

25 April 2012

# **INTERNATIONAL BOARD OF AUDITORS FOR NATO**

## **ANNUAL ACTIVITIES REPORT**

**FOR 2011**



## **SERVING THE NATIONS**



### **MISSION**

Through its audits, the Board provides the North Atlantic Council and the governments of NATO member states with assurance that financial reporting is true and fair and common funds have been properly used for the settlement of authorised expenditure. In addition, the Board reviews the operations of NATO Agencies and Commands to determine if they are being carried out effectively, efficiently and economically.

### **INDEPENDENCE**

The Board and its individual members are responsible for their work only to the Council. They shall neither seek nor receive instruction from any authorities other than Council. The Board's budget is independent from that of the NATO International Staff.

### **INTEGRITY**

The Board conducts its work in a fair, objective, balanced, unbiased and non-political manner, using all relevant evidence in its analyses and formulations of audit opinions.

### **PROFESSIONALISM**

The Board's audit work is planned, executed and reported in accordance with the auditing principles and guidelines of the International Organisation of Supreme Audit Institutions, complemented by the audit standards of the International Federation of Accountants for financial audits. Board Members and auditors have the necessary competencies and qualifications to perform their work.

## Foreword by the Chairman

The International Board of Auditors for NATO (Board) is an independent six-member audit body reporting to the North Atlantic Council (Council). The Board is responsible for financial and performance audits of all NATO bodies, the NATO Security and Investment Programme (NSIP), and certain multi-nationally funded entities with a link to NATO. During 2011 the Board audited approximately EUR 11.5 billion of expenditures.

NATO is undergoing a series of significant reforms such as Agencies Reform, Command Structure Reform, Smart Defence, Resource Reform, and IS Reform in an environment of financial austerity in the member states. These initiatives will have a major impact on NATO as the organisation looks to work more effectively with fewer resources.

These reforms will also impact the way the Board uses its resources to plan and conduct its audit work. Therefore, in line with the Board's Strategic Plan for 2010-2014, the Board made significant efforts to be proactive in 2011. The Board approved and issued its new Financial Audit Manual which is a comprehensive instrument for enhancing the quality of its work. The Board also issued special reports to the Council on Agencies Reform and Resource Reform to assist nations to better achieve the goals and objectives of these reform initiatives and more work is ongoing in 2012 to support these initiatives.

In 2011, the Board issued 33 financial audit reports which comprised 49 Auditor's Opinions on the accounts of NATO bodies and associated organisations. 35 of these accounts received unqualified audit opinions. The Board issued 14 qualified, adverse, or disclaimer of audit opinion on the financial statements of 9 different entities. This number shows that the quality of financial reporting and control within NATO needs to be improved. At the moment, there is no global NATO-wide financial reporting. In my view, the various NATO reform initiatives could be a vehicle to improve financial reporting and accountability within NATO.

Regarding NSIP, the Board audited expenditure totalling more than EUR 400 million. It issued 202 Certificates of Final Financial Acceptance (COFFAs) with a total value of EUR 608 million (which includes amounts audited by the Board in previous years). The amount of NSIP expenditure available for the Board to audit declined in 2011 as a result of the decreasing number of NSIP projects that have been technically inspected and approved.

The Board issued five performance audit or special reports to Council in 2011. These reports were on (1) Objective Based Budgeting (OBB) In NATO (Evaluative Phase), (2) Assessing the Implementation of IPSAS within NATO Bodies and the Way Forward, (3) the Reform of the Medium Term Resource Plan (MTRP) Process, (4) the Status of Implementation of the Internal Audit Function, and (5) the Critical Success Factors for NATO Agencies Reform. The Board continues to actively monitor the reform of NATO Agencies and is following up its March 2011 audit with another special report to Council which was issued in April 2012. In 2011 the Board used 17% of its resources (compared to 13% in 2010) for performance audits or special reports. This almost

achieved the Board's objective from its 2010-2014 Strategic Plan to devote 20% of its resources to performance audits by the end of 2014.

The Board provides in this annual report detailed information on the expenditure audited, the allocation of our human resources, the direct cost of our audits in 2011, and our performance against our annual performance plan.

Janos Revesz, Chairman  
International Board of Auditors for NATO

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## CHAPTER 1

### ABOUT THE BOARD

#### OUR MANDATE AND ROLE

1.1 This report to the Council has been prepared in accordance with Article 17 of the Charter of the International Board of Auditors for NATO (Board), which states that *"the Board shall prepare each year: ... a detailed report on the activities of the Board during the year."*

1.2 Chartered by the North Atlantic Council (Council) in 1953, the Board is an independent audit body and is composed of six members appointed by the Council from among candidates nominated by the member countries. The six independent Board Members are appointed by Council for a non-renewable four year term from among candidates nominated by the member nations on a rotational basis. Board Members are Voluntary National Contributions and are fully paid for by their respective national administrations. They are usually high ranking officials from national Supreme Audit Institutions. Board Members are responsible for their work only to the Council and shall neither seek nor receive instructions from other authorities than the Council.

1.3 The Board's organisation of six, independent, Board Members guarantees that all NATO member states, regardless of size, can be represented in the NATO external audit structure. This results in collective ownership of, and collective responsibility for, NATO's external audit function. The Board had its full complement of six serving Board Members. Germany, Greece, Hungary, Italy, Norway, Portugal, Spain, and the United Kingdom were represented on the Board for part or all of 2011.

1.4 The primary function of the Board is to enable the Council and, through their Permanent Representatives, the Governments of member countries to satisfy themselves that the common funds have been properly used for the settlement of authorised expenditure. The Board's mandate also includes checking that the activities of NATO bodies have been carried out not only in compliance with the regulations in force but also with efficiency and effectiveness.

1.5 The Board conducts financial audits of agencies, military commands, multi-nationally funded entities with a link to NATO, the NATO Security and Investment Programme (NSIP) expenditure and also carries out performance audits. The Board's audit scope in 2011 covered EUR 11.6 billion, of which EUR 11.2 billion related to financial statements audits and approximately EUR 0.40 billion related to NSIP audits.

1.6 The accounts of NATO bodies and multi-nationally funded entities may be expressed in several different currencies. To help readers, and to provide consistency, this report uses the EURO equivalent of the currencies used.

## OUR ANNUAL MEETING WITH THE NATIONAL AUDIT BODIES

1.7 In accordance with the Council decision C-M(90)46, the Competent National Audit Bodies (CNABs), which are usually represented by the Supreme Audit Institutions (SAIs), have the opportunity to discuss the content of this annual report with the Board. Para A.7 of the same document states that “*the AGFC will take these comments into account, as appropriate, when reporting to the Council*”. As a result of NATO committee reform which took place in July 2010, the role of the AGFC has been taken by the Resource Policy and Planning Board (RPPB).

1.8 The 21st meeting to discuss the 2010 Annual Activities Report took place on 17 May 2011 under the chairmanship of the State Audit Office of Croatia. Representatives of twenty-two nations participated in the meeting, which was also attended by the Chairman and several national representatives of the Resource Policy and Planning Board and representatives from the Budget and Investment Committees.

1.9 Key issues raised by the CNABs during the meeting included the following:

- Noted that all unclassified Board audit reports should be made available to the public for greater transparency and accountability regarding NATO activities,
- Encouraged the Board to continue developing its relationship with the RPPB; in particular as a mechanism to ensure that the Board’s observations are followed up on,
- Supported the full implementation of IPSAS, including IPSAS 17,
- Encouraged the Board to recommend to the Council to consider a new position for an independent Chief Financial Officer who can directly report to the Council on issues regarding finances,
- Commended the Board for increasing its performance audit capabilities, but wanted to see continued progress. They noted that the Board intends to gradually increase resources dedicated to performance audits to 20% of total available staff during the period covered by the Board’s 2010-14 Strategic Plan, and encouraged the Board to achieve this goal as soon as possible, and
- Asked the Board to consider undertaking a peer review of its audit practices and processes in the near future.

## CHAPTER 2

### KEY ISSUES OF IMPORTANCE TO THE BOARD

#### INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS IN NATO

2.1 On 17 July 2002, the Council adopted the accrual based IPSAS as the applicable accounting standards for all NATO entities effective for the fiscal year 2006. The Ad Hoc Working Group of Financial Controllers prepared the transition to IPSAS and acts as a continuing forum where NATO entities can share knowledge and experience as well as working to ensure the consistent and coordinated application of IPSAS. The Board participates in these meetings and supports a consistent and coordinated approach to the full and compliant application of the IPSAS standards.

2.2 In 2011 the Board issued a special report to Council on Assessing the Implementation of IPSAS within NATO and the Way Forward. The Board's review concluded that while there has been improvements in the consistency of financial reporting amongst NATO bodies there remain significant differences in the financial reporting of NATO bodies. In addition, the Board concluded that most of the anticipated potential benefits of IPSAS have also not been attained.

2.3 Specifically, the Board's review found that:

- the implementation of IPSAS within NATO bodies was not performed in a structured, methodical and consistent way across NATO,
- the implementation of IPSAS was further constrained by a lack of budget,
- that NATO bodies differ from many international organisations in that they do not publicly make available their financial statements,
- NATO bodies' financial statements are not consistently being used to hold management to account for resource allocation decisions implemented by them,
- that many NATO bodies are currently not in a position to account for assets in light of *IPSAS 17 – Property Plant and Equipment* which will require opening balance asset positions to be given as from 1 January 2011, and
- implementation of *IPSAS 31 – Intangible Assets* may require significant work by NATO bodies.

2.4 The Board's opinion is that the original objective of IPSAS and the anticipated benefits have not yet been achieved, but that they remain sensible and achievable. The Board made nine recommendations which if implemented will lead to improved accountability and stronger financial governance within NATO.

2.5 The Board continues to believe that the adoption and implementation of IPSAS has greatly increased the consistency and transparency of financial reporting within NATO and will continue to do so in the future. While further progress is needed for full IPSAS implementation, this will ultimately lead to improvements in the oversight and

accountability within NATO. Additionally, NATO will be in a better position to be able to demonstrate this accountability to the taxpayers of the NATO member states.

## **NATO AGENCIES REFORM**

2.6 At the Lisbon Summit on 20 November 2010, the NATO member states approved the consolidation and rationalisation of the functions and programmes of the NATO Agencies into three Agencies. The Council was tasked to prepare a plan for implementing this reform, with the objective of achieving improved governance, demonstrable increased effectiveness, efficiency and savings, focusing on outputs, and taking into account the specific needs of multinational programmes.

2.7 The outcome of NATO Agencies Reform will have a significant impact on the Board's planning, conduct, and reporting of audits related to the NATO agencies. The Board issued a special report to Council on the Critical Success Factors for NATO Agencies Reform in March 2011. The Board followed up this report in April 2012 with a special report to Council on Agencies Reform Implementation Planning.

## **PUBLICATION OF THE BOARD'S REPORTS**

2.8 The question of public access to the Board's reports as a means to increase transparency and accountability has been raised several times in the past in the context of the Board's annual activity report, by Supreme Audit Institutions (SAIs) and in the Resource Policy and Planning Board (RPPB). In 2007, the Council agreed to the publication of the Board's annual activity reports beginning with the 2005 report. Similarly, on recommendation of the Infrastructure (now Investment) Committee, the Council agreed in 2007 that the annual reports on the audit of NSIP may be released to the public, beginning with the 2006 report.

2.9 This issue continues to be discussed by national representatives in the RPPB. At the time of writing this report, there is no consensus among the nations to release the Board's reports to the public. The Board continues to strongly advocate the publication of its reports and the financial statements of NATO entities, however the final decision rests with Council.

2.10 The Board's Annual Activities Reports and Audit Reports of the NSIP are available on the NATO web site (<http://www.nato.int/issues/iban>).

## **SUPPORT TO NATO INSTITUTIONS AND NATIONS**

2.11 The IBAN actively participates in and supports the work of the NATO resource committees (such as the Resource Policy and Planning Board, Budget Committee, and Investment Committee), the Working Group of Financial Controllers, the Working Group on IPSAS, and to national delegations by responding to requests for advice or information. In 2011, the Board worked in close cooperation particularly with the Resource Policy and Planning Board on the issues of IPSAS and publication of the Board's reports.

## CHAPTER 3

### OUR FINANCIAL STATEMENT AUDITS

#### BACKGROUND

3.1 The Board audits civilian and military headquarters and other entities established pursuant to the North Atlantic Treaty. The Board also audits other activities or operations in which NATO has a particular interest such as the multi-nationally funded Commands and the NATO Parliamentary Assembly. The Board refers to all these audits as agency audits. In 2011 there were more than 60 such agencies that come under the Board's mandate. They include military headquarters (HQ) of which some are common funded by a NATO budget and some are multi-nationally funded by the participating nations; NATO Production and Logistics Organisations (NPLOs) plus 4 national divisions attached to these NPLOs with a budget approved by their respective finance committees or governing bodies; and various military, civilian and other bodies of which 4 entities have a multi-national status. These bodies are funded through the civil and military budgets approved by the Council, budgets approved by the governing bodies of NPLOs, or budgets approved by the nations participating in a multinational entity or activity. Some NATO bodies also implement NSIP projects and receive funding from that programme. The Board is also mandated to audit non-appropriated funds covering morale and welfare activities for NATO staff. In 2011, the agency accounts to be audited by the Board amounted to more than EUR 11 billion (see details in Annex C to this report).

3.2 NATO bodies have a varying degree of autonomy in managing their operations. All NATO bodies are subject to the NATO Financial Regulations (NFR) that are approved by the Council and that provide a high level financial and budgetary framework. These NFR also apply to most of the multinational entities via an explicit provision in their memoranda of understanding.

3.3 Although some entities group or consolidate financial information at varying levels, there is no NATO-wide financial reporting. The result is that in many cases the financial statements of the different NATO bodies are not homogeneous and difficult to compare. The implementation of IPSAS in the NATO funded entities, with effect from the 2006 financial statements, gives an opportunity to harmonise and improve accounting and financial reporting.

#### AUDIT MANDATE

3.4 According to the Board's Charter, the primary function of the Board is, by its audit, to enable the Council and, through their Permanent Representatives, the Governments of member countries to satisfy themselves that common funds have been properly used for the settlement of authorised expenditure. The Board is responsible for checking that expenditure incurred by NATO bodies is within the physical and financial authorisations granted and that it is in compliance with applicable rules and regulations. The Board provides a similar assurance to the participating nations and the governing

bodies of the multinational entities (these audit reports are not presented to the Council). The Board's financial audits result in an audit opinion issued in accordance with the NFR and international standards on auditing on the financial statements of NATO bodies. In general, the Board's audits in 2011 covered the 2010 financial year and also prior financial years if there were delays in the publication of financial statements or processing of the Board's reports and/or entities that are only audited on a cyclical basis.

## **AUDIT METHODOLOGY AND CONDUCT OF AUDITS**

3.5 The objective of the audit of financial statements is to provide assurance that these statements present fairly in all material respects, the financial position of the NATO body and the results of its operations, in accordance with IPSAS (or on a basis consistent with the previous year for those entities not required to implement IPSAS); and that the underlying transactions are in compliance with budgetary authorisations and relevant regulations. The Board's audit methodology distinguishes the usual phases of Planning (including mid-term strategic and annual planning), Audit Execution, Reporting and Follow-up. The Board undertakes its audits in accordance with the principles of the auditing standards of the International Organisation of Supreme Audit Institutions (INTOSAI), complemented, as and when required, by the International Standards on Auditing issued by the International Federation of Accountants (IFAC). The audit process and methodology is integrated into the Board's TeamMate audit software.

3.6 Audits are conducted on the agency site by auditors, under the supervision of middle management and a Board Member. The more significant agencies and those with a higher risk are audited every year. A few agencies posing only a small audit risk are audited every two or three years. The Council endorsed this policy of cyclical auditing in 1990.

## **ALLOCATION OF RESOURCES**

3.7 The Board is responsible for the audit of over 60 different agencies and commands, some of which consolidate their accounts. Amounts audited range from less than EUR 0.5 million to over EUR 5 billion.

3.8 Agency audits are resourced on the basis of a risk assessment. The risk assessment takes into account elements such as the entity's size in budgetary and staff terms, its organisational complexity in terms of the number of locations, programmes and budgets, the complexity of the transactions, and the time expired between audits. It also covers the qualitative elements such as external visibility and sensitivity of the activities, and the risks for overall accountability and control. Issues that may affect the allocation of resources include a qualified or adverse audit opinion, the creation of a new NATO body, the implementation of new activities, a reorganisation or change in management, problems with the implementation of an accounting system or any other event that creates an additional risk for the agency's activities. Elements such as these explain, for example, why the Board uses proportionally more resources on military

commands than it does on NPLOs, or why the audit effort is not necessarily proportional to the size of the entities' activities.

3.9 Throughout the process, the Board maintains a high degree of flexibility, which allows it to make optimal use of its resources. The Board considers that, through its position in NATO and the inputs from the audit teams, it has a good overview of potential risks and what resources are needed to address them.

### SUMMARY OF AGENCY AUDIT WORK IN 2011

3.10 In 2011, the Board used 11.4 staff years (56% of the Board's authorised establishment) to issue 33 financial audit reports comprising 49 Auditor's Opinions. The individual audit reports can cover several sets of financial statements or several financial years.

3.11 Table 3.1 below summarises the amounts audited and the Board's staff resources used for the three different types of agency audits in 2011 compared with 2010.

