	NATO	NORTH ATLANTIC COUNCIL
	OTAN	CONSEIL DE L'ATLANTIQUE NORD

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13 December 2018

DOCUMENT
C-M(2018)0064-AS1

**INTERNATIONAL BOARD OF AUDITORS FOR NATO PERFORMANCE AUDIT ON THE
NATO BUDGET PREPARATION AND APPROVAL PROCESSES**

ACTION SHEET

On 12 December 2018, under the silence procedure, the Council noted that the Budget Committee will continue its efforts to improve the overall budget processes, noted the Budget Committee report attached to C-M(2018)0064 and agreed to the public disclosure of this report and the associated IBAN performance audit. The Budget Committee will take into account the findings identified in the IBAN performance audit in preparation for the review of the NATO Financial Regulations in 2020.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2018)0064.

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5 December 2018

DOCUMENT
C-M(2018)0064
Silence Procedure ends:
12 Dec 2018 17:30

**INTERNATIONAL BOARD OF AUDITORS FOR NATO PERFORMANCE AUDIT ON
THE NATO BUDGET PREPARATION AND APPROVAL PROCESSES**

Note by the Secretary General

1. I attach a report prepared by the Budget Committee and endorsed by the Resource Policy and Planning Board on the IBAN performance audit on the NATO budget preparation and approval processes.
2. I do not believe this issue requires further discussion. Therefore, **unless I hear to the contrary by 17:30 hours on Wednesday, 12 December 2018**, I shall assume that the Council notes that the Budget Committee will continue its efforts to improve the overall budget processes, notes the Budget Committee report and agrees to the public disclosure of this report and the associated IBAN performance audit. The Budget Committee will take into account the findings identified in the IBAN performance audit in preparation for the review of the NATO Financial Regulations in 2020.

(Signed) Jens Stoltenberg

1 Annex
1 Enclosure

Original: English

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**INTERNATIONAL BOARD OF AUDITORS FOR NATO PERFORMANCE AUDIT ON
THE NATO BUDGET PREPARATION AND APPROVAL PROCESSES**

Report by the Budget Committee

Reference:

A. IBA-A(2017)187

INTRODUCTION

1. At reference A, the IBAN submitted a performance audit report on the NATO budget preparation and approval processes. This report provides the Budget Committee's (BC) position on the observations and recommendations made by the IBAN.

BACKGROUND

2. The audit objectives were to assess if the NATO budget preparation and approval process was efficient and effective and if the budget process and practice was consistent with good budget principles and practice. The IBAN found that:

- a) NATO's budget preparation and approval process can be made more efficient;
- b) budgetary governance and administration at NATO is complex and involves many stakeholders and products;
- c) the process lacks effectiveness, is slow moving and could be made more flexible;
- d) it does not allow for taking optimal proactive budgetary decisions and does not easily enable cross cutting prioritisation;
- e) there were differences between standard budgetary principles and the current situation at NATO.

DISCUSSION

3. The BC welcomes the performance audit conducted by the IBAN into the budget preparation and approval process which has provided a valuable insight and useful ideas and suggestions to support further work by the BC in its leading role reviewing, monitoring, evaluating and making budgetary recommendations. The BC is reassured that the IBAN report has not identified any major new issues related to the problems and challenges in the budget preparation and approval process.

4. The BC notes that the IBAN acknowledged that the conduct of the audit coincided with on-going efforts to enhance to the budget and planning processes, such as improvements to the Medium Term Resource Plan (MTRP), improvements in the governance of common funded capabilities and operational performance measurement in the Civil Budget. The BC further points out that it too routinely looks at ways to improve the preparation of the budget in its development of the annual budget guidance and that it also

did so in 2017 as part of the lessons learned exercise into the application of the NATO Financial Regulations and associated Financial Rules and Procedures¹. The BC granted additional delegated flexibility to FC's below a threshold of €80,000 for the approval of contract authority. It is also worth pointing out that as part of the Budget recommendations approved by Council in December 2017² the BC was granted delegated authority to approve special carry forward requests. The BC believes that progress has thus been made in the budget preparation and approval process since the IBAN conducted its performance audit. The BC has a standing mandate to look at ways to improve the overall budget process and as part of its on-going efforts the findings contained in the IBAN performance audit (e.g. multi-year budgets and risk analysis) could serve as the basis for further discussions by the BC.

5. As part of its performance audit, the IBAN made a number of recommendations which are set out below together with the response of the BC.

5.1. IBAN recommendation: In the short term, Council should establish authoritative and accepted timelines for all processes that are part of, or contributing to, the NATO budget process and ensure that budgets are not submitted to the BC for review and screening prior to approval of the budget ceilings.

5.2. BC response: The BC firmly believes that the authoritative deadlines for the budget process already contained in the NATO Financial Regulations (NFRs) must be complied with and that deadlines for the approval of budget ceilings should be addressed as part of the NFR review to be conducted in 2020. The BC is however, cautious about the effectiveness of fixed milestones for approval of resource ceilings given the fundamental political aspects involved with the overarching requirement to achieve consensus at NATO.

5.3. The BC strongly supports the timely approval of the resource ceilings in order to effectively inform the preparation, screening and approval of the detailed annual budgets. The BC notes that the RPPB has also concluded³ that corrective measures are needed to address time management and discipline of both future contribution ceilings and of the MTRP. The BC does not support the IBAN recommendation that Council should ensure that "budgets are not submitted to the BC for review and screening prior to approval of the budget ceilings". Nevertheless, the BC agrees with the IBAN that, in principle, budgets should be submitted to the BC after the approval on time of the budget ceilings. Therefore, in order to avoid further delays and a higher risk of interim financing, the BC believes that some flexibility should be retained, only if necessary, to begin budget screening while work on ceilings is being finalised. The BC is however, clear that budgets can only be submitted to Council for approval on the basis of agreed ceilings.

¹ BC-D(2017)0199-FINAL

² C-M(2017)0063

³ C-M(2017)0077

6. IBAN recommendation: For the medium term, Council should enhance budgetary efficiency and effectiveness as well as increased transparency and accountability by adopting Organisation for Economic Cooperation and Development (OECD) budgetary principles including the creation of a single NATO budget policy and guidelines.

6.1. BC response: The BC notes that the IBAN audit shows that NATO compares well in three of the four commonly accepted budget principles (universality, annuality and specification) and the IBAN finding that the principle of unity is not currently followed. The BC believes that there is a sound rationale for the separate and devolved nature of the three principle sources of managing NATO common funding; the civil and military budgets and the NATO Security Investment Programme (NSIP) as well as for separate Trust Funds. The BC notes the on-going work to regularise the management of Trust Funds. The BC also notes that presentation of the civil and military budgets for approval is aligned to the extent possible and further notes that the RPPB Annual Report covers the presentation of the NSIP, the military and the civil budgets. The BC also notes the goal to improve the evaluation of performance by assessing clearly and objectively what was achieved for the common funded resources made available.

6.2. The BC fully shares the underlying aim of the IBAN to improve the efficiency and effectiveness of the budget preparation and approval process. However, the BC does not necessarily share all the views expressed in the performance audit how this is best achieved. The BC does not support the integration of the NSIP (since it is not a budget but a programme) into a consolidated budget suggested by the IBAN as some Nations have very strict national rules about national contributions to NATO that preclude such a measure. The BC is reassured by the IBAN's clarification in its report that they did not propose mixing NATO civil and military budgets given that they receive contributions from different national funding sources.

7. IBAN recommendation: Council should establish a centralised budget entity accountable for the preparation and the details of the budget based on common methodologies used for budget preparation.

7.1. BC response: The BC recognises that the IBAN have raised the notion of a centralised budget entity before⁴. The BC is not yet convinced that establishing a centralised budget entity is a necessary step to improve the methodologies and guidance used for budget preparation. The BC will take into account the IBAN findings in further work on what can and should be done to harmonise guidance for the preparation of the civil and military budgets and on the presentation of budget recommendations to Council). The BC believes that there are advantages in the current devolved system where the heads of individual NATO bodies and budget holders are responsible and accountable for the financial resources needed to meet their assigned tasks.

⁴ The IBAN Special Report on IPSAS implementation and the way ahead (C-M(2012)0038) and again as part of the IBAN Annual Activities Report for 2015 (C-M(2016)0073)

8. IBAN recommendation: Council should streamline the roles and responsibilities of the budget preparation and associated governance processes (Council, the Military Committee, RPPB and BC) to facilitate the provision of strategic budget information to committees to enable them to make cross-cutting budgetary and prioritisation decisions.

8.1. BC response: In addition to the changes made to improve the resource planning process in 2015⁵, the BC notes that a great deal of work has been undertaken to streamline the governance arrangements of the resource committees (RPPB, BC and Investment Committee) and the Military Committee in response to the separate IBAN recommendations on efforts to improve the delivery of common funded capabilities. Noting that this particular IBAN recommendation was for the medium term, the BC believes that the need for further work in this area could be considered as part of the review of the NFRs due in 2020 based on the circumstances pertaining at the time.

9. IBAN recommendation: Council should study the feasibility of adopting a single solution (such as data warehousing) as used by many Nations for national budgets, to support the transparency, accessibility and stability of budgetary data.

9.1. BC response: The BC supports the objective to have one common set of data ("single source of truth") that remains constant irrespective of the system used to access and manage it. Data management is still decentralised and managed by individual entities but consolidated data⁶ is nevertheless presented and agreed by the BC for endorsement by Council. The BC recognises that information management is a key enabler to improved life cycle management as highlighted in the work to improve governance in the delivery of common funded capabilities and in this context, the BC notes that Council has agreed that further investigation is required to assess whether existing tools are sufficient⁷.

10. IBAN recommendation: Council should establish a limited, but appropriate number of meaningful and measurable targets/indicators that represent the main objective of the organisation and annually verify the results.

10.1. BC response: The BC supports the observation behind the IBAN recommendation and notes that an Operational Performance Measurement (OPM) system is in place for the Civil Budget. The BC is also conducting a performance management trial for use in the Military Budget. The IC also has established a KPI system for the NSIP. The BC acknowledges that these performance measurement systems need further work and improvement so that resource priorities can be linked to objectives. The BC notes that further efforts in this regard are also connected to work in the DPRC on Institutional Adaptation.

⁵ PO(2015)0356

⁶ By the NOR using CIRIS

⁷ PO(2018)0259

10.2. The BC also supports the on-going efforts to fully integrate evaluation into the resource planning process in order to ensure that resources are achieving the aims for which they are intended. The BC also welcomes that joint integrated advice should be developed by the RPPB and the Military Committee for the 2018 Annual Report on the performance of NATO common funded capabilities and programmes.

CONCLUSIONS

11. The BC welcomes the performance audit conducted by the IBAN into the budget preparation and approval process which has provided a valuable insight and useful ideas and suggestions to support further discussions by the BC in its leading role of reviewing, monitoring, evaluating and making budgetary recommendations. The BC notes that the IBAN acknowledged that the conduct of the audit coincided with on-going efforts to enhance to the budget and planning and the BC believes that progress has thus been made in the budget preparation and approval process since the IBAN conducted its performance audit.

12. The BC fully shares the underlying aim of the IBAN to improve the efficiency and effectiveness of the budget preparation and approval process. While, the BC does not necessarily share all the views expressed in the performance audit how this is best achieved, a number of positive measures have already been introduced since the IBAN report was published. The BC has a standing mandate to look at ways to improve the overall budget process. In the short term implementation of the governance model for common funded capabilities may offer further opportunities for improvements in the budget process. The review of the NFRs in 2020 represents another good opportunity to take into account the IBAN findings and recommendations as well as any other measures identified by the BC for the medium term.

