



What do key national indicators indicate and how should we audit them?

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## Basic facts

- ▶ "Indicator" is basically a synonym for "statistic"
- ▶ If an indicator - for instance the unemployment rate - displays a desired outcome, does this mean that government policy has been effective?
- ▶ The answer is "No"
- ▶ In addition to policy measures there are always other factors that have to be accounted for!



## Indicators in Finland I

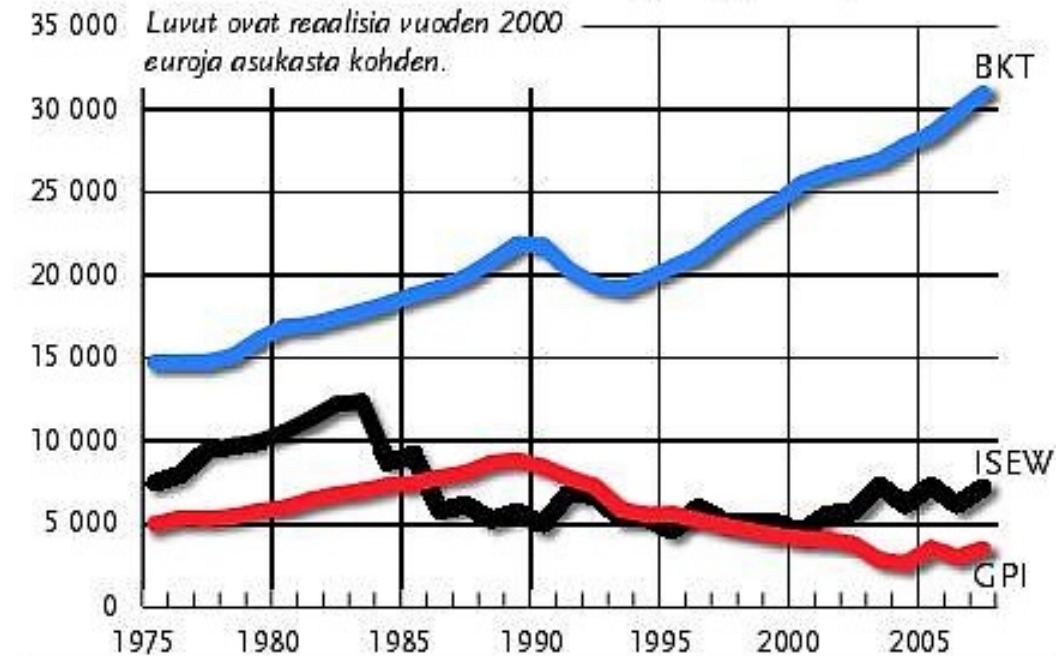
- ▶ Finland does not have a 'key national indicator' system if this refers to a largely accepted, explicitly stated and documented way of collecting and presenting data
- ▶ Operational prerequisites for building such a system are good, as Statistics Finland maintains high-quality statistics
- ▶ Accountability and policy effectiveness are being emphasized => there is a growing need for reliable analysis



## Indicators in Finland II

- ▶ Finnish economists have also noticed the limitations of GDP when measuring social welfare
- ▶ Statistics Finland has introduced GPI (Genuine Progress Indicator) and ISEW (Index of Sustainable Economic Welfare) as alternatives to GDP
- ▶ Status of these alternative indicators is unofficial
- ▶ According to GPI and ISEW indicators, high GDP doesn't necessarily mean high social welfare

# Indicators in Finland III



Lähde: Hoffrén ja Rättö / Tilastokeskus

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## SAIs and indicators I

- ▶ The NAO of Finland has not been active in developing single indicators or in promoting the development of key national indicators
- ▶ However we have audited the use of indicators and indicator systems in different administrative sectors
- ▶ If SAIs are taking an active role in developing indicators, this has inevitable consequences to their independence and objectivity



## SAIs and indicators II

- ▶ SAIs could use existing indicators and registers more efficiently in audit work
- ▶ But a certain criticism is always needed and SAIs should make sure that the used indicators are valid and reliable
- ▶ Connections between indicators and political ambitions should be noticed when indicator systems are audited



## SAIs and indicators III

- ▶ SAIs could:
  - audit the validity and reliability of important indicators
  - utilize reliable indicators in policy evaluations
- ▶ SAIs should not:
  - develop indicators
  - however, the expertise of SAIs could be useful when discussing the bases of new indicators (e.g. the productivity programme in Finland)



## Audit examples I

- ▶ 1) Economic Forecasts in Fiscal Policy Development
- ▶ 2) Measuring the Profitability of Agriculture
- ▶ Both audits are still in progress, the latter in its final stages



## Audit examples II

- ▶ 1) What economic and demographic forecasts and indicators are used when the government is preparing fiscal policy?
- ▶ Whose forecasts and indicators are used and why?
- ▶ Are the forecasts and indicators the best available?
- ▶ Is the process transparent enough?
- ▶ This audit started in late 2008 and is expected to report in early 2010



## Audit examples III

- ▶ 2) According to official statistics in the State Budget Proposal, the profitability of agriculture is very poor – is this true?
- ▶ Lots of conflicting evidence exists
- ▶ The Parliament must have reliable figures in order to make informed decisions
- ▶ Over 2 billion euros are allocated to farming subsidies each year



## Audit examples IV

- ▶ The usual return on equity (ROE) or return on assets (ROA) profitability measures are not used
- ▶ Instead, the Finnish government uses an indicator called the coefficient of profitability
- ▶ If the farmer gets 12,6 euros per hour and 5% return on equity, the coefficient is 1
- ▶ During the last 10 years, the average coefficient has been around 0.5, despite the massive support measures



## Audit examples V

- ▶ We audited whether this indicator is a reliable measure of farming profitability
- ▶ The answer seems to be negative
- ▶ Biased hours are being reported
- ▶ Farmers' own capital includes capital goods paid by the government, unlike e.g. in taxation
- ▶ It seems that agriculture is not so unprofitable after all



## Concluding remarks

- ▶ Reliable indicators (= statistics) are always needed
- ▶ ‘Key national indicators’ should be based on national circumstances
- ▶ International comparisons are difficult and possibly biased
- ▶ SAIs should audit whether indicators are in fact valid and reliable
- ▶ SAIs could also utilize indicators when analysing policy effectiveness



THANK YOU FOR YOUR ATTENTION!

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