paid to the heads of the hosting agencies. The membership of agency heads in advisory councils is based on agency-specific decrees, which means that the duties in the advisory council are part of the duties of the agency head. In the view of the National Audit Office, no fees for the work done in an advisory council should thus be paid to agency heads. The Ministry of Finance should specify instructions regarding this matter.
- 4 Some members of senior management often use a taxi when going to and returning from work-related events and meetings in the Helsinki downtown area. Based on the audit, it is recommended that discretion as laid down in the travel regulations is applied to the use of taxis, particularly in the Helsinki downtown area, where the public transport network is very comprehensive.
- 5 Travel authorisations for senior management are often valid until further notice and are based either on a currently valid Rules of Procedure or a permanent travel authorisation. From the viewpoint of internal control, an arrangement where the need to take a trip is assessed on a case-by-case basis and a travel authorisation is separately given for each trip is a better practice than permanent travel authorisations. If permanent travel authorisations are used, a summary of all business trips should be regularly made and submitted to the steering ministry.
- 6 Verification of travel expenses was appropriate in most of the accounting offices, but some deficiencies in the verification of expenses were also detected. Most of the deficiencies involved appendices to travel expense accounts. A requirement in the case of travel expenses is always the travel expense account as a whole verifying the expenses.
- 7 When attending events arranged by outside parties, attention should be paid to the justification for the attendance, particularly if the event includes plenty of entertainment.

- 8 Apart from a couple of exceptions, the accounting offices do not monitor the allocation of customer benefits offered by airlines, even though the National Audit Office's opinion is that all benefits acquired from business trips paid by the state should go to the employer. As the currently used air flight bonus schemes have not been successful from the state's viewpoint, a proposition on abandoning the air flight bonus schemes is made to the Ministry of Finance. In such a case, the air tickets should be obtained at a lower price than currently.
- 9 Declarations of interest of the senior public servants in some of the accounting offices were not up to date. Senior management as laid down in section 26 of the Public Servants Act must ensure that the declarations of interest are always up to date.
- 10 Some cases were observed in which single public servants were members of the boards of directors of a variety of corporations but had not submitted a declaration on outside employment or requested a permit for the outside employment in the board. Submitting a declaration on outside employment is recommended in all unclear cases. The Ministry of Finance should specify its instructions on outside employment of public servants (Virkamiesten sivutoimet), taking into account the duties and responsibilities of boards of directors laid down in the Limited Liability Companies Act, the Co-operatives Act and the Foundations Act.

## 2 Audit content

According to the 2013–2020 strategy of the National Audit Office, the strategic main goal of the National Audit Office is promoting by its operations sustainable and effective central government finances, reliability of information on central government finances and trust in central government finances.

The 2015–2019 audit plan of the National Audit Office states that compliance audits will be performed as separate compliance audits for which separate compliance audit reports will be submitted and as audits in connection with financial audits. The compliance audit performed in connection with the 2015 financial audit covered compliance with internal control procedures in the senior management of central government agencies.

Another objective of compliance auditing is to examine in issues within the competence of the National Audit Office that central government finances have been managed in accordance with legislation, lower-level regulation, guidelines issued by the authorities and the principles of good governance. In addition to examining compliance with the law and other provisions, the purpose of compliance auditing is also to determine whether the activities are in accordance with the state budget, principles of good governance, operating policies (objectives), and financing and contractual terms and conditions. The aim of compliance auditing is also to help the audited entities to improve the basis of legality, and especially the implementation of openness, accountability and the principles of good governance and good administration.

The focus in this audit was the actions of the senior management of the government agencies as part of the organisation's control environment.

The audit did not examine the actions of the senior management in the management of the organisation's operations. The senior management's actions relating to the organisation's financial and operational reporting were also left outside the scope of the audit. The financial and operational reporting of each accounting office is audited in the financial office's annual financial audit.

The goal of this compliance audit was to provide an opinion based on reasonable assurance (a positive opinion) on whether the senior management of the government agencies has followed the decreed, prescribed and agreed procedures. Another goal of the audit was to provide an opinion based on limited assurance (a limited opinion) on whether the operations methods of the senior management of the government agencies support the creation of a functional control environment (particularly from the viewpoint of compliance).