RECOMMENDATIONS

13. Council is invited to:

13.1. Note that the BC will continue its efforts to improve the overall budget process as part of the annual budget guidance, and has requested the NATO Office of Resources and Executive Management (in consultation with the budget holders) to provide proposals, taking into account the findings identified in the IBAN performance audit, cognisant also of the outcome of the Functional Review, for consideration by the BC in preparation for the review of the NFRs in 2020; and,

13.2. Note this report and its conclusions and agree to the public disclosure of the IBAN performance audit and this report.



NORTH ATLANTIC TREATY ORGANIZATION
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD
INTERNATIONAL BOARD OF AUDITORS
COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES

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IBA-A(2017)187
01 December 2017

To: Secretary General
Attn: Director of the Private Office

Cc: Supreme Allied Commander Europe
Chief of Staff, Allied Command Operations
Supreme Allied Commander Transformation
Chief of Staff, Allied Command Transformation
Chairman, Resource Policy and Planning Board
Chairman, Military Committee
Chairman, Budget Committee
Director General, International Military Staff
Assistant Secretary General, Executive Management Division
Director, NATO Office of Resources
General Manager, NATO Communications and Information Agency
General Manager, NATO Support and Procurement Agency
Resource Policy and Planning Board representatives, NATO delegations
Private Office Registry

Subject: ***Performance audit report to Council on the NATO budget preparation and approval processes – IBA-AR(2017)32***

The Board submits herewith its approved report with a Summary Note for distribution to the NATO Council.

In accordance with Article 15 of the NATO Financial Rules and Regulations, I have referred the documents to the Resource Policy and Planning Board (RPPB) for examination, comments and recommendations.

Yours sincerely,

Hervé-Adrien Metzger
Chairman

Attachment: As stated above.

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Summary note to Council on the performance audit report on the NATO budget preparation and approval processes

Background and context

NATO budgets are key tools for the planning and allocation of common funds to achieve NATO's objectives, including civil and military headquarters, activities, programmes, operations and missions. Preparation, review, screening, and approval of common funded NATO budgets is a key part of financial planning at NATO. An efficient and effective budget preparation process is an essential part of sound organisational management and a tool to ensure good management of public expenditure. The Deputy Permanent Representatives Committee (DPRC) has had a discussion about NATO's budget process. IBAN considered this discussion when it made its decision to conduct this performance audit.

Audit objectives

In accordance with Articles 2 and 14 of the IBAN Charter, we assessed the NATO budget preparation and approval process. Our specific audit objectives were the following:

1. Is the NATO budget preparation and approval process efficient and effective?
2. Is the NATO budget process and practice consistent with good budget principles and practice?

Audit findings

NATO's budget preparation and approval process can be more efficient. Budgetary governance and administration is complex and involves many stakeholders and products. The timing of the agreement on budget ceilings does not effectively inform the budget production. This can lead to nugatory work, added workloads and necessitate work arounds. Also, the budget preparation and approval process lacks effectiveness. The process is slow moving and could be more flexible. It does not allow for taking optimal proactive budgetary decisions and does not easily enable cross cutting prioritisation and decision making based on available resources and expected achievements and results.

Further, we identified differences between standard budgetary principles and the current situation at NATO. If NATO works towards better budget practices the Alliance could benefit from not only a more efficient and effective process, but a process that is characterised by more accountability and transparency. We found some potential areas where NATO could benefit from moving towards better compliance with these standard principles. These areas include the following potential benefits:

- A more centralised and unified approach to budget preparation and approval which could enhance coordination, avoid duplication of effort, and increase accountability.
- A more streamlined process and more focused budget preparatory documents which could speed up the process and facilitate a more focused budget screening and better decision making.

- A more common understanding of the budget and a better picture of resources required over the planning horizon to deliver the agreed objectives.
- A debate focused more on changes to an agreed baseline rather than spending time and resources establishing the baseline each year.
- A more comprehensive budget which could provide a clearer picture of the total expenditures and enhance Nations ability to make more informed decisions on prioritisation and long term risks.
- Enhance the strategic value of the budget process and decrease the risk of micro management and provide for debate on the linkage between the budget and NATO's main objectives and priorities.
- A more centralised and rigorous approach to the identification and mitigation of non-financial risks as part of the budget preparation and approval process.
- Duplication of effort and workloads could potentially be decreased.

It is our assessment that a major change in budget policy and practice at NATO would require a comprehensive plan and a clear road map to guide such changes.

Audit recommendations

To address the findings concerning the NATO preparation and approval process we recommend the following:

Recommendation for the short term:

- 1) Council should establish authoritative and accepted timelines for all processes that are part of, or contributing to, the NATO budget process and ensure that budgets are not submitted to the Budget Committee (BC) for review and screening prior to the approval of the budget ceilings.

Recommendation for the medium term:

- 2) Council should enhance budgetary efficiency and effectiveness as well as increased transparency and accountability by adopting Organisation for Economic Co-operation and Development (OECD) budgetary principles which include:
 - a. Council should create a single NATO budget policy and guidelines.
 - b. Council should establish a centralised budget entity accountable for the preparation and the details of the budget based on common methodologies used for budget preparation.
 - c. Council should streamline the roles and responsibilities of the budget preparation and associated governance processes (Council, Military Committee (MC), Resource Policy and Planning Board (RPPB), and BC) to facilitate the provision of strategic budget information to committees to enable them to make crosscutting budgetary and prioritisation decisions.

- d. Council should study the feasibility of adopting a single solution (such as data warehousing), as used by many Nations for national budgets, to support the transparency, accessibility, and stability of budgetary data.
- e. Council should establish a limited, but appropriate number of meaningful and measurable targets/indicators that represent the main objectives of the organisation and annually verify the results.

International Board of Auditors for NATO

**Performance audit report to Council on the NATO budget preparation
and approval processes**

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1. Background

1.1 Overview

1.1.1 NATO budgets are key tools for the planning and allocation of common funds to achieve NATO's objectives, including civil and military headquarters, activities, programmes, and operations and missions. Like any other international organisation, NATO budget preparation and approval is a recurring process involving a significant number of stakeholders. An efficient and effective budget preparation process is an essential part of sound organisational management and a tool to ensure good public expenditure management. According to good budget practice, it is beneficial to have a budget process that supports prioritisation and decision-making, transparency and accountability that establishes a link between the resources spent and results achieved.

1.1.2 The Deputy Permanent Representatives Committee (DPRC) has had a discussion about NATO's budget process. IBAN considered this discussion when it made its decision to conduct this performance audit.

NATO budgets

1.1.3 NATO resources should be used in the most efficient and effective way possible. For example, the NATO Financial Regulations (NFR) direct the financial administration of all NATO bodies and provide key policy guidance for ensuring effective, economical budgetary and financial administration.

NATO Financial administration

The financial administration of NATO bodies must be based on clear delegations of authority and ensure the most cost efficient, cost effective and economic use of resources incorporating the following principles:

- a) propriety;
- b) sound governance;
- c) accountability;
- d) transparency;
- e) risk management and internal control;
- f) internal audit;
- g) external audit; and
- h) fraud prevention and detection.

Source: NATO Financial Regulations

1.1.4 In NATO there is 1 civil budget and 36 military budgets based on NATO common funding by Nations from their national budgets. The civil budget covers NATO Headquarter running costs, and the military budgets cover costs of the integrated Command Structure and some other activities such as outreach, research, and airborne early warning and control. NATO budgeting activities take place at the various organisational levels annually. NATO budgeting starts with top down guidance and then

continues as an iterative process that involves both bottom up and top down elements with each budget prepared under the authority of the head of the respective NATO body. The budgets are described in more detail in Appendix 1.

NATO budgets

The civil and military budgets cover, among other things, the operations and maintenance of the NATO international and military headquarters, NATO activities and programmes, operations, and missions.

The civil budget: The civil budget for 2017 is EUR 234.4 million. It provides funds for personnel expenses, operating costs, and capital and programme expenditure of the International Staff at NATO Headquarters. The budget is financed from national budgets according to agreed cost shares, and implemented by the International Staff.

The military budgets: The military budgets for 2017 equate to EUR 1.29 billion. They cover the operations and maintenance costs of the NATO Command Structure. The rest of the military budgets covers Alliance operations and missions, allied ground surveillance, NATO airborne early warning, pensions, and transition costs. It is composed of 36 separate budgets financed with contributions from Allies' national budgets according to agreed cost-shares. The budgets are implemented by the individual budget holders. In all cases, the provision of military staff remains a nationally-funded responsibility.

Source: NATO

1.1.5 The common funding method is for projects relating to NATO headquarters, the military command structure, NATO command and control systems, and NATO operations. Common funding also encompasses capital investment projects funded by the NATO Security Investment Programme (NSIP) through a separate non-budgetary contribution ceiling. Finally, some activities in the NATO context are subject to joint funding arrangements or financed through trust funds. In addition, many other NATO activities are funded directly by Nations, such as military manpower costs.

NATO Security Investment Programme (NSIP), joint funding and trust funds

The NATO Security Investment Programme (NSIP): is NATO's capital investments to establish military capabilities that exceed the national defence requirements of individual Nations. The Nations share Investment Programme costs, with an agreed percentage for each participating Nation. The NATO Investment Committee authorises the common-funded resources needed for NSIP projects.

Joint funding: These arrangements are multinational funded within the terms of an agreed NATO charter. The participating countries still identify the requirements, the priorities, and the funding arrangements, but NATO has visibility and provides political and financial oversight.

Trust funds etc.: In addition to common funding and joint funding, some projects can take the form of trust fund arrangements, contributions in kind, ad hoc sharing arrangements, and donations.

Source: NATO

1.1.6 NATO budgets should normally be associated with approved strategic priorities and the medium term planning. Before the budget approval, NATO civilian and military bodies prepare a 5-year medium term plan and other planning documents, which NATO Nations approve. The budget preparation process relies on the content and timely preparation of these documents because they contain the de facto budget ceilings for the coming financial year and the planning figures for the remaining 4 budget years. NATO committees, NATO staffs, and the Strategic Commands all have responsibilities in the preparation and approval of these documents.

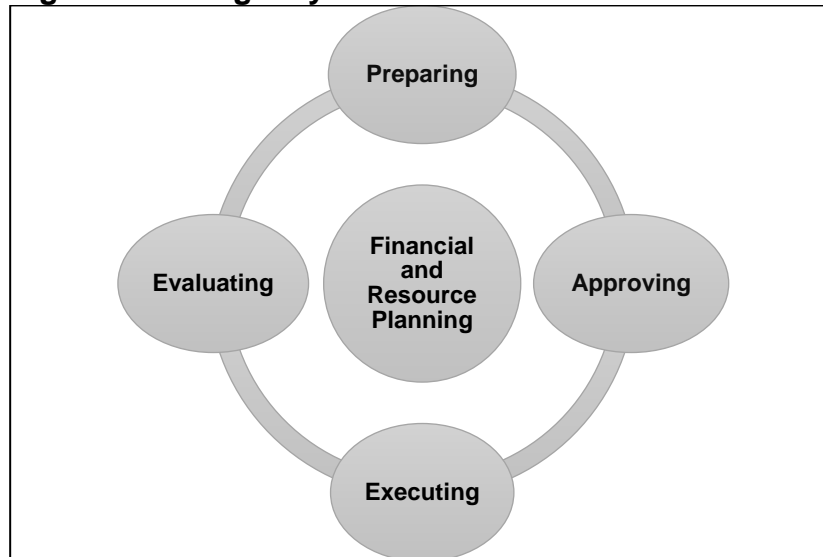
Central NATO medium term planning documents

The Medium Term Financial Plan (MTFP): The primary planning document for the preparation of the civil budget. It sets the resource allocation figures (budget ceilings) for the first year and the planning figures for the four succeeding years.