**TABLE 3.1**

Activity	AUDIT SCOPE (EUR Millions)		AUDIT EFFORT (In staff years)		Audited per staff year (EUR Millions)	
	2011	2010	2011	2010	2011	2010
NPLOs	9,254	10,055	6.5	6.2	1,430	1,622
Commands	1,413	1,129	2.6	3.3	543	342
Civil and Mil. Agencies	628	604	2.3	2.2	275	274
<b>Total</b>	<b>11,295</b>	<b>11,788</b>	<b>11.4</b>	<b>11.7</b>	<b>2,249</b>	<b>2,238</b>

3.12 Resources allocated to financial statement audits decreased from 11.7 to 11.4 staff years in 2011 resulting from efficiency gains in our audits. The disparity between amounts audited per staff year in NPLOs and other entities is explained by the differences in size and by different risk factors mentioned in the previous section on allocation of resources.

### SIGNIFICANT AUDIT OPINIONS

3.13 In 2011 the Board issued 49 Auditor's Opinions, of which 35 were unqualified opinions. The Board issued 14 qualified, adverse, or disclaimer of audit opinion on the financial statements of 9 different entities. This is in comparison to 2010, when the Board issued 42 Auditor's Opinions, of which 32 were unqualified audit opinions. In 2010, the Board issued 9 qualified audit opinions and 1 disclaimer of audit opinion on the financial statements of 8 entities. An explanatory note on the different types of audit opinions is provided on page 3 of Annex B.

3.14 In addition, the Intelligence Fusion Centre (IFC) was unable to present financial statements to the Board for audit for the year ended 31 December 2007. As a result, the Board was not in a position to audit or issue an opinion on the IFC 2007 accounts. HQ Rapid Reaction Cops France (HQ RRC-FR) was also unable to present financial statements to the Board for audit for the year ended 31 December 2007 and 2008. As a result, the Board was not in a position to audit or issue an opinion on the HQ ARRC FR 2007 and 2008 accounts.

3.15 The following is a summary of the modified audit opinions issued in 2011:

- **Qualified opinion Headquarters Allied Rapid Reaction Corps (HQ ARRC) 2007-2009 accounts.** The Board issued a qualified opinion on the 2009, 2008 and 2007 financial statements due to the following: The Statements of Financial Position did not report liabilities for amounts to be refunded to Nations (lapsed credits, miscellaneous income), revenue in the Statements of Financial Performance were understated, and expenses and revenues were improperly booked to receivables. The Board also issued a qualified opinion on whether the activities, financial transactions and information reflected in the financial statements are, in all material respects, in compliance with authorities which govern them due to significant weaknesses and instances of non-compliance with regulations in relation to the following: A scope limitation due to, at the time of the audit, there being no complete, detailed, and reconciled audit trail in support of year-end commitment carried-forwards as of 31 December 2009, 2008 and 2007 and the Board found that a significant portion of commitments entered into by HQ ARRC in 2009, 2008 and 2007 were not in compliance with the NFR and HQ ARRC FAP requiring that such commitments be properly approved before incurrence of legal liabilities (see Annex B para 2).
- **Qualified opinion on the IFC 2008-2009 accounts.** The Board issued a qualified opinion on the financial statements of the IFC for the years ended 31 December 2008 and 31 December 2009 because of the absence of Budget Execution Statements (see Annex B para 5).
- **Qualified opinion on the Joint Chemical Biological Radiological and Nuclear Defence Centre of Excellence (JCBRN Defence COE) 2008 accounts.** The Board issued a qualified opinion on the financial statements of the JCBRN Defence COE for the year ended 31 December 2008 because of a material overstatement of cash holdings (and total assets) at the end of the financial year, a material understatement of funds to be returned to nations, and overstatement of total liabilities (see Annex B para 6).
- **Qualified opinion on the HQ RRC-FR 2006 accounts.** The Board issued a qualified opinion on the HQ RRC-FR Financial Statements for the year ended 31 December 2006 because the Board was not able to determine the exact amount of the 2006 expenditures due to the fact that the expenditures also included VAT amounts (see Annex B para 8).

- **Qualified opinion on the Headquarters NATO Deployable Corps Greece (HQ NDC-GR) 2009 accounts.** The Board issued a qualified opinion on the HQ NDC-GR's Financial Statements for the year ended 31 December 2009 due to the incompleteness of the financial statements (see Annex B para 10).
- **Qualified opinion on the NATO Airborne Early Warning and Control Programme Management Agency (NAPMA) 2009 accounts.** The Board issued a qualified opinion on its audit due to a scope limitation on the value of work related to assets in progress as at 31 December 2009. This represented additions to the asset resulting from work undertaken by the US contractor in 2007, 2008 and 2009. This is because the Board does not have access to the indirect contracting process that is used by the US Government to transform the invoices received from the US contractors into the US Government billing statements that are then sent to NAPMA. As a result, the Board is not in the position to assess that this process is either reliable or results in billings that accurately represent work performed by the US contractors (see Annex B para 16).
- **Qualified opinion on the NATO Consultation, Command and Control Agency (NC3A) 2009 accounts.** The Board issued a qualified opinion on the 2009 financial statements because of weaknesses in the accrual process. As a result of the weaknesses found, the Board was not able to provide audit assurance that the NATO Security Investment Programme (NSIP) and Third Party expenses and revenue and accrued payables and receivables have been adequately presented on the accrual basis for and as of the year ended 31 December 2009 and for the corresponding figures for and as of the year ended 31 December 2008 (see Annex B para 17).
- **Qualified opinion on the NATO CIS Services Agency (NCSA) 2009 accounts.** The Board issued a qualified opinion on the NCSA 2009 Financial Statements based on the following International Public Sector Accounting Standards (IPSAS) related observations: The value of the CIS inventories managed by NCSA on behalf of itself or other NATO entities is not known or reported and as such, the Board is not in a position to provide assurance regarding the completeness and accuracy of inventories (see Annex B para 18).
- **Adverse opinion on the financial statements of the CIMIC Group South (currently the Multinational Civil-Military Cooperation Group Headquarters (MNCG)) for 2006, 2007, and 2008.** The Board issued an adverse opinion on the MNCG's Financial Statements for the years ended 31 December 2006, 2007 and 2008 due to material misstatements in the Budget Execution Statement, in the Statement on Financial Position, in the Statement on Financial Performance and in the Cash Flow Statement. In the Board's opinion these material misstatements have pervasive effects on the financial statements as they represent a substantial portion of them (see Annex B para 9).

## CHAPTER 4

### OUR NATO SECURITY INVESTMENT PROGRAMME AUDITS

#### BACKGROUND

4.1 NATO established the Infrastructure Programme in 1951 to build facilities to meet its military requirements. The nations share the cost of the Programme based on agreed percentages. The “Host Nation” is normally responsible for the planning and execution of the project. The Council made some major changes to the Programme in 1994 and renamed it the NATO Security Investment Programme (NSIP). The Programme is overseen by the Investment Committee (IC).

4.2 Under Articles 13, 14 and 16 of its Charter, the Board verifies that common funds have been properly used for the settlement of authorised expenditure, in particular within the physical and financial authorisation granted. Under Article 17 of its Charter, the Board prepares a separate annual report to the Council summarising the result of the audit of NSIP expenditure. The NSIP report will be issued later in 2012, after all NSIP expenditure made in 2011 has been reported to the NATO Office of Resources by nations and NATO agencies. The 2011 Annual Activities Report gives a brief outline of the Board’s activities in respect of the NSIP.

4.3 In 2011, the Board spent the equivalent of 1.8 staff year, or 8.82% of the authorised auditor establishment, on the audit of NSIP projects. This figure was slightly higher than in 2010 (1.7 staff year).

#### OBJECTIVES OF THE NSIP AUDITS

4.4 The Board’s responsibility in line with Articles 13, 14 and 16 of its Charter is to check whether all payments for which reimbursement is claimed have actually been invoiced and paid and to detect any item that is non-eligible for NATO funding. The audit results in a Certificate of Final Financial Acceptance (COFFA). The Board certifies for each project it has audited an amount as a charge to NATO common funds. This requires that every invoice needs to be checked.

#### AMOUNTS AUDITED AND CERTIFIED IN 2011

4.5 The Board audited the expenditure presented for audit by the nations and agencies in 2011. It conducted twenty-two audit missions in twelve nations and three agencies. These audits covered expenditure amounting to EUR 402 million, compared to EUR 883 million in 2010. The Board issued 202 COFFAs with a total value of EUR 608 million, compared to 258 COFFAs for EUR 958 million in 2010. The decrease between 2010 and 2011 is the result of the declining number of NSIP projects that have been technically inspected and approved and available for the Board to audit.

4.6 In anticipation of the publication of the NSIP Semi-Annual Financial Report as at 31 December 2011, the Board can provisionally estimate that its audits resulted in net

credit of 3.5 million in favour of the NSIP. In 2011 the percentage of cumulative expenditure certified by the Board increased for the fourth consecutive year. As at year end 2011, the cumulative NSIP expenditure certified by the Board amounted to EUR 22.62 billion, or 71% of the cumulative amount of NSIP expenditure reported by host nations.

#### **THE BOARD'S ANNUAL NSIP REPORT FOR THE YEAR 2010**

4.7 The Board issued its report on the 2010 audit of NSIP projects on November 30th 2011. This report draws on information provided in the NSIP Financial Statistics for the year 2010, which were issued on 25 November 2011. The Board noted that the IC initiated a programme of NSIP policy reforms. Among others, a new project authorization procedure was introduced, in order to improve visibility on the project expenditure profiles and on the project implementation timelines.

4.8 The Board noted that significant backlogs in project audit and certification persist. These backlogs are largely out of the Board's control, as our activity on project audit and certification mainly depends on the number of technical inspections performed by the Joint Final Inspection and Acceptance (JFAI) teams, and on the willingness of the host nations to submit the operationally completed and technically inspected projects to the Board for audit.

4.9 In its comments to the Board's Annual NSIP Report for 2010, the IC pointed out that the overall technical inspection issue was referred to its Working Group, to examine the possible options. The IC further noted that the solution would involve co-operation amongst host nations, the International Staff, the Board, and the military authorities. In conclusion, the IC noted that the main points raised by the Board had been identified for action in 2012.

4.10 Finally, the Resource Policy and Planning Board (RPPB) noted the Board's report, invited the IC to continue to take action to improve NSIP management and to ensure that the various stakeholders in the JFAI process are meeting their responsibilities, and agreed that the Board's Annual NSIP Report for the year 2010 would be made available to the public.

## CHAPTER 5

### OUR PERFORMANCE AUDITS AND STUDIES

#### INTRODUCTION

5.1 The Board's Charter mandates it to assess efficiency and effectiveness of NATO operations. The Board refers to these audits as performance audits. The Board also provides advice to NATO committees and agencies and undertakes initiatives to improve its own efficiency and working methods. These activities are referred to as studies.

#### BACKGROUND

##### Performance audits

5.2 The Board is committed to carry out at least one substantial performance audit per year, complemented by a number of smaller studies in which limited performance aspects are covered. To support that commitment, the Board has developed performance auditing guidance, requiring regular consideration by the Board of new audit topics, and the involvement of Board Members and financial auditors in the identification of potential topics in the agencies audited by them. The Board also decided to enhance its performance audit capabilities by increasing the resources dedicated to performance audits, by recruiting staff with performance audit background and providing ad-hoc performance audit training to existing staff, and investigating the possibility of involving SAI experts in certain phases of conducted performance audits.

5.3 In 2011 the Board spent 3.4 staff years on performance audits, corresponding to 17% of its resources (compared to 2.6 staff years or 13% in 2010). This almost achieved the Board's strategy from its 2010-2014 Strategic Plan to devote 20% of its resources to performance audits by the end of 2014.

5.4 The Board issued five performance audits and special reports to Council in 2011. It issued reports on (1) Objective Based Budgeting (OBB) In NATO (Evaluative Phase), (2) Assessing the Implementation of IPSAS within NATO Bodies and the Way Forward, (3) the Reform of the Medium Term Resource Plan (MTRP) Process, (4) the Status of Implementation of the Internal Audit Function, and (5) the Critical Success Factors for NATO Agencies Reform.

##### Studies

5.5 As in the past, the Board responded to various requests for advice from NATO bodies, committees, and working groups. It was involved in meetings related to the implementation of IPSAS, NATO Agencies Reform, and NATO Resource Reform. In addition, the Board also advised NATO committees and working groups on issues related to audit, finance and governance.

## PERFORMANCE AUDITS AND STUDIES CARRIED OUT IN 2011

5.6 In its audit report on the **Objective Based Budgeting (OBB) In NATO HQ (Evaluative Phase)** the Board evaluated OBB implementation in NATO and possible ways ahead.

5.7 The Board reviewed the implementation of OBB in NATO IS, International Military Staff (IMS), Allied Command Operations (ACO) and Allied Command Transformation (ACT). The Board recommend that budgetary frameworks should be commonly defined between the RPPB and the NATO Military Authorities (NMAs) and the IS respectively for the Military and Civil Budgets. This would include (1) simple performance and budget/cost allocation associated to the highest level objectives, and (2) Reporting of performance results and cost allocation in the financial statements.

5.8 The Board also recommended that flexibility should be given to each entity's management to develop its own performance management approach. The decision to associate lower levels of the OBB framework with performance information should take into account (1) the need to link potential lower level frameworks to high level objectives and (2) management willingness and capacity to identify SMART objectives in their area of responsibility and to use performance information in decision making processes. Contingent on the capacity and willingness of NATO to fulfil the other implementation recommendations from the report, the Board recommended that Council should formally endorse the implementation of OBB for the Military Budget, as it has done for the Civil Budget.

5.9 The Board also issued a special report to Council on **Assessing the Implementation of IPSAS within NATO Bodies and the Way Forward**. Council adopted accrual based IPSAS as NATO's financial reporting framework in 2002 with a view to implementing the standards in the financial year 2006. The objective of IPSAS was to improve the harmonisation and consistency of accounting and financial reporting NATO-wide, while there were other anticipated potential benefits such as improved resource and asset management within NATO.

5.10 The Board's review concluded that while there have been improvements in the consistency of financial reporting amongst NATO bodies there remain significant differences in the financial reporting of NATO bodies. In addition, the Board concluded that most of the anticipated potential benefits of IPSAS have also not been attained, but that they remain sensible and achievable. The Board made nine recommendations which if implemented will lead to improved accountability and stronger financial governance within NATO.

5.11 The Board issued a special report to Council on the **Status of the Implementation of the Internal Audit Function in NATO**. The Board concluded that a robust and independent internal audit function is an important component for more effective financial management, accountability, and transparency in NATO. While the general findings of the Board's survey are positive in regards to the status of the implementation of the Board's recommendations, the Board is concerned to see the

weakening of the internal audit function in ACO. In addition, the Board is concerned by the fact that no entity surveyed had a functioning audit committee as recommended by the Council in its *Guidelines for the Corporate Governance of NATO Organisations* (C-M(2005)0087).

5.12 The Board also issued a special report to Council on the **Reform of the Medium Term Resource Plan (MTRP) Process**. Drawing on an analysis of documents, meetings with the main MTRP process stakeholders, and best practices, the Board identified a number of areas where improvements to inputs, outputs and outcomes of the MTRP are already noticeable. The Board also developed areas where attention needs to be paid in the future for this resource planning process to deliver its full intended effect.

5.13 Lastly, the Board issued a special report to Council on the **Critical Success Factors for NATO Agencies Reform**. Utilising the Board's corporate knowledge based on its financial and performance audit work and best practice, the Board identified and developed a number of critical success factors where NATO is facing particular challenges in the NATO Agencies Reform. One challenge is to effectively implement Council's decision to reform NATO Agencies. The report highlights key issues to consider in facing this challenge to obtain full benefits of the NATO Agencies Reform.

5.14 This audit report is classified **NATO RESTRICTED** and its detailed findings and recommendations cannot be presented in this report. However, the Board noted that the success of the NATO Agencies Reform will be measured on whether it achieved the specific goals agreed by Council. Developing a feasible, clear and measurable implementation plan is essential for a successful reform. Based on its experience auditing the Agencies and relevant international best practice, the Board identified several potential risks which could impede a successful Agencies Reform. In addition, the Board identified critical success factors that could help to mitigate these risks.

## CHAPTER 6

### USE OF OUR HUMAN AND FINANCIAL RESOURCES

#### OUR HUMAN RESOURCES AND THEIR USE

6.1 The authorised establishment of the Board in 2011 was twenty-two auditor posts, including one Principal Auditor, two Senior Auditors and 19 auditors. The staff of the Board is diverse, multi-national, representative of the nations and includes individuals seconded from member state SAs, former employees of SAs, and individuals recruited from the private sector. The Board's staff includes chartered accountants, information systems auditors, and performance audit specialists. 75% of the Board's auditor positions are posts for which rotation is desirable and this rotation ensures that new staff, with new ideas, come into the organisation.

6.2 The Board Members and auditors came from twelve different member nations. Three new auditors arrived in 2011. At the end of 2011 there were no vacant auditor positions. During 2011, the Board had an average auditor vacancy rate of approximately 2 staff years.

6.3 The Board has 1 Administrative Officer and 6 Administrative Support Staff who perform a wide range of functions in support of the agency, NSIP, and performance audits and general administration of the Board.

