

24 October 2008

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**REPORT ON THE AUDIT OF THE
NATO SECURITY INVESTMENT PROGRAMME
FOR THE YEAR 2007**

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SUMMARY

The International Board of Auditors for NATO (Board) audits and certifies each project for which NATO Security Investment Programme (NSIP) expenditure is charged to NATO. The Board's main objectives are to ensure that expenditure is within financial and technical authorisations, and carried out according to NSIP rules and procedures.

In accordance with Article 17 of its Charter, the Board prepared this report to Council summarising the results of the audit of NSIP expenditure for the year 2007. A separate report to Council on the Board's annual activities was issued on 18 April 2008 (para.1.4).

The Board continued implementing its Strategic Plan for 2005 to 2009. It achieved one of the three targets for NSIP audits set in its Annual Performance Plan for 2007 (para. 3.3/3.4).

The Board's 2007 audit resulted in net adjustments totalling EUR 6.9 million in favour of the NSIP. The Board audited 200 projects, totalling more than EUR 650 million in value. The total value of the 578 Certificates of Final Financial Acceptance (COFFAs) issued in 2007 amounted to EUR 542 million (para. 6.1/6.2). At end 2007, the unaudited expenditure amounted to 17 % of total reported expenditure, compared to 40 % in 1991 (para. 6.3/6.5).

The NATO Agencies and Commands do not strictly adhere to the NSIP Regulations concerning the timely request for formal inspection (within 6 months of project completion) and concerning the timely request for audit (within 2 years of project completion) (para. 7.6).

The Nations, the NATO Office of Resources (NOR) and the Board continued implementing the 2004 Infrastructure Committee (IC) agreement on the accelerated closure of projects in the Slice Programme. This exercise of accelerated closure of projects below 500,000 EUR, through both an accelerated JFAI procedure with lump sum authorisation and identification of deleted projects with cancellation fees authorisation, is nearing completion (para. 8.7; Appendix 6).

In February 2007, the NOR and the Board made a joint proposal for an Enhanced Accelerated JFAI procedure applicable to Slices 21 to 45, which was not accepted by the IC. Subsequently a new policy document concerning this procedure was elaborated by the NOR, and approved by the IC in July 2008. Its content and initial application will be covered in the IBAN report on the NSIP for 2008 (para. 8.3/8.4).

The backlog of territorial Nations' operationally completed projects yet to be inspected, audited, and certified, remains high but does not appear to be growing. The backlog of projects implemented by NC3A and SHAPE and yet to be inspected and certified, is cause for concern (para. 9.1/9.3; Appendix 7).

The Board remains of the opinion that an incentive should be provided for nations to present projects for JFAI and final audit within the agreed milestone periods. Therefore, the Board intends to pursue its effort to enhance the accountability of the NSIP by exploring alternative proposals to that effect (para. 10.9).

The Board recommends that:

- the IC regularly monitors the NSIP project implementation by NATO Agencies and Commands, including their adherence to the procedures governing the projects' administrative completion;
- the IC continues to explore the possibility of providing an incentive to nations to present projects within the agreed milestone periods for JFAI and final audit.

1. INTRODUCTION

1.1 The International Board of Auditors for NATO (Board) is an independent body composed of six Members appointed by the North Atlantic Council (the Council) from among candidates nominated by member countries. According to Article 3 of the Board's Charter, its Members are responsible for their work only to the Council and shall neither seek nor receive instructions from authorities other than the Council. In 2007 the Board had an establishment of 1 Principal Auditor, 2 Senior Auditors, 18 Auditors, and 8 Administrative Staff assisting the Board in its work.

1.2 The primary function of the Board is to enable the Council and, through its Permanent Representatives, the Governments of member Countries, to satisfy themselves that common funds have been properly used for the settlement of authorised expenditure.

1.3 This report was prepared in compliance with Article 17 of the Charter of the Board. It summarises the result of the audit of NATO Security Investment Programme (NSIP) expenditure for the year 2007.

1.4 Besides NSIP expenditure, the Board audits the financial statements of NATO bodies, including Civil and Military Agencies, NATO Production and Logistics Agencies and Military Commands. The Board also audits the efficiency and effectiveness of NATO operations and activities. A separate report on the Board's annual activities was issued under reference IBA-M(2008)1, dated 18 April 2008.

2. NATO SECURITY INVESTMENT PROGRAMME

2.1 The NATO Security Investment Programme was set up in 1951 to build facilities to meet NATO military requirements, e.g. airfields, pipelines, missile sites, naval bases, warning installations and communication systems. The nations share the cost of the programme based on an agreed percentage for each participating nation. Until the end of 1993, Infrastructure project funding was authorised in annual "Slices" and individual projects. In 1994, a Capability Package (CP) approach was started to better link individual projects to specific military requirements. Projects continue to be programmed within the CP approach and audited individually.

2.2 The nation (or Agency) where a project is to be implemented is normally responsible for planning and executing the project. Before implementation, NATO must screen a project and present it to the Infrastructure Committee (IC) for authorisation of the technical scope and funding. The IC oversees the implementation of the programme on behalf of the Council.