The Medium Term resource Plan (MTRP): The primary output of the resource planning process is the MTRP, which aims to provide the Nations with visibility of the medium term requirements and affordability of NATO's common funded military and manpower resource programmes. The MTRP also sets the resource allocation figures (budget ceilings) for the first year and the planning figures for the four succeeding years.

Source: NATO

Figure 1 – Budget cycle



1.1.8 Budget preparation includes elements such as issuing budget guidance, preparing inputs to the budget, identification of risks, internal budget screening, and identifying expected results and achievements. Budget approval includes steps such as submission of budgets to overseeing and accountable bodies, budget estimate screening, prioritisation, and approval. Budget evaluation comprises expenditure assessment by relevant committees, measurement of performance, assessment of results and goal achievement.

1.1.9 Within NATO, the Budget Committee (BC) supervises the civil and military budgets and during the autumn period, the BC is in charge of screening all budgets for the upcoming year. The BC is a subsidiary committee to The Resource Policy and Planning Board (RPPB), which is NATO's senior resource committee. The RPPB and the Military Committee Working Group (MCWG) on Resources are also involved in the budget preparation and approval process through related processes. The North Atlantic Council (Council) has the final approval of the budgets at the end of the year.

NATO transparency and accountability

1.1.10 Transparency and accountability should be key elements of good organisational governance across NATO. In recent years NATO initiated changes with the aim of strengthening financial management and accountability and to reflect best practice in public finance. During the design of the audit and the fieldwork, we continuously made considerations to enhance NATO's transparency and accountability.

1.2 Audit objectives

1.2.1 In accordance with Articles 2 and 14 of the IBAN Charter, we assessed the NATO budget preparation and approval process. We have taken a high-level approach to the budget process. Consequently we have not analysed processes at all levels in NATO. Our specific audit objectives were the following:

1. Is the NATO budget preparation and approval process efficient and effective?
2. Is the NATO budget process and practice consistent with good budget principles and practice?

1.3 Audit Scope and Methodology

1.3.1 The audit scope focused on the budget preparation and approval process for NATO's common funded civil and military budgets, and some elements that relate to budget execution and evaluation. The annual audit of the financial statements of NATO bodies include elements of budget execution. For that reason this part of the budget process was not included in this audit. The scope of our audit included NATO budget screening and approval. We analysed the budget preparation and approval process for the budget years 2014 through 2017. The scope did not include any analyses of the actual budget content, such as financed activities and budget volume.

1.3.2 We reviewed NATO documentation and the different products associated directly and indirectly with the budget preparation and approval process. We interviewed officials from the International Staff (IS), International Military Staff (IMS), Allied Command Operations (ACO), Allied Command Transformation (ACT), the NATO Communications and Information Agency (NCIA), and the NATO Support and Procurement Agency (NSPA). We also interviewed the chairpersons of the RPPB and the BC.

1.3.3 Our audit encompassed the current processes related to the budget, and we did not assess ongoing efforts to enhance the budget or planning processes, such as recent efforts to enhance the MTRP, because development and implementation is ongoing.

1.3.4 For objective 1, we assessed efficiency and effectiveness by examining and analysing relevant NATO documentation to identify evaluation criteria such as the NFRs, budget guidelines, and other NATO documentation. We assessed delays and issues by reviewing NATO documents and interviews. For example, we reviewed medium term planning efforts. We also examined NATO reports and other products relating to various budget related initiatives. We regard a process or activity efficient if it delivers the expected outputs on time and the process is not characterised by unnecessary use of time and resources. A process is more effective if it is inclusive and allows informed, transparent prioritisation and decision making while adding value to the organisation and its members. A budget should also make it clear who is accountable for the execution of the budget to achieve the desired results.

1.3.5 To address audit objective 2, we used Organisation for Economic Co-operation and Development (OECD) budgetary governance principles as criteria to assess areas where the NATO budget process can be improved. Nations that comply with OECD standards do so to demonstrate transparency and accountability to citizens, and taxpayers, in the use of public funds. Such public funds constitute NATO common funds contributed by Nations to the Alliance. It is therefore clear that conformity with these requirements can be seen as an extension of the national budget principles that OECD countries comply with. For more information a list of OECD budgetary governance principles is provided in Appendix 2.

1.3.6 In addition, we conducted interviews with officials from other international organisations to gain a better understanding of budget process challenges specific to international organisations. These organisations have from 35 to 193 member states and most use consensus based decision making, including when approving their budgets. Their annual budgets for 2017 are between EUR 380 million and EUR 11 billion.

1.3.7 Appendix 3 provides more detail on the audit methodology we used. We gathered information of these organisations' budget tools and principles, but did not evaluate their efficiency or effectiveness. We did this to see how some other international organisations have introduced more modern budget characteristics and tools. The summary of information on budgetary characteristics on these organisations and NATO are shown in Table 1 below.

Table 1 – Comparison of organisational major budgetary characteristics

	United Nations	UNICEF	OECD	Council of Europe	NATO ¹
Integrated budget	Y	Y	Y	Y	N
Results based	Y	Y	Y	Y	N
Multiannual budget (2-4 years)	Y ²	Y	Y	Y	N
Multiannual planning (annual ceilings and medium term planning)	Y	Y	Y	Y	P
All funding sources listed	Y	Y	Y	Y	N
Integrated risk management	Y	Y	Y	Y	N

Source: IBAN analysis

Legend: Y: Yes, N: No, P: Partial.

¹ International Staff, International Military Staff, Allied Command Operations, and Allied Command Transformation.

² The regular UN budget is multiannual. The UN Peacekeeping budget is annual.

1.3.8 We found that several of these organisations have a centralised budgeting authority and have recently introduced changes to their budget preparation and approval process and products. Further, all organisations we met with have introduced comprehensive risk management connected with the budget approval phase, including risks associated with the achievement of organisational objectives.

1.3.9 Our scope did not include the budgets of NATO joint funded bodies or NATO administered trust funds. The common funding of the NSIP was also not part of our audit scope. Within scope was how the budget preparation process takes into account future operations and maintenance (O&M) expenditure, which relates to budget completeness.

The audit did not address the special budget procedures for the construction of the new NATO Headquarters.

2. Substantial adjustments are required to increase efficiency and effectiveness of the current budget processes at NATO

2.1 In this section, we map the budget preparation and approval process and associated resource planning on which the budget preparation depends. We examined the organisation of budget preparation and reviewed the guidelines issued at different levels. Further, we examined to what degree NATO civil and military budgets are approved according to predetermined timeframes. We also examined aspects related to the effectiveness of the budget approval process.

NATO budget consolidation level and budget management

2.2 NATO has a decentralised budgetary preparation and submission approach. The process is not unified as the holders of the civil budget and the 36 military budgets are responsible for preparing and submitting their own budgets. The civil and military budgets are presented individually and in different formats. Very detailed budget guidelines are issued and maintained at all levels. The military budgets are based on a project and activity approach as opposed to the civil budget which is objective based.

NATO budget preparation and approval governance

2.3 We have shown above that NATO has a decentralised budget preparation and submission approach. We identified central products and stakeholders in the budget preparation and approval process. We mapped the associated governance structure that involves several governance levels and bodies. Table 2 below shows the essential documents and delineation of responsibilities relating to approval of the civil budget.

Table 2 – Medium term financial planning and civil budget preparation governance: Current delineation of responsibilities

Document	Support/input	Governance body responsible
Medium Term Financial Plan (MTFP)	Civil budget holder - IS	BC
Civil budget	Civil budget holder - IS	BC

Source: IBAN analysis

2.4 Table 2 shows that the MTFP and the civil budget, including budget estimates, are the essential documents in the formal approval of the civil budget. The BC is the main stakeholder along with the IS for both the MTFP and the civil budget. The Secretary General, through Executive Management (EM), submits the civil budget MTFP to the BC, which then develops a BC report to Council that sets the recommended resource

allocations (budget ceilings) for the following year and planning figures for the civil budget. The BC report to Council on the MTFP is endorsed by the RPPB before submission to Council for approval. On the basis of the approved ceiling, the IS develops the annual budget estimates, which are submitted to the BC for review. The BC develops a report to Council on the annual estimates, which is submitted to the RPPB for endorsement before being submitted to Council for approval.

2.5 Table 3 below shows the delineation of responsibilities and central documents in the NATO military resource planning process and military budget preparation.

Table 3 – Military resource planning and budget preparation governance: Current delineation of responsibilities

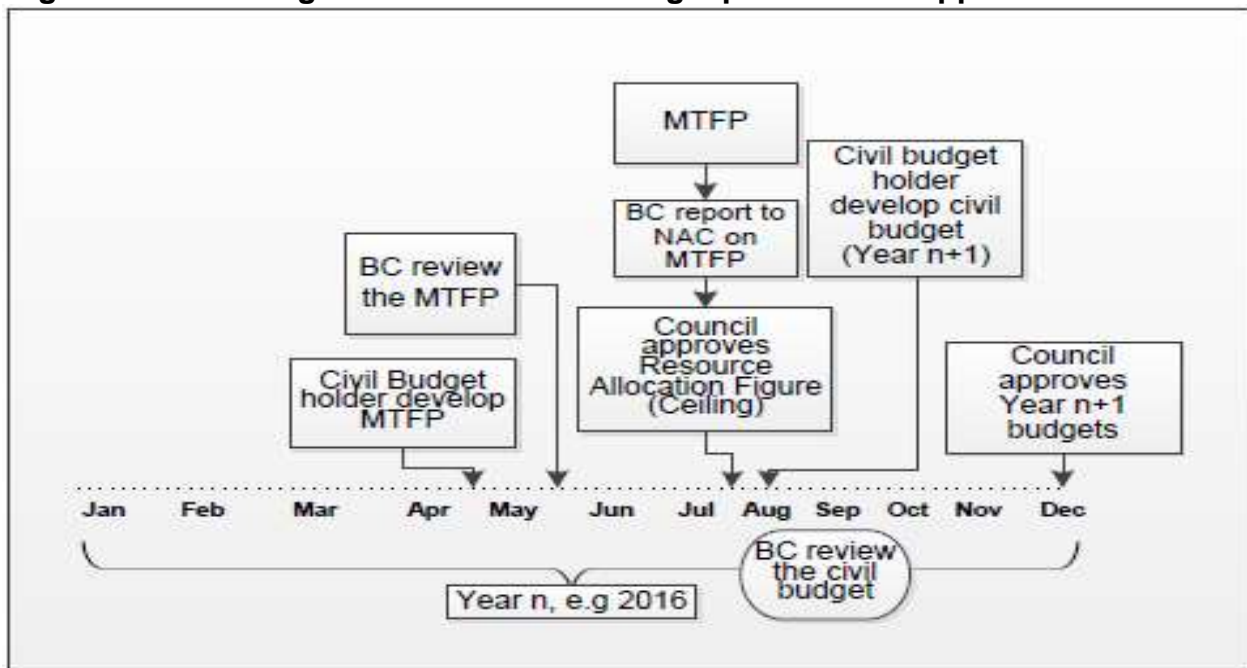
Document	Support/input	Governance body responsible
Consolidated resource proposal (CRP)	IMS Logistics and Resources and Military budget holders	RPPB (MC)
Consolidated NATO Military Authorities (NMA) Impact Statement (CNIS)	IMS Logistics and Resources and Military budget holders	MC
Medium Term Resource Plan (MTRP)	IS-NOR	RPPB
Military budgets	Military budget groups and budget holders	BC (RPPB)

Source: IBAN analysis

2.6 Table 3 shows that the military budget holders develop their CRP and the CNIS and the MC approves the CNIS. The CRP identifies the requirements and the resources necessary to deliver the Alliance's goals and objectives through the planning period. The CRP is sent to the RPPB for their MTRP preparation. The CNIS details the NMAs' priorities, and potential operational impacts and risks should the recommended resource levels fall short of the levels identified in the CRP. The CNIS document is sent to the Council for notification and then to the RPPB for consideration for their MTRP discussion. Finally, the RPPB agrees on the MTRP which sets the RPPB recommended resource allocations (budget ceilings) and planning figures for the military budgets. The BC screen all military budgets. The governance body responsible for the military budgets is the RPPB. The BC prepares its recommendations, which are endorsed by the RPPB and forwarded to Council for approval.

