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SUBJECT Audit of NATO expenditure

Madam President,

This letter informs the House of Representatives of the meeting between the supreme audit institutions of the NATO member states and the International Board of Auditors for NATO (IBAN) held on 15 May 2012.

In a period of contracting defence budgets, the NATO member states are seeking ways to increase the efficiency and effectiveness of NATO's operations.¹ NATO must accordingly spend its money as efficiently as possible. Together with IBAN, however, we have been concluding for several years that NATO's financial management is not in order.

We would draw the House's attention to:

- the annual meeting between IBAN and the supreme audit institutions of NATO member states;
- IBAN's annual report, which presents a worrying picture of NATO expenditure;
- the steps that must be taken to improve NATO's financial health;
- the options open to the House of Representatives.

¹ As a member of the North Atlantic Treaty Organization (NATO), the Netherlands will contribute €14.5 million this year. It will also contribute €73.2 million to joint programmes for operational capacities such as the AWACS aircraft and measures to deal with roadside bombs (Counter IED, House of Representatives, 2011-2012, 33 000 X, no. 2). The Netherlands further contributes to NATO missions and other cooperative projects.

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ANNEXES



Annual meeting with NATO supreme audit institutions

IBAN is responsible for auditing all NATO's expenditure, amounting to €11.6 billion in 2011.² IBAN issued 33 audit reports on 2011. It also issued an annual report on its activities and findings. IBAN then organised a meeting with representatives of the member states' supreme audit institutions to discuss its annual report for 2011. As in previous years, we inform the House of Representatives by letter after the summer of the outcome of the meeting.

We have recommended in the past that NATO should account more transparently for its use of the contributions made by the member states.³ The supreme audit institutions of the NATO member states have called for the IBAN reports to be made freely available, so that parliaments and citizens will know where improvements and savings can be made within NATO. Last year, NATO decided to consider the publication of each audit report as from 2013, based on the principle "publish unless". NATO can exclude reports that contain sensitive information from publication.

We think this move towards greater transparency is a positive step and we have urged IBAN to actively monitor its execution and also to post the reports on its own website. The supreme audit institutions also insisted this year that NATO publish the financial statements of the NATO entities. These are the documents in which the NATO entities *themselves* account for their operations. The audit reports provide an opinion *only* on the quality of the financial statements.

IBAN annual report presents worrying picture of NATO expenditure

As in previous years, IBAN's annual report for 2011 paints a worrying picture. NATO's financial management is still not in order:

- more than a quarter of the opinions on the financial statements of the NATO entities are negative;
- the financial statements of 33 of the NATO entities audited by IBAN disclosed large backlogs in the closure of the accounts. Of the financial statements audited, one set in five were concerned with 2010, two in five with 2009, and two in five with the years 2006-2008;

² IBAN has six Board members from as many NATO member states and a staff of about 20. Since 1 January 2012, the Netherlands has had a representative on IBAN. More information is available on IBAN's website: <http://www.nato.int/issues/iban>.

³ House of Representatives, 2007-2008, annexe to RU07000022; House of Representatives, 2009-2010, 28 676, no. 91 ; House of Representatives, 2010-2011, 28676, no. 115; House of Representatives, 2011-2012, 28 676, no. 136.



- there are difficulties closing the accounts for large investment projects for, for example, military bases, pipelines and warning and communication systems.⁴ Some 378 completed projects that had been approved before 1994, costing more than €3 billion in aggregate, are still waiting to be technically and financially audited to determine whether they have been implemented as intended. 3/5

With the financial statements and audit being so late, it is virtually impossible for NATO to have a complete and reliable picture of its financial management and make necessary adjustments on a timely basis. This weakens the efficiency of operational management.

Necessary steps to improve NATO's financial health

The supreme audit institutions of the NATO member states again expressed their concerns at the meeting held in May about the poor standard of NATO's financial management. IBAN will do everything in its power to make improvements. The supreme audit institutions of the NATO member states also insisted that IBAN make further improvements in its own performance.

NATO is already seeking savings at its headquarters in Brussels. The Minister of Defence informed you of this on 2 March 2012.⁵ Recent discussions of these savings also touched upon the organisation of IBAN itself. In the months ahead, NATO will study the options open to IBAN. The supreme audit institutions of the NATO member states will take part in this study. We see this as a good opportunity to make further quality improvements at IBAN. A peer review based on international standards, as we had called for last year, would be a useful instrument.

In our opinion, the discussion of improving the financial statements and audit of NATO should not be confined to IBAN alone. IBAN should form part of a fundamental consideration of the structural improvements that can be made to NATO's financial management – and thus to its efficiency.

We firmly believe that more attention should be paid to NATO's financial management. The annual report of NATO's Secretary General for 2011, for example, presents no information on the use of NATO's budget and accountability

⁴ These investments are made from the NATO Security and Investment Programme (NSIP).

⁵ House of Representatives, 2011-2012, 28 676, no. 146.



for it.⁶ Furthermore, NATO takes virtually no action against entities that present their annual reports and financial statements late. It needs to do so to obtain a good and up-to-date insight into its financial situation. Furthermore, the NATO Council has not asked for an explanation of IBAN's findings for 2011.

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Together with the US Government Accountability Office, we therefore recommended in May 2012 that IBAN ask the Council to appoint an independent Chief Financial Officer (CFO). A CFO reporting directly to the Council on financial matters would raise awareness of the importance of good financial management within NATO. Even though this has been discussed within NATO, a CFO has not yet been appointed.

Options open to the House of Representatives

At the moment, the member states' supreme audit institutions are closely involved in the further improvement of IBAN. We propose that your House debate the poor financial management of NATO as a whole. Two important points for improvement are:

- the timeliness and transparency of NATO's financial statements. They could be improved by having NATO publish the financial statements of all NATO entities and the associated IBAN reports;
- strengthening the financial function and financial discipline within NATO through the appointment of an independent Chief Financial Officer (CFO) to the Council

These points could be discussed during the next policy meeting with the Minister of Defence regarding the NATO Ministry meeting on 9 and 10 October 2012.

Moreover, the summit meeting of the NATO Parliamentary Assembly in Prague from 9 to 12 November 2012 would be a suitable platform to voice any concerns. You could share your concerns with MPs from other NATO member states at this summit. The members of the Parliamentary Assembly could then raise the matter with their own ministers or jointly with NATO.

The Court of Audit will continue to follow developments regarding NATO's expenditure and we will provide you with further information when there is cause to do so.

⁶ The report can be accessed at http://www.nato.int/cps/en/natolive/news_83709.htm.



We will send a copy of this letter to the Minister of Foreign Affairs and to the Minister of Defence.

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Netherlands Court of Audit

Gerrit de Jong,
Vice-President

Ellen M.A. van Schoten,
Secretary General