

22 April 2013

# **INTERNATIONAL BOARD OF AUDITORS FOR NATO**

## **ANNUAL ACTIVITIES REPORT**

**FOR 2012**



## **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 external audit body reporting to the North Atlantic Council (Council). The Board carries out a diverse array of audits and 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 2012 the Board audited approximately EUR 11 billion of expenditures.

The Board acts in accordance with its Charter, which was approved by the North Atlantic Council. In 2012, the Board issued 36 financial audit reports comprising 44 Auditor's Opinions on the financial statements and on compliance, of which 30 were unqualified opinions. The Board issued 14 qualified, adverse, or disclaimer of audit opinion on the financial statements of 11 different entities. I believe that this surprisingly high number (32% of the audit opinions given by the IBAN) once again demonstrates that a significant number of NATO bodies were unable to meet the Council's decision on implementation of full IPSAS and the quality of financial reporting and control within NATO needs to be significantly improved. This is in comparison to 2011, when the Board issued 49 Auditor's Opinions, of which 35 were unqualified audit opinions and 14 audit opinions were qualified, adverse, or disclaimer of audit opinions on the financial statements of 9 entities.

Regarding NSIP audits, the Board conducted twenty-six NSIP audit missions in eleven nations, three agencies, one Strategic Command, and issued a total of 406 Certificates of Final Financial Acceptance (COFFAs) amounting to EUR 730 million certified, compared to 202 COFFAs for EUR 608 million in 2011.

The Board issued three performance audit special reports to Council in 2012, compared five performance audits and special reports issue to Council in 2011. The 2012 special reports to Council were on (1) Agencies Reform Implementation Planning, (2) Management of NATO ISAF Fuel Contracts for ISAF and Troop Contributing Nations, and (3) the Performance Audit Survey of the New NATO Headquarters Project.

However, 2012 was in many aspects an unconventional year for the Board as in the context of a review of the organisation of the International Staff primarily driven by the need to generate cost savings, the idea of outsourcing the Board's functions was raised by the Secretary General in March 2012. In June 2012 the Council tasked a Working Group to prepare a Business Case on strengthening the external audit function at NATO. The Working Group was chaired by one Board Member and was comprised of three other Board Members, Board Staff, other NATO International Staff, and experts from Supreme National Institutions. The results of this Business Case will be presented to Council later this year for discussion and a decision on the future of the Board and the external audit function in NATO. This Working Group utilised significant resources of the Board at Board Member and management levels.

In addition, the comprehensive NATO Agency Reforms were implemented in the middle of the year and, given the problems NATO entities have encountered to successfully apply IPSAS, Council decided to develop a NATO specific modified IPSAS as its accounting framework. The Board followed these developments with interest and was

actively engaged in participating as observers at many of the meetings of the various working groups addressing these issues.

The Board and its Board members are of course aware of the need to seek ongoing improvements and efficiency in how it conducts its work. Several initiatives are ongoing to improve its effectiveness and efficiency. These include the following: the Board approved its new financial audit manual in 2011 and implemented it in a new revised TeamMate structure in 2012 in order to more fully comply with INTOSAI auditing standards, created a performance audit working group, developed performance auditing guidance, and improved other areas of its professional activities taking into account international audit standards, best practices, and nations' expectations.

Janos Revesz, Chairman  
International Board of Auditors for NATO

## TABLE OF CONTENTS

	<b>Page No</b>
<b>SERVING THE NATIONS</b>	
<b>FOREWORD BY THE CHAIRMAN</b>	
<b>CHAPTER 1 ABOUT THE BOARD .....</b>	<b>1</b>
Our Mandate and Role .....	1
Our Annual Meeting with the National Audit Bodies and SAI of Norway .....	2
<b>CHAPTER 2 KEY ISSUES OF IMPORTANCE TO THE BOARD.....</b>	<b>3</b>
Review to Strengthen the External Audit Function in NATO .....	3
International Public Sector Accounting Standards in NATO .....	3
NATO Agencies Reform.....	4
Head of Financial Reporting.....	5
Publication of the Board's Reports .....	5
Support to NATO Institutions and Nations.....	5
<b>CHAPTER 3 OUR FINANCIAL STATEMENT AUDITS.....</b>	<b>7</b>
Background .....	7
Audit Mandate .....	7
Audit Methodology and Conduct of Audits .....	8
Allocation of Resources.....	8
Summary of Agency Audit Work in 2012.....	9
Significant Audit Opinions .....	9
<b>CHAPTER 4 OUR NATO SECURITY INVESTMENT PROGRAMME AUDITS....</b>	<b>12</b>
Background .....	12
Objectives of the NSIP Audits .....	12
Amounts Audited and Certified in 2012.....	12
The Board's Annual NSIP Report for the year 2011.....	13
<b>CHAPTER 5 OUR PERFORMANCE AUDITS AND STUDIES.....</b>	<b>14</b>
Introduction .....	14
Background .....	14
Performance Audits and Studies carried out in 2012 .....	15

## TABLE OF CONTENTS

	<b>Page No</b>
<b>CHAPTER 6 USE OF OUR HUMAN AND FINANCIAL RESOURCES .....</b>	<b>18</b>
Our Human Resources and Their Use .....	18
Our Financial Resources and Their Use .....	19
 <b>CHAPTER 7 OUR PERFORMANCE .....</b>	 <b>20</b>
2012 Annual Performance Plan .....	20
Performance Related To Goal 1 .....	20
Performance Related To Goal 2.....	21
Performance Related To Goal 3.....	22
Performance Related To Goal 4.....	23
2013 Annual Performance Plan .....	24
 <b>TABLES AND CHARTS</b>	
Chart 6.1: Allocation of Staff Resources for 2012 .....	19
Chart 6.2: Direct Cost of the Audit in 2012 .....	19
 <b>ANNEXES</b>	
A. List of reports resulting from the Audits	
B. Summary of the findings in the Audit Reports	
C. Audit Universe and Direct Cost of the Audit in 2012	
D. 2013 Annual Performance Plan	
E. List of Abbreviations	

## 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 or former 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. Greece, Hungary, Italy, the Netherlands, Norway, and the United Kingdom were represented on the Board in 2012.

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 2012 covered EUR 11 billion, of which EUR 10.4 billion related to financial statements audits and approximately EUR 0.56 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 AND SAI OF NORWAY

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 22<sup>nd</sup> CNAB meeting to discuss the 2011 Annual Activities Report took place on 15 May 2012 under the chairmanship of the State Audit Office of the Czech Republic. 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:

- Expressed strong support that the financial statements of NATO bodies should be published along with the relevant IBAN audit reports,
- Were concerned about the delays in issuance of some IBAN reports,
- Expressed their concern with the slow progress made by NATO in implementing IPSAS and supported the full implementation of IPSAS, including IPSAS 17,
- Were concerned at the high number of modified opinions given by the IBAN, in particular for multinational entities. They questioned the value of the IBAN continuing to audit these non-NATO entities.
- Encouraged the Board to continue recommend to the Council a new position for an independent Chief Financial Officer who can directly report to the Council on issues regarding finances and the publication of a NATO-wide consolidated financial statement.,
- Asked IBAN to include a description of its planning process on how it selects topics for performance audits in its Annual Activity Report, based upon criteria such as risk and materiality, and
- Some nations suggested that IBAN could conduct a performance audit on NSIP in the near future.

1.10 In addition, in May 2012 a delegation from the Norwegian SAI visited the Board led by the Auditor General of Norway. The Chairman of the Board informed the members of the Norwegian delegation on the main aspects of our audit tasks and the possible changes concerning the future of the external audit function in NATO. The participants also discussed the latest INTOSAI developments.

## CHAPTER 2

### KEY ISSUES OF IMPORTANCE TO THE BOARD

#### REVIEW TO STRENGTHEN THE EXTERNAL AUDIT FUNCTION IN NATO

2.1 In March 2012 the Secretary General of NATO in his International Staff Review 2012-2016 proposed to outsource the Board's external audit function to an "*independent external auditor*" on the basis that this would result in greater independence, better service, and be more cost effective. The Board was concerned that a NATO body audited by the Board should advocate a change in the external auditor, as this potentially jeopardises the Board's independence, and such a proposal should be the prerogative of Council.

2.2 After discussion in the Deputy Permanent Representatives Committee, the Council commissioned a thorough review of the Board with the purpose of strengthening the external auditing function at NATO. The Council requested development of a business case to identify and analyse options, with recommendations on how to most effectively, efficiently and economically organise and implement the independent external auditing function in NATO. The options to be examined included, but were not limited to, maintenance of the status quo of the external audit function at NATO, outsourcing to external Supreme Audit Institutions of NATO Allies, outsourcing to private sector audit firms and a structural reorganisation of the Board.

2.3 A Working Group was established to develop the business case and a Steering Committee was formed to provide oversight, guidance, quality assurance and validation for the business case. The Working Group was chaired by a Board Member and had 15 members composed of other Board Members, the Board's Principal Auditor, representatives from the NATO International Staff including the Private Office of the Secretary General and the NATO Office of Resources, as well as representatives from six member states Supreme Audit Institutions. The Working Group conducted its business with complete independence.

2.4 As at the time of publication of this report (April 2013), the business case has been finalised and the options included in it will be validated by the Steering Committee and then reviewed by the Deputy Permanent Representatives Committee. The Deputy Permanent Representatives Committee will then forward their recommendations to Council on the way forward in regard to the external audit function in NATO.

#### INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS IN NATO

2.5 On 17 July 2002, the Council adopted the accrual based IPSAS as the applicable accounting standards for all NATO entities effective as from the fiscal year 2006. The Board has reported on several occasions the difficulty NATO bodies have experienced to implement IPSAS, in particular related to Property, Plant and Equipment. In general, only a few NATO bodies have been able to successfully and fully implement IPSAS.

2.6 As a result of these difficulties, in 2012 the RPPB created a Tiger Team to review the implementation of IPSAS in NATO and propose a way ahead. This led to an RPPB report, which proposed developing a NATO specific adapted IPSAS accounting framework specifically in relation to IPSAS 12 (Inventories), IPSAS 17 (Property, Plant, and Equipment), IPSAS 31 (Intangible Assets, and how NATO bodies should account for Morale and Welfare Activities in relation to IPSAS 6 (Consolidated and Separate Financial Statements). In early 2013, the Council approved the principle of a framework adapted along the lines set out. However, the detailed and specific adapted framework has yet to be defined and presented to Council for approval.

2.7 It is not the role of the external auditor to determine an entity's accounting framework; an auditors' role (as set out in ISSAI 1240) is to assess whether an entity's accounting framework is acceptable. The Board participated as an observer to the Tiger Team meetings, but was not involved in the development or drafting of the Tiger Team's or the RPPB's reports.

2.8 In its communications to the RPPB on this subject, the Board has noted that adapting a financial reporting framework entails some risks to the organisation, and that there are important management and governance arrangements that need to be in place to ensure an adapted framework retains credibility.

2.9 The Board will continue to monitor the development of the detailed IPSAS adaptations and will liaise and consult with the RPPB as appropriate.

## **NATO AGENCIES REFORM**

2.10 At the Lisbon Summit on 20 November 2010, the NATO member states approved the consolidation and rationalisation of the functions and programmes of some existing NATO Agencies into three Agencies. The objective of this reform was to achieve improved governance, increased effectiveness, efficiency and savings, focusing on outputs, and taking into account the specific needs of multinational programmes.

2.11 In March 2011 the Board issued a special report on agency reform (see para 5.8 – 5.10). On July 1, 2012, six NATO agencies were consolidated into two new bodies: the NATO Support Agency (NSPA) and the NATO Communications and Information Agency (NCIA). On request of the RPPB the Board gave its views on the proposed financial transition measures. These measures imply that there will be no opening balances of the new Agencies and there will be no consolidated annual financial statements for the six months of operations in 2012 of the new agencies. Instead, there will only be separate financial statements of the legacy agencies as if they were in existence for the full calendar year of 2012.

2.12 While recognising that it is the prerogative of Council to determine the policy regarding the accounts of NATO agencies, the Board will audit the individual financial statements. However, the execution of these audits and their results will be determined by the Board in accordance with INTOSAI auditing standards and NATO Financial Rules and Regulations. Further, the Board is closely following the implementation of

NATO Agencies Reform and intends to conduct future performance audits to determine if the objectives of the reform process have been fully and successfully achieved.

## **HEAD OF FINANCIAL REPORTING**

2.13 In previous reports on the implementation of IPSAS in NATO the Board has noted the absence of NATO-wide consolidated financial statements and reporting and the lack of a NATO Chief Financial Officer. As a result of the Board's concerns the RPPB established a Tiger Team in 2012 to analyse whether to recommend to Council the establishment of a Head of Financial Reporting in NATO and what the terms of reference of such a post should be. After consideration of the Tiger Team report the RPPB proposed that the role of a NATO Head of Financial Reporting would be to provide central coordination and guidance to the NATO financial controller community with respect to NATO financial policy in order to facilitate improvements in the consistency and comparability of financial statements. While no firm decision has been taken at the time of writing this report, the Board believes the establishment of a Head of Financial Reporting or similar would be a significant step forward in improving consistency in NATO financial reporting.

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

2.14 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 and similarly, on recommendation of the Investment Committee, the Council agreed that the annual reports on the audit of NSIP may be released to the public.

2.15 In 2012 the Board, in cooperation with the RPPB, made significant efforts to finalise arrangements for the publication of the Board's reports. In June 2012 the Council agreed that, as from the 2013 reporting year, all unclassified Board reports with any related financial statements could be disclosed to the public. The final decision to disclose or not disclose specific reports will be subject to a case by case agreement by the Council based upon the recommendation of the RPPB. While the Board is satisfied with the progress made in this regard it notes that the agreed arrangements are not fully compliant with INTOSAI audit standards related to the Principles for Best Audit Arrangements for International Institutions.

2.16 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**

2.17 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. As in past years, the Board worked in close cooperation particularly with the RPPB on the issues of IPSAS and publication of the Board's reports. In particular, the RPPB has worked to clear the back log of the Board's reports awaiting notation by Council.

## 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 2012 there were more than 60 such bodies 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 2012, the expenditure audited by the Board amounted to more than EUR 10 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.

#### 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 2012 covered the 2011 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 Last year the Board undertook a thorough review of its TeamMate audit software structure for the purpose of updating it. A large number of new standardised procedures and forms were added to the system in order to better comply with the INTOSAI auditing standards. This update was necessary after the introduction of the Board's new financial audit manual in order to ensure compatibility between the audit software used and the new audit manual in force. The new standard structure was prepared with the Board's larger and higher priority audits in mind.

3.7 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**

3.8 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.

3.9 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.