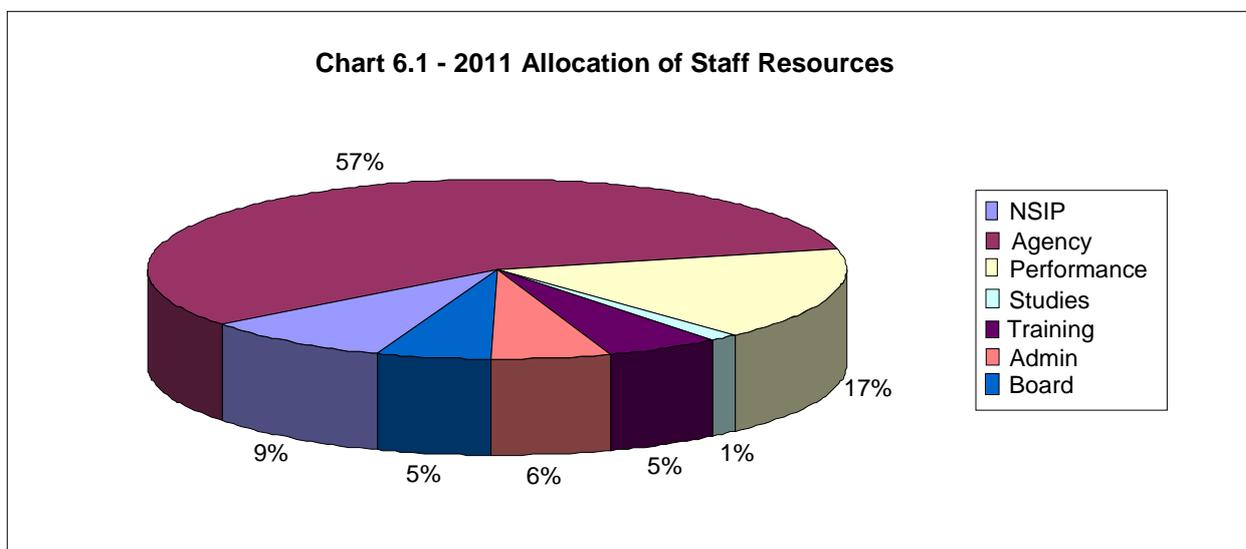
6.4 In accordance with the auditing standards of INTOSAI and International Federation of Accountants (IFAC), the Board ensures that its audit and administrative staff receive adequate on-the-job training. The Board plans for an average of two to three weeks training for each auditor, which includes one to two weeks of joint training and up to one week of individual training.

6.5 During 2011 the Board provided an average of 10 days of training per auditor. The annual joint training session covered workshops by external and internal trainers on topics related to the following:

- INTOSAI standards,
- IDEA audit software,
- TeamMate audit software,
- Code of conduct/ethics,
- Compliance audit standards,
- NSIP audit,
- Agencies Reform,
- Update of the Board's financial audit manual, and
- International Standard on Auditing (ISA) 315 – identifying and assessing the risks of material misstatement through understanding the entity and its environment.

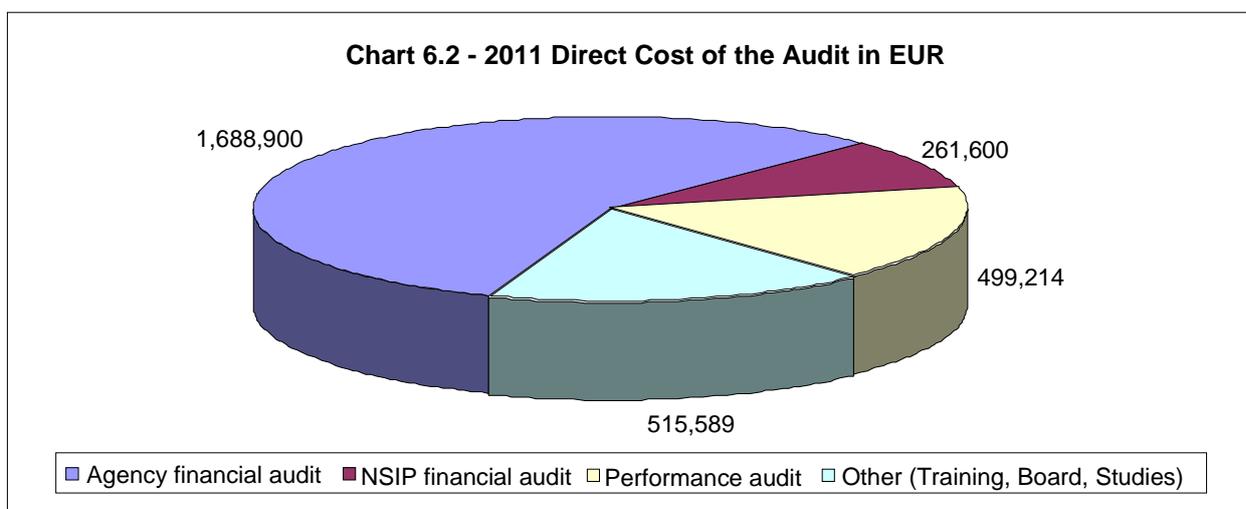
In addition, audit staff participated in internal and external seminars and courses organised by NATO, their professional organisations, or specialised training institutes.

6.6 Chart 6.1 below shows the use of the Board’s audit resources in 2011 as a percentage of the available number of staff days. Compared with 2010, the Board increased the amount of resources on performance audits from 13% in 2010 to 17% in 2011. This is in keeping with the Board’s commitment to assign 20% of its resources to performance audit by the end of 2014. Audit resources for NSIP also increased from 8.3% in 2010 to 9% in 2011. As a result of these increases, the Board decreased the audit resources for agency financial statement audits from 59% in 2010 to 57% in 2011.



## OUR FINANCIAL RESOURCES AND THEIR USE

6.7 Chart 6.2 below shows the direct cost of the audits in 2011 in EUR.



6.8 The table at Annex C provides complete details of the audited amounts, allocated audit resources and cost of the audit. This information on the size and the cost of the Board's audits has been compiled from different sources, including the Board's time recording system, and financial data on remuneration and travel provided by NATO's personnel and accounting services.

6.9 It is important to note that the direct cost (excluding administrative staff costs) of the audit to NATO in 2011 of EUR 3 million is less than the net credit to NATO resulting from our audits of the NSIP alone. Independent from the improvement in procedures and the assurance on the financial statements in the field of its performance and agency audits, the Board's audits of NSIP projects in 2011 generated almost EUR 3.5 million of net adjustments in favour of NATO.

## CHAPTER 7

### OUR PERFORMANCE

#### 2011 ANNUAL PERFORMANCE PLAN

7.1 The Strategic Plan for 2010-2014 provides information on the Board's vision, mission statement, and three core values: Independence, integrity and professionalism. It details the Board's four strategic goals related to its work, with specific objectives and strategies to achieve them. These strategic goals are the following:

- Goal 1: Strengthen accountability and corporate governance within NATO.
- Goal 2: Enhance management and ensure accountability in the NSIP.
- Goal 3: Contribute to efficient, effective, and economical operations and activities in NATO.
- Goal 4: Develop the Board as an innovative and proactive audit organisation.

7.2 The Board's Annual Performance Plan for 2011 is based upon the goals and objectives identified in the 2010-2014 Strategic Plan and establishes which objectives and strategies had priority during 2011. It includes key performance indicators and targets for the various objectives that were to be achieved during 2011.

#### PERFORMANCE RELATED TO GOAL 1

7.3 The Board's objectives related to Goal 1 were to continue to develop the Risk-Based Audit Methodology, improve audit efficiency and effectiveness, contribute to the development of a sound and consistent financial reporting environment, and enhance relationships with key stakeholders. The associated performance measures and targets used to evaluate the achievement of the objectives are shown in the table below.

<b><i>Performance Measures</i></b>	<b><i>Targets</i></b>
Percentage of observations settled within a 3 year period of the report date.	80%
Implement the Project Management Plan for the Risk Based Audit Approach (RBAA) in 3 entities by 2011.	100%

7.4 The first performance measure was met. Of the reports published in 2008, there were 127 observations raised by the Board. Of these 127 observations, 106 were settled within 3 years of the report date (84%). The second performance measure was also achieved. The Board has successfully implemented the RBAA in three entities: NAMSA, NETMA, and NC3A.

## PERFORMANCE RELATED TO GOAL 2

7.5 The Board's objectives related to Goal 2 were to improve NSIP management, provide assurance of NSIP accountability, and improve NSIP audit efficiency and effectiveness. The associated performance measures and targets used to evaluate the achievement of the objectives are shown in the table below.

<b><i>Performance Measures</i></b>	<b><i>Targets</i></b>
Reduce the number of auditable projects per nation.	15 or less per nation
Programme audits within 6 months of national requests.	80%

7.6 The first performance measure was partially met. Taken by individual nation, the target of 15 or less auditable projects was reached for:

- 16 out of 24 territorial nations having open projects, and
- 4 of the 6 NATO bodies receiving NSIP funding.

The second performance measure was fully met as all national requests for audits were programmed by the Board within six months.

## PERFORMANCE RELATED TO GOAL 3

7.7 The Board's objectives related to Goal 3 were evaluation of the achievement of objectives by a specific NATO body, operation or project, recommendations for optimising of the use of material and financial resources while delivering outputs at required quality, and focus on priority issues along with the balanced use of internal capabilities. The associated performance measures and targets used to evaluate the achievement of the objectives are shown in the table below.

<b><i>Performance Measures</i></b>	<b><i>Targets</i></b>
Issue performance audits with recommendations to improve efficiency, effectiveness, and/or economy.	100% of performance audit reports should contain recommendations.
Number of performance audits issued per year.	Issue at least 2 performance audits per year.

7.8 The first performance measure was achieved. All of the performance audit reports issued by the Board contained recommendations. The second performance measure related to the number of performance audits issued per year was also achieved as the Board issued 5 reports in 2011.

## PERFORMANCE RELATED TO GOAL 4

7.9 The Board's objectives related to Goal 4 were to have the Board as a working-place that facilitates continuing professional development of its personnel and the sharing of corporate knowledge, the Board is an audit organization that translates internal efficiency and effectiveness into strengthened accountability and governance as well as enhanced performance of NATO, auditor performance review and development system as a tool of continuous assessment of auditors' performance and their individual development, and improved visibility of the Board. The associated performance measures and targets used to evaluate the achievement of the objectives are shown in the table below.

<b><i>Performance Measures</i></b>	<b><i>Targets</i></b>
Provide a minimum of 5 days (40 hours) continuing professional education per year to all auditors.	100%
Board management to complete all annual Performance Review and Development tasks related to staff on time.	100%, based upon HR guidance.
Publish Annual Activity Report on NATO website.	100%

7.10 The first performance measure was achieved. The second performance measure was partially achieved as all performance review and development tasks were completed, but not within the timeframe's specified by Human Resources. The third performance measure was also achieved.

## 2012 ANNUAL PERFORMANCE PLAN

7.11 The Board's Annual Performance Plan for 2012 is included in this report at Appendix D.

**Approved by the Board on 25 April 2012**

**Chairman** (signed)  
**Janos Revesz** (Hungary)

**Board Member** (signed)  
**Kirsten Astrup** (Norway)

**Board Member** (signed)  
**Helen Feetenby** (United Kingdom)

**Board Member** (signed)  
**Dr. Chariloas Charisis** (Greece)

**Board Member** (signed)  
**Marius Winters** (Netherlands)

**Board Member** (signed)  
**Luigi Mazzillo** (Italy)

**LIST OF REPORTS**  
**RESULTING FROM FINANCIAL STATEMENT AND PERFORMANCE AUDITS**

<b>LIST OF REPORTS RESULTING FROM FINANCIAL STATEMENT AND PERFORMANCE AUDITS</b>			
<b>Subject</b>		<b>Budget year(s)</b>	<b>Reference of document and date</b>
<b>MILITARY COMMANDS</b>			
1.	<b>ACT Group</b>	<b>2010</b>	IBA-AR(2011)22, dated 25.11.2011 C-M(2012)0013
2.	<b>ARRC</b>	<b>2007-2009</b>	IBA-AR(2010)27, dated 25.03.2011
3.	<b>CAOC Consolidated Southern &amp; Northern regions NRFA</b>	<b>2008-2010</b>	IBA-AR(2011)12, dated 23.06.2011
4.	<b>CIVIL-MILITARY CO-OP CENTRE OF EXCELLENCE (CCOE)</b>	<b>2007-2009</b>	IBA-AR(2010)37, dated 29.04.2011
5.	<b>INTELLIGENCE FUSION CENTRE (IFC)</b>	<b>2007-2009</b>	IBA-AR(2011)01, dated 05.09.2011
6.	<b>JCBRN DEFENCE COE (CZ)</b>	<b>2008</b>	IBA-AR(2010)38, dated 29.04.2011
7.	<b>HQ NRDC TURKEY</b>	<b>2007-2009</b>	IBA-AR(2010)34, dated 25.03.2011
8.	<b>HQ RRC FRANCE</b>	<b>2006-2008</b>	IBA-AR(2010)23, dated 25.03.2011
9.	<b>MULTINATIONAL CIMIC GROUP (MNCG)</b>	<b>2006-2008</b>	IBA-AR(2009)37, dated 16.12.2011
10.	<b>NATO DEPLOYABLE CORPS GREECE (HQ NDC GR)</b>	<b>2006-2009</b>	IBA-AR(2011)10, dated 23.06.2011
<b>NPLOs</b>			
11.	<b>CEPMO</b>	<b>2009</b>	IBA-AR(2010)33, dated 29.04.2011 C-M(2011)0054
12.	<b>NAGSMA</b>	<b>2009</b>	IBA-AR(2011)21, dated 28.10.2011 C-M(2012)0004
13.	<b>NAHEMA</b>	<b>2009</b>	IBA-AR(2010)32, dated 28.01.2011 C-M(2011)0088
14.	<b>NAMEADSMA</b>	<b>2010</b>	IBA-AR(2011)17, dated 15.07.2011 C-M(2012)0003
15.	<b>NAMSA</b>	<b>2010</b>	IBA-AR(2011)20, dated 05.09.2011 C-M(2012)0021

<b>LIST OF REPORTS RESULTING FROM FINANCIAL STATEMENT AND PERFORMANCE AUDITS</b>			
	<b>Subject</b>	<b>Budget year(s)</b>	<b>Reference of document and date</b>
16.	<b>NAPMA</b>	<b>2009</b>	IBA-AR(2011)05, dated 27.05.2011 C-M(2011)0092
17.	<b>NC3A</b>	<b>2009</b>	IBA-AR(2010)35, dated 25.02.2011 C-M(2012)0022
18.	<b>NCSA</b>	<b>2009</b>	IBA-AR(2011)07, dated 29.04.2011 C-M(2012)0030
19.	<b>NHMO (HAWK)</b>	<b>2009</b>	IBA-AR(2010)30, dated 23.06.2011 C-M(2011)0093
<b>CIVIL-MILITARY AGENCIES AND OTHER ORGANISATIONS</b>			
20.	<b>AFNORTH International School</b>	<b>2010</b>	IBA-AR(2010)42, dated 28.01.2011
21.	<b>FORACS</b>	<b>2009</b>	IBA-AR(2011)03, dated 23.06.2011 C-M(2012)0005
22.	<b>IMS, NSA (INCL. PfP-MD-ICI-OMC)</b>	<b>2010</b>	IBA-AR(2011)16, dated 23.06.2011 C-M(2012)0012
23.	<b>MSIAC</b>	<b>2009</b>	IBA-AR(2010)40, dated 25.03.2011 C-M(2011)0050
24.	<b>NATO DEFENCE COLLEGE (NDC)</b>	<b>2009</b>	IBA-AR(2010)41, dated 28.01.2011 C-M(2011)0007
25.	<b>NATO DEFENCE COLLEGE (NDC)</b>	<b>2010</b>	IBA-AR(2011)15, dated 28.10.2011 C-M(2012)0010
26.	<b>NATO DEFINED CONTRIBUTION PENSION SCHEME (DCPS)</b>	<b>2009</b>	IBA-AR(2011)09, dated 23.06.2011 C-M(2012)0029
27.	<b>NATO PARLIAMENTARY ASSEMBLY (NPA)</b>	<b>2010</b>	IBA-AR(2011)11, dated 29.04.2011
28.	<b>NATO PROVIDENT FUND</b>	<b>2009</b>	IBA-AR(2010)39, dated 25.02.2011

<b>LIST OF REPORTS RESULTING FROM FINANCIAL STATEMENT AND PERFORMANCE AUDITS</b>			
	<b>Subject</b>	<b>Budget year(s)</b>	<b>Reference of document and date</b>
29.	<b>NEW NATO HQ</b>	<b>2009</b>	IBA-AR(2011)02, dated 25.03.2011 C-M(2011)0094
30.	<b>REPRESENTATION ALLOWANCES</b>	<b>2010</b>	IBA-AR(2011)19, dated 30.09.2011
31.	<b>RETIRED MEDICAL CLAIMS FUND</b>	<b>2009</b>	IBA-AR(2011)18, dated 30.09.2011 C-M(2012)0009
32.	<b>RESEARCH TECHNOLOGY AGENCY (RTA)</b>	<b>2009</b>	IBA-AR(2010)36, dated 28.01.2011 C-M(2011)0044
33.	<b>SHAPE INTERNATIONAL SCHOOL</b>	<b>2010</b>	IBA-AR(2011)14, dated 30.09.2011
<b>PERFORMANCE AUDITS &amp; SPECIAL STUDIES</b>			
34.	<b>OBJECTIVE BASED BUDGETING IN NATO HQ (EVALUATIVE PHASE) (OBB)</b>		IBA-AR(2011)04, dated 23.06.2011 C-M(2010)0084
35.	<b>SPECIAL REPORT TO COUNCIL ON THE STATUS OF IMPLEMENTATION OF THE IBAN RECOMMENDATIONS RELATED TO THE INTERNAL AUDIT FUNCTION AT NATO</b>		IBA-AR(2011)08, dated 23.02.2011 C-M(2011)0009
36.	<b>SPECIAL REPORT TO COUNCIL ON THE CRITICAL SUCCESS FACTORS FOR NATO AGENCIES REFORM</b>		IBA-AR(2011)06, dated 23.02.2011 C-M(2011)0010
37.	<b>SPECIAL REPORT TO COUNCIL ON THE REFORM OF THE MEDIUM TERM RESOURCE PLAN (MTRP) PROCESS</b>		IBA-AR(2011)24, dated 28.10.2011 C-M(2010)0025
38.	<b>SPECIAL REPORT TO COUNCIL ON THE IMPLEMENTATION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS) WITHIN NATO AND THE WAY FORWARD</b>		IBA-AR(2011)29, dated 25.11.2011

**SUMMARY OF THE FINDINGS  
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## **INTRODUCTION**

The Board's financial statement audits are performed to achieve reasonable assurance that (1) the financial statements fairly present an entity's financial positions at year end and their financial performances and cash flows for the year ended are in accordance with the relevant financial rules and regulations and (2) that the statements of budget execution and the underlying transactions are in compliance with budgetary authorisations and applicable regulations.

