

Who pays the bill? Controlling the Royal Netherlands Marechaussee: 1993-2002

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Abstract

This paper describes the interest for financial control within the Ministry of Defense and the operational commands during the final years of the previous century and the first few of the present one. It specifically considers the Royal Netherlands Marechaussee from a Services perspective. Also the relation with the Central Staff is discussed. It is an account of the way in which assessment of the financial management by the departmental accountancy service and the Court of Audit prompts action and reaction from the parties involved.

Introduction

From the 1980s onwards the financial management of the public sector has enjoyed great interest. Up to an extent this can be explained by the broadly-held belief that this sector is ineffective and inefficient (Hood, 1995; Lapsley, 1999). By means of the New Public Management (NPM) concept it is tried to improve effectiveness and control. Key concepts, such as “competitiveness” and “customer”, make their entrance suggesting comparability with the private sector. Besides, “accountability” is supposed to guarantee that business is conducted in a decent way, in emphatic contrast to the private sector.

Hood (1995) associates NPM with seven dimensions of change. Broadly speaking these dimensions can be divided into two categories: one related to the distinction of public and private sectors with regard to organization and forms of “accountability”, and another referring to the limitations to “discretion” by means of strict regulations. The first category encompasses the tendency towards smaller units and the striving for more competition both between organizations within the public sector and between organizations from the public and private sectors. Examples of the second category include: tendency towards more “explicit and measurable standards of performance” and “output measurement”.

Within the Netherlands Ministry of Defense the introduction of the *Defense Management Policy* in 1993 can be seen as an example of the recognition of the increased

importance of effectiveness and efficiency for management. Incidentally, apart from the updating of this policy in 1999, literature on the improvement on defense management at home or abroad is still scarce (Grondlund and Catusus, 2005).

The present contribution discusses the interest for financial management within the Ministry of Defense and the operational commands around the turn of the century. In most cases this interest did not spring from the need for good financial management, but rather from the interest of internal and external auditing institutions, which was based on legal regulations. In particular the Royal Netherlands Marechaussee is the subject of this article, along with its relation with the Central Staff. In the latter half of the 1990s the Royal Netherlands Marechaussee went through a period of strong growth and, from the perspective introduced above, this constitutes a contribution to the NPM literature on the actual developments with regard to the financial management within a defense organization.

An element in the striving of the Royal Netherlands Marechaussee (KMAR) for maturity was the independent execution of tasks in the realm of financial management, which, since the independence of the Royal Netherlands Marechaussee in 1969, had been the responsibility of the Royal Netherlands Army (RNLA). The article describes the efforts it takes to get the quality of financial management up to a reasonably acceptable level.

Taking over financial management tasks is related to other developments in the Royal Netherlands Marechaussee. An interesting factor in this is that official and political institutions had shown an increasing interest for the Royal Netherlands Marechaussee since it had taken over the national police tasks in civilian airports. However, this was only one of several expansions facing the organization. Moreover, there was an emerging feeling of unease (mainly from outside the organization) with regard to the manner of management that had hitherto been used. The fact that the Royal Marechaussee budget exceeded the psychological limit of half a billion guilders in the mid-1990s, undoubtedly contributed to this increase in interest. In those days the Royal Netherlands Marechaussee was the only Service that was still growing, although it would of course always remain the smallest! The fact that the largest expansions took place in the civilian task, was not always applauded. The taking over of the financial tasks by the Royal Netherlands Marechaussee coincided with the attention of the auditing institutions for the quality of the management. In the Service's own view this quality would, in general, be able to stand the test of criticism, but for the departmental accountancy service and certainly the Court of Audit it was below par. Studying the course of the process of improvement of the financial management will reveal whether any lessons can be learned from it.

On the one hand, the article is based on documents of the auditing institutions, while, on the other hand, it is written from the experience of the author, who, as a Royal

Netherlands Marechaussee controller, was in the thick of it. For years the author was involved in the development within the Royal Netherlands Marechaussee, but he has tried to reflect as objectively as possible on the spirit of the period. Although there are certainly elements in the Defense organization still struggling with financial management, the pressure seems to have subsided somewhat and a retrospect on these turbulent times does not come amiss.

The development of the financial management will be positioned in the complex of developments that for many people determined the image of the Royal Netherlands Marechaussee around the turn of the century. An analysis of the (formal) reports of the departmental accountancy service and the Court of Audit will provide an insight into the improvement in financial management. A question that should be answered is whether the Royal Netherlands Marechaussee stood a fair chance or that it was bound to fail from the outset.

The prelude: September 1993

Central Organization

The Defense Policy Management Framework, the guideline for economic-organizational action during the final years of the last and the beginning of the 21st century had finally come to completion.¹ It had been a job of years and through the procedure of hearing both sides with the Services this document had come into being. It formed the cornerstone of the new management system. In typical NPM-speak it was the era of “result- responsible units”, “main line management”, “integral management” and “clear agreements on performance and budgets”. Besides, it was a re-confirmation of the autonomy of the commanders-in-chief, delegated through to the lower commanders.

The Royal Netherlands Marechaussee

The Royal Marechaussee (KMAR), too, dutifully played its role in the talks with the Director-General of Finance and Control (the concern auditor), not necessarily with the idea that the newly-developed notions would be directly applicable to their own organization, but more as an observer of the new thinking with which the “big” Services were going to be confronted. At that moment it was clear to only few what was in store for the KMAR. Hitherto the organization had led a rather carefree existence under the lee of the Hague reality. In spite of a number of personnel reductions the organization was fairly stable and the budgets were small compared to the other Services. Many KMAR commanders felt that they could get by with the execution of their investigative tasks (entrusted to the organization since 1814) under the auspices of the Minister of Justice

in line with the 1993 Police Act. Only a few people showed any interest for the new direction and they often did so on a personal title.

Result-responsible units

The other Services often saw the new philosophy as a confirmation of their own autonomy, as a consequence of which authority and responsibilities were placed on lower levels in their organizations. There was a general striving for defense units to adopt an organizational form which allowed them to work as effectively and efficiently as possible, a principle which was embraced within the Royal Netherlands Army (RNLA).