3.10 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 2012**

3.11 In 2012 the Board issued 36 financial audit reports comprising 44 Auditor's Opinions on the financial statements and on compliance, of which 30 were unqualified opinions. The Board issued 14 qualified, adverse, or disclaimer of audit opinion on the financial statements of 11 different entities. The individual audit reports can cover several sets of financial statements or several financial years. This high number (32% of the audit opinions given by the IBAN) demonstrates that the quality of financial reporting and control within NATO needs to be improved. This is in comparison to 2011, when the Board issued 49 Auditor's Opinions, of which 35 were unqualified audit opinions and 14 audit opinions were qualified, adverse, or disclaimer of audit opinions on the financial statements of 9 entities.

3.12 Resources allocated to financial statement audits increased from 11.4 to 12.7 staff years in 2012. This increase resulted from the implementation of the Risk Based Audit approach in one additional NATO body and the increased use of interim audit conducted in the current year.

### **SIGNIFICANT AUDIT OPINIONS**

3.13 An explanatory note on the different types of audit opinions is provided on page 3 of Annex B. The following is a summary of the modified audit opinions issued in 2012:

- The Board issued a qualified opinion on the 2010 financial statements of Allied Command Operations (ACO) because of material omissions of inventory and the non-consolidation of Morale and Welfare Activities. The Board also issued a qualified opinion on compliance in 2010 due to non-compliance with procurement regulations related to ISAF expenditure.
- The Board issued a qualified opinion on the 2011 financial statements of ACO because of material omissions related to inventory, Property, Plant, and equipment, and the non-consolidation of Morale and Welfare Activities. The Board also issued a qualified opinion on compliance in 2011 due to continued non-compliance with procurement regulations related to ISAF expenditure.

though it noted a relative improvement in compliance throughout ACO and particularly Brunssum and ISAF.

- The Board issued a qualified opinion on the 2011 financial statements of Allied Command Transformation (ACT). The qualification relates to material misstatements arising from the implementation of IPSAS 17.
- The Board issued a qualified opinion on the 2009 financial statements of the Joint Chemical Biological Radiological and Nuclear (JCBRN) Defence Centre of Excellence because of a material overstatement of cash holdings (and total assets) at the end of the financial year, a material overstatement of total liabilities and an understatement of funds to be returned to the nations.
- The Board also issued a qualified opinion on the 2010 financial statements of the JCBRN Defence Centre of Excellence because there were inconsistencies between the Income and Expenditure statement, the Balance Sheet and the Budget Execution Statement.
- The Board issued a qualified opinion on the 2010 and 2011 Financial Statements of Headquarters NATO Rapid Deployable Corps Italy (HQ NRDC-IT) due to the overstatement of receivables in the Statement of financial position.
- The Board issued a qualified opinion on the 2010 restated Financial Statements of the NATO Helicopter for the 1990's Design and Development, Production, and Logistics Management Organisation (NAHEMO) because the Board was unable to obtain adequate assurance that the operational expenditure figure is materially correct and as such the Board has limited its scope in this respect.
- The Board issued a qualified opinion on the 2010 NATO Airlift Management Organisation (NAMO) Financial Statements due to a scope limitation on the Foreign Military Sales (FMS) expenditure and through FMS purchased Property, Plant and Equipment, Inventory and services. The Board is not able to confirm that the FMS purchased Property, Plant and Equipment, inventory and services in the NAMO 2010 financial statements accurately represent services performed and goods delivered by the US contractor. The Board issued a qualified 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 due to weaknesses found in procurement, payroll management and the carrying forward of budgetary credits to 2011 without a legal liability for payment as required by the financial rules and procedures.
- The Board issued a qualified opinion on the 2011 NATO Medium Extended Air Defence System Management Organization (NAMEADSMO) Financial Statements because the Board is unable to provide assurance regarding the

recognition of the cost of items of Property, Plant, and Equipment as NAMEADSMO's assets, due to the absence of sufficient audit evidence.

- The Board issued a qualified opinion on the 2010 NATO AEW&C Programme Management Agency (NAPMA) financial statements because the Mid-Term asset in progress value of USD 1.56 billion is materially overstated as part of it had effectively already been delivered to NATO Airborne Early Warning and Control Force (NAEW&CF). In addition, the Board was not able to satisfy itself on the value of USD 82.6 million of Large Aircraft Infrared Counter Measure Projects (LAIRCM) assets in progress as at 31 December 2010. This is because the Board does not have access to the indirect contracting processes that are used by the US Government to transform 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 a position to assess that this process is either reliable or results in billings that accurately represent work performed by US contractors. The Board has issued a qualified opinion on whether, in all material respects, the financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them. This is because, in the Board's opinion, there is material uncertainty over the amounts disclosed for commitments (USD 27.5 million) and obligations (USD 105.6 million) carried forward in the 2010 Budget Execution Statement.
- The Board issued qualified opinions on the 2011 NATO European Fighter Aircraft Development, Production and Logistics Management Organisation (NEFMO) and the NATO Multi Role Combat Aircraft Development, Production and In-Service Support Management Organisation (NAMMO) Financial Statements due to a scope limitation on the value and completeness of Property, Plant and Equipment for NEFMO and the value of Property, Plant and Equipment for NAMMO. This was because the Board was unable to obtain sufficient appropriate audit evidence in these areas.
- The Board was not able to express an opinion (disclaimer of opinion) on the 2010 International Staff (IS) Financial Statements because the Board was unable to confirm that expenses in the Statement of Financial Performance and the related payables in the Statement of Financial Position were properly recorded in accordance with the accrual basis of accounting due to limitations in the accounting system used by the IS.

## 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 2013, after all NSIP expenditure made in 2012 has been reported to the NATO Office of Resources by nations and NATO agencies. This report gives a brief outline of the Board’s activities in respect of the NSIP.

4.3 In 2012, the Board spent the equivalent of 1.8 staff year, or 9% of the authorised auditor establishment, on the audit of NSIP projects. This figure was the same as in 2011.

#### 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 2012

4.5 In 2012 the Board conducted twenty-six NSIP audit missions in eleven nations, three agencies, one Strategic Command, and issued a total of 406 COFFAs amounting to EUR 730 million certified, compared to 202 COFFAs for EUR 608 million in 2011. The Board also issued 37 Letters of Observations in 2012, of which 6 have been closed by a subsequent COFFA, and 16 have been acted upon by the Host Nations (as at February 2013).

4.6 In anticipation of the publication of the NSIP Semi-Annual Financial Report as at 31 December 2012, the Board can provisionally estimate that its audits resulted in a net credit of 1.1 million in favour of the NSIP.

#### **THE BOARD'S ANNUAL NSIP REPORT FOR THE YEAR 2011**

4.7 The Board issued its annual report on the 2011 audit of NSIP projects in October 2012. This report draws on information provided in the NSIP Financial Statistics for the year 2011, which were issued in September 2012. The Board noted that significant backlogs in the audit and certification of projects remain a serious issue. However, these backlogs are mainly the result of two factors:

- the slow presentation, by the Host Nations, of completed projects for inspection, and
- the slow processing of submitted JFAI requests by the JFAI teams to the IC for approval.

4.8 In order to enhance the accountability of the NSIP, the Board recommended to include the required submission of a JFAI request and the Formal Acceptance as key performance indicators in the NSIP Performance Measurement Framework (which will be developed in 2013).

## 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. In 2012 the Board issued three performance audit special reports to Council. However, in 2012 the Board only spent 2.2 staff years on performance audits, corresponding to only 11% of its resources (compared to 3.4 staff years or 17% in 2011). This significant decrease was the result of more resources being used for financial statement audit in 2012.

5.3 Being aware of this, in mid-2012 the Board recognised the need for increased commitment to performance audit. To support that commitment, the Board created a performance audit working group, 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 Performance Audit Working Group, under the leadership of a Board Member, comprises the Principal Auditor and four auditors. The Working Group's role is to assist the Board by preparing material for decision and performing an advisory role within the Board with regard to Performance Auditing. The Working Group's tasks include the following:

- Topic monitoring, including evaluating potential topics and assisting colleagues in preparing Performance Audit Proposals;
- Review Performance Audit Proposals and prepare recommendations to the Board;
- Support the Board by engaging with external stakeholders; and
- Propose new guidance and methodology.

5.4 The Working Group achieved its objective as it presented a comprehensive Performance Audit Programme for 2013-14 to the Board at its 2012 Annual Planning Session. The programme prioritised the Board's performance audit work for the next two years and identified the resources needed for performance audit. This plan was also developed to help the Board become more transparent in communicating how and

what it chooses to audit. The programme included performance audit topic proposals based upon input from Board Members, audit staff, and interviews with senior NATO managers and NATO resource committee Chairpersons and members.

5.5 In addition, as from January 2013, the Board is introducing the concept of thematic audit topics which will eventually be reported as either performance audits or Special Reports to Council. Each financial statement audit team will carry out limited performance audit programmes to address a single, narrow, thematic performance audit topic as part of all financial statement audits. The audit team will collect the information as part of their audit and relay it back to a central audit team assigned to the thematic audit. The central audit team will be responsible for collating and analysing the various inputs and producing either a performance audit report or Special Report to Council on the subject topic. These audits will pertain to NATO-wide economy, efficiency, and compliance issues. The first thematic audit to be implemented in 2013 will review the topic of cash management in NATO.

5.6 The Board issued three performance audit special reports to Council in 2012. It issued special reports to Council on (1) Agencies Reform Implementation Planning, (2) Management of NATO ISAF Fuel Contracts for ISAF and Troop Contributing Nations, and (3) the Performance Audit Survey of the New NATO Headquarters Project.

## **Studies**

5.7 As in past years, 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 and NATO Agencies Reform. In addition, the Board also advised NATO committees and working groups on other issues related to audit, finance and governance.

## **PERFORMANCE AUDITS CARRIED OUT IN 2012**

5.8 In its special report to Council on *Agencies Reform Implementation Planning* the Board determined the extent to which implementation planning for NATO Agencies Reform incorporated the critical success factors that the Board identified in a previous March 2011 special report to Council. The Board also developed areas where further action could be taken to help NATO achieve its reform goals.

5.9 The Board's audit found that evidence to support the decision to reform is limited. In its previous report on critical success factors for Agencies Reform, the Board highlighted the importance of a detailed assessment of the current agencies' structures and sound business cases developed prior to the decision to reform. Based on the Board's assessment of the business cases and supporting documentation produced by NATO staff, the existing analysis justifying NATO Agencies Reform provides limited information on current agencies' performance in terms of overall effectiveness and efficiency. The Board recommended that the Nations direct NATO staff, in coordination with the agency general managers, to:

- Refine the existing baseline.
- More clearly identify all Agencies Reform costs incurred to date.
- Develop a consistent NATO-wide cost monitoring mechanism to track and report all future costs.
- Include the full range of costs incurred to date in the general managers' plans to achieve greater savings.

5.10 In regards to shared services, the Board recommended that the Nations make the internal and external investments necessary to complete the business case and to act as an "intelligent customer" in their engagement with any external consultant. The Board further recommended that the Nations discuss alternatives should NATO staff continue to be unavailable to join the team responsible for detailed shared services planning and implementation.

5.11 The Board's audit report found there was no NATO-wide accountability for delivering reform past 1 July 2012. The Board strongly recommended that Nations assign a senior NATO leader to oversee Agencies Reform post-1 July 2012 and coordinate with the general managers to implement a results-based management framework. This individual should also lead the coordination of Agencies Reform with other transformation initiatives occurring within NATO. The Board began a follow-up audit of the critical success factors for the implementation of the Office of Shared Services initiative in early 2013.

5.12 The Board also found that proposed governance arrangements may conflict with reform goals. To avoid potential conflicts, the Board recommended a detailed risk analysis be conducted of governance structures. Further, to maximize the possibility of achieving established reform goals, the Board recommends the Nations direct NATO staff to assess the performance of each agency's governance model after 2012. The Board further recommends that the general managers include in their forthcoming reports on potential savings the extent to which, if at all, the agreed governance models may limit the full achievement of reform goals over time and their recommended changes, if any.

5.13 The Board issued a special report to Council on the *Management of NATO ISAF Fuel Contracts for ISAF and Troop Contributing Nations*. Since 2006, the Joint Force Command Headquarters Brunssum (JFCBS)-managed fuel contracts have expanded to over EUR 2 billion per year (including direct NATO spend, and spend by Troop Contributing Nations (TCNs) purchasing fuel through NATO under the same contract). As part of its audit of the 2011 financial statements, the Board was informed that ACO Internal Audit was concluding work on the fuel contract, following work commissioned by JFCBS. The Board held discussions with Internal Audit, agreed with the conclusions reached, and undertook its own interviews and contract file reviews, in order to produce a Special Report to Council on some key weaknesses in contract management.

5.14 The Board's recommendations focussed on the need to:

- Improve the clarity of certain contract clauses;
- Adequately resource the contract management of such large cost reimbursement contracts; and
- Include robust audit clauses to sufficiently verify costs passed on to NATO and TCNs.

5.15 The Board also issued a special report to Council on the *Performance Audit Survey of the New NATO Headquarters Project*. The project management of the NATO Headquarters Project Office (HQPO) is the object of the present study. This audit survey was conducted without detailed verification. The project was assessed using the commonly accepted principles of Managing Successful Projects with Prince 2 methodology. The Board conducted a desk review of documents, attended committee meetings, conducted working-level and senior management level interviews and reviewed some sample transactions.

5.16 The construction project appears to be reasonably well-governed. It is closely monitored by the DPRC, the International Board of Auditors for NATO, and the Belgian Cour des comptes. Due to the high visibility of the project, the interest of the Nations, and the enormous cost, it was important to investigate the questions proposed. However, at this early stage in the project's actual implementation, this performance audit survey finds that any additional audit work may result in an unjustified additional audit burden on entities that are working against a tight deadline. Due to the low risk identified to HQPO's project management and governance, the Board will not proceed with a full performance audit at this time.

5.17 The Board will monitor future developments in parallel with the Annual Financial Statement Audit of the project. The Board will also seek to formalize and strengthen collaboration with the Belgian Cour des comptes by regularly exchanging information on a more systematic basis.

5.18 The Board recommended that the Deputy Permanent Representatives Committee continue to ensure the proper stewardship of all the activities related to the New NATO Headquarters project as it evolves. Further, the Board recommended the DPRC give special consideration to the Transition Office's Operations and Maintenance (O&M) plans and activities in order to ensure an optimal O&M infrastructure for the new headquarters.

## CHAPTER 6

### USE OF OUR HUMAN AND FINANCIAL RESOURCES

#### OUR HUMAN RESOURCES AND THEIR USE

6.1 The authorised establishment of the Board in 2012 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 SAIs, former employees of SAIs, 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 and capabilities, come into the organisation.

6.2 The Board Members and auditors came from twelve different member nations. One new auditor arrived in 2012. At the end of 2012 there were two vacant auditor posts. During 2012, the Board had an average auditor vacancy rate of approximately 2.2 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.

