

Abstract

Dno: 281/54/00

## THE DEFENCE ADMINISTRATION'S PROCUREMENT ACTIVITIES

### - Supply procurement

The State Audit Office of Finland conducted an audit of the defence administration's supply procurement. This includes vehicles, transport agreements, soldiers' clothing, food, furniture, computer equipment, health-care supplies, medicine etc.

The defence administration spends FIM 4-5.5 billion a year. Materiel accounts for the bulk of the total. Annual spending on supplies comes to FIM 1-1.5 billion.

Since 1997 procurement for the Defence Forces has been based on the Government report to Parliament on European Security and Finnish Defence. This report provided a financial framework for the Defence Forces up to 2008. This framework calls for defence spending to fall from 1.5% to 1.25% of GDP and for procurement to fall from 40% to 30% of total defence spending. The report is due to be updated this year.

The purpose of the audit was to support, evaluate and monitor the progress of a project set up by the Defence Forces to simplify supply procurement.

The viewpoint of the audit is the possibility to use funds more effectively and to cut costs by developing the organization and procedures of supply procurement. The audit of the defence administration's procurement activities has already led to development work in the administrative sector.

The State Audit Office's key positions and development proposals are presented below.

#### Logistics as a background and viewpoint

The development of the Defence Forces' supply procurement should be seen as part of the development of the Defence Forces' logistics system as a whole. Requirements concerning preparedness and reliability impose special demands deviating from standard principles in industry and commerce, however.

A key development project in this respect is the MAHATA materiel administration, financial administration and procurement information system project which was set

up in 1996. This project defines and develops processes in these areas. The goal is an integrated information system which is expected to be in trial use two years from now. A comprehensive and up-to-date logistics strategy for the entire Defence Forces will help create the basis for improved cost effectiveness in supply procurement. Strategy work is under way: a working group which was appointed on 30 June 1999 has the task of preparing the Defence Forces' logistics strategy up to 2012.

The development of logistics should be based on a sufficiently clear vision of the Defence Forces in the future, in the light of the Government report to Parliament on European Security and Finnish Defence, which is presently being updated.

### Procurement procedures

In the case of supply procurement the costs of procurement activities are considerable. The decentralization of supply procurement to units in connection with the introduction of result management raised procurement costs. The State Audit Office considers it right that the Defence Forces have started creating a strategy for supply procurement and in this connection are investigating what product groups it is more efficient to procure centrally.

The Defence Forces use framework agreements which cut procurement costs. The amount of supplies which are purchased under framework agreements should be further increased. The Defence Forces should improve information on framework agreements and the monitoring of their use to ensure that personnel in all procurement units are aware of their existence and that they are used according to guidelines.

The Defence Forces should return the inspection of supply procurements for land forces to the same level which prevailed before the inspection of units' procurements was shifted from the military provinces to the military commands.

The Defence Forces should provide more detailed guidelines for the planning of units' and establishments' supply procurement. The commercial preparation of units' procurement should also be entrusted to full-time procurement personnel with commercial training. The Defence Forces should direct the organization of units' supply procurement more effectively.

### Garrison vehicles

The process of procuring garrison vehicles was observed to take an excessively long time. The Defence Forces should change guidelines so that cars and vans which do not require structural changes or the installation of additional equipment can be ordered by units directly from the supplier. As a result of this arrangement the Defence Materiel Establishment could focus its resources on making procurements which are technically more difficult.

The Defence Forces' fleet of garrison vehicles includes numerous vehicles which are past their economically useful life. These vehicles are repaired at considerable cost for parts and repairs regardless of the economic value of the vehicle. Maintaining garrison vehicles requires excessive resources at present. Garrison vehicles should be purchased only if this form of procurement is more economical, including total costs over the life of the vehicle.

#### Computer workstations

The Defence Forces should conclude a framework agreement for computer workstations and should regularly take advantage of the expertise of the Defence Forces' Information Technology Establishment in this type of procurement. The Defence Forces should also investigate the feasibility of leasing computer workstations in the future.