For a correct understanding, the reader is advised that until 1 July 1969 the KMAR had been part of the RNLA. In that year, the Royal Netherlands Marechaussee went its own way, taking along a (limited) budget of its own and drawing rights to specific expertise within the RNLA. Already in that year it was clear that, in view of the size of the organization and the supposed symmetry to the RNLA, it would not be viable to give the KMAR policy capacity in fields such as personnel, materiel and finance.

This situation worked more or less until the 1990s, but the introduction of the new management policy proved to be a good occasion for both KMAR and RNLA to reconsider their relation which had been the result of history. While the RNLA showed a tendency to withdraw within its own Service, there were some within the KMAR who held the opinion that the time was ripe to accept (more) responsibility. This idea took root in particular within the economic-financial functions, while at the same time the remainder of the KMAR Staff still largely clung to the existing working methods.

It should be borne in mind here, that until well into the 1990s, the KMAR's financial service was provided by the RNLA. This did not only concern central transactions (obligations and expenditures coming from the KMAR Staff), but also decentralized transactions (obligations and expenditures coming from the decentralized units in the country). The Economic Control Department of the KMAR Staff collected the invoices that had come in and after accompanying them with a statement of delivery from the Head of the Executive Support Section (on behalf of the KMAR Commander), presented them for payment to the RNLA. Decentralized transactions went through the RNLA accountants in the country, and as the KMAR districts and sections had hardly any financial authority, these transactions were limited in number. A considerable part of 1994 and 1995 was devoted to transferring the financial tasks of the RNLA to the KMAR. This, however, was not the only *tour de force* that the KMAR was facing in that period.

Challenges

In the course of 1993 the decision making that was eventually to lead to the transfer of tasks of the Aviation Service of the National Police Corps to the KMAR, per 1 January

1994, was finalized. The responsibility for border control at the airports had already been placed with the KMAR and by the above date the organization also assumed the police and security tasks at the civilian airports. Manning the new district (Aviation) gave reasons for concern. Not only had the National Police carried out its task with a limited number of tenured personnel, but there was also little enthusiasm on the side of National Police officers to join the KMAR, which made it very hard to fill the units at the airports. Surplus personnel of other Services found their way to the KMAR; moreover, there was an extensive use of detachments, which had its consequences for the filling of regular functions elsewhere in the country. In a financial sense the KMAR had an extra expenditure, which led to financial tussles between the Ministries of Defense and Justice. However, the KMAR now had an organic unit within its organization with its own pay function. In that respect the Aviation District was ahead several years compared to the rest of the Service. Besides, the financial procedures were not always in line with what was customary within the Defense organization and adjusting them to this system was a major challenge in the financial policy field.

On top of that, in the course of 1994 the KMAR was given the new task of Mobile Surveillance of Aliens, for the fulfillment of which the organization was expanded with roughly 500 full time equivalents and the budget adjusted accordingly. The semi-permanent assistance for Amsterdam and The Hague was terminated and the personnel was made available for the new task. The later years of the decade saw other expansions of the KMAR task package, for instance, as a result of the Schengen Agreement, an intensified aliens surveillance and cross-border crime.

The 1991 Defense White Paper initiated comprehensive restructuring and reduction of the Netherlands armed forces. After the fall of the Berlin Wall the security risks diminished because of the dissolution of the Soviet Union and there was talk of cashing in on the “peace dividend”. In that phase the KMAR was the only Service still growing and, as was indicated above, part of the superfluous personnel elsewhere in the armed forces found their way to the organization.

The transfer of National Police tasks at the civilian airports did not go unnoticed by the Court of Audit. At the beginning of 1995 they published a preliminary report that was not well received by the KMAR leadership.² It tackled the KMAR on a number of points for which the formal responsibility had not yet or only recently been transferred. In a reaction the KMAR hired an external consultancy to draw up a plan for improvement. Clearly, this was an ill-starred undertaking.

Interdepartmental Policy Survey (IBO)

The turbulent environment in which the KMAR found itself throughout the nineties was further accentuated by the Interdepartmental Policy Survey (IBO), to which the organization was subjected through 1997/1998.³ Annually, the Ministry of Finance (on behalf of the Cabinet) formulates a number of government-broad survey assignments, carried out by interdepartmental working groups. In the case of the KMAR, management and control were the subject of research, and although the choice for these aspects was of course not a random one, there were only few who were happy with it. As said above, the implementation of the new management philosophy within the KMAR proved difficult. For a long time it was thought that decisions could be taken by the seat of one's pants, and now it had to be established whether for the KMAR, too, a more result-responsible management and control would be feasible. A complicating factor in this is that although the Ministry of Defense has the control over the KMAR, the responsibility lies mainly with the Ministries of Justice and the Interior. This means that the audit of the KMAR should also be carried out by external parties.

It was not long before the working group discovered that there was no such thing as "result-responsible management and control" within the KMAR, and they, subsequently, made recommendations, adopted by the Government, to realize it over time. Under the name *KMAR Management Policy 2000* a lengthy process was begun which was to lead to the desired result. The activities that were initiated and carried out in the final years of the previous century (but also in the beginning ones of the new century) determined to a large extent the context within which the KMAR operated in that period.

Above, an overview has been given of the circumstances in which the KMAR operated in a (managerial) sense in the late 1990s. In summary, it comes down to the organization having steered into a dynamic environment, characterized by a strong growth of personnel, the take-over of National Police tasks at the civilian airports and the introduction of new tasks and changes in the management style as a consequence of the Interdepartmental Policy Survey. These changes asked a lot of the organization and its personnel. In the following the consequences of taking over the financial tasks will be discussed.

Financial tasks

In the meantime, a start had been made within the framework of the decentralization of the RNLA with delegating tasks to lower echelons in the organization (district or result-responsible unit-level). As was said above, this development had an impact on the KMAR. The RNLA had indicated it was going to terminate the age-old service support to the KMAR by the end of 1995.⁴ It was decided that the take-over of the financial con-

trol task by the KMAR was to bring no additional expenditures. For the receiving party this meant that acceptance did not take place at the expense of already existing (police) tasks.