Answers to these questions were sought by focusing the audit criteria on the following: (1) payment of salaries (employment contract, fringe benefits, etc.); (2) business trips; (3) hospitality, benefits and

gifts; (4) use of credit cards and allocation of customer benefits (such as Finnair Plus); (5) interests (section 8 a of the Public Servants Act) and outside employment; and (6) management of the accounting office's property.

The key audit criteria are based on the State Travel Regulations and the guideline of the Ministry of Finance on hospitality, benefits and gifts. A key issue in terms of business trips is that the travel expenses must be based on the collective bargaining contract and the person's official position, salary level or any other similar matters may not influence them. The fairness and impartiality of public servants create the basis for the activities of authorities. All authorities must take special care to act in an impartial manner and also to seem impartial from the perspective of stakeholders and citizens. The regulations on outside employment and disqualification verify the independence of the authorities. If the senior management clearly indicate that they deem the agreed procedures important, it is likely that the other employees will take this into account and make a conscious choice to follow the existing procedures.

The audit covered all the accounting offices (except for the Parliamentary Office, the Finnish Institute of International Affairs and the National Audit Office of Finland). A total of 60 accounting offices were audited. A key party in the audit was the Ministry of Finance. Duties of the Ministry of Finance include development of central government management and its operations, as well as general arrangements involving the terms and conditions of employment as laid down in section 1 of the Government Decree on the Ministry of Finance (610/2003). The audited transactions took place between 1 November 2014 and 31 July 2015. In the case of accounting offices that started their operations on 1 January 2015, transactions between 1 January 2015 and 31 July 2015 were audited.

In the audit, the term "senior management" refers to ministries' permanent secretaries, state secretaries as permanent secretaries, state secretaries who handle the duties of permanent secretaries, as well as the persons in charge of other agencies. In the case of the largest accounting offices, senior management also refers to the members of the public servant management team (excluding representatives of personnel in the management team). Political permanent secretaries and persons holding similar positions were left outside the scope of the audit. The audit covered a maximum of eight persons from each accounting office.

The audit was performed as an analytical audit, a transaction audit and a document audit, as well as by means of interviews and surveys. A similar comprehensive audit was last performed in 2000.

The audit was performed by the accounting offices' auditors. Principal Legal Adviser Kaj von Hertzen participated in the audit as an expert. The audit was coordinated by Principal Financial Auditor Pasi Tervasmäki, JHTT and Principal Financial Auditor Jani Leinonen, JHTT.

The audit was supervised and monitored by Senior Director for Financial Audit Väinö Viherkoski, JHTT, Director of Financial Audit Jaakko Eskola, JHTT, Director of Financial Audit Sami Kummila, JHTT and Director of Financial Audit Jari Sanaskoski, JHTT.

The audit was performed in compliance with the audit plan, ratified compliance audit plan, audit manual and compliance audit manual of the National Audit Office.

### **3 General information on the control environment**

According to section 24 b of the State Budget Act (423/1988), the arrangement of internal control is to be managed and its appropriateness and sufficiency is to be verified by the management of the agency.

According to INTOSAI GOV 9100 (INTOSAI GOV 9100 [http://www.issai.org/media/13329/intosai\\_gov\\_9100\\_e.pdf](http://www.issai.org/media/13329/intosai_gov_9100_e.pdf)), the control environment forms the basis for all the other sectors of internal control in an organisation. The control environment consists of the following:

1. Professional and ethical regulations for the personnel, including attitudes that support the control system
2. Commitment to qualifications: understanding the control methods and how they are to be used
3. Operations methods of the management: whether the organisation's management is committed to the agreed operating methods
4. Functional organisational structure: authorisation, accountability, reporting policies
5. HR policy and practices: recruitment, training, governance, etc.

Attitude and awareness of the management on internal control procedures and their significance in management make the operations of the organisation as a whole orderly and disciplined. A key characteristic of a functional organisation is the attitude of the management on controls and the agreed procedures. If the senior management clearly indicate that they deem the agreed procedures and controls important, it is likely that the other employees will take this into account and make a conscious choice to follow the existing procedures.

However, if the senior management fails to follow the agreed procedures, the organisation's personnel are most likely aware of this and it is likely that this will influence the attitude of the personnel towards the agreed procedures and controls.

## 4 Payment of salaries

The audit covered salary agreements and employment contracts of the senior management, as well as any decisions on fringe benefits and salary revisions. Salary data for July 2015 was used to verify that the agreements and decisions corresponded to the actual salaries paid.