After each financial statement audit, the Board issues an opinion on the financial statements and on compliance. The phrase "the Board issued an "unqualified" opinion" is used whenever the Board issues an opinion that the financial statements are stated fairly and that the underlying transactions conform to the rules and regulations. A "qualified" opinion means that the Board was generally satisfied with the presentation of the financial statements but that some key elements of the statements were not fairly stated or affected by a scope limitation, or that the underlying transactions were not in conformity with budgetary authorisations and regulations. A "disclaimer" is issued when the audit scope is severely limited and the Board cannot express an opinion, or when there are material uncertainties affecting the financial statements. An "adverse" opinion is issued when the effect of an error or disagreement is so pervasive and material to the financial statements that the Board concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

In July 2002, the North Atlantic Council adopted the International Public Sector Accounting Standards (IPSAS), including the accrual and going concern assumptions, as the applicable accounting standards for NATO entities with effect from the 2006 financial statements. This has in many cases led to IPSAS related observations and the restatement of financial statements as observed in the summaries below.

## **RESULTS OF AUDITS RELATING TO MILITARY COMMANDS**

### **1. ALLIED COMMAND TRANSFORMATION (ACT) GROUP 2010**

#### **Introduction**

This report covers the audit of the 2010 financial statements of the Allied Command Transformation (ACT). These statements were the fifth annual set of financial statements produced that were required to be prepared on an accruals and International Public Sector Accounting Standards (IPSAS) compliant basis, the first having been prepared for 2006. The total expenditure in 2010 amounted to approximately EUR 125 million, compared with approximately EUR 130 million in 2009.

## **Audit Highlights**

### Opinion on the Financial Statements

The Board issued an unqualified opinion on the ACT Financial Statements for the year ended 31 December 2010.

### Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2010 financial statements are, in all material respects, in compliance with authorities which govern them.

The Board made observations and recommended improvements in the following areas:

- The process of identifying accruals,
- The consolidation process and year-end closing procedures,
- Compliance with the NATO Financial Regulations (NFR) and Budget Committee (BC) decisions,
- The presentation of the consolidated financial statements,
- Observations relating to sub-commands.

## **2. HEADQUARTERS ALLIED RAPID REACTION CORPS (HQ ARRC) 2007-2009**

### **Introduction**

The Headquarters Allied Command Rapid Reaction Corps (HQ ARRC) was activated as an International Military Headquarter under NATO command and granted international status with the decision of the North Atlantic Council (PO(92)141). HQ ARRC is multinationally funded by fifteen nations. It is directly subordinated to Supreme Headquarters Allied Powers Europe (SHAPE) and may be deployed by NATO in peacetime or crisis by means of an exercise or operational tasking issued in accordance with standard NATO procedures.

The Framework Nation (United Kingdom) is responsible for providing the command, communications, administration and logistical support to HQ ARRC. Expenditure in excess of the Framework Nation responsibilities is shared by the member countries according to a pre-defined cost sharing formula based on the share of national officer establishment.

The 2007, 2008 and 2009 budgets of HQ ARRC including credits brought forward amounted to EUR 3.4 million, EUR 4.5 million and EUR 5.7 million, respectively, while expenditure against the budget for the same financial years amounted to EUR 2.0 million, EUR 1.5 million and EUR 3.3 million, respectively.

## **Audit Highlights**

### Opinion on the Financial Statements

The Board issued a qualified opinion on the 2009, 2008 and 2007 financial statements due to the following:

- The Statements of Financial Position did not report liabilities for amounts to be refunded to Nations (lapsed credits, miscellaneous income) for approximately EUR 921 thousand at 31 December 2009, EUR 950 thousand at 31 December 2008, and EUR 825 thousand as of 31 December 2007.
- Revenue in the Statements of Financial Performance were understated by EUR 921 thousand in 2009, EUR 950 thousand in 2008, and EUR 825 thousand in 2007 due to revenue being incorrectly offset by previously lapsed credits and other miscellaneous income that would also be used to fund the current year budgets.
- Expenses and revenues were improperly booked to receivables, resulting in an understatement of 2008 revenues by EUR 148 thousand and an understatement of expenses of EUR 173 thousand from 2007 through 2009. The Board was not able to determine which specific period (2009, 2008 or 2007) the EUR 173 thousand understatement of expenses relates, resulting in a scope limitation.

### Opinion on Compliance

The Board issued a qualified opinion on whether the activities, financial transactions and information reflected in the financial statements are, in all material respects, in compliance with authorities which govern them due to significant weaknesses and instances of non-compliance with regulations in relation to the following:

- A scope limitation due to, at the time of the audit, there being no complete, detailed, and reconciled audit trail in support of year-end commitment carried-forwards as of 31 December 2009, 2008 and 2007.
- Based on our testing, the Board found that a significant portion of commitments entered into by HQ ARRC in 2009, 2008 and 2007 were not in compliance with the NFR and HQ ARRC FAP requiring that such commitments be properly approved before incurrence of legal liabilities.

In addition to the above observations resulting in qualifications, the Board also made an observation relating to balances of bank accounts held in GBP at year-end 2009 and 2008 being overstated due to the use of an incorrect exchange rate.

### **3. THE COMBINED AIR OPERATIONS CENTRES (CAOCs) AND THE FINANCIAL ADMINISTRATION OFFICE - MULTINATIONAL BUDGETS 2008-2010**

#### **Introduction**

The Combined Air Operations Centres (CAOCs) were established to support NATO air operations in peacetime, periods of crises and war. The MOU based CAOCs were considered as an initial measure of the implementation of the NATO Air Command and Control System (ACCS). The transition plan to ACCS comprised the deactivation of the MOU based CAOCs, and the implementation of six new, internationally manned and common funded ACCS CAOC entities (four static CAOCs, two deployable CAOCs).

In aiming towards the reduction of the operational risks associated with this transition phase, the Military Committee agreed to an Interim CAOC Structure (ICS).

In 2008, the Northern Region ICS implementation began and three MOU CAOCs plus the deployable CAOC DET have been closed. The implementation of ICS in the Southern Region has begun, however, a formal transition plan has not been agreed yet and no MOU based CAOCs have been closed.

Originally, the ICS CAOCs were expected to stand up as NATO international entities as of 1 January 2006 and thus be common funded. Due to lack of funds in the Military Budget, among other things, it is still unknown when the ACCS CAOCs will be implemented.

#### **Audit Highlights**

The Board issued an unqualified opinion on the CAOCs and the Financial Administration Office and the BFWG Secretariat Financial Statements (including the 2010 closing financial statements of CAOCs 2 Detachment).

The Board raised seven observations during the audit. The first observation relates to non-compliance with requirements for submitting and presenting the CAOCs Financial Statements 2008, 2009 and 2010 and the second observation relates to the non-disclosure of contingent liabilities and changes in accounting policy. The Board also made an observation on non-compliance with regulations for approval of Budgetary Transfers and on non-compliance with regulations relating to carry forwards of Budgetary Commitments in CAOC1, Funderup. The fifth and sixth observation related to bank reconciliations which were not documented and reviewed and the lack of a contract with the BFWG Secretary for the period May 2008-April 2009. The seventh observation relates to the closing of the CAOC 2 Detachment accounts. The Board concluded that the closure of the CAOC 2 Detachment accounts was satisfactory.

#### **4. NATO CIVIL-MILITARY CO-OPERATION CENTRE OF EXCELLENCE (CCOE) 2007-2009**

##### **Introduction**

The Civil-Military Co-Operation Centre of Excellence (CCOE) was established in 2006 under a Memorandum of Understanding signed in September 2006. The Centre replaced the former Civil-Military Cooperation Group North Headquarters (CIMIC CGN HQ) established in 2003. The Memorandum of Understanding established the CCOE as a NATO accredited Centre of Excellence for civil-military co-operation and made provisions for its operation, funding, manning, equipment and infrastructure, as well as for its administration and logistical support. The Centre has the legal status of an International Military Organisation recognised by the North Atlantic Council, with international status pursuant to Art. XIV of the Paris Protocol.

The CCOE was originally located in Budel, the Netherlands, on the same site as the former CIMIC CGN HQ. In 2008 it was re-located to a new site at Enschede, the Netherlands.

The approved budget CCOE for financial years 2007, 2008 and 2009 was EUR 1.25 million, EUR 1.20 million, and EUR 1.07 million including the amounts carried forward, respectively. Expenditure for financial years 2007, 2008 and 2009 was EUR 0.63 million, EUR 0.76 million and EUR 0.74 million, respectively.

##### **Audit Highlights**

The Board issued an unqualified opinion on the CCOE's Financial Statements for the years ended 31 December 2007, 31 December 2008 and 31 December 2009.

The Board raised the following observations and recommendations relating to the financial statements of 2007, 2008 and 2009:

- that the CCOE Co-ordinating Committee should formally approve the retention of the balance resulting from course tuition fees,
- that the cash balance relating to accommodation and conference fees should be included as an asset and liability, and
- that the financial statements should include an additional statement of cash receipts and payments which reconciles to the cash balance at the beginning of the financial year and the balance at end of the financial year. Additionally, the financial statements should include a note explaining the Accounting Policies and explanatory notes concerning the retention of the balance from course tuition fees, and the arrangements concerning the handling of accommodation and conference fees.

## 5. INTELLIGENCE FUSION CENTRE (IFC) 2007-2009

### Introduction

The Intelligence Fusion Centre (IFC) was established in 2006 at Royal Air Force (RAF) Molesworth in the United Kingdom, under a Memorandum of Understanding (MOU) signed in October 2006. The mission of the IFC is to provide Supreme Allied Commander Europe (SACEUR) with timely, effective, full-spectrum, network-enabled intelligence in support of the planning and execution of operations.

The budgets for the years 2007, the first year of operation, 2008 and 2009 were Great Britain Pounds (GBP) 676 thousand, GBP 744 thousand and GBP 1,066 thousand respectively. Operating expenses for 2007, 2008 and 2009 was GBP 196 thousand, GBP 998 thousand and GBP 941 thousand respectively.

### Audit Highlights

#### Opinion on the Financial Statements

The Board issued a qualified opinion on the financial statements of the IFC for the years ended 31 December 2008 and 31 December 2009 because of the absence of Budget Execution Statements. The Board is not in a position to issue, and therefore will not issue, an audit opinion for the year ended 31 December 2007 as financial statements were not prepared and presented for audit. From a transparency and accountability point of view, the Board considers the non-issuance of the 2007 financial statements to be a very serious weakness. The Board believes it to be a more serious matter than receiving a modified (qualified, disclaimed or adverse opinion) audit opinion on financial statements that have been issued.

#### Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2008 and 2009 comparative financial statements are, in all material respects, in compliance with authorities which govern them.

The Board raised the following observations relating to the financial statements 2007, 2008 and 2009:

- the failure to present financial statements for 2007 in accordance with the MOU,
- the need to include Budget Execution Statements as part of the financial statements,
- the need to include a Cash Flow Statement as part of the financial statements and the need to include relevant explanatory notes to the financial statements.

## **6. JOINT CHEMICAL BIOLOGICAL RADIOLOGICAL AND NUCLEAR DEFENCE CENTRE OF EXCELLENCE (JCBRN Defence COE) 2008**

### **Introduction**

The Joint Chemical Biological Radiological and Nuclear Defence Centre of Excellence (JCBRN Defence COE) was established in 2006 in Vyskov, the Czech Republic, under a Memorandum of Understanding (MOU) signed in October 2006. The JCBRN Defence COE provides a contribution to the transformation efforts of NATO in the field of defence against chemical, biological, radiological and nuclear weapons and this is reflected in the functional relationship between HQ SACT, SHAPE and the Sponsoring Nations regarding the JCBRN Defence COE.

2008 was the first year that the JCBRN Defence COE was funded by a multi-national authorised budget of Czech Republic Koruna (CZK) 6.12 million. Expenditure was CZK 3.45 million. For 2007, the JCBRN Defence COE was funded by the Czech Republic.

### **Audit Highlights**

The Board issued a qualified opinion on the financial statements of the JCBRN Defence COE for the year ended 31 December 2008 because of a material overstatement of cash holdings (and total assets) at the end of the financial year, a material understatement of funds to be returned to nations, and overstatement of total liabilities

The Board raised the following observations and recommendations relating to the financial statements 2008:

- there was a material overstatement of Cash Holdings (and total assets) at the end of the financial year, and in future the JCBRN Defence COE Balance sheet and Breakdown of Closing Balance should accurately reflect the cash holdings at year end as recorded in the bank account and cash book,
- there was a material understatement of funds to be returned to nations, and overstatement of total liabilities, and JCBRN Defence COE should in future accurately disclose liabilities, particularly those amounts due to nations which should be taken into account when making the following year's annual Call for Funds,
- that the accounting records should include spreadsheets to include contributions called and their subsequent receipt; approved commitments (supported by authorised Commitment of Funds Request forms) and liquidation; and details of individual transfers made, supported by authorised documentation. In addition, transfers should be correctly disclosed in the Budget Execution Statement,
- that the financial statements prepared by the JCBRN Defence COE should be the primary financial statements presented to the JCBRN Defence COE (SC)

and to the Board for audit, supported by a note on the Accounting Policies, as well as an explanatory note on the status of the JCBRN Defence COE in relation to the Czech Republic law, in particular taxation laws, including VAT, and requirements for the preparation of tax accounts by a registered Czech Republic accountant.

## **7. HEADQUARTERS NATO RAPID DEPLOYABLE CORPS TURKEY (HQ NRDC-T) 2007-2009**

### **Introduction**

The Headquarters NATO Rapid Deployable Corps Turkey (HQ NRDC-T) was activated as an international military headquarter under NATO command and granted international status with the decision of the North Atlantic Council (PO(2002)140).

The approved shared budget of HQ NRDC-T for financial years 2007, 2008 and 2009 in total was EUR 5.6 million, while expenditure against the budget for the same financial years amounted to EUR 5.1 million.

### **Audit Highlights**

The Board issued an unqualified opinion on HQ NRDC-T's Financial Statements for the years ended 31 December 2007, 2008, and 2009.

The Board made the following observations:

- A confirmed bank balance is not reported in the 2008 and 2009 Financial Statements,
- Bank accounts reconciliation process needs significant improvements,
- Inaccurate comment in the 2009 Financial Statements covering letter.

## **8. HEADQUARTERS RAPID REACTION CORPS FRANCE (HQ RRC-FR) 2006-2008**

### **Introduction**

The Headquarters Rapid Reaction Corps France (HQ RRC-FR) was founded on 1 October 2006. The HQ RRC-FR is a joint command formation designed to lead an army corps-sized multinational joint unit under French, European Union (EU) or North Atlantic Treaty Organisation (NATO) command.

The approved budgets of the HQ RRC-FR for financial years ended 31 December 2006, 2007 and 2008 were EUR 1.6 million, EUR 1.9 million and EUR 1.7 million, respectively. The HQ RRC-FR did not produce any annual financial statements for the financial years

ended 31 December 2007 and 2008. The 2006 expenditure (including VAT) was EUR 0.9 million.

### **Audit Highlights**

The Board issued a qualified opinion on the HQ RRC-FR Financial Statements for the year ended 31 December 2006 because the Board was not able to determine the exact amount of the 2006 expenditures due to the fact that the expenditures also included VAT amounts.

The Board is not in a position to issue, and therefore will not issue, an audit opinion for the 2007 and 2008 Financial Statements because these financial statements were not presented for audit during the audit fieldwork dates agreed upon. From a transparency and accountability point of view, the Board considers the non-issuance of the 2007 and 2008 financial statements to be a very serious weakness. No audit assurance will be provided on any aspect of HQ RRC-FR's activities in those years. The Board believes it to be a more serious matter than receiving a modified (qualified, disclaimed or adverse opinion) audit opinion on financial statements that have been issued.

The Board made the following observations:

- 2007 and 2008 annual financial statements not produced,
- Inclusion of Value Added Tax (VAT) in expenses,
- Procurement process not in line with the Financial Administration Procedures (FAP),
- Application of the "Commit and Pay" process.

## **9. CIMIC GROUP SOUTH (CURRENTLY THE MULTINATIONAL CIVIL-MILITARY COOPERATION GROUP HEADQUARTERS (MNCG)) MULTINATIONAL BUDGET 2006–2008**

### **Introduction**

The CIMIC Group South (currently the Multinational Civil-Military Cooperation Group Headquarters (MNCG)) has been activated as an International Military Headquarter under NATO command and granted international military status in June 2005 by the decision of the North Atlantic Council in PO(2005)34. The MNCG provides the Participating Nations with an essential military capacity, to improve day-to-day multinational cooperation and training, to achieve mutual reinforcement of civil-military cooperation qualities and capabilities of the participants, to optimise operational efficiency and to limit costs.