2.3 Every half year, the nations and agencies claim payments based on anticipated expenditure for their projects. Actual expenditure for the preceding half-year is also reported. NATO has been using the EURO as its currency unit since 1st January 2003.

2.4 NATO technical teams inspect projects once they are completed. A team's inspection report is the basis of NATO acceptance of a project into its inventory. As a general rule, the Board does not perform an audit before the Joint Final Acceptance Inspection report (JFAI) has been finalised.

2.5 In 2007, the Board audited the NSIP 2005 Financial Statements. As for the two previous years, the Board's audit report on these statements included a scope limitation, because the Board cannot finally audit expenditure on NSIP projects until projects are technically inspected and financially completed.

2.6 After further consideration, the Board announced in January 2008 that it was no longer necessary for the Board to audit the NSIP Financial Statements. On the other hand, it approved alternative procedures, designed to provide assurance on the NSIP financial situation to the nations.

3. OBJECTIVES OF NSIP AUDITS

3.1 Under Article 16 of its Charter, the Board is responsible for verifying that common NSIP expenditure has been incurred:

- within the framework of relevant national legislation and regulations;
- in compliance with Council decisions approving Infrastructure projects;
- in accordance with the terms of the contracts for their implementation;
- in compliance with rules of international competitive bidding where these apply;
- as economically as possible; and
- without the charging to common funds of works in excess of those authorised by the competent committees.

3.2 The Board is required to check whether all payments for which reimbursement is claimed have actually been invoiced and paid, and to identify any item that is ineligible for NATO funding. The audit results in a Certificate of Final Financial Acceptance (COFFA) which certifies for each project audited the final amount charged to NATO common funds (CM(53)71).

3.3 The Board continued to implement its Strategic Plan for 2005 to 2009. One of the four goals of this Plan is to improve accountability in the NSIP. In its Annual Performance Plan, the Board developed measures of success and set targets for 2007. The first target was to reduce by 30 the number of audited projects still open. Only 10 such projects were closed in 2007, illustrating that a hard core of projects are difficult to

resolve. The second target was to reduce the percentage of the uncertified portion for nations. The uncertified portion of Nations' expenditure already audited remained stable at 15% (Appendix 4). The first two targets were therefore not achieved.

3.4 The amount to be audited in 2007 was targeted at EUR 350 million in nations. This target was achieved, as the Board audited EUR 394 million in nations, and EUR 255 million in agencies.

4. CONDUCT OF NSIP AUDITS

4.1 The Board usually audits projects in the responsible nation which prepares the required project documents for audit. It only audits projects which are fully expended and formally accepted by the IC. The number and amounts audited annually mainly depend on the number of auditable projects available and presented for audit by nations.

4.2 An audit either results in a COFFA or a letter of observation to the nation on each project. The letter sets out the amounts established by audit and the steps, if any, that the nation needs to take before the Board can certify the expenditure for the audited project. Projects for which a letter of observation has been sent remain open until a COFFA can be issued.

4.3 The letter also explains any agreed or proposed adjustments against the amount claimed by that nation (Section 5). Most of the adjustments are already agreed during the field audit between the nation's representatives and the audit team.

4.4 In NATO agencies acting as a Host Nation, the Board is able to use a different audit approach. The audit team responsible for the annual financial statement audit of an agency also audits the NSIP expenditure, placing reliance as appropriate on the internal control environment. In a NATO budget-funded agency there is a lower risk of unauthorised cost-overruns, excess works and national cost-shares. This allows checking the documentation on a sampling basis, whereas in nations, in principle, every invoice needs to be checked.

4.5 In addition, there is low risk in performing an audit prior to the completion of projects and prior to the approval of a JFAI document, in NATO agencies. Of course, when the JFAI document is approved, the Board reviews this document before it issues a COFFA.

5. ADJUSTMENTS TO CLAIMED EXPENDITURE

5.1 When auditing NSIP projects the Board checks on a number of items. All these checks can lead to adjustments, both in favour of the NSIP and of nations. The Board's audits may result in two types of adjustments.

5.2 First, audit adjustments are financial adjustments arising from the audit of the cost statements presented by the nations. The adjustments result from mathematical errors, currency conversion errors, excess works, missing invoices, etcetera. These audit adjustments can result in savings in favour of the NSIP or in favour of the nation.

5.3 The second type are adjustments to the financial report. Nations can claim advances against authorised funds in the Semi-annual Financial Report (SAFR). Ideally, expenditure claimed in the SAFR should match the expenditure in the local accounts (cost statements). However, this is not always the case in practice, because nations sometimes over-report or under-report the cost of the project. At the end of the audit of each project, the Board reconciles the audit result with the amount reported in the SAFR. These adjustments correct any overcharge or undercharge by the nation in the SAFR, and are reported as savings either to the NSIP or to the nation.

5.4 In 2007 the Board's audits resulted in total net adjustments in favour of the NSIP of EUR 6.9 million (EUR 8.5 million in favour of NSIP and EUR 1.6 million in favour of nations).