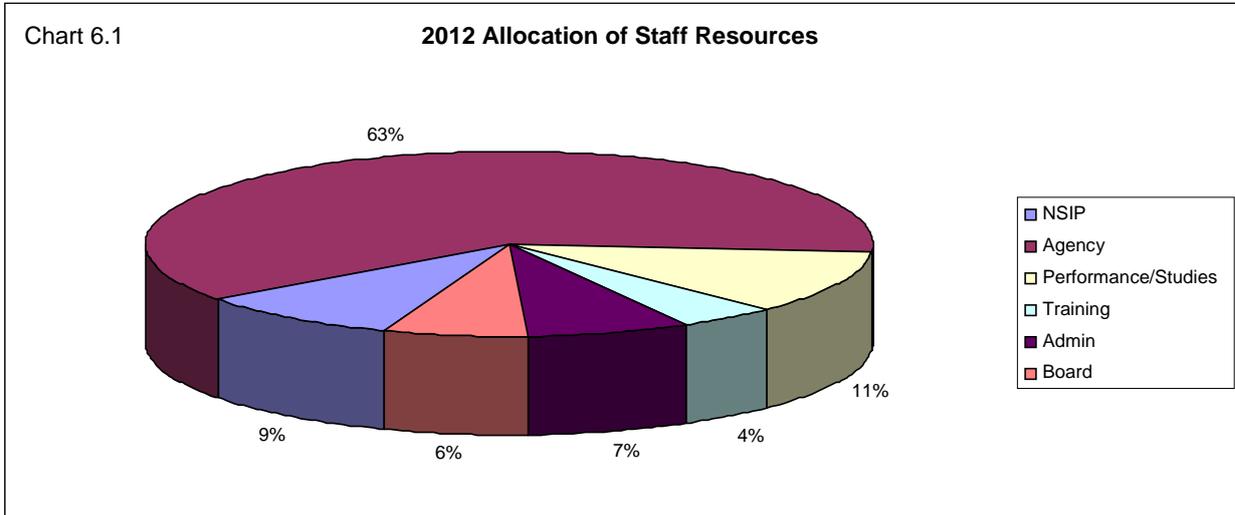
6.5 During 2012 the Board provided an average of 10 days of training per auditor. The annual joint training session covered workshops by external and internal trainers on topics related to the following:

- INTOSAI audit standards,
- TeamMate audit software,
- NSIP audit,
- NATO Agencies Reform, and
- Implementation of new financial audit manual.

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

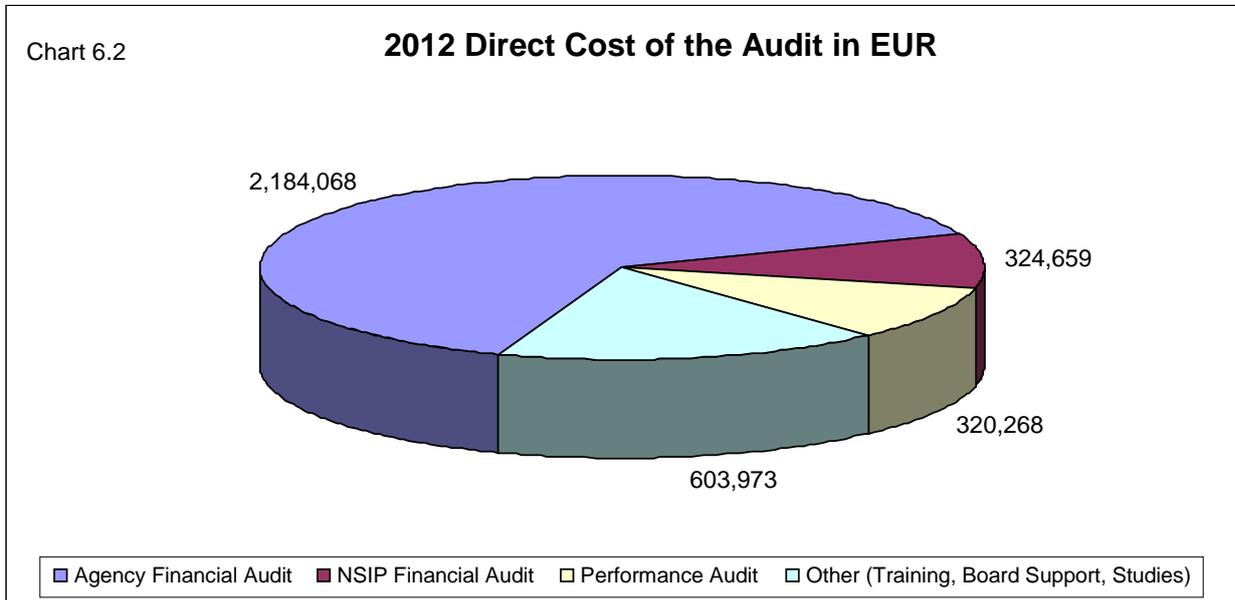
6.6 Chart 6.1 below shows the use of the Board's audit resources in 2012 as a percentage of the available number of staff days. Compared with 2011, the Board suffered a significant decrease to the amount of resources devoted to performance audits from 17% in 2011 to only 11% in 2012. Audit resources for NSIP remained at 9%

in 2012, the same as the previous year. The audit resources for financial statement audits increased from 57% in 2011 to 63% in 2012.



**OUR FINANCIAL RESOURCES AND THEIR USE**

6.7 Chart 6.2 below shows the direct cost of the audits in 2012 in EUR.



6.8 The table at Annex C provides complete details of the audited amounts, allocated audit resources and direct 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.

## CHAPTER 7

### OUR PERFORMANCE

#### 2012 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 2012 is based upon the goals and objectives identified in the 2010-2014 Strategic Plan and establishes which objectives and strategies had priority during 2012. It includes key performance indicators and targets for the various objectives that were to be achieved during 2012. Based upon discussion in the 2011 CNAB meeting and the RPPB, the Board revised its objectives and associated key performance indicators to be more ambitious and rigorous. The Board has continued this trend with the Annual Performance Plan for 2013 (see Appendix D).

#### 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>Objective</b>	<b>Key Performance Indicator</b>	<b>Target</b>	<b>Actual</b>
<i>Develop Risk-Based Audit Methodology</i>	(1) Implement the Project Management Plan for the Risk Based Audit Approach in 4 entities by end 2012.	100%	100%
<i>Improve audit efficiency and effectiveness</i>	(2) Percentage of observations and recommendations settled/closed within a 3-year period of the report date.	75%	88.5%
	(3) Percentage of audits completed by scheduled milestones for: a) Planning b) Fieldwork	80%	Not calculable

<b>Objective</b>	<b>Key Performance Indicator</b>	<b>Target</b>	<b>Actual</b>
	c) Work Paper Review d) Reporting		
<i>Contribute to the development of a sound and consistent financial reporting environment</i>	(4) Attend key meetings of the Ad Hoc Working Group of Financial Controllers and IPSAS Working Group.	100%	100%
<i>Enhance relationships with key stakeholders</i>	(5) Attend key meetings of NATO resource committees (RPPB, BC, IC) and agency Boards of Directors.	100%	100%

7.4 The first performance measure was met. The Risk Based Audit approach is being implemented in ACT, NAMSA, NC3A, and NETMA. The second performance measure was met. Of the 96 observations raised in reports issued by the Board in 2009, 85 were settled within a 3-year period of the report date (88.5%).

7.5 The third performance measure was not calculable. The Board approved this key performance indicator only after the calendar year had begun and data on agreed milestones was not always available. Despite this, the key performance indicator target was not met. The timely completion of audits was delayed by both internal and external factors, such as structural bottlenecks, lengthy clearance procedures, restatements of financial statements and/or other auditee delays. In late 2012, the Board organised an internal working group to propose practical steps to improve the timeliness of audit reporting and intends to implement the group's proposals in 2013.

7.6 The fourth performance measure was achieved as the Board attended all key meetings of the Ad Hoc Working Group of Financial Controllers and IPSAS Working Group. The fifth performance measure was achieved as the Board attended all key meetings of the NATO resource committees and agency Boards of Directors.

## **PERFORMANCE RELATED TO GOAL 2**

7.7 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>Objective</b>	<b>Key Performance Indicator</b>	<b>Target</b>	<b>Actual</b>
<i>Improve NSIP management</i>	(1) Implement reviews of NSIP management issues or outputs delivered.	1 review per year	100%
<i>Provide assurance of NSIP accountability</i>	(2) Reduce the number of operationally completed and technically inspected projects per nation/NATO entity.	15 or less per nation	79%

<b>Objective</b>	<b>Key Performance Indicator</b>	<b>Target</b>	<b>Actual</b>
<i>Improve audit efficiency and effectiveness</i>	(3) Programme audits within 6 months of national requests.	80%	100%
	(4) Increase the ratio of audited and certified amounts to resources used (time spent).	EUR 400 million per staff-year	100%

7.8 The first performance measure was achieved. The Board approved the implementation of the review of the NSIP-funded Financial Service (FinS) project. The audit began work in October 2012.

7.9 The second performance measure was not met. The Board was only able to reduce the number of operationally completed projects and inspected projects per nation/NATO entity in 27 out of 34 nations/entities (79%). Taken by individual "nation", the target of 15 or less auditable projects was reached for:

- 22 out of 28 territorial nations, but not for 6 of the 28 nations, and
- 5 of the 6 NATO bodies receiving NSIP funding, but not for one body (ACO/SHAPE).

7.10 The third performance measure was met as all national requests for NSIP audits were programmed within six months of the request. The fourth performance measure was achieved as the Board certified approximately EUR 400 million per staff year in 2012.

### **PERFORMANCE RELATED TO GOAL 3**

7.11 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>Objective</b>	<b>Key Performance Indicator</b>	<b>Target</b>	<b>Actual</b>
<i>Evaluation of the achievement of objectives by a specific NATO body, operation or project.</i>	(1) Revise IBAN performance audit guidance and TeamMate structure by 01/01/2013.	100%	100%
	(2) Get assistance from two SAIs for 2012 performance audits.	100%	0%
<i>Recommendations for optimising of the use of material and financial resources while delivering outputs at</i>	(3) Issue at least two performance audits per year with recommendations to improve efficiency, effectiveness, and/or economy.	100%	100%

<b>Objective</b>	<b>Key Performance Indicator</b>	<b>Target</b>	<b>Actual</b>
<i>required quality</i>	(4) Increase staff resources devoted to performance audit to 15%.	100%	73%
<i>Focus on priority issues along with the balanced use of internal capabilities</i>	(5) 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%	100%

7.12 The first performance measure was achieved. The second performance measure related to assistance from SAIs was not achieved in 2012, but the Board intends to solicit assistance from SAIs at the 2013 CNAB meeting. The third performance measure was achieved.

7.13 The fourth performance measure was not achieved. The Board was only able to devote 11% of its resources to performance audit. Factors limiting the achievement of this key performance indicator were the increased use of resources for financial statement audit, in particular the Risk Based Audit approach, and the Board's vacancy rate.

7.14 The fifth performance measure was achieved. The *Special Report to Council on the Management of NATO Fuel Contracts for ISAF and TCNs* was identified through client risk management on the ACO financial audit.

#### **PERFORMANCE RELATED TO GOAL 4**

7.15 The Board's objectives related to Goal 4 were to have the Board as a work 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>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>	(1) Provide a minimum of 5 days (40 hours) continuing professional education per year to all IBAN auditors.	100%	100%
	(2) Hold staff meetings with all IBAN staff.	9 per year	100%
<i>IBAN is an audit organization that</i>	(3) Implement new Financial Audit Manual on all audits and update	100%	100%

<b>Objective</b>	<b>Key Performance Indicator</b>	<b>Target</b>	
<i>translates internal efficiency and effectiveness into strengthened accountability and governance as well as enhanced performance of NATO</i>	TeamMate structure and supporting documentation by 31/12/2012.		
<i>Performance review and development system as a tool of continuous assessment of auditors' performance and their individual development</i>	(4) IBAN management to complete all annual Performance Review and Development tasks related to staff.	100%, based upon HR guidance	100%
<i>Improved visibility of IBAN</i>	(5) Publish IBAN Annual Activity Report on NATO website.	100%	100%
	(6) Seek Council agreement on publishing selected IBAN audit reports.	100%	100%

7.16 The first performance measure on staff training was achieved. The second performance measure was also achieved, with 10 staff meetings being held. The third performance measure was achieved. The new TeamMate structure was implemented on 01 January 2013.

7.17 The fourth performance measure was also achieved. All performance review and development tasks were completed, but not always within the timeframe's specified by HR. The fifth performance measure was achieved. The sixth performance measure was achieved as Council agreed that IBAN reports will be published on a case by case basis on the IBAN website as from the 2013 reporting year.

### **2013 ANNUAL PERFORMANCE PLAN**

7.18 The Board's Annual Performance Plan for 2013 is included in this report at Appendix D.

**Approved by the Board on 22 April 2013**

**Chairman** (signed)  
**János Révész** (Hungary)

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

**Board Member** (signed)  
**Dr Charilaos Charisis** (Greece)

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

**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 AGENCY AUDITS</b>			
<b>Subject</b>		<b>Budget year(s)</b>	<b>Reference of document and date</b>
<b>MILITARY COMMANDS</b>			
1.	ACO Group	2010	IBA-AR(2011)28, dated 30.03.2012
2.	ACO Group	2011	IBA-AR(2012)30, dated 14.12.2012
3.	ACT Group	2011	IBA-AR(2012)25, dated 04.09.2012
4.	Centre of Excellence against Terrorism (COE-DAT)	2009-2011	IBA-AR(2012)21, dated 13.07.2012
5.	JCBRN Defence COE (CZ)	2009-2010	IBA-AR(2012)03, dated 27.04.2012
6.	NRDC-Italy (NRDC-IT)	2009-2011	IBA-AR(2012)19, dated 04.09.2012
<b>NPLOs</b>			
7.	CEPMA	2010	IBA-AR(2012)09, dated 13.07.2012 C-M(2013)0001
8.	NACMA	2010	IBA-AR(2012)02, dated 29.06.2012 C-M(2012)0092
9.	NAGSMA	2010	IBA-AR(2012)14, dated 29.06.2012 C-M(2012)0089
10.	NAHEMO	2010	IBA-AR(2012)20, dated 26.10.2012 C-M(2013)0014
11.	NAMO	2010	IBA-AR(2011)27, dated 24.02.2012 C-M(2012)0084
12.	NAMEADSMA	2011	IBA-AR(2012)16, dated 29.06.2012 C-M(2012)0103
13.	NAMSA	2011	IBA-AR(2012)29, dated 28.09.2012 C-M(2013)0015
14.	NAPMA	2010	IBA-AR(2012)06, dated 29.06.2012
15.	NBA	2010	IBA-AR(2012)28, dated 04.09.2012 C-M(2012)0105
16.	NC3A-ALTBMDPMO	2010	IBA-AR(2012)04, dated 27.04.2012 C-M(2012)0068
17.	NC3A-ALTBMDPMO	2011	IBA-AR(2012)31, dated 26.10.2012 C-M(2013)0005
18.	NCSA	2010	IBA-AR(2012)10, dated 29.06.2012 C-M(2012)0093
19.	NETMA, NAMMO & NEFMO	2010	IBA-AR(2011)26, dated 24.02.2012 C-M(2012)0052
20.	NETMA, NAMMO & NEFMO	2011	IBA-AR(2012)32, dated 14.12.2012 C-M(2013)0010
<b>CIVIL-MILITARY AGENCIES AND OTHER ORGANISATIONS</b>			
21.	AFNORTH International School	2011	IBA-AR(2012)01, dated 04.09.2012