### 4.1 Salary agreements

In addition to the content of the salary agreements, the audit focused on whether the competent employees have signed the senior management employment contracts and whether an opinion of the Ministry of Finance on the salary level was asked when preparing the employment contract. The senior management employment contracts complied with the regulations laid down in section 26 of the Public Servants Act. The Office for the Government as Employer of the Ministry of Finance had issued opinions on the persons employed, and the employment contracts complied with the opinions.

Heads of areas of responsibility who handle the duties of agency heads in the Centres for Economic Development, Transport and the Environment (hereinafter "ELY Centres") in addition to their own duties are, according to an interpretation by the Office for the Government as Employer, not agency heads regulated by a Government decree as laid down in section 26, subsection 1, point 4 of the Public Servants Act. There are no agency head positions in the ELY Centres, which is why the Office for the Government as Employer is of the opinion that there is no need to limit them outside the scope of application of section 26 of the Public Servants Act in section 28, subsection 2 of the Government Decree on Public Servants (971/1994). Therefore, the Ministry of Finance has not issued any opinions on any employment contracts with heads of areas of responsibility who handle the duties of agency heads in ELY Centres, nor have any such opinions been requested from the Ministry of Finance. In the view of the National Audit Office, the Ministry of Economic Affairs and Employment as the appointing ministry should request an opinion from the Ministry of Finance regarding the salary agreements of such agency heads at the ELY Centres, and the Ministry of Finance should issue the requested opinion. Both the Ministry of Economic Affairs and Employment and the Ministry of Finance (the Office for the Government as Employer) have interpreted this issue differently. If the regulations are subject to interpretation in this respect, they must be specified.

The audit also covered management outside the scope of application of section 26 of the Public Servants Act. No deficiencies were detected in their employment contracts.

## 4.2 Fringe benefits

The audit focused on the justification for the fringe benefits offered to the senior management based on the July 2015 salary data and the processing of fringe benefits in payroll calculation. The most commonly offered fringe benefit was a mobile phone benefit. The Ministry of Finance issued a decision on mobile phones as fringe benefits on 7 May 2010 (Matkapuhelin luontoisetuna). The decision allows the use of a mobile phone as a fringe benefit for senior public servants and employer specification positions based on a declaration procedure. According to the decision, ministries must submit a declaration of the introduction of a mobile phone benefit in their administrative sector to the Ministry of Finance.

No material deficiencies in the justification for mobile phone benefits were detected.

According to a decision by the Tax Administration (section 25 of decision 149/200/2014), the taxation value of a mobile phone benefit was EUR 20 per month in 2015. As a general rule, the fringe benefit value of mobile phone benefits had been correctly taken into account in the July salary data. One case was detected where a public servant had been granted a mobile phone benefit, but the benefit had not been taken into account in payroll calculation. Furthermore, one case was detected where a public servant to whom the decision applies (who is included in the scope of application of section 26 of the Public Servants Act) had been granted a garage as a fringe benefit. The decision on the fringe benefit should have been made in cooperation by the ministry in question and the Ministry of Finance. In addition, the fringe benefit value of the garage benefit did not comply with the decision of the Tax Administration. Corrections in payroll accounting errors have been requested retroactively in audits.

Only a couple of the accounting offices allowed the use of an official car. The Ministry of Finance has made decisions on the use of an official car (free use) as a fringe benefit in the case of agency heads, and the car benefits have been appropriately processed by payroll accounting. According to the Office for the Government as Employer, in these cases the salary level (salary in euros and the car benefit) may not exceed the salary level laid down in the employment contract.

From the perspective of the state, granting the right to use an official car is not financially appropriate, particularly in case the potential user of the official car only has a limited number of business trips. As the employer, the state is responsible for the acquisition costs of the cars. In the view of the National Audit Office, the attitude towards car benefits should be conservative and the right to use an official car should be based primarily on a need to use an official car due to the nature of the person's duties.

## 4.3 Correctness of salary

The audits verified whether the salaries in July 2015 corresponded to the employment contract, as amended (if any). No deficiencies were detected. The processing of fringe benefits in payroll accounting is discussed in Chapter 4.2.

