

## The steering system in the administrative sector of the Ministry of Defence

The audit examined the steering system in the administrative sector of the Ministry of Defence. The term steering system refers to the procedures and systems with the help of which the administrative sector's management strives to achieve and ensure performance in the administrative sector. Performance in turn refers to the optimal relation between the achievement of objectives and the financial and human resources required for this purpose.

The main question in the audit was whether the steering system in the administrative sector of the Ministry of Defence is adequate to ensure performance in the administrative sector. The audit question was divided into five parts: planning, management, reporting, accounting and evaluations systems, and internal control. The audit did not evaluate performance in the administrative sector as such but focused on the arrangement of steering and steering methods in the administrative sector.

On the basis of the audit the National Audit Office considers that the steering system in the administrative sector of the Ministry of Defence as a whole provides preconditions for operational performance and the verification of accountability. The audit's key findings and recommendations are as follows.

The Ministry of Defence has carefully planned and documented strategy processes. Strategy documents have been presented in an appropriate manner with a consistent hierarchy of objectives. The ministry has strived to dimension strategies so that they can be implemented with the administrative sector's own resources. The ministry should pay special attention in future to foreseeing and evaluating the financial impacts of strategies and associated risks. In strategic planning the ministry should also strive to develop substrategies that qualitatively form a more balanced whole.

The structure of the budget proposal is clear and coherent for the most part. It also corresponds to key functions in the administrative

sector as a rule. The fact that crisis management expenditure is allocated to personnel expenditure under the main title of the Ministry for Foreign Affairs while expenditure on materiel and expenditure on international training operations come under the main title of the Ministry of Defence weakens the clarity and transparency of the budget, however. In the opinion of the National Audit Office, all appropriations intended for crisis management, military crisis management and expenditure on international training operations should be grouped in one class under the main title of the Ministry of Defence. This should have a neutral effect on spending limits. The National Audit Office believes that budgeting funds for military crisis management under the main title of the Ministry of Defence will not alter decision-making processes connected to crisis management.

Key effectiveness objectives, numerical targets and expenditure information linked to objectives can be found in the commentary to the budget proposal under the main title. Effectiveness objectives are more a description of the ministry's activities than of the desired state of affairs, however. At the same time the National Audit Office has in recent years observed a marked improvement in the presentation of objectives for the Ministry of Defence in the budget.

In 2005-2009 the ministry applied only 68-77% of funds earmarked for the procurement of materiel, while on average 215 million euros was carried over to the next year. This is a large amount both absolutely and relatively, considering the size of the item. Although allowing an appropriation to be carried over makes financial management, budget planning and financing more flexible, the point of departure in dimensioning appropriations should be to match actual spending.

The planning of authorisations has not been entirely successful. In 2005-2009 the amount of unused authorisations for the procurement of materiel increased five-fold, from 84 million euros to 406 million euros. Unused authorisations fell to about 100 million euros in 2010 according to the final central government accounts, but according to the Ministry of Defence's 2010 annual report 300 million euros went unused. At least in 2005-2009 the Ministry of Defence was unable to change procurement processes so that the conclusion of contracts binding on the state would take place in accordance with requested and approved authorisations. The Ministry of De-

fence should improve budget planning in its administrative sector with regard to the budgeting of authorisations.

The audit also investigated what kind of impact assessments the Ministry of Defence has made with regard to legislative proposals. All the government proposals that were examined in the audit discussed financial impacts. Other impacts mentioned in the guidelines for evaluating legislative proposals were also discussed almost without exception. Assessments were rather brief, but this was due partly to the small number of proposed amendments.

The information base pertaining to the operational and financial impacts of the Ministry of Defence's decisions varied considerably. Justifications concerning the financial and operational impacts of several decisions regarding organisational change contained gaps and mainly referring to approved policies or proposals. Assessment was more comprehensive in the case of decisions concerning service relations, however. Justifications regarding procurement decisions have clearly improved in recent years.

The ministry's performance management organisation is clear and logical. The ministry is responsible for steering three units, each of which forms a separate financial and operational whole. Performance objective documents in the administrative sector do not follow the same structure.

In materiel policy the Ministry of Defence also steers the Defence Forces in other ways besides performance management. The steering of materiel policy can be considered strong compared to other aspects of the steering of the Defence Forces. The fact that the ministry is responsible for decision-making as well as steering bolsters its role in materiel matters. In the opinion of the National Audit Office, the ministry's strong role in the procurement of materiel is justified.

The section of the Report on the Final Central Government Accounts dealing with the administrative sector of the Ministry of Defence is clear in terms of structure and presentation. It follows the class structure used in the budget proposal fairly well. Broad information on the implementation of effectiveness objectives was provided in the commentary to the main title in the budget proposal, although the link between information on expenditure and effectiveness objectives was hard to see. Information was not provided on all the effectiveness objectives at the budget class level, nor were

clear upward or downward deviations from objectives explained sufficiently.

The Ministry of Defence's final accounts provide an inadequate picture of the value of materiel under the control of the Defence Forces. Nor is the value of materiel disclosed in the balance sheet in the final central government accounts. The National Audit Office considers that materiel should be placed on the balance sheet, duly avoiding problems with regard to confidential information.