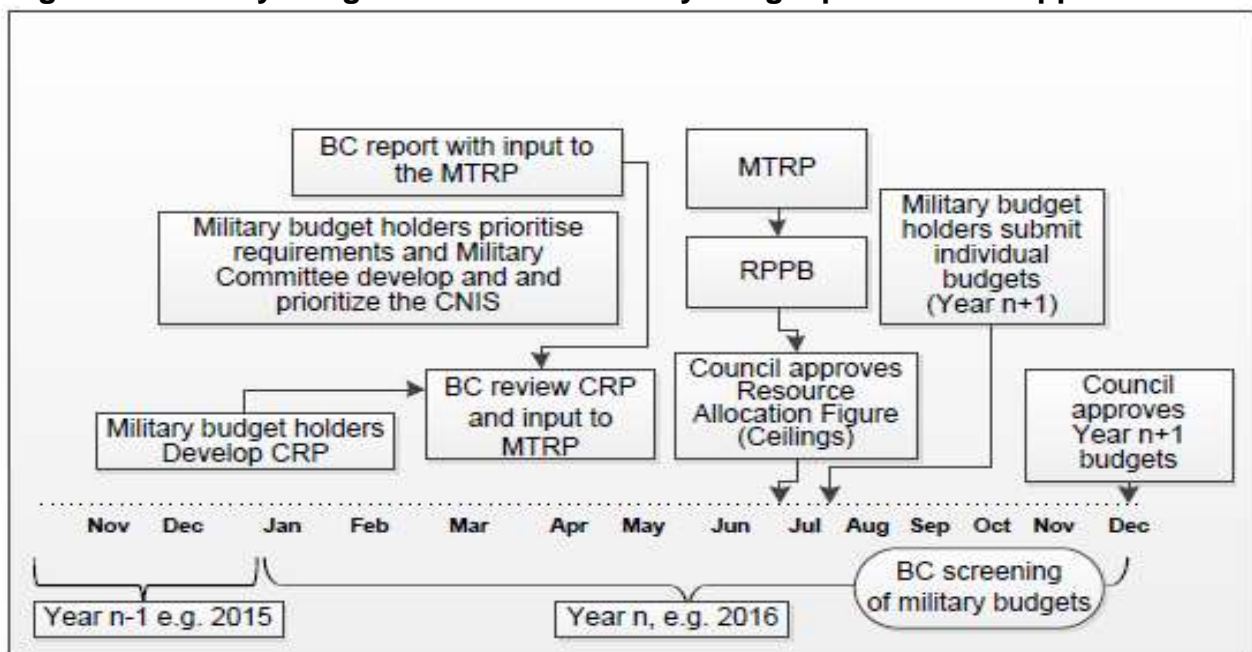
2.7 The budget preparation process is dependent on various committees and planning and decision making processes. For example, IMS, IS, MC, RPPB, and the BC are heavily involved in either the budget preparation and approval or processes and products on which the budget preparation is supposed to be based on (CRP, CNIS, MTRP and the budgets themselves). In addition, many different administrative actors at different headquarters are involved in support. Many guidelines and documents are produced to support the processes. Appendices 4 and 5 illustrate in more detail the budget preparation and approval process and associated processes.

2.8 Figure 2 below shows the process up to and including Council approval of the civil budget.

Figure 2 - Civil budget - MTFP and civil budget process and approval

Source: IBAN analysis

Figure 3 below shows the process up to and including Council approval of the military budgets.

Figure 3 - Military budget - MTRP and military budget process and approval

Source: IBAN analysis

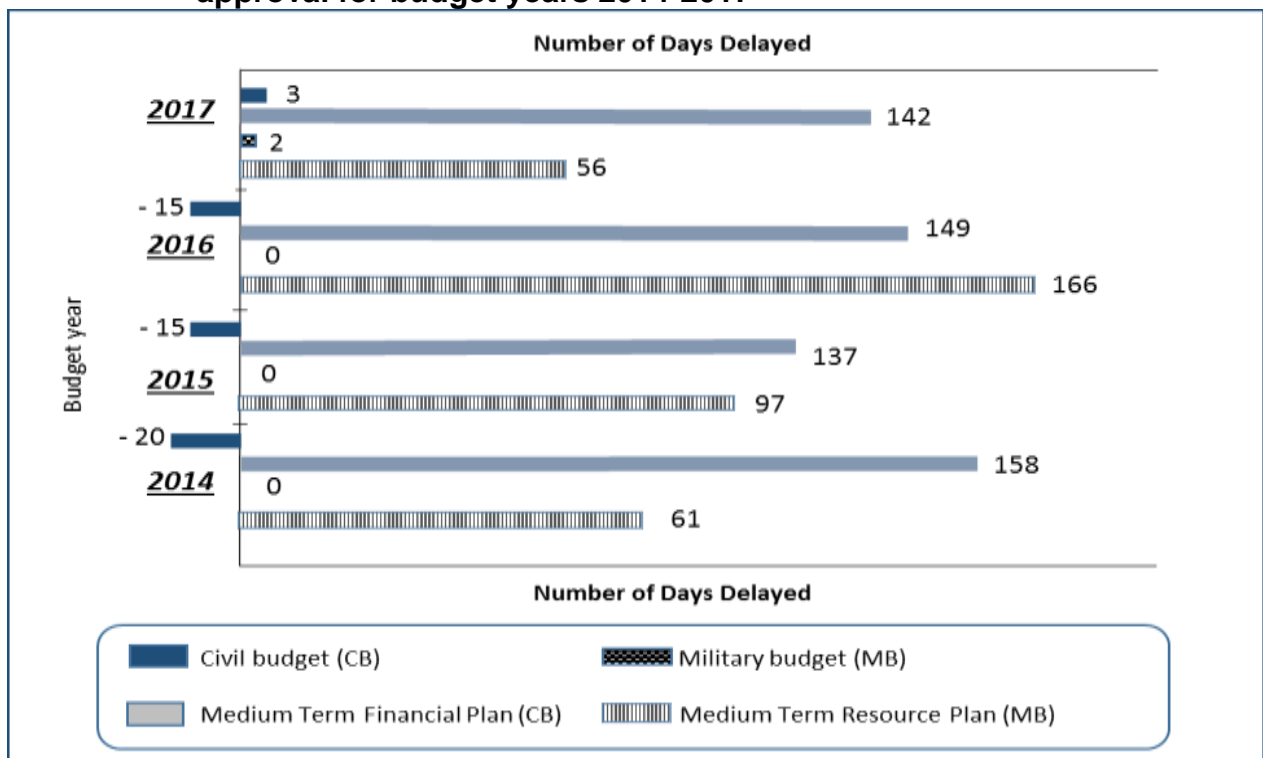
2.9 As described in figures 2 and 3 there are two different budget preparation and approval processes at NATO. They also show that the current governance structure involves several stakeholders and processes. There is a split in responsibility on the governance level concerning the budget and documents and processes which the budget

preparation is directly dependent on. This split extends into the administrative budget group level. For example, at Headquarters Supreme Allied Commander Transformation (HQ SACT) and ACO Supreme Headquarters Allied Powers Europe (SHAPE) the Financial Controller's office is responsible for preparation of the budgets, but different offices at these commands are responsible for the planning and preparation of the CRP.

Approval of NATO budgets and associated medium term planning in accordance with formally established timelines.

2.10 We examined the final approval dates for the civil and military budgets (2014-2017) and compared them to the timelines established in the BC budget guidance and the associated work plan. We also examined if the medium term planning documents, containing the resource allocation figures (budget ceilings) necessary to finalise the budgets for financial years 2014 to 2017, were approved on time. To do this we compared the MTFP and MTRP approval dates compared to milestones set by the BC and RPPB. We further reviewed the submission dates of the civil and military budgets for review and screening.

Figure 4 – Timeliness of NATO budget and medium term planning document approval for budget years 2014-2017



Source: IBAN analysis

Notes: Milestones found in NFRs, BC budget guidance (work plans) and Directive for Resource Planning for the MTRP. No 2017-2021 MTRP was approved in 2016. Only the 2017 ceilings were approved. Usually these are to be approved no later than June. In 2016 a later date was set by the RPPB for end August 2016 for approval of the 2017 ceilings. MTFP 2015-2019 did not get approved, but noted by Council. In 2015 there was a resource plan recommending to Council the 2016 ceilings and not a full MTRP.

2.11 Over the past years the process was affected by the fact that the ceiling was not agreed initially. Figure 4 shows that the final approval of NATO civil and military budgets, when compared to milestones set by BC guidance, usually occurs with no or minor delay. Figure 4 further shows significant delays in the approval of the MTFP and MTRP when compared to BC and RPPB guidance. For the last 4 years the MTFP and MTRP were not approved on time and sometimes long after the military budgets were screened by the BC.

2.12 The timing of the agreement on resource ceilings does not effectively inform the budget production. Instead, it only provides the ceilings, at best, at the end of the budget preparation. This means that the ceiling is not fixed when the military budget estimates are submitted and the budget screening takes place. Articles 18 and 21 in the NFRs regulate the budget preparation and approval, including milestones, which states that budget estimates for the following year shall be submitted to Council by 1st September and a report containing observations on and recommendations for approval of the annual budget estimates by 1st December. There are no such fixed milestones in the NFRs for the medium term planning process. Expected timelines for the medium term planning are included in RPPB directives each year, but these are not enforced. For example, the RPPB directive stated that RPPB finalisation of the 2017 ceilings should happen no later than June 2016 and Council approval of the 2017 ceilings should take place no later than the end of June 2016. These 2017 ceilings were not established until 27 October 2016.

2.13 The negative effects of the MTFP and MTRP delays can lead to nugatory work, added workloads and necessitate work arounds. The budget holders reported that they have to base their budget preparatory work on previous years approved ceilings or create their own internal scenarios as a base for their budget estimate preparation. For the civil budget, the delay resulted in late submission of the annual civil budget for BC review and screening. More specifically, we found the following:

- Without approved ceilings, budget holders are faced with uncertainty. This makes it more difficult to prepare realistic budget estimates for submission to Nations for screening. It leaves the budget holders with less time to react to changes and prepare their budgets.
- Submission of annual civil budget estimates to the BC is not in accordance with the NFRs timelines. The budget estimates must be submitted to the BC for review and screening by 1st September according to the NFRs. For the budget years 2014 to 2017 there was a delay every year for the civil budget. These spanned from 1.5 months to more than 2.5 months. For the military budgets the submission for screening was on time.
- Budget estimates are screened by the budget holders themselves and the BC without agreed ceilings available.
- Decision making is impeded for the budget holders, for example when making decisions about what financial risks they can take when preparing their budgets. Budget holders will be able to better assess the level of financial risk they can

take when they prepare their budgets if they know the ceiling in advance. The BC budget guidance states that budget holders are encouraged to employ risk management where practicable.

- Budget holders establish working groups and/or implement their own measures to mitigate the negative effects of the delayed budget ceilings. For example, because of the delay one NATO command implemented an extra internal process to be able to set a target to allow the budget estimate to be approved by the commander and to meet the NFR budget submission deadline. As a result, additional guidance on the budget preparation must be produced and issued to the budget team.
- In certain cases budget holders reported that the late approval of the budget ceilings caused difficulty preparing for the budget execution phase, for example in the fields of procurement and personnel.
- Further, if the first and second years of the medium term planning documents is agreed by the Nations, then better budget planning could be accomplished.