During the audit, attention was paid to the fact that advisory council fees were paid to the heads of the hosting agencies. The audits revealed that monthly advisory council fees had been paid to agency heads in four agencies included in the administrative sector of the Ministry of Finance. Furthermore, meeting fees for meetings of the advisory council had been paid in addition to the monthly fee to one agency head. In 2014, the Ministry of Finance issued recommendations (VM/826/00.00.01/2014 and VM/2473/00.00.01/2014) on board meeting fees and monthly fees. The recommendations did not specifically forbid the paying of both a monthly fee and a meeting fee to the personnel of the advisory council's hosting agency.

As the advisory council meetings are arranged during regular working hours (the total working hours in the case of auditors general and managing directors), members of an advisory council and the chair of the council will receive both a salary and a monthly fee and possibly a meeting fee at the same

time. The membership of agency heads in advisory councils is based on agency-specific decrees, which means that the duties in the advisory council are part of the duties of the agency head. In the view of the National Audit Office, no fees for the work done in an advisory council should thus be paid to agency heads.

This matter has been discussed with the Office for the Government as Employer. A representative of the Office for the Government as Employer declared that the recommendations need to be further specified due to the information revealed by the audits.

#### 4.4 Do the operations methods of the senior management of the government agencies support the creation of a functional control environment?

Based on the audit focus area regarding the payment of salaries, one can state that the operations methods of the senior management of the government agencies support the creation of a functional control environment in the accounting offices.

### 5 Business trips

The audit covered business trips made by the senior management. The audit was carried out by reviewing a comprehensive sample of travel expense accounts and their appendices. The audit was complemented by analyses and interviews.

#### 5.1 Appropriateness of travel authorisation practices

According to the instructions on applying section 3 of the State Travel Regulations, a travel authorisation is always mandatory for business trips and it can be made in electronic format. According to the application instructions, the business trip travel authorisation may be based on a separate request by a supervisor. In such a case, the request has been made orally. Based on the audit conclusions, however, an oral travel authorisation is not recommended, because assessment of the appropriateness of the trip and the travel expenses may remain incomplete and undocumented.

According to Chapter 3.2.3 of the Government travel guideline (registry no VNK/1455/31/2015): "The traveller must acquire an approved travel plan or travel authorisation in due time before the start of the trip. The travel plan must clearly indicate the destination, purpose of the trip, departure and return dates, travel method, itemisation of the funding of the assessed travel expenses and any other issues that influence the trip." Not making a travel authorisation does not comply with the guideline, nor is it in the best interests of the traveller (in case there is an accident during the business trip, for example).

The audit revealed that some agency heads had made business trips without any travel authorisation. Furthermore, in the case of the agency heads of two ministries travel authorisations had not been given by the minister, which is the procedure required by the ministries' Rules of Procedures, but a subordinate of the agency head.

The audit revealed that travel authorisations for senior management are often valid until further notice and are based either on a currently valid Rules of Procedure or a permanent travel authorisation. In the case of a permanent travel authorisation (including trips laid down in the Rules of Procedure), the traveller is in charge of assessing the purpose or necessity of the trip, which is why the practice of using permanent travel authorisations can be considered problematic in terms of the functionality of internal control. From the viewpoint of internal control, an arrangement where the need to take a trip is assessed on a case-by-case basis and a travel authorisation is separately given for each trip is a better practice than permanent travel authorisations.

The National Audit Office's recommendation is arranging the travel authorisation for agency heads in one of the following ways:

- A. The steering ministry issues trip-specific travel authorisations to the agency heads. In such a case, the travel expense accounts are approved by the agency head's own agency and sending a summary to the steering ministry is not necessary.
- B. The steering ministry issues a permanent travel authorisation for the agency heads or the travel authorisation is issued by a subordinate of the agency head. In such a case, the travel expense accounts are approved by the agency head's own agency and regular summaries of all business trips are submitted to the steering ministry.

The first alternative is usually the preferred one from the viewpoint of internal control. If using the first alternative is not possible or appropriate, permanent travel authorisations may be used for a justified reason.

## 5.2 Combining business trips and holidays

According to the instructions on applying section 3-4 of the State Travel Regulations, combining business trips with holidays should be avoided as a general rule and combining a business trip with a holiday is only acceptable for a special reason.

No deficiencies in the combining of business trips and holidays were detected.

## 5.3 Appropriateness of hotel expense compensations

The justification for the general hotel expense compensation level has been the most affordable and appropriate manner of travelling as laid down in section 5 of the State Travel Regulations. As of the beginning of 2014, the State Travel Regulations have no longer determined a general maximum amount for hotel expense compensation. In this audit, the benchmark for reasonable hotel expense compensation has been the maximum compensation level laid down in the 2013 State Travel Regulations.