<b>LIST OF REPORTS RESULTING FROM AGENCY AUDITS</b>			
<b>Subject</b>		<b>Budget year(s)</b>	<b>Reference of document and date</b>
<b>22.</b>	FORACS	2010	IBA-AR(2012)07, dated 25.05.2012 C-M(2012)0070
<b>23.</b>	International Military Staff (IMS)	2011	IBA-AR(2012)26, dated 28.09.2012
<b>24.</b>	International Staff (IS)	2010	IBA-AR(2012)08, dated 25.05.2012 C-M(2013)0007
<b>25.</b>	MSIAC	2010	IBA-AR(2012)22, dated 28.09.2012 C-M(2012)0106
<b>26.</b>	NAMFI	2010	IBA-AR(2011)25, dated 24.02.2012
<b>27.</b>	NAMFI	2011	IBA-AR(2012)34, dated 30.11.2012
<b>28.</b>	NATO Defence College (NDC)	2011	IBA-AR(2012)24, dated 04.09.2012 C-M(2012)0090
<b>29.</b>	NATO Defined Contribution Pension Scheme (NATO DCPS)	2010	IBA-AR(2012)18, dated 13.07.2012 C-M(2012)0085
<b>30.</b>	NATO Parliamentary Assembly (NATO P.A.)	2011	IBA-AR(2012)05, dated 30.03.2012
<b>31.</b>	NATO Defined Benefit Pension Scheme (NATO DBPS)	2009	IBA-AR(2012)12, dated 29.06.2012 C-M(2012)0091
<b>32.</b>	NATO Provident Fund	2010	IBA-AR(2011)30, dated 27.01.2012 C-M(2012)0040
<b>33.</b>	New NATO HQ	2010	IBA-AR(2011)31, dated 30.03.2012 C-M(2012)0048
<b>34.</b>	Representation Allowances	2011	IBA-AR(2012)15-REV1, dated 29.06.2012
<b>35.</b>	RTA	2010	IBA-AR(2012)11, dated 29.06.2012
<b>36.</b>	SHAPE International School	2011	IBA-AR(2012)17, dated 04.09.2012
<b>PERFORMANCE AUDITS &amp; SPECIAL STUDIES</b>			
<b>37.</b>	Special Report to Council on Agencies Reform Implementation Planning		IBA-AR(2012)13, dated 30.03.2012 C-M(2012)0051
<b>38.</b>	Special Report to Council on the Management of NATO ISAF Fuel Contracts for ISAF and Troop Contributing Nations		IBA-AR(2012)27, dated 24.09.2012 C-M(2012)0094
<b>39.</b>	Special Report to Council on the Performance Audit Survey of the New NATO Headquarters Project		IBA-AR(2012)33, dated 30.11.2012 C-M(2013)0009

**SUMMARY OF THE FINDINGS  
IN THE AUDIT REPORTS**

**TABLE OF CONTENTS**

**RESULTS OF AUDITS RELATING TO MILITARY COMMANDS**

		<b>Page N°</b>
1.	ACO Group	2010..... 3
2.	ACO Group	2011..... 4
3.	ACT Group	2011..... 5
4.	Centre of Excellence against Terrorism (COE-DAT)	2009-2011..... 6
5.	JCBRN Defence COE (CZ)	2009-2010..... 7
6.	NRDC-ITALY	2009-2011..... 9

**RESULTS OF AUDITS RELATING TO NATO PRODUCTION AND LOGISTICS AGENCIES**

7.	CEPMA	2010..... 11
8.	NACMA	2010..... 12
9.	NAGSMA	2010..... 13
10.	NAHEMO	2010..... 14
11.	NAMO	2010..... 15
12.	NAMEADSMA	2011..... 16
13.	NAMSA	2011..... 17
14.	NAPMA	2010..... 18
15.	NBA (BICES)	2010..... 20
16.	NC3A-ALTBMDPMO	2010..... 21
17.	NC3A-ALTBMDPMO	2011..... 22
18.	NCSA	2010..... 23
19.	NETMA, NAMMO & NEFMO	2010..... 24
20.	NETMA, NAMMO & NEFMO	2011..... 25

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

21.	AFNORTH International School	2011..... 28
22.	FORACS	2010..... 29
23.	IMS, NSA (INCL. PfP-MD-ICI-OMC)	2011..... 29
24.	International Staff (IS)	2010..... 31
25.	MSIAC	2010..... 32
26.	NAMFI	2010..... 33
27.	NAMFI	2011..... 33
28.	NATO Defence College (NDC)	2011..... 34
29.	NATO Defined Contribution Pension Scheme	2010..... 35
30.	NATO Parliamentary Assembly (NATO P.A.)	2011..... 35
31.	NATO Defined Benefit Pension Scheme	2009..... 36
32.	NATO Provident Fund	2010..... 37
33.	New NATO HQ	2010..... 38
34.	Representation Allowances	2011..... 38
35.	RTA	2010..... 39
36.	SHAPE International School	2011..... 40

**PERFORMANCE AUDITS AND SPECIAL STUDIES**

37.	Special Report to Council on Agencies Reform Implementation Planning.....	42
38.	Special Report to Council on the Management of NATO Fuel Contracts for ISAF and Troop Contributing Nations .....	45
39.	Special Report to Council on the Performance Audit Survey of the New NATO Headquarters Project.....	46

## **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 OPERATIONS (ACO) GROUP 2010**

#### **Introduction**

This report covers the audit of the Allied Command Operations (ACO) Consolidated Financial Statements for the year ended 31 December 2010. The total budgetary spend (commitments plus actuals) for ACO against Military Budget Committee (MBC) funded budgets in 2010 amounted to EUR 1,180.4 million, compared with EUR 1,197.8 million in 2009. In addition to the execution of the MBC budgets, ACO also incurred EUR 92.7 million of other expenditure (reimbursable, trust funds, etc.) and EUR 11.9 million of NSIP project expenditure.

## **Audit Highlights**

### Opinion on the Financial Statements

The Board issued a qualified opinion on the 2010 financial statements because of material omissions of inventory and the non-consolidation of Morale and Welfare Activities.

### Opinion on Compliance

The Board issued a qualified opinion on compliance in 2010 due to non-compliance with procurement regulations related to ISAF expenditure.

The Board made observations on the following subjects:

- The procurement process.
- The inventory process.
- Financial transactions with other NATO Agencies.
- Theatre Capability Statement of Requirement (TCSOR) Provisions.
- The presentation of the consolidated financial statements including the non-consolidation of Morale & Welfare Activities (MWA).

## **2. ALLIED COMMAND OPERATIONS (ACO) GROUP 2011**

### **Introduction**

This report covers the audit of the Allied Command Operations (ACO) Consolidated Financial Statements for the year ended 31 December 2011. The total budgetary spend (commitments plus actuals) for ACO against Military Budget Committee (MBC) funded budgets in 2011 amounted to EUR 1,004.2 million, compared with EUR 994.5 million in 2010. In addition to the execution of the MBC budgets, ACO also incurred EUR 67.8 million (2010, EUR 82.2 Million) of other expenditure (reimbursable, trust funds, etc.) and EUR 4.6 million (2010, EUR 10.2) of NATO Security Investment Programme (NSIP) project expenditure.

### **Audit Highlights**

#### Opinion on the Financial Statements

There are 3 qualifications to the ACO financial statements for 2011:

- ACO has excluded inventories managed by third parties from its financial statements on the grounds that it considered the 2011 data in respect of inventory managed on its behalf by third parties, such as NATO Maintenance and Supply Agency (NAMSA) and NATO Communication and Information

Systems Services Agency (NCSA), to be unreliable. The result is a material omission of inventory balances from the financial statements.

- ACO has not included Property, Plant and Equipment (PP&E) in its financial statements, as required by IPSAS 17, in spite of the fact that the 5-year transition provisions allowed by IPSAS 17 have now ended. This represents a material omission of PP&E from the financial statements.
- ACO has not consolidated MWA into its financial statements but has instead included details on MWA in its notes and disclosed why it has not consolidated these amounts, on the grounds that it believes they would mislead the reader by combining commercial activities with military operational activities. However, paragraph 27 of IPSAS 6 states that “*a controlled entity is not excluded from consolidation because its activities are dissimilar to those of other entities within the economic entity*”, and in the Board’s opinion this is a material omission from the financial statements.

### Opinion on Compliance

The Board issued one qualification on the basis of non-compliance with applicable rules and regulations:

- The Board found significant weaknesses and instances of non-compliance with procurement regulations related to ISAF expenditure. These weaknesses and instances of non-compliance, including a lack of evidence supporting proper bidding activities and a lack of proper approval of commitments and payments, and have been described in section 5.1 of this audit report.

The Board also issued a Management Letter to the Supreme Allied Commander Europe (SACEUR), related to more minor issues noted during the audit.

## **3. ALLIED COMMAND TRANSFORMATION (ACT) GROUP 2011**

### **Introduction**

This report covers the audit of the 2011 financial statements of the Allied Command Transformation (ACT). These statements were the sixth 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. In 2011, ACT applied IPSAS 17, *Property, Plant and Equipment*, for the first time, after having taken advantage of the 5-year transition provisions from 2006 to 2010. The total expenditure in 2011 amounted to approximately EUR 149 million, compared with approximately EUR 125 million in 2010.

## **Audit Highlights**

### Opinion on the Financial Statements

The Board issued a qualified opinion on the ACT Financial Statements for the year ended 31 December 2011. The qualification relates to material misstatements arising from the implementation of IPSAS 17.

### Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2011 financial statements are, in all material respects, in compliance with authorities which govern them.

The Board made observations on the following subjects:

- Accounting for Property, Plant & Equipment (PP&E).
- Miscalculations in the final call for contribution for 2011.

The Board also issued a Management Letter to the Supreme Allied Commander Transformation (SACT), related to more minor issues that were noted during the audit.

## **4. CENTRE OF EXCELLENCE AGAINST TERRORISM (COE-DAT) 2009-2011**

### **Introduction**

The Centre of Excellence Defence Against Terrorism (the COE-DAT) was established in June 2005. The Operational and Functional MOUs have been signed by Turkey, Bulgaria, Romania, the UK and the USA as Sponsoring Nations (SNs). In 2009, Germany and the Netherlands and in 2011, Hungary joined the COE-DAT.

The COE-DAT assumes the mission of supporting the Supreme Allied Commander Transformation (SACT) in his efforts of transforming NATO in the field of defence against terrorism. In this context, the COE-DAT in particular provides training and education at the strategic and operational level; provides subject matter expertise on defence against terrorism to HQ SACT; assists HQ SACT in testing and validating terrorism related NATO concepts through experimentation; assists in doctrine development by contributing knowledge and lessons identified and contributes to NATO standardisation and the improvement of capabilities and interoperability.

The total approved budgets of the COE-DAT for financial years ended 31 December 2009, 2010 and 2011 were EUR 2.1 million, while total expenditures against these budgets for the same financial years amounted to EUR 1.7 million.

## **Audit Highlights**

### Opinion on the Financial Statements

The Board issued an unqualified opinion on the COE-DAT's Financial Statements for the years ended 31 December 2009, 2010 and 2011.

### Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2009, 2010 and 2011 financial statements are, in all material respects, in compliance with authorities which govern them.

The Board made observations on the following subjects:

- Internal control process should be strengthened.
- Contracting process should be strengthened.
- Inconsistencies in the Financial Statements.
- Receivables understated.
- Delay in collecting the 2010 contribution.
- Application of "Commit & Pay" process.

## **5. JOINT CHEMICAL, BIOLOGICAL, RADIOLOGICAL AND NUCLEAR DEFENCE CENTRE OF EXCELLENCE (JCBRN DEFENCE COE CZ) 2009-2010**

### **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) by the Sponsoring Nations - the Czech Republic, Germany, Greece, Italy, Romania, Slovenia and the United Kingdom, supported by the Supreme Headquarters Allied Command Transformation (HQ SACT) and Supreme Headquarters Allied Powers Command Europe (SHAPE). The MOU established the JCBRN Defence COE as a NATO accredited Centre of Excellence and made provisions for its operation, funding, manning, equipment and infrastructure, as well as for its administration and logistical support. As from 2008 JCBRN Defence COE has the legal status as an International Military Organisation (IMO) under the provisions of the NATO Status of Forces Agreement, the Paris Protocol Art. XIV, and the Partners for Peace Status of Forces Agreement. Although designated an International Military Organisation (IMO), the JCBRN Defence COE is recognised as a corporation under Czech Republic law, and is liable for taxation, including Value Added Tax (VAT).

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.

Since our last audit of the 2008 Financial Statements, the JCBRN Defence COE has grown from 8 members to 11 members. Poland joined for the financial year 2009, Hungary in 2010 and on 16 June 2011, the USA joined the JCBRN Defence COE and the signing ceremony took place in Brussels.

2009 was the second year that the JCBRN Defence COE was funded by a multinational authorised budget of Czech Republic Koruna (CZK) 7.442 million. Expenditure for the year was CZK 2.161 million.

For 2010, the multinational authorised budget was CZK 6.6 million and expenditure during the year totalled CZK 8.333 million.

## **Audit Highlights**

### Opinion on the Financial Statements

The Board issued a qualified opinion on the financial statements of the JCBRN Defence COE for the year ended 31 December 2009 because of a material overstatement of cash holdings (and total assets) at the end of the financial year, a material overstatement of total liabilities and an understatement of funds to be returned to the nations.

The Board issued a qualified opinion on the financial statements of the JCBRN Defence COE for the year ended 31 December 2010 because there were inconsistencies between the Income and Expenditure statement, the Balance Sheet and the Budget Execution Statement.

### Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2009 and 2010 financial statements are, in all material respects, in compliance with authorities which govern them.

The Board made observations on the following subjects:

- 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 overstatement of total liabilities, and JCBRN Defence COE should in future accurately disclose liabilities, particularly those amounts due to be returned to nations and which need to be taken into account when

making the following year's annual Call for Funds. This occurs because the financial statements are being prepared to balance with the Budget Execution Statement.