The talks with the RNLA about the take-over of financial tasks made good progress, and they eventually led to the actual establishment of a financial function in the KMAR staff on 1 January 1996. Four RNLA functions were earmarked for the KMAR under simultaneous transfer of the relevant budgets. Likewise, at a later stage, personnel and financial transfers took place within the framework of the establishment of the (decentralized) administrative groups at some six locations all over the country (for each of the five districts and the training center). From that moment onwards the KMAR held the complete responsibility for the financial processes. The financial expertise seemed to have been guaranteed. The functionaries that had been taken over from the RNLA came from its (decentralized) financial function field and where no personnel had been taken over (but only financial transfer had taken place) the KMAR could carry out its own selection procedure to find the right talents.

The above shows that in a “technical” sense the conditions to allow financial control had been met. The question, however, remains whether the change in organizational culture kept up with the developments that led to the managerial change. In other words, was the organization “ripe” to bear certain forms of responsibility when in the period after 1969 these responsibilities had continually lain with the RNLA? This is a question which will be dealt with later. It soon appeared, however, that partly because of the growth of the organization, especially in the KMAR staff, the activities had been underestimated. Soon, there were arrears in payment and a number of administrative procedures needed to be accentuated in order to settle commitments and payments correctly.

Now that financial control had found its place within the economic control of the KMAR staff, the organizational form of the economic control department as it had long been in existence, was approaching its (provisional) completion. In mid-1996 the KMAR implemented the internal control policy vision of the Director-General of Finances and Control. This meant that the internal control function became a separate section of department of economic control of KMAR staff.

Audit system

The KMAR had always had an internal audit section, whose personnel was supplied by the RNLA. Audits were directed at anything but financial matters for there hardly were any in the old situation. The establishment of its own verification and pay function also necessitated the auditing of these aspects, of course, not only for the finances of the central staff but also for those of the training center and districts.

For a good understanding of this audit system it should be said that it involved a tripartite construction of auditing institutions. At the basis there is the above-mentioned "own" internal audit for the Service itself. Next, comes the departmental accountancy service (now the Defense Audit Board), which uses the input from the internal audit. It issues statements about the order, regularity and accountability of the annual accounts. The departmental accountancy service holds an independent position within the Defense organization with regard to the Services and it comes directly under the Secretary-General. Finally, Defense is subject to the audits of the Court of Audit, which audits the ministries and reports to the Parliament in the form of a "report accompanying the financial statement". In its turn, the Court of Audit uses the results of the audits of the departmental accountancy service. Besides, for judgment purposes it has access to the separate Defense units at all times.

As every link in the audit system uses the findings of the previous link, it becomes necessary to build in quality guarantees. This can also mean the making of mutual agreements with regard to the domains to be audited, and the aspects which will get most attention. Of course, this does not free any of the institutions of its own responsibility with regard to the quality statements it has to issue on the management under investigation. It goes without saying that from time to time tensions may arise between the different auditing levels. Thus, the remark may be heard that the internal audit section is first and foremost there for its own Service. It may also be that at this level, but also at the level of the departmental accountancy service, there is a certain "hedging" against presenting too rosy a picture of reality to the next higher level (some aspects have escaped notice). But it can also seem that the auditors from the departmental accountancy service come from an entirely different department and do not bear in mind enough the interests of their "own" organization. In this way an over-control may occur with the intention of reducing, in quality and quantity, any possible new remarks of the Court of Audit (most has already been said). In addition, it cannot be excluded that (other) interests of one's own Service may come under pressure unintentionally.

The findings of the internal audit section (of the KMAR staff) are laid down in reports that are confirmed by the KMAR commander in the last instance. Since the take-over of the financial tasks from the RNLA the audit of the financial policy pursued has also made up part of those reports. As indicated above, these reports are used by the departmental accountancy service for its KMAR audits. Visits of the departmental accountancy service to the KMAR staff, the districts and the training centers makes up an emphatic part of the system of auditing. Subsequently, the accountancy service draws up an annual so-called basic report per Defense unit, which, amongst others, contains a judgment of the financial management. Then, the service issues a statement regarding the annual account and financial control, the technicalities of which will not be discussed here.

In the description of the audit system it was already indicated that the highest auditing authority is formed by the Court of Audit. Its tasks are laid down in the Government Accounts Act and they encompass an investigation into the extent to which the financial and material management of the departments meets the standards of regularity, order and accountability (Article 82 Government Accounts Act 2001). The Court of Audit is a High Council of State: its tasks, authority and legal position are provided by law. Article 82 provides the Court of Audit with the basis for the importance of the annual publication of the so-called regularity audits, in which it gives its assessment of the financial and material management of the departments. This assessment is presented every 3rd Wednesday in May ("Accounting Day") to the Parliament.

Possible judgments

Before going into the actual qualifications given by the internal auditing section, the departmental accountancy service and Court of Audit with regard to the financial control, first the possible qualifications will be discussed, here.

There is no established nomenclature for the qualifications that can be given by the internal audit section. In general, what is right or wrong is put in clear language. Often containing recommendations for mending deficiencies, they are written from a positive but critical attitude. The departmental accountancy service issues an auditing statement, a written document containing the result of the accountability check. The following qualifications are possible:

- a statement of *approval*;
- a statement with *limitations*; or
- a statement of *disapproval*.

The qualification depends on the number of deficiencies found. How it is drawn up is not a matter for discussion, here. Incidentally, since 2003 these statements have not been issued per individual Defense unit, but for the Defense organization as a whole. The Court of Audit, too, uses three qualifications, which are also based on the extent of the deficiencies. They are as follows:

- *no or minor shortcomings*: no deficiencies that exceed the Court's tolerable threshold;
- *shortcomings*: there are deficiencies that exceed the tolerable threshold; and, finally,
- *serious shortcomings*: there are deficiencies that disrupt the financial management, or lead to considerable risks with regard to the regularity of payments.

