

Performance reporting to Parliament concerning unincorporated state enterprises

## THE STATE AUDIT OFFICE'S POSITIONS

### Audit agenda

The primary purpose of the audit was to evaluate the adequacy and usefulness of performance reporting to Parliament concerning unincorporated state enterprises in the Government's report on the management and state of central government finances in 2003. In evaluating the development of reporting comparisons were made with the Government's reports for 1999-2002.

Information on state enterprises is presented in Chapter 3 of the Government's report, which deals with performance, under the responsible ministry. Annex 15.2 also presents financial indicators for all state enterprises.

The Finnish State Pilotage Enterprise and the Finnish State Shipping Enterprise did not go into operation until the beginning of 2004, so information on them was not included in the Government's report.

Since the draft budget and the Government's report on the management and state of central government finances form a whole from the viewpoint of the parliamentary supervision of state enterprises, the draft budgets for 2005, 2004 and 2003 were also examined in the audit. Here the audit focused on key service and other performance targets that were presented for Parliament to decide. State enterprises are broken down by ministry as follows:

### Ministry of Transport and Communications

- Civil Aviation Administration
- Finnish State Pilotage Enterprise
- Finnish Road Enterprise
- Finnish State Shipping Enterprise

### Ministry of Agriculture and Forestry

- Finnish Forest and Park Service

### Ministry of Finance

- Senate Properties

Instructions concerning the provision of information

On 15 January 2004 the Ministry of Finance issued Order VM 1/01/2004 on the provision of information for the Government's report on the management and state of central government finances in 2003. The order is up to date and proper with regard to the information required.

On 18 June 2003 the Ministry of Finance issued Order TM 0302 on the preparation of state enterprises' draft budgets. This replaced Order TM 9202 on the preparation of state enterprises' operational and financial plans, which had been issued by the Ministry of Finance on 17 February 1994. According to an exception mentioned in the new order, the earlier order was applied in preparing the 2004 draft budget for the Civil Aviation Administration. With regard to the information to be provided on state enterprises in the draft budget the Ministry of Finance's Order TM 0302 is up to date and proper.

State enterprises' service and other performance targets in the Government's report on the management and state of central government finances and in the draft budget

Parliament approves key service and other performance targets in connection with the state budget. The Government's report on the management and state of central government finances is supposed to explain how state enterprises have achieved the service and other performance targets set by Parliament and other supervising authorities.

The Government's report on the management and state of central government finances

According to the Government's report on the management and state of central government finances in 2003, all the state enterprises achieved the service and other performance targets that were set for that year. The information value of this otherwise quite positive result is poor and in some respects it is misleading, however.

The targets set in the state budget are often quite broad, for example "to take care of the proper supply of services in its field". There is no indicator or reference point that can clearly show whether such targets have been achieved or not.

Once Parliament has approved key service and other performance targets, the ministry can decide on more specific targets within this framework. Since the more specific targets set by the ministry give concrete form to the targets approved by Parliament and since they are not systematically presented in the handling of the state budget, they should also be mentioned in the Government's report.

If the Government's report means by the achievement of targets the achievement of the more specific targets set by the ministry, these targets and who set them should be clearly indicated in the text.

The Government's report gives very little information on how the achievement of targets has been measured in the case of every state enterprise. This further weakens Parliament's ability to evaluate the achievement of targets.

Information on the Finnish Forest and Park Service's targets is scanty, with the text mentioning only a few of the tasks for which it is responsible. Reporting on the Civil Aviation Administration, Senate Properties and the Finnish Road Enterprise has improved in some respects, but targets and results have not been systematically reviewed. Targets have not been divided into those approved by Parliament and those set by the ministry, nor does the text often distinguish between targets and activities in general.

The following improvements in reporting or concrete examples of good reporting practice can be mentioned, among others:

Although there is still room for improvement in the information that the Government's report provides on the achievement of key service and other performance targets, the situation is better now than before, when the achievement of targets often did not receive a single word of comment.

The commentary to the draft budget for 2003 says that one target of Senate Properties is "to promote users' property strategy" and the Government's report for 2003 notes that "Senate Properties helped prepare a property strategy for three universities and at the end of the year property strategies had been prepared by ten universities in all".

The draft budget for 2003 says in the operative part that one target of the Finnish Road Enterprise is "to ensure the balanced provision of services all over the country in maintaining public roads" and the Government's report for 2003 notes that "the balanced provision of services all over the country in maintaining public roads was ensured by submitting bids to the Finnish Road Administration for contracts in every region."

In spite of Order VM 1/01/2004 on the provision of information for the Government's report on the management and state of central government finances in 2003, reporting on service and other performance targets has not taken sufficiently into account the separate report submitted by the State Audit Office (K 8/2002), the report consequently issued by the Ministry of Finance (VaVM 9/2002) or the communication approved by Parliament (EK 20/2002).

The Government's report on the management and state of central government finances for 2003 gives too little information on state enterprises for Parliament to evaluate and monitor the achievement of the service and other performance targets it has approved in a comprehensive manner.

