

Building Integrity and Reducing Corruption in Defence

A Compendium of Best Practices



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Chapter 6

Defence Budgeting and Financial Management

Defence budgeting is the process of allocating financial resources to defence activities. It is a comprehensive process encompassing budget planning, execution, reporting and auditing. Transparent defence budgeting and accountable financial management are key to ensuring the integrity of all defence activities and reducing the potential for corruption in defence. Non-transparent financial management in defence combined with the lack of accountability is a powerful enabler of corrupt practices. Even if there are no obvious cases of corruption, poor planning, a disconnect between policymaking, planning and budgeting, and poor control of expenditures severely undermine performance in the defence sector and de-motivate both military and civilian personnel.

This chapter focuses on budgeting principles and process issues. Of key interest is how to promote integrity in the budgeting process. The roles of parliament, the audit office, society and other players in the process are examined in the respective chapters in part III of this Compendium.

Principles and Requirements

Budgeting and financial management in defence reflect the budgeting procedures and practices used in the public sector. Hence, the analysis of enablers of corruption in defence, related to financial management, may start with an analysis of the implementation of key principles of sound budgeting in the public sector, presented in Box 6.1. Although the mandate of the World Bank does not cover security and defence, these principles equally apply to budgeting and financial management in the defence sector.

In the modern understanding of defence budgeting, the allocation of money—and, respectively, people, materiel and infrastructure—to defence activities clearly supports the attainment of security and defence objectives and the implementation of military strategy. In the words of former US President Harry S. Truman, “strategy, programs, and budget are all aspects of the same basic decisions.”¹

¹ *Public Papers of Presidents of the USA, Harry Truman, 1945* (Washington, DC: US Government Printing Office, 1961), 551.

Box 6.1. Key Principles of Sound Budgeting of the Public Sector

The World Bank defines the following key principles of sound budgeting and financial management, fully applicable to defence budgeting:

- *Comprehensiveness*: The budget must encompass all fiscal operations;
- *Discipline*: Decision making must be restrained by resource realities over the medium term; the budget should absorb only those resources necessary to implement government policies; and budget allocations should be adhered to;
- *Legitimacy*: Policymakers who can change policies during implementation must take part in the formulation and agree to the original policy;
- *Flexibility*: Decisions should be pushed to the point where all relevant information is available;
- *Predictability*: There must be stability in macro and strategic policy and in funding of existing policy;
- *Contestability*: All sectors must compete on an equal footing for funding during budget planning;
- *Honesty*: The budget must be derived from unbiased projections of revenue and expenditure;
- *Information*: A medium-term aggregate expenditure baseline against which the budgetary impact of policy changes can be measured and accurate information on costs, outputs and outcomes should be available;
- *Transparency*: Decision makers should have all relevant issues and information before them when they make decisions and these decisions and their basis should be communicated to the public;
- *Accountability*: Decision makers are responsible for the exercise of the authority provided to them.

Source: World Bank, *Public Expenditure Management Handbook* (Washington, DC: The World Bank, 1998), 1–2.

That has not always been the case. In *cameralistic* budgeting and accounting systems, introduced in Europe in the late middle ages, the sovereign spends a certain amount of money for a fiscal year and, although spending is controlled, there is no rigorous assessment of results. Such systems are also known as “input-oriented” budgeting and financial management systems and in many countries still serve to manage defence finances. Parliaments vote on a budget proposal by the government expressed in money to be spent, for example, on military and civilian personnel, operations and maintenance, capital investments and research and development. In practice, and even with much higher level of detail, such presentation of the proposed de-

fence budget alone does not provide for understanding the linkage between policy objectives and budget requests.

In turn, the provision of clear and auditable linkages between objectives, strategy and implementation is indispensable for assessing both results and performance. Box 6.2 presents the critical dimensions of performance in assessing public financial management systems and practices.

Process Integrity

In contrast to “input-oriented” budgeting, “output-” and “outcome-oriented” systems are used to translate security and defence objectives into capability requirements and respective programs, and then into budget requests. The best known system of this type is the US DoD’s Planning, Programming, and Budgeting System (PPBS), instituted in the early 1960s by DoD Comptroller Charles J. Hitch under the direction of the then Secretary of Defense Robert S. McNamara. Many countries, in particular the countries of Central and Eastern Europe and former Soviet republics in their post-communist transition, attempt to replicate or adapt the US PPBS as the main tool for effective and efficient management of their defence establishments and a basis for effective democratic oversight of defence.

