



Report of the State Comptroller of Israel | May 2024

The Defense System

Planning and Control of the Ministry of Defense's Budget Authorization to Commit



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Background

The IDF and the Ministry of Defense (Defense System) operate within a budget framework, which includes the budget authorization to commit, approved by the Knesset under the annual budget law. This budget represents the maximum sum the ministry can commit in a given year for executing multi-annual contracts, including orders, agreements, or contracts with suppliers for which payment will occur in the budget year or subsequent years. The budget authorization to commit is essential for the functioning of the defense system, given the nature of its activities, with emphasis on procuring weapons systems and long-term research and development projects that necessitate multi-annual contracts. The ongoing existence and preparedness of the IDF also benefit from multi-annual contracts, which ensure economic viability, supplier certainty, and operational continuity. However, these contracts 'tie up' the defense budget in subsequent years because once the defense system enters into contracts with suppliers, it becomes committed to these obligations, limiting flexibility to address evolving needs, including emergent threats.



Key Figures

tens of billions of NIS

average annual updated budget authorization to commit (including supplements during the year) in 2017–2022

73%

average implementation of the budget authorization to commit from the updated budget in 2017–2022

hundreds of billions of NIS

the cumulative sum of multi-annual contracts issued by the Ministry of Defense in 2017–2022 based on the budget authorization to commit

54%

of the total multi-annual contracts in 2017–2022 was designated to three main operational areas

about 100%

of the foreign military financing budget until the last year of the 'American defense aid agreement' (2028) are for uses approved by the defense system. Two-thirds of them were even contractually obligated

10%

only on average from the estimate of sources are the remaining budget for leeway in the NIS defense budget in 2023–2027, an average of several billion NIS per year before new expenses will be added

444

changes in budget authorization to commit from the first quarter of 2017 to the second quarter of 2022 at NIS 68.5 billion


65%

the rate of quarterly petitions¹ submitted to the Joint Committee of the Knesset that were delayed by two to seven months from the first quarter of 2017 to the second quarter of 2022

1 Petitions submitted every quarter by the Minister of Finance, according to the Defense Minister's proposals, to the Joint Committee of the Finance Committee and the Foreign Affairs and Defense Committee of the Knesset, including requests for advance approval for changes in the defense budget and retrospective reports detailing budget changes implemented by the Ministry of Defense.




Audit Actions

 From August 2022 to June 2023, the State Comptroller's Office examined the planning and control of the budget authorization to commit by the Ministry of Defense. Among other things, the following topics were examined: the process of planning the budget authorization to commit in the Ministry of Finance and the Ministry of Defense; the multi-annual budget commitments; aspects of the defense budget's rigidity, including the impact of this rigidity on the IDF's ability to execute its plans; monitoring changes in the budget authorization to commit, and aspects of the National Security Council's (NSC) staff work. The audit was conducted in the Ministry of Defense – in the Director General's office, the Budget Department, and the Finance Department; in the Ministry of Finance – in the Budget Department and the Accountant General's Department; and the NSC. Complementary examinations were made in the IDF's Multi-Branch Force Buildup Directorate.

The subcommittee of the Knesset State Audit Committee decided not to submit to the Knesset nor publish certain data of this report to safeguard Israel's security under Section 17 of the State Comptroller Law, 1958 [Consolidated Version].

Key Findings

 **Formulating the Ministry of Finance's Proposal for the Ministry of Defense's Budget Authorization to Commit** – the Ministry of Finance has not regulated the formulating of the budget authorization to commit proposal for the Ministry of Defense, at tens of billions of NIS annually. It does not document the discussions it holds with the Ministry of Defense, nor records this process. In addition, it does not conduct an organized and systematic annual process of collecting data and information on the Ministry of Defense's budget authorization to commit from previous years and processing and analyzing them in a structured manner to draw lessons. It has also not developed decision-support tools to improve the process. Thus, the Ministry of Finance's ability to establish a uniform and systematic proposal formulation process, to control it, and to maintain organizational memory within the Ministry of Finance is compromised. In addition, there is a gap between the positions of the Ministry of Finance and the Ministry of Defense regarding the need for the Ministry of Finance to have full access to all layers of information in the Ministry of Defense's computer system. The reports in the computer system allow the Ministry of Finance to view the budget set by the budget law, its changes, and the budget execution at various levels of detail; however, the information in them is limited. The reports do not contain information on orders signed with suppliers,