If in the judgment of the Court of Audit there are *serious shortcomings* for longer periods of time, without any prospect for improvement, it can decide to set up an objection audit to determine the nature and cause of the shortcomings and measures for improvement. Such an audit is an enormous burden for all parties concerned, not least for the party "on the receiving end". It will often experience this as "being in receivership". Depending on the findings of this audit the Court can decide "to lodge an objection".

Set up, existence and effect

In the following, the concepts of “set up”, “existence”, and “effect” will be elaborated upon. In the assessment of measure for improvement, for instance, it is determined whether the administrative organization and internal control guarantee their effectiveness. To this end a specific procedure will be set up in the form of documentation so that an identified risk can be covered (on paper). Next, it will be established whether a measure does indeed exist, for instance, by means of procedure checks and in situ observations. Finally, the effect must be established (i.e., is the measure implemented as intended?). Measures for improvement of the financial management follow this tripartite division. Incidentally, a considerable period of time may elapse between the set up of a measure and its effect in practice, so often the measures can prove their value only in the next budget year. This means that the warnings by the audit institutions are often persistent and keep on coming back for a long time. In practice, initiatives for dealing with deficiencies that were found even early in the year will hardly have any influence on the audit results of that same year. Because of this the whole process of set up, existence and effect often proves a tortuous one.

Actual qualifications

Let us now consider the qualifications that the Court of Audit has given since 1993 of the financial control of the Defense organization, particularly the KMAR.

The qualification of the financial account of 1993 for the Ministry of Defense was “mainly positive”.⁵ It was noted that the departmental accountancy service issued a statement of approval with the financial account of 1993, while, furthermore, the audit of this service formed sufficient basis for the Court of Audit’s own assessment. Some bottlenecks identified earlier in the internal audit, incidentally, had not been solved in 1993. The KMAR was not mentioned; the financial control was still carried out by the RNLA at the time. The assessment for 1994 was similar to that of the year before, including the remarks about the departmental accountancy service.⁶ The internal management had improved, and, once again, the KMAR was not mentioned. For 1995 the judgment was “mainly positive” again and the bottlenecks with regard to the internal control had dissolved.⁷ The 1995 departmental accountancy service’s audit provided an adequate basis for the assessment, and nothing was said about the KMAR that year. 1996 brought the same story, although in the Court of Audit’s view the ongoing decentralization of the financial function and the reorganizations had led to a deterioration of the financial management.⁸ This was especially so for the Royal Netherlands Air Force. On the basis of promises made by the Minister of Defense, the Court of Audit refrained from issuing a harsher judgment. It did make a number of critical remarks, though, with regard to the extra activities the departmental accountancy service had

undertaken in order to help those defense units that were struggling with hiatuses in their internal auditing. For 1997, too, a further deterioration was found by the Court of Audit.⁹ In spite of the statement of approval of the departmental accountancy service, mention was made of “serious shortcomings” in the financial management of a number of defense units. Again, the Minister managed to prevent an “objection survey” (in one of the defense units) by making far-reaching promises, which, incidentally, did not concern the KMAR. In fact, the Court of Audit expressed its appreciation for “the implementation of the recommendations with regard to the expenditure for security at Schiphol Airport”. The Audit Office’s commentary for 1998 became more grim, in that it emphatically demanded attention for the shortcomings that had been identified in that year.¹⁰ The situation could give occasion to the Audit Office to lodge an objection if it proved impossible to make these shortcomings disappear at short notice. It was also noted by the Court of Audit that the implementation of the plans for improvement for the RNLAf and the KMAR did not go according to plan. As for the latter, the Minister promised to make proposals that would lead to the establishment of a control institute for the administrative organization. In spite of the serious shortcomings in the financial management as a whole, it was not decided to conduct an objection audit.

2000: Annus Horribilis

At the beginning of 2000 things came to a head for the Defense organization. In the meantime Defense-wide top priorities had been established, next to Service-specific top priorities. As for the KMAR they encompassed topics such as the monitoring of financial management, know-how and capacities of financial-economic functionaries and prior financial checks. For the Defense organization as a whole there were such topics as training, filling of financial functions and the concentration of financial control tasks. Within the Defense organization these matters were on the agenda at the highest levels, such as the Political Consultation. It was here that the Minister himself showed he was serious about the improvement of the financial management. Commanders who had been made responsible for taking measures for improvement of the financial management, had to update their plans twice a year and to report about them to their concern controller by means of the half-yearly report of the departmental accountancy service.

The first annual plan appeared in May 2000. It contained 31 top priorities that had been worked out and incorporated in the *Year Plan Top Priorities Financial Management 2000*. This plan was to be monitored closely and, furthermore, the political leadership wished to receive concrete information about and insight into the actual problems and actions taken to resolve them.

The importance of a timely introduction of measures for improvement was obvious. Of course the budget year 1999 had been closed, so the measures taken would only have an effect for (part of) the year 2000. If they were not implemented in time there would, once more, be no orderly and accountable financial management (both in the view of the departmental accountancy service and the Court of Audit).

In its 1999 Regularity Audit (RVF), which appeared in May 2000, the Court of Audit wrote,¹¹

'Most problems in the financial management manifested themselves in the RNLAf and KMAR. The RNLAf set up a plan for improvement last year, and it is clear by now that apart from failing to meet the time line in all cases, the Air Force leadership, from its responsibility, has not really been involved in the progress of the implementation of the plan for improvement.'

And, furthermore,

'The Court of Audit is of the opinion that the leadership is to be blamed for the modest progress in the process for improvement and the extent of the existing shortcomings in the financial management of the RNLAf.'

At the same time the conclusion for the KMAR was the following,

'The Court of Audit sees a clear difference with the KMAR, where a financial plan for improvement has been set up, which is monitored by the top. As KMAR has chosen to set up an entirely new organization, which is now being implemented, and the first results of which are now becoming visible, the Court of Audit is of the opinion that for this policy area there an objection audit should not be carried out.'

Clearly, the RNLAf had reached the limit, as is shown by the following,

'As for the RNLAf, on the contrary, the Court of Audit reported to the Minister that it intended to conduct out an objection audit on account of the existing serious shortcomings.'

