

NORTH-ATLANTIC TREATY ORGANIZATION



***International Board
of Auditors
for NATO***

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REPORT
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INTERNATIONAL BOARD OF AUDITORS FOR NATO

ANNUAL ACTIVITIES REPORT

FOR 2005

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SUMMARY

INTRODUCTION

The International Board of Auditors for NATO (Board) is an independent six-member audit body reporting to the North Atlantic Council. The Board is assisted in its work by 19 auditors and eight administrative support personnel, who are members of the International Staff. The Board is responsible for financial and performance audits of NATO bodies and the NATO Security Investment Programme (NSIP). During 2005 the Board audited some EUR 8.8 billion, of which EUR 8.2 billion relates to NATO agencies and commands, and EUR 0.6 billion to NSIP expenditures. The Board also carried out audits on the economy, efficiency and effectiveness of the operations of NATO bodies (paras 1.1 to 1.6).

2005 HIGHLIGHTS

Agency Financial Audits

In 2005, the Board issued 28 Auditor's Opinions on the accounts of NATO bodies and associated organisations. In some cases these opinions covered several entities, several sets of financial statements or several financial years. The Board issued qualified audit opinions in respect of the accounts of three entities: Allied Command Operations (ACO) 2003, Allied Command Transformation (ACT) 2004 and NAMFI 2004 (paras 2.12 to 2.14).

The Board successfully completed the targets of timeliness and a 70% response rate to its recommendations from its Annual Performance Plan (paras 2.4 to 2.6).

The Board qualified ACO's 2003 accounts because of two scope limitations resulting from a major control breakdown over accounting operations in one command and the absence of a complete audit trail to support budgets carried forward, as well as the existence of material errors or omissions in accounting and disclosure (para 2.17).

The Board's audit of the initial ACO 2004 financial statements identified material errors, omissions and inconsistencies. During the audit, ACO confirmed that it was correcting a number of errors and that it would restate the 2004 accounts. The Board will issue an opinion on the ACO 2004 financial statements after its audit and reconciliation of the corrected accounts (para 2.20).

The Board qualified ACT Group's 2004 financial statements because these statements did not disclose that the ACT HQ commitments for budget 243 exceeded budget authorisations by some USD 0.5 million. ACT budget 243 was authorised in USD but mainly carried out in EUR. Significant increases in the EUR/USD rate have raised subsequently the USD value of the commitments beyond the initial budget and an adjustment requested by the command (para 2.18).

The Board qualified NAMFI's 2004 accounts because it had overstated the authorised budget of EUR 10.4 million by EUR 264,972, overcommitted its budget by that same amount and carried forward commitments of EUR 0.7 million without a legal liability (para 2.19)

The Board had previously qualified the RMCF's 2001, 2002 and 2003 accounts because it had been unable to verify that the contributions paid into the fund from agencies and pensioners were

correct. This issue is now settled and the Board issued an unqualified opinion on 2004 accounts (para 2.21).

NATO Security Investment Programme (NSIP)

The Board audited the expenditure presented by the nations and agencies in 2005 which totalled more than EUR 550 million compared to EUR 450 million in 2004. It certified approximately 280 projects with a total value of more than EUR 720 million, compared to EUR 270 million in 2004. The net credit to NATO resulting from the audit in 2005 was more than EUR 8 million. By the end of 2005 the Board had audited more than 80 % of the cumulative expenditure reported by the nations. The unaudited expenditure relates to projects not yet completed, not yet technically inspected or not yet presented for audit by the nations. The Board will issue a separate report dealing with NSIP issues. (paras 3.1 to 3.5 and 3.9 to 3.14).

In 2005 the Board successfully reduced the percentage of the uncertified portion for nations from 18% to 16% as targeted in the annual performance plan and decreased the number of open projects by 80 (against the target of 40 in the plan). It audited EUR 340 million in the nations, but audited only EUR 215 million of the planned EUR 375 million in the agencies, mainly due to the backlog in the programmes of these agencies (paras 3.6 to 3.8).

Performance Audits and Ad Hoc Studies

The Board undertook both performance audits and ad hoc studies in 2005. It completed major performance audits of the Airborne Early Warning and Control System (NAEW&C) fleet and on the organisation of the financial function in ACO in the context of the continuing accounting problems in the command. The Board carried out an audit on the system of increased reimbursement of the education allowance and completed a survey of banking services with the aim of identifying the best practice in that area. It carried out ad hoc studies to provide advice to the NATO Committees or to improve its own efficiency. The Board successfully completed the targets set in its annual performance plan for 2005 by presenting only reports that contain recommendations and/or options (paras 4.1 to 4.13).

ISSUES OF IMPORTANCE TO THE BOARD

International Public Sector Accounting Standards

On 17 July 2002, Council agreed that all NATO financial statements should be accruals based and IPSAS compliant starting in 2006. The Board's audit role is to ensure compliance with this Council Decision. This will commence with the 2006 financial statements. The Board expects that not all entities will be fully compliant with all standards and that the recording of assets and inventories in particular will need further work. The Board's audit opinions will reflect this but will also clearly reflect the circumstances and reasons leading to its opinion (paras 5.1 to 5.5).

Corporate Governance in NATO

In 2005 the Board continued its efforts to improve accountability and transparency in NATO. It is developing benchmarks to monitor the progress in the implementation of the Guidelines for corporate governance. In 2006 it will also start evaluating the assurances provided by NATO managers in the management representation letter and statement of internal control (paras 5.6 and 5.7).

Budgetary Independence

The creation of a 2006 budget envelope for the Board separate from the International Staff core budget and the pensions budget is a significant step towards an independent budget for the Board (paras 5.8 to 5.10).

MATTERS RELATING TO THE BOARD***Personnel Matters***

The Board had its full complement of six serving members for the whole of 2005 and a vacancy of one staff year for its auditors. In the 2006 budget, Council approved the creation of two new auditor positions and authorised a third position as a voluntary national contribution. The Board filled one vacancy in January 2006 and is confident that it will be able to fill the two new posts from its reserve list by July 2006 (paras 6.1 to 6.4).

Review of Board audit practices

In 2003 and 2004 the Board carried out a review of its agency audit practices. A Board working group is currently undertaking the review of NSIP audit practices, which was the only remaining recommendation from the review. The group's conclusions are expected by the end of 2006 (paras 6.5 and 6.6).

The Board as a model audit organisation

The annual performance plan for 2005 required the Board to undertake a staff satisfaction survey to establish a baseline for further improvement. The survey was carried out in autumn 2005 and received a 92% response rate. Communication, feedback and training were included in the annual performance plan as areas for further improvement (Paras 6.7 and 6.8).

Training and Professional Development

The Board's Strategic Training Plan 2004-2007 foresees an average of two weeks' training for each auditor. The Board's training in 2005 covered a variety of topics including performance audit, NSIP and JFAI procedures, TeamMate, IPSAS and standards for audit working papers (paras 6.9 and 6.10).

TeamMate and the implementation of a risk-based audit approach

After two successful TeamMate pilot audits in 2005 the Board decided to implement a phased approach, starting with the conversion of current audit programmes in 2006 to full implementation of the risk based audit approach, customisation for performance and NSIP audits in 2007 (para 6.11).

Direct cost of the audit

The Board provides in this Annual Activities Report detailed information on the size of the budgets and expenditure audited, as well as on the direct cost of its audits in 2005. It is important to note that the cost of the audit to NATO (EUR 2.6 million) constitutes less than one third of the net cash return to NATO from the Board's audit (EUR 8 million in 2005) for the NSIP audits alone (paras 6.13 and 6.14, and Annex D).

Discussion of the 2004 Annual Activities Report in Council

The NATO Council discussed the Board's 2004 Annual Activities Report. Permanent Representatives of the nations expressed strong support for the Board and its achievements and supported the Board's request for more resources. They shared the concerns of the Board indicated in the report and encouraged the Board to step up its performance audits (paras 6.18 and 6.19).

Co-operation with National and International Audit Bodies

The Board continued to develop its contacts with the professional audit community. The annual meeting with the competent national audit bodies (CNABs) on the Board's Annual Activity Report for 2004 took place on 10 May 2005. The Board's representatives briefed the National Audit Office of Bulgaria and several NATO bodies on its activities and led NSIP workshops in the Czech Republic, Hungary and Poland (paras 6.15 to 6.17 and 6.20 to 6.21).

CHAPTER 1

INTRODUCTION

1.1 This report to Council has been prepared in accordance with Article 17 of the Charter of the International Board of auditors for NATO (Board), which states:

"The Board shall prepare each year... a detailed report on the activities of the Board during the year, and on progress made in processing its reports."

1.2 The Board is an independent audit body. It is composed of six members appointed by Council from among candidates nominated by the member countries. According to Article 3 of the Board's Charter, its members are responsible for their work only to Council and shall neither seek nor receive instructions from other authorities than Council.

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

1.4 The Board conducts financial audits of agencies and of the NATO Security Investment Programme (NSIP) expenditure and also carries out performance audits. The Board's audit scope in 2005 covered EUR 8.8 billion, of which EUR 8.2 billion related to Agency audits and EUR 0.6 billion related to NSIP audits.

1.5 The accounts of NATO bodies may be expressed in one or more different currencies. To help readers, and to provide some consistency, this report uses the EURO equivalent of the currencies used.

1.6 The Board approved a new Strategic Plan for the period 2005 – 2009. The Plan identifies four major goals: strengthening financial management in NATO, improving accountability in NSIP, encouraging effective and efficient operations in NATO and promoting the Board as a model international audit organisation. The Board pursued these goals during its audit work in 2005 based upon the strategies prioritised in its Performance Plan for 2005 and the specific targets and measures of success set out in that document. This report provides for each of the goals a brief summary of the achievements in 2005.