5.5 The adjustments reflect only the quantifiable benefits. The general qualitative improvements in controls over expenditure cannot be quantified, but are an important outcome of the audit process. Finally, it should be noted that the Board does not conduct an audit when projects are converted into lump sums.

6. OVERALL AUDIT RESULTS

6.1 In 2007, the Board used 2.3 staff-years for NSIP audits, compared to 2.5 staff-years in 2006. It conducted 28 audit missions in 12 NATO nations and 4 NATO Bodies acting as Host Nation. These audits covered nearly 200 projects totalling more than EUR 650 million in value, compared to EUR 614 million in 2006. It should be noted that, in the nations, the Board can only audit expenditure that is presented by them. In the NATO Agencies and –as from 2007- also in the Commands, NSIP transactions are audited as part of the audit of their annual financial statements.

6.2 The Board issued 578 COFFAs in 2007 with a total value of EUR 542 million, compared to 630 COFFAs for EUR 660 million in 2006.

6.3 The Board's major objective has always been to reduce the amount of unaudited and uncertified expenditure. The overall status at the end of 2006 and 2007 was as follows (in Billions of Euro):

	2007	2006
Cumulative expenditure reported	28.7	28.0
Cumulative expenditure audited	23.9	23.0
Cumulative expenditure unaudited	4.8	5.0
Cumulative expenditure certified	18.6	18.1
Percentage of reported expenditure audited	83 %	82 %
Percentage of audited expenditure certified	78 %	79 %
Percentage of reported expenditure certified	65 %	65 %

6.4 The cumulative unaudited expenditure of about EUR 4.8 billion does not equate to "auditable" expenditure. The Board normally audits projects when they are completed and NATO has technically inspected them. Therefore, projects that are not yet inspected are not available for audit. Projects remain open for reasons beyond the Board's control, i.e. expenditure not presented for audit, lack of technical inspection, need for additional authorisations, and outstanding audit observations.

6.5 An overview of the cumulative amounts authorised, spent, audited and certified is at Appendix 2. Since 1991, the percentage of unaudited expenditure has been reduced from 40% to 17% (Appendix 3). Annual amounts of expenditure reported and audited, for the period from 1990 to 2007, are presented at Appendix 4.

6.6 As in 2006, the amount audited in 2007 (875 million EUR) exceeded the amount reported as spent in 2007 (658 million EUR). However, the audited amount was affected by a "restatement" of the amount audited for NC3A, NACMA and NAMSA (see para. 7.1 below).

7. AMOUNTS AUDITED AND CERTIFIED BY NATION AND AGENCY

7.1 Appendix 5 shows the expenditure reported, audited, and certified, as of 31 December 2007, by nation and agency. In comparison with the table at Appendix 3 of the 2006 Annual Infrastructure Report, it contains two modifications:

- in addition to the information provided previously, this table now also shows the certified portion of reported expenditure, in order to better reflect the part of the nations' total expenditure that was accepted and certified (Appendix 5, final column);
- since NC3A, NACMA and NAMSA have always included NSIP-funded expenditure in their annual financial statements, the expenditure audited for these Agencies is henceforth reflected as identical to the expenditure reported; as a consequence of this "restatement", the cumulative amount of expenditure audited at end 2007 exceeds the corresponding figure at end 2006 by EUR 875 million.

7.2 In line with the requirement to become IPSAS-compliant, the Strategic Commands - ACO and ACT - have included the NSIP-funded expenditure in their financial statements for the year 2007. Their NSIP-funded expenditure will now be audited annually in the framework of their financial statements, as was already the case for NC3A, NACMA and NAMSA. The difference between the Strategic Commands and the Agencies is illustrated in Appendix 5¹, column 2.

7.3 The member nations that have joined NATO since 1999 and Spain that joined the Programme in 1995 have less than 50% of their expenditure audited because of recent projects under implementation.

7.4 Appendix 5 shows that overall the portion of the expenditure of NATO Agencies and Commands which was audited (94%) is higher than the audited portion of territorial nations' expenditure (80%). On the other hand, the portion of expenditure of NATO Agencies and Commands which was certified (45%) is far lower than the certified portion of territorial nations' expenditure (69 %). More than half of the total expenditure reported by NATO bodies (4.5 billion EUR) was reported by NC3A (2.5 billion EUR).

7.5 These figures indicate that, in general, the NATO Agencies and Commands do not strictly adhere to the NSIP Regulations concerning the timely request for formal inspection (within 6 months of project completion) and concerning the timely request for audit (within 2 years of project completion).

7.6 The Board recommends that the NATO Agencies and Commands, implementing NSIP-funded projects, strictly adhere to the NSIP regulations concerning the technical and financial closure of these projects.

¹ Reported Expenditure Audited and Certified by Nation and Agency.

8. ACCELERATED CLOSURE OF PROJECTS IN THE SLICE PROGRAMME

8.1 Already in 2003, the Infrastructure Committee took note of a framework for the accelerated close out the remaining Slice projects, programmed between 1970 (Slice 21) and 1994 (Slice 45), in various stages of operational completion, technical and financial inspection. Projects were grouped according to the action required to bring them to financial completion.

