

# Conclusions and recommendations of the National Audit Office

## State funding for universities of applied sciences

The audit was targeted at the state funding granted for the activities of universities of applied sciences. The focus was particularly on the funding granted under state budget item 29.40.55 (State funding for the activities universities of applied sciences, two-year deferrable appropriation). In 2023, appropriations totalling EUR 954.2 million were allocated to item 29.40.55. The audit was targeted at the Ministry of Education and Culture and the universities of applied sciences, as referred to in the Universities of Applied Sciences Act, operating in the administrative sector of the Ministry of Education and Culture. There are 22 universities of applied sciences operating in the form of a limited liability company in the administrative sector of the Ministry of Education and Culture. The ones selected for the audit were the 13 universities of applied sciences that received the most core funding in 2023.

The audit focused on the funding model for higher education institutions that has been applied from 2021 to 2024, but it also took into consideration the funding model for 2025–2028. There were no significant differences in the contents of the funding models. However, the 2025–2028 funding model will include a requirement for a personal identity code in order for credits completed in an open university of applied sciences to be taken into account. On the basis of the audit, it seems that this is a welcome change, which will improve the verification of persons completing credits. The change will also allow the competence benefits of education to be better targeted to the development of the Finnish working life.

This audit of state funding for universities of applied sciences is a follow-up to the previous audit report on state funding for universities (10/2018). The Ministry of Education and Culture steers the activities of universities and universities of applied sciences with similar instruments. The model for core funding channelled through the Ministry of Education and Culture is similar for universities and universities of applied sciences. The collection of information and the financial management code of higher education institutions also steer and guide both universities and universities of applied sciences.

## The use of state funding in universities of applied sciences is mainly transparent, but due to the Ministry's inadequate guidelines, it is not possible to monitor compliance with the only funding condition

In addition to universities, universities of applied sciences also have autonomy, i.e. quite extensive freedom of action in relation to the Ministry of Education and Culture. There is only one condition for the use of state funding: the funding

granted may not be used to support business activities. To make it possible to verify the implementation of this condition, the Ministry of Education and Culture should specify its guidelines. As regards external funding of research, development and innovation (RDI), the Ministry of Education and Culture should be better aware of the type of activities that universities of applied sciences interpret as RDI activities.

## The accountability of universities of applied sciences is realised, but the Ministry should pay more attention to adequate supervision and guidelines

The accountability of universities of applied sciences for the use of state funding and the grounds for its use is mainly sufficiently realised, but the guidelines issued by the Ministry of Education and Culture should be specified. Many of the observations addressed in the audit report result from the fact that the Ministry of Education and Culture has not adequately monitored the use of state funding and the grounds for its use. The Ministry of Education and Culture should also react more quickly to the risks involved in the funding model to make it easier to verify the grounds for the use of the funding. The feedback procedure applied by the Ministry of Education and Culture to universities of applied sciences does not comply with the legislator's purpose.

## The regulation of discretionary funding should be specified to enable more uniform treatment of recipients of state funding

Since the beginning of 2019, discretionary funding granted under item 29.40.55 has been subject to the Universities of Applied Sciences Act (932/2014) instead of the Act on Discretionary Government Transfers (688/2001). The change has been justified by the reduction of administrative work and improved transparency of funding. Based on the audit, uniform treatment of the recipients of state funding would be better achieved if the Act on Discretionary Government Transfers were still applied.

## The key figures have not been calculated in a uniform manner

The audit found that different universities of applied sciences have not calculated the key indicators in a uniform manner. The Ministry of Education and Culture monitors the economy and the implementation of the accountability of higher education institutions based on their statutory financial reporting. The financial management code of higher education institutions, managed by the Ministry of Education and Culture, defines, for example, uniform reporting models for the higher education sector and the formula for calculating the key figures.

In compliance with the financial management code of higher education institutions, the annual reports of higher education institutions present key figures describing changes in the scope of activities as well as the profitability, liquidity and solvency of the activities.

## The funding model offers universities of applied sciences opportunities for short-term benefits at the expense of the overall benefit

The audit examined, based on limited assurance, whether the funding model supports effective operation of universities of applied sciences. The funding model contains elements that support effective operation: for example, the difference between the funding granted based on calculation criteria and the actual costs does not have to be returned to the Ministry of Education and Culture. Of the funding model, 95% is based on indicator-based factors. Of these factors, about two thirds are factors which do not give rise to considerations related to partial optimisation. The remaining third includes, for example, such elements that, by focusing on them, a university of applied sciences may have achieved short-term economic benefits, and the resulting competence benefits have not been targeted to the development of the Finnish working life. Publications and cooperation studies aimed at the general public also involve risks of partial optimisation.

## Recommendations of the National Audit Office

1. The Ministry of Education and Culture should pay more attention to adequate supervision and guidance.
2. The Ministry of Education and Culture should pay attention to verifying compliance with the funding conditions.
3. The Ministry of Education and Culture should change its feedback procedure so that the universities of applied sciences receive written feedback.
4. The Ministry of Education and Culture should pay attention to the differences in the calculation of key figures and address the shortcomings it detects.
5. The National Audit Office recommends that the Ministry of Education and Culture should promote return to the application of the Act on Discretionary Government Transfers to the discretionary funding granted under item 29.40.55.