CHAPTER 2

AGENCY FINANCIAL AUDITS

BACKGROUND

2.1 The Board audits civilian and military headquarters and agencies established pursuant to the North Atlantic Treaty, and other entities or operations in which NATO has a particular interest such as the multinationally funded Commands and the NATO Parliamentary Assembly. The Board refers to all these audits as agency audits. In 2004 there were 82 such agencies that come under the Board's mandate: 46 military headquarters, 16 NATO Production and Logistics Organisations (NPLOs) plus 4 national divisions attached to these NPLOs, and 16 military, civilian and other bodies. They are listed in Annex C. These bodies are funded through the civil and military budgets approved by Council, budgets approved by the governing bodies of NPLOs, or budgets approved by the nations participating in a multinational activity. Some NATO bodies also implement NSIP projects and receive funding from that programme. The Board is also mandated to audit non-appropriated funds covering morale and welfare activities for NATO staff. In 2005, the agency accounts audited by the Board amounted to EUR 8.2 billion (see details in Annex D).

2.2 All NATO bodies are subject to the NATO Financial Regulations (NFR) that are approved by Council. NATO agencies have a varying degree of organisational, administrative and financial autonomy in managing their operations. There is no NATO-wide consolidation of financial information. The financial statements of the different NATO bodies are not homogeneous and are difficult to compare, except for those of the military commands and agencies that have adopted the NAFS accounting system. NATO's decision to implement IPSAS from 2006 is an opportunity to harmonise and improve accounting and financial reporting.

AUDIT MANDATE

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

PERFORMANCE IN 2005

2.4 One of the goals of the Board's 2005-2006 strategic plan aims at reinforcing financial management in the NATO bodies. The 2005 Annual Performance Plan identified two criteria to measure successful achievement of that goal:

1. the timeliness of the audit reports – target is to have 40% of the audit reports approved within 6 months after the publication of the financial statements; and
2. the percentage of *recommendations implemented*, where the aim is to have 70% of the observations settled within a three-year period of the audit report date.

2.5 On the *timeliness of the audit reports*: The Board approved twenty-eight audit reports in 2005, of which fourteen reports (50%) were approved within the 6 months after publication of the statements. That ratio improves to 64% when six agencies are excluded that were subject to cyclical audit or special closure procedures in 2005.

2.6 On the *recommendations implemented*, the rate of success was 79%, with 84 of the 107 observations formulated in 2002, being resolved in 2005.

AUDIT METHODOLOGY AND CONDUCT OF AUDITS

2.7 The objective of the audit of financial statements is to provide assurance that these statements present fairly in all material respects, the financial position of the NATO body and the results of its operations, on a basis consistent with the previous year; and that the underlying transactions are in compliance with budgetary authorisations and relevant regulations. The Board's audit methodology distinguishes the usual phases of Planning (including mid-term strategic and annual planning), Audit Execution, Reporting and Follow-up and is compliant with the auditing standards of the International Organisation of Supreme Audit Institutions (INTOSAI), complemented, as and when required, by the International Standards on Auditing issued by the International Federation of Accountants (IFAC).

2.8 Audits are conducted on the agency site by auditors, under the direction of a Board Member. The Board audits the more significant agencies or those with a higher risk every year. A few agencies posing only a small audit risk are audited every two or three years. In that case a minimal review of the financial statements is nevertheless undertaken during the years not covered by a full audit. In 1990, Council endorsed this policy of cyclical auditing. Annex C shows the cyclical basis on which the Board plans and carries out the audits of agencies and commands. Thirty-one entities were not scheduled for audit in 2005 and will be audited over the next two years. They represent about EUR 105 million in annual budget, which is 1.2% of the Board's audit scope for 2005.

ALLOCATION OF RESOURCES

2.9 The Board is responsible for the audit of some 82 different agencies and commands, some of which consolidate their accounts. Amounts audited range from less than EUR 0.5 million to over EUR 5 billion. The Board also audits the expenditure of over 30 NSIP host nations (NATO bodies and nations), with an audited scope of EUR 0.6 billion in 2005.

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

2.11 Throughout the process, the Board maintains a high degree of flexibility, which allows it to make optimal use of its scarce resources. The Board considers that, through its position in

NATO and the inputs from the audit teams, it has a good overview on where the risks lie and on the resources needed to cover them.

SUMMARY OF AGENCY AUDIT WORK IN 2005

2.12 In 2005, the Board issued 28 Auditor's Opinions on the accounts of some 51 NATO bodies and assimilated organisations, using 9 staff years. In several cases the opinions covered several entities, several sets of financial statements or several financial years. The Board issued qualified audit opinions in respect of three accounts: ACO 2003, ACT 2004 and NAMFI 2004.

2.13 Table 1 below summarises the amounts audited and resources used for the three types of agency audits during 2004 and 2005.

TABLE 1
AGENCY EXPENDITURE AND AUDIT EFFORT (2004-2005)
(EUR Million)

	Expenditure		Audit Effort In staff years		Amount Audited Per Staff year	
	2004	2005	2004	2005	2004	2005
NPOs	6,846	6,994	3.6	3.5	1,902	1,998
Commands	745	877	3.0	3.2	248	274
Civ. & Mil. Agencies	338	355	2.0	2.4	169	148
TOTAL	7,929	8,226	8.6	9.1		
AVERAGE					922	904

2.14 Resources allocated to agency financial audits increased by 5.8%, from 8.6 to 9.1 staff years. This increase illustrates an improved staff situation, with nearly all auditor positions being filled in 2005, and a considerable increase in workload from new financial audit responsibilities entrusted to the Board. The augmentation from 2 to 2.4 staff years for Civil and Military Agencies relates primarily to a temporary increase in audit responsibilities from the cyclical audit and the closure of a number of NATO project offices. The disparity between amounts audited per staff year in NPOs and other agencies is explained by the differences in size and by different risk factors mentioned in the previous section on allocation of resources.

SIGNIFICANT AUDIT OPINIONS

2.15 In 2005 the Board issued 28 Auditor's Opinions comprising 25 unqualified opinions and qualified opinions in 3 cases (ACO 2003, ACT 2004 and NAMFI 2004). An explanatory note on the different types of audit opinions is provided on page 4 of Annex B.

2.16 This section provides a summary of the modified opinions issued in 2005. It follows up on previous modified opinions where appropriate.

2.17 **Qualified opinion on the ACO 2003 accounts.** The Board qualified the ACO 2003 accounts because of two scope limitations resulting from a major internal control breakdown over accounting operations at RHQ AFNORTH and the absence of a complete audit trail in support of budgets carried forward as well as the existence of material errors or omissions in accounting and disclosure in the accounts. The Board approved the report in early 2005, but has already included it in its previous annual report on 2004 because it contained a qualified opinion (see details in the previous annual report (IBA-M(2005)1 para 2.22 and Annex B para 2).

2.18 **Qualified opinion on the ACT 2004 accounts.** The Board issued a qualified opinion on the 2004 financial statements of the ACT Group because these statements did not disclose that the ACT HQ commitments for budget 243 exceeded budget authorisations by some USD 0.5 million. ACT budget 243 provides the means of financing the Scientific Programme of Work carried out by the NATO C3 Agency (NC3A). For 2004, that budget was expressed in USD. The contract with NC3A was expressed in EUR. Significant increases in the EUR/USD rate increased the USD value of the commitments carried forward, beyond the initial value of the credits and a budget adjustment subsequently requested by the command.

2.19 **Qualified opinion on the NAMFI 2004 accounts.** The Board qualified the NAMFI 2004 accounts because it overstated the authorised budget of EUR 10.4 million by EUR 264,972. The Board also qualified for lack of compliance with the applicable rules because NAMFI had overcommitted its budget by that same amount and carried forward commitments of EUR 0.7 million without a legal liability.

STATUS OF THE AUDIT OF ACO 2004 FINANCIAL STATEMENTS

2.20 The initial ACO 2004 financial statements were issued on 2 June 2005. The Board carried out its audit between July and December 2005 and identified material errors, omissions and inconsistencies in its fact sheets with ACO Treasury and the subordinate commands. During the audit, ACO confirmed that it was correcting a number of errors and that it would restate the 2004 accounts. The Board will issue an opinion on the ACO 2004 financial statements after audit and reconciliation of the corrected accounts.

FOLLOW-UP ON PRIOR YEARS' QUALIFIED OPINIONS

2.21 **Qualified opinion on the RMCF 2001, 2002 and 2003 accounts.** The Board had previously qualified the RMCF's 2001, 2002 and 2003 accounts because it had been unable to verify that the contributions paid into the fund from agencies and pensioners were correct. A detailed audit carried out on the issue of receivable contributions from NAO agencies and pensioners by the IS Internal Controller indicates that the amounts recorded are, in all material respects, fairly presented. The Board has consequently issued an unqualified opinion on the RMCF 2004 accounts.

CHAPTER 3**NATO SECURITY INVESTMENT PROGRAMME AUDITS****BACKGROUND**

3.1 The Annual Activity Report gives a brief outline of the Board's activities and concerns in respect of the NATO Security Investment Programme (NSIP). Under Article 17 of its Charter, the Board also prepares a separate report to Council summarising the result of the audit of NSIP expenditure. The report will be issued later in the year, after all NSIP expenditure made in 2005 has been reported by nations and NATO agencies.