8.2 In 2004, the IC agreed on an accelerated Joint Formal Acceptance and Inspection report (JFAI) for projects, meeting the following criteria:

- a value of less than EUR 0.5 million;
- no current Minimum Military Requirement (MMR);
- if current MMR, deficiencies are to be corrected under separate action;
- no reported excess works;
- or excess works not requiring additional funding;
- no other issues.

The IC also agreed that all projects qualifying under the Accelerated JFAI process would also automatically qualify for a lump sum conversion of the existing fund authorisations².

8.3 In February 2007, the NOR and the Board made a joint proposal to the IC to enhance the accelerated JFAI procedure³. It was proposed to increase the ceiling to EUR 2 million, without materially increasing the audit risk. Increasing the ceiling from EUR 2 to 10 million would materially increase the risk and reduce the potential savings resulting from audit. Therefore, the joint proposal included a “payback” of 1.8% of the expended amounts before they are converted into lump sums and certified. The 1.8% was calculated from statistical analysis of audit savings data for the years 2002 to 2004 in all nations. This proposal has finally not been accepted by the IC.

8.4 During 2008, the NOR - in conjunction with the IC and the Strategic Commands - actively pursued the elaboration of an Enhanced Accelerated JFAI Procedure applicable to Slices 21 to 45. In July 2008 the IC approved a new policy document concerning this procedure⁴. Its content and initial application will be covered in the IBAN report on the NSIP for 2008.

8.5 In 2007, 91 projects were closed under the accelerated JFAI procedure. About the same number of projects (90) was identified as deleted and ready for closure after the authorisation of cancellation fees.

² AC/4-D(2004)0004 and AC/4-D(2004)0004-ADD1, approved by AC/4-DS(2004)0019 and AC/4-DS(2004)0032 respectively.

³ AC/4-D(2004)0004-ADD2, dated 08 March 2007.

⁴ AC/4-D(2004)0004-ADD2-REV1, approved by AC/4-DS(2008)0019.

8.6 Appendices 6 (Slice Programme) and 7 (CP Programme) provide a breakdown, as at June 2007 and at June 2008, by nation of all projects:

- technically completed, awaiting a JFAI request by the Host Nation;
- with a JFAI requested but not yet performed by the NOR;
- with a JFAI accepted, thus to be submitted for audit by the Host Nation; and
- with a partial or final audit, awaiting action by nations or the NOR.

8.7 These tables do not show the total number of open projects in both the Slice and the CP programmes. Only the projects between technical completion and financial acceptance are included⁵. On the other hand the tables include, for the first time, the number of open projects implemented by NATO Agencies and Commands.

8.8 In the Slice programme (Appendix 6), the total number of projects to be inspected and audited dropped from 882 to 612⁶. The drop was most significant for the projects below 500,000 EUR: between June 2007 and June 2008, the total number of nations' Slice programme projects below 500,000 EUR decreased from 380 to 104⁷. This decrease indicates that the current exercise of accelerated closure, through both an accelerated JFAI procedure with associated lump sum authorisation and identification of deleted projects with associated cancellation fees authorisation, is nearing completion.

8.9 The number of Slice Programme projects over 500,000 EUR decreased far less significantly, from 502 to 455⁸, or by about 10% only.

9. CLOSURE OF PROJECTS IN THE CAPABILITY PACKAGE PROGRAMME

9.1 In the CP Programme (Appendix 7), the total number of projects, implemented by territorial Host Nations, to be inspected, audited, and certified, remained stable at 888. There was a significant increase in the number of technically completed projects with an outstanding JFAI request.

9.2 Next to these projects, another 329 operationally completed projects, implemented by NATO Bodies, remained to be inspected and certified⁹, including 154 projects implemented by NC3A and 132 projects implemented by SHAPE.

⁵ Not shown are : active projects ; project under confirmation ; projects deleted and to be deleted ; and COFFA'd projects awaiting close out.

⁶ The 2008 figure includes 52 projects for NC3A, not included in the 2007 figures.

⁷ Figures concerning NATO Bodies are shown for June 2008, but not for June 2007.

⁸ Not including the NC3A projects.

⁹ NSIP-funded activities by NATO Bodies are audited in two phases : first as part of the annual financial statements (if included), and secondly from an NSIP point of view (JFAI, deficiencies...).

9.3 In conclusion, the backlog of territorial Nations' operationally completed projects yet to be inspected, audited, and certified, remains high but does not appear to be growing. On the other hand, the backlog of projects, implemented by NC3A and SHAPE and yet to be inspected and certified, is cause for concern. Just as the territorial Nations, NATO Bodies should adhere to the rules and regulations governing the NSIP implementation as decided by the Infrastructure Committee.

9.4 The Board recommends that the Infrastructure Committee regularly monitors the project implementation by NATO Bodies, including their adherence to the procedures governing the projects' administrative close-out.