the content of the orders and the nature of the procurement, payment milestones, the pace of order execution, and more. As a result, the Ministry of Finance finds it challenging to analyze about 20% of the budget authorization to commit. According to the Ministry of Defense, the reports presented in the computer system were characterized in agreement with the Ministry of Finance. They enabled the latter to conduct relevant, consistent, continuous, and long-term control.

📌 The Detailed Planning of the Budget Authorization to Commit by the Ministry of Defense – the Budget Division in the Ministry of Defense does not plan the allocation of the budget authorization to commit to entities and update it optimally throughout the year. Although the budget authorization to commit does not cover all the bodies' needs, in about 40% of the programs² budgeted in 2017–2022 (except for 2021), the execution rates of updated budgets were up to 40%, and in a quarter of the programs, the execution rates were up to 20%. Furthermore, about 15% of the programs were allocated budget supplements during the year, which were not even realized, amounting from NIS 58 million to NIS 2 billion. It should be noted that 54% of the total orders and multi-annual agreements signed by the Ministry of Defense in 2017–2022 were designated to three main operational areas. Suboptimal planning of budget allocation may delay response to the bodies' needs. In addition, it was found that in 2017–2022, there was a discrepancy between the implementation of the Ministry of Defense's budget authorization to commit and its planning. The actual implementation averaged 73% of the updated budget during this period. This means that each year, not all of the budgeted multi-annual commitments were executed. Furthermore, in 2017–2020, the use of the budget authorization to commit was even lower than the original budget before any additional allocations, with implementation averaging 78% of the original budget in those years. In other words, the additional budget authorization to commit allocations given to the Ministry of Defense each year was not utilized.

📌 The Budget Authorization to Commit Given the Multi-Annual Commitments in the Defense Budget – the commitment report submitted by the Ministry of Defense to the Budget Department of the Ministry of Finance does not include all financial commitments of the Ministry of Defense as specified in the government decision of 2021. The report includes commitments in NIS only and does not include commitments in foreign military financing. This does not reflect a complete and comprehensive picture of all multi-annual commitments.

📌 Examination of the Impacts of Defense Projects on the Defense Budget – the rigidity report prepared by the Ministry of Defense, which was coordinated with the Ministry of Finance, does not reflect a scenario of a forecasted surplus of resources in the defense budget: The report presents the estimated expenditures (utilizations) in the

² A program represents a detailed level of the budget. In the defense budget, a program typically reflects the nature of the expenditure.



defense budget, averaging tens of billions of NIS annually from 2023 to 2030; however, it does not address funding sources or even the defense budget in previous years as a reference point. Hence, it does not enable the NSC and the Ministerial Committee for Defense Procurement to examine, based on a detailed and comprehensive information infrastructure, the impacts of executing a defense project on the defense budget in the coming years. It should be noted that according to an estimate by the State Comptroller's Office, the defense system is left with budgetary leeway based on an expansive assumption, from about 6% of its estimated resources in 2023 to about 11% in 2027, this is before new expenses are added over time.

📌 Payments from the Ministry of Defense to the Major Defense Industries³ – at the end of 2022, the Ministry of Defense had a debt of NIS 330 million to the major defense industries, almost all of it (98.5%) to Israel Aerospace Industries (IAI), with the remainder to Rafael. This debt was due to a gap between the Ministry's expenditures and financial resources, which contradicts the principle of timely invoice payment. The delay in payments by the Ministry of Defense to the major industries could lead to delays in their payments to their subcontractors, particularly small suppliers. In addition, from 2020 to 2022, an average of 36% of the total payments in NIS made by the Ministry of Defense to the three major defense industries were paid in the last quarter of each of these years. This was due to clarification of the budget situation and receipt of additional funds for the defense budget at the end of the year.