According to the audit findings, the level of hotel expense compensation paid to senior management has been appropriate.

## 5.4 Travel day allowances for senior management

For business trips that take place on a weekend or bank holiday, an employee may receive the travel day allowance laid down in section 19 of the State Travel Regulations. This compensation is not available to public servants in a leading position as laid down in section 18, subsection 3 of the collective bargaining agreement, however.

In two cases, travel day allowances had been paid to public servants in a leading position as laid down in section 18, subsection 3 of the collective bargaining agreement. The other audited travel day allowance procedures were appropriate.

## 5.5 Appropriateness of the use of taxis

There are instructions on the use of taxis in the State Travel Regulations: according to section 5, a business trip must be completed as quickly and with as low total expenses as possible while ensuring that the assigned tasks will be appropriately and safely completed. According to the instructions on applying the State Travel Regulations, the person's official position, salary level or any other similar matters may not influence the travel expense compensation. When selecting the mode of transport, attention must be paid in addition to the direct costs to any other issues that influence the total expenses, such as how the time spent travelling will influence the person's work. Many of the accounting offices also have internal instructions on the use of taxis.



Some deficiencies in the use of taxis by senior management were detected in the audit. The deficiencies were connected to the justification for the use of a taxi and verification. In some cases, the justification for the use of a taxi was insufficient and did not indicate the purpose of the trip. Furthermore, some people had often used a taxi to travel between their home and place of work.

According to the audit observations, some members of senior management often use a taxi when going to and returning from work-related events and meetings in the Helsinki downtown area. Based on the audit, it is recommended that discretion as laid down in the travel regulations is applied to the use of taxis, particularly in the Helsinki downtown area, where the public transport network is very comprehensive.

## 5.6 Use of official cars

The Ministry of Finance issued a recommendation on the use of official cars in 2001 (11/2001). Official cars are meant to be used in official business. Official business refers to business trips, i.e. trips the public servant takes in order to perform their duties outside their regular place of work. The audit investigated whether members of senior management have the opportunity to use an official car and if so, how they have utilised this opportunity. According to the recommendation by the Ministry of Finance, the senior management of an agency or other Government organisation is particularly bound to their jobs due to their duties. In order to efficiently use their time when taking care of their duties, senior management need to have the opportunity to use an official car also to take care of their personal business in some cases. It was concluded during the audit that occasional use of an official car for private purposes can be considered appropriate.

Transport services for the ministries are currently handled in a centralised manner by the Prime Minister's Office. The official cars of all ministries, apart from a couple of exceptions, have been transferred there. The audit on the use of the ministries' official cars was performed in a centralised manner. Official cars of the other accounting offices and their use are managed by the agencies.

According to the audit observations, the justification for the use of an official car was not always appropriate in the case of one agency head; according to the audit findings, the said agency head had in some cases (not occasionally) used the official car also for private purposes. The justification for the use of official cars by members of senior management was appropriate as a whole.

## 5.7 Verification of travel expenses

According to the State Budget Decree and the State Travel Regulations, travel expenses must be verified in a manner that indicates to a sufficient extent the purpose and appropriateness of the trip. It was determined during the audit that the verification of senior management travel expenses has been sufficient and receipts of incurred costs have been included as appendices to the travel expense accounts, whenever receipts are available. Sufficient information to verify correctness of the trip must be included as an appendix to the travel expenses.

According to the audit observations, there have been several deficiencies in the verification of travel expenses. Most of the deficiencies involved appendices to travel expense accounts. Taxi receipts, itineraries, air tickets and information on the purpose of the trip were missing from travel expense accounts.

## 5.8 Overall frugality of travel methods

A business trip must be completed as quickly and with as low total expenses as possible while ensuring that the assigned tasks will be appropriately and safely completed. The person's official position, salary level or any other similar matters may not influence the travel expense compensation.

No material deficiencies in this respect were detected in the audit. In some cases, the audit observations indicate that a business trip could have been completed with lower total expenses as was the

case. According to the audit observations, a taxi is often used in the Helsinki downtown area. In addition, business class tickets had been unnecessarily booked in single cases.

### 5.9 Do the operations methods of the senior management of the government agencies support the creation of a functional control environment?