The effectiveness of the budget preparation and approval process

2.14 We reviewed NATO budget estimate submission and approval documentation, such as budget estimates, budget guidelines and information on financial budgetary planning. We also conducted interviews with officials responsible for budget and received written statements from budget holders.

2.15 Although NATO budgets are usually approved on time, the late approval of ceilings results in budget estimates that are based on old planning figures which can be outdated. This inhibits the budget preparation process as a tool for decision making and cross cutting prioritisation.

2.16 NATO budget preparation is incremental as budget proposals are partially based on previous years' budgets and ceilings. The process is slow moving and could be more flexible. This is because the civil budget and the 36 military budgets are submitted, screened, and approved separately. Budget preparation and pre-screening is separated between individual budget holders. This creates a risk that prioritisation and allocation of resources to achieve NATO's overall objectives is not done effectively. A more proactive approach to the budget process could allow Nations to better respond to changing circumstances. The approval process does not serve as an effective tool for policy implementation and prioritisation across NATO. This is because there is no close linkage between the budget approval process and overall prioritised targets of the Alliance based on performance indicators and expected outcome.

2.17 We also found that Nations receive a large volume of information at a high level of detail. All parts of the budgets are submitted to Nations for discussion and screening at the same time. In addition, there is no distinction between discretionary and non-discretionary costs. In our assessment, this can leave less focus on the non-discretionary

elements in the budgets, like new essential programs and development initiatives. These activities are crucial in a security environment with both persistent and dynamic challenges in the short, medium, and long term.

2.18 The NFRs provide some limited flexibility to the commanders (through the Financial Controllers) to transfer funds between budgetary requirements. In addition, for a defined period of time the Secretary General was delegated management authorities to discharge his management responsibilities more effectively to adapt the IS to meet new challenges. Such tools can make budget holders more flexible and proactive in conducting their business and decrease workloads at the management and governance level and should make budget holders more accountable for achieving desired results.

Conclusion

2.19 Although NATO budgets are usually agreed and Council approved by the beginning of the budget year, the budget preparation and approval process could be more efficient and effective. Budgets and related documents are owned and drafted across various administrative entities. Several committees are involved in resource planning and budget preparation and approval. This complexity and separation of responsibilities creates a risk of unnecessary duplication of work at the governance, management, and administrative levels. Current medium term planning is not aligned with the budget process. This creates unnecessary added work and processes. Finally, the budget preparation and approval process can be more effective, leading to better decision making and prioritisation by the Nations.

3. NATO should consider introducing an overall budget policy based on sound budgetary principles

3.1 In this section we conducted an analysis comparing NATO's budgetary practice to four commonly accepted budget principles and OECD's principles for budgetary governance. We reviewed NATO budget regulations and guidelines including the BC annual budget guidance and separate budget holder guidance. We reviewed the budget submissions and conducted Interviews with NATO staff to confirm the presence of budget principles in these documents.

The OECD recommendation on Budgetary Governance

Since 1980, budget directors from OECD member countries have regularly met in the OECD Working Party of Senior Budget Officials, known as the SBO.

The OECD recommendation on Budgetary Governance is formulated by the SBO and provides a concise overview of good practices across the full spectrum of budget activity, specifying ten principles of good budgetary governance and aim to give practical guidance for designing, implementing and improving budget systems.

Source: OECD

NATO budget preparation and approval correspondence with commonly accepted budget principles

3.2 We conducted an analysis showing the extent to which NATO common funded budgets compare with the commonly accepted budget principles of unity, universality, annuality, and specification. These principles are widely accepted and used as the basis for national and international organisation budgets. We reviewed budget documentation and interviewed NATO budget staff. Table 4 summarises the results.

Table 4 – Summary of IBAN observations on the NATO budget process against commonly accepted budget principles

Commonly accepted principle	NATO adherence
Unity (<i>The budget information listed into a single document</i>).	The principle of unity is currently not followed. There is no unified and consolidated NATO budget. Civil and military budgets are in different documents and the NSIP and trust funds are not included in the budgets. This also applies to other significant areas such as correction for inflation in submitted budget estimates, governance, and roles and responsibilities of the budget preparatory process. The budget does not cover all bodies undertaking activities and operations, so that the budget presents a consolidated picture of these activities and operations to the approving authority (See below). At NATO the civil and military budgets are not structured in a similar manner.
Universality (<i>All resources should be directed to a common pool, to be used according to current priorities</i>).	NATO compares well with this principle. Resources are directed to a common pool or fund, to be allocated and used for expenditures according to the current priorities of the NATO bodies.
Annuality (<i>A budget is prepared and executed for one year</i>).	NATO compares well with this principle. In NATO, a budget is prepared, agreed, and executed for a one-year period. If NATO (as several other international organisations do) moved towards multiannual budgeting this could enhance the strategic value of the budget, create conditions for better alignment with other planning processes, decrease workloads, and the number of budget documents produced.
Specification. (<i>An appropriation must have a particular intended use</i>).	NATO compares well with this principle. Under the principle of specification, each appropriation must have a particular intended use and be earmarked for a specific purpose.

Source: IBAN analysis

3.3 Table 4 shows that NATO conforms to the budget principles of annuality, universality, and specification. Although NATO adheres well to the principle of annuality, it should be noted that other international organisations are moving towards multiannual

budgets. The international organisations we visited have moved from annual to biannual budgets, while maintaining the core concept of annual authorisation.

3.4 However, NATO conforms less well to the principle of unity, as NATO has no consolidated budget and no unified budget preparation process. NATO has no single responsible entity accountable for the budget preparation and submission. Instead, each budget holder prepares and submits individual budget estimates. A more centralised budget management could increase process efficiency. A more effective budgetary management could enhance accountability and efficiency by providing the following benefits to NATO:

- Budget preparation under the responsibility of one accountable entity.
- Could lead to a consolidated budget.
- Earlier approval of the budget.
- Non-discretionary budget items approved as early as possible allowing more useful strategic discussions.
- Stronger focus on risks and the linkage to NATO's main objectives.
- Decrease the layers of guidelines.
- Reduce staff resources currently spent on preparation and internal screening of budget submissions within each budget group.
- Decrease the duplication of administrative efforts.
- More effective follow-up and evaluation of activities and results achieved.
- A centralised organisation should be supported and controlled through an overall NATO budget policy and more centralised systems as used by many Nations.

NATO budget practice compared to OECD principles for budgetary governance

3.5 In this section we compare the OECD principles on budgetary governance (see Appendix 2) with the current situation at NATO. We also present some potential benefits NATO could realise if changes to the current approach are made in order to adhere better to the OECD principles. We identified current NATO practice by reviewing NATO documentation and interviewing NATO staff. We also discussed the principles with OECD officials. Sections 3.6 to 3.14 below summarise for each principle the findings of our assessment and potential benefits to NATO if NATO pursues greater adherence to them.

“Manage budgets within clear, credible and predictable limits for fiscal policy”

3.6 NATO does not have an overall budget policy. Guidelines for the preparation and approval of NATO budgets are formulated annually and at several levels of governance and management. The BC issues annual guidelines containing overall principles and more detailed instructions. In addition, budget groups and budget holders issue individual additional guidance, and instructions.

3.6.1 Potential benefits to NATO from addressing the issue of several layers of detailed guidelines could be that accountable budget holders could then – if needed - issue their own guidance in accordance with this policy. Stakeholders would have a more common understanding of the budget. Duplication of effort could potentially be decreased.

“Budgets should be closely aligned with the medium-term strategic priorities of government”

3.7 Currently, NATO budgets do not align closely with the medium term strategic priorities and planning. The medium term planning documents are supposed to give a more long term view of the financial planning. With a focus on next years' ceilings and less on the remaining years of the plan, budgeting becomes a simplistic year to year exercise. The risk is that the medium term planning documents from a budget perspective are only used to set the ceilings each year.

3.7.1 Potential benefits to NATO from better aligning the budget process with the medium term planning process would be that Nations would obtain a better picture of resources required over the planning horizon to deliver the agreed objectives. In addition, the debate could focus more on changes to an agreed baseline rather than spending time and resources establishing the baseline each year. Further, a better integration between planning and budgeting could potentially decrease workloads.

“Design the capital budgeting framework in order to meet national development needs in a cost-effective and coherent manner”

3.8 The NSIP, NATO's capital investment programme, is separated from other NATO budgets. This results in organisational separation which increases the risk of structural inefficiencies. Long-term O&M costs deriving from NSIP projects are not well integrated into budget proposals and budget screening. There is no direct link between the NSIP projects approved by Nations and the identification/planning for the follow-on O&M costs in the military budgets. In addition, the assessment of O&M requirements for new and/or upgraded capabilities has historically been inaccurate.

3.8.1 Potential benefits to NATO from better adhering to this principle includes NATO enhancing the foundation for making more prudent assessments of cost and benefits of investments, affordability for users over the long term, prioritisation between projects, and overall value for money. Nations could get a clearer picture of the total expenditures and be able to make more informed decisions on prioritisation and long term risks if a more comprehensive budget, including O&M costs as a consequence of capital investments, was established.

“Ensure that budget documents and data are open, transparent and accessible”

3.9 Currently NATO does submit some budget information to the public. Internally, most budgetary information is presented at a high level of detail as separate budgets. Budgetary transparency signals accountability, integrity, inclusiveness, trust, and can improve budget quality. The budget process should be transparent in terms of publication, accessibility, and level of detail. Too much information can obscure the picture and confuse the user, rather than providing clarity.

3.9.1 Potential benefits to NATO from addressing these findings could be the creation of a more streamlined set of budgetary preparatory products to Nations. This could focus

the discussion, prioritisation, screening, and speed up the budget approval process. Some Nations use a Data Warehouse solution to obtain good data quality and support consolidation, accessibility and transparency of the budget.

“Provide for an inclusive, participative and realistic debate on budgetary choices”

3.10 Submission and approval of the budgets usually occurs close to, or after, the established deadlines. The large number of individual NATO budgets are presented with a high level of detail. Currently, Nations analyse, discuss and screen the annual estimates down to a significant level of detail. A large portion of NATO budgets are fixed/non-discretionary and do not change dramatically from year to year. These costs are mandatory costs and/or legally binding costs like running headquarters and personnel costs. Most running costs are based on decisions already made by nations, such as organisation and personnel costs due to approved number of personnel.

3.10.1 Potential benefits from adhering more to this principle could be that NATO speeds up and streamlines the approval of budget elements that do not change significantly from year to year. This could facilitate a more effective discussion and screening, focusing on the remaining discretionary parts of the budgets, such as programmatic and project elements, which can enhance the overall strategic value of the budget process. It could also decrease the risk of micro management and provide for debate focused on the linkage between the budget and NATO’s main objectives and priorities.

“Present a comprehensive, accurate and reliable account of the public finances”

3.11 NATO does not present a comprehensive account of its finances with the budgets that are prepared and approved by Council. NATO does not have a Data Warehouse solution that supports access by all relevant stakeholders to comprehensive budget data for screening, review, or simulation. All sources of NATO funds are not integrated as the budget does not include capital investments (such as NSIP) and information on overall objectives or funds spent via trust funds.

3.11.1 The potential benefit from a more comprehensive budget could include a better basis for Council approval of the budget and increasing transparency and accountability. By integrating the NSIP into a consolidated budget the principles of unity and completeness would be better adhered to. If NATO provided some information on trust funds, for example an accumulated total figure for each budget year, a more comprehensive perspective and debate on the whole spectrum of available funds, resources, and budgetary choices could take place.

“Ensure that performance, evaluation and value for money are integral to the budget process”

3.12 NATO has taken some steps in the area of performance and evaluation, but linking budgets with performance is at an early stage. Currently, NATO is not using a common Key Performance Indicator (KPI) system. Many KPIs and indicators are introduced and sporadic measurement frameworks were introduced or suggested.