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

OBJECTIVES OF THE NSIP AUDITS

3.3 Under Articles 13, 14 and 16 of its Charter, the Board verifies that common funds have been properly used for the settlement of authorised expenditure, in particular within the physical and financial authorisation granted. It has to check whether all payments for which reimbursement is claimed have actually been invoiced and paid and to detect any item that is non-eligible for NATO funding. The audit results in a Certificate of Final Financial Acceptance (COFFA). The Board certifies for each project it has audited an amount as a charge to NATO common funds. In principle, this requires that every invoice needs to be checked.

3.4 It should be noted that this is different to the Agency financial audit. There the Board's responsibility is to express an opinion as to whether the financial statements are fairly presented. The objective is to obtain reasonable assurance whether the financial statements are free of material misstatements. This allows checking the supporting documentation on a test basis.

AMOUNTS AUDITED AND CERTIFIED IN 2005

3.5 The Board audited the expenditure presented for audit by the nations and agencies in 2005. It conducted 29 audit missions in 14 nations and 3 agencies. These audits covered about 240 projects totalling over EUR 550 million, compared to EUR 450 million in 2004. The Board issued about 280 COFFAs in 2005 with a total value of almost EUR 720 million, compared to EUR 270 million in 2004. As a result of the audit of NSIP projects in 2005 the net credit in favour of NATO was some EUR 8 million.

PERFORMANCE IN 2005

3.6 The Board started implementing its 2005-2009 Strategic Plan. One of the goals is to improve accountability in the NSIP. In its Annual Performance Plan, the Board developed measures of success and set targets for 2005. One target was to reduce by 40 the 450 audited projects still open. Already 80 projects could be closed in 2005. Another target was to reduce the percentage of the uncertified portion for nations from 18% to 16%. This target was achieved.

3.7 The amount to be audited in 2005 was targeted at EUR 750 million. The Board audited about EUR 550 million and thus did not achieve its target. The target was set at EUR 375 million for audits in agencies and another EUR 375 million in nations.

3.8 The portion spent and audited in agencies was only EUR 215 million, due to delays in some information system programmes. Nations presented about EUR 380 million for audit. About EUR 40 million could not be audited in 2005, but was audited in the first half of 2006.

THE BOARD'S 2004 NSIP REPORT

3.9 In July 2005, the Board issued its report on the audit of NSIP in 2004.

3.10 The Board:

- encouraged nations to continue their efforts to present projects for timely audit;
- recommended that the Security Investment Directorate (SID) continue to periodically provide the IC with information on formally inspected projects;
- encouraged nations to notify the SID of the date of the completion of the works.

3.11 The IC supported all the proposals and Council noted the report.

CLOSURE OF OLD NSIP PROJECTS

3.12 In 2005, the Board reported that the IC agreed on an accelerated closure of 380 projects awaiting a technical inspection. Furthermore, the Board reported that it wrote to 11 nations inviting them to present more than 400 inspected projects for an audit. By the end of 2005 only 30 projects were presented to the IC for an accelerated closure. The Board raised concern about the slow process to the IC. The invitation to nations to present projects for audit, however, had already a positive impact on the audit schedule for 2005.

NEW NATO HEADQUARTERS BUILDING

3.13 In 2004, the North Atlantic Council assigned the management responsibility for the New NATO Headquarters project to the Host Nation of Belgium, to be managed under the principles of the NSIP as far as possible. A Memorandum of Understanding between the Belgian State and NATO governs the relationship between NATO and the Host Nation for implementation of the project. The Board has contacted the Court of Audit of Belgium to explore ways of co-operation in auditing this project.

CO-OPERATION WITH NATIONS

3.14 The Board held workshops in the 3 nations which joined NATO in 1999 and carried out first audits, resulting in 4 COFFAs. The Board also assists NATO agencies acting as Host Nations in NSIP workshops. The Board is willing to provide the same assistance to the 7 nations which joined NATO in 2004.

CHAPTER 4

PERFORMANCE AUDITS AND AD HOC STUDIES

INTRODUCTION

4.1 The Board's Charter mandates it to assess efficiency and effectiveness of NATO operations. It refers to these as performance audits. The Board occasionally provides advice to NATO committees and agencies and undertakes initiatives to improve its own efficiency and working methods. It refers to these activities as ad hoc studies.

BACKGROUND

Performance audits

4.2 Over past years the Board has spent only limited resources on performance audits. The main reasons were the lack of resources and the requirement in the Board's Charter to give priority to its financial audits. Anticipating a major improvement in its staff situation, the Board at the end of 2003 committed itself to undertake at least one substantial performance audit per year, a commitment which since then it reiterated before the Council and NATO committees and included in its new strategic plan for 2005-2009 and annual performance plan.

4.3 In 2005 the Board spent 2.3 staff years on performance audits, corresponding to 13% of its resources (compared to 1.6 staff years or 10% in 2004). It completed performance audits on the ACO Financial Organisation and Management and the NATO Airborne Early Warning and Control Programme (NAEW&C), carried out a review of Bank Services in NATO and an audit of the Increased Reimbursement of the Education Allowance in NATO bodies. It carried out surveys on the "Force Generation Process" but felt that the issue was not appropriate for a performance audit, and on the "New NATO Command Structure" where it decided that it could provide useful recommendations for the review of the new command structure, planned to start in 2006.

Ad hoc studies

4.4 In addition to the performance audits, the Board contributed to meetings and workshops to prepare the introduction of IPSAS and advised NATO committees on the position and authority of the Financial Controller in the military commands. During 2005, the Board was deeply involved in the high level review of the NATO agencies, particularly in connection with issues that concern the NATO financial regulations, its audit mandate and corporate governance in general. It carried out an internal review of the roles and responsibilities of the different levels within the Board, in the context of the implementation of the TeamMate audit software and the creation in 2005 of an additional A5 Senior Auditor Post. In 2005 the Board used 1.4 staff years (8%) on such studies and advice to NATO bodies and committees (1.3 staff years or 8% in 2004).

PERFORMANCE IN 2005

4.5 One of the goals of the Board's 2005-2006 strategic plan is to encourage effective and efficient operations in NATO bodies, through conducting at least one substantial performance audit per year and through refining criteria for the selection of audit topics. The yardstick for success is the percentage of audit reports that present recommendations and/or options. The Board achieved its target of 100% in this respect for 2005.

PERFORMANCE AUDITS CARRIED OUT IN 2005

4.6 In its performance audit of **ACO Financial Organisation and Management**, the Board analysed the impact of organisation and management problems in the ACO finance function on the command's continuing accounting and financial reporting difficulties.

4.7 The Board found that ACO's accounting and financial reporting was directly affected by staffing shortages and a lack of continuity of qualified and/or experienced finance staff, an outdated finance organization, complex financial processes and staff environment, and a lack of guidance and coordination between ACO and the subordinate commands. The implementation of a new financial system, NAFS, has had both positive and negative effects on the quality of ACO financial reporting. The Board formulated recommendations in each of these areas and formulated one option with regard to the need for a complicated NAFS system on smaller HQs. SACEUR generally concurred with the Board's findings and recommendations (more detail in Annex B, Para 30).

4.8 The **NAEW&C audit** is a substantive performance audit on the management and operation of the NATO AWACS fleet by several NATO organisations. The Board selected three main areas for its audit: annual objectives of the Programme and performance reporting; Implementation and funding of new operational requirements for the fleet and cost-reimbursement for the use of the fleet in case of selected major events.

4.9 The Board noted that Force Command (FC) and E-3A Component used better developed annual objectives and internal performance reports than NAPMA but that both organisations could considerably improve their external reporting to Council. It also noted that the lack of agreed criteria to determine the funding eligibility for new operational requirements for the fleet caused significant delays in two cases reviewed by the Board and recommended that such criteria be agreed as soon as possible between the NAPMO BoD and the Senior Resource Board /Military Budget Committee. The Board also recommended that Force Command develop full cost and incremental cost per flying hour methods for the use of the fleet in case of selected major events. SACEUR generally agreed with the Board's conclusions and recommendations, while the NAPMO BoD did not (more detail in Annex B, Para 31).

4.10 At the request of Council, the Board carried out an audit of the system of **Increased Reimbursement of Education Allowance**. The purpose of that system was to improve NATO's competitiveness on the labour market by allowing reimbursement of educational expenditure at a higher rate than was previously the case. The Board reviewed issues such as compliance with regulations, consistency, internal control, calculation methods and extent of use of the system and covered 17 NATO entities that employ 85% of the NATO civilian staff.

4.11 The Board found that the provisions on the increased reimbursement for tertiary education were not consistently applied across the organisation. NATO subsequently amended its regulations to settle the issue. The Board also questioned the increased reimbursement of higher educational fees in view of the staff member's employment by NATO. The Board considered that, in this case, the system provided a financial advantage to a group of staff members and recommended that the related provisions be reviewed (more detail in Annex B, Para 32).

4.12 The Board carried out a survey of **Banking Services** in five NATO bodies that are considered high cash holders. The aim was to formulate best practice in the relations from NATO entities with their banks. The Board identified best practices in the areas of contracts with banks, selection procedures and frequency of bidding, investment procedures, investment instruments and performance monitoring and management reporting.

4.13 The Board forwarded the report to the NATO Secretary General and to the Financial Controllers, recommending that they incorporate these best practices in the banking arrangements for their entity. The Board will follow up on the implementation of that recommendation in future audits.