## **Audit Highlights**

### Opinion on Financial Statements

The Board issued an adverse opinion on the MNCG's Financial Statements for the years ended 31 December 2006, 2007 and 2008 due to material misstatements in the Budget Execution Statement, in the Statement on Financial Position, in the Statement on Financial Performance and in the Cash Flow Statement. In the Board's opinion these material misstatements have pervasive effects on the financial statements as they represent a substantial portion of them.

### Opinion on Compliance

The Board issued a qualified opinion on whether the activities, financial transactions and information reflected in the financial statements are, in all material respects, in compliance with authorities which govern them due to the Budget Execution Statement weaknesses identified.

The Board made six observations related to:

- The Budget Execution Statements of the fiscal years 2006, 2007 and 2008 do not provide the data required by the NFR related to the credits committed in previous year and carried forward in these years,
- The Budget Execution Statements of the fiscal years 2006, 2007 and 2008 contain several inaccuracies related to the figures concerning the commitments and the payments made during these years,
- The Cash Flow Statement of the fiscal year 2007 contains an error that results in the cash net increase being overstated by EUR 36,191,
- The Financial Position Statements of the fiscal years 2006, 2007 and 2008 do not fairly present the financial position of MNCG at year-end,
- The Financial Performance Statements of the fiscal years 2006, 2007 and 2008 do not fairly present the financial performance of MNCG at year-end,
- The late issuance of its financial statements was not in line with the requirement of the MNCG MOU and the NFR.

## **10. NATO DEPLOYABLE CORPS GREECE (NDC GREECE) 2006-2009**

### **Introduction**

The Headquarters NATO Deployable Corps Greece (HQ NDC-GR) was activated as an international military headquarters under NATO command and granted international status with the decision of the North Atlantic Council (PO(2002)140).

The total approved budgets of HQ NDC-GR for the financial years ended 31 December 2006, 2007, 2008 and 2009 was EUR 5.12 million while total expenditure against these budgets for the same financial years amounted to EUR 3.24 million.

### **Audit Highlights**

The Board issued an unqualified opinion on HQ NDC-GR's Financial Statements for the years ended 31 December 2006, 2007 and 2008.

The Board issued a qualified opinion on the HQ NDC-GR's Financial Statements for the year ended 31 December 2009 due to the incompleteness of the financial statements.

Four issues requiring an audit observation were raised by this audit. These issues concern the:

- Incompleteness of the financial statements,
- Lack of documentation of budget transfers in 2008,
- Lack of bidding procedure in two cases in 2006,
- Weaknesses in financial and budgetary controls in 2009.

## RESULTS OF AUDITS RELATING TO THE NATO PRODUCTION AND LOGISTICS ORGANISATIONS

### 11. CENTRAL EUROPE PIPELINE MANAGEMENT AGENCY (CEPMA) 2009

#### Introduction

With effect from 1 January 1998, the NATO Council endorsed the Charter defining the structure and responsibilities of the Central Europe Pipeline Management Organisation (CEPMO).

CEPMO is tasked with managing the transport, storage, and delivery of petroleum products in Central Europe for military and non-military clients. For that purpose, CEPMO operates and maintains the Central Europe Pipeline System (CEPS), a system of pipelines, pump stations, input and delivery points, and depots. CEPMO supports Allied Joint Force Command Brunssum (JFC HQ Brunssum), with CEPS being the necessary asset. The CEPMO task is to guarantee the required military effectiveness of this asset.

Under the authority of the NATO Council, a Board of Directors (BoD) defines the general policy, missions, objectives and resources of the system. Tariffs, contracts and procedures to be applied are the joint responsibility of the Central Europe Pipeline Management Agency (CEPMA) and the National Organisations, established by the Host Nations.

Total CEPMO expenses for 2009 amounted to EUR 106.7 million.

#### Audit Highlights

The Board issued an unqualified opinion on the CEPMA Financial Statements for the year ended 31 December 2009.

The Board raised several observations and recommendations concerning the CEPMA and the CEPS organisations within Host Nations:

- Revenue not recognized (CEPMA),
- Internal audit function review (CEPMA),
- Incomplete disclosure of contingent liabilities (CEPMA),
- Accounting treatment of unearned revenue related to purchase of Property, Plant and Equipment and Inventory not in accordance with CEPMO accounting policy (CEPMA),
- Inappropriate access rights (FBG),
- Internal audit function review (FBG),
- Difference and adjustment needed in the cash reconciliation (BPO),
- Weaknesses related to the internal audit function (BPO),
- Weakness related to the management of petty cash (DPO),

- Receipts and payments overstated in the Cash-Flow Statement (DPO),
- Errors between carried forward, lapsed credits and accruals (DPO),
- Weaknesses in the booking of non payroll expenditures (DPO).

## **12. NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT AGENCY (NAGSMA) 2009**

### **Introduction**

The NATO Alliance Ground Surveillance Management Organisation (NAGSMO) was created within NATO for the acquisition of the Alliance Ground Surveillance (AGS) Core System. NAGSMO is responsible for the overall management of the AGS programme. It comprises a Board of Directors (BoD), with representatives from the 15 participating Nations and Sub Committees. It also comprises a NATO Management Agency led by a General Manager.

In September 2009, the NATO Alliance Ground Surveillance Management Agency (NAGSMA) was established after all 15 participating Nations signed the AGS PMOU. NAGSMA is responsible for the procurement of the NATO AGS core capability. The AGS core will be designed to look at what is happening on the Earth's surface to provide situational awareness before, during and, if necessary after NATO operations. It will be an integrated system consisting of an air segment, a ground segment and a support segment. The main operating base will be located at Sigonella Air Base, Italy.

### **Audit Highlights**

The Board issued an unqualified opinion on the NAGSMA Financial Statements for the three-month period ended 31 December 2009.

The Board made one observation leading to a recommendation that the agency should:

- comply fully with the disclosure requirements of IPSAS 1, 3, 20 and 24.

## **13. NATO HELICOPTER FOR THE 1990s (NH90) DESIGN AND DEVELOPMENT, PRODUCTION AND LOGISTICS MANAGEMENT AGENCY (NAHEMA) 2009**

### **Introduction**

The objective of the NATO Helicopter for the 1990s (NH90) programme is to design and develop a new transport and naval helicopter for the forces of France, Germany, Italy and the Netherlands. Portugal joined the NH-90 program in 2001 and Belgium in 2007. The NATO Helicopter for the 1990s Design and Development, Production and Logistics Management Agency (NAHEMA) is located in Aix-en-Provence in France. The agency became operational in 1992. The expenditure in 2009 amounted to EUR 566.35 million (operational) and EUR 9.2 million (administrative).

## **Audit Highlights**

The Board issued an unqualified opinion on the NAHEMA Financial Statements for the year ended 31 December 2009.

The Board made two observations leading to recommendations that the agency should:

- ensure that senior management assess the risks that the implementation and roll-out of Oracle modules does not meet NAHEMA's objectives, and designs and puts in place controls to manage the risks assessed to be significant to the agency,
- ensure that commercial and technical staff are involved in the accrual calculation process to provide additional assurance on the underlying methodology. In addition, sources of estimation uncertainty and key assumptions made in the accrual estimation process should be disclosed in the financial statements.

A separate management letter has been sent to NAHEMA management. This letter contains issues related to the International Public Sector Accounting Standards (IPSAS) disclosure requirements and prepayments requiring management attention.

## **14. NATO MEDIUM EXTENDED AIR DEFENCE SYSTEM MANAGEMENT ORGANISATION (NAMEADSMO) 2010**

### **Introduction**

The aim of the NATO Medium Extended Air Defence System Management Organization (NAMEADSMO) is to provide direction, co-ordination and execution of the MEADS Program. The MEADS is envisioned to be a tactically mobile and transportable air and missile defence system capable of countering a wide range of air threats such as cruise missiles and tactical ballistic missiles. Its Management Agency (NAMEADSMA) is based in Huntsville, Alabama, USA. The Participating Nations are Germany, Italy and the United States.

In 2010, NAMEADSMO's expenditures totalled U.S. Dollars (USD) 659 million, consisting of USD 17 million from the Administrative Budget and USD 642 million from the Operational Budget.

### **Audit Highlights**

#### Opinion on the Financial Statements

The Board issued an unqualified opinion on the NAMEADSMO Financial Statements for the year ended 31 December 2010.

### Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2010 financial statements are, in all material respects, in compliance with authorities which govern them.

The Board made one observation drawing attention to the fact that NAMEADSMA has properly disclosed the fact that the financial statements are not prepared on the going concern basis and has also stated the reasons why the entity is not regarded as a going concern. However, NAMEADSMA did not disclose, as required by paragraph 38 of IPSAS 1, *Presentation of Financial Statements*, on what alternative basis the financial statements have been prepared. The Board recommends that NAMEADSMA, in future, disclose on what alternative basis the financial statements have been prepared.

A separate management letter has also been sent to NAMEADSMA management. This letter contains issues related to the lack of presentation of comparative information in the footnotes to the financial statements requiring management attention.

## **15. NATO MAINTENANCE & SUPPLY AGENCY (NAMSA) 2010**

### **Introduction**

The mission of the NATO Maintenance and Supply Organisation (NAMSO) and its executing agency, the NATO Maintenance and Supply Agency (NAMSA), is to provide logistic support services to NATO or to its member states individually or collectively. The objective of this mission is to maximise in peacetime and in wartime the effectiveness of logistics support to armed forces of NATO member states and to minimise costs. NAMSA staff is 1,166. Expenses in 2010 were more than EUR 1.7 billion.

### **Audit Highlights**

#### Opinion on the Financial Statements

The Board issued an unqualified opinion on the restated NAMSA Financial Statements for the year ended 31 December 2010.

#### Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2010 financial statements are, in all material respects, in compliance with authorities which govern them.

#### Costs charged to MBC funded programmes.

The Board issued an unqualified opinion on the NAMSA administrative costs charged to

MBC funded programmes.

The Board had audit observations in the following areas:

- Accountability for risk management on financial reporting,
- Effectiveness of Enterprise Resource Planning Software Package (SAP) needs to be improved,
- Write-off historical errors Enterprise Resource Planning (ERP) conversion 1998-2000,
- Recovery of suppliers with a debit balance,
- Customer Financial Situation reports,
- Accounting for cost of goods sold,
- Weaknesses in validation process related to aviation service contracts,
- Purchase order issued after expiry date outline agreement,
- Funding renovation building 43/46.

A separate management letter has been sent to NAMSA management. This letter contains issues related to Human Resources requiring management attention.

## **16. NATO AIRBORNE EARLY WARNING AND CONTROL PROGRAMME MANAGEMENT AGENCY (NAPMA) 2009**

### **Introduction**

The NATO Airborne Early Warning and Control Programme Management Organisation (NAPMO) is responsible for the direction, co-ordination, and execution of the co-ordinated acquisition programme of the NATO Airborne Early Warning and Control (NAEW&C) system.

The NATO AEW&C Programme Management Agency (NAPMA) oversees the execution of the programme for NAPMO. The US System Project Office (SPO) administers contracts rendered by the NAEW&C Programme Agent (USG Agent) on behalf of NAPMA. Total NAPMA expenditure – including additions to the modernisation assets – in 2009 amounted to USD 89 million.

### **Audit Highlights**

The Board issued a qualified opinion on its audit due to a scope limitation on the value of work related to the Large Aircraft Infrared Counter Measure Projects (LAIRCM) assets in progress as at 31 December 2009. This represented additions to the asset resulting from work undertaken by the US contractor in 2007, 2008 and 2009. This is because the Board does not have access to the indirect contracting process that is used by the US Government to transform the invoices received from the US contractors into the US Government billing statements that are then sent to NAPMA. As a result, the Board is not in the position to assess that this process is either reliable or results in billings that accurately represent work performed by the US contractors.

The Board made eight observations leading to seven recommendations that the agency should:

- in conjunction with the US authorities, continue its efforts to provide the Board with sufficient evidence to support the value of all work undertaken by US contractors. Specifically, NAPMA requires information to reconcile amounts in SPO expenditure reports to work that has been delivered,
- ensure, in future, that the financial statements contain a schedule showing the value of the different elements that make up the net asset balance,
- continue to develop SAP to ensure that, in future, it can provide the data to produce the Budget Execution Statement. Furthermore, the agency should investigate and review all open obligations to ensure they are accurately disclosed in the financial statements. In addition, the agency should disclose only one amount for administrative budgetary credits in future,
- continue to develop IT controls within SAP to mitigate the risks associated with access and segregation of duties. In addition, the agency should carry out further work on the reports supporting accounting data within SAP. This is necessary to produce transparent supporting accounting data and a clear audit trail,
- with regard to a change in accounting policy for the recording of expenses related to goods and services received from Euro-Canadian subcontractors, comply with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, paragraph 34 that requires changes in accounting policies to be disclosed,
- ensure that the presentation of foreign currency revaluations on future Statements of Financial Position be changed. The agency should ensure that all revaluations of monetary assets and liabilities be imbedded in the value of those assets and liabilities. Separate line items showing the revaluation could lead to a misinterpretation of the financial statements, and
- ensure, in future, that it complies fully with the disclosure requirements of IPSAS 1, 2, 3, 4, 17, 20 and 24.

## **17. NATO CONSULTATION, COMMAND AND CONTROL AGENCY (NC3A) 2009**

### **Introduction**

The NATO C3 Agency's (NC3A) mission is to enable NATO success through the unbiased provision of comprehensive Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR) capabilities. NC3A is a part of the NATO Consultation, Command and Control Organisation (NC3O) established in

1996. Since 1 January 2000, NC3A has operated under a customer funding regime. In 2009, NC3A spent a total of Euro (EUR) 423 million.

## **Audit Highlights**

### Opinion on the Financial Statements

The Board issued a qualified opinion on the 2009 financial statements because of weaknesses in the accrual process. As a result of the weaknesses found, the Board was not able to provide audit assurance that the NATO Security Investment Programme (NSIP) and Third Party expenses and revenue and accrued payables and receivables have been adequately presented on the accrual basis for and as of the year ended 31 December 2009 and for the corresponding figures for and as of the year ended 31 December 2008.

### Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the financial statements are, in all material respects, in compliance with authorities which govern them.

The Board issued a qualified opinion on the NC3A's Financial Statements for the year ended 31 December 2009 as a result of the following:

- Weaknesses in the accrual process led NC3A to understate expenses and revenue for the year ended 31 December 2008 and receivables at 31 December 2008 by EUR 13.0 million. They also led NC3A to overstate expenses and revenue for the year ended 31 December 2009 and receivables at 31 December 2009 by EUR 7.1 million. NC3A also understated accrued payables (liability) by EUR 13.0 million at 31 December 2008 and EUR 5.9 million at 31 December 2009. As a result of the weaknesses found, the Board is not able to provide audit assurance that NSIP and Third Party expenses and revenue and accrued payables and receivables have been adequately presented on the accrual basis for and as of the year ended 31 December 2009 and for the corresponding figures for and as of the year ended 31 December 2008.
- The Board had previously issued an unqualified opinion on the 2008 financial statements. While the Board had identified weaknesses related to NSIP/Third Parties expenditure accruals process in our 2008 audit report, we had not found evidence that these weaknesses led to the material misstatements of the 2008 financial statements. During the audit of the 2009 NC3A financial statements, however, the Board found evidence of material misstatements in not only the 2009 figures but also in the 2008 corresponding figures due to the weaknesses in the accrual process.

The Board also made other audit observations in the following areas:

- **Acquisition Advances:**  
The Board found that NC3A has not yet finalised its research and performed confirmations with customers in order to agree upon the amount of the EUR 9.2 million customer advances in Third Party acquisition activity related to long term, inactive projects or projects with active status but without movement that need to be refunded to customers.
- **Operating Fund:**  
The financial statements do not provide the disclosures necessary to achieve fair presentation of the Net Assets/ Equity (Operating Fund). The Board found that the cash available in the Operating Fund to fund future deficits is limited in comparison with the total Operating Fund. As at 31 December 2009, NC3A had EUR 1.5 million of the Operating Fund's cash available to use as a buffer in the event of expected or unexpected future deficits compared to a total Operating Fund balance of EUR 12.3 million. This should be disclosed in the financial statements footnotes.
- **Deficit:**  
The Board also found that NC3A has understated the deficit and, as a consequence, overstated the Operating Fund as at 31 December 2009 by EUR 1.4 million.

## **18. NATO CIS SERVICES AGENCY (NCSA) 2009**

### **Introduction**

The NATO CIS Services Agency (NCSA) is the result of the integration of NATO's fragmented CIS service provision into one centralised organisation, thereby separating "customers" from "suppliers". NCSA was assigned the lead roles of "accept C3 capabilities, system and service provision" and "provide end-to-end information processing and exchange services."

### **Audit Highlights**

#### Opinion on the Financial Statements

The Board issued a qualified opinion on the NCSA 2009 Financial Statements.

The Board's opinion is based on the following International Public Sector Accounting Standards (IPSAS) related observations:

- The value of the CIS inventories managed by NCSA on behalf of itself or other NATO entities is not known or reported and as such, the Board is not in a position to provide assurance regarding the completeness and accuracy of inventories.

### Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the financial statements are, in all material respects, in compliance with authorities which govern them.