Box 6.2. Critical Dimensions in Measuring Performance of Public Financial Management

The Public Expenditure and Financial Accountability (PEFA) initiative of the World Bank has identified six critical dimensions of performance of an open and orderly Performance Measurement Framework system, as follows:

1. *Credibility of the budget*: The budget is realistic and is implemented as intended;
2. *Comprehensiveness and transparency*: The budget and the fiscal risk oversight are comprehensive and fiscal and budget information is accessible to the public;
3. *Policy-based budgeting*: The budget is prepared with due regard to government policy;
4. *Predictability and control in budget execution*: The budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds;
5. *Accounting, recording and reporting*: Adequate records and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes;
6. *External scrutiny and audit*: Arrangements for scrutiny of public finances and follow up by the executive are operating.

Source: World Bank, *Public Financial Management: Performance Measurement Framework* (Washington, DC: PEFA Secretariat, June 2005), 2.

Systems like the PPBS provide for a transparent linkage between defence objectives and budgets, as well as between long- and mid-term plans and programs and current activities. Decision makers both in the executive and the legislature are able to understand what would be the impact of a certain decision in terms of overall allocation to defence and its distribution among defence activities, or programs, on the potential to meet defence objectives and, respectively, on the risks for the security of the country. Such systems also serve to provide budgeting flexibility in changing conditions while preserving transparency and accountability.

However, PPBS—in itself a powerful decision support mechanism—does not guarantee integrity of the whole defence management cycle. For that purpose it needs to be complemented by sound arrangements for oversight of budget execution, accountability, assessment and auditing mechanisms. Therefore, recently the US DoD explicitly added the phases of **Execution** and **Assessment** to “PPB” and is currently using the term PPBEA system. PPBEA provides for comprehensive control over inputs and legitimacy, management efficiency and effectiveness.²

Some countries refer to the need to align defence objectives, strategy, plans and results of implementation and keep them aligned in a changing environment as *strategic defence management*. Box 6.3 provides a national example of how defence budgeting and financial management are set into a strategic management framework that guarantees policy orientation, transparency, credibility and internal and external scrutiny in a dynamic planning and execution environment.³

It is also important to preserve the integrity of the budgeting process in changing circumstances, in particular when countries have a longer budgetary outlook, e.g. like the four-year outlook in the UK example presented in Box 6.4, combined with delegation of authority for budget execution.

The Netherlands defence establishment, for example, has a mechanism in place for making short-term adjustments for urgently required capabilities in the day-to-day operational process, the so called fast-track procurement. These are normally relatively small programs and fall within the authority of the budget holder. This may happen in a planning system which is sufficiently robust to produce realistic plans and flexible enough to accommodate unforeseen circumstances. In any case, such budget expenditures must remain subject to standing internal and external scrutiny and audit arrangements, no matter what the level of urgency and/or secrecy of the requirement.

² Francois Melese, “Instruments for Measuring Accountability, Transparency and Control of Expenditures in the Security and Defence Sector,” presentation to the NATO-RACVIAC conference on *Better Management of Defence Resources, Including Building Integrity in the Armed Forces*, Zagreb, Croatia (14-16 September 2009).

³ This is an example of the process approach to enhancing defence budgeting and financial management. For an example of supporting organisational changes see Box 17.1.

Box 6.3. Financial Management in a Strategic Defence Management Framework

To provide for credibility, transparency, policy orientation of plans, budgets and audits, the Ministry of Defence of Bulgaria is in the process of implementing a new, comprehensive strategic defence management framework. It focuses on five core processes:

1. Review of defence policy;
2. Political guidance;
3. Review of capability requirements;
4. Capability delivery;
5. Assessment of performance and results.

A defence policy review is conducted at the beginning of the term of each new cabinet and results in the publication of a Defence White Paper, presented also to parliament. The review may be conducted within this regular cycle given considerable changes in the defence environment, e.g. in an economic and financial crisis (or, for a partner country willing to join NATO, upon an invitation to join the alliance).