This time the Minister's comment on the preliminary findings of the regularity audit could not prevent the Court of Audit's decision to start an objection audit in the RNLAf. Although the Audit Office was looking forward to an adjusted plan for improvement "with anxiety", it has confidence in a controlled process of improvement.

The decision led to a considerable increase in involvement of the Court of Audit in the financial-economic management of the RNLAf. Thus, realization and quality of the measures for improvement were to be monitored extremely closely, amongst others, by visiting Air Force units. Apart from that, there was a monthly discussion of the progress in the presence of all parties involved. Any discrepancies between planning and realization of the measures to be taken had to be substantiated with valid reasons. The RNLAf was confident of a happy end. The commander gave the highest priority to the project and promised that he would monitor it personally.

Although the Audit Office did not decide to carry out an objection audit at the KMAR, this did not mean that there was complete satisfaction with regard to the realized improvements. Elsewhere in the 1999 regularity audit it became clear that it was of the opinion that, 'the RNLA, the KMAR ... have made little or insufficient progress.' It was indicated that both Services had problems with regard to the quality of the financial management, which caused frequent "serious shortcomings" resulting in a disorderly financial management. The most important observations of the Court of Audit for the KMAR referred to description of the financial-economic processes, the financial-economic training, the process management and the expertise and filling of the decentralized financial groups. In view of the various processes of change that were going on in the KMAR, the Court of Audit pleaded for an integrated control.

In the light of these observations the Defense organization realized that the KMAR had only just escaped an objection audit. In the meeting of the Political Consultation of mid-June 2000 the Director-General of Finance and Control once more pointed at 'the real danger of an objection audit for the KMAR'. In the same meeting it was also laid down that, 'the Minister, too, emphasizes that everything possible must be done to prevent that'.

In the autumn of 2000 it was decided to hold a series of three meetings with representatives of Defense and the Court of Audit directed at an open exchange of information and ideas on the quality of the financial (and materiel) management. The implementation of the plans for improvement was meant to be at the center of attention. The commanders of the Services were explicitly invited to attend, but some were far from enthusiastic. Their position in the meetings differed a lot. Where one was prepared to "bite the dust", another implied that a commander should steer clear of matters of financial management. Integral responsibility, which after all had been a cherished principle of the old management, was all but absent with some at such a moment.

By the end of 2000 the Minister informed the Court of Audit about the actual state of affairs with regard to the top priorities.¹² As for the KMAR he stated that 'some intended effects of the measures for improvement would be reached later than planned'. This was also the case for the RNLA and RNLA. The set up and existence clearly showed progress, but the effect of a number of measures could only be ascertained in the course of 2001.

As the personnel capacity within the KMAR Staff was insufficient for a timely implementation of all the points for improvement, external capacity was brought in. It was aimed, in particular, at the creation of larger decentralized financial-economic clusters. Several years after decentralizing the financial management function to lower echelons in the organization, it had become clear that some clusters were too limited in size to function adequately. Not only aspects such as separation of the payment and verification

functions were discussed, but also the absolute size of the financial groups that was often too limited to contribute to an effective management. Needless to say, these two aspects are closely linked.

In the meantime, the leadership of the KMAR was well aware of the importance the central official and political levels of the Defense organization attributed to improving the financial management. Apart from the contribution a good financial management would make to improvement of its own management, there was also of course the ambition to keep the Court of Audit out. Across the board there was the feeling that “not a penny” had been spent fraudulently, the latter term meaning “improperly” rather than “illegitimately” in the sense of the Government Accounts Act. Nevertheless, the KMAR’s efforts were directed at attaining, at the shortest possible notice, a situation of “orderly and auditable financial control”. There were worries about the “report obligation” imposed by the central organization, which was a time-consuming affair in itself, and which resulted in time, now being used up by giving feedback, that otherwise could have been employed productively. Especially in units where there were personnel shortages, the emphasis should lie on making use of the available time as productively as possible. However, the central organization proved to be unresponsive to these arguments. The result was that where the financial capacity came under pressure, external personnel (temporary or otherwise) had to be employed in order to be able to keep up a constant stream of information about the progress made.

After the turn of the millennium the hectic year 2000 came to an end. It had become the year of the truth. The RNLAf had been subjected to an objection audit, but the KMAR had managed to keep its powder dry, for the time being. Nevertheless, there was the feeling that the Service had been completely cornered by the Minister, supported by the concern controller and the Court of Audit.

A new chance

In the spring of 2001 the departmental accountancy service reported its findings of the financial account for the year 2000 to the political leadership of the Defense organization.¹³ In spite of the fact that there were still some reservations about the quality of the financial management as a whole, a statement of approval was issued. It was an expression of the conviction that the overall Defense financial management met the minimum requirements of orderliness and accountability. The report mentioned the realization of many measures for improvement and their probable effect in 2001. Once again the status of the financial control of the RNLAf and KMAR was singled out.

Where the tide seemed to have turned for the RNLAf, the financial management

within the KMAR remained a source of anxiety. By pointing at the fact that fulfilling the financial tasks had been the RNLA's responsibility for a long time, the accountancy service gave the KMAR some heart. Nevertheless, the KMAR had been financially independent for five years by that time. Further observations of the service related to a delay in the progress of the plans for improvement, regular disruptions of the phase cycle in the budgetary accounts (a disruption of the logical cycle of reservation-commitment-payment), the indifferent quality of filing and, finally, the delay in administrative processing. A number of these observations could be traced back to the filling of functions in the financial-economic field, which remained a matter of concern. Sometimes there were doubts within the KMAR whether the right number of RNLA functions had been "passed on" to carry out tasks independently. However, there was no substance at that time to justify a discussion on the topic.

The report also gave occasion to accentuate certain themes for the Defense organization as a whole, such as a monitoring system that could contribute towards guaranteeing the reliability of the feedback with regard to the points for improvement. In general, too, there remained some reservations about personnel possessing the required expertise, which resulted in the inadequate application of a number of financial methods and procedures.