CHAPTER 5**ISSUES OF IMPORTANCE TO THE BOARD****INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS IN NATO**

5.1 In July 2002 the North Atlantic Council (NAC) adopted the International Public Sector Accounting Standards (IPSAS), including the accrual and going concern assumptions, as the applicable accounting standards for NATO entities effective for the fiscal year 2006. The Ad Hoc Working Group of Financial Controllers assisted by its subordinate IPSAS Working Group acts as a forum where NATO entities share knowledge and ensure the consistent implementation of IPSAS. The Board participates in these meetings as observer/advisor and provides ad hoc advice to individual NATO bodies. The Board is also developing guidance on auditing against IPSAS for its auditors.

5.2 The Board believes that the NAC decision obligates NATO bodies to comply in full with IPSAS with effect from the 2006 financial statements. The Board's role is to audit compliance with the NAC decision. Its main objective will be to ensure that the financial statements present fairly the financial position, financial performance and cash flows of the entity. In its evaluation of the financial statements, the Board will continually weigh the strict interpretation of accounting rules against the concept of a fair and accurate presentation. The Board will work with the various bodies during the audits to try to come to a common understanding of what fairness and accuracy represents.

5.3 The Board believes that IPSAS is appropriate and flexible enough for all NATO bodies. However, as with any period of change, there will inevitably be a period of adjustment after adoption. As a result, it can be expected that a number of audit qualifications will occur during this period. The Board will ensure in that case that the circumstances leading to such qualifications will be clearly presented in the Board's audit reports so that all parties, including the NAC, will understand the reasons for any qualifications.

5.4 The Board also stresses that it has no authority to request or grant exemptions to particular aspects of IPSAS. Such requests should originate with management and be approved by the NAC. However, it should be understood that if such an exemption is obtained, the entity's financial statements should not be described as complying with IPSAS. The Board's auditing standards require that the audit opinion reflects this. In this context it is anticipated that the recording of assets such as property, plant and equipment, inventory, and intangible assets will be problematic. Ownership and the fair value of such assets in the NATO environment are complex issues that will need to be solved. IPSAS allows a 5 year transition period for property, plant and equipment, but not for inventories and intangible assets.

5.5 It is not the Board's goal to issue qualified audit opinions. The Board wants to work in tandem with the NATO bodies to ensure that the financial statements do in fact present fairly the financial position, financial performance and cash flows of these bodies. For their part, NATO bodies need to be open to recommendations from the Board as they work towards improving the content and presentation of their financial statements. The NATO bodies will also need to ensure that their financial personnel are qualified in both accounting and the operation of financial information systems. Continuous training will be needed to further enhance their skills.

CORPORATE GOVERNANCE IN NATO

5.6 In 2005 the Board continued its efforts for improving accountability and transparency in NATO. Its representatives participated in the review of NATO agencies and advised on the guidelines for the corporate governance of NATO organisations, which is derived from the comprehensive IFAC Study 13 "Governance in the Public Sector, a Governing Body Perspective". Council approved these guidelines on 20 September 2005 and decided that the guidelines apply to all agencies and should not be unnecessarily deviated from. The Board is developing benchmarks against which it will measure progress in future audits.

5.7 In a similar context of good governance, the Board requested in early 2005 that senior managers of NATO bodies recognise their responsibility for the fair presentation of the financial statements and the establishment and maintenance of an effective system of internal control. This is done in the management representation letter and the statement on internal control. Most of the NATO bodies issued these statements in 2005. To date, some uncertainty remains on who needs to provide the assurance requested for several NATO-wide activities such as the Pension Schemes and the Provident Fund. The Board will include the evaluation of these statements in its audit of the 2005 accounts.

BUDGETARY INDEPENDENCE

5.8 During its presentation of the 2003 Annual Activities Report to Council and in its previous 2004 annual report, the Board raised concerns that its budget submission and budget execution were subject to scrutiny by the International Staff. The Board took the view that independence, particularly in relation to the budget, is a crucial tenet of external audit, in order to avoid that audits are driven or controlled by audited bodies.

5.9 In the preparation of the 2006 budget the NATO Secretary General proposed a Civil Budget envelope composed of three elements: a core IS budget, the budget for the International Board of Auditors for NATO and the pensions budget. The Board's submission covered the most important cost factors: staff, travel, training and consultancy. The Secretary General recognised that this separation "moves in the direction of the IBAN Chairman's request that IBAN be funded independently of the core Civil Budget since it is inappropriate for IBAN funding to be wrapped up in that of one of the bodies it must audit" (2006 Civil Budget Proposals - SG(2005)0402 dated 8 June 2005).

5.10 The Board views this as a significant step towards an independent Board budget and an achievement in terms of the core value of independence in its strategic plan 2005-2009.

CHAPTER 6**MATTERS RELATING TO THE BOARD****PERSONNEL MATTERS**

6.1 The Board had its full complement of six serving members for the whole of 2005. Denmark, Luxembourg, the Netherlands, Norway, the United Kingdom and the United States were represented on the Board. Turkey joined when Luxembourg left on 31 July 2005.

6.2 The Board had an establishment of 19 auditor posts in 2005 comprising one Principal Auditor, a Senior Auditor and 17 Auditors. In October 2005 that number changed to 16 auditors after internal recruitment of the additional Senior Auditor authorised in the 2005 budget. Eighteen of the nineteen authorised positions were filled throughout the year. The remaining vacancy was filled with the arrival of a new auditor in January 2006. In its recruitment process, the Board strives for a proper geographical and gender balance. At the end of 2005, three of the sixteen auditors and two of the six Board Members were women and the Board Members and Auditors come from eleven nations.

6.3 In its budget submission for 2006 the Board proposed the creation of three new auditor posts. The Board needed these extra resources to step up its performance audits and to meet increasing demands in the financial audit area. Council approved two posts and authorised an additional position offered by one nation and at its expense, as Voluntary National Contribution (VNC). The Board is confident that it will fill at least two of the vacancies arising from these post creations from its reserve list by June 2006.

6.4 The Board has 1 Administrative Officer and 7 Administrative Support Staff who perform a wide range of functions in support of the audits.

REVIEW OF BOARD AUDIT PRACTICES

6.5 In 2003 and 2004 the Board carried out a review of its agency audit practices. The review recommended improvements in four areas: management structure, planning and allocation of resources, balance between financial and performance audit and communication with stakeholders. The results of that review were shared with the SAIs, NATO stakeholders, Members and audit staff of the Board and their comments were taken into consideration in the final report. The Board distributed that document to Council, the NATO finance committees and the SAIs and committed itself to implement the recommendations of the review, under the direction of the Chairman, and in close co-ordination with Board Members and audit staff.

6.6 In April 2005, when the 2004 Annual Report was issued, only four of the twenty-three recommendations of the review required further substantive action. Currently (April 2006), three outstanding recommendations on the evaluation of two pilot risk-based audits, the establishment of performance audit guidance and the review of the roles within the Board are completed. The fourth issue of the review of NSIP audit practices is carried out by an internal working group and its recommendations are expected for the second half of 2006.

PERFORMANCE IN 2005 - THE BOARD AS A MODEL AUDIT ORGANISATION

6.7 The fourth goal of the Board's 2005-2009 strategic plan aims at promoting the Board as a model international audit organisation. A set of strategies such as recruiting the best staff, strengthening internal supervision and quality control, implementing the TeamMate audit software etc., will assist in achieving this goal. The measure of success will be achieved by the level of staff satisfaction with the working environment.

6.8 During the course of 2005 the Board carried out a survey to identify a satisfaction baseline for future improvement. The survey was anonymous and processed outside the Board. It covered audit and support staff and received a 92% response rate. Overall, its results were very positive except for lower than expected satisfaction levels for communication, feedback and training. The Annual Performance Plan for 2006 sets targets for improvement in these areas and a new survey at the end of 2006 will measure progress made.

TRAINING AND PROFESSIONAL DEVELOPMENT

6.9 In accordance with the auditing standards of INTOSAI and IFAC, which it has adopted, the Board ensures that its audit and administrative support staff receive adequate on-the-job training. The Board's *Strategic Training Plan 2004-2007* stresses the importance of continuous professional development. The plan foresees an average of two weeks training for each auditor (one week shared training and one week individual training). It also draws on a detailed analysis of the individual training needs of the staff that are now updated annually as "personal development objectives" in NATO's performance management system.

6.10 During 2005 the Board provided on average about 11 days of training per auditor. It organised common training or workshops with limited participation. GAO trainers held a three-day course on performance audit. Other subjects covered were the implementation of the TeamMate audit software and the results of the pilot audits; IPSAS implementation and accrual accounting; requirements and standards for audit working papers and NSIP related issues. In 2005, Board Members and Auditors participated in a NSIP inspection as a training exercise and several auditors attended training sessions on their own initiative or organised by their professional organisations.

TEAMMATE AND THE IMPLEMENTATION OF A RISK-BASED AUDIT APPROACH

6.11 At the end of 2003 the Board decided to purchase the TeamMate software to support its audits. In parallel with the customisation of the software to its working methods, the Board intended to formalise and better structure the risk based audit that was previously implicit in its audit approach. After the project was successfully tested in two pilot audits during 2005, the Board concluded that the software was able to adequately support its audits. It decided to implement a phased approach starting with the conversion of current audit programmes in 2006 to full implementation of the risk based approach and customisation for performance audits and NSIP audits in 2007.