The minister of defence issues policy and planning guidance at the beginning of each annual planning cycle, and also when assessments within the budget year point to the need to realign objectives, plans and resource constraints.

The review of capability requirements is conducted bi-annually, in coordination with NATO and EU defence planning processes. It results in a decision on a portfolio of future defence capabilities that is comprehensive and realistic. Sub-sets of this portfolio are assigned as capability targets to programme managers to be met through the next core process.

The capability delivery process includes *programming*, *short-term planning* and *implementation*. Defence programmes specify how assigned capability targets will be achieved in future years. Once the programme decision has been made, the first one or two years of the defence programmes are further detailed along capability components (or types of resources), e.g. in a defence budget, procurement plan, plans for recruitment, training, infrastructure development, etc. All these plans are then implemented within the budget year.

The assessment process is used to check the legality of expenditures made, to measure performance and results, and to assess the outcome of all defence activities. It is conducted every four months and includes a review of planning assumptions. It provides feedback to the political leadership and may also result in a recommendation to realign objectives, strategies and constraints through a review of either plans or programmes or, if planning assumptions have changed considerably, a review of capability requirements or even the country's defence policy.

This approach builds on earlier experience of the MOD and lessons learned in applying a Planning, Programming, and Budgeting system. It continues to provide for policy-based budgeting and adds several essential features: (1) It institutes the understanding of defence capabilities as the output of all defence management activities, including financial management, and the main measure in assessing performance and results; (2) To financial control, it adds regular assessment of efficiency and effectiveness; and (3) It allows policymakers to balance defence objectives, plans and resources and, more importantly, to

keep these aligned under changing circumstances.

The introduction of such a strategic management approach allows for qualitative improvement of credibility of the defence budget, enhances predictability and control in budget execution, aids external scrutiny and audit, and facilitates continuous improvement of business processes and planning methods.

Sources: For details on process # 4, refer to Todor Tagarev, "Introduction to Program-based Force Development" in *Defence Management: An Introduction* (Geneva: DCAF, 2009), 75–92; For policies and practices of other countries in strategic defence management, the reader may refer to Stephan De Spiegeleire, et al., *Closing the Loop: Towards Strategic Defence Management* (The Hague: The Hague Centre for Strategic Studies, April 2009).

Delegation and Accountability

One of the reasons for inefficiency of many budgeting systems is the centralization not only of budget planning but also during the execution phase. Extreme centralization of decision-making arrangements, so typical for the Soviet command system, still impacts management styles in the post-Soviet space. In many cases it is the minister of defence who has to authorize even very small expenditures.

Such centralization in itself slows down the decision-making process and leaves little time for consideration of alternatives. Even more troublesome is the loss of transparency: while expenditure proposals are pushed up through hierarchical levels, always with the signature of the person in charge of each unit at the respective level of the defence organization, it is not difficult to lose track of who really generated the spending proposal and how it impacts other defence activities.

Organizations with efficient management deal with this problem through delegation of authority and responsibility. Box 6.4 provides an example of delegation that goes hand in hand with rigorous accountability, reporting and audit arrangements.

Credibility and Comprehensiveness

To be credible, the defence budget needs to be realistic and implemented as intended. To assure credibility, the budgeting process and the defence budget need to be comprehensive and based on reliable data and information.

Reliability here is examined from three main perspectives:

1. Preliminary costing of defence programmes and projects is based on reliable statistical information or, when such statistics are not available, on rigorous benchmarking studies. Regular use of independent assessments prior to a decision to dedicate significant resources to a certain programme or project may be a major enabler for the reliability of all budget proposals.

Box 6.4. Delegation of Authority to and Accountability of Budget Holders in the UK Ministry of Defence

Most of the activities in the UK defence establishment are managed through eight Top Level Budget (TLB) holders. The outcomes that TLB holders are required to deliver, as well as the resources that are provided to them to do so, are set out in the Defence Plan.

The MoD permanent under secretary grants each TLB holder extensive delegated powers over personnel, infrastructure and budget. Each TLB holder has a Service Delivery Agreement with the permanent under secretary and the chief of the defence staff, which specifies:

- The outputs required of the TLB;
- The resources that are provided to deliver those outputs; and
- The financial, personnel, commercial and other authority delegated to the TLB holder.