In addition to the qualification of its opinion, the Board raised further observations and recommendations, as follows:

- NCSA should further improve the expense recognition process with the goal to decrease the amount of adjustments to be made to NCSA's accounting records.
- Two reports provided by the NATO Maintenance and Supply Agency (NAMSA) on the commitments carried forward for delegated budgets 173 and 177 at 31 December 2009 stated different numbers amounting to a difference of EUR 0.7 million.
- The reconciliation process of the budgets delegated to NCSA to the supporting documentation from Allied Command Operations (ACO) Headquarters did not reveal to be effective, despite the procedures and instructions established by ACO for the provision of funding to supporting agencies. NCSA, in cooperation with ACO, should follow up on and improve the implementation of the up-dated financial policy. NCSA and ACO should also exchange issues of concern or issues that need further improvement on a regular basis.
- The projects on maintenance and support of the NATO Very Low Frequency Transmitter Station Rhauderfehn and on tracking, telemetry and commanding of NATO IV satellites lack updated contractual relationship with the German Federal Ministry of Defence and the Ministry of Defence of the United Kingdom. The absence of the contractual basis could lead to misunderstandings and misinterpretation of the projects' implementation conditions and provisions.
- NCSA did not always comply with the NFRs with regard to the purchasing of goods and services. NCSA should ensure that commitments are established and purchase orders are raised for all purchases in accordance with the NFRs.
- NCSA did not always comply with the NFRs with regard to the purchasing of goods and services. NCSA should comply with the NFRs and launch bidding processes according to the financial rules and regulations.
- The Budget Execution Statement for contract authorities did not disclose the approved contract authority for Military Budget Committee (MBC) Budget 185 of EUR 3.8 million and therefore, does not agree to the commitments made by NCSA for the approved contract authority.
- Table 4 and the annex S-1 revealed inconsistencies and made it difficult for the reader of the financial statements to know which numbers are correct. NCSA

should reconcile its tables and annexes before issuing the financial statements in order to avoid confusion and misunderstanding.

- NCSA did not fully comply with the disclosure requirements of IPSAS 24, Presentation of Budget Information in the Financial Statements, specifically in regards to clearly reconciling budgetary expenses to net cash flows.

## **19. NATO HAWK MANAGEMENT OFFICE (NHMO) 2009**

### **Introduction**

The NATO HAWK Production and Logistics Organization (NHPLO) was established to provide its member countries with the HAWK weapon system. The member countries were France and Italy and the executive body was the NATO HAWK Management Office (NHMO). At the end of 2009, NHMO counted a staff of 18 and its administrative expenditure was budgeted at EUR 6.4 million.

In February 2009 the Board of Directors (BOD) requested the dissolution of NHPLO to the North Atlantic Council, and on 4 May 2009, the Council approved the dissolution of the NHPLO. The NHPLO ceased its activities on 31 December 2009. A liquidation cell was established to complete all liquidation activities between 1 January 2010 and 30 June 2010. In this period, the former BOD members met as the NHPLO in liquidation Committee.

In June 2010, the liquidation cell reimbursed to the nations the available funds, in line with the decisions taken by Committee. The liquidation cell also transferred the management of open bank accounts to the Financial Controller of NATO International Staff who took over the remaining activities of NHMO in liquidation.

### **Audit Highlights**

The Board issued an unqualified opinion on the restated NHMO Financial Statements for the year ended 31 December 2009.

The Board reports audit observations in the following areas:

- Cash Flow Statement overstated by EUR 312 thousand,
- Payables overstated by EUR 225 thousand,
- Non compliant booking of receivables,
- Financial liquidation.

## **RESULTS OF AUDITS RELATING TO THE CIVIL AND MILITARY AGENCIES AND OTHER ORGANISATIONS**

### **20. AFNORTH INTERNATIONAL SCHOOL 2010**

#### **Introduction**

The Allied Forces North Europe (AFNORTH) International School in Brunssum the Netherlands provides the educational service for the children of entitled staff working in the NATO community. It comprises four independent units funded by the four founding nations of Canada, Germany, United Kingdom and the United States. Each nation supports their own education unit, but many programmes and activities are common and support the cultural exchange of the children of the different nations.

While each nation finances its own educational unit, some expenditure is common funded. This common funded budget is the subject of this audit. The approved common funded budget for 2009/2010 was EUR 4.926 million (including contingency and capital reserves). The average school population during the year was 963 students.

#### **Audit Highlights**

The Board issued an unqualified audit opinion on the financial statements of the AFNORTH International School for the year ended 31 July 2010.

The audit related only to the financial statements as regards common funds provided by the four nations.

The Board had no observations relating to the 2010 financial statements.

### **21. NATO NAVAL FORACS SENSOR AND WEAPON ACCURACY CHECK SITES (FORACS) 2009**

#### **Introduction**

NATO Naval Forces Sensors and Weapon Accuracy Check Sites (FORACS) provide a comprehensive calibration of sensors associated with the weapon systems of NATO naval units such as surface ships, submarines and anti-submarine helicopters. These tests are conducted at three FORACS ranges under the jurisdiction of Norway (NFN), Greece (NFG), and the United States of America (NFA).

The overall management of the program is the responsibility of the FORACS Steering Committee. The NATO FORACS Office (NFO), is located at the NATO Headquarters in Brussels, and serves as the executive staff of the Steering Committee. The NATO International Staff Office of Financial Control (OFC) provides the FORACS' accounting services and issues its financial statements.

Budget authorisations for the year 2009 (including brought forward) amounted to EUR 1.1 million while budget expenses amounted to EUR 0.8 million.

### **Audit Highlights**

The Board issued an unqualified opinion on the NFO's 2009 Financial Statements.

The Board formulated the following observations:

- Presentation and note disclosures not sufficient in providing a full understanding of liabilities,
- Overstatement of statement of financial performance,
- Temporary staff not reported as personnel expenses,
- Non-compliance with IPSAS disclosure requirements.

## **22. INTERNATIONAL MILITARY STAFF (IMS), NATO STANDARDISATION AGENCY (NSA) (INCL. PfP-MD-ICI-OMC) 2010**

### **Introduction**

The International Military Staff (IMS) is headed by a Director General and supports the Military Committee (MC). Acting as the executive agency of the MC, the IMS is tasked with ensuring that the policies and decisions of the MC are implemented as directed. The IMS also prepares plans, initiates studies and recommends policy on matters of a military nature.

The NATO Standardisation Agency (NSA) is a single, integrated body, composed of Military and Civilian staff headed by a Director. The mission of the NSA is to initiate, coordinate, support and administer the standardisation activities conducted under the authority of the NATO Committee for Standardisation.

The IMS centralises the Partnership for Peace (PfP) Work Programme of the IMS, the NSA, the NATO Defence College, and the NATO Research and Technology Agency.

The Mediterranean Dialogue (MD) is intended to contribute to security and stability for the Alliance by developing a better mutual understanding and dispelling misconceptions.

The Istanbul Cooperation Initiative (ICI) was launched to offer cooperation in the broader Middle East region. The aim of the ICI is to enhance security and regional stability through a new transatlantic engagement with the region. This can be essentially achieved through practical cooperation and assistance in different areas, and specific activities.

The Other Military Cooperation (OMC) budget reflects the evolving cooperation with Afghanistan, Pakistan and the African Union.

The total authorisations of the IMS, NSA, PfP, MD, ICI and OMC for the year ended 31 December 2010 were EUR 26.7 million.

## **Audit Highlights**

### Opinion on the Financial Statements

The Board issued an unqualified opinion on the IMS, NSA, PfP, MD, ICI and OMC Financial Statements for the year ended 31 December 2010.

### Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2010 financial statements are, in all material respects, in compliance with authorities which govern them.

## **23. MUNITIONS SAFETY INFORMATION ANALYSIS CENTER (MSIAC) 2009**

### **Introduction**

The Munitions Safety Information Analysis Centre (MSIAC) provides a focal point within NATO to assist national and NATO Munitions development and logistics programmes in efficiently and expeditiously addressing the problems associated with achieving Munitions Safety. As of 31 December 2009, there were 12 MSIAC Member Countries. The staff complement of the MSIAC stood at 9 persons as of the end of 2009. The NATO International Staff Office of Financial Control provides the Agency's accounting services and issues its financial statements.

Budget authorisations for the year 2009 (including brought forward) amounted to EUR 1.7 million while budget expenses amounted to EUR 1.5 million.

### **Audit Highlights**

The Board issued an unqualified opinion on the MSIAC's 2009 Financial Statements.

The Board raised the following observations:

- Bidding process not complied with the NATO Financial Regulations (NFR),
- Non-compliance with the International Public Sector Accounting Standards (IPSAS) disclosure requirements,
- Non-receipt of the Statement on Internal Control.

## **24. NATO DEFENCE COLLEGE 2009**

### **Introduction**

The mission of the NATO Defence College (NDC) is to contribute to the effectiveness and cohesion of the Alliance, through courses and other programmes designed to prepare selected officers and officials for important NATO and NATO-related appointments and disseminate awareness of NATO initiatives and interests.

The total authorisation of the NDC for the year ended 31 December 2009 was approximately EUR 8.0 million.

### **Audit Highlights**

The Board issued an unqualified opinion on the NDC's Financial Statements for the year ended 31 December 2009.

The Board had no observations to report.

## **25. NATO DEFENCE COLLEGE 2010**

### **Introduction**

The mission of the NATO Defence College (NDC) is "to contribute to the effectiveness and cohesion of the Alliance by developing its role as a major centre of education, study and research on transatlantic security issues". The activities of the NDC can be summarised into three main areas: education, research, and outreach. The NDC has a personnel establishment of 52 civilian and 92 military/nationally funded posts.

The total budgetary authorisations for the NDC for the year ended 31 December 2010 were EUR 8.5 million.

### **Audit Highlights**

#### Opinion on the Financial Statements

In our opinion, the financial statements present fairly, in all material respects, the financial position of the NDC as of 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

#### Opinion on Compliance

In our opinion, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them. The Board had no observations to report.

## **26. NATO DEFINED CONTRIBUTION PENSION SCHEME (DCPS) 2009**

### **Introduction**

The NATO Defined Contribution Pension Scheme (DCPS) applies to all staff recruited on or after 1 July 2005. It is a money purchase pension scheme with the contribution from staff and NATO.

The value of the DCPS's assets at 31 December 2009 was EUR 60.6 million. 2,174 members contributed to the DCPS in 2009.

### **Audit Highlights**

The Board issued an unqualified opinion on the NATO DCPS's Financial Statements for the year ended 31 December 2009.

Two issues requiring an audit observation were raised by this audit. These concern the following:

- Weaknesses in the preparation of pension benefit payments,
- Weaknesses in the disclosure of information on the significant accounting policies.

## **27. NATO PARLIAMENTARY ASSEMBLY (NATO PA) AND THE NATO PA PROVIDENT FUND 2010**

### **Introduction**

Since 1955, the NATO Parliamentary Assembly (NATO PA), formerly the North Atlantic Assembly (NAA), has been a forum for legislators from member countries of the North Atlantic Alliance. The work of the NATO PA is mainly financed by contributions from member countries. The contributions are based on the sharing key used for the NATO civil budget. NATO and other organisations also provide the Assembly with additional subsidies that may be designated to be spent on specific activities.

The Charter of the International Board of Auditors for NATO provides the legal basis for the Board to accept its appointment as the external auditor of the NATO PA. At the present time, all costs of the audit are paid out of the NATO Civil Budget.

### **Audit Highlights**

#### Opinion on the Financial Statements

The Board issued an unqualified opinion on the NATO PA Financial Statements and the NATO PA Provident Fund for the year ended 31 December 2010.

### Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the financial statements are, in all material respects, in compliance with authorities which govern them.

The Board did not raise any observations to be included in the audit report.

## **28. NATO PROVIDENT FUND 2009**

### **Introduction**

The NATO Provident Fund provides retirement benefits to civilian staff who joined NATO before 1 July 1974, and who are not members of the NATO Pension Scheme.

The value of the Fund's assets at 31 December 2009 was EUR 47 million. As at that date, there were 111 members contributing to the Fund.

### **Audit Highlights**

The Board issued an unqualified opinion on the Provident Fund's Financial Statements for the year ended 31 December 2009.

The Board made one observation on the incorrect disclosure and recording of contributions and redemptions for December 2009 and on the non-disclosure of information on management fees in the Statement of Changes in Net Assets for Benefits. The Board also made an observation on the non-submission of the Statement on Internal Control.

## **29. NEW NATO HQ 2009**

### **Introduction**

At the Washington Summit in April 1999, the Heads of State and Government of the NATO countries formally decided to build a new NATO Headquarters in Brussels to meet the Alliance's needs in the twenty-first century. The North Atlantic Council, upon recommendation of the Civil Budget Committee, approves the budget for the new NATO Headquarters. It is funded from national contributions based on a specific cost-share agreement among the NATO nations. Budget authorisations for 2009, which is the tenth operational year of the project, total EUR 32.5 million, of which EUR 12.1 million relates to the 2009 budget and EUR 20.4 relates to credits brought-forward from prior year budgets.

The New NATO Headquarters project is managed in accordance with the principles of the NSIP procedures and Belgium is the Host Nation. The estimated date for

completion of the project is 2015 with an overall cost of EUR 1.0 billion.

### **Audit Highlights**

The Board issued an unqualified opinion on the financial statements of the New NATO Headquarters' project for the year ended 31 December 2009.

The Board made the following observations:

- Non-disclosure of uncertainty related to estimation of Concept Design Team (CDT) costs recorded in fixed assets in progress and liabilities,
- Errors of presentation in the annex "Statement for Construction in Progress Calculation",
- Non recording of "invoices to receive" from Project Management Team (PMT) in payables and unearned revenues,
- Non recording of payables to suppliers (other than PMT).

## **30. REPRESENTATION ALLOWANCES 2010**

### **Introduction**

The International Board of Auditors for NATO (Board) audited the Representation Allowance expenditures of senior NATO officials for the year ended 31 December 2010. The Board conducted its audit in accordance with the provisions set by the Permanent Representatives in letter SG/80/158, dated 21 March 1980, signed by the Secretary General, the Director of the Secretary General's Private Office letter DC(2009)0175, dated 14 December 2009 and with further clarifications provided by the Board in its letter IBA-C(98)67, dated 24 June 1998.

### **Audit Highlights**

The Board found a significant improvement compared to 2009 in terms of compliance with the regulations on Representation Allowance.

In general, the Representation Allowance expenditures for 2010 have been reported by the recipients in compliance with the Permanent Representatives' accountability requirements. The Board recommended that the Assistant Secretary General, Executive Management Division, remind the recipients of the related provisions.

## **31. RETIRED MEDICAL CLAIMS FUND 2009**

### **Introduction**

Qualifying NATO retirees are permanently entitled to the reimbursement of certain medical expenses. The reimbursements are provided via private medical insurance. NATO has a contract with an insurance company to provide for the Continued Medical Coverage (CMC) of former staff.

The Retirees Medical Claims Fund (RMCF) was established in 2001. The fund is intended as a reserve to finance the future medical insurance premiums for NATO retirees who reached the age of 65 after 1 January 2001. The fund has a Supervisory Committee established to oversee the management of the fund. The Committee meets at least twice a year. The fund is managed by a private investment company. At the end of 2009 the fund manager held EUR 136 million on behalf of NATO.

### **Audit Highlights**

The Board issued an unqualified opinion on the RMCF's 2009 Financial Statements.

The Board made five observations on the RMCF's 2009 Financial Statements concerning:

- Financial statement footnotes do not disclose the existence of the potential revenue related to insurance company profit participation,
- Other receivables and increases to net assets not recorded,
- Weaknesses in the Statement of Changes in Net Assets Available for Benefits,
- Missing relevant information in the notes,
- Late publication of the financial statements.

## **32. NATO RESEARCH AND TECHNOLOGY AGENCY (RTA) 2009**

### **Introduction**

The NATO Research & Technology Organisation (RTO) is a NATO subsidiary body created within the framework of the North Atlantic Treaty. Its Charter was approved by the North Atlantic Council in December 1997 and became effective 1 January 1998. Its mission is to conduct and promote co-operative research and information exchange, to support the development of national defence research and technology, to maintain a technology lead, and to advise NATO decision-makers.

The RTA total authorisations (both MBC and CBC funded) for 2009 amounted to approximately EUR 6.5 million.

## **Audit Highlights**

The Board issued an unqualified opinion on the financial statements of RTA for 2009.

The Board had no observations to report.

### **33. SHAPE INTERNATIONAL SCHOOL 2010**

#### **Introduction**

The Supreme Headquarters Allied Powers Europe (SHAPE) International School (SIS) provides schooling for dependants of the SHAPE community. The school comprises 15 school units. Nations determine the curricula of their national units, pay their own teachers, and provide supplies. This expenditure is accounted for and audited nationally. Currently, the SIS has about 2,200 students.

The SIS's General Services Unit (GSU) costs are internationally funded by contributions from member countries. These contributions mainly depend on the number of nationals attending the school. The GSU budget for 2010 was EUR 4.5 million.

#### **Audit Highlights**

##### Opinion on the Financial Statements

The Board issued an unqualified opinion on the General Services Unit of the SHAPE International School for the year ended 31 December 2010.

##### Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the financial statements are, in all material respects, in compliance with authorities which govern them.

This audit has identified two observations related to the lack of timely invoicing related to the electricity costs and to the lack of internal audit of the SHAPE International School accounts.

## PERFORMANCE AUDITS AND SPECIAL STUDIES

### 34. OBJECTIVE BASED BUDGETING (OBB) IN NATO HQ (EVALUATIVE PHASE)

#### Introduction

Objective Based Budgeting (OBB) is a management methodology that links budget allocations to specific objectives and provides performance measurement. OBB is designed to focus management on outputs to be achieved and is expected to enhance the scrutiny of decision making. The Board audited the implementation of OBB in NATO IS, IMS, ACO and ACT. A first report has focussed on the description of OBB in NATO, together with international benchmarking information. This second report focuses on the evaluation of OBB implementation in NATO and possible ways ahead.

#### Audit Highlights

As noted in the descriptive report very different approaches to OBB have been considered within NATO.