10. ACCOUNTABILITY IN THE NSIP (FOLLOW-UP)

10.1 Over the past 50 years, the Board has repeatedly raised its main concerns, which are still relevant:

- The Board audits solely by invitation of the nations;
- Nations can claim funds in advance for 100% of the estimated project expenditure plus contingencies, on the basis of expenditure reported by them;
- Such claimed amounts stand until adjusted by audit;
- More audit adjustments are in favour of the NSIP than of nations.

10.2 Nations have no financial incentive to offer reported expenditure for early audit, except in cases of cost overruns. Furthermore, currently no sanctions exist that would discourage late presentation for JFAI and for audit. As a result, projects with an authorisation dating back to 1970 remain uninspected and unaudited.

10.3 In its report on the NSIP audit for 2003 (C-M(2004)0073, Annex 1), the Board suggested that in the future, part of the authorised funds could be withheld until a project has been subject to JFAI and final audit. This was to take into account that part of the advance funds would be returned to NATO as a result of final audits. In its report to Council, the IC recognised the right of nations to receive the full amount of eligible expenditures (C-M(2004)0073-ADD1).

10.4 The IC at the same time noted that the Board's recommendation would be a matter for the IC to discuss and take a decision as required (AC/4-DS(2004)0031; para. 1.2.1.4). In its report on the NSIP audit for 2006 (C-M(2007)0067, Annex 1), the Board recommended that the IC discuss this issue. The aim should be to provide an incentive for nations to present projects within the agreed milestone periods for JFAI and final audit and this way to improve accountability in the NSIP.

10.5 In its meeting of 27 February 2007, the IC noted the statement by the IBAN and the NOR that no detailed information was available on how other national

administrations and organisations dealt with the issue of advancing or withholding funds; that, however, it seemed common practice that final payments were made only once the financing body was finally satisfied with a project.

10.6 The Board, therefore, decided to gather independently more information on the methods of financing of contract-based programs and projects, in force in national administrations as well as in other international organisations.

10.7 In February 2008, the IC noted that a number of nations could not agree, for legal and accounting reasons, to any withholding of a portion of the full amount of funds, when a project was authorised. However, nations were keen to explore the possibility of addressing the Board's concern as regards accountability in other ways.

10.8 The Board remains of the opinion that an incentive should be provided for nations to present projects within the agreed milestone periods for JFAI and final audit. Therefore the Board intends to pursue its effort to enhance the accountability of the NSIP by exploring alternative proposals to that effect.

10.9 The Board recommends that the IC continues to explore the possibility of providing an incentive to nations to present projects within the agreed milestone periods for JFAI and final audit.

11. THE BOARD'S AXING AUTHORITY

11.1 Council established the Board's axing authority in 1979 (C-M(79)52). Under the axing authority, the Board's audit observations are considered accepted by the nation after one year has elapsed without a substantive response, or at least an explanation as to why an answer cannot be given within that year. Axing a project has significant consequences for nations. Axed expenditure will no longer be eligible for NATO funding. This directly impacts on the expenditure the nation can claim for reimbursement by the other NATO nations and on the contributions it has to pay or receive.

11.2 The Board did not issue any axing COFFAs In 2007.

11.3 In 2007, the Infrastructure Committee authorised additional funds for two projects, for which the Board had previously – in 2003 – exercised its axing authority by issuing an "axing COFFA". In these two cases, the Board subsequently issued a "Complementary COFFA". The Board's policy concerning requests for Revised or Complementary COFFAs was stated in its annual NSIP report for 1999¹⁰. According to this policy, the Board will only consider requests for revised or complementary COFFAs when :

¹⁰ C-M(2001)7, Annex 1, para.12.

- it has made an error, which was detected within a reasonable amount of time, or when other exceptional circumstances exist;
- when the amount involved is significant; and
- when sufficient funds authorisation is in place.

11.4 The Board is of the opinion that this policy was not intended to be used in cases where the Board made use of its axing authority, given by Council. Therefore, in future cases, the Board will avoid any language that could raise an expectation for the approval of a Complementary COFFA after an Axing COFFA. It considers the two aforementioned cases as exceptional and non-precedent-setting.

11.5 In conclusion, the Board will in future not issue a Complementary COFFA after an Axing COFFA, even if the Infrastructure Committee has approved additional fund authorisations. The Board considers this necessary, in order to avoid that its axing authority, given by Council, would be undermined.

12. REVIEW OF BOARD AUDIT PRACTICES

12.1 Following its review of agency audit practices conducted in 2003 and 2004, the Board carried out an internal review of its NSIP audit practices, in order to making its NSIP audit work more efficient and effective. The Board agreed the following measures:

- coordination of the Board's decisions and instructions on NSIP audit policy and practice into a single document;
- development of a Best Practices guide for NSIP project audit at Agencies and Commands, including a sampling methodology;
- allocation of NSIP audit responsibility over a portfolio of Nations and Agencies to individual Board Members and auditors, in order to enhance consistency, knowledge and understanding of the Nations' legal framework, organisation and specific situation.