The agreement also includes TLB performance targets, which are derived from the objectives and targets in the Defence Plan.

TLB holders are responsible for managing the performance of their organisations, including the performance of subordinate business units and agencies. The chief executives of these units and agencies receive appropriate delegated authorities and are accountable to the TLB holder for the use of their resources.

TLB holders are then held accountable to the permanent secretary and the chief of the defence staff through the Defence Board for the delivery of their outcomes and the use of their resources, while the permanent secretary—as the departmental accounting officer—is personally accountable to parliament for the economic, efficient and effective use of defence resources, prudent administration and the regularity and propriety of defence expenditure.

To combine delegation of authority and accountability, the UK Ministry of Defence applies an approach known as Balanced Scorecard. This is a strategic planning and management system used to align business activities at all levels to the vision and strategy of the organisation, cascade objectives and metrics, improve internal and external communications and monitor organisational performance against strategic goals.

Sources: UK Ministry of Defence, *How Defence works. Defence Framework* (London: Ministry of Defence, 2009); UK Ministry of Defence, *Defence Plan 2007* (London: Ministry of Defence, 2007).

2. Proper accounting is in place. The accounting system is also comprehensive, timely and subject to regular audits.
3. There is an understanding of the risks associated with the implementation of all major programmes or projects and adequate risk management procedures and instruments are in place.

The following three aspects of comprehensiveness of defence budgeting are key in assuring credibility:

1. *Budget planners encompass all fiscal operations and all activities of the defence establishment.* Nothing is done and no payment is made outside the defence budget. In case the defence establishment is involved in economic activities or is allowed to charge customers for certain services, all respective transactions are covered by the budgeting procedures. That includes international transactions and transfers from one budget year to another, as well as eventual reimbursements for defence expenditures.
2. *The budgeting process is examined comprehensively,* as an end-to-end process starting with formulation of policy objectives, through defence requirements and programmes, all the way through to budget execution, reporting and auditing the reports. The integrity of this process is preserved at all times.
3. *The planning processes, at several of its phases, include examination of alternatives.* Planners search the space of all possible solutions or, when that is not possible due to a limited analytical capacity, they still evaluate two or more qualitatively different alternative solutions for the requirement under examination.

Thorough auditing of implementation and results adds important lessons and facilitates the enhancement of defence budgeting and financial management. Preliminary audits of selected issues, conducted by people not directly involved in the planning process before significant resources are committed, are also seen as an important tool for integrity building and reducing the corruption potential in defence.⁴

Transparency in a Multinational Framework

For the last several decades, the transparency of defence budgeting and budgets has been seen as an important security and confidence building measure. Not surprisingly, one of the first initiatives within the Stability Pact for South Eastern Europe, launched after the end of the wars in the 1990s in the former Yugoslavia, was the Budget Transparency Initiative (BTI). It is briefly presented in Box 6.5.

One of the goals of the initiative was to exchange information on budgeting processes and rationale, as well as on defence budgets. For many years, the two year-books, published by the secretariat of the initiative, served as the most comprehensive and authoritative sources of military budgeting information for the countries in South Eastern Europe, widely available to the public.⁵

⁴ Valeri Ratchev, "Effective Defence Policy through Integrated Management, Transparency, and Accountability," in *Integrity in Defence: Effective, Transparent and Accountable Management* (Sofia: Euro-Atlantic Education Initiative, 2009), 1–94.

⁵ Budget Transparency Initiative Secretariat, *Yearbook on Defence Spending in South-Eastern Europe – 2001* (Sofia: Budget Transparency Initiative Secretariat, 2002).

Box 6.5. An Example of a Regional Approach Encouraging Transparency of Defence Budgeting

Throughout the 1990s, the region of South Eastern Europe (SEE) was in turmoil. SEE countries suffered from war and conflict, enduring at the same time the hardships of the transition to market economies. With the end of hot conflicts, democratic transformations led to fundamental restructuring of armed forces, changing the role of the military in the national political systems. All SEE countries embarked on a process of establishing effective democratic control over the armed forces, motivated to introduce the practices of transparency and accountability throughout government, the area of defence included.

