

THE DEFENCE FORCES' ADVANCE PAYMENTS IN DEFENCE MATERIEL PROCUREMENTS

Defence materiel procurements are the most significant part of the Defence Forces' procurements, which are a sizable item in the state economy. The state budget for 2006 appropriates about 643 million euros for defence materiel procurements. Defence materiel includes supplies and equipment intended primarily for military use, such as weapons, munitions and communications and guidance systems.

Defence materiel procurements typically cover a long time span. The length of time between order and delivery can vary from a couple of years to as much as ten years. Partly for this reason payments are made before goods or services are received, according to a timetable agreed in procurement contracts. Such payments are by nature advance payments as a rule.

The main question in the audit was whether advance payments in defence materiel procurements can be shown to have financial benefits for the state.

In most of the procurements that were investigated, the decision authorizing advance payments was based on a proper evaluation of benefits and the benefits were demonstrated. In some procurements it was not possible on the basis of procurement documents to evaluate the financial benefit of advance payments, not was this evident. Advance payments were also paid according to a payment phase timetable. In such cases the Defence Forces did not evaluate the benefit to the state.

The audit showed that the Defence Forces have paid tens of millions of euros of advance payments based on payment phases to suppliers without proper securities. The General Staff has issued instructions concerning the use of securities for payments. The audit observed that even after the instructions were issued, procurements were made in which advance payments were made without securities.

The audit observed cases in which the dates on invoices for defence materiel procurements were changed and bills were paid before they were due. Sometimes suppliers were urged to send invoices so that bills could be paid before the end of the year and to shorten terms of payment as the end of the year approached. Such measures result in additional interest costs for the state.

On the basis of the audit the State Audit Office has issued the following positions: The Defence Forces should make sure that, if advance payments are made to a supplier, the state should receive financial benefit and this should be clearly demonstrable. The Defence Forces should also make sure that they receive either goods or a security in return for advance payments and should not try to influence suppliers to speed up invoicing unless terms of payment are changed to benefit the state. The State Audit Office considers it good that the Defence Forces have taken the necessary steps to prevent the payment of bills before they are due.