12.2 In 2007, the Board decided to commence a performance audit of the NSIP management. The objectives are:

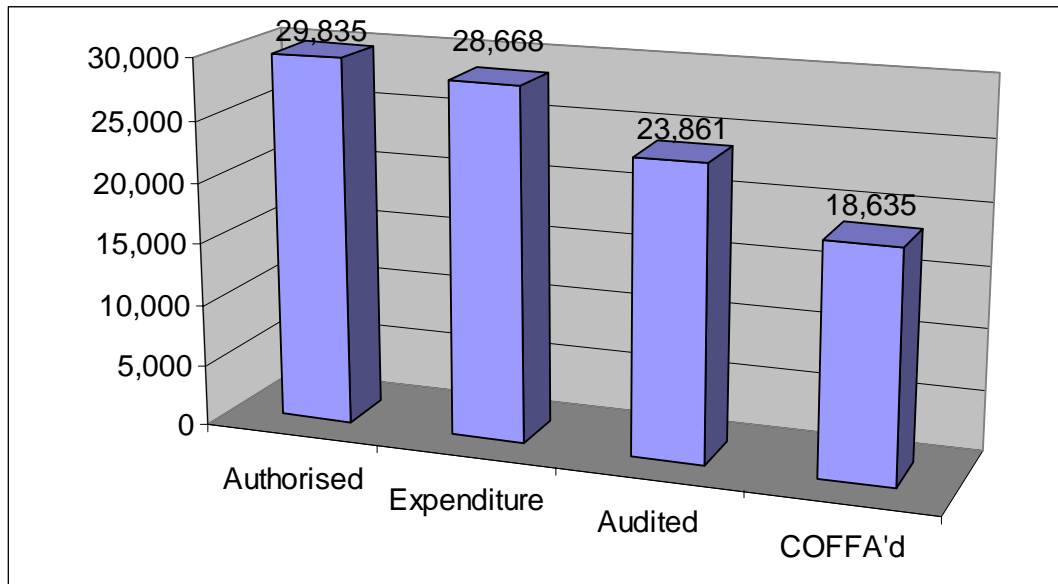
- to assess the economy, efficiency and effectiveness of the NSIP management processes for the planning, implementation and acceptance phases;
- to assess the adaptation of the current processes to the evolution of NATO needs.

12.3 This audit was announced to various NSIP stakeholders in June 2008.

LIST OF ABBREVIATIONS

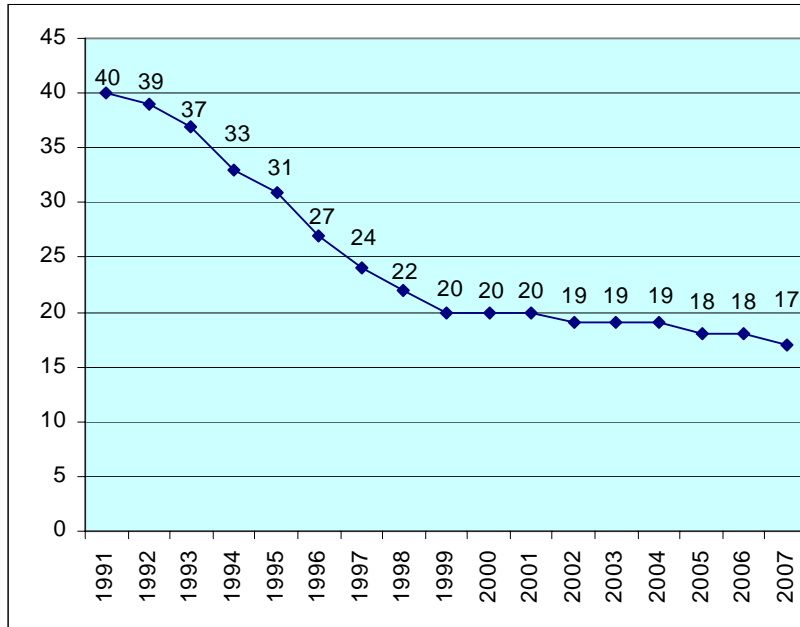
Board	International Board of Auditors for NATO
CEPMA	Central European Pipeline Management Agency
COFFA	Certificate of Final Financial Acceptance
Council	North Atlantic Council
CP	Capability Package
EUR	EURO
HQ	Headquarters
IC	Infrastructure Committee
IPSAS	International Public Sector Accounting Standards
JFAI	Joint Final Acceptance Inspection
MOU	Memorandum of Understanding
NACMA	NATO ACCS Management Agency
NADGEMO	NATO Air Defence Ground Environment Management Organization
NAMSA	NATO Maintenance and Supply Agency
NC3A	NATO Consultation, Command and Control Agency
NOR	NATO Office of Resources
NSIP	NATO Security Investment Programme
ACT	Allied Command Transformation
SAFR	Semi-annual Financial Report
SHAPE	Supreme Headquarters of the Allied Powers in Europe
UK	United Kingdom
USA	United States of America