RESOURCE ALLOCATION

6.12 Table 2 shows the use of the Board's audit resources in 2004 and 2005.

TABLE 2
ALLOCATION OF AUDIT RESOURCES
IN STAFF YEARS FOR 2004 and 2005

	Actual 2004	Actual 2005
NSIP Financial Audits	2.6	2.3
Agency Financial	8.6	9.1
Performance Audits/studies	2.9	3.7
Training	0.7	1.0
Administration ⁽¹⁾	0.8	0.9
Board Support ⁽²⁾	1.0	1.0
Sub-total	16.6	18.0
<i>Vacant positions</i>	2.4	1.0
Total Establishment	19.0	19.0

DIRECT COST OF THE AUDIT

6.13 Table 3 shows the allocation of the Board's audit resources and their cost in 2005.

TABLE 3
DIRECT COST OF THE AUDIT IN 2005

Activity	Time Allocated (Staff days)	Direct Audit Cost (EUR million)
Agency financial audit	1,861	1.3
NSIP financial audit	482	0.4
Performance audit + Studies	751	0.5
Other (Training, Board Support)	604	0.4
Total	3,698	2.6

6.14 The Table at Annex D provides complete details of the audited amount, allocated resources and cost of the audit. This information on the size and the cost of the Board's audits has been compiled from different sources, including the Board's time recording system, and financial data on remuneration and travel provided by IS personnel and accounting services. It is important to note that the cost of the audit to NATO, EUR 2.6 million, constitutes less than one third of the net return to NATO in pure monetary terms in the area of NSIP audits. Independent from the improvement in procedures and the assurance on the financial statements in the field of its agency audits, the Board's audits of NSIP projects in 2005 generated more than EUR 8 million net adjustments in favour of NATO.

⁽¹⁾ The item "Administration" includes activities such as preparing travel, handling personnel matters, management reporting, performance management and tasks that cannot be assigned to a specific audit.

⁽²⁾ The item "Board Support" covers the preparation of the Board's Activities Report, the Annual NSIP Report, the Strategic Plan, attendance at Board Meetings and at meetings of NATO committees.

ANNUAL MEETING WITH NATIONAL AUDIT BODIES

6.15 In accordance with Council decision C-M(90)46, the competent national audit bodies have the opportunity to discuss the content of this annual report with the Board of Auditors. Para. A.7. of the same document states that "the AGFC [Advisory Group of Financial Counsellors] will take these comments into account, as appropriate, when reporting to the Council".

6.16 The 15th meeting to discuss the 2004 Annual Activity Report took place on 10th May 2005 under the chairmanship of Turkey. Representatives of twenty-one nations participated in the meeting, which was also attended by several national representatives of the AGFC.

6.17 The AGFC report to Council on the Board's annual report for 2004 and the related Action Sheet have been published under C-M(2005)0107.

DISCUSSION OF THE 2004 ANNUAL ACTIVITIES REPORT IN COUNCIL

6.18 On 30 November 2005 the Board presented its 2004 Annual Activities Report to Council. The Chairman of the Board introduced the report and summarised the main achievements of its audit work in 2004. She stressed the Board's efforts to close old NSIP projects and to improve accountability and efficiency and effectiveness in NATO. She also unfolded the Board's new strategic plan for 2005-2009 that formulates specific goals and stresses the results the Board would like to obtain through its audits.

6.19 Permanent Representatives in the Council expressed strong appreciation for the Board's audit work. They supported the Board's request for more resources and many of them expressed concern about financial management in NATO, particularly in the military commands and encouraged the Board to step up its performance audits. Two members of the Council advocated sharing the Board's findings with a wider audience, in the interest of public information and transparency.

INTERNATIONAL CO-OPERATION

6.20 In line with Article 14 of its Charter, the Board continued to collaborate with national audit bodies. In 2005, Board representatives visited the National Audit Office of Bulgaria and briefed the Office and its staff on the Board and its audit approach. Board representatives participated in a seminar with SAIs – users of the TeamMate audit software in Denmark and led workshops in the Czech Republic, Hungary and Poland attended by SAI and MOD staff on the preparation of NSIP accounts. Throughout 2005, Board representatives briefed NATO bodies and managers on the requirements of accountability and corporate governance.

6.21 While the Board is unique in its organisational structure and audit responsibilities, it attempts through the activities described above to stay within the mainstream of the professional audit community. The Board believes that professional contact and interchange with other audit bodies is important for maintaining a "state-of-the-art" international audit organisation, which is one of the aims of its 2005-2009 strategic plan.

Approved by the Board on 31 March 2006:



Chairman

Susan S. Westin


(United States)



Board Member

David Woodward

(United Kingdom)



Board Member

Kai Nybo Nielsen

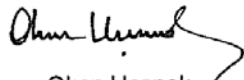
(Denmark)



Board Member

Hans de Groot

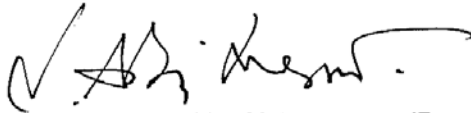
(The Netherlands)



Board Member

Okan Ucanok

(Turkey)



Board Member

Herve Adrien Metzger

(France)

**LIST OF REPORTS
RESULTING FROM AGENCY AUDITS**

ANNEX A
IBA-M(2006)1

Subject	Budget Year	Reference of document and date
a. Military Commands		
1. ACO GROUP ⁽¹⁾	2003	IBA-AR(2005)02, 28.02.2005 C-M(2005)0037
2. ACT Group	2004	IBA-AR(2005)034, 09.09.2005 C-M(2006)011,
3. CAOC 3	2001-2003	IBA-AR(2004)39, 24.01.2005
4. CAOC 9	2001-2003	IBA-AR(2005)12, 09.09.2005
5. CIMIC North	2003	IBA-AR(2005)13, 27.06.2005
b. NPLOs		
6. NAMSO	2004	IBA-AR(2005)28, 09.09.2005
7. NETMA	2004	IBA-AR(2005)35, 31.10.2005
8. NAPMO	2004	IBA-AR(2005)24, 09.09.2005 C-M(2006)0003,
9. CEPMO	2003	IBA-AR(2005)05, 25.04.2005 C-M(2005)0096,
10. NC3A	2003	IBA-AR(2004)38, 28.02.2005 C-M(2005)0086,

⁽¹⁾ The ACO 2003 report was approved in 2005 but included in the Annual Report on 2004, reference IBA-(M(2005)1, Annex B paragraph 2.

11. NACMO	2004	IBA-AR(2005)17, 27.06.2005 C-M(2005)0092,
12. NAHEMO	2004	IBA-AR(2005)26, 26.09.2005
13. NAMEADSMO	2004	IBA-AR(2005)21, 09.09.2005 C-M(2005)0094,
14. BICES	2004	IBA-AR(2005)32, 26.09.2005 C-M(2006)0010,
15. RTO	2004	IBA-AR(2005)29, 26.09.2005 C-M(2005)0101,
c. Civil-Military Agencies and other Organisations		
16. IS ⁽²⁾	2004	IBA-AR(2005)20, 26.09.2005 C-M(2006)0007,
17. New NATO HQ	2004	IBA-AR(2005)38, 12.12.2005 C-M(2005)0114,
18. IMS Group (Incl. IMS, NSA, PfP & MD)	2004	IBA-AR(2005)39, 12.12.2005 C-M(2006)0004
19. Provident Fund	2003	IBA-AR(2004)40, 21.03.2005
20. NATO Pension Scheme	2004	IBA-AR(2005)30, 31.10.2005
21. Representation Allowances	2004	IBA-AR(2005)14, 31.10.2005

⁽²⁾ Includes the follow-up on Staff Centre financial management audit, reported in the 2004 Annual Report, reference IBA-M(2005)1, Annex B paragraph 16.

ANNEX A
IBA-M(2006)1

22. NAMFI	2004	IBA-AR(2005)40, 12.12.2005
23. NATO DEFENCE COLLEGE	2004	IBA-AR(2005)16, 26.09.2005 C-M(2005)0102,
24. SSC-AGS3	2000/01/02/03	IBA-AR(2005)03, 21.03.2005 C-M(2005)0045
25. NAVSTAR (Closure)	1997-2004	IBA-AR(2005)15, 27.06.2005 C-M(2005)0049,
26. NIMIC/MSIAC	2004	IBA-AR(2005)23, 12.12.2005
27. FORACS	2000-2004	IBA-AR(2005)31, 26.09.2005
28. NATAR (Closure)	2000-2002	IBA-AR(2005)04, 21.03.2005 C-M(2005)0029
29. NATO PA	2004	IBA-AR(2005)11, 25.04.2005
d. Performance Audits & Special Studies		
30. ACO FIN. PERFORMANCE AUDIT		IBA-AR(2005)36, 26.09.2005 C-M(2006)0002
31. NAEW&C		IBA-AR(2005)22, 09.09.2005 C-M(2005)0111

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32. Education Allowance		IBA-AR(2005)01, 12.12.2005 C-M(2005)0116
33. Bank Services		IBA-AR(2005)33, 09.09.2005

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19.	NATO Pension Scheme	2004	15
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INTRODUCTION

After each audit, the Board issues an opinion on the financial statements. The phrase "the Board issued an **"unqualified"** opinion" is used whenever the Board issued an opinion that the financial statements were fairly stated and the underlying transactions were in conformity with applicable rules and regulations. A **"qualified"** opinion means that the Board was generally satisfied with the presentation of the financial statements but that specific aspects of the statements were not fairly stated or the underlying transactions were not in conformity with budgetary authorisations and applicable regulations. A **"disclaimer"** is issued when the audit scope is severely limited and the Board cannot express an opinion or when there are material uncertainties affecting the financial statements. An **"adverse"** opinion is issued when the effect of an error or disagreement is so pervasive and material to the financial statements that the Board concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements. In certain circumstances, the Board may add an "emphasis of matter" paragraph to its audit opinion to highlight a matter affecting the financial statements which does not affect the audit opinion as such.