The resource committees do not have a relevant and reliable OBB framework for the Military Budget as (1) no performance information is associated with the budget objectives and (2) in most cases more than 95% of military budgets are allocated to one single objective.

The situation is quite different with the civil budget as its OBB framework is more developed and gives a better political perspective than an input-based presentation. However, this framework cannot be used to its full extent as no performance information is associated with it.

At management level the current OBB products are not considered reliable and, or comprehensive enough to support decision making although it may ease budget execution in the International Staff. Only ACT has developed a comprehensive methodology with the strong support of senior management although its approach is closer to a standard project management methodology than to an actual OBB. In other entities the OBB process, sometimes representing a considerable amount of work, was not used for internal decision-making.

The Board did not identify strong and coherent expectations and direction at senior management and governing committees' level regarding the evolution of OBB. While the Secretary General fosters the "promotion of the Objective based Budgeting system NATO-wide" in his Civil Budget Strategic Guidance 2012-2016, the Budget Committee suspends "its trial for the use of Output based budgeting for 2012". At management level, only ACT senior management was fully committed to the evolution of its management mechanism, but this management methodology was partially disconnected from an objective based budget.

The current evolutions that could support an OBB system in the future in the IS or in the NMAs still rely on internal middle management initiatives and need close guidance and monitoring from the highest levels of the entities.

In addition, benchmark information highlighted the difficulties to establish a meaningful performance management system in an environment such as NATO. The measurement of political outcomes and the integration of performance information into management systems were very challenging at central government level. The difficulties could be exacerbated in international organisations where the setting up of common objectives could be more demanding.

Budgetary frameworks should be commonly defined between the RPPB and the NMAs and the IS respectively for the Military and Civil Budgets; this would include:

- Simple performance and budget/cost allocation associated to the highest level objectives, and
- Reporting of performance results and cost allocation in the financial statements.

Flexibility should be given to each entity's management to develop its own performance management approach. The decision to associate lower levels of the OBB framework with performance information should take into account:

- The need to link potential lower level frameworks to high level objectives,
- Management willingness and capacity to identify SMART objectives in their area of responsibility and to use performance information in decision making processes.

Contingent on the capacity and willingness of NATO to fulfil the other implementation recommendations from the report, the Council should endorse formally the implementation of OBB for the Military Budget, as it has done for the Civil Budget.

## **35. SPECIAL REPORT TO COUNCIL ON THE STATUS OF THE IMPLEMENTATION OF THE INTERNAL AUDIT FUNCTION IN NATO**

### **Introduction**

In December 2005, the Board followed up on a previous review in 1996 (C-M(96)52 & IBA-AR(96)01) of the Internal Audit function in NATO. The Board's follow-up report (C-M(2007)0019 & IBA-AR(2006)004) made the following recommendations regarding the internal audit function in NATO:

- (1) NATO should develop a common core Internal Audit mandate for all NATO organisations and adopt the Standards of the Institute of Internal Auditors to be applied within NATO.

- (2) Direct and permanent access to senior management should be granted to internal auditors. NATO entities should establish an audit committee that is independent from management and that has functional responsibility for internal audit.
- (3) Internal auditors should be involved in the identification, evaluation, and improvement of risk management and control systems.
- (4) Independence is an essential attribute and internal auditors should not be assigned responsibility for duties that they may subsequently have to audit.
- (5) Council should consider extending the application of the Guidelines for Corporate Governance to the IS and the military commands. These guidelines contain very specific provisions on the Internal Audit function.

The Board is providing this special report to the Council in response to the tasking arising from C-M(2009)0152-AS1 in which the Board was asked to “*produce an annual report on the implementation of the IBAN recommendations*” from “*Annex 2 to C-M(2007)0019.*”

This special report provides information on the status of implementation of recommendations 2, 3, and 4 noted above in NATO bodies. It does not include an examination of the first and fifth recommendation as their implementation is dependent on decisions of the Council.

## **Audit Highlights**

### **Status of Implementation of Recommendation (2)**

The Board found that all internal auditors of the entities surveyed have access to senior management in their organisations. However, the Board is concerned about the potential weakening of the internal audit function in Allied Command Operations (ACO).

Of the entities surveyed none had an audit committee that is independent from management and that has functional responsibility for internal audit. The Board is concerned that no NATO entities have implemented the Council decision in regards to the guidance related to Audit Committees to either establish such a committee or to allocate the role to an appropriate Finance Committee.

### **Status of Implementation of Recommendation (3)**

Of the eleven entities surveyed, eight had internal auditors that indicated they are involved in the identification, evaluation, and improvement of risk management and control systems. The Board is satisfied with the general progress of the implementation of this recommendation, but would like to see all internal auditors effectively performing this function as recommended.

## **Status of Implementation of Recommendation (4)**

In general, the Board's survey found that, for the most part, internal auditors within NATO are not assigned responsibility for duties that they may subsequently have to audit. The Board is satisfied in regards to the implementation of this recommendation.

## **Conclusion**

A robust and independent internal audit function is an important component for more effective financial management, accountability, and transparency in NATO. While the general findings of the Board's survey are positive in regards to the status of the implementation of the Board's recommendations, the Board is concerned to see the weakening of the internal audit function in ACO. In addition, the Board is concerned by the fact that no entity surveyed had a functioning audit committee as recommended by the Council in its *Guidelines for the Corporate Governance of NATO Organisations* (C-M(2005)0087).

## **36. SPECIAL REPORT TO COUNCIL ON THE CRITICAL SUCCESS FACTORS FOR NATO AGENCIES REFORM**

### **Introduction**

In accordance with Article 17 of its Charter, the Board is providing this special report with the aim of drawing Council's attention to critical factors that should be addressed for a successful Agencies Reform process. Drawing on the Board's corporate knowledge based on its financial and performance audit work and best practice, the Board identified and developed a number of critical success factors where NATO is facing particular challenges in the NATO Agencies Reform. One challenge is to effectively implement Council's decision to reform NATO Agencies. This paper highlights key issues to consider in facing this challenge to obtain full benefits of the NATO Agencies Reform, but is not intended to be an exhaustive analysis.

### **Audit Highlights**

This audit report is classified **NATO RESTRICTED** and its detailed findings and recommendations cannot be presented in this report.

The success of the NATO Agencies Reform will be measured on whether it achieved the specific goals agreed by Council. Developing a feasible, clear and measurable implementation plan is essential for a successful reform. Based on its experience auditing the Agencies and relevant international best practice, the Board identified several potential risks which could impede a successful Agencies Reform. In addition, the Board identified critical success factors that could help to mitigate these risks.

## **37. THE REFORM OF THE MEDIUM TERM RESOURCE PLAN (MTRP) PROCESS**

### **Introduction**

In accordance with Article 17 of its Charter, the International Board of Auditors for NATO (the Board) is providing this special report to the North Atlantic Council with the objective of assessing ongoing reform efforts related to the resource planning process. Drawing on an analysis of documents, meetings with the main MTRP process stakeholders, and best practices, the Board identified a number of areas where improvements to inputs, outputs and outcomes of the MTRP are already noticeable. The Board also developed areas where attention needs to be paid in the future for this resource planning process to deliver its full intended effect.

### **Audit Highlights**

The Board found that the awareness on resource planning has increased over recent years. Resource planning is a living process and much has been done at all stages of its development to enhance its effectiveness. The Board found that progress in terms of data reliability for the NSIP, consolidated inputs from the NMAs or overall guidance on the procedure, is noticeable. However, improvement is still needed regarding the reliability of planning data, notably for the manpower resource pillar. In addition, the MTRP process and outcomes are still primarily budget oriented and a more programmatic approach to resource planning should be fostered.

In the Board's opinion, a programmatic approach to planning should focus on the balance between requirements and resources and would require the following elements:

- Coherency and connections between the planning formats (capacity framework) and the budgetary format (budget groups),
- Association of resources to requirements for the whole planning period, and
- The presentation of different scenarios for requirements depending on different available resources option.

The Board considers that effective resource planning is a critical factor contributing to a coherent and transparent resource management system. The MTRP is a necessary planning tool, whose significance should increase in the future given the financial constraints of the nations and the dynamic NATO environment.

Ultimately, the resource planning process suffers from a lack of clear governance which leads to the weaknesses noted in the Board's report. If any planning process is to succeed the nations should own the planning processes and give clear guidance on their expectations in terms of the planning framework, scope, data aggregation and outcomes.

## **38. ASSESSING THE IMPLEMENTATION OF IPSAS WITHIN NATO BODIES AND THE WAY FORWARD**

### **Introduction**

Council adopted accrual based IPSAS as NATO's financial reporting framework in 2002 with a view to implementing the standards in the financial year 2006. The objective of IPSAS was to improve the harmonisation and consistency of accounting and financial reporting NATO-wide, while there were other anticipated potential benefits such as improved resource and asset management within NATO.

The financial year 2011 represents the passing of the five-year transition period that NATO bodies were permitted before being required to comply with the requirements of *IPSAS 17 – Property, Plant and Equipment*. Many NATO bodies are currently not in a position to adhere to the requirements of IPSAS 17 and both the Resource Policy and Planning Board and the Budget Committee are actively seeking ways forward to address this.

This report summarises issues in relation to the management of IPSAS implementation within NATO and makes a number of recommendations, which if implemented, could better ensure that IPSAS are used as an effective financial governance tool within NATO.

### **Audit Highlights**

The Board's audit concluded that while there have been improvements in the consistency of financial reporting amongst NATO bodies there remain significant differences in the financial reporting of NATO bodies. In addition, the Board has concluded that most of the anticipated potential benefits of IPSAS have also not been attained.

The Board's audit found that the implementation of IPSAS within NATO bodies was not performed in a structured, methodical and consistent way across NATO. The Board's opinion is that the implementation of IPSAS should have been coordinated by a central team responsible for ensuring consistency in interpreting and applying the standards; this could have led to better acceptance of IPSAS within NATO.

The implementation of IPSAS was further constrained by a lack of budget. This "zero-cost" approach was unrealistic considering that the move to IPSAS required interpreting and applying a more complex financial reporting framework and necessitated IT financial accounting systems enabled to account on an accruals basis.

The Board found that IPSAS were proposed as NATO's financial reporting framework by a working group made up of preparers of financial statements which did not clearly identify who the intended users of the financial statements were and what were the information needs of those users.

The Board noted that NATO bodies are increasingly isolated amongst international organisations in that they do not publicly make available their financial statements. This means that potential users of NATO financial statements, such as taxpayers who fund NATO's operations, have no means through which to hold NATO financially to account.

The Board found that NATO bodies' financial statements are not consistently being used to hold management to account for resource allocation decisions implemented by them. It is considered by some in the NATO community that the Board itself is the only user of NATO bodies' financial statements and that the Board's audit reports provide assurance as to the design and operational effectiveness of internal control system; both of these assumptions are incorrect.

The Board found that many NATO bodies are currently not in a position to account for assets in light of *IPSAS 17 – Property Plant and Equipment* which will require opening balance asset positions to be given as from 1 January 2011. Additionally, *IPSAS 31 – Intangible Assets* may require significant work by NATO bodies. The Board is concerned that some NATO bodies are unable to establish their asset positions. While the Board acknowledges there are real difficulties in some bodies establishing their asset positions, the Board's opinion is that all NATO bodies should know what asset base they control, the location of its assets and condition of those assets. An approach to asset management based on risk management would assign a value to an asset because this will help management decide on how much resource should be employed to manage the asset; in such a scenario asset accounting would result from strong asset management.

The Board's opinion is that the original objective of IPSAS and the anticipated benefits have not yet been achieved but that they remain sensible and achievable. The Board has made nine recommendations which if implemented will lead to improved accountability and stronger financial governance within NATO.

**AUDIT UNIVERSE AND DIRECT COST OF THE AUDIT  
IN 2011**

**AUDIT UNIVERSE AND DIRECT COST OF THE AUDIT IN 2011**

<b>BODIES</b>	<b>Audit Universe in 2011 Million EUR (1)</b>	<b>Auditor Time (days) (2)</b>	<b>Salary + Travel Cost 2011 EUR (3)</b>
<b>AGENCY FINANCIAL</b>			
ACO Group	1,273.10	320.65	238,776
ACT Group	125.00	139.45	103,841
IFC	2.14	7.79	5,801
JCBRN	0.41	16.99	12,651
CAOCs	12.74	42.26	31,470
CEPMO	118.40	161.11	119,969
NACMO	56.00	82.46	61,403
NAGSMA	5.47	26.62	19,821
NAHEMO	550.80	38.51	28,674
NAMA	101.17	81.26	60,513
NAMEADSMO	455.96	28.46	21,191
NAMMO-NEFMO-NETMA	5,570.00	223.39	166,349
NAMSO	1,708.00	226.65	168,777
NAPMO	63.83	67.10	49,970
NBA	3.90	15.01	11,176
NC3A	418.00	206.12	153,491
NCSA	193.25	102.92	76,641
NHMO Liquidation	3.80	12.74	9,486
RTO	5.39	15.29	11,385
AFNORTH SCHOOL	7.77	21.10	15,711
AGS3	-	5.10	3,798
DCPS	93.30	24.92	18,555
FORACS	0.85	22.65	16,865
IMS (Incl. NSA, PfP, MD)	23.94	30.23	22,513
IS	154.90	62.93	46,861
IS New HQ	18.60	53.22	39,634
IS Staff Centre	-	2.12	1,578
MSIAC	1.22	16.99	12,651
NAMFI	9.78	28.74	21,400
NADEFCOL	9.92	18.41	13,708
NPA	3.74	17.56	13,075
PENSION SCHEME	129.92	72.76	54,184
PROVIDENT FUND	34.92	13.94	10,383
REP. ALLOWANCE	0.18	16.71	12,442
RMCF	136.00	28.88	21,504
SHAPE SCHOOL	3.10	16.99	12,651
<b>Subtotal</b>	<b>11,295.50</b>	<b>2,268.01</b>	<b>1,688,900</b>
<b>NSIP FINANCIAL</b>			
Annual File Review		15.95	11,874
ACO	4.41	15.02	11,184
BELGIUM	0.10		
CEPMO	11.53	7.13	5,311

**AUDIT UNIVERSE AND DIRECT COST OF THE AUDIT IN 2011**

<b>BODIES</b>	<b>Audit Universe in 2011 Million EUR (1)</b>	<b>Auditor Time (days) (2)</b>	<b>Salary + Travel Cost 2011 EUR (3)</b>
DENMARK	11.72	19.33	14,392
ESTONIA	28.51	26.27	19,564
GERMANY	41.88	54.04	40,244
GREECE	35.53	35.84	26,691
HUNGARY	0.01		
ITALY	15.49	10.51	7,828
LITHUANIA	-	3.01	2,241
NACMA	22.22		
NAMSA	2.70	14.26	10,621
NC3A	15.69	37.16	27,668
NORWAY	12.23	11.64	8,667
Portugal	3.51	12.01	8,943
SPAIN	12.75	11.07	8,242
TURKEY	48.08	13.14	9,782
UNITED KINGDOM	7.00	8.63	6,426
UNITED STATES	130.58	56.30	41,922
<b>Subtotal</b>	<b>403.94</b>	<b>351.30</b>	<b>261,600</b>
<b>PERFORMANCE AUDITS</b>			
IPSAS		215.35	160,363
OBB		27.97	20,830
Capability Package		237.65	176,971
Agency Reform		125.60	93,528
Cash Holding		11.36	8,461
Resource Reform		52.46	39,062
<b>Subtotal</b>		<b>670.39</b>	<b>499,214</b>
<b>STUDIES</b>			
TeamMate-IDEA		6.87	5,118
Agency Manual Revision		46.55	34,662
<b>Subtotal</b>		<b>53.42</b>	<b>39,780</b>
<b>SUPPORT TO BOARD</b>		<b>208.29</b>	<b>155,106</b>
<b>ADMINISTRATION</b>		<b>219.28</b>	<b>163,289</b>
<b>TRAINING</b>		<b>211.39</b>	<b>157,414</b>
<b>GENERAL TOTAL</b>		<b>3,982.08</b>	<b>2,965,303</b>

Column (1)

Represents the total amount of expenditures audited by the Board in the case of Agencies (and this may represent more than one year in the case of multi-year audits), or the NSIP amounts audited during 2011. For the NSIP, the amounts for territorial HN represent the amount audited in 2011; the amount for agencies represent the amount certified by the Board in 2011.

Column (2)

Represents the number of staff days expended by the Board for the audit during 2011.

Column (3)

Represents the direct cost of the audit to the NATO Civil Budget, including remuneration and a notional pension/leaving allowance amount of auditors and travel cost of auditors and Board Members. It does not contain the annual cost of support staff amounting to KEUR 607.8 and the salaries and allowances of Board Members that are at a national charge.

## INTERNATIONAL BOARD OF AUDITORS FOR NATO (IBAN)

### ANNUAL PERFORMANCE PLAN 2012

#### INTRODUCTION

The International Board of Auditors for NATO (IBAN) is the independent external auditor of NATO. Its primary function is to enable the North Atlantic Council and the governments of member countries to satisfy themselves that common funds have been properly used for the settlement of authorised expenditures. The IBAN carries out financial, compliance, and performance audits in the various NATO bodies and certifies the expenditure related to the NATO Security Investment Programme (NSIP). The IBAN's vision is to be the respected voice of accountability and performance evaluation within NATO. The core values of the IBAN are *Independence*, *Integrity* and *Professionalism*.

This annual performance plan for 2012 is based upon the goals and objectives identified in the 2010-2014 strategic plan and establishes which objectives and strategies will have priority during 2012. It includes key performance indicators and targets for the various objectives to be achieved during 2012.