Cumulative Amounts Authorised, Spent, Audited and Certified as at 31.12.2007

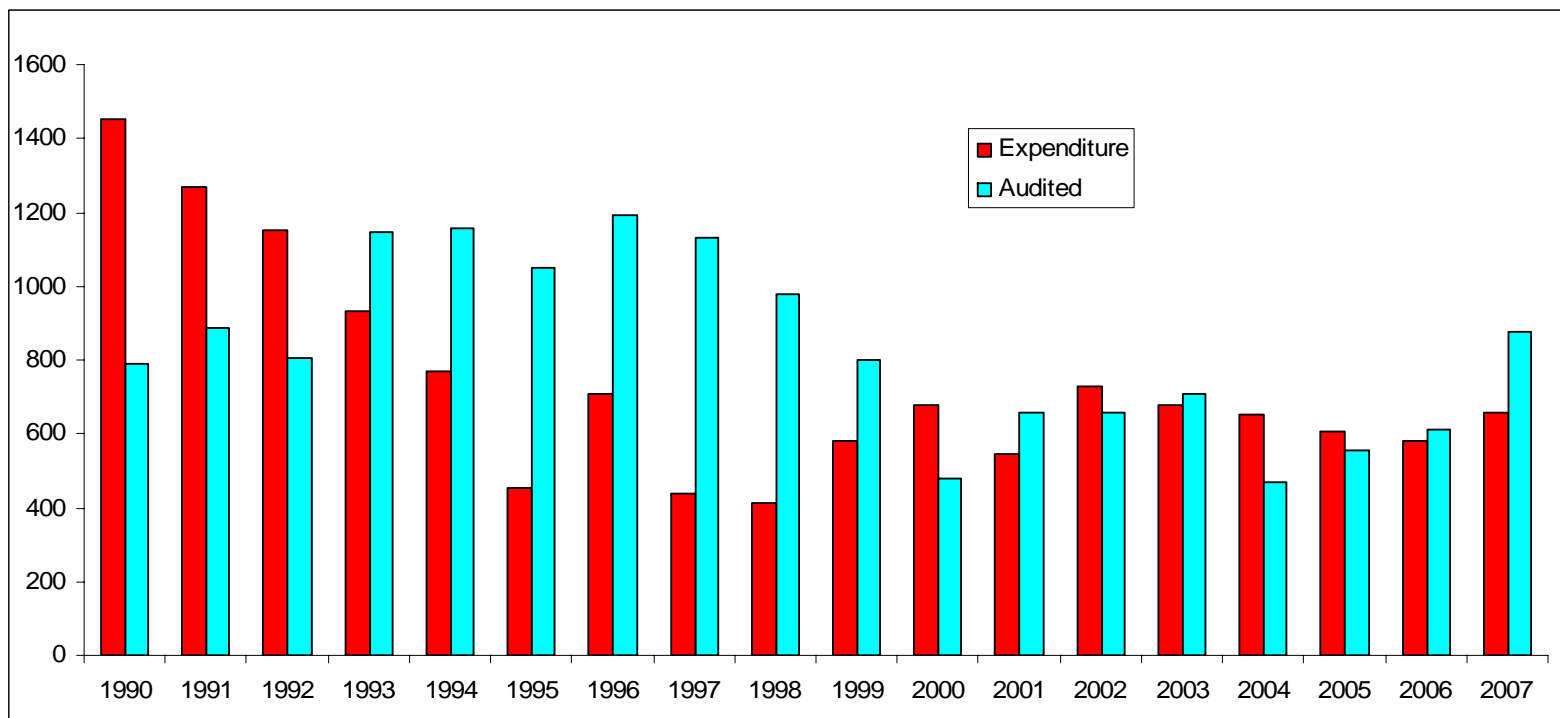


(Millions of EURO)

Percentage of Reported Expenditure Unaudited 1991 to 2007



Expenditure and Audit figures from 1990 to 2007 (Million EUR)



**Reported Expenditure Audited and Certified by Nation and Agency
(Cumulative as of 31 December 2007)**

	Reported expenditure (€millions)	Audited expenditure (€millions)	Reported expenditure audited %	Certified expenditure (€millions)	Audited expenditure certified %	Reported expenditure certified %
	(1)	(2)	(2): (1)	(3)	(3):(2)	(3): (1)
Belgium	748	592	79	557	94	74
Canada	80	80	100	80	100	100
Czech Republic	78	9	12	9	100	12
Denmark	721	649	90	617	95	86
France	1,000	934	93	934	100	93
Germany	5,589	4,869	87	4,325	89	77
Greece	1,733	1,022	59	896	88	52
Hungary	108	2	2	2	100	2
Italy	2,031	1,442	71	1,176	82	58
Lithuania	25	9	38	9	100	38
Luxembourg	59	59	100	59	100	100
Netherlands	884	820	93	769	94	87
Norway	2,053	1,777	86	1,390	78	68
Poland	176	25	9	14	56	8
Portugal	563	416	74	322	77	57
Spain	116	26	22	26	100	22
Turkey	4,433	3,645	82	3,185	87	72
United Kingdom	2,488	2,267	91	1,700	75	68
USA/Iceland	1,217	852	70	527	62	43
Total Nations	24,105	19,489	80	16,597	85	69
CEPMA (Note 1)	155	109	70	109	100	70
NC3A	2,502	2,502	100	1,051	42	42
NACMA	713	713	100	117	16	16
NAMSA	231	231	100	113	49	49
SHAPE	918	783	85	613	78	67
ACT	11	1	9	1	100	9
NADGEMO (Note 2)	33	33	100	33	100	100
Total Agencies	4,563	4,372	94	2,037	47	45
TOTALS	28,668	23,861	83	18,635	78	65

