



PERSONAL  
President of the House of Representatives  
of the States General  
P.O. Box 20018  
2500 EA The Hague

Lange Voorhout 8  
P. O. Box 20015  
2500 EA The Hague  
T 070-3424344  
E voorlichting@rekenkamer.nl  
W www.rekenkamer.nl

**DATE** 3 November 2016  
**SUBJECT** Transparency and accountability for NATO expenditure

Madam President,

We are writing to inform you of certain developments in transparency and accountability for NATO expenditure. We trust the information will be of use during your House's participation in the NATO Parliamentary Assembly commencing on 18 November.

This letter briefly considers the importance of public accountability for public funds at international alliances. It then looks at recent developments and the annual report issued by the International Board of Auditors for NATO (IBAN), the body that audits NATO's expenditure every year. It closes by referring to an assessment we carried out at one of the NATO centres of excellence, MILMED.

**Public expenditure should be subject to public accountability**

The use of public funds should be subject to public accountability. The public must be confident that the government spends their money economically, efficiently and effectively, and that they receive value for money. The funds spent by international organisations such as NATO are no exception.

Departures can be made from this principle to allow for the special nature of NATO, but NATO, too, should be subject to public accountability provided military confidentiality is not compromised. This letter is concerned with the transparency of NATO expenditure that is not subject to military confidentiality.

**YOUR REFERENCE** Your reference  
**OUR REFERENCE** Our reference 16005139 R/S  
**ENCLOSURES** Enclosures



### **Increased transparency of NATO expenditure since 2014**

2/5

NATO ministers agreed in 2014 to strengthen accountability for NATO's income and expenditure.<sup>1</sup> The first results can already be seen; there has been an increase in the transparency of NATO expenditure and NATO has published a series of documents on its finances and operational management. They include:

- internal financial regulations and financial procedures;
- summaries of the military and civilian budgets for 2016;
- statistics from the NATO Security Investment Programme (NSIP) for 2015.

Furthermore, in 2015 and 2016 IBAN published a large number of audit reports with associated annual financial statements (concerning 2014). IBAN has also carried out more performance audits with a view to providing greater insight into the efficiency and effectiveness of the use of public funds. IBAN has also published these audits.

These measures have improved transparency and are steps in the right direction. We trust NATO will continue on this course and make full use of the opportunities still available for further improvement.

### **Scope for improvement in transparency and accountability**

IBAN concluded in April this year<sup>2</sup> that transparency and accountability for NATO's use of public funds could be further improved through the preparation of a consolidated financial statement. We agree with this conclusion. The accountability of the dozens of NATO entities is fragmented. A consolidated financial statement would increase the financial transparency of the NATO organisation as a whole and provide greater insight into its performance. As noted above, it goes without saying that the confidentiality of certain operational expenditure should not be compromised. However, transparency and public accountability are appropriate in the case of non-confidential operational expenditure.

Consolidated financial statements and greater insight into operational expenditure would allow the NATO member states to more clearly understand the regularity, efficiency and effectiveness of the use of their financial contributions.

---

<sup>1</sup> NATO (2014) *Wales Summit Declaration*.

<sup>2</sup> See also [http://www.nato.int/cps/en/natohq/news\\_131544.htm](http://www.nato.int/cps/en/natohq/news_131544.htm).



### **The findings of the most recent IBAN annual report**

3/5

The scope for improvement can also be seen in the findings presented in IBAN's most recent annual report. IBAN reports on its annual audit activities at NATO every spring. The report is discussed by the North Atlantic Council. In advance, IBAN discusses the report with the competent audit institutions of the NATO member states, usually their Supreme Audit Institutions. The Netherlands Court of Audit was present at the discussion of the 2015 annual report in May 2016. IBAN had not made its report public at the time of this letter.

The latest annual report to have been published by IBAN concerns the 2014 financial year.<sup>3</sup> It states that IBAN had audited financial statements accounting for approximately €9 billion.<sup>4</sup> Its audit had led to 35 opinions, 26 of which were unqualified. Seven of the other nine opinions were qualified and the remaining two were disclaimers of opinion. In percentage terms this is roughly the same as in the previous year.

	<b>2014</b>	<b>2013</b>
Opinions	35	47
Unqualified opinion	26	35
Qualified opinion	7	8
Disclaimer of opinion	2	4

Frequently named causes for the qualified opinions and disclaimers of opinion were weak internal controls and poor compliance with NATO regulations.

IBAN does not disclose the financial importance of the qualified opinions and disclaimers of opinion in its annual report. What is clear, however, is that qualified opinions have not been issued on a number of NATO entities for many years. One such entity is Allied Command Operations, which has received an unqualified opinion since 1989.<sup>5</sup>

### **Our assessment of MILMED**

To obtain more insight into financial accountability and the effectiveness of NATO entities, we carried out an assessment of the NATO Centre of Excellence for

---

<sup>3</sup> IBAN 2014 ANNUAL ACTIVITIES REPORT, 24 November 2015 DOCUMENT, C-M(2015)0077-AS1.

<sup>4</sup> The cumulative amount spent by all NATO entities each year is not made public.

<sup>5</sup> This organisation is responsible for planning and conducting NATO missions and for the use of approximately €1 billion a year.



Military Medicine (MILMED) this year. MILMED is a joint funded entity of NATO. Joint funded entities have been established by a number of NATO member states and granted their own budgets in order to perform a specific task. They are largely separate from the NATO structure and render account only to the member states that make a financial contribution to their budgets.

4/5

MILMED was set up in 2009 and is funded by the Netherlands and nine other member countries. It shares knowledge and experience in the field of military medicine with the participating countries. Our assessment considered MILMED's effectiveness, strategic planning, organisational structure and the efficiency of its operational management. Our report has not been made public because it includes information on operational management that the countries participating in MILMED have classified as non-public. None of MILMED's operational management information, including information on the financial contributions made by the participating countries, the annual budget and the number of staff, is published. This problem at MILMED is illustrative of the entire NATO alliance, as the NATO entities customarily classify their operational management information as non-public.<sup>6</sup> It is therefore difficult to establish whether NATO spends public money effectively and efficiently.

Further to this letter we will consult the Minister of Defence to discuss how the Netherlands can help make NATO rules on the classification of operational management information more flexible and bring them more into line with the principle that what can be made public should be made public and what cannot be made public should not be made public.

This was our first audit of a NATO joint funded entity. We intend to develop a model to audit operational management information at such bodies. We will carry out the assessments either in consultation with other Supreme Audit Institutions of the NATO member states or jointly with them.

### **In conclusion**

We will send a copy of this letter to the President of the Senate and to the Ministers of Defence and of Foreign Affairs. We would also refer you to our web

---

<sup>6</sup> The classification is "NATO unclassified", which means the information may be shared only within the NATO alliance unless the information owner decides otherwise.



dossier at [www.rekenkamer.nl/navo](http://www.rekenkamer.nl/navo), which includes a summary of our publications on transparency and accountability for NATO expenditure. 5/5

We will continue to follow developments in this area with interest and trust that transparency and accountability will receive your consideration during the meeting of the NATO Parliamentary Assembly. We would be more than willing to discuss these matters with you at your request.

A.P. (Arno) Visser  
President  
Netherlands Court of Audit

E. M.A. (Ellen) van Schoten RA  
Secretary