The schedule of annual audit responsibilities for Board Members and auditors for 2012 is distributed separately.

#### **GOAL 1: STRENGTHEN ACCOUNTABILITY AND CORPORATE GOVERNANCE WITHIN NATO**

The IBAN contributes to the strengthening of accountability and corporate governance within NATO in a number of ways, including through its financial audits and specific reviews of matters closely related to accountability and corporate governance, such as internal control. While financial audits are generally performed on an annual or multi-annual basis, specific reviews are performed on more of an ad-hoc basis as necessary.

##### **Objectives and Performance Measures**

The IBAN's objectives related to Goal 1 are shown below.

##### **Objective 1: Develop Risk-Based Audit Methodology**

Strategy 1.1 – Ensure that the improvements made to the risk-based audit methodology are clearly defined and documented to ensure consistent application.

Strategy 1.2 – Establish and follow an implementation schedule for the roll-out of the improved risk-based audit methodology.

Strategy 1.3 – Periodically re-assess the application of the improved risk-based audit methodology in order to closely monitor its effectiveness.

**Objective 2: Improve audit efficiency and effectiveness**

Strategy 2.1 – Implement the improved risk-based audit methodology (see above).

Strategy 2.2 – Increase cooperation with NATO internal auditors.

Strategy 2.3 – Develop practical steps in order to improve the timeliness and content of our audit reports.

Strategy 2.4 – Develop more efficient processes for the audits of small entities and employee benefit plans.

Strategy 2.5 – Introduce a step-by-step peer review program.

**Objective 3: Contribute to the development of a sound and consistent financial reporting environment**

Strategy 3.1 – Promote further consistency in the application of accounting standards and the presentation of financial statements.

Strategy 3.2 – Perform more thorough assessments of the internal control environments and provide more comprehensive feedback on their operation.

Strategy 3.3 – Be proactive in the implementation of Property, Plant and Equipment accounting standards.

**Objective 4: Enhance relationships with key stakeholders**

Strategy 4.1 – Offer/provide more advice on subject matter expertise to the various stakeholders (NFRs, IPSAS, good governance in the public sector, etc.).

Strategy 4.2 – Seek more thorough understanding of stakeholders’ needs/expectations.

Strategy 4.3 – Explain and promote interim audit as part of the risk-based audit methodology.

The associated performance measures and targets to be used to evaluate the achievement of the objectives are shown in the table below.

<b><i>Objective</i></b>	<b><i>Key Performance Indicator</i></b>	<b><i>Target</i></b>
<i>Develop Risk-Based Audit Methodology</i>	Implement the Project Management Plan for the Risk Based Audit Approach in 4 entities by end 2012.	100%
<i>Improve audit efficiency</i>	Percentage of observations and	75%

<b>Objective</b>	<b>Key Performance Indicator</b>	<b>Target</b>
<i>and effectiveness</i>	recommendations settled/closed within a 3 year period of the report date.	
	Percentage of audits completed by scheduled milestones for: 1. Planning 2. Fieldwork 3. Workpaper Review 4. Reporting	80%
<i>Contribute to the development of a sound and consistent financial reporting environment</i>	Attend key meetings of the AHWG of Financial Controllers and IPSAS Working Group.	100%
<i>Enhance relationships with key stakeholders</i>	Attend key meetings of NATO resource committees (RPPB, BC, IC) and agency Boards of Directors.	100%

## **GOAL 2: ENHANCE MANAGEMENT AND ENSURE ACCOUNTABILITY OF THE NATO SECURITY INVESTMENT PROGRAMME (NSIP)**

The NATO Security Investment Programme provides the common funding for the acquisition of capabilities that are required by the NATO Strategic Commanders to complete their missions. The funding is made available to NATO Nations, Agencies and Commands, all acting as procurement agent for the acquisition of these capabilities. The NSIP is managed by the Infrastructure Committee.

### **Objectives and Performance Measures**

The IBAN's objectives related to Goal 2 are shown below.

#### **Objective 1: Improve NSIP management**

Strategy 1.1 – Implement performance audits/studies/reviews on the efficiency and effectiveness of NSIP management processes, and on the economy, efficiency and effectiveness of delivering significant specific NSIP outputs.

Strategy 1.2 – Formulate independent advice to the Investment Committee on policy initiatives and NSIP management.

#### **Objective 2: Provide assurance of NSIP accountability**

Strategy 2.1 – Provide assurance on NATO Bodies' annual financial reporting concerning their NSIP funding.

Strategy 2.2 – Provide certificates of projects' final financial acceptance.

Strategy 2.3 – Contribute to the accelerated closure of the Slice Programme through tailored NSIP mission policy (Nations).

Strategy 2.4 – Encourage the finalisation of partially audited and/or inspected projects (Nations).

Strategy 2.5 – Actively monitor the auditable projects (Nations).

Strategy 2.6 – Examine the application of the Board’s axing authority.

Strategy 2.7 – Reconsider the role of IBAN in the provision of assurance for the NSIP accountability.

**Objective 3: Improve audit efficiency and effectiveness**

Strategy 3.1 – Assign responsibility for specific NSIP Nations and NATO Bodies to Board Members and staff.

Strategy 3.2 – Document national NSIP implementation framework (Organisation, legislation, procedures).

Strategy 3.3 – Consolidate Board NSIP audit policies into a single policy document.

Strategy 3.4 – Consolidate the administrative procedures, instructions and working documents into an updated NSIP Audit Manual.

The associated performance measures and targets to be used to evaluate the achievement of the objectives are shown in the table below.

<b>Objective</b>	<b>Key Performance Indicator</b>	<b>Target</b>
<i>Improve NSIP management</i>	Implement reviews of NSIP management issues or outputs delivered.	1 review per year
<i>Provide assurance of NSIP accountability</i>	Reduce the number of operationally completed and technically inspected projects per nation.	15 or less per nation
<i>Improve audit efficiency and effectiveness</i>	Programme audits within 6 months of national requests.	80%
	Increase the ratio of audited and certified amounts to resources used (time spent).	EUR 400M per staff-year

### **GOAL 3: CONTRIBUTE TO EFFICIENT, EFFECTIVE AND ECONOMICAL OPERATIONS AND ACTIVITIES IN NATO**

The IBAN audit mandate in its Charter includes performance auditing of the operations of NATO bodies. Such audits may cover activities of a specific NATO body or a specific NATO programme or a crosscutting function, programme, or operation, involving several NATO bodies.

IBAN will carry out its performance audit mandate with a view to provide independent analysis and evaluation to the Council on the achievement of NATO objectives and make recommendations that lead directly to process and service improvements and, whenever possible, to optimise value for money while delivering required outputs.

#### **Objectives and Performance Measures**

The IBAN's objectives related to Goal 3 are shown below.

#### **Objective 1: Evaluation of the achievement of objectives by a specific NATO body, operation or project**

Strategy 1.1 – Attracting SAs interest in performance auditing done by IBAN and seeking their assistance in specific training, and short-term voluntary staff contributions for specific audits.

Strategy 1.2 – Enhancing IBAN Performance Audit Handbook, being guided by INTOSAI standards and drawing on existing IBAN manual as well as handbooks of national audit institutions.

Strategy 1.3 – Assigning a specialist on performance audit methodology to assist in the audit design and preparation.

Strategy 1.4 – Developing methods of evidence collection as well as statistical and other forms of analysis by way of external training and recommended learning.

#### **Objective 2: Recommendations for optimising of the use of material and financial resources while delivering outputs at required quality**

Strategy 2.1 – Hiring external consultants and/or specialists to obtain additional competence commensurate with the nature, scope and complexities of the audit task.

Strategy 2.2 – Increasing staff resources assigned for performance auditing from the current 11% to 20% by the end of the period covered by this Strategic Plan.

**Objective 3: Focus on priority issues along with the balanced use of internal capabilities**

Strategy 3.1 – Enhancing relationship with stakeholders and clients by early notification of IBAN intentions, non-binding consultation of audit areas/topics and informing on audit progress.

Strategy 3.2 – Drawing on risk-based financial audit approach and client risk management process to identify potential areas/topics for performance audit.

The associated performance measures and targets to be used to evaluate the achievement of the objectives are shown in the table below.

<b>Objective</b>	<b>Key Performance Indicator</b>	<b>Target</b>
<i>Evaluation of the achievement of objectives by a specific NATO body, operation or project.</i>	Revise IBAN performance audit guidance and TeamMate structure by 01 January 2013.	100%
	Get assistance from two SAIs for 2012 performance audits.	100%
<i>Recommendations for optimising of the use of material and financial resources while delivering outputs at required quality</i>	Issue at least two performance audits per year with recommendations to improve efficiency, effectiveness, and/or economy.	100%
	Increase staff resources devoted to performance audit to 15%.	100%
<i>Focus on priority issues along with the balanced use of internal capabilities</i>	Generate at least one performance audit per year drawing on risk-based financial audit approach and/or client risk management process to identify topics for performance audit.	100%

**GOAL 4: DEVELOP IBAN AS AN INNOVATIVE AND PROACTIVE AUDIT ORGANIZATION**

Goals 1 to 3 signify IBAN’s level of ambition to become a creative organization, i.e. one that is conscious and forward-looking to developments and changes in its operational environment, is driven by internal development to be ready to meet emerging challenges, and aspires to contribute to improvements and reforms in NATO as a whole.

The IBAN is aware of changes in its strategic and operational environment, which are driven by new security challenges faced by the Alliance. Those challenges bring an increased demand for efficiency and effectiveness of operations of NATO bodies in conditions of limited resources. The IBAN needs to be innovative and proactive to fulfil its unique and important role in evaluating operations and activities of all organisations NATO-wide and holding them accountable to their governing bodies.

## **Objectives and Performance Measures**

The IBAN's objectives related to Goal 4 are shown below.

### **Objective 1: IBAN as a working-place that facilitates continuing professional development of its personnel and the sharing of corporate knowledge**

Strategy 1.1 – Providing opportunities to acquire knowledge on new audit ideas, best practices, and development of professional standards as well as knowledge on NATO current issues and ways of its operation.

Strategy 1.2 – Organising the sharing of experience acquired by auditors during their work and bearing relevance for their further audit activity.

Strategy 1.3 – Providing continuing professional education for the auditor staff and facilitate individual learning.

### **Objective 2: IBAN is an audit organisation that translates internal efficiency and effectiveness into strengthened accountability and governance as well as enhanced performance of NATO**

Strategy 2.1 – Drawing on risk-based audit approach in financial auditing and continuously improve audit methodology.

Strategy 2.2 – Making use of increased performance audit work in NATO Security Investment Programme to achieve better accountability and management of NSIP.

Strategy 2.3 – Making use of an overall enhanced performance audit capability to achieve increased efficiency and effectiveness in NATO staff bodies, NPLOs and military commands.

### **Objective 3: Performance review and development system as a tool of continuous assessment of auditors' performance and their individual development**

Strategy 3.1 – Monitoring of and providing feedback on auditors' performance on a continuous basis and assessing auditors' performance upon completion of their assignments.

Strategy 3.2 – Providing annual evaluations based on thorough assessment of the auditors' performance during the year and translating these into individual objectives for the following year.

### **Objective 4: Improved visibility of IBAN**

Strategy 4.1 – Regularly attending the Council and committees meetings on matters of importance to the Board.

Strategy 4.2 – Liaising with committee chairpersons to offer IBAN’s expertise and assistance.

Strategy 4.3 – Publicising IBAN’s work, including annual activity reports and annual NSIP reports as well as strategic plans and annual performance plans.

Strategy 4.4 – Providing information to the nations on important audit activities planned and accomplished.

Strategy 4.5 – Providing information on essential audit activities on the IBAN website.

Strategy 4.6 – Seeking the Council’s agreement on publicising IBAN’s selected individual audit reports.

Strategy 4.7 – Maintaining continued professional contacts with supreme audit institutions of NATO nations and with international audit organisations.

The associated performance measures and targets to be used to evaluate the achievement of the objectives are shown in the table below.

<b>Objective</b>	<b>Key Performance Indicator</b>	<b>Target</b>
<i>IBAN as a working-place that facilitates continuing professional development of its personnel and the sharing of corporate knowledge</i>	Provide a minimum of 5 days (40 hours) continuing professional education per year to all IBAN auditors.	100%
	Hold staff meetings with all IBAN staff.	9 per year
<i>IBAN is an audit organization that translates internal efficiency and effectiveness into strengthened accountability and governance as well as enhanced performance of NATO</i>	Implement new Financial Audit Manual on all audits and update TeamMate structure and supporting documentation by 31 December 2012.	100%
<i>Performance review and development system as a tool of continuous assessment of auditors’ performance and their individual development</i>	IBAN management to complete all annual Performance Review and Development tasks related to staff.	100%, based upon HR guidance
<i>Improved visibility of IBAN</i>	Publish IBAN Annual Activity Report on NATO website.	100%
	Seek Council agreement on publishing selected IBAN audit reports.	100%

## LIST OF ABBREVIATIONS

ACO	Allied Command Operations
ACT	Allied Command Transformation
AFNORTH	Allied Forces, Northern Europe
AGFC	Advisory Group of Financial Counsellors
AGS3	Alliance Ground Surveillance Support Staff
ARRC	Allied Rapid Reaction Corps
Board	International Board of Auditors for NATO
BoD	Board of Directors
BPO	Belgian Pipeline Organisation
CAOCs	Combined Air Operation Centres
CBC	Civil Budget Committee
CCOE	Civil-Military Cooperation Centre of Excellence
CIMIC	Civil-Military Cooperation
CEPMA	Central Europe Pipeline Management Agency
CEPMO	Central Europe Pipeline Management Organisation
CEPS	Central Europe Pipeline System
CNABs	Competent National Audit Bodies
COFFA	Certificate of Final Financial Acceptance
Council	North Atlantic Council
DCPS	Defined Contribution Pension Scheme
DPO	Defensie Pijpleiding Organisatie
EU	European Union
EUR	Euro
EUROSAI	European Organisation of Supreme Audit Institutions
FAP	Financial Administrative Procedures
FBG	Fernleitungs-Betriebsgesellschaft
FORACS	NATO Naval Forces Sensor and Weapons Accuracy Check Sites
GSU	General Services Unit
HQ	Headquarters
HQ RRC	Headquarters Rapid Reaction Corps
IBAN	International Board of Auditors for NATO
IC	Infrastructure Committee
ICI	Istanbul Cooperation Initiative
IDEA	Interactive Data Extraction and Analysis
IFAC	International Federation of Accountants
IFC	Intelligence Fusion Centre
IMS	International Military Staff

INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
IS	International Staff
ISA	International Standard on Auditing
JCBRN	Joint Chemical Biological Radiological and Nuclear Defence Centre of Excellence
JFAI	Joint Final Acceptance Inspection
JFC	Joint Force Command
MBC	Military Budget Committee
MD	Mediterranean Dialogue
MEADS	Medium Extended Air Defence System
MNCG	Multinational Civil-Military Cooperation Group
MOU	Memorandum of Understanding
MSIAC	Munitions Safety Information Analysis Centre
MTRP	Medium Term Resource Plan
NACMA	NATO ACCS Management Agency
NACMO	NATO ACCS Management Organisation
NAEW&C	NATO Airborne Early Warning and Control
NAGSMA	NATO Alliance Ground Surveillance Management Agency
NAGSMO	NATO Alliance Ground Surveillance Management Organisation
NAHEMO	NATO Helicopter Design and Development Production and Logistics Management Organisation
NAMA	NATO Airlift Management Agency
NAMEADSMMA	NATO Medium Extended Air Defence System Design and Development, Production and Logistics Management Agency
NAMEADSMO	NATO Medium Extended Air Defence System Design and Development, Production and Logistics Management Organisation
NAMFI	NATO Missile Firing Installation
NAMMO Support	NATO Multi-Role Combat Aircraft Development and In-Service Management Organisation
NAMSA	NATO Maintenance and Supply Agency
NAMSO	NATO Maintenance and Supply Organisation
NAPMA	NATO AEW&C Programme Management Agency
NAPMO	NATO AEW&C Programme Management Organisation
NATO PA	NATO Parliamentary Assembly
NBA	NATO Battlefield Information Collection & Exploitation Systems Agency
NC3A	NATO Consultation, Command and Control Agency
NCSA	NATO CIS Services Agency
NDC	NATO Defence College
NDC Greece	NATO Deployable Corps Greece
NEFMO	NATO European Fighter Aircraft Development, Production and Logistics Management Organisation

NETMA	NATO Eurofighter 2000 and Tornado Development Production and Logistics Management Agency
NFO	NATO FORACS Office
NFR	NATO Financial Regulations
NHMO	NATO HAWK Management Office
NHPLO	NATO HAWK Production and Logistics Organisation
NMA	National Military Authorities
NPA	NATO Parliamentary Assembly
NPLO	NATO Production and Logistics Organization
NRDC	NATO Rapid Deployable Corps
NRFA	Northern Region Financial Administration
NSA	NATO Standardization Agency
NSIP	NATO Security Investment Programme
OBB	Objective Based Budgeting
OMC	Other Military Cooperation
PfP	Partnership for Peace
RMCF	Retirees Medical Claims Fund
RPPB	Resource Policy and Planning Board
RTA	Research and Technology Agency
RTO	Research and Technology Organisation
SACLANT	Supreme Allied Commander Atlantic
SACT	Supreme Allied Command Transformation
SAIs	Supreme Audit Institutions
SAP	Enterprise Resource Planning Software Package
SHAPE	Supreme Headquarters Allied Powers Europe
SIS	SHAPE International School
SPO	System Project Office
USD	United States Dollar
US	United States
VAT	Value Added Tax