(1) Acting as Host Nation on behalf of France

(2) NADGEMO projects are finalised

**Slice Programme – Overview of projects to be inspected, audited, and certified
(Figures as at June 2007 and June 2008)**

	Project expenditure below EUR 500,000									
	Project complete but JFAI not yet requested		JFAI Requested but not yet performed		JFAI accepted but project not yet audited		Project audited but not yet certified (COFFA)		TOTAL PROJECTS	
	Jun-08	Jun-07	Jun-08	Jun-07	Jun-08	Jun-07	Jun-08	Jun-07	Jun-08	Jun-07
Belgium	1							1	1	1
Denmark	1			1		1	1	2	2	4
Germany	2	5	5	7		7	7	6	14	25
Greece	3	44	1	22		43	2	6	6	115
Italy	7	9	33	37	4	16	6	7	50	69
Netherlands						1	1		1	1
Norway	3	2	1	5		7	2		6	14
Turkey	1	10		9		33		5	1	57
United Kingdom	1	14		5	3	66	19	5	23	90
USA		3				1			0	4
CEPMA			1						1	N/A
NC3A	7		1				7		15	N/A
SUBTOTAL	26	87	42	86	7	175	45	32	120	380

**Slice Programme – Overview of projects to be inspected, audited, and certified
(Figures as at June 2007 and June 2008)**

	Project expenditure equal to and over EUR 500,000									
	Project complete but JFAI not yet requested		JFAI Requested but not yet performed		JFAI accepted but project not yet audited		Project audited but not yet certified (COFFA)		TOTAL PROJECTS	
	Jun-08	Jun-07	Jun-08	Jun-07	Jun-08	Jun-07	Jun-08	Jun-07	Jun-08	Jun-07
Belgium	9	14	4		2	1		1	15	16
Canada								1	0	1
Denmark	2	2			5	6	3	3	10	11
France					1	2			1	2
Germany	10	11	4	6	17	10	23	33	54	60
Greece	50	41	7	7	18	25	8	17	83	90
Italy	28	20	40	46	14	12	29	43	111	121
Netherlands	1	1	2	3	2	3			5	7
Norway	13	17	8	9	11	23	14	1	46	50
Portugal	2			2					2	2
Turkey	29	21	9	15	16	12	16	25	70	73
United Kingdom	8	11	2	3	26	24	3	9	39	47
USA	8	7	3	2	8	10		3	19	22
NC3A	23		3				11		37	N/A
SUBTOTAL	183	145	82	93	120	128	107	136	492	502
TOTAL SLICE PROG	209	232	124	179	127	303	152	168	612	882

**CP Programme – Overview of Projects to be inspected, audited and certified
(Figures as at June 2007 and June 2008)**

	Project complete but JFAI not yet requested		JFAI Requested but not yet performed		JFAI accepted but project not yet audited		Project audited but not yet certified (COFFA)		TOTAL PROJECTS	
	Jun-08	Jun-07	Jun-08	Jun-07	Jun-08	Jun-07	Jun-08	Jun-07	Jun-08	Jun-07
Belgium	4	4	7	3	5	10			16	17
Canada	1	1			1	1			2	2
Czech Republic	11	14	3	1		1		2	14	18
Denmark	10	5	9	8	7	4	1	2	27	19
France	1	1		1	5	4			6	6
Germany	129	93	7	56	72	50	14	12	222	211
Greece	87	76	7	6	12	13	1		107	95
Hungary	2	10	1	1	10	1			13	12
Italy	91	65	10	24	6	2			107	91
Lithuania	1	1				3			1	4
Netherlands	17	7	1	5	18	34	9	1	45	47
Norway	2	5	15	12	4	5	2	6	23	28
Poland	9	21	5	8	6	10	3	1	23	40
Portugal	6	6	10	10	8	18	1	1	25	35
Spain	6	6	3	2			1	1	10	9
Turkey	91	52	12	42	58	74	8	5	169	173
United Kingdom	20	14	9	4	22	32	8	4	59	54
USA	3	6	12	16	3	3	1	2	19	27
TOTAL	491	387	111	199	237	265	49	37	888	888
CEPMA	1		2		24				27	
NC3A	62		36				56		154	
NACMA	4						1		5	
NAMSA	4		2				1		7	
ACT	3		1						4	
SHAPE	81		31		10		10		132	
TOTAL	155		72		34		68		329	N/A