RESULTS OF AUDITS RELATING TO MILITARY COMMANDS

Audit Highlights

The Board's audit opinion on the 2004 financial statements

1. Allied Command Transformation (ACT) - 2004

Introduction

The audit covered the 2004 financial statements of the Allied Command Transformation (ACT) group which comprises HQ ACT in Norfolk (US), the NATO Undersea Research Centre in La Spezia (IT), the Joint Warfare Centre in Stavanger (NO), the Joint Force Training Centre in Bydgoszcz (PL) and the Joint Analysis and Lessons Learned Centre in Lisbon (PO). In June 2003, the revised NATO military command structure came into effect. ACT became responsible for the transformation of NATO's military structures and capabilities to improve the military effectiveness of the Alliance. Total expenditure within the ACT group in 2004 amounted to EUR 88 million (EUR 61 million for the ACLANT Group in 2003).

Audit Highlights

The Board qualified the 2004 financial statements of the ACT Group because these statements do not disclose that ACT HQ commitments for budget 243 exceeded budget authorisations by some USD 0.5 million. In addition, the Board made observations concerning:

- a misclassification error between two types of receivables in the balance sheet incorrectly reporting outstanding contributions of EUR 2.4 million;
- the understatement of commitments carried forward into 2004 by USD 207,480;
- expenditure of EUR 3.5 million not allocated to any of the approved budget chapters;
- the double counting of USD 644,895 expenditure in two separate budget statements;
- incomplete financial reporting for the JALLC subcommand, related to the transition of that subcommand from ACO to ACT;
- the understatement of NURC assets and liabilities by EUR 2.5 million related to ship charter activities and receivable joining fees from a member nation.

The Board followed up the status of the 11 issues raised during the audit of previous years' financial statements. ACT has taken satisfactory action on a number of the Board's recommendations and six of the eleven audit issues raised in prior years can now be considered settled.

2. Combined Air Operations Centre 3 (CAOC 3) – 2001-2002-2003

3. Combined Air Operations Centre 9 (CAOC 9) – 2001-2002-2003

Introduction

The 11 Combined Air Operations Centres (CAOCs) have been established to support NATO air operations. They are multi-nationally manned and funded except when deployed for NATO operations. The CAOCs are subject to cyclical audit in view of their small size in budgetary terms and the lower risk involved.

CAOC 3 is located in Reitan (NO) and was started up in March 2000 with a peacetime establishment of 66 staff. Norway prefinanced the organisation from March 2000, while multinational funding started 1 January 2001. Expenditures in 2001, 2002 and 2003 amounted to EUR 0.4, 0.5 and 0.6 million.

CAOC 9 is located in High Wycombe (UK) and has a peacetime establishment of 94 staff. The UK prefinanced the organisation from March 2000, while multinational funding started on 1 January 2001. Expenditures in 2001, 2002 and 2003 amounted to EUR 0.5, EUR 0.4 and EUR 0.6 million.

Audit Highlights

The Board issued an unqualified opinion on the financial statements of CAOC 3 and of CAOC 9 for the years ended 31 December 2001, 2002 and 2003.

The Board recommended that CAOC 3:

- issue a balance sheet for 2003;
- adequately document and approve the commitments carried forward; and
- reconcile periodically the status of its accounts with the host nation.

The Board observed that CAOC 9 should have reimbursed the UK balance of EUR 0.2 million from prefinancing initial operations in 2000 much earlier. CAOC 9 reimbursed UK in August 2005 following recommendations made by the Board during the audit. The Board also recommended that the command report currency exchange differences in its financial statements. This is important as the CAOC9 budget is approved in EUR but mainly executed in GBP.

4. Civil- Military Cooperation (CIMIC) Group North - 2003

Introduction

CIMIC Group North, created in April 2003, is located in Budel (NE). It is a dedicated Civil-Military Co-operation (CIMIC) capability in support of military missions. It provides a framework for cooperation between the military commander and civil structures, organisations and agencies. CIMIC Group North was established by Czech Republic, Denmark, Germany, The Netherlands, Norway and Poland to form a CIMIC capacity for NATO. The 2003 expenditure of CIMIC Group North amounted to EUR 0.7 million.

Audit Highlights

The Board issued an unqualified opinion on the CIMIC Group North financial statements for 2003. The Board noted that the 2003 budget and financial statements approvals were not reported in the minutes of the Co-ordinating Committee meeting as required by the MOU and recommended that such approvals be adequately documented in the minutes. The Board also recommended that unduly paid VAT of EUR 23,876 should be recovered and refunded to the nations. The Board also formulated suggestions to improve the clarity and technical accuracy of the financial statements.

The command and the Co-ordinating Committee agreed with these observations and announced appropriate action. The Board will follow up during future audits.

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

5. NATO Maintenance and Supply Organisation (NAMSO) – 2004

Introduction

The mission of the NATO Maintenance and Supply Organisation (NAMSO) and its executing agency, the NATO Maintenance and Supply Agency (NAMSA) is to provide logistic support services to NATO or to its member states individually or collectively. The objective of this mission is to maximise in peacetime and in wartime the effectiveness of logistics support to armed forces of NATO states and to minimise costs.

Audit Highlights

The Board issued an unqualified opinion on the 2004 financial statements of NAMSA. The Board also issued an unqualified opinion on the allocation of the NAMSA administrative costs charged to the Military Budget Committee (MBC) funded programmes. Auditing that cost allocation is a special purpose assignment requested by the MBC. The Board noted that the agency has made significant progress in cleaning the legacy accounting data in 2004 and recommended that remaining debit balances be further investigated and adjustments made prior to publication of the 2005 financial statements.

The Board also noted that the accuracy of stock data has improved over the last years. It recommended in this context that:

- prices of slowly moving items should be screened and updated;
- stocks should be continuously reviewed for the identification of excess items;
- stocks distributed to countries at no cost should be valued as such and recognised as expenses; and
- cash-flow details should be fully identified and reconciled to the general ledger.

The NAMSO Board of Directors concurred with the Board's observations and recommendations.

6. NATO Multi-Role Combat Aircraft (MRCA) Development Production and In-service Support Management Organisation (NAMMO), NATO European Fighter Aircraft Development, Production and Logistic Management Organisation (NEFMO), and NATO EF 2000 and TORNADO Development Production and Logistics Management Agency (NETMA) – 2004

Introduction

NAMMO and NEFMO are the two organisations responsible for the development, production and in-service support of the Tornado and Eurofighter 2000 aircraft programmes. They are the two largest single NATO programmes. The participating nations for the Tornado programme are

Germany, Italy and the United Kingdom. Spain joins these three nations in the Eurofighter programme. They are represented in a Joint Steering Committee, which exercises supervision over both programmes, and in a Board of Directors specific to each organisation. The NETMA agency is located in Munich and supports the two programmes. It had an establishment of 303 staff in 2004. Total payments in 2004 for the agency and the two programmes amounted to EUR 4.7 billion.

Audit Highlights

The Board issued an unqualified audit opinion on the financial statements of NAMMO, NEFMO and NETMA for 2004. The Board recommended that NETMA issue a corrigendum to the financial statements to adjust an overstatement of contributions by EUR 2.3 million; In addition, The Board also observed that support could not be provided for unpaid invoices for EUR 5.6 million, mentioned in the introduction to the NAMMO financial statements and recommended that the agency in the future establish a reliable basis for the figures it provides in the introduction to its statements.

7. NATO Airborne Early Warning and Control Programme Management Organisation (NAPMO) – 2004

Introduction

NAPMO is responsible for the direction, co-ordination, and execution of the co-ordinated acquisition programme of the NATO Airborne Early Warning and Control (NAEW&C) system. The agency NAPMA oversees the execution of the programme for NAPMO. NAPMA expenditures in 2004 totalled the equivalent of USD 126 million, equalling EUR 95.4 million at 2004 year-end rates.

Audit Highlights

According to Annex III of the NAPMO Charter 'the authority of the Board of Auditors does not extend to auditing internal records of Member States'. This statutory restriction affects the evidence available to support the value of the work undertaken by the main contractor, Boeing, who is contracted to report directly to the US System Program Office (SPO), rather than NAPMA. The reported value of this work in 2003 was USD 46 million (EUR 34.8 million), about 36% of NAPMA expenditure. Within the confines of this statutory restriction, the Board issued an unqualified opinion on the elements of the 2004 financial statements for which it has authority to audit.

The Board issued observations and recommendations concerning:

- the appropriate identification of the authority to sanction contract modifications and the establishment of a recognised format for contract directions to the contracting agent;
- the development of procedures and policies on sole sourcing;
- the need for quarterly meetings of the Internal Audit Board required by NAPMA directives;
- the development of an effective and comprehensive trial balance function in the NAPMA accounting system.

The Board also followed-up on issues raised in the previous year's audit. Three of the four issues were successfully resolved.

The NAPMO BoD announced appropriate action to meet the Board's recommendations.

8. Central Europe Pipeline Management Organisation (CEPMO) - 2003

Introduction

CEPMO is mandated to manage the transport, storage, and delivery of petroleum products in Central Europe for military and non-military clients. For that purpose, CEPMO operates and maintains the Central Europe Pipeline System (CEPS), a system of pipelines, pump stations, input and delivery points, and depots. The CEPMO Board of Directors defines the general policy, missions, objectives and resources of the system. Tariffs, contracts and procedures to be applied are the joint responsibility of the Central Europe Pipeline Management Agency (CEPMA) and the National Organisations, established by the Host Nations. These are Belgium, France, Germany, The Netherlands and Luxembourg. The United States and Canada are User Nations. Total CEPMO expenditure for 2003 amounted to EUR 94.87 million.