📌 Coordination Between the Finance Division and the Budget Division of the Ministry of Defense Regarding the Contract plan⁴ – contrary to the Finance and Economy Provisions on budget execution – budget handling, which instructs the accountants of government ministries to actively participate in preparing their ministry's budget proposal. The Ministry of Defense Finance Division, headed by the Ministry of Defense accountant, appointed by the Accountant General in the Ministry of Finance, does not participate in the Budget Division's planning process of the contract plan. As a result, the Finance Division is not exposed to the implications of the Budget Division's decisions regarding this plan, even though one of its roles is to plan and manage the funding for budget execution. Furthermore, there is disagreement between the positions of the Finance Division and Budget Division in the Ministry of Defense regarding the need for the Finance Division's involvement in the planning processes of the contract plan, its management, and its link to the expenditure budget: According to the Finance Division, its involvement is required to plan the financing for the execution and management of

3 The major defense industries are Israel Aerospace Industries Ltd. (IAI), Rafael Advanced Defense Systems Ltd. (Rafael), and Elbit Systems Ltd. (Elbit).

4 The Budget Division of the Ministry of Defense manages the defense budget vis-à-vis the budgetary bodies in the defense establishment using a method called the contract plan. By this method, the division sets an overall budget framework for annual and multi-annual commitments, derived from the commitment authorization budget and the expenditure and revenue-contingent expenditure budgets, and allocates it to the various bodies. The Ministry of Defense is in charge of ensuring that the total amount of payments made as part of the implementation of the contract plan does not exceed the total available resources at its disposal.



the defense budget. In contrast, according to the Budget Division, the Finance Division's involvement is unnecessary as the Budget Division has the sole authority.

-  **Quality of Reporting on Budgetary Changes in the Quarterly Submission to the Knesset** – the quarterly submission prepared by the Budget Division of the Ministry of Defense does not serve as an effective management tool for control by the Ministry of Finance and the Joint Committee on changes in the budget authorization to commit due to the following aspects regarding the reporting quality: (a) failure to indicate whether prior approval was obtained for budget changes; (b) insufficiently detailed explanations regarding budget changes; (c) failure to specify whether the programs affected by changes are in buildup or general areas; (d) lack of advance notice regarding changes exceeding NIS 5 million in the unclassified budget; (e) failure to specify the operational area affected by changes, using only numerical references; (f) failure to meet the deadline for submitting the official quarterly report through the Treasury to the Joint Committee in the Knesset. These findings are consistent with the Ministry of Finance and the Joint Committee in the Knesset's feedback to the State Comptroller's Office regarding the quality of reporting in the quarterly submissions. It should be noted that from the first quarter of 2017 to the second quarter of 2022, 444 changes were made to the budget authorization to commit (including transfers of funds from specific programs to others or budget supplements) at NIS 68.5 billion.
-  **Presenting Budget Changes on Unclassified Topics** – the Ministry of Defense fails to transparently present budgetary changes regarding unclassified matters, contrary to the government decision from 2006. It merely provides a one-time presentation of the defense budget proposal on its website without disclosing the changes made in operational areas and unclassified programs, neither in the budget authorization to commit nor in the expenditure budget.
-  **National Security Council's Staff Work Preparation for the Defense Ministry's Budget Authorization to Commit** – the NSC encounters difficulty in preparing the staff work for the Prime Minister for the defense budget discussions on the budget authorization to commit, which averaged tens of billions of NIS per year in 2017–2022. This challenge arises because the NSC is not exposed to the discussions held between the Ministry of Defense and the Ministry of Finance on this matter, lacks access to defense budget data, and since this area is entrusted to a single official within the NSC.
-  **Approval of Defense Initiatives** – the NSC failed to submit the recommendations of the team established to set additional criteria and examinations for defining defense initiatives to the Ministerial Committee for Defense Procurement, as stipulated in the government decision of 2021. This is due to the failure to reach agreements with all relevant parties regarding the definition of defense initiatives requiring approval from the Ministerial Committee for Defense Procurement. Therefore, the Ministry of Finance and







the NSC are concerned that there may be significant defense initiatives with political and defense implications whose costs are substantial but are not being examined by them.