- The accounting records should include spreadsheets to include contributions called and received; approved commitments (supported by authorised Commitment of Funds Request forms) and subsequent liquidation; and details of individual transfers made, supported by authorised documentation. These spreadsheet records should be reconciled on a monthly basis to the bank statements to ensure all income and expenditure has been included in the accounts. In addition, transfers should be correctly disclosed in the Budget Execution Statement.
- The financial statements should be the primary financial statements presented to the JCBRN Defence COE Steering Committee (SC) and to the Board for audit supported by a set of Accounting Policies e.g. IPSAS cash based accounting and Notes to the Accounts which explain the figures e.g. Income and Expenditure Analysis. Prior to audit by IBAN, these financial statements should be signed by the Finance Manager and Director and formally presented to the Spring Steering Committee following the year of account for approval.
- Financial information presented on the Budget Execution statement should be consistent with the information presented in the financial statements. The 2010 Contributions and Expenditure balances were not consistent throughout the financial statements or confirmed to underlying records.

## **6. HEADQUARTERS NATO RAPID DEPLOYABLE CORPS ITALY (HQ NRDC-ITALY) 2009-2011**

### **Introduction**

The Headquarters NATO Rapid Deployable Corps Italy (HQ NRDC-IT) 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).

A Memorandum of Understanding (MoU) was signed on September 2002 by eleven countries (Germany, Greece, Hungary, Italy, The Netherlands, Poland, Portugal, Spain, Turkey, United Kingdom and the United States of America), the Supreme Allied Powers Europe (SHAPE) and the Supreme Allied Commander Atlantic (SACLANT). Four additional countries, Bulgaria, France, Romania and Slovenia, joined the organisation in the years 2006-2007. The command relations enabling the HQ NRDC-IT to carry out its tasks in peacetime, crisis and operations are detailed in the Command and Control Technical Arrangement (C2 TA) signed between SHAPE, SACLANT and the framework nation (Italy).

The administrative and financial management of the shared funds of HQ NRDC-IT is carried out in accordance with the NATO Financial Regulations (NFRs), its implementing procedures and Allied Command Europe (ACE) Directives. The MoU and the Financial Administrative Procedures for Shared Funding (FAPs) contain specific and

detailed rules for the entity based on the NFRs and ACE Directives.

The total approved budgets of HQ NRDC-IT for financial years ended 31 December 2009, 2010 and 2011 was EUR 7.2 million while total payments against these budgets for the same financial years amounted to EUR 4.8 million

## **Audit Highlights**

### Opinion on the Financial Statements

The Board issued an unqualified opinion on HQ NRDC-IT's Financial Statements for the year ended 31 December 2009.

The Board issued a qualified opinion on HQ NRDC-IT's Financial Statements for the years ended 31 December 2010 and 2011 due to the overstatement of receivables in the Statement of financial position.

### Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2009, 2010 and 2011 financial statements are, in all material respects, in compliance with authorities which govern them.

The Board made an observation on the following subject:

- Overstatement of receivables in the Statement of financial position for the years 2010 and 2011.

The Board also issued a Management Letter to the Commander HQ NRDC-IT, related to more minor issues that were noted during the audit.

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

### 7. CENTRAL EUROPE PIPELINE MANAGEMENT AGENCY (CEPMA) 2010

#### 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 manages a NATO pipeline system which crosses the host nations of Belgium, France, Germany, Luxembourg and the Netherlands. The Central European Pipeline System (CEPS) includes 5,180 kms of pipeline, 38 depots, and some 1.25 million cubic meters of storage capacity.

The CEPS transports jet fuel, diesel, gasoline, domestic fuel, and naphtha to a variety of military and civilian customers.

Total CEPMO revenues for 2010 amounted to EUR 123 million, about 80 per cent of which were non-budgetary operational fees.

#### SCOPE OF AUDIT

The International Board of Auditors for NATO (Board) audited the CEPMO Financial Statements for the year ended 31 December 2010 with the objective of expressing an opinion on these financial statements.

#### Audit Highlights

##### Opinion on the Financial Statements

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

The Board included an Emphasis of Matter paragraph in its opinion at Appendix 1 to draw the reader's attention to control weaknesses in respect to CEPMO's validation that vouchers received from a supplier that operates the CEPS and other pipelines in France, relate to the operation of the CEPS. Such control weaknesses increase the risk that the supplier recharges for non-CEPS pipeline related costs are not detected. Our opinion is not qualified in respect to this matter.

### 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 on the following subjects:

- Controls over the allocation of costs by a supplier to CEPMO (France).
- Provision for an Early Retirement Scheme (Germany).
- Consistency of Recording SAP Implementation Costs.

## **8. NATO AIR COMMAND AND CONTROL SYSTEM MANAGEMENT AGENCY (NACMA) 2010**

### **Introduction**

The NATO Air Command and Control System (ACCS) is a major programme aimed at combining, at the tactical level, the planning, tasking and execution of allied air operations. It is a mixture of national and common funded projects. The programme has been in existence since 1981.

On 7 January 1991, Council created the NATO ACCS Management Agency (NACMA) to support the programme. NACMA is the implementing body and acts as host nation and/or procurement agent for the NATO Security Investment Programme (NSIP) projects and for national projects assigned to it. NACMA reports to a Board of Directors representing the nations. The Agency and the Board of Directors are collectively known as the NATO ACCS Management Organisation (NACMO).

The financial statements of NACMA include the Administrative and the Operational Budgets items together. The NACMA 2010 total expenditure (based on the accruals basis under the International Public Sector Accounting Standards (IPSAS)) was EUR 56 million.

### **Audit Highlights**

#### Opinion on the Financial Statements

The Board issued an unqualified audit opinion on the financial statements of NACMA for the financial 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 the authorities which govern them.

The Board made an observation on the following subject:

- Cash payments to consultants and temporary staff.

## **9. NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT AGENCY (NAGSMA) 2010**

### **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) and Working Groups with representatives from the participating Nations. 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. In June 2010, Denmark announced its intention to withdraw from the programme reducing membership to 14 Nations.

### **Audit Highlights**

#### Opinion on the Financial Statements

The Board issued an unqualified opinion on the NAGSMA 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 an observation on the following subject:

- Reclassify the EUR 372,031 foreign exchange difference shown as 'other payables' in 2010 and disclose it as part of the 'advances from nations' in the 2011 financial statements. In addition, the agency should restate the prior year balances (2010) accordingly in the 2011 financial statements.

## **10. NATO HELICOPTER FOR THE 1990s (NH90) DESIGN AND DEVELOPMENT PRODUCTION AND LOGISTICS MANAGEMENT ORGANISATION (NAHEMO) 2010**

### **Introduction**

The objective of the NATO Helicopter for the 1990s (NH90) programme is to design, develop, produce, and support a new transport and naval helicopter for the forces of France, Germany, Italy, the Netherlands, Portugal and Belgium. NATO and Non-NATO member states which are part of the NH90 Community are Norway, Sweden, Finland and Australia and it is anticipated that New Zealand and Spain will join the community in 2013.

The NATO Helicopter for the 1990s Design and Development, Production and Logistics Management Organisation (NAHEMO) and its executing agency (NAHEMA) are located in Aix-en-Provence in France. The agency became operational in 1992.

The recorded expenses in 2010 amounted to EUR 540.5 million on the operational budget and EUR 10.4 million on the administrative budget.

The number of helicopters ordered by NAHEMO member states is 337. By the end of 2010 NAHEMO member states had received 41 Tactical Transport Helicopters and 14 NATO Frigate Helicopters.

### **Audit Highlights**

#### Opinion on the Financial Statements

The Board issued a qualified opinion on NAHEMO's restated Financial Statements for the year ended 31 December 2010 because the Board was unable to obtain adequate assurance that the operational expenditure figure is materially correct and as such the Board has limited its scope in this respect.

#### 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 on the following subjects that the NAHEMO Steering Committee should:

- Consider the effectiveness of the internal control environment being established within NAHEMA, and whether it provides NAHEMO with the level of assurance it needs to conduct its oversight role.
- Review and conclude on an accounting policy in respect of whether it should recognise its programme revenues and associated expenditures on the basis of acting as a principal or an agent.

- Continue to work towards establishing a robust and effective methodology to estimate accruals based programme expenditures based on a stage-of-completion of programme deliverables.

## 11. NATO AIRLIFT MANAGEMENT ORGANISATION (NAMO) 2010

### Introduction

On 29 September 2008 the NATO Airlift Management Organisation and its NATO Airlift Management Agency (NAMA) was activated by the entering into effect of the Strategic Airlift Capability Memorandum of Understanding. The multinational Strategic Airlift Capability Program fulfills the strategic airlift requirements of the participating nations. Expenses in 2010 were USD 131 million.

### Audit Highlights

#### Opinion on the Financial Statements

The Board issued a qualified opinion on the NAMO Financial Statements for the year ended 31 December 2010 due to a scope limitation on the Foreign Military Sales (FMS) expenditure and through FMS purchased Property, Plant and Equipment, Inventory and services.

The Board is not able to confirm that the FMS purchased Property, Plant and Equipment, inventory and services in the NAMO 2010 financial statements accurately represent services performed and goods delivered by the US contractor.

#### Opinion on Compliance

The Board issued a qualified 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 due to weaknesses found in procurement, payroll management and the carrying forward of budgetary credits to 2011 without a legal liability for payment as required by the financial rules and procedures.

The Board made observations on the following subjects:

- Weaknesses in the originally issued 2010 NAMO Financial Statements.
- Audit scope limitation concerning procurement of defence articles and services under the United States Government FMS Programme.
- Procurement management.
- Prices verification.
- Cash management.
- Payroll management.
- Comparative information of 2009 cash flows and net equity changes not disclosed.

The Board also issued a Management Letter to the General Manager, related to more minor issues noted during the audit.

## **12. NATO MEDIUM EXTENDED AIR DEFENCE SYSTEM MANAGEMENT ORGANIZATION (NAMEADSMO) 2011**

### **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.

NAMEADSMO presented its financial statements for the year ending 31 December 2011 in accordance with accrual-based International Public Sector Accounting Standards (IPSAS). In 2011, NAMEADSMO's expenditures totalled U.S. Dollars (USD) 567 million, consisting of USD 14 million from the Administrative Budget and USD 553 million from the Operational Budget.

### **Audit Highlights**

#### Opinion on the Financial Statements

The Board issued a qualified opinion on the NAMEADSMO Financial Statements for the year ended 31 December 2011.

The Board's opinion is based on the following International Public Sector Accounting Standards (IPSAS 17) related observation:

- The Board is unable to provide assurance regarding the recognition of the cost of items of PP&E as NAMEADSMO's assets, due to the absence of sufficient audit evidence.

#### Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2011 financial statements are, in all material respects, in compliance with authorities which govern them.

The Board made an observation on the following subject:

- The recognition of items of property, plant and equipment (PP&E) as NAMEADSMO's assets had not been analysed at year end 2011.

### 13. NATO MAINTENANCE AND SUPPLY ORGANISATION (NAMSA) 2011

#### 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. Expenses in 2011 were more than EUR 1.6 billion.

The NSPA is as of 1 July 2012 the successor organisation of 3 NATO agencies: NAMSA, NAMA and CEPMA.

#### Audit Highlights

##### Opinion on the Financial Statements

The Board issued an unqualified opinion on the NAMSO Financial Statements for the year ended 31 December 2011.

The Board included an Emphasis of Matter paragraph in its opinion at Appendix 1 to draw the reader's attention to the possible unreliability of information included in Note 20 of the NAMSA Financial Statements. As reported in Note 20 of the financial statements, NAMSA is providing ACO with the valuation of EUR 362 million the ACO owned inventory and PPE to enable ACO to disclose these elements in their financial statements. However, ACO had concerns over the reliability of this data, and as a result, ACO chose to exclude such inventories from their financial statements. The ACO 2011 Financial Statements, page N-13, state that *"ACO has attempted to verify data provided by NAMSA in relation to SHAPE's inventory but has been unable to verify the completeness of inventory holdings at year-end or attest to the accuracy of valuations provided. Therefore, it has decided to exclude these from the financial statements as they are unreliable."* This exclusion of such inventories by ACO was a material omission and might lead to one of the qualifications in the Board's opinion on the 2011 ACO Financial Statements. Our opinion on the NAMSO Financial Statements is not qualified in respect to this matter because the inventory is not reported as NAMSO's in the Statement of Financial Position.

##### Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2011 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 made observations on the following subjects:

- Weakness in validation process related to fuel delivery at Kandahar Airfield (KAF).
- Inconsistent valuation of LP inventory managed outside SAP.
- Potential future liabilities for Nations upon withdrawal from activities before liquidation.
- IPSAS 17, *Property, Plant and Equipment* (PP&E).
- Exchange of information between NAMSA and ACO.

The Board also noted the following other matters during the audit in the following areas:

- Financial reporting considerations for the NATO Support Organisation, including the determination of which activities are required to be presented in consolidated NATO Support Organisation financial statements, and the determination of whether the NATO Support Organisation is acting as an agent or a principal.

The Board also issued a Management Letter to the General Manager, related to more minor issues noted during the audit.

## **14. NATO AIRBORNE EARLY WARNING AND CONTROL PROGRAMME MANAGEMENT AGENCY (NAPMA) 2010**

### **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 U.S. 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 2010 amounted to USD 92 million.

## **Audit Highlights**

### Opinion on the Financial Statements

The Board has issued a qualified opinion on its audit for two reasons. Firstly, the Mid-Term asset in progress value of USD 1.56 billion is materially overstated as part of it had effectively already been delivered to NATO Airborne Early Warning and Control Force (NAEW&CF).

Secondly, the Board was not able to satisfy itself on the value of USD 82.6 million of Large Aircraft Infrared Counter Measure Projects (LAIRCM) assets in progress as at 31 December 2010. This is because the Board does not have access to the indirect contracting processes that are used by the US Government to transform 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 a position to assess that this process is either reliable or results in billings that accurately represent work performed by US contractors.

The Board had previously issued an unqualified opinion on the 2009 financial statements. During the audit of the 2010 NAPMA Financial Statements, however, the Board found evidence of a material misstatement of the opening balance of net assets in 2009. This was due to a change in accounting policy relating to expense recognition for Euro-Canadian subcontractors. The net result was a reduction in opening 2009 net assets of USD 6.7 million. As a result, NAPMA had restated the 2009 net assets in its 2010 financial statements.

### Opinion on Compliance

The Board has issued a qualified opinion on whether, in all material respects, the financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them. This is because, in the Board's opinion, there is material uncertainty over the amounts disclosed for commitments (USD 27.5 million) and obligations (USD 105.6 million) carried forward in the 2010 Budget Execution Statement.

The Board made observations on the following subjects:

- To continue its efforts to provide the Board with sufficient evidence to support the value of all work undertaken by U.S. contractors. In addition, NAPMA should remove from its financial statements the value of the Mid-Term asset that has already been delivered to NAEW&C.
- To continue its efforts to reconstruct budgetary data on commitments and obligations brought forward from 2008. In addition, the agency needs to fix the budgetary reporting weaknesses within SAP to ensure accurate and timely reporting of the budget execution in future.
- To correct the overstatement of miscellaneous revenue on its 2011 financial statements.