The business trip practices for senior management were investigated using a variety of criteria. The key regulations on business trips include the State Travel Regulations, the State Budget Decree and separate recommendations and guidelines by the Ministry of Finance.

According to the audit observations, most of the senior management business trip practices comply with the business trip regulations, guidelines and recommendations, as well as the accounting offices' own regulations and guidelines.

However, several deficiencies in business trip practices were observed. The deficiencies involved travel authorisation practices, verification of travel expenses and justification for business trips (the use of taxis and official cars).

Based on the audit focus area regarding business trips, one can state that most of the operations methods of the senior management of the government agencies support the creation of a functional control environment in the accounting offices.

## 6 Hospitality, benefits and gifts

The audit investigated the procedures of senior management in terms of hospitality and in terms of received or offered benefits and gifts. The starting points were section 6.5, Edustaminen (Entertainment), of the regulations concerning the application of the state budget (TM 9509) and guideline of the Ministry of Finance on hospitality, benefits and gifts (ohje vieraanvaraisuudesta, eduista ja lahjoista; VM/1592/00.00.00/2010). The audit was performed by means of interviews, surveys and a limited document audit.

### 6.1 Using agency funds for hospitality

The audit investigated whether state funds have been used for purposes other than regular hospitality and courtesy.

According to section 6.5, Edustaminen (Entertainment), of the regulations concerning the application of the state budget, state funds may be used only for normal hospitality and entertainment involving people working within the scope of the agency as well as for arranging training events, parties and other similar events for the agency's own employees. Funds other than those reserved for the actual operations of the agency may only be used for hospitality and entertainment if the criteria for the use of the funds specifically allow this or if the intended purpose of the funds otherwise requires the arrangement of such events. Furthermore, the financial rules of the accounting offices must include specific instructions on hospitality and entertainment.

Minor deficiencies involving the contents of financial rules, missing justification for restaurant invoices and some gifts out of the ordinary were detected during the audit. In the case of one accounting office, attention was paid to the large amount of entertainment. A request to pay attention to the appropriateness of hospitality and entertainment expenses was made.

According to the audit observations, hospitality and entertainment in the accounting offices is normal as a general rule.

## 6.2 Received benefits

According to section 15 of the Public Servants Act, a public servant may not demand, approve or accept any benefits that would compromise trust towards the public servant or authority. The audit investigated the type of benefits members of senior management have accepted as part of their official duties and compared these benefits to the instructions issued by the Ministry of Finance.

According to the audit observations, members of senior management have followed the instructions by the Ministry of Finance in all material respects. However, the procedures used by one accounting office were reported to the Parliamentary Ombudsman for possible action.

## 6.3 External events

The guideline of the Ministry of Finance on hospitality, benefits and gifts states that conventionality and reasonableness should be used as the guidelines when arranging catering to cooperation partners. Hospitality can be offered and business gifts can be given according to the same rules that apply to the acceptance of hospitality and gifts.

According to the audit observations, the justification for attendance in events has mostly been appropriate.

Some cases where the justification given for attendance in events arranged by third parties was deemed insufficient were detected. According to the audit observations, the instructions by the Ministry of Finance on hospitality were not followed in these cases.

When attending events arranged by outside parties, attention should be paid to the justification for the attendance, particularly if the event includes plenty of entertainment.

## 6.4 Gifts

The guideline of the Ministry of Finance on hospitality, benefits and gifts (ohje vieraanvaraisuudesta, eduista ja lahjoista; VM/1592/00.00.00/2010) determines the key starting points for hospitality, benefits and gifts. As a general rule, accepting normal and reasonable hospitality will not compromise trust towards the proper handling of the person's official duties. This also applies to gifts. When assessing whether a gift is reasonable, one can compare it with the value of gifts given by the agency to its officials or gifts given by colleagues to each other.

No material deficiencies involving gifts to the senior management were detected in the audit.

## 6.5 Events for third parties

The guideline of the Ministry of Finance on hospitality, benefits and gifts states that conventionality and reasonableness should be used as the guidelines when arranging catering to cooperation partners.

Some cases in which the justification for an arranged event was not normal in all respects were detected. According to the audit observations, most events arranged for third parties have been appropriate and well justified.

## 6.6 Trips paid by third parties

According to the guideline of the Ministry of Finance on hospitality, benefits and gifts, the agency is usually responsible for the expenses of a trip if the trip has been deemed necessary in order to promote cooperation or train the public servant, for example. Accepting compensation from a third party without compromising trust towards the handling of the public servant's duties is possible in some cases.