Multi-Annual Budget Framework – the State Comptroller's Office commends the Ministry of Finance and the Ministry of Defense for reaching a multi-annual budget agreement for the defense budget in June 2023. A multi-annual budget will enable the Ministry of Defense to enhance multi-annual planning with a comprehensive and integrative perspective and allow flexibility in expenditures that are rigid in annual budget terms.

Key Recommendations

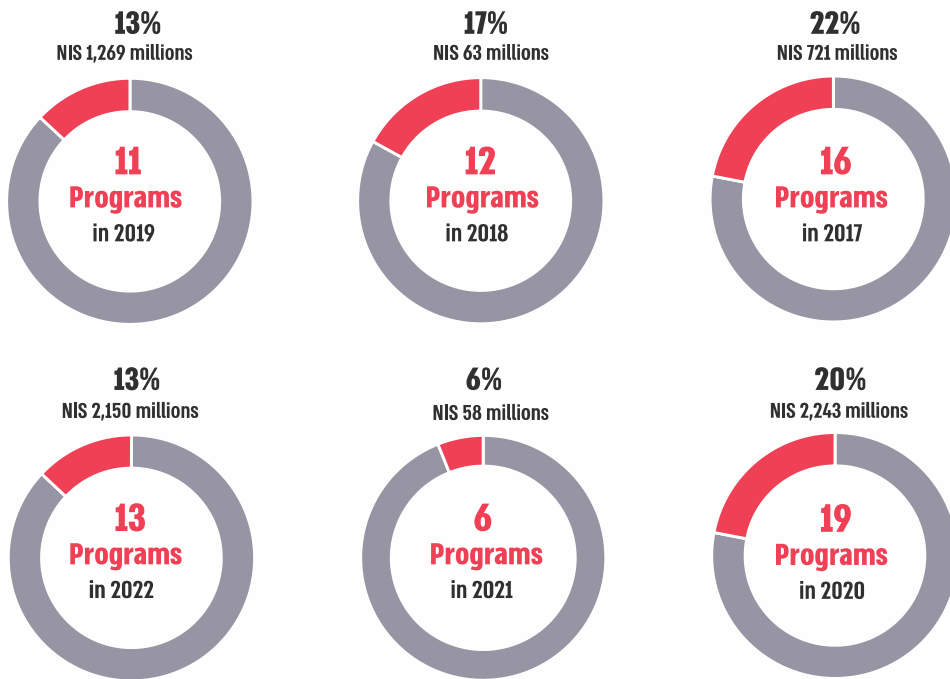
-  It is recommended that the Ministry of Finance regulate the proposal for the Ministry of Defense's budget authorization to commit and develop decision-supporting tools for both the framework of the commitment budget and the detailed proposal. This includes a structured and systematic analysis of the budget authorization to commit across operational areas and programs in previous years. Thus, refining the process of formulating the budget authorization to commit proposal, enabling examination not only of contracts and projects with relatively large budgets but also of relatively small programs, yet collectively adds up to billions of NIS annually (average of NIS 6.1 billion per year in 2017–2022).
-  It is recommended that the Budget Division in the Ministry of Defense refine the detailed planning process of the budget authorization to commit at the beginning of each year and update budget allocations throughout the year according to the needs of the bodies within the defense system, thereby increasing certainty regarding the duration and sums of contracts. Thus, achieving optimal budget utilization.
-  It is recommended that the Budget Divisions of the Ministry of Finance and the Ministry of Defense formulate the proposal for the latter's budget authorization to commit to multi-annual commitments in NIS and foreign military financing. This is because, in the coming years, a situation could arise in which there will be no budget source in foreign exchange to help finance additional uses beyond those presented by the Ministry of Defense in the usage plan.
-  The Budget Division of the Ministry of Defense, in coordination with the Budget Division of the Ministry of Finance, should include in the rigidities report presented in discussions on defense initiatives, projections of future revenue sources and expenditures. Thus, the



balance of resources in the defense budget, which essentially constitutes the financial leeway available for decision-making, is illustrated.