Audit Highlights

The Board issued an unqualified opinion on CEPMO's financial statements, including CEPMA and the National Organisations, for the year 2003.

The Board noted further improvements to the format and presentation of the CEPMO financial statements, in accordance with recommendations formulated earlier. It also noted that, similar to 2002, the 2003 CEPMO statements included provisional salary figures for one nation and that this situation is likely to be regularised in 2004. The Board recommended that the agency update the Co-operation Agreement between the NL and BE divisions on the operation of deactivated installations for national purposes. It also observed a lack of reconciliation to support the annual budget execution figures in one national organisation and recommended that the annual reports of that nation be audited by its private accountant before completion of the CEPMO financial statements. The Board also followed up on previous observations and is generally satisfied with the action taken.

9. The NATO Consultation, Command and Control Agency (NC3A) - 2003

Introduction

The NC3A supports NATO with advice, research and development of consultation, command and control systems. It was amalgamated in 1996 from the former STC and NACISA agencies. As from 1 January 2000, the NC3 has been operating under a customer-funding regime. The Major NATO Commands request in their budget funds for NC3A services and directly pay NC3A for those services. The Infrastructure Committee pays NC3A directly for host nation services whether for

projects (100% funded) or for the administration of projects (project service costs negotiated with NC3A on a fixed price basis). External customers also pay for services on a price negotiated with NC3A and for acquisitions on a 100% refundable basis. In 2003, NC3A expenditure amounted to EUR 145 million, of which 27% was for NSIP projects, 23% for acquisitions for third parties (100% reimbursable) and 50% on customer funding i.e. the administration of projects, acquisitions and scientific work for NATO bodies and external customers.

Audit Highlights

The Board issued an unqualified opinion on NC3A's 2003 financial statements and recommended that the agency:

- adjust the 2004 financial statements to correct the understatement of 2003 expenditure by EUR 143,187 from a database error and adjust the balance within the operating fund accordingly;
- ensure that accounting adjustments are excluded from income and expenditure disclosed on future financial statements and that the new IMIS system clearly separates the recording of accounting adjustments from actual transactions. In 2003, such adjustments resulted in an overstatement of third party income and expenditure by EUR 3.4 million;
- exclude internal payables and receivables between the two NC3A locations from future consolidated balance sheets. In 2003, significant balances existed on these internal accounts, resulting in a net balance of EUR 0.5 million. The agency should examine such existing suspense account balances and attempt to clear them to zero. It should avoid the use of these accounts on the new IMIS system; and
- ensure that, in future, all bank accounts are fully reconciled to accounting records prior to the publication of financial statements.

10. NATO Air Command and Control System Management Organisation (NACMO) – 2004

Introduction

The Air Command and Control System Management Organisation (NACMO) has been established to plan, develop, co-ordinate and execute the programme for the implementation of the Air Command and Control System (ACCS). NACMA is the procurement and implementing agency and acts as host nation for the NATO Security Investment Programme (NSIP) projects assigned to it. NACMA reports to a Board of Directors representing the nations.

The NSIP funded (operational) expenditures of NACMA in 2004 amounted to EUR 50.5 million. The administrative budget amounted to EUR 15.3 million and was jointly funded by the MBC (EUR 2.1 million), NSIP (EUR 12.2 million) and by a direct contributions of EUR 0.9 million from nations that acquired the replica software. BICES paid EUR 0.1 million for the support it receives from NACMA. The agency has a personnel establishment of 114 posts

Audit Highlights

The Board issued an unqualified opinion on the NACMA Financial Statements for the year ended 31 December 2004. The Board will issue the Certificates of Final Financial Acceptance (COFFA) for the audited projects for which technical inspections are completed and accepted. The Board had no observations.

**11. NATO Helicopter D&D Production and Logistics Management Organisation (NAHEMO)
- 2004**

Introduction

NAHEMO is the NATO Organisation responsible for the design, development, production and logistics support of a Tactical Transport Helicopter and a NATO Frigate Helicopter. The organisation was established by France, Germany, Italy and the Netherlands. Portugal joined in 2001. NAHEMO consists of a Steering Committee and an agency NAHEMA, responsible for the daily management of the programme. It has an authorised staff of 51. In June 2000, the Participating Nations signed a Production Investment & Production Contract (PI&P) for the 1st Batch of 243 helicopters amounting to EUR 6.8 billion at 31 December 1999 economic conditions. NAHEMA's operational expenditure for 2004 amounted to EUR 401.6 million. Administrative expenditures were EUR 9.2 million.

Audit Highlights

The Board issued an unqualified opinion on NAHEMA's financial statements for 2004. The Board observed that it should have unrestricted access to the minutes of the NAHEMO Steering Committee. It also recommended that the agency review its levels of cash and the amounts called from nations to ensure that it only holds the cash needed to cover its contractual liabilities to industry. There were no outstanding observations from previous years.

12. NATO Medium Extended Air Defence System Design and Development, Production and Logistics Management Organisation (NAMEADSMO) - 2004

Introduction

NAMEADSMO was established in 1996 by Germany, Italy and the United States to manage the design and development of a Medium Extended Air Defence System (MEADS). MEADS is envisioned to be a tactical mobile and transportable air and missile defence system capable of countering air threats including cruise missiles and tactical ballistic missiles. The MEADS project will be designed, developed and built by private industry. The system is expected to come in service by 2012. The agency NAMEADSMA is based in Huntsville, Alabama, USA and has an authorised staff of 51 persons. It monitors the day-to-day implementation of the programme. Operational expenditure in 2004 amounted to equivalent USD 70.2 million (EUR 53.1 million at year-end 2004 rates) Expenditure for the Administrative Statement totalled USD 4 million (EUR 3 million).

Audit Highlights

The Board issued an unqualified opinion on the 2004 financial statements of NAMEADSMA. The Board had no observations. It also noted that all previous observations had been satisfactorily resolved.

13. Battlefield Information Collection and Exploitation Systems Organisation (BICES) - 2004

Introduction

The Battlefield Information Collection and Exploitation Systems (BICES) Organisation was established in 1999 with the objective of sharing and exchanging information and intelligence among the participating nations and with NATO through the use of interoperable ADP- based national and NATO intelligence support systems. The BICES Board of Directors comprises representatives of each of the seventeen member nations and is responsible for the overall management of the organisation whereas the BICES Agency carries out the day-to-day management. NACMA provides administrative support to the BICES Agency.

The BICES admin budget for 2004 amounted to EUR 2 million. The cumulative authorizations for the ongoing Operational Enhancement Projects as of 31 December 2004 were EUR 3.3 million, of which EUR 0.8 million was authorized in 2004. Third-party procurement - expenditures on behalf of other entities - amounted to EUR 0.5 million in 2004.

Audit Highlights

The Board issued an unqualified opinion on the 2004 BICES financial statements.

The Board noted that funds collected for Operational Enhancement Projects substantially exceeded expenditure needs in past years, in violation of the Agency's Financial Rules and Procedures (FRP). BICES announced that it would amend those FRP to remove the rule that calls should be based on anticipated expenditures in the coming year. The Board took the view that such deviation from basic NATO budgetary and financial principles required explicit Council consent.

14. Research and Technology Organisation (RTO) – 2004

Introduction

The NATO Research & Technology Organisation (RTO) is a NATO subsidiary body created within the framework of the North Atlantic Treaty. Its charter was approved by the North Atlantic Council in December 1997 and became effective 1st January 1998. Its mission is to conduct and promote co-operative research and information exchange, to support the development of national defence research and technology, to maintain a technology lead, and to advise NATO decision-makers. The costs of RTO's activities are mainly supported directly by the Nations. RTO's support element RTA, is funded jointly MBC and CBC. Total 2004 expenditure of RTA (MBC + CBC funded)

amounted to EUR 5.2 million.

Audit Highlights

The Board issued an unqualified opinion on the RTO financial statements for 2004. The Board had previously qualified the RTO 2001 accounts because they did not include the CBC funded activities. For 2004 as in 2003 and 2002, RTA provided a separate report disclosing the CBC funded activities. The Board accepts this arrangement on an interim basis, awaiting a definitive solution for the RTA funding problem. The Board reiterated a recommendation from the previous audit that the IMS, which is responsible for administering the calls, take action to resolve delays in the payment of contributions. The Board also noted discrepancies between the General Ledger and subsidiary ledgers and recommended that these differences be reviewed and corrected.

The Board is satisfied with the action announced by RTO and will follow up on progress made during future audits.

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

15. International Staff (IS) - 2004

Introduction

The International Staff (IS) supports the work of the North Atlantic Council and its committees. The IS is headed by the NATO Secretary General supported by the Private Office. In 2003 IS had significantly restructured management and responsibilities within the organisation. It comprises five operational divisions: Political Affairs and Security Policy, Operations, Defence Policy and Planning, Public Diplomacy and Defence Investment, each headed by an Assistant Secretary General. The IS complement stood at almost 1,400 at the end of 2004 and total budgetary authorisations amounted to EUR 202 million including credits carried forward.

Audit Highlights

The Board issued an unqualified opinion on the IS financial statements for 2004. The Board raised observations and recommendations concerning:

- non-material errors in the financial statements;
- the late provision of balance sheet information and detail;
- the Personnel Management Information System (PMIS) 2001, 2002 and 2003 financial statements not being published;
- the requirement for more systematic internal audits of salaries and allowances;
- commitments and payments approved by non-authorized staff;
- Insufficient internal control in the administration of goods.