Factors compromising trust are rarely involved in trips to meetings of another state agency or an EU body, trips involving cooperation between authorities, trips to meetings and seminars of international organisations, or trips whose costs the agency collects from a third party based on the legislation on charge criteria.

The audit comprehensively investigated the basis on which senior management has participated in trips arranged and paid for by third parties.

According to the audit observations, the participation of senior management in trips paid for by third parties has mostly been appropriate.

### 6.7 Do the operations methods of the senior management of the government agencies support the creation of a functional control environment?

Based on the audit focus area regarding hospitality, benefits and gifts, one can state that most of the operations methods of the senior management of the government agencies support the creation of a functional control environment in the accounting offices. However, one must state based on the audit findings that some procedures applied to the participation of senior management in events arranged by third parties and trips paid for by third parties do not comply with the instructions by the Ministry of Finance and should be revised.

## 7 Use of charge cards and allocation of customer benefits

The audit investigated the use of charge cards acquired for the senior management in the accounting office's name and the allocation of customer benefits.

### 7.1 Use of charge cards

According to a regulation on financial rules by the State Treasury (registry no 481/03/2010), all financial rules must determine the procedures to be used when handling charge cards and customer loyalty cards acquired in the accounting office's name. Issues to be determined include the application method and the approval of applications, preparation of instructions on how to use the cards and the procedures used to ensure that the card holders receive these instructions, monitoring of the use of the cards and listing the cards.

Use of charge cards (credit cards) acquired in the accounting office's name complied with the commitments on the use of cards signed by the senior management.

### 7.2 Customer benefits

There are instructions on the use of taxis in the State Travel Regulations valid at the time of this audit: according to section 5 (Matkan tekotapa), a business trip must be completed as quickly and with as low total expenses as possible while ensuring that the assigned tasks will be appropriately and safely completed. The instructions on application of section 5 include more information on how to minimise total expenses. According to the instructions, some airlines and accommodation service companies market their products by offering their customers free trips and free accommodation. All benefits received from business trips paid by the agency are the property of the employer, and any free tickets or overnight stays must be used in connection with business trips. Thus, based on the audit conclusions, bonuses of different types must be taken into account as items which reduce the total expenses when determining the total expenses of a business trip.

According to section 4.2 on charge cards and customer loyalty cards (Maksukortit ja asiakaskortit) and its subsections of a regulation issued by the State Treasury on 23 November 2010 on the preparation and updating of financial rules (registry no 481/03/2010), the management of an agency is obligated to arrange procedures which ensure that any customer benefits from customer loyalty cards are allo-

cated to the state. It was noted during the audits that apart from a couple of exceptions, the accounting offices do not monitor the allocation of customer benefits offered by airlines.

All benefits received from business trips paid by the agency are the property of the employer. As the currently used air flight bonus schemes have not been successful from the state's viewpoint, a proposition on abandoning the air flight bonus schemes is made to the Ministry of Finance. In such a case, the air tickets should be obtained at a lower price than currently. Furthermore, the Ministry of Finance and the State Treasury should attempt to influence airlines in such a manner that the use of customer loyalty cards in the case of air tickets purchased with a state charge card or state travel account would be prevented in order to ensure that public servants would not receive any benefits from such trips. This would prevent the accumulation of customer benefits from business trips paid for by the state.

The audit also briefly investigated the allocation of customer benefits other than those offered by airlines. No material deficiencies involving customer benefits allocated to the senior management were detected in the audit.

### 7.3 Do the operations methods of the senior management of the government agencies support the creation of a functional control environment?

It was noted during the audits that apart from a couple of exceptions, the accounting offices do not monitor the allocation of customer benefits offered by airlines. However, the audit did not reveal any material issues in the operations methods of the senior management of the government agencies that do not support the creation of a functional control environment in the accounting offices.

## 8 Interests and outside employment

The audit investigated whether members of senior management have declared their outside employment and other interests in the manner laid down in section 8 a of the Public Servants Act. The audit also investigated whether section 18 of the Public Servants Act has been followed in the case of authorisation for outside employment and related declarations.

### 8.1 Outside employment and interests

According to section 8 a, subsection 3 of the Public Servants Act, "public servants appointed to the positions listed above in subsections 1 and 2 shall declare without delay any changes to or deficiencies in the information listed in subsection 1, as well as submit any similar reports requested by a competent authority."

