

Conclusions and recommendations of the National Audit Office

Planning and steering of material projects by the Finnish Defence Forces

In 2010–2016, the annual material preparedness expenditure of the Finnish Defence Forces has ranged between EUR 750 and EUR 911 million, of which material procurement has amounted to around EUR 500 million. The purpose of the audit was to assess whether the information used as the basis of decisions on the planning and steering of material expenditure and material projects complies with the good practises commonly used by the central government and society at large, as well as how economic analysis are applied to material projects of the Defence Forces. In this audit, the term “material project” refers, according to a definition by the Defence Forces, to activities with clearly determined content, resources and schedule, set by the party responsible for performance, the result of which is an entity that complies with the conceptual performance model system view. The audit is mostly based on public materials.

Specific requirements and instructions of the Defence Administration comply with the instructions of the central government, and have improved the ability to manage material expenditure and steer material projects

The Defence Forces carries out its statutory duties under normal conditions and during emergencies. The purpose is to adapt the performance of the Defence Forces to the prevailing resources and threats. Material projects of the Defence Forces are part of the planning, development and maintenance of the performance of the Defence Forces.

Regulations and instructions by the Defence Administration on its performance lifecycle management are based on general instructions of the central government, procurement legislation for the defence and security sector, and general legislation on public procurement. These regulations and instructions are comprehensive and highly detailed. In the past few years, the Defence Administration has also prepared some systematic instructions on the planning of its material expenditure and the assessment of its material project expenditure and costs. The above-mentioned regulations and instructions have improved the ability to manage material expenditure and steer material projects in the appropriate manner determined by the regulations.

Top level documentation of the Defence Administration complies with the agreed presentation methods, but the data content could be clarified

Public top level steering documents of the Defence Administration include defence policy reports and state budget documents, among others. These documents utilise a three-part division goal for military national defence expenditure, but it is not clearly presented in the documents. The three-part division goal refers to dividing the national defence expenditure into three parts, which in the past few years have often been called personnel expenditure, material preparedness expenditure and other operating expenditure. Instead of a principle that would ensure accurate and detailed steering of planning in the Defence

Administration, the three-part division goal of national defence expenditure aims for a balanced expenditure pattern, which was also one of the basic goals of the recent reform of the Defence Forces.

The appropriations in main title 27 of the state budget follow the established and generally agreed classification and presentation method of the Defence Administration. However, vagueness of the material appropriation data specifications in the budget and discrepancy between the rules and the budgeting principles of the other administrative sectors reduce the informativeness of the data. The concepts of *material preparedness* and *material procurement* are not always consistently and literally used in the documents. In addition to the procurement of materials, these concepts refer to the procurement of services and intangible assets.

The data specifications in the current state budget and any minor adjustments thereof cause a larger administrative workload in the form of related steering and implementation efforts than more simpler data specifications.

[Economic analysis practices for material projects and the project process can be developed to comply with general economic analysis principles](#)

The overall material project process in the Defence Administration complies with the laws and central government instructions. Finland and a number of other countries use a variety of generally accepted instructions and descriptions on the economic analysis concepts and methods of a variety of projects. The special characteristics of the Defence Forces influence the economic analysis practices in a variety of projects, which is why good practices of another administrative sector may not be applicable as such to projects of the Defence Forces.

The Defence Administration performance and material project steering documents used in the audit mention cost-effectiveness as a target at the general level. Some of the documents also include target concepts that comply with the general economic analysis practices. However, the concept of cost-effectiveness that is used in the Defence Administration documentation is not used in the economic analysis of projects. The Defence Administration has not provided any instructions on the above-mentioned concepts or described them in more detail in its public documents. According to the Defence Administration, however, a cost-benefit analysis is used in all of its procurement projects based on the procurement object. Based on the audit observations, some principles of cost-effectiveness analysis have been applied in some projects of the Defence Administration. The Defence Administration has systematic instructions on the assessment and planning of projects, but it does not have any more specific instructions on cost-benefit analyses or the assessment of the benefits and effectiveness of projects. Furthermore, sufficient systematic instructions on the monitoring of the information used as the basis of projects were not detected during the audit.

[Recommendations of the National Audit Office](#)

1. The public data specification at the top level of administration on material projects and other projects of the Defence Forces should be developed to the extent allowed by the nature of the operations to make them clearer and more usable. The Ministry of Defence and

the Ministry of Finance should assess the need to revise the specifications in Chapter 27.10 of the state budget.

2. The Defence Administration should develop its economic analysis method for projects and its assessment practices in compliance with the general economic analysis principles, taking into account the special characteristics of the administrative sector.