The reaction of the Court of Audit on the accountancy service report was not a long time coming. On 24 April 2001 it held a briefing for the commanders and controllers of the Services. One by one the Services (if applicable) were given a grilling. The judgment of the Court on the financial management of the KMAR came down to one word: "disorderly". The same verdict was passed on the RNLA. Nevertheless, the Court also saw some positive developments. Thus, there was a positive reaction to the outcome of the survey into the possibilities for clustering of decentralized financial groups, creating more viable units, which would result in a greater continuity. There were also negative comments on the delays with regard to the implementation of the top priorities. Moreover, there was substantial number of basic shortcomings, for instance, in the administration of commitments, verification, the administration of receivables and filing. The Court of Audit advised the Services to cooperate more and to make use of best practices. It also noted the improvement of "set up", and that is why in the current year the focus should be on "effect". On this occasion the judgment of the Court was not a formal one just yet, but there was a general feeling that it would not be long in coming.

In anticipation of the 2000 regularity report to the political leadership, the internal auditor proposed adopting the procedure the RNLA used for the objections audit for the entire organization.¹⁴ This came down to a monthly meeting of the responsible functionaries within the KMAR, the internal controller and possibly also the representatives of the departmental accountancy service and the Court of Audit, to discuss the plan

for improvement. In that idea the KMAR Commander was to lead “(visibly involved) the actions for improvement”. It was expected that the decision to set up an objection audit would depend on the extent to which the Defense organization managed to convince the Court that the findings were taken seriously and that appropriate action was taken.

In April 2001 the Court published the *Draft Report to the Financial Audit 2000*.¹⁵ The contents broadly followed the expectations of the Services. For the RNLAf and the KMAR the conclusion was that the financial management was “disorderly, but audit-able”. Although the Court observed that the KMAR had made a considerable effort, it nevertheless concluded that the financial management process had not really improved. The filling of financial groups, know-how and expertise of the personnel, and the description of the financial-economic processes were top priorities which, in the view of the Court, had been slow in being implemented.

On 23 April the concern auditor turned the knife in the KMAR Commander’s wounds.¹⁶ He was told that the Court made the start of an objection audit dependent on the reaction of the Minister to the findings on the financial management of the KMAR. It was made clear that it would require efforts on the part of the KMAR itself, in particular, to prevent such an audit. There was mincing of words about the involvement of the KMAR commander himself, of which, clearly, the concern auditor had not always been convinced in the past! At the same time he informed the commander that, within the context of his monitoring function, he would monitor the KMAR’s progress more closely. The fact that in future seven copies of the updated plans for improvement had to be submitted to the concern auditor, may serve as an illustration that he was serious about it. It looked as if now positions were taken up in preparation for an objection audit by the Court of Audit. In his reaction the Commander proposed several modifications in the report.¹⁷ He also pointed out that some top priorities had been realized after the Court had given its judgment. He held the opinion that merely the text of the draft report did not warrant an objection audit and he expected that a concerted effort could prevent it. He was right. A completely new top priorities action plan was written, though, featuring the hiring of an external project manager, on the emphatic request of the concern auditor. Apart from being responsible for the operationally essential consultations between the responsible executives, he also had to ensure the timely production of the monthly progress reports. Sure enough, a discussion developed with the concern auditor about who was to direct the project manager. In a formal sense the concern auditor prevailed: he would direct the project manager and the Commander would discuss the progress of the plans for improvement “in the margin” of the weekly meeting of the KMAR council with the functionaries most directly involved. And so it happened that in the summer of 2001 a senior employee of a renowned consultancy firm made his entry in the KMAR. On top of that the Commander decided to add a number of extra functions to his own

audit unit on the basis of a workload survey, a move clearly intended to support the improvement project.

In view of the above, it is not surprising that in May 2001 the Court of Audit decided not to start an objection audit within the KMAR.¹⁸ The Minister's promises had created enough confidence and shown that intentions were sincere. Of course, as for contents, the assessment had not changed (the shortcomings have been discussed elsewhere and will not be gone into here). With regard to the 2000 account, finally, the Minister of Finance's reaction is relevant, here. From his coordinating responsibility for the financial management and Government financial accounting, he states in the General Part of the 2000 regularity audit,

'The Minister is of the opinion, though, that the Court of Audit, in maintaining the formulation of "serious shortcomings" in the Ministries of Defense and Justice, has taken too little account of the efforts made in these areas. With regard to the three new serious shortcomings in the KMAR (Defense), the Legal Organization (Justice), and ...the Minister remarks that in all ... areas actions for improvement have been started or announced'.

This seemed support from an unexpected side. Given the actions of the Defense organization as a follow up to the regularity audit, the impression remains that the Minister of Finance's judgment has been given too little weight.

Task Force Financial and Material Management

In spite of the reasonable turn things took in the 2000 *Regularity Audit Report* for the Defense organization, and more in particular for the KMAR, the concern accountant let it be known to the Service accountants several days after the publication of the report that the "external credit" had been used up and that on the emphatic request of the Minister a task force was to be established to ensure the orderliness of the financial (and material) management. Commanders were emphatically asked to take a place on the task force. An "exhaustive overview of measures for improvement" needed to be drawn up, the result of which was to lead to a positive attitude of the Court of Audit at the moment the 2001 Regularity Audit (in early 2002) was going to be held. Subsequently, the overview was to be tested by the criteria used by the Audit Office itself. Finally, the concern accountant ordered the Services to set up a crash team and to initiate the necessary actions.

In the meantime KMAR had begun to realize that the actions taken in the audit organization found their origin in other parts of the organization. The most eye-catching of these were the personnel and materiel departments. It was here that financial initiations took place that eventually found their way to the commitments and payment

administration as it was used by the accountancy organization. The quality, therefore, of work carried out elsewhere to a high extent determined the quality as it was eventually found in the financial books. Although that quality left room for improvement, the accountant could only exert limited influence over it. As an illustration may serve the fact that at that moment the KMAR controller de facto did not hold the position of independence that was customary within the other Services. In fact, the financial-economic function was positioned in such a way that, according to the organization chart, he was accountable to one of the central staff directors, although he himself was guided by the concern accountant through the so-called mandate regulation. This situation has ceased to exist and the controller is directly accountable to the Commander (Royal Netherlands Marechaussee Commander).