Therefore, one of the very early initiatives within the Stability Pact for South Eastern Europe aimed to promote the transparency of defence budgeting; transparency being understood both in terms of availability of information on budgets and budget execution and in terms of an open, policy-oriented decision-making process, open to societal involvement as appropriate. Understanding that military budgeting is at the heart of the democratic control of armed forces and comprehensive regional stability, the Budget Transparency Initiative (BTI) of the Stability Pact aims to promote domestic and international transparency of defence budgets and the defence budgeting process throughout South Eastern Europe and to encourage good practices in defence decision making (policymaking, planning, programming and budgeting), with particular reference to accountability.

The second goal was to identify good practices from within countries facing similar challenges and to promote good governance in defence. One of the tools for identifying and disseminating good practices in defence budgeting was the adoption of a common methodology. The methodology, officially endorsed in 2003, consists of a benchmark, questionnaire and a process to identify areas where improvement is most needed and sources of advice. The benchmark is presented in the next section.

The implementation of this approach in a regional or other multinational setting involves peer review and pressure in disseminating budget information, sharing budgeting experience and investing in enhancement. There is practical evidence that such a multinational approach serves as an efficient facilitator in introducing good practices in defence budgeting and financial management. It is also seen as a promising venue in increasing integrity and reducing corruption potential in defence.

South East European Benchmark of a Budgeting Process

The methodology for assessing transparency of defence budgeting in South East European countries envisioned comparison of specific prescriptions and practices

against an idealised system serving as a benchmark.⁶ Such a system does not necessarily exist. The budgeting system described below may be considered “best” in “good governance” terms of effectiveness, transparency and accountability and does not take into account sometimes legitimate concerns of sensitivity of information, secrecy and limitation on the access to information.

The benchmark is described in five major categories of criteria assessing: (1) goal orientation of the budgeting process; (2) scope and effectiveness of the budget planning process; (3) budget execution and effective oversight; (4) transparency of defence budgeting and budgets; and (5) assurance of integrity of defence budgeting.

1. Military Budgeting as an Integral Component of the Security and Defence Policy

a. Objectives, vision, strategy

Military budgeting is a process well incorporated in the defence planning framework, guaranteeing the implementation of a clearly stated defence policy in the mid- and long-term. The country has clearly stated the objectives of its security and defence policies in a small number of legislative acts with apparent interrelationships among them. There is a comprehensive strategy to achieve the objectives of the security and defence policy, i.e., to join an alliance. This strategy—elaborated in a legislative act—is broadly assessed as realistic. The country has a vision of its force structure ten or more years in the future. The vision is feasible and sufficiently elaborated to guide R&D, technology development and acquisition policies. Its implementation is supported by a roughly costed long-term force development plan. The vision and the long-term plan are approved either by the government or by the legislature.

b. Programmatic approach

The country has an established process for development of a mid-term plan, or defence programme,⁷ designed to accomplish the objectives of the stated defence policy. The defence programme and its components are clearly designed to meet policy objectives. It incorporates diverse requirements, e.g., of national defence and allied planning. The defence programme further includes programmes and projects considered of highest priority in terms of policy objectives. In a compre-

⁶ The methodology, including the benchmark and the questionnaire, is presented in detail in Todor Tagarev, “A Means of Comparing Military Budgeting Processes in South East Europe,” *Information & Security: An International Journal* 11 (2003): 95–135.

⁷ For example, the US uses the term *Future Years Defense Program (FYDP)*. A number of South East European countries have also accepted the term *programme* to denote a *resource constraint mid-term plan for development of defence and the armed forces*.

hensive manner it covers all defence activities and costs, including personnel, operations and maintenance, procurement, utilisation, education and training, research and technology development, etc. The defence programme is constrained by anticipated resources. It further constrains any other defence resource requirements posed, for example, by acquisition programmes or operational plans. It contains alternative options to reflect thoroughly described contingencies. The defence programme effectively incorporates performance indicators. The level of detail for the first planning year⁸ of the defence programme is sufficient to allow for its accurate transformation into a budget plan.

c. Defence and force planning risks

There is a clear understanding of the risk level associated with the budgeted force structure and defence posture both in the short- and mid-term.⁹ The country has a methodology to assess risks associated with defence and force planning, and this methodology is adequate to the country's needs. It has established procedures to develop scenarios for force implementation, to assess probability of occurrence of each scenario under clearly stated assumptions, to simulate performance of planned forces, to analyse simulation results and deduct risk. Furthermore, the assessment of risk is supported by relevant tools, while the experts involved have the necessary knowledge and experience. Finally, risk assessment is fully and effectively incorporated within the defence and force planning cycle.

d. Objective-oriented military budgeting

The budgeting procedure is clearly oriented to reflect precise policy objectives and programme decisions. It allows for efficient and effective translation of policy and programme decisions into budgets.