-  It is recommended that the Budget and Finance Divisions of the Ministry of Defense present to the Director-General of the Ministry the existing perceptual differences between them regarding the Finance Division's involvement in the planning processes of the procurement plan and its link to the expenditure budget, and also present tools and mechanisms for improving coordination between them. In addition, it is recommended that the Director General of the Ministry of Defense and the Accountant General of the Ministry of Finance establish schedules for the joint review process to enhance control and supervision over the engagement plan budget and the defense budget. It is further recommended that they discuss the findings and recommendations arising from the examination and implement tools and mechanisms to improve control and supervision over the defense budget.
-  In coordination with the Joint Committee, it is recommended that the Ministry of Defense and the Ministry of Finance establish a standard procedure to outline a clear and structured reporting format for quarterly submissions, specifying the information to be provided and how it should be presented. Furthermore, it is recommended that the Ministry of Defense consider shortening the time required to submit quarterly reports to the Ministry of Finance and the Joint Committee.
-  It is also recommended that the NSC and the Ministry of Defense jointly consider improving the information available to the NSC regarding the Ministry of Defense's budget authorization to commit and that the NSC enhance its capabilities regarding the personnel reviewing the Ministry of Defense budget. In addition, the NSC should complete the necessary staff work to formulate recommendations regarding additional criteria and examinations for defining defense initiatives and presenting these recommendations to the Ministerial Committee on Procurement, as stipulated by the government decision from 2021. According to the committee's decisions, the NSC is mandated to review relevant defense initiatives and bring them to the committee for approval.

The Number of Programs that Received Supplements from Budgets Authorization to Commit That Were Not Used, Their Share in the Programs Budgeted in the Same Year, and the Total Sum of These Supplements in 2017–2022 (in millions of NIS)



According to the Budget Division Data, Processed by the State Comptroller's Office.



Summary

The Ministry of Defense's budget authorization to commit is the maximum the ministry can commit in a given year, enabling it to carry out multi-annual contracts at tens of billions of NIS per year. The audit raised deficiencies in the Ministry of Finance and the Ministry of Defense planning processes of the Ministry of Defense's budget authorization to commit. Furthermore, the report indicated that the Ministerial Committee for Defense Procurement is not presented with a full overview that would allow it to thoroughly examine the budgetary impacts of implementing a defense project on the defense budget in the coming years. According to an estimate by the State Comptroller's Office, the defense system has a budgetary leeway of several billion NIS on average per year from 2023 to 2027 (based on an expansive assumption), constituting about 10% of the estimated resources for these years. The audit also highlighted deficiencies in the Ministry of Defense's quarterly reporting to the Joint Committee of the Knesset on changes in the budget authorization to commit, at NIS 68.5 billion from first quarter in 2017 to second quarter in 2022.

Given the necessity of the budget authorization to commit to the functioning of the defense system and the significant sum involved, and its impact on hardening the defense budget, the State Comptroller's Office recommends that the Ministry of Finance and the Ministry of Defense improve the planning processes for the budget authorization to commit. They should formulate the budget proposal based on the multi-year commitments in NIS and foreign military financing and expand the scope of information presented to the Ministerial Committee for Procurement as it proceeds to examine the budgetary implications of implementing defense projects. In addition, it is recommended that the Ministry of Security and the Ministry of Finance, in coordination with the Joint Committee of the Knesset, improve the quality of quarterly reporting on changes in the defense budget.

This audit was conducted before the "Iron Swords" war outbreak. It should be emphasized that the deficiencies and recommendations presented in the audit report are given greater importance given the expected increase in the defense budget, including the budget authorization to commit and the multi-annual commitments in the defense budget that will be required during and after the war.