Information from such a framework could be utilised as part of the budget preparation process to make the link between spending and actual performance/results more visible. Too many KPIs means additional cost and do not necessarily add value. NATO is currently introducing new initiatives in this area. When doing so, NATO should continuously be aware that the number of objectives should not become too many, possibly obscuring information on actual results.

3.12.1 NATO can benefit from introducing a coherent set of objectives with associated performance criteria. With more focus on outputs and outcomes, NATO could benefit from stronger linkages between priorities and resources. A better linkage between individual organisation's priorities, objectives, activities and expected results, and the resources required to achieve them could increase transparency and accountability at NATO.

“Identify, assess and manage prudently longer-term sustainability and other fiscal risks”

3.13 NATO long term sustainability is based on Nation's being willing to contribute to the organisation. NATO budget holders identify in their budget submissions financial and non-financial risks. Non-financial risks are presented in each budget. It is not clear if these are identified with a common approach across the budget holders. Also, there are currently no clear criteria for identification and reporting of these risks to the BC in the context of budget preparation and approval. In addition, there are no criteria for cross cutting coordination and prioritisation of these risks.

3.13.1 A more centralised and rigorous approach to the identification and mitigation of non-financial risks would allow more informed budgetary screening and a clearer picture of how Nation's decision making could affect these risks.

“Promote the integrity and quality of budgetary forecasts, fiscal plans and budgetary implementation through rigorous quality assurance including independent audit”

3.14 Budgetary forecasts and fiscal plans intended for the preparation of NATO budgets are numerous in NATO and are scattered among several stakeholders. As an example, the military impact statements are anchored under the MC/NMA/IMS umbrella, whereas the consolidated resource proposals and the medium term resource plan is anchored under the RPPB/IS umbrella, with complementary MC guidance and IMS support to the CRP process.

3.14.1 A more centralised and unified approach could benefit NATO in regard to coordination, avoidance of duplication of effort, and increased accountability. A more centralised budgetary body could unify and/or coordinate budgetary forecasting, quality assurance, and fiscal planning. Such a body could further collect, analyse, and utilise findings of relevance to budgeting from NATO's various bodies along with external audit findings.

Conclusion

3.15 In general, we identified differences between the elements found in OECD budget governance principles and the current situation in NATO. We also found some potential areas where NATO could benefit from moving towards better compliance with the OECD principles. Currently, NATO does not have a consolidated budget and NATO does not have a centralised budget authority. NATO can benefit from better adherence to the OECD budgetary governance principles. If NATO works towards better budget practices the Alliance would benefit from a more comprehensive and comparable budget preparation and approval process. This would lead to not only a more efficient and effective process, but one that is also characterised by more accountability and transparency. It is our assessment that a major change in budget policy and practice at NATO would require a comprehensive plan and a clear road map to guide such changes.

4. Overall Conclusions and Recommendations

4.1 Overall Conclusions

4.1.1 NATO currently employs a budget preparation and approval process which suffers from lack of efficiency and effectiveness in a number of areas. By implementing substantial adjustments to the current budget preparation and approval processes, NATO can increase process efficiency. Significant improvements can be achieved by establishing budget ceilings faster and creating a better alignment between planning and budgeting. The Nations and NATO staff are currently facing a preparation and approval process each year that lacks effectiveness. It does not allow for taking optimal proactive budgetary decisions and does not easily enable cross cutting prioritisation and decision-making based on available resources and expected achievements and results.

4.1.2 NATO could conduct a more comprehensive modernisation of the budget preparation and approval processes through the introduction a common NATO budget policy and better alignment with OECD budget principles. Based on this, NATO can make major improvements in budgeting to achieve better transparency and accountability.

4.2 Recommendations

4.2.1 To address the findings concerning the NATO preparation and approval process we recommend the following:

Recommendation for the short term:

- 1) Council should establish authoritative and accepted timelines for all processes that are part of, or contributing to, the NATO budget process and ensure that budgets are not submitted to the BC for review and screening prior to the approval of the budget ceilings.

Recommendation for the medium term:

- 2) Council should enhance budgetary efficiency and effectiveness as well as increased transparency and accountability by adopting OECD budgetary principles which include:
 - a. Council should create a single NATO budget policy and guidelines.
 - b. Council should establish a centralised budget entity accountable for the preparation and the details of the budget based on common methodologies used for budget preparation.
 - c. Council should streamline the roles and responsibilities of the budget preparation and associated governance processes (Council, MC, RPPB, and BC), to facilitate the provision of strategic budget information to committees to enable them to make crosscutting budgetary and prioritisation decisions.
 - d. Council should study the feasibility of adopting a single solution (such as data warehousing), as used by many Nations for national budgets, to support the transparency, accessibility, and stability of budgetary data.
 - e. Council should establish a limited, but appropriate number of meaningful and measurable targets/indicators that represent the main objectives of the organisation and annually verify the results.

5. Comments received and the IBAN position

5.1 We received formal and factual comments from ACO, ACT, IS (NOR and EM), and IMS. IMS only provided factual comments. Where appropriate, we amended the report based on the factual comments received. The full text of the formal comments is located in appendix 7.

5.2 IBAN had a good audit process and efficient correspondence during this performance audit with most of the involved bodies. It should be noted, though, that it proved very difficult to arrange meetings and receive requested information from the NOR. Further, the factual and formal comments from the IS (NOR and EM) was delivered with a significant delay affecting the issuance of the report. In addition, the IBAN requested a coordinated response from the IS (NOR and EM), but instead received one letter with two separate responses which in some instances were contradictory.

5.3 The NOR stated in its comments that effective administration of resources, while desirable, should not be confused with the effective use of NATO resources in its broader context which also needs to balance both political-military effectiveness and Alliance solidarity and cohesion. NOR further stated that resources within NATO may not be used at 100% efficiency but should be used to effectively support Alliance strategic goals, and that this balance ought to be recognised. Such a comment is not in line with NATO financial regulations and policy. It is the Board's opinion that changes should be implemented rapidly if a suboptimal and inefficient use of any NATO resources is identified. This should be done in order to ensure that the public funds NATO is administering are used in the most economic, efficient, and effective manner.

NATO Bodies' formal comments

5.4 The NATO bodies commenting on our report agreed with most of our findings, conclusions, and recommendations. The entities, however, had some comments expressing less than full support on the following areas of IBAN's recommendations:

- Centralized budget entity at NATO (NOR, EM, ACO, and ACT).
- Consolidation of NATO's budgets and budget guidance (NOR and ACT).
- Consensus at NATO on budget ceilings (NOR).
- NATO adoption of OECD budgetary principles (EM).
- Committees involved in budget governance (EM).
- Defining the main objectives of NATO (NOR and EM).

IBAN's position

5.5 Based on the following positions presented below the Board maintains its recommendations, as stated in chapter 4 of this report:

- Centralized budget entity at NATO: Centralisation and consolidation of budgetary information can and should lead to a more accountable, efficient, and effective process.
- Consolidation of NATO's budgets and budget guidance: We do not propose mixing funding sources from different national funding sources, such as Military and Foreign Affairs. Our recommendation deals with the presentation of budgetary information only. Our opinion is that creation of one single set of budget guidelines and, where necessary, incorporate specific guidance for specific NATO bodies is possible.
- Consensus at NATO on budget ceilings: The Board notes the objections and agrees this could be a challenge at NATO.
- NATO adoption of OECD budgetary principles: It is here worth considering that the OECD budgetary principles are general principles for any public entity that many NATO member states already follow.
- Committees involved in budget governance: Our final position clarifies which committees the recommendation is referring to.
- Defining the main objectives of NATO: It is the Board's position that NATO's main objectives, expected results and achievements, and how, and by who, these should be verified, should be identified and decided by the Nations through Council.

NATO civil and military budgets**The civil budget** (EUR 234.4 million in 2017)

Provides funds for personnel expenses, operating costs, and capital and programme expenditure of the International Staff at NATO Headquarters. It is financed from national foreign ministry budgets (in most countries), supervised by the BC and implemented by the International Staff. The civil budget is formulated on an objective-based framework to establish clear links between NATO's strategic objectives and the resources required to achieve them. There are four frontline objectives and four support objectives. The frontline objectives comprise support for: active operations; Alliance capabilities; consultation and cooperation with partners; and public relations. The four support objectives consist in: providing support to the consultation process with Allies; maintaining the facilities and site of NATO Headquarters (Headquarters operational environment); governance and regulation through the monitoring of business policies, processes and procedures; and Headquarters security.

The military budgets (EUR 1.29 billion in 2017)

Covers the operating and maintenance costs of the NATO Command Structure. It is composed of 36 separate budgets, which are financed with contributions from Allies' national defence budgets (in most countries) according to agreed cost-shares. It is supervised by the BC and implemented by the individual budget holders. In all cases, the provision of military staff remains a nationally-funded responsibility. The military budget effectively provides funds for the International Military Staff, the Strategic Commanders, the NATO Airborne Early Warning and Control (NAEW&C) Force, the common-funded portions of the Alliance's operations and missions, and more specifically for:

- the Military Committee, the International Military Staff and military agencies;
- the two Strategic Commands and associated command, control and information systems;
- theatre headquarters for deployed operations;
- the NATO static and deployable Combined Air Operations Centres, deployable ARS and radar systems, and deployable HQ communication systems;
- the Joint Warfare Centre (Norway), the Joint Force Training Centre (Poland), the Joint Analysis & Lessons Learned Centre (Portugal), the NATO Defense College (Italy) and the Communications and Information Systems School;
- the NATO Standardisation Office, the NATO Communications and Information (NCI) Agency (Belgium) via its customers, Allied Command Transformation experimentation funds, the NATO Science and Technology Organisation (Belgium), and the Centre for Maritime Research and Experimentation (Italy);
- limited partnership support activities and part of the Military Liaison Offices in Moscow and Kyiv.

**List of Organisation for Economic Co-operation and Development OECD
budgetary governance principles**

1. Manage budgets within clear, credible and predictable limits for fiscal policy.
2. Budgets should be closely aligned with the medium-term strategic priorities of government.
3. Design the capital budgeting framework in order to meet national development needs in a cost-effective and coherent manner.
4. Ensure that budget documents and data are open, transparent and accessible.
5. Provide for an inclusive, participative and realistic debate on budgetary choices.
6. Present a comprehensive, accurate and reliable account of the public finances.
7. Ensure that performance, evaluation & value for money are integral to the budget process.
8. Identify, assess and manage prudently longer-term sustainability and other fiscal risks.
9. Promote the integrity and quality of budgetary forecasts, fiscal plans and budgetary implementation through rigorous quality assurance including independent audit.

Sources:

- Organisation for Economic Co-operation and Development (OECD), Recommendation of the Council on Budgetary Governance, 2015.
- Organisation for Economic Co-operation and Development (OECD), Budgetary Governance, 2014.

IBAN meetings with other international organisations

Background

To get a better understanding of how other international organisations tackle budget preparation and approval the team visited a number of international organisations.

Methodology

The team surveyed budgetary literature, publically available information on the budget processes of the selected international organisations, and information sent to IBAN by the organisations before the interviews (such as their budget policies, risk management policies, result based management guidance, audit reports). The team further reviewed NATO documentation on the NATO budget process and held meetings with NATO stakeholders. Based on this the team created an interview guide which was sent to the organisations in question in advance of the interviews.

The organisations were selected based on their size and complexity, governance arrangements, type of activities and operations, and decision making arrangements. We did not do an evaluation of the organisations but gathered information on how they work with good budget practices. Among the international organisations there was broad agreement on the practices and the importance of implementing them.

International organisations

The team visited the following organisations:

- Council of Europe (CoE),
- Organisation for Economic Co-operation and Development (OECD),
- United Nations (UN),
- United Nations Children's Fund (UNICEF).