2. Budget Planning

a. Military budget planning

Roles and responsibilities within the executive branch and among the branches of power regarding military budgeting are very clear. These apply to the distribution of roles and responsibilities among the executive branch, the legislature and the head of state (the supreme commander); among the senior military authorities, the civilian Ministry of Defence (MOD) officials and the Ministry of Finance; and the roles and responsibilities of the public sector, commercial organisations and lobbying

⁸ Or the first two planning years, in case the respective country has a two-year budget.

⁹ For elaboration on planning risks, the reader may refer to Hari Bucur-Marcu, Philipp Fluri, Todor Tagarev, eds., *Defence Management: An Introduction* (Geneva: DCAF, 2009), 67–71, www.dcaf.ch/publications/kms/details.cfm?ord279=title&q279=management&lng=en&id=105077&nav1=5.

groups, particularly the relationships between the executives and commercial organisations owned by the MOD or other governmental agencies.

b. Flexibility

Roles and responsibilities for key aspects of military budgeting are defined through comprehensive legislation, regulations and instructions, covered by a budget system law. A degree of flexibility is available to the executives in spending public funds. Programmes and the budget can be changed out of the regular planning cycle. However, the discretionary powers of the executives are clearly described in legal acts. Contingency or reserve provisions of the budget law specify clear and stringent conditions for the use of funds. Executive reports on spending contingency funds are independently audited.

c. Military budgets

In a comprehensive manner, the military budget covers all financing (subsidies and "revenues"/ "incomes") and spending. Comprehensively, with clearly defined sources and elaborated purpose, the military budget accounts for the subsidy from the state budget to the Ministry of Defence; subsidies from the state budget to other organisations performing defence and defence-related activities, i.e., maintenance of wartime reserves; funding from other national programs, i.e., for preparation for NATO membership; funding through international and bilateral programmes (with clear regulations for using reimbursed funds); revenues from sales of excess equipment, infrastructure, etc.; and revenues from the profits of commercial organisations and organisations providing goods and services to outside organisations, when the MOD owns or has a share in these organisations.

The country has the capacity—methodology, adequate knowledge and trained people—to estimate accurately all future defence expenditures, including the expenditures according to the *UN Instrument for Standardised Reporting of Military Expenditures*, taxes, social and medical insurance costs, retirement costs and the costs for social adaptation of prematurely released military personnel, expenditures on utilisation of weapon systems, equipment and infrastructure, costs to cover previous contracts and loan servicing costs, as well as any contingent liabilities.

All revenues and expenditures are classified in a way that is compatible with international standards, i.e., GFS¹⁰ and the UN Instrument. Budget information is presented in a way that facilitates policy analysis and promotes accountability. The military budget is represented in the form of appropriations, giving considerable detail. It provides detailed distribution among defence organisations, as well as among defence programmes. In the latter case, the budget clearly presents the re-

¹⁰ GFS or Government Finance Statistics. Details on the UN classification are available on-line at: <http://unstats.un.org/unsd/class/family/family2.asp?CI=218>.

sources allotted to training, maintenance, procurement, research and development, etc., for each programme and its elements.

3. Budget Execution and Oversight

a. Budget execution

The country has a comprehensive accounting system that provides a reliable basis for assessing payment arrears. The accounting system is capable of generating data on all stages of the “incomes” and payments along budget appropriations, as well as along organisations and programmes.