The task force's objective remained the solution of the "serious shortcomings" in the eyes of the Court of Audit. The main effort was to ensure that the effects, too, clearly showed that the measures taken actually led to the intended improvements. Once again, it proved to take a considerable period of time for the findings of the Court of Audit to be analyzed in such a way that the measures to be taken would still have sufficient effect on the quality of the administration of the running year. It was also clear that a set of criteria, well-tuned between the departmental audit service and the Court of Audit, was of the utmost importance. In his reaction to the 2000 draft report the Minister had already indicated that he thought that the Court of Audit used different criteria for the financial and materiel management than the departmental audit service. That is why the Court of Audit was asked to specify what must be done in order to prevent any "serious shortcomings" by the end of 2001.

The Court of Audit pointed out that its judgment is based on the quality of the processes covering an entire year.¹⁹ This implied that in order to come to a positive judgment for all "serious shortcomings", those shortcomings should be absent for a considerable part of the year (2001). More concrete, this meant that the points for improvement should have been realized by the end of October (2001) in order to have the "serious shortcomings" verdict off the table by the end of the year. That was quite plain language! At the same time the Defense organization knew what had to be done in the remaining few months. For the KMAR the following shortcomings had to be worked away:

- the personnel filling (in quality as well as quantity) of the financial-economic functions had to be structurally up to the mark;
- the way in which the internal reports were drawn up had to be surrounded with sufficient guarantees, to generate reliable and up-to-date management information;
- commitments had to be timely booked, while, on the other hand the phase cycle should not be disrupted;
- the verification function should be adequately filled.

There were, however, still other important shortcomings that had contributed to the predicate “serious”, but if these were the only ones left, the Court of Audit stated, there would be not “serious shortcomings” any more at the end of the year, which would take away the risk of an objection audit.

In spite of great efforts of many, it was extremely difficult to realize improvements. The management was often completely occupied with operational matters that were vying for the highest priority. The arrival of a project manager meant shared responsibility, at least, that is how it was felt. Again much time was spent on the report cycle for the concern accountant and the Minister. By the end of 2001 the idea of best practices acquired a more specific dimension on the authority of the concern accountant: “aid teams” were set up, consisting of employees from other Services, to reinforce the personnel filling of the KMAR. Practically all Services provided capacity for a fixed (often) short period to reach a number of deadlines before the end of the year, an action which made a somewhat peculiar impression on the permanent KMAR personnel. The year 2001 came to an end and the question remained whether the departmental accountancy service and the Court of Audit were going to report any improvement. As expected, the October deadline, set by the Court of Audit, had not been met, which made it impossible just yet to answer the question whether there would be any “serious shortcomings”.

The final year

In March 2002 the report of the departmental accountancy service stated that the financial control lacked order and accountability at the end of 2001.²⁰ It was noted, though, that there had been intense efforts towards improvement in the latter half of the year. Nevertheless, it was impossible to prevent the issue of an audit statement with limitations (regarding the financial account). It was also pointed out that the establishment and direction of the control organization needed to keep up with the organizational growth of the KMAR, from a qualitative as well as quantitative respect. The comments of the accountancy service did not really come as a surprise for the KMAR.

Then something unexpected happened, which would have an impact on the perception of the financial management within the Defense organization. On 16 April 2002 the Cabinet (Kok II) resigned, the immediate cause being the report of the Netherlands War Documentation Institute on the fall of Srebrenica. The fear of unpleasant measures as a result of a disorderly financial or materiel management dissipated, although, of course, the wheels of government kept grinding on, as a correct financial and materiel management was essential.

In June 2002 the Court of Audit published its Regularity Audit Report 2001.²¹ The

judgment was in line with the departmental accountancy service's view that the set up of the financial control in 2001 had improved, but that there was still a lack of order and accountability. In particular the commitments, claims and advance control was mentioned. The Court of Audit indicated it had considered to carry out an objection audit because a number of aspects seemed to be acquiring a structural character. For the RNLAf, where a further investigation was held, it was established that there were no "serious shortcomings" anymore.

The reaction of the (resigned) Minister was such that this year, too, the Court of Audit decided not to carry out an objection audit within the KMAR. Amongst other things, he promised follow-up actions on measures already taken in the organization of the path towards improvement. He explicitly mentioned the appointment of a new staff director, suggesting this would solve the problems. Other personnel consequences were not incorporated as such in the Regularity Report 2001. Furthermore, it appeared that the Minister expected that by September 2002 at the latest the intended improvements would be completely effective. Finally, the Court of Audit indicated it would monitor the improvement process closely, while also paying attention to the manner in which the central organization of the Ministry supervised.

The external support in the guise of a project leader, the personnel expansion in the audit unit, as well as the use of aid teams (in any case for 2001) did not have a decisive impact on the findings of the audit. Nevertheless, many actions had been set up by the autumn of 2001 in accordance with the timeline discussed above. In the run up to the audit results for 2001 a somewhat grim atmosphere, manifesting itself at the highest levels of the organization, made itself felt. The great importance that the Minister himself attached to an orderly financial and materiel management was already mentioned above, and more than once the commanders whose management was not up to the mark yet were confronted with this. It was not a surprise that this confrontation went on "in the line", whereby the commanders tried to "outdo" the Minister in taking measures. Although the KMAR's financial management was still below standard in the judgment of the accountancy service and the Court of Audit, it must not be forgotten that KMAR expenditure amounted to about 5% of the total Defense budget. So it is logical that, in view of the tolerable thresholds used by the auditing institutions, the budget may be overrun relatively quickly. From this it follows that (with a view to an audit statement) judging the annual account for the Defense organization as a whole, would benefit the smaller Defense units. Any possible overruns of the tolerable threshold in the smaller units would only have a limited effect on the entire organization and not hinder a general statement of approval. Although this was certainly not the reason for beginning to issue an audit statement for the Defense organization as a whole, it would certainly contribute to down-toning any lesser accountancy achievements of the smaller units.