Overview of the major milestones and decision points in the Medium Term Financial Plan and civil budget preparation and approval process

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
International Staff (Executive Management (EM) on behalf of the Secretary General)	Mid April IS record requirements for next year	May EM submits MTFP to BC. Annual civil budget process launched.		July- August Internal detailed screening and submission of the civil budget request								March MTFP process is launched by EM
International Staff NATO Office of Resources (NOR)	Throughout year Provides secretarial support to the BC and RPPB									Beginning of year Draft BC budget guidance		
International Military Staff Division of Logistics and Resources (IMS L&R)												
Budget Committee		May-June Review of MTFP	June-July BC report to the NAC on the MTFP after endorsement by the RPPB		September - October BC reviews/ considers civil budget estimates		October- November BC submits civil budget estimates to RPPB		December BC submits Annual Budget Report to Council (incl. carry forward requests) for RPPB endorsement		January - February BC develops & issues budget guidance	
Military Committee												
Resource Policy and Planning Board		June RPPB endorses BC report to Council on the MTFP					November RPPB endorses BC report to Council on Civil Budget annual estimates					
Council			Mid July Council approval of MTFP including next year budget ceilings						December Council approves the civil budget			

Acronyms:

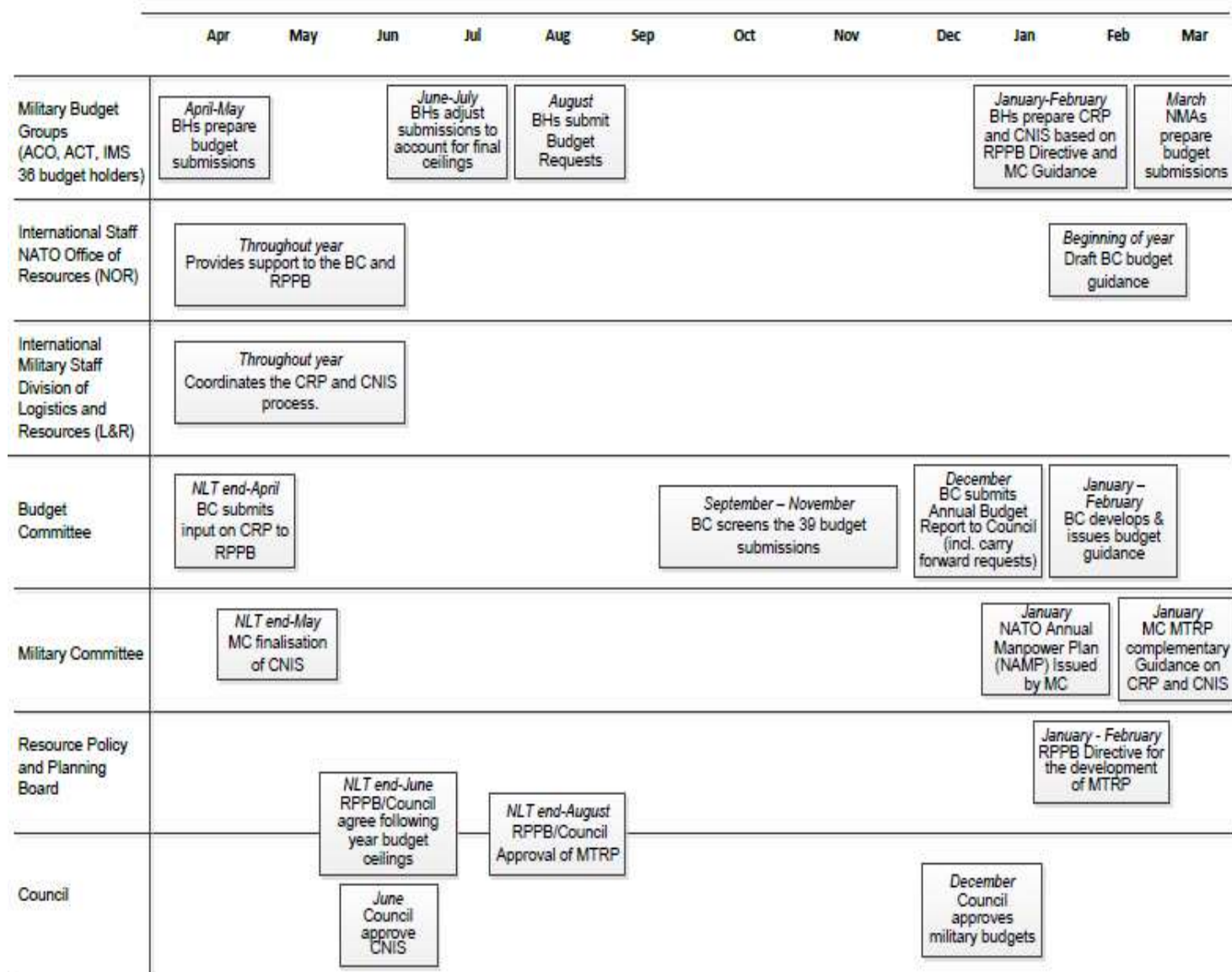
BC: Budget Committee
EM: Executive Management (IS)
IS: International Staff
IMS: International Military Staff
MC: Military Committee
MTFP: Medium Term Financial Plan
NMA: NATO Military Authorities
NOR: NATO Office of Resources (IS)
RPPB: Resource Policy and Planning Board

NNHQ
September
Consideration of 2017 NNHQ
Budget & draft BC report
(2 meetings)

Does not include NNHQ budget which is a little different process including the DPRC, another planning foundation etc.

Sources: Budget civil guidance and work plans for the recent years up to and including 2016 work plan for the 2017 civil budget. In addition, a description provided by IS-EM has been utilized.

Overview of the major milestones and decision points in the NATO Resource Planning Process and military budget preparation and approval process



Acronyms:

BHs: Budget holders
 BC: Budget Committee
 CNIS: Consolidated NMA Impact Statement
 CRP: Consolidated Resource Proposal
 IS: International Staff
 IMS: International Military Staff
 MC: Military Committee
 MTRP: Medium Term Resource Plan
 NMA: NATO Military Authorities
 RPPB: Resource Policy and Planning Board

Sources: Military budget guidance and work plans for the recent years up to and including 2016 work plan for the 2017 military budgets.

Abbreviations

ACO	Allied Command Operations
ACT	Allied Command Transformation
BC	Budget Committee
Council	North Atlantic Council
CoE	Council of Europe
DPRC	Deputy Permanent Representatives Committee
HQ SACT	Headquarters Supreme Allied Commander Transformation
IBAN	International Board of Auditors for NATO
IS	International Staff
IMS	International Military Staff
MCWG	Military Committee Working group
MTFP	Medium Term Financial Plan
MTRP	Medium Term resource Plan
NCIA	NATO Communication and Information Agency
NFR	NATO Financial Regulations
NOR	NATO Office of Resources
NSPA	NATO Support and Procurement Agency
OECD	Organisation for Economic Co-operation and Development
RPPB	Resource Policy and Planning Board
SACT	Supreme Allied Commander Transformation
SHAPE	Supreme Headquarters Allied Powers Europe
UN	United Nations (UN)
UNICEF	United Nations Children's Fund (UNICEF)

**Formal comments received from
International Staff (IS), Allied Command Operations (ACO),
and Allied Command Transformation (ACT)**

Comments by IS (NATO Office of Resources (NOR) and Executive Management (EM))



NATO OFFICE OF RESOURCES (NOR) FORMAL COMMENTS TO IBA-AR(2017)32**I. Background**

2. paragraph 1.1.3 "NATO resources should be used in the most efficient and effective way possible. For example, the NATO Financial Regulations (NFR) direct the financial administration of all NATO bodies and provide key policy guidance for ensuring effective, economical budgetary and financial administration."

Effective administration of resources, while desirable, should not be confused with the effective use of NATO resources in its broader context which also needs to balance both political-military effectiveness and Alliance solidarity and cohesion. That is, resources within NATO may not be used at 100% efficiency but should be used to effectively support Alliance strategic goals. This balance ought to be recognised.

II. Substantial adjustments are required to increase efficiency and effectiveness of the current budget processes at NATO

1. (paragraph 2.13), "The NFRs Articles 18 and 21 state that budget estimates for the following year shall be submitted to Council by 1st September".

NFR Article 18 states "by 1st September, submit to Council, or appropriate governing body as applicable, their budget estimates for the following year".

Lacking more current Terms of Reference, the Budget Committee has noted C-M(2007)0010 foresees the (M)BC, "screens the budget requests submitted to it by the budget holders" and continued the standard practise over at least 40 years of considering the submission of the budget estimates to the Budget Committee by 1st September as fulfilling the intent of the NFRs. Staff will advise the BC to include a recommendation to regularize this as part of its 2018 Budget recommendations.

2. paragraph 2.14 "The budget estimates must be submitted to the BC for review and screening by 1st September according to the NFRs".

(See comment in regards to paragraph 2.13) The IBAN Report in paragraph 2.14 is pragmatically correct but this is not fully in line with the NFRs.

3. paragraph 2.18, "Also there is no distinction between discretionary and non-discretionary costs." The Military Budgets use the term legal requirements in defining non-discretionary costs and this is reflected in the detailed project sheets that comprise the budgets and in the Budget Guidance in detailing risk versus unfunded requirements. Additionally the NMAs in the CNIS have shown the distinction and how, given time, many non-discretionary items can be shifted to discretionary over the time period of the MTRP.

III. NATO should consider introducing an overall budget policy based on sound budgetary principles**1. Table 4. There is no unified and consolidated NATO budget.**

There are two primary national funding streams that comprise the NATO budgets that comprise the box on page 2-4. There is a unified and consolidated Civil Budget financed mainly from national secretary of state sources. This reflects the primarily political nature of the International Staff and work it supports at NATO Headquarters.

The presentation of the Military budget information is listed in a single document – the Annual Budget Report by the Budget Committee to the NAC (C-M(2016)0077 being the most recent example). For the Military Budgets this provides a consolidated overview as part of the approval of the 41 military budgets. The military budgets are mainly financed by the Ministries of Defence of the Allies and serve to cover primarily the military requirements of the NATO Command Structure. The NATO military budgets are further divided by currency, cost share, purpose and national budgetary constraints. For example, funding for Alliance Operations and Missions for a number of Allies comes from a distinct national allocation and may not be utilized for other purposes. Experience suggests that these fundamental differences in the nature and source of the budgets will make achieving consensus in favour of consolidation a significant challenge.

NATO budget practice compared to OECD principles for budgetary governance (paragraphs 3.5 to 3.15)**2. Paragraph 3.6.1 "Potential benefits to NATO from addressing the issue of many layers of detailed guidelines could be that accountable budget holders could then – if needed – issue their own guidance in accordance with this policy."**

The overall Rules and Regulations for all NATO bodies are set out in the NFR (C-M(2014) which have been further interpreted through FRPs applicable to specific bodies. The actual guidance for the production of the Military Budgets is issued annually by the BC, it builds on previous guidance, adapted where necessary for areas that have been identified during the previous execution or budget screening process. Occasionally there will be a need to incorporate specific elements for taskings originating in the MTRP/RPPB. There is nonetheless a high year-to-year correlation in the Guidance. The BC Guidance is in turn used as the basis for any detailed instructions the SCs wish to pass to their subordinate organizations. These may in turn have local direction for their fund managers in building the budget submissions. The Budget Guidance parallels the NATO chain-of-command. This does not seem unreasonable or overly burdensome. Potential benefits to address the layers of guidelines are therefore unlikely to reduce duplication.

IV. Overall Conclusions and Recommendations

4.2.1 Recommendations

Recommendation for the short term:

The timing of the planning elements and need for contribution ceilings in a timely manner has been recognised since the introduction of the contribution ceiling concept to the military budget in 1995. In practice it has often proven not to be possible to reach consensus within the agreed timelines. The BC has tried to mitigate the delays in the planning process and agreement of contribution ceilings in a timely manner within its Budget Guidance so as to proceed in a parallel manner. Nations will need to weigh the benefits of not starting the Budget review and screening against the risk of not having a Budget approved in time and reverting to an interim financing regime.