- To review its cut-off procedures to ensure that it accounts for expenses in the correct period.
- To ensure that management carries out a review of financial statements prior to issue to avoid basic presentational errors in future; and
- To investigate the reasons for the data errors in the SAP system disclosing payables and accruals. In general, the agency should regularly (i.e. monthly or quarterly) review all balance sheet accounts to ensure data integrity and accurate reporting.

## **15. NATO BATTLEFIELD INFORMATION COLLECTION AND EXPLOITATION SYSTEMS AGENCY (NBA) 2010**

### **Introduction**

The objective of the NATO Battlefield Information Collection and Exploitation Systems Organisation (NBO), comprising the Board of Directors (BoD) and an executive body, the NATO BICES Agency (NBA) is to enable cooperative sharing and exchange of information and intelligence between and among the participants, NATO and other nations and organisations.

The NBO Board of Directors (BoD) is comprised of a representative from each member government and is responsible for the operation and administration of the Agency. The BOD receives guidance on intelligence policy by a Board of Governors, comprising the heads of the national military intelligence service of each member government.

Budget authorisations for the NBA administrative budget and pension scheme for the year 2010 (including brought forward) amounted to EUR 3.4 million while administrative budget expenses amounted to EUR 3.1 million. The payments for operational enhancement projects were EUR 1.0 million in 2010; the authorisations as of 31 December 2010 were EUR 2.0 million.

### **Audit Highlights**

#### Opinion on the Financial Statements

The Board issued an unqualified opinion on the NATO BICES Agency's 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 on the following subjects:

- Comprehensiveness of the financial statements.
- Property, Plant and Equipment (PP&E).

## **16. NATO CONSULTATION, COMMAND AND CONTROL AGENCY (NC3A) 2010**

### **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 2010, NC3A spent a total of Euro (EUR) 418 million.

### **Audit Highlights**

#### Opinion on the Financial Statements

The Board issued an unqualified opinion on the NC3A's 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 on the following subjects:

- 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 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.
- The NC3A Internal Auditor post has been vacant since August 2010.
- Although improvements were noted in the NC3A accrual process, the Board found that further improvements still need to be made in the identification of year-end accrued expenditures for NATO Security and Investment Programme (NSIP) and Third Party projects.
- The Board noted in one case in the financial statements, NC3A has netted EUR 35 million of the received NSIP advances (liabilities) with the other customers' receivables (assets).

The Board also issued a Management Letter to the General Manager, related to more minor issues noted during the audit.

## **17. NATO CONSULTATION, COMMAND AND CONTROL AGENCY (NC3A) 2011**

### **Introduction**

The NATO C3 Agency's (NC3A) mission was to enable NATO success through the unbiased provision of comprehensive Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR) capabilities. NC3A was a part of the NATO Consultation, Command and Control Organisation (NC3O) established in 1996. Since 1 January 2000, NC3A operated under a customer funding regime. In 2011, NC3A spent a total of Euro (EUR) 383.2 million (EUR 33.9 million, or 8.1%, below 2010 costs).

Effective 01 July 2012, NC3A (including Active-Layered Theatre Ballistic Missile Defence (ALTBMD)) is part of the new established NATO Communications and Information Agency (NCIA) along with the NATO CIS Services Agency (NCSA), Information Communication Technology Management (ICTM) and the NATO Air command and Control System Management Agency (NACMA).

### **Audit Highlights**

#### Opinion on the Financial Statements

The Board issued an unqualified opinion on the NC3A's Financial Statements for the year ended 31 December 2011.

#### Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2011 financial statements are, in all material respects, in compliance with authorities which govern them.

The Board made observations on the following subjects:

- Although improvements were noted in the NC3A accrual process, the Board found that further improvements still need to be made in the identification of year-end accrued expenditures for NATO Security and Investment Programme (NSIP) and Third Party projects.
- The Board noted weak contracting arrangements with JFC HQ Brunssum issue: NC3A committed with a supplier for EUR 162 million, on behalf of JFC HQ Brunssum without adequate contract or agreement from JFC HQ Brunssum.
- The Board found that there is a lack of consistency across all NATO entities concerning Property, Plant and Equipment (PP&E) accounting. Additionally the

Board found that NC3A depreciation expenses related to buildings should have been accounted for.

The Board also issued a Management Letter to the General Manager, NATO Communications & Information Agency (NCIA), related to more minor issues noted during the audit.

## **18. NATO CIS SERVICES AGENCY (NCSA) 2010**

### **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 an unqualified opinion on the restated NCSA 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 restated 2010 financial statements are, in all material respects, in compliance with authorities which govern them.

The Board made observations on the following subjects:

- Prepayments and accrued liabilities are overstated.
- No Consolidation of Moral and Welfare Activities.
- Transfer limits not respected.
- Payroll related observations.
- Risk of unauthorized transactions was not adequately and sufficiently mitigated.

The Board also issued a Management Letter to the Director, related to more minor issues noted during the audit.

## **19. NETMA, NAMMO & NEFMO 2010**

### **Introduction**

The NATO Multi Role Combat Aircraft Development, Production and In-Service Support Management Organisation (NAMMO) and the NATO European Fighter Aircraft Development, Production and Logistics Management Organisation (NEFMO), the organisations for the Tornado and Eurofighter 2000 (EF 2000) programmes, are subsidiary bodies of NATO. The participating nations for the Tornado programme are Germany, Italy and the United Kingdom. Spain joined these three nations in the Eurofighter programme. The NATO EF 2000 and Tornado Development, Production and Logistics Management Agency (NETMA) manage the two programmes and their related budgets. The total expenditure in 2010 amounted to EUR 5.57 billion.

NETMA's mandate is to provide the Tornado and EF 2000 participants with efficient and effective programme management to support the long-term in-service activities of the Tornado Weapon System and the development, production and in-service support of the EF 2000 Weapon System.

The consolidation and rationalisation of the functions and programmes of the NATO Agencies into three Agencies, as announced by Heads of State and Government on 20 November 2010, may have a significant impact on NETMA, NAMMO and NEFMO. The Agency disclosed this reform in the financial statements and the fact that the full extent and impact of reform was unknown at the time the financial statements were submitted.

### **Audit Highlights**

#### Opinion on the Financial Statements

The Board issued unqualified audit opinions on the financial statements of NAMMO, and NETMA for the financial year ended 31 December 2010. In addition, the Board issued an unqualified opinion on the restated financial statements of NEFMO for the financial 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 NAMMO, NEFMO and NETMA are, in all material respects, in compliance with the authorities which govern them.

The Board made observations on the following subjects:

### **NEFMO**

- Ensure that it carries out a thorough managerial review of its financial statements prior to their release. In addition, the agency should ensure it fully

reconciles cash payments to accrued expenses to avoid basic accounting errors.

- Fully comply with its Financial Regulations on property accounting by ensuring it discloses all written off property in its financial statements.
- Fully comply with the disclosure requirements in IPSAS 15, including those relating to exposure to credit risk.
- Disclose authorisations from Nations to over and under spend on budgetary chapters as authorised budgetary transfers in the financial statements.

## **NAMMO**

- Develop procedures to ensure that it adequately accrues for expenses at year end. This should involve examining all material invoices between year end and final closing of the books to ensure they are accounted for in the correct financial period. In addition, the agency should introduce procedures to ensure they adequately accrue for goods/services received for which no invoice has been received.
- Fully comply with its Financial Regulations on property accounting by ensuring it discloses all written off property in its financial statements.
- Ensure it carries out a review of financial statements prior to issue to avoid clerical errors in future.

## **NETMA**

- Lapse all identified uncommitted credits relating to the 2009 and 2010 budgets before the end of the 2011 financial year. In addition, the Board recommends that, in future, the agency ensure it complies with NATO and NETMA financial regulations with regard to the carry forward of budgetary credits.
- Carry out a review of financial statements prior to issue to avoid clerical errors in future.
- Ensure that it discloses all contingent liabilities in the notes to the financial statements.
- Refer to its governing legislation in its financial statements in order to comply with IPSAS 1.

## **20. NETMA, NAMMO & NEFMO 2011**

### **Introduction**

The NATO European Fighter Aircraft Development, Production and Logistics Management Organisation (NEFMO) and the NATO Multi Role Combat Aircraft Development, Production and In-Service Support Management Organisation (NAMMO), the organisations for the Tornado and Eurofighter 2000 (EF 2000) programmes, are subsidiary bodies of NATO. The participating nations for the Tornado programme are Germany, Italy and the United Kingdom. Spain joined these three nations in the Eurofighter programme. The NATO EF 2000 and Tornado Development, Production

and Logistics Management Agency (NETMA) manage the two programmes and their related budgets. The total budgetary expenditure in 2011 amounted to EUR 5.03 billion.

NETMA's mandate is to provide the Tornado and EF 2000 participants with efficient and effective programme management to support the long-term in-service activities of the Tornado Weapon System and the development, production and in-service support of the EF 2000 Weapon System.

The consolidation and rationalisation of the functions and programmes of the NATO Agencies into three Agencies, as announced by Heads of State and Government on 20 November 2010, may have a significant impact on NEFMO, NAMMO and NETMA. The Agency disclosed this reform in the financial statements and the fact that the full extent and impact of reform was unknown at the time the financial statements were submitted.

## **Audit Highlights**

### Opinion on the Financial Statements

The Board issued qualified opinions on the NEFMO and NAMMO Financial Statements for the year ended 31 December 2011 due to a scope limitation on the value and completeness of Property, Plant and Equipment for NEFMO and the value of Property, Plant and Equipment for NAMMO. This was because the Board was unable to obtain sufficient appropriate audit evidence in these areas.

The Board issued an unqualified opinion on the financial statements of NETMA for the financial year ended 31 December 2011.

### Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2011 NEFMO, NAMMO and NETMA are, in all material respects, in compliance with the authorities that govern them .

The Board made observations on the following subjects:

#### **NEFMO**

- continue its current initiatives with Industry aimed at providing more reliable and complete data to provide the Board sufficient audit evidence on the value of PP&E;
- encourage the NEFMO Board of Directors to review and conclude as to whether NEFMO is acting as an agent or principal and adopt the appropriate accounting policies;
- continue to develop its management review process further to minimise the presentational misstatements found on the 2011 financial statements;

- disclose the net position relating to the advance contributions and receivables from each nation;
- comply with IPSAS 3 and restate prior year comparative figures when there is a change in accounting policy or the correction of a prior period error;
- introduce regular monitoring of the attribution of access rights and privileges to particular post descriptions. This review should include all staff with access to financial systems including Super Users from the IT department;
- ensure Treasury staff comply with NETMA's password policy and change those passwords every 180 days.

#### **NAMMO**

- continue its current initiatives with Industry aimed at providing more reliable data to provide the Board sufficient evidence on the value of PP&E;
- ensure it examines sufficient invoices by value and volume to ensure the accrual figure disclosed is materially correct;
- continue to work with the Nations to reduce cash holdings to expected expenditure in accordance with the NETMA Financial Regulations, section II, paragraph 91.1.

#### **NETMA**

- review its cut-off controls, especially those relating to cash, to ensure that all transactions are accounted for in the correct financial reporting period;
- either re-establish the post of internal auditor or redeploy existing resources to carry out the role of the internal auditor.

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

### 21. AFNORTH INTERNATIONAL SCHOOL 2011

#### 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 2010/2011 was EUR 5,095,640 (including contingency and capital reserves). The average school population during the year was 878 students.

#### Audit Highlights

##### Opinion on the Financial Statements

The Board issued an unqualified opinion on the AFNORTH International School's restated financial statements for the year ended 31 December 2011.

##### 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 made observations on the following subjects:

- Non-approved deviations from normal procurement procedures.
- Tuition fees difference.
- Quality control and review of the financial statements.
- Lack of disclosure related to funds held for a third party.

## **22. FORACS 2010**

### **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 provides the FORACS' accounting services and issues its financial statements.

Budget authorisations for the year 2010 (including brought forward) amounted to EUR 1.0 million while budget expenses amounted to EUR 0.8 million.

### **Audit Highlights**

#### Opinion on the Financial Statements

The Board issued an unqualified opinion on the NATO FORACS Office's 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 had no observations relating to the 2010 financial statements.

## **23. INTERNATIONAL MILITARY STAFF (IMS), NATO STANDARDISATION AGENCY (NSA) (INCL. PfP-MD-ICI-OMC) 2011**

### **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 2011 were EUR 26.9 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 2011.

### Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2011 financial statements are, in all material respects, in compliance with authorities which govern them.

The Board made observations on the following subjects:

- Disclosing of information relating to Morale and Welfare Activities (MWA).
- Property, Plant and Equipment (PP&E).

The Board also issued a Management Letter to the Director General, related to more minor issues noted during the audit.

## **24. INTERNATIONAL STAFF (IS) 2010**

### **Introduction**

The NATO International Staff (IS) supports the work of the North Atlantic Council (NAC) and its committees. The IS is composed of six divisions, and three independent offices. The IS staffing complement was almost 1,250 at the end of 2010. Total budgetary authorisations for 2010 amounted to EUR 231 million, including EUR 189 million of new credits authorised for 2010.

### **Audit Highlights**

#### Opinion on the Financial Statements

The Board was not able to express an opinion on the IS Financial Statements for the year ended 31 December 2010.

The Board was not able to confirm that expenses in the Statement of Financial Performance and the related payables in the Statement of Financial Position were properly recorded in accordance with the accrual basis of accounting due to limitations in the accounting system used by the IS.

Because of the significance of the matters discussed in the preceding paragraph, the Board was not able to express an opinion on the accrual basis 2010 IS Financial Statements (disclaimer of opinion).

#### Opinion on Compliance

The Board issued an unqualified opinion on the Statement of Budget Execution and confirmed that the underlying transactions of the entity are in all material respects in compliance with budgetary authorisations and applicable NATO regulations. In addition, the Board was able to confirm that the cash balances were, in all material respects, fairly presented.

The Board made observations on the following subjects:

- The continued non compliance with IPSAS as a result of the limitations of the current IS accounting system with the result that the Board's position remains as for the audit of the 2008 and 2009 financial statements; furthermore the Board did not receive a response from the NATO Legal Adviser concerning whether there existed any pending or threatened litigation, claims (including those made to the Appeals Board) or assessments and pending governmental investigations, however a response from the legal adviser dated 7 June 2012 has now been received confirming that the Legal Adviser is not aware of any actions that, at present, are likely to give rise to contingencies.