The audit revealed that declarations of interest of the senior public servants in some of the accounting offices were not up to date. Senior management obligated to declare their interests and outside employment must pay attention to keeping their declarations up to date.

### 8.2 Permits for and declarations on outside employment

According to section 18 of the Public Servants Act, a public servant may not accept any outside employment that would require them to use their working hours to handle duties related to the outside employment, unless the competent authority grants them a permit to do so. Outside employment must be declared in the manner laid down in section 18 of the Public Servants Act.

Guideline of the Ministry of Finance on outside employment (VM/1591/00.00.00/2010) provides the following instructions on outside employment: Outside employment falling under the scope of the limitations refers to, for example, an employment relationship with an employer other than the agency, any other employment relationship or acting as a private agent. Outside employment does not refer to any work included in the public servant's official duties or any positions of trust that the public servant cannot refuse. Normal meeting fees from an association or other meetings are not considered

forms of limited outside employment either. If the competent authority appoints or suggests the public servant to a position, it is not outside employment to be declared.

Some cases were observed in which single public servants were members or deputy members of the boards of directors of limited liability companies, vice chairpersons of cooperatives or vice chairpersons or board members of a foundation, but had not submitted a declaration on outside employment or requested an permit for the outside employment. Any fees obtained from these positions were not investigated in this audit. Submitting a declaration on outside employment is recommended in all unclear cases. The Ministry of Finance should specify its instructions on outside employment of public servants (Virkamiesten sivutoimet), taking into account the duties and responsibilities of boards of directors laid down in the Limited Liability Companies Act, the Co-operatives Act and the Foundations Act.

### 8.3 Declarations of interest

The audit investigated from registers maintained by the National Board of Patents and Registration of Finland the roles of senior management in limited liability companies and foundations, and compared the register data with the submitted declarations of interest and/or permits for outside employment and declarations of outside employment.

Some cases in which the declarations of interest were partially defective were observed.

### 8.4 Disqualification due to interests

According to section 27 of the Administrative Procedure Act, a public servant may not participate in the consideration of a matter or be present during such consideration if the public servant is disqualified. The audit investigated whether senior management has participated in the consideration of matters in cases where they had interests as laid down in section 28 of the Administrative Procedure Act.

Two cases in which the procedure did not fully comply with section 27 of the Administrative Procedure Act were detected.

### 8.5 Do the operations methods of the senior management of the government agencies support the creation of a functional control environment?

Based on the audit focus area regarding interests and outside employment, one can state that most of the operations methods of the senior management of the government agencies support the creation of a functional control environment in the accounting offices.

The audit revealed that declarations of interest of the senior public servants in some of the accounting offices were not up to date. Senior management as laid down in section 26 of the Public Servants Act must ensure that their declarations of interest are always up to date. In the single cases mentioned above in Chapter 8.4, members of the senior management are encouraged to better take care of the determination of disqualification and to refrain from participating in the consideration of matters in the manner laid down in the Administrative Procedure Act.

In its rejoinder for the annual summary draft (3 May 2016), the Office for the Government as Employer states that all public declarations of interest by senior government officials were published on the website of the Ministry of Finance on week 19 of 2016. Thus, the ministries have updated the information. According to the rejoinder, public servants are obligated to report to the correct ministry any changes to the declared information (section 8 a of the Public Servants Act) and the ministry is obligated to ensure that the information on its website is up to date (section 8 d of the Public Servants Act).

## 9 Management of the accounting office's property

Key regulations on the management of an accounting office's property are included in the State Treasury regulation on the preparation of financial rules (registry no 481/03/2010). According to the regulation, the financial rules of an accounting office must include sufficient regulations on the use, management, assignment and reception of property. There are regulations on the assignments of property also in section 72 a of the State Budget Decree.

The management of the accounting offices' property by the senior management was audited based on three audit criteria. The audit criteria involved the furnishing of apartments held by members of the senior management, the assignment and selling of property, and the receiving of property.

No material deficiencies regarding the management of property were detected in the audit.

### 9.1 Do the operations methods of the senior management of the government agencies support the creation of a functional control environment?

Based on the audit focus area regarding the management of property, one can state that the operations methods of the senior management of the government agencies support the creation of a functional control environment in the accounting offices.

Principal Financial Auditor Pasi Tervasmäki

Principal Financial Auditor Jani Leinonen

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