Recommendation for the medium term:

Again given the rationale for the development of the current budget structure, nations will need to weigh the benefits of establishing a centralized budget entity for the Civil and Military Budgets against the difficulties inherent in differing goals, funding sources, cost shares, currencies and systems acquisition would entail.

EXECUTIVE MANAGEMENT (EM) FORMAL COMMENTS TO IBA-AR(2017)321. Recommendation for the short term:

1) Council should establish authoritative and accepted timelines for all processes that are part of, or contributing to, the NATO budget process and ensure that budgets are not submitted to the BC for review and screening prior to the approval of the contribution ceilings.

1.1. EM Comment: The wording of this recommendation should be amended to replace "contribution ceilings" with "budget ceilings", in view of the potential budgetary and financial risks as explained in the EM factual comments to the draft report.

2. Recommendation for the medium term:

2.1. Council should enhance budgetary efficiency and effectiveness as well as increased transparency and accountability by adopting OECD budgetary principles which include:

2.1.1. EM Comment: OECD budgetary principles should be adapted to NATO's requirements and reality, since the nature, structure (including geographical dispersion) and objectives of the two organizations are significantly different.

2.2. Council should create a single NATO budget policy and guidelines.

2.2.1. EM Comment: Agreed. As marked in item 2.1 above, the OECD budgetary principles could provide seed elements for the development of NATO's budget policy and guidelines common to both Civil and Military Budgets.

2.3. Council should establish a centralized budget entity accountable for the preparation and the details of the budget based on common methodologies used for budget preparation.

2.3.1. EM Comment: In view of the wide geographical dispersion of NATO's entities this might be inadvisable, since some significant budgetary factors (costs for goods and services, inflation rates) can vary significantly from one location to another.

2.4. Council should streamline the roles and responsibilities of the budget preparation and associated governance processes to facilitate the provision of strategic budget information to committees to enable them to make crosscutting budgetary and prioritisation decisions.

2.4.1. EM Comment: This recommendation is not clear and not supported in the draft report. The lack of agreed strategic budget information to budget holders is one of the causes of the delays in the budget preparation process (both for medium-term and yearly estimates). Which committees is this recommendation referring to? The resource committees or the myriad of political committees, which generally tend to make political recommendations without taking into account potential resource implications? And which committees would be making the crosscutting budgetary and prioritisation decisions?

2.5. Council should study the feasibility of adopting a single solution (such as data warehousing), as used by many Nations for national budgets, to support the transparency, accessibility, and stability of budgetary data.

2.5.1. EM Comment: Agreed. The International Staff implemented in 2015 an Enterprise Resource Planning (ERP) system that could provide Civil Budget data to such data warehouse. On the NSIP and Military Budget sides, the recent implementation of the Common-funded Integrated Resources Information System (CIRIS) could also facilitate the relevant data availability to the data warehouse.

2.6. Council should establish a limited, but appropriate number of meaningful and measurable targets/indicators that represent the main objectives of the organisation and annually verify the results.

2.6.1. EM Comment: The core tasks and principles of the Alliance are well defined in the current Strategic Concept. However, in practical terms, the definition of the many and varied operational objectives that need to be accomplished on a yearly basis poses significant challenges which cannot be easily resolved with a "limited, but appropriate number of meaningful and measurable targets/indicators". Who will define the "main objectives of the organisation" and who will be doing the annual verification of the results? A good example in this regard, the Institutional Adaptation work stream has been established since 2015 and has not yet provided clear results in terms of prioritisation.

Comments by Allied Command Operations (ACO)



SUPREME HEADQUARTERS ALLIED POWERS
EUROPE
GRAND QUARTIER GÉNÉRAL DES PUISSANCES ALLIÉES
EN EUROPE
B-7010 SHAPE, BELGIUM



Our Ref: SH/J8/BUP/FC/17-318887

Tel: [REDACTED]
Tel: [REDACTED]
NCN: [REDACTED]
Fax: [REDACTED]

Date: 16 October 2017

TO: International Board of Auditors for NATO

SUBJECT: **COMMENTS ON THE REPORT AND LETTER OF OBSERVATIONS AND
RECOMMENDATIONS BY THE INTERNATIONAL BOARD OF AUDITORS
FOR NATO ON THE PERFORMANCE AUDIT ON THE NATO BUDGET
PREPARATION AND APPROVAL PROCESSES**

REFERENCE: IBA-A(2017)154, Draft Performance Audit on the NATO Budget Preparation
and Approval Processes - IBA-AR(2017)32, dated 03 October 2017.

1. Thank you for the opportunity to review and comment on the Reference. ACO factual comments on the Board's observations and conclusions are included for your consideration at Annex A. Formal comments addressing the Board's recommendations made in the report are included in Annex B.

2. The ACO point of contact for this matter remains [REDACTED], ACO Financial Controller, ACOS J8, NCN: [REDACTED] and [REDACTED], Branch Head Budget and Policy, NCN: [REDACTED].

FOR THE SUPREME ALLIED COMMANDER, EUROPE:

Markus Kneip
General, DEU A
Chief of Staff

ANNEXES:

- A. ACO Factual Comments on the International Board of Auditor's Draft Performance Audit on the NATO Budget Preparation and Approval Processes – IBA-AR(2017)32.
- B. ACO Formal Comments on the International Board of Auditor's Draft Performance Audit on the NATO Budget Preparation and Approval Processes – IBA-AR(2017)32.

ANNEX B TO
SH/J8/BUP/FC/17-318887
DATED 16 OCT 17**ACO FORMAL COMMENTS ON THE INTERNATIONAL BOARD OF AUDITOR'S DRAFT
PERFORMANCE AUDIT ON THE NATO BUDGET PREPARATION AND APPROVAL
PROCESSES – IBA-AR(2017)32****Paragraph 4.2.1.2) a.***"Council should create a single NATO budget policy and guidelines."*

Budget policy and guidelines are included in the NATO Financial Regulations (NFRs) and the Financial Rules and Procedures (FRPs). The Budget Committee (BC) and subsequently the Strategic Commands (SCs) issue annual budget guidelines to detail the requirements. Significant portions of the guidance remain unchanged year after year. If this recommendation is supported by the Nations, the BC could take the enduring parts of the annual budget guidance and turn them into a NATO budget policy document. However, the need would still remain to issue annual guidance to reflect any changes and/or new requirements, or guidelines specific to the upcoming fiscal year.

Paragraph 4.2.1.2) b.*"Council should establish a centralised budget entity accountable for the preparation and the details of the budget based on common methodologies used for budget preparation."*

ACO does not see the benefits of further centralising the NATO budgets and the creation of a centralised budget authority. The current centralised budget authority at the level of the NATO Military Authorities (ACO, ACT and the IMS) is sufficient and further centralisation would consolidate budgets of vastly different nature without added benefit in terms of transparency and/or reduced complexity or bureaucracy.

Paragraph 4.2.1.2) c.*"Council should streamline the roles and responsibilities of the budget preparation and associated governance processes."*

ACO fully agrees with this recommendation. Clarification of the roles of various NATO Committees (RPPB, MCWG (Res), BC) could result in streamlined processes, reduction of overlaps and more timely resource planning and budget preparation processes.

Comments by Allied Command Transformation (ACT)



NORTH ATLANTIC TREATY ORGANIZATION
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD
HEADQUARTERS SUPREME ALLIED COMMANDER TRANSFORMATION
7857 BLANDY ROAD, SUITE 100
NORFOLK, VIRGINIA, 23551-2490



7000/TSC-GSB-001 0/TT-171194/Ser. NU0786

TO: Chairman International Board of Auditors

SUBJECT: **DRAFT PERFORMANCE AUDIT ON THE NATO BUDGET
PREPARATION AND APPROVAL PROCESSES**

DATE: 23 October 2017

REFERENCE: A. IBA-A(2017)153 dated 3 October 2017


1. ACT is grateful to be afforded the opportunity to provide comment on the recent audit of the NATO budget preparation and approval process. Reference A specifically requested factual comments on:

- a. The validity and completeness of the facts as expressed; and
- b. Facts pertinent to an observation not noted in the draft that should be brought to the attention of IBAN.

In addition, formal comments were invited on the draft performance audit.

2. ACT's factual comments are provided at Annex A, with the comments regarding the draft performance audit offered at Annex B. Should there be any questions, our point of contact is [REDACTED] ACT Financial Controller, NSN [REDACTED]

FOR THE SUPREME ALLIED COMMANDER TRANSFORMATION:


Sir Graham Stacey KBE CB CCMl
Air Marshal, GBR AF
Chief of Staff

ANNEX B TO
7000/TSC-GSB-0010/TT-171194/Ser NU 0786
DATED 22 OCT 17**ACT FORMAL COMMENTS ON THE DRAFT PERFORMANCE AUDIT OF THE NATO
BUDGET PREPARATION AND APPROVAL**

1. The following formal comments are provided for consideration.

Paragraph	Formal Comment
General	Often see financial planning and budget preparation as two separate processes. Is this correct? The ACT view is that the budget preparation is merely the final element of the Resource Planning process.
Para 1.1.4	It might be worth including in the Table on NATO Budgets that the source of funding for the Civil Budget and Military Budget often comes from two sources within the same NATO Nation. Dept of Foreign Affairs/State Dept for the Civil Budget and the Department of Defence for the Military Budget. This has led to structural restrictions on what can and can't be done with the budgets.
Para 2.2	The funding source for the Civil and Military Budgets are different similar to comparing the Military Budget to NSIP. Our understanding is that the Military Budgets should be submitted in the same format as detailed in the annual Budget Committee guidance.
Para 2.6	It is worth mentioning that to date the CRP has been an unconstrained resource proposal. Additionally the penultimate sentence suggests that individual planning figures are provided to the military budgets. To date the MTRP has not done that.
Para 2.17	NATO budget preparation is also hampered by a planning process that is fixated on the next financial year. This generates prioritisation, resource ceiling discussion and budget preparation all taking place in the same time period with a lack of forward, strategic resource discussion.
Para 2.18	This is further exacerbated in the long term planning by the use of unconstrained totals in the CRP which leads to considerable debate and prioritisation on non discretionary or low priority elements. Additionally, decisions on affordability of CPs do not naturally lead to the provision of additional MB to pay for the Capability.
Para 3.4	This paragraph is not understood. This paragraph appears to refer to some form of consolidated Budget Holder but it is not clear. If there is no consolidated budget holder then no one can be held accountable at a centralised level. It is therefore unclear how more effective budgetary management can be achieved when the centralised level has no authority to

	manage noting that accountability would still rest with the individual Budget Holders.
Para 3.6.1	This paragraph is not understood. We seem to be saying that we are producing too many guidelines due to the absence of an overarching policy from several levels of governance and management. What are the layers with regard to budget preparation? It is ACT's understanding that there is one layer of budget guidance issued by the Budget Committee and accountable budget holders do exactly what paragraph 3.6.1 describes.
Para 3.7	Completely agree the NATO committees are focussed on a budget drill rather than any form of long term financial planning. In addition, the aim should be to develop a long term view of <u>resource</u> planning rather than just financial planning.
Para 3.7.1	ACT would argue that it is aligning the resource planning process with the budget process.
Para 3.8	The movement of NSIP from a resource contribution footing to a capital budget would generate a link between capital and non capital budget planning that would improve planning coherency.
Para 4.2.b	Council should establish a centralised budget entity accountable for the preparation and the details – What specifically is meant by this? Is this paragraph referring to a body (staff) that consolidates Budget Holder requirements or a centralised Budget Holder?