- The need to determine the best method to account and disclose the assets and liabilities and movements of funds during the year managed by the IS for NHMO in liquidation.
- The need to reclassify “Funds Managed for Third Parties” to the cash section of the Statement of Financial Position and to include the net movements to those funds in the Cash Flow Statement.
- The need to ensure that the approval of transfers by the Financial Controller after the revised budget approval are carried out promptly at year end, explicitly approved and formally documented.
- The need to ensure that bank reconciliations are signed both by the preparer and the Head of Treasury (or deputy) as reviewer.
- The need to ensure that the requirements of IPSAS 1 are followed in general, and in particular when re-classification of items and of comparative amounts are made; and for IS to consider the inclusion of explanatory notes for the Statement of Changes in Net Asset/Equity and the Cash Flow Statement.
- The non-submission of the Statement on Internal Control.
- The removal of financial information from the Budget Execution Statement (Annex 6) relating to the Annex IV Building, and replacement by an expanded note to the IS Financial Statements to more clearly disclose the transactions and balances.

## **25. MSIAC 2010**

### **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 2010, there were 12 MSIAC Member Countries. The staff complement of the MSIAC stood at 9 persons as of the end of 2010. The NATO International Staff Office of Financial Control provides the Agency’s accounting services and issues its financial statements.

Budget authorisations for the year 2010 (including brought forward) amounted to EUR 1.7 million while budget expenses amounted to EUR 1.4 million.

### **Audit Highlights**

#### Opinion on the Financial Statements

The Board issued an unqualified opinion on the MSIAC’s 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 an observation on the following subject:

- Bank reconciliations not signed.

The Board also issued a Management Letter to the Project Manager, related to more minor issues noted during the audit.

## **26. NATO MISSILE FIRING INSTALLATION (NAMFI) 2010**

### **Introduction**

In June 1964, a Multilateral Agreement (MA) established the NATO Missile Firing Installation (NAMFI). The MA provides that NAMFI facilitate the practice firing, by visiting military units, of missile weapon systems such as HAWK and Patriot. The missiles are aimed towards unmanned flying targets. In 2010, there were four User Nations: Belgium, Germany, Greece and the Netherlands. Each year technical arrangements are signed with other nations for use of NAMFI on a cost reimbursable basis. The NAMFI budgetary expenditure for 2010 amounted to EUR 9.78 million and for 2011 amounted to EUR 8.83 million. NAMFI is located in Greece, on the island of Crete.

### **Audit Highlights**

The Board issued an unqualified opinion on the 2010 financial statements.

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

## **27. NATO MISSILE FIRING INSTALLATION (NAMFI) 2011**

### **Introduction**

In June 1964, a Multilateral Agreement (MA) established the NATO Missile Firing Installation (NAMFI). The MA provides that NAMFI facilitate the practice firing, by visiting military units, of missile weapon systems such as HAWK and Patriot. The missiles are aimed towards unmanned flying targets. In 2011, there were four User Nations: Belgium, Germany, Greece and the Netherlands. Each year technical arrangements are signed with other nations for use of NAMFI on a cost reimbursable basis. The NAMFI budgetary expenditure for 2011 amounted to EUR 8.83 million. NAMFI is located in Greece, on the island of Crete.

## **Audit Highlights**

### Opinion on the Financial Statements

The Board issued an unqualified opinion on the NAMFI Financial Statements for the year ended 31 December 2011.

### Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2011 financial statements are, in all material respects, in compliance with authorities which govern them.

The Board had no observations relating to the 2011 financial statements.

## **28. NATO DEFENCE COLLEGE (NDC) 2011**

### **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 total budgetary authorisations for the NDC for the year ended 31 December 2011 were EUR 8.881 million.

### **Audit Highlights**

#### Opinion on the Financial Statements

The Board issued an unqualified opinion on the NDC Financial Statements for the year ended 31 December 2011.

#### Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2011 financial statements are, in all material respects, in compliance with authorities which govern them.

The Board made observations on the following subjects:

- Disclosing of information relating to Morale and Welfare activities (MWA).
- Reporting of Field Study Receipts and Payments as NDC Revenue and Expenditure.
- Property, Plant and Equipment (PP&E).

## **29. NATO DEFINED CONTRIBUTION PENSION SCHEME 2010**

### **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 NATO DCPS's assets at 31 December 2010 was EUR 93.3 million. 2,632 members contributed to the DCPS in 2010.

The DCPS Financial Statements are prepared in conformity with the International Public Sector Accounting Standards (IPSAS) and International Accounting Standard (IAS) 26 *Accounting and Reporting by Retirement Benefit Plans*.

### **Audit Highlights**

#### Opinion on the Financial Statements

The Board issued an unqualified opinion on the NATO DCPS's 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 an observation on the following subject:

- The late submission of the financial statements.

## **30. NATO PARLIAMENTARY ASSEMBLY (NATO P.A.) 2011**

### **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 2011.

### 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 had no observations relating to the 2011 financial statements.

The Board also issued a Management Letter to the Secretary General, NPA, related to more minor issues noted during the audit.

## **31. NATO DEFINED BENEFIT PENSION SCHEME 2009**

### **Introduction**

The NATO Pension Scheme applies to all staff recruited between 1 July 1974 and 30 June 2005. On 31 December 2009, the Pension Scheme supported 2,783 pensioners, and over 3,650 staff pay into the Scheme. Members of staff recruited prior to July 1974 are members of the Provident Fund. Staff members recruited after 1 July 2005 are members of the Defined Contribution Pension Scheme.

The Pension Scheme is an “unfunded, defined benefit plan”. Benefits are paid as a proportion of the final salary. The NATO civilian staff become eligible for a pension after 10 years of service. The NATO civilian staff who depart before 10 years of service receive a leaving allowance. The Scheme includes provisions for invalidity, survivor’s, orphan’s and dependant’s pensions.

The benefits of the Pension Scheme are paid from annual budgets mainly financed by the nations. In 2009, serving staff contributed 8.9% of their basic salary to the Pension Scheme. On a long term actuarial basis, staff contributions are intended to finance one-third of the costs of the Pension Scheme. The member states jointly guarantee the payment of benefits. Total payments made under the Pension Scheme for 2009 amounted to EUR 106 million.

## **Audit Highlights**

### Opinion on the Financial Statements

The Board issued an unqualified opinion on the NATO Defined Benefit Pension Scheme (DBPS) Financial Statements for the year ended 31 December 2009.

### 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 made observations on the following subjects:

- Entitlement to leaving allowance.
- Non-submission of Statement on Internal Control.

## **32. NATO PROVIDENT FUND 2010**

### **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 2010 was EUR 36 million. As at that date, there were 83 members contributing to the Fund.

### **Audit Highlights**

#### Opinion on the Financial Statements

The Board issued an unqualified opinion on the Provident Fund's 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 had no observations relating to the 2010 financial statements.

### **33. NEW NATO HQ 2010**

#### **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 2010, which is the twelfth operational year of the project, total EUR 53.4 million, of which EUR 38.7 million relates to the 2010 budget and EUR 14.7 relates to credits brought-forward from prior year budgets.

The New NATO Headquarters project is managed in accordance with the NSIP model and Belgium and NC3A are the Host Nations. The estimated date for completion of the project is 2015 with an overall cost of EUR 1.0 billion.

#### **Audit Highlights**

##### Opinion on the Financial Statements

The Board issued an unqualified opinion on the New NATO Headquarters' 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 had no observations relating to the 2010 financial statements.

The Board also issued a Management Letter to the NATO Secretary General, related to more minor issues noted during the audit.

### **34. REPRESENTATION ALLOWANCES 2011**

#### **Introduction**

The International Board of Auditors for NATO (Board) audited the Representation Allowance expenditures of senior NATO officials for the year ended 31 December 2011. 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 continued to note improvements compared to the past years in terms of compliance with most guidelines related to Representation Allowance.

The Board notes a scope limitation to the Representation Allowance audit given that the Secretary General and Deputy Secretary General do not submit their Representation Allowance reports to the Board for audit.

In general, the Representation Allowance expenditures for 2011 were reported by the recipients in compliance with the Permanent Representatives' accountability requirements. The total of the allowances paid in 2011 by NATO for representational purposes (not including the Secretary General and the Deputy Secretary General) amounted to EUR 226,197, of which EUR 44,624 was used as rental supplement; EUR 133,288 was presented as receipted representational expenditure, and EUR 10,181 was presented as self-certified expenditure.

The Board recommended that the Permanent Representatives of the North Atlantic Council (NAC) agree to the proposed guideline changes by Executive Management as part of the ongoing review of allowances. Furthermore, in the Board's opinion, the Nations should direct the Secretary General and Deputy Secretary General to submit their Representation Allowance expenses for annual audit by the Board.

## **35. NATO RESEARCH AND TECHNOLOGY AGENCY (RTA) 2010**

### **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 supporting agency of the RTO's is the Research and Technology Agency (RTA). The RTA is funded by the Military Budget Committee (MBC), (for its office in Paris, France), and the Civil Budget Committee (CBC) (for a small element in NATO HQ).

Total RTA expenditure for 2010 was EUR 5.391 million.

The consolidation and rationalisation NATO Agencies is expected to have an impact on the RTA in 2012. The Nations have been presented with proposals transforming the RTA into a Programme Office for Collaborative Science and Technology by July 2012.

## **Audit Highlights**

### Opinion on the Financial Statements

The Board issued an unqualified opinion on the RTA 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 financial statements are, in all material respects, in compliance with authorities which govern them.

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

## **36. SHAPE INTERNATIONAL SCHOOL 2011**

### **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 2011 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's financial statements for the year ended 31 December 2011.

#### 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 made observations on the following subjects:

- The actual consumption not provided related to electricity and gas billing.
- The late and not exhaustive billing of the payroll invoices.

The Board also issued a Management Letter to the Director General, related to more minor issues that were noted during the audit.

## PERFORMANCE AUDITS AND SPECIAL STUDIES

### 37. SPECIAL REPORT TO COUNCIL ON AGENCIES REFORM IMPLEMENTATION PLANNING

#### Introduction

In accordance with Article 17 of its Charter, the International Board of Auditors (Board) is providing this special report to the North Atlantic Council (Council) with the objective of determining the extent to which implementation planning for NATO Agencies Reform incorporates the critical success factors that the Board identified in a March 2011 special report to Council. Drawing on analysis of documents and NATO agencies' responses to a questionnaire, meetings with existing and new agency personnel and staff responsible for implementing the reform, and attendance at various committee and board meetings, the Board examined the current status of Agencies Reform in the context of its previously issued work. The Board also developed areas where further action could be taken to help NATO achieve its reform goals.

#### Audit Highlights

##### ***Evidence to support the decision to reform is limited***

In its previous report on critical success factors for Agencies Reform, the Board highlighted the importance of a detailed assessment of the current agencies' structures and sound business cases developed prior to the decision to reform. Based on the Board's assessment of the business cases and supporting documentation produced by NATO staff, the existing analysis justifying NATO Agencies Reform provides limited information on current agencies' performance in terms of overall effectiveness and efficiency. Without a more complete picture of the status quo, Nations cannot be assured that the new structure will represent an improvement. The Board recommends that the Nations request the new agency general managers to make appropriately detailed reference to current arrangements, including weaknesses in effectiveness, efficiency and environment, in their detailed agency designs, to be produced prior to 1 July 2012.

The Board's earlier report also found that the business cases should include a detailed breakdown of the reform's expected savings, and the projected short and long-term implementation costs. Nations set a savings target that has not been substantiated; to achieve consensus, expenditure areas related to programme execution were not subject to savings. As a result, the official savings target comprises only about one third of the business volume over which Council has control. Within these limits, the business cases and supporting cost-benefit analyses reveal no savings except those that may come from shared services<sup>1</sup>, although the Nations left open the possibility of

---

<sup>1</sup> Shared services refers to the standardization, re-engineering and consolidation of an organization's resources performing similar support activities, such as Information Technology, human resources, and finance.

further savings. The Board recommends the Nations clarify the full extent of further savings they expect the new agency general managers to achieve, including timelines and conditions under which savings may encompass programme execution. The Board further recommends that Nations state their expectations for increased effectiveness and efficiency so that appropriate goals and milestones can be developed in those areas.

NATO staff identified only those transition costs to be incurred through 1 July 2012; all costs after that date are to be incurred by the new Agencies. Although some work is on-going, Nations have not officially requested a refinement of agencies' expenditure baselines. In addition, the costs of Agencies Reform have not been uniformly tracked, which will hinder the quantification of future savings. Without establishing a clear baseline and implementing a consistent expenditure monitoring mechanism, future savings from Agencies Reform could be misinterpreted as general cost reductions or cost avoidance. The Board recommends the Nations direct NATO staff, in coordination with the agency general managers, to:

- Refine the existing baseline.
- More clearly identify all Agencies Reform costs incurred to date.
- Develop a consistent NATO-wide cost monitoring mechanism to track and report all future costs.
- Include the full range of costs incurred to date in the general managers' plans to achieve greater savings.

In regards to shared services, the Board recommends the Nations make the internal and external investments necessary to complete the business case and to act as an "intelligent customer" in their engagement with any external consultant. The Board further recommends that the Nations discuss alternatives should NATO staff continue to be unavailable to join the team responsible for detailed shared services planning and implementation.

### ***No NATO-wide accountability for delivering reform past 1 July 2012***

NATO has achieved significant progress in Agencies Reform. However, insufficient resources and process weaknesses, e.g. the lack of a mechanism to limit agreed charter text from further discussion, contributed to delays and risk management challenges, among others. A work plan used by NATO staff and committees overseeing Agencies Reform until 1 July 2012 lists approximately half the tasks necessary to establish the agencies on 1 July 2012 as complete. Although it has identified risks to Agencies Reform, the Change Management Support Team (CMST) has not fully managed them. In particular, it has not identified risk owners or risk status, has not regularly updated its risk register, and has difficulty communicating these risks at higher levels. Unless the CMST takes steps to fully manage the risks it has identified, the Nations may be less able to mitigate their effects. The Board recommends that the CMST complete its risk register according to accepted risk management principles and provide an update ahead of the April 2012 Joint Ministerial meeting. To mitigate the possibility of further delays in charter development, the Board

recommends that Nations implement a process to prevent further charter revisions after text is agreed.

While it is too early to assess most detailed transition planning activities, NATO lacks formal guidance regarding how and when the financial accounts and accounting periods of the old agencies will be closed and those of the new agencies opened. To ensure accountability and consistency, the Board recommends the Nations issue clear guidance to agencies regarding closing the financial accounts for entities that will no longer exist after 1 July 2012.

The Board's March 2011 report emphasized the need to ensure accountability for each reform phase. The Board found that accountability for the current phase of Agencies Reform is well-defined and that NATO and agency staff have made progress towards the goal of establishing the new agencies on 1 July 2012. The successful recruitment of the general managers of the Communications and Information (C&I) and Support Agencies in early January 2012 represented a major step forward. However, NATO-wide accountability for post-1 July 2012 reform activities has not been established. Without a senior NATO leader designated as a "change champion," the Nations risk losing sight of their reform goals and hindering the ability of the new agencies' management teams to achieve them. The Board strongly recommends the Nations assign a senior NATO leader to oversee Agencies Reform post-1 July 2012 and coordinate with the general managers to implement a results-based management framework. This individual should also lead the coordination of Agencies Reform with other transformation initiatives occurring within NATO.