The draft budget

According to Order TM 0302 the operative part of the section on state enterprises in the draft budget must present key service and other performance targets for Parliament to approve. Targets must be of key importance, concrete and measurable. Targets must be formulated so that they clearly indicate who has set them. Service and other performance targets must also be presented so that Parliament can influence the supervision of the service level when it makes decisions.

The service and other performance targets presented in the operative part of the draft budget for 2005 still to an excessive degree directly or indirectly repeat the tasks assigned to state enterprises in the specific Acts pertaining to them. It may make sense to provide information on state enterprises' statutory tasks in the commentary, but they should not be framed as concrete targets in the operative part of the draft budget.

Since the specific Acts pertaining to state enterprises are intended to remain in force for an extended period, the tasks set in them are quite broad and of a general nature: to plan the transport environment, to manage natural resources, to provide pilotage services, to produce property services etc. Setting annual targets requires the setting of concrete targets in each enterprise's field so as to fulfil these tasks, and not the citing of statutory tasks as targets year after year.

The targets set for state enterprises in the state budget are often expressed using expressions such as take care of, ensure, promote, manage etc. As a result there is no concrete service level or indicator that can be used to measure achievements. The draft budget seldom gives clearly measurable targets that would allow effective supervision of the service level. As a curiosity it should be mentioned that the draft budget for 2004 sets the Finnish State Pilotage Enterprise the target that "the waiting time for pilotage services should not exceed two hours". This target is concrete, measurable and of key importance for users. The draft budget for 2005 no longer contains such a target, however.

The setting of targets has nevertheless improved. Examples include the concrete nature conservation targets that the Ministry of the Environment set for the Finnish Forest and Park Service in the draft budgets for 2004 and 2005, the presentation of the Finnish Forest and Park Service's business targets and public management targets separately in the draft budget for 2005 and the six strategic targets set for Senate Properties in the budget for 2004.

In the draft budget for 2005 the commentary concerning the Finnish Forest and Park Service explains the indicators used in evaluating activities and the achievement of targets, concerning the development and quality of which the Ministry of Agriculture and Forestry decides in connection with the setting of service and other performance targets. Although ministries use indicators, these indicators and related targets are not described in the service and other performance targets set in the operative part of the draft budget or in the Government's report on the management and state of central government finances. "Saving" concrete and measurable service level targets for the more specific targets set by the ministry restricts Parliament's possibilities to influence the supervision of the service level.

The service and other performance targets formulated in the operative part of the draft budget do not adequately meet the requirements of key importance, concreteness, measurability or monitoring.

Appendices 1-4 compare the service and other performance targets in the draft budget for 2003 with the information concerning their achievement in the Government's report on the management and state of central government finances.

Financial targets and financial information in the Government's report on the management and state of central government finances and in the draft budget

The net profit booked by state enterprises and the revenue they produce in the state budget each year are key financial targets. According to the new State Enterprise Act (1185/2002), the ministry decides on final targets, but preliminary targets are generally mentioned in the commentary on each state enterprise in the draft budget. The draft budget for 2005 contains preliminary targets for the net profit and state budget revenue for each state enterprise in the commentary.

Reporting on the net profit and state budget revenue is still too varied and haphazard. Targets and results should always be stated for net profit and state budget revenue and any differences between targets and results should be explained if necessary. With regard to other financial targets and business indicators it is generally sufficient to refer to Annex 15.2 of the Government's report, which presents financial indicators for each state enterprise. The annex also gives the net profit and state budget revenue for each state enterprise. The Government's report on the management and state of central government finances does not refer to the information in Annex 15.2 in the actual text (Chapter 3, which deals with performance) in the case of any of the state enterprises, however.

According to Order VM 1/01/2004, indicators for state enterprises should be presented using the formulas in the Guide to the Analysis of Financial Statements that was published by the Committee for Corporate Analysis in 1999. Similarly according to the Order on the preparation of state enterprises' draft budgets, the figures in the table in the draft budget should be presented in the same way.

The adequacy and usefulness of the information in Annex 15.2 of the Government's report as a monitoring and decision-making tool has improved significantly in recent years.

Indicators cover several years, making it possible to see development trends and deviations. Most of the projections and estimates that are indicated for state enterprises in the draft budget are followed up with results in the annex of the Government's report. This forms a logical connection between the draft budget, which is used in planning and directing activities, and the Government's report, which acts as a monitoring tool. The consolidated figures that are presented in addition to the information for the parent give a picture of business activities as a whole.

The formulas used in Annex 15.2 of the Government's report have been harmonized considerably but they do not always conform with Order VM 1/01/2004.

The general evaluation on the basis of the audit is that the presentation of both financial targets and results has improved in the draft budget and in the Government's report. Indicators are up to date, of key importance and calculated more uniformly than before. They cover several years, making it possible to monitor the development of each state enterprise and to compare it with other state enterprises. Consolidated figures are presented for all the state enterprises, making it possible to monitor the business activities of the group as a whole.