Of course, also after the change of political leadership in July 2002, the further improvement of the financial management was taken up seriously. By now the actions seemed to have effect. In the spring of 2003 the departmental accountancy service stated that the continuation of the path towards improvement had led to an orderly financial and materiel management by the end of 2002.²² Even the Court of Audit was convinced that by the end of 2002 the KMAR had a minimum level of orderly financial management and that, as a consequence, the (serious) shortcomings had been solved.²³ It was of the opinion, though, that there should be a smaller dependence on ad hoc measures and that, therefore, the improvements needed to be safeguarded well in the organization.

This article mainly covers the years up to and including 2002. In retrospect, the years 2000, 2001 and 2002 saw the most important developments from the perspective of financial management. They were also the years in which the political and official interest for this aspect of management was the greatest and they also show the importance that is attached to the judgment of the Court of Audit. It is a judgment whose importance is also clearly felt on the political level.

Conclusion and discussion

This article has, hopefully, made clear how the subject of financial management was in the center of attention around the turn of the century. For the KMAR this attention came at the wrong moment. While the implementation of large-scale changes was still in progress, it was held accountable for the order and accountability of its financial management. Since 1996 the KMAR had constantly been subject to major changes. First, there was the take-over of the financial function from the RNLA. Simultaneously, the interdepartmental policy survey took place, followed by the KMAR 2000 Policy Management project. On top of that, an adequate safeguarding of all projects required a culture change, while the “shop was open during repairs”. Within the KMAR people could not understand why the organization was only judged on the aspect of financial management, without as much as looking at the execution of the operational tasks. Still, for a long time within the KMAR the idea held sway that financial management is an exclusive task for the financial manager and not for the general management. This idea seems to have become obsolete now. In this sense the NPM concept has been implemented within the KMAR now.

The most important conclusion is that improving financial management is a very difficult process. However, if every link in the chain does what is expected of it, nothing can go wrong. Due to the absence of an administrative organization within the KMAR

during an important part of the period of investigation, there was often no clarity, in particular within the personnel and materiel departments. The existence of well-described procedures is of course a necessary but not sufficient precondition; they also need to be followed and the necessary efforts must be made to safeguard them.

The support of the management was of course essential, not only in words but also in deeds, for a subject that, of its nature, does not get much attention from the leadership. This is where we have to pay for the distinction between policy and control, where the latter, as a derivative of the former, takes up a somewhat lesser position. For too long there has been a certain distance in the expectation that the verifiers and other financial specialists would do their job. By neglecting the efforts the entire staff needed to make, the focus was on the last link in the chain. In doing so, people failed to make the functionaries involved look across their own borders. In this context, the controller was often seen as being on a par with other departmental heads, rather than the functionary who, mandated by the concern accountant, held certain responsibilities and authorities. The structure of the KMAR staff, therefore, was not conducive to giving a good substance to these responsibilities and authorities. Outward transparency, towards the Defense organization as well as towards other departments, was limited because of that. Although a member of the management team, the controller was positioned incorrectly in the organization. This did not enhance his "clout" within the staff. By establishing a separate Control Directorate within the staff this has been righted.

Furthermore, there were many concurrent projects within the KMAR, all vying for the attention of the leadership, certainly in relation to the size of its staff. Besides, external interest in the KMAR was growing. All this caused attention to become fragmented. Besides, the many changes facing the KMAR required a cultural change, mainly prompted by the findings of the departmental policy survey. This change took time, and it had not fully reached its completion by the end of the period of investigation.

For the concern accountant it was vital to prevent the Defense units from being subjected to an objection audit by the Court of Audit, which often led to a tough stance towards those units. It seems that this approach worked with the Court of Audit. Within the Defense units, however, this was not always understood. Although the KMAR never was the best pupil in the class, the approach in the end proved successful in preventing an objection audit. That good financial management forms the basis of good management, something that was from time to time forgotten by the KMAR staff, is not a topic of discussion here.

One aspect that has not been elaborated upon within the context of this article concerns the fraternal relations between the KMAR and the controlling institutions on the one hand, and within the KMAR itself, on the other. They often came under great pressure in this period and this may be felt even today and for some time to come.

In the meantime the KMAR structure has changed and it has created more room for an (independent) financial-economic policy and management. Besides, as indicated above, this function has been integrated, as it befits a mature organization. All in all, the entire awareness process and cultural change has taken about ten years, although it is uncertain whether the cultural change has already been completely absorbed by the organization.

For a long time the KMAR felt that nearly all tasks within the organization could be fulfilled by investigative officials. Although the financial function had been carried out since time immemorial by a civilian official, the other top functions had been fulfilled by investigative officials for many years. This was mainly caused by the fact that the RNLA had executed the policy aspect for a long time. Only after the appointing of the KMAR as an independent Service in 1998 by the Minister of Defense, did the awareness take hold that the KMAR had to do more on its own account. But also the other Services began to realize that the KMAR would have to be considered as an independent entity. It is not surprising that many outside the KMAR felt this principle certainly applied in a financial respect. Incidentally, the completion of the departmental policy survey coincided more or less with the appointment of the KMAR as an independent Service. The fact that the KMAR had already been appointed as an independent unit in 1992, following the Defense General Organizational Decision, had been missed by many. As was said, the effect of this decision was a long time coming.

The KMAR keeps on changing. At this moment it is involved in the *KMAR 2010 project*. The Court of Audit has not lost its interest in the financial management within the Defense organization. Given the judgments of the last two years, with statements of “disorderly” financial control, the organization will have to remain alert in order to prevent an objection audit. It seems, though, that the subject has been freed from its emotional dimension somewhat, and the discussion about aspects directed at improvement can now be held in a businesslike manner. Of course, what plays a role in this is that from the Defense perspective an objection audit must be prevented. This will, however, be the stick the Court of Audit can always wield.

Not all aspects could be elaborated upon in this contribution. The role of the central organization, at least the central staff, could serve as a future subject for research, in particular during the years 1999/2002.

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