Personnel, operations and maintenance, procurement and R&D regulations are standardised and accessible to all interested parties. There are clear criteria for discretion on employment and payment, allowing for competitive recruitment. The regulations for open tendering for procurement, R&D and other contracting services are clear and comprehensive and the personnel involved in their implementation is adequately qualified. All these regulations are fully observed in practice.

b. Auditing

In the defence establishment and/or in the executive branch there is a strong capacity for internal audit. Internal audit procedures are clear and subject to effective process review by external auditors. There is a strong audit capacity both in terms of financial compliance and effectiveness of performance (“value-for-money” audits). Additionally, there is a strong capacity for independent audits, i.e., through a National Audit Office working for the legislature. Independent audit requirements and procedures are clearly established in law. There is a strong independent capacity for audits in terms of financial compliance and identification of fraud/ mismanagement cases, as well as for “value-for-money” audits. Independent think tanks (universities, academic institutes and other non-governmental organisations) complement “value-for-money” audits in particular areas of interest, i.e., force modernisation programmes. Non-governmental organisations have a notable capacity and track record of successful performance reports. Their reports have had noticeable impact on decision makers and societal attitudes.

c. Reporting

The government presents regular fiscal reports to the legislature and the public. A mid-year report on budget developments is presented to the legislature. More frequent—quarterly and monthly—reports are also published. Final accounts are presented to the legislature within six months of the end of the fiscal year. They are

accompanied by a comprehensive and in-depth analysis of performance relative to the major defence programmes.¹¹

4. Transparency of Military Budgeting

a. Transparent decision making

All aspects of military budgeting (planning, execution and assessment of implementation) are transparent to decision makers and the public. All participants in the budgeting process—civilian and military planners, ministers of defence and finance, governmental councils, legislature and its committees, the head of state, audit office, lobbying groups, non-governmental profit and not-for-profit organisations, media and society at large—exercise their influence according to clear rules and with full understanding of all aspects of the military budgeting process and adhere to the principles of democratic governance.

b. Availability of information

Publications of military budgets and related information—major security and defence policy documents, defence programmes, implementation and audit reports—are readily available to the public. The rules for disclosing military budgets and related information are also public. They are clearly defined in law and leave very little room for discretion by the executive agencies. The government and the respective agencies are legally obliged to publish information on military budgets in details, allowing rigorous analysis by an informed observer. The information is provided in printed version and online, both in the native language and in another commonly used language, i.e., in English. Furthermore, the executives, i.e. the minister of defence, are obliged by law to respond in writing to requests for information. If a portion of a related document is classified,¹² that portion is deleted and the rest of the document is provided to the enquiring organisation or person.

Aggregate information on the budget and the actual or expected output of the two preceding fiscal years is readily available. Aggregate information on the budget forecasts for five or more years following the budget year is also available.

The country complies with international treaties and agreements that require disclosure of military budgeting information, i.e., UN and OSCE agreements and Stability Pact initiatives, regularly providing complete and accurate information on time.

¹¹ In Bulgaria, for example, the prime minister is legally obliged to present to the legislature the “Annual Report on Defence and the Armed Forces.” Although not explicitly required by law, the expectation is that the report will analyse performance and will relate that to actual defence expenditures.

¹² Not as a general rule, but based on a specific decision for classification of a particular piece of information.

5. Assuring Integrity

Military budgeting is based on rigorous and reliable forecasting of the budget/fiscal constraints in a comprehensive and consistent quantitative macroeconomic framework. All underlying assumptions for budget planning, i.e., major fiscal risks, uncertain costs, specific expenditure commitments, etc., are clearly documented and properly accounted for. Furthermore, major underlying assumptions, such as macroeconomic forecasts and fiscal forecasts, are assessed by independent experts.

All defence programmes are costed using a comprehensive and consistent set of cost factors that are clearly related to the findings of an independent national statistics agency. Integrity checks are supported by an information system. Programming and budgeting are systematically supported by an information system with tools for automated analysis and decision-making support, allowing collaborative work. The accounting basis is clearly indicated, with a full statement indicating any changes in practices as well as current accounting policy.

Alternative programmes and budgets, corresponding to different assumptions, are clearly identified and documented. There is a clear written procedure to transition from one alternative to another, and transition points are also clearly documented. History of both plans and implementation results and assessments is readily available.

Fiscal reports are internally consistent and reconciled with relevant data from other sources. Effectively and in a timely manner, accounting reports are reconciled with budget appropriations and with bank accounts. Auditing of accounting reports is also timely and effective. There is rigorous reconciliation of fiscal and monetary data. A national statistics agency is provided with institutional independence to verify the quality of budget data. International standards for budget data integrity and quality are fully adhered to.