***Proposed governance arrangements may conflict with reform goals***

In its March 2011 report, the Board stressed the significance of clearly defined governance roles and responsibilities at the organizational and programme level. For multinational programmes, the agencies' charters' definition of autonomous Programme Boards clearly limits the general managers' ability to independently reform Programme management. For common-funded Programmes, the proposed addition of Steering Committees would duplicate governance functions already performed by Resource and Senior Policy Committees, leaving roles and responsibilities less clear. The Nations may be unable to exercise effective and efficient governance without determining, prior to establishing Steering Committees, the risks of not having dedicated common-funded Programme governance. To avoid potential conflicts, the Board recommends a detailed risk analysis. Should the risk analysis establish a case for Steering Committees, Terms of Reference and guidance for Resource and Senior Policy Committees should be updated to accurately reflect the governance roles for these existing organizations as they relate to the new bodies.

Major changes in agency structures and processes may be necessary at all levels to meet reform goals. Granting multinational Programmes full autonomy and maintaining duplicative common-funded Programme governance may limit the new agency general managers' ability to demonstrate that these goals can be fully met. To maximize the possibility of achieving established reform goals, the Board recommends the Nations direct NATO staff to assess the performance of each agency's governance model after 2012. The Board further recommends that the general managers include in their forthcoming reports on potential savings the extent to which, if at all, the agreed governance models may limit the full achievement of reform goals over time and their recommended changes, if any.

In its March 2011 report, the Board noted the importance of funding arrangements for the agencies (where does the money come from) and obtaining comprehensive data on current agencies' spending (where does the money go). The Board found that the Nations approved a pure customer funded model<sup>2</sup> for all the new agencies on the basis of principles, not analysis. However, each agency has its own unique set of complexities that will require further assessment during the development of detailed funding arrangements in the near future. Without directing an analysis of how current customer funded arrangements have performed at NATO, Nations will be unable to ensure that the funding frameworks for the new agencies are appropriately designed to reflect these complexities. Accordingly, the Board recommends the Nations direct an analysis of how customer-funded regimes at NATO have performed over time.

### **38. SPECIAL REPORT TO COUNCIL ON THE MANAGEMENT OF NATO FUEL CONTRACTS FOR ISAF AND TROOP CONTRIBUTING NATIONS**

#### **Introduction**

The Board issued a special report to Council on the Management of NATO ISAF Fuel Contracts for ISAF and Troop Contributing Nations. Since 2006, the Joint Force Command Headquarters Brunssum (JFCBS)-managed fuel contracts have expanded to over EUR 2 billion per year (including direct NATO spend, and spend by Troop Contributing Nations (TCNs) purchasing fuel through NATO under the same contract). As part of its audit of the 2011 financial statements, the Board was informed that ACO Internal Audit was concluding work on the fuel contract, following work commissioned by JFCBS. The Board held discussions with Internal Audit, agreed with the conclusions reached, and undertook its own interviews and contract file reviews, in order to produce a Special Report to Council on some key weaknesses in contract management.

---

<sup>2</sup> Customer funding is the mechanism whereby the agency receives its funding on the basis of an agreement with the fund provider defining the scope, the cost and the timelines of the product or service to be provided.

## **Audit Highlights**

The Board's recommendations focused on the need to:

- Improve the clarity of certain contract clauses;
- Adequately resource the contract management of such large cost reimbursement contracts; and
- Include robust audit clauses to sufficiently verify costs passed on to NATO and TCNs.

## **39. SPECIAL REPORT TO COUNCIL ON THE PERFORMANCE AUDIT SURVEY OF THE NEW NATO HEADQUARTERS PROJECT**

### **Introduction**

The audit work in this survey was conducted in accordance with the standards and guidelines for performance auditing based on the International Organization of Supreme Audit Institution's (INTOSAI) Auditing Standards, the Board also draws upon the standards and practices of other disciplines.

### **Audit Highlights**

The project management of the NATO Headquarters Project Office (HQPO) is the object of the present study. This audit survey was conducted without detailed verification. The project was assessed using the commonly accepted principles of Managing Successful Projects with Prince 2 methodology. The Board conducted a desk review of documents, attended committee meetings, conducted working-level and senior management level interviews and reviewed some sample transactions. As such, the conclusions and recommendations made in this performance audit survey provide less assurance than a full performance audit. However, the information contained in this survey may be used to inform senior management and governing bodies to allow for optimal decision-making.

The construction project appears to be reasonably well-governed. It is closely monitored by the DPRC, the International Board of Auditors for NATO, and the Belgian Cour des comptes. Due to the high visibility of the project, the interest of the Nations, and the enormous cost, it was important to investigate the questions proposed. However, at this early stage in the project's actual implementation, this performance audit survey finds that any additional audit work may result in an unjustified additional audit burden on entities that are working against a tight deadline. Due to the low risk identified to HQPO's project management and governance, the Board will not proceed with a full performance audit at this time.

The Board will monitor future developments in parallel with the Annual Financial Statement Audit of the project. The Board will also seek to formalize and strengthen collaboration with the Belgian Cour des comptes by regularly exchanging information on

a more systematic basis. The Board will include the Transition Office and its Board as part of its ongoing risk assessment as they will be key in determining the risks, costs and processes that will transition NATO as it is today into what NATO will look like when it is headquartered across the boulevard.

The Board recommends that the Deputy Permanent Representatives Committee continue to ensure the proper stewardship of all the activities related to the New NATO Headquarters project as it evolves. Further, the Board recommends the DPRC give special consideration to the Transition Office's O&M plans and activities in order to ensure an optimal O&M infrastructure for the new headquarters.

**AUDIT UNIVERSE AND DIRECT COST OF THE AUDIT  
IN 2012**

**AUDIT UNIVERSE AND DIRECT COST OF THE AUDIT IN 2012**

**AUDITED UNIVERSE AND DIRECT COST OF THE AUDIT IN 2012**

BODIES	Audited Universe in 2012 Million EUR (1)	Auditor Time (days) (2)	Salary + Travel 2012 EUR (3)
<b>FINANCIAL STATEMENT</b>			
ACO Group	1,072.00	352.71	298,123
ACT Group	149.00	153.20	147,970
IFC	3.40	20.43	17,556
JCBRN	-	2.52	1,885
MNCG	1.74	26.17	22,150
COE DAT	1.70	23.79	19,106
NRDC - IT	4.80	28.26	23,335
NRDC - GNL	3.60	1.96	1,464
NRDC - SP	2.42	17.35	17,523
NRDC - TU	3.10	15.11	14,220
BICES	4.90	34.14	25,540
CEPMO	119.44	151.66	127,754
NACMO	139.00	51.76	38,720
NAGSMA	5.47	14.83	11,096
NAHEMO	550.90	52.60	48,382
NAMA	77.37	89.26	70,122
NAMEADSMO	447.09	56.39	55,439
NAMMO-NEFMO-NETMA	5,030.00	246.80	224,426
NAMSO	1,600.00	317.31	276,953
NAPMO	68.74	95.42	79,859
NC3A	383.20	179.51	141,172
NCSA	103.90	90.38	71,676
AFNORTH SCHOOL	3.47	26.31	23,465
DCPS	109.80	34.97	26,161
FORACS	0.90	19.31	14,444
IMS (Incl. NSA, PfP, MD)	21.06	28.96	21,667
IS	185.80	111.92	83,723
IS New HQ	45.90	53.44	39,977
IS Staff Center	4.36	56.10	41,965
MSIAC	1.50	19.31	14,444
NAMFI	8.83	33.30	29,469
NADEFCOL	10.65	22.11	17,915
NPA	3.79	21.83	17,224
PENSION SCHEME	118.00	47.29	35,371
PROVIDENT FUND	26.00	27.15	20,306
REP. ALLOWANCE	0.18	19.86	14,858

RMCF	161.79	34.14	25,540
RTA	5.25	14.27	13,470
SHAPE SCHOOL	2.56	11.61	9,596
<b>Subtotal</b>	<b>10,481.6</b>	<b>2,603.45</b>	<b>2,184,068</b>

**NSIP AUDIT**

NSIP FS ALT Procedure	-	7.73	5,783
ACO	-	0.00	0.00
ACT	0.59	8.28	7,451
BELGIUM	-	0.00	0.00
CEPMO	7.80	18.02	15,293
CZECH REPUBLIC	10.13	18.40	16,425
DENMARK	7.47	0.50	374
ESTONIA	-	0.00	0.00
FRANCE	-	0.00	0.00
GERMANY	74.35	32.38	29,397
GREECE	56.80	22.44	21,087
HUNGARY	1.03	0.50	2,901
ITALY	33.84	26.11	22,374
LATVIA	-	0.00	0.00
LITHUANIA	11.90	18.40	16,008
NACMO	18.83	0.18	136
NAMSA	-	1.47	1,098
NC3A	118.06	120.00	89,765
The NETHERLANDS	8.17	11.95	10,006
NORWAY	40.90	35.49	30,934
POLAND	-	0.00	0.00
PORTUGAL	0.73	0.50	903
SLOVENIA	0.85	0.50	374
SPAIN	24.00	11.41	11,733
TURKEY	28.36	20.61	16,791
UNITED KINGDOM	23.66	0.50	374
UNITED STATES	89.93	31.09	25,452
<b>Subtotal</b>	<b>557.4</b>	<b>386.44</b>	<b>324,658</b>

**PERFORMANCE AUDITS**

Agency Reform		185.22	138,552
FinS Implementation		38.78	29,011
ISAF Fuel Contracts		28.77	22,781
Manpower Management		20.21	15,118
New NATO HQ		96.48	72,276
New Performance Structure		19.72	14,753
Office of Shared Services		7.56	5,653
Performance WG		29.58	22,125
<b>Subtotal</b>		<b>426.31</b>	<b>320,268</b>

<b>STUDIES</b>		
Agency New Structure	36.91	27,611
FS Scope	4.93	3,690
TeamMate Maintenance	1.85	1,381
<b><i>Subtotal</i></b>	<b>43.69</b>	<b>32,682</b>
<b>SUPPORT TO BOARD</b>	<b>272.24</b>	<b>205,957</b>
<b>ADMINISTRATION</b>	<b>300.13</b>	<b>224,510</b>
<b>TRAINING</b>	<b>186.00</b>	<b>140,825</b>
<b>GRAND TOTAL</b>	<b>4,218.3</b>	<b>3,432,968</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 2012. For the NSIP, the amounts represent the amount audited in 2012.

Column (2)

Represents the number of staff days expended by the Board for the audit during 2012.

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 569.1 and the salaries and allowances of Board Members that are at a national charge.

## INTERNATIONAL BOARD OF AUDITORS FOR NATO (IBAN)

### International Board of Auditors for NATO (IBAN) Annual Performance Plan 2013

#### 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 2013 is based upon the goals and objectives identified in the 2010-2014 strategic plan and establishes which objectives and strategies will have priority during 2013. It includes key performance indicators and targets for the various objectives to be achieved during 2013.

#### **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>Objective</b>	<b>Key Performance Indicator</b>	<b>Target</b>
<i>Develop Risk-Based Audit Methodology</i>	Implement the Project Management Plan for the Risk Based Audit Approach in 4 entities by end 2013.	100%

<b>Objective</b>	<b>Key Performance Indicator</b>	<b>Target</b>
<i>Improve audit efficiency and effectiveness</i>	Percentage of observations and recommendations settled/closed within a 3-year period of the report date.	80%
	Percentage of audits completed by scheduled milestones for: a) Planning (including review) b) Fieldwork (including review) c) Reporting (including review)	90%
<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 Infrastructure 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>Improve audit efficiency and effectiveness</i>	Programme audits within 6 months of national requests.	100%
	Increase the ratio of audited and certified amounts to resources used (time spent).	EUR 400 million per staff-year
	Percentage of NSIP Letters of Observations settled/closed within a 3 year period	80%

**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 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>	Implement revised IBAN performance audit guidance and TeamMate structure in 2013.	100%
	Get assistance from at least four SAIs for 2013 performance audits and special reports.	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 at least 20%.	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. Ensure that newly acquired information is shared among audit staff.

**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 – Providing information on essential audit activities on the IBAN website.

Strategy 4.4 – Seeking the Council’s agreement on publicising IBAN’s selected individual audit reports.

Strategy 4.5 – 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%
	Conduct a survey of staff satisfaction in 2013.	100%
<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 TeamMate structure and supporting documentation in 2013.	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>	Prepare press releases on selected IBAN audit reports with Council approval.	100%

## LIST OF ABBREVIATIONS

ACO	Allied Command Operations
ACT	Allied Command Transformation
AFNORTH	Allied Forces, Northern Europe
AGS	Alliance Ground Surveillance Support Staff
AHWG	Ad-Hoc Working Group
ALTBMD	Active-Layered Theatre Ballistic Missile Defence
ARRC	Allied Rapid Reaction Corps
BC	Budget Committee
Board	International Board of Auditors for NATO
BoD	Board of Directors
BPO	Belgian Pipeline Organisation
CBC	Civil Budget Committee
CEPMA	Central Europe Pipeline Management Agency
CEPMO	Central Europe Pipeline Management Organisation
CEPS	Central Europe Pipeline System
CMST	Change Management Support Team
CNABs	Competent National Audit Bodies
COE-DAT	Centre of Excellence against Terrorism
COFFA	Certificate of Final Financial Acceptance
Council	North Atlantic Council
DBPS	Defined Benefit Pension Scheme
DCPS	Defined Contribution Pension Scheme
DPRC	Deputy Permanent Representatives Committee
EUR	Euro
FinS	Financial Service
FMS	Foreign Military Sales
FORACS	NATO Naval Forces Sensor and Weapons Accuracy Check Sites
GSU	General Services Unit
HQ	Headquarters
HQPO	Headquarters Project Office
HQ RRC	Headquarters Rapid Reaction Corps
IBAN	International Board of Auditors for NATO
IC	Infrastructure Committee
ICI	Istanbul Cooperation Initiative
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

JFCBS	Joint Force Command Headquarters Brunssum
ICTM	Information Communication Technology Management
ISAF	International Security Assistance Force
MBC	Military Budget Committee
MC	Military Command
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
MWA	Morale and Welfare
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
NAMEADSMA	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
NAMO	NATO Airlift Management Organization
NAMMO	NATO Multi-Role Combat Aircraft Development and In-Service Support 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
NCIA	NATO Communications & Information Organisation-Agency
NCSA	NATO CIS Services Agency
NDC	NATO Defence College
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
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
NSPA	NATO Support Agency
O&M	Operations and Maintenance
OMC	Other Military Cooperation
PfP	Partnership for Peace
PP&E	Property, Plant & Equipment
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
TCN	Troop Contributing Nations
USD	United States Dollar
US	United States
VAT	Value Added Tax