The Board followed up on previous observations and is generally satisfied with the action taken by

the IS.

The Board also followed up on a previous audit of the Staff Centre's financial management, and noted that significant progress has been made in resolving its observations. Of the 14 observations formulated in the report, 9 have been satisfactorily resolved and 5 are partly solved or require further action, such as more regular internal audits or the acquisition or development of specific software.

16. New NATO HQ – 2004

Introduction

At the Washington Summit, in April 1999, the Heads of State and Governments of NATO countries formally decided to build a new Headquarters in Brussels to meet the Alliance's needs in the twenty-first century. The North Atlantic Council, upon recommendation of the Civil Budget Committee, approves the budget for the new NATO Headquarters. It is funded from national contributions based on a specific cost-share agreement among the NATO nations. The budget for 2004 amounted to EUR 4.8 million.

Audit Highlights

The Board issued an unqualified opinion on the new NATO Headquarters financial statements for the year ended 31 December 2004. The Board made no observations. It also noted that one observation from the previous audit related to the provision of comparative information in the financial statements remains to be resolved.

17. International Military Staff (IMS) – NATO Standardisation Agency (NSA) – IMS Group Partnership for Peace (PfP) – Mediterranean Dialogue – 2004

Introduction

The IMS supports the Military Committee. IMS is headed by a Director, assisted by five Assistant Directors, each heading one of the five IMS Divisions. IMS centralises PfP Activities of IMS, NSA, NATO Defence College and the Research and Technology Organisation. It also centralises MD activities for the same organisations plus Allied Command Operations and Allied Command Transformation. Total expenditure in 2004 for IMS, NSA, PfP and MD were respectively EUR 16.1 million, 2.1 million, 1 million and 0.5 million.

Audit Highlights

The Board issued an unqualified opinion on the IMS, NSA, PfP and MD Financial Statements for the year ended 31 December 2004. The Board noted that average treasury holdings of IMS represented about 4.3 times monthly expenditure and recommended that IMS implement measures to reduce its cash holdings. The Board also noted that the four outstanding observations from previous audits had been satisfactorily resolved.

18. Provident Fund - 2003

Introduction

The NATO Provident Fund provides retirement benefits to civilian staff who joined NATO before 1 July 1974, and who are not members of the NATO Pension Scheme. The Fund invests the retirement contributions (7% of basic salary from members and 14% from NATO) using the services of an investment banker. ACO Treasury carries out the day to day accounting of the Fund. The value of the Fund's assets at 31 December 2003 was 119 million EUR (124 million in 2002). As at 31 December 2003, there were 359 members contributing to the Fund.

Audit Highlights

The Board issued an unqualified opinion on the 2003 Financial Statements of the Provident Fund. The Board noted that information disclosed in the Summary of Accruals statement was not fully consistent with that included in the International Staff statements and recommended that ACO Treasury issue a corrigendum to the Summary of Accruals. ACO issued the corrected statement on 31 March 2005. The Board noted that one observation on the provision of comparative information on the Fund Manager's performance remained outstanding.

19. NATO Pension Scheme - 2004

Introduction

The NATO Pension Scheme applies to all staff recruited after 1st July 1974. The Scheme is a 'defined benefit plan'. The Scheme defines rights to either a leaving allowance or a pension. It includes provisions for invalidity, survivor's, orphan's and dependant's pensions. The Scheme is unfunded. Benefits are paid from annual budgets financed by the nations and by a contribution from staff of 8.3% of their salary. The IS centralises the administration of the scheme.

In 2004, the Pension Scheme supported 2,232 pensioners. Almost 5,000 staff pay into the scheme. Over 90 per cent of all NATO civilian staff are members of the Scheme. The remaining members of staff, recruited prior to July 1974, are members of the Provident Fund. Total payments made under the Scheme for 2004 amounted to EUR 79 million.

Audit Highlights

The Board issued an unqualified opinion on the financial statements of the NATO Pension Scheme for the year 2004. The Board made no observations. It noted one outstanding observation relating to the requirement for a cash flow statement. The IS intend to include such statement as soon as possible.

20. Representation Allowances - 2004

Introduction

The Board audits the representation allowance expenditures of senior NATO officials in accordance with the provisions set out by the Permanent Representatives in 1980 and further guidance established in 1998. The Board's report is submitted to the Secretary General for onward transmission to the Permanent Representatives. The 2004 allowances amounted to EUR 187,651.

Audit Highlights

The Board found that for 2004, most of the recipients of the allowance complied with the accountability requirements. In a few cases, recipients poorly documented their expenditures or spent less than the allowance received. The Board recommended that the administration clarify the rules in those respects.

21. NATO Missile Firing Installation (NAMFI) - 2004

Introduction

NAMFI was established in 1964 by a number of user nations to facilitate the practice firing of missile weapon systems such as HAWK and Patriot. In 2004 there were four User Nations: Belgium, Germany, Greece and the Netherlands. Greece is also host nation for NATO funded infrastructure. Other nations use the NAMFI installations on a cost reimbursable basis. NAMFI expenditure for 2004 amounted to EUR 13 million including expenditure for the target services contract of EUR 3.1 million.

Audit Highlights

The Board qualified its opinion on the 2004 financial statements of NAMFI because the financial statements overstate the authorised budget by EUR 264,972 and total commitments are in excess of the budget by the same amount. In addition, commitments with a total value of EUR 0.7 million were carried forward without a legal liability. The Board also followed up on previous observations and noted that three of the 5 observations remained unresolved. They relate to completeness of the financial statements, correct reporting of NAMFI assets at NAMSA and the inclusion of the purchase price in the statement of items written-off.

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22. NATO Defence College (NDC) – 2004

Introduction

The mission of NDC is to contribute to the effectiveness and cohesion of the Alliance through training, research and outreach programmes for officers and officials selected for important NATO appointments and to disseminate awareness of NATO initiatives and interests. NDC is located in Rome and has an establishment of 49 NATO staff and 87 nationally funded staff. NDC expenditure

in 2004 amounted to EUR 5.4 million (EUR 5.2 million in 2003).

Audit Highlights

The Board issued an unqualified opinion on the NDC financial statements for 2004. The Board noted that average treasury holdings were 3.5 times monthly expenditure and recommended that the agency investigate methods to reduce the level of bank balances. In addition, NDC administers EUR 1.3 million national expenditures for the participation of course members to field studies. The Board recommended that NDC examine ways to include these transactions into the NAFS accounting system and in the financial statements.

23. Support Staff Cell and the Alliance Ground Surveillance Support Staff (SSC-AGS3) 2000, 2001, 2002 and 2003

Introduction

The objective of the Alliance Ground Surveillance (AGS) Programme is to provide the Alliance with a NATO owned and operated AGS core capability. The AGS Steering Committee monitors the progress of the programme and is supported by the AGS Support Staff. The AGS Programme is still at its definition phase. Design and Development, and then Production phases should follow, in order for the Alliance to have, as originally planned, an AGS initial operational capability in 2010. According to independent estimates, the cost of the programme could be in the range of 3.5 billion EUR. Expenditure under the AGS3-SSC budget amounted to EUR 0.1 million in 2000 and 2001, to EUR 0.4 million in 2002 and EUR 2.0 million in 2003.

Audit Highlights

The Board issued an unqualified opinion on the financial statements of the SSC and AGS3 for the years 2000, 2001, 2002, and 2003. The Board made no observations.

24. NAVSTAR Global Positioning System Programme - 1997 through 2003

Introduction

The NAVSTAR Global Positioning System Programme was a major Research and Development programme directed to the establishment of a satellite based world-wide positioning and navigation system, NAVSTAR GPS. It was set up in 1978 in participation with the United States Department of Defence. The NAVSTAR GPS Programme closed on 31 December 1993. Accounts of the programme remained open until 2003 to settle outstanding assets and liabilities, mostly in relation with US Foreign Military Sales cases.

Audit Highlights

The Board issued an unqualified opinion on the financial statements of the NAVSTAR Global Positioning System Programme for the years 1997 to 2003. The Board reviewed the final disposition of the NAVSTAR GPS assets subsequent to its closure, and found that assets were

properly accounted for and confirmed that USD 169,723.44 was remaining for distribution to the participating nations.

25. NATO Insensitive Munitions Information Centre (NIMIC) renamed to Munitions Safety Information Analysis Centre (MSIAC) – 2004

Introduction

The NATO Insensitive Munitions Information Centre (NIMIC) provides a focal point within NATO to assist national and NATO Munitions development programmes in addressing the problems associated with Insensitive Munitions. These are munitions that reliably fulfil their requirements, but minimise the probability of inadvertent initiation. On 15 December 2004, the name NIMIC has been changed to Munitions Safety Information Analysis Centre (MSIAC), and the scope have been expanded from Insensitive Munitions to Munitions Safety. NIMIC/MSIAC is directed by a Steering Committee and administered by a Project Manager. The staff is composed of 9 members. The Financial Controller International Staff carries out the financial administration of the agency. NIMIC/MSIAC expenditure in 2004 was EUR 1.3 million.

Audit Highlights

The Board issued an unqualified opinion on the NIMIC/MSIAC financial statements for 2004. The Board observed several commitments and payments that were not approved by duly authorised persons, and recommended compliance with the relevant regulations. As to the imputation of payments to the correct financial year, the Board recommended that the IS Financial Control document its accounting policies, including year end closure procedures. It also recommended a corrigendum to the 2004 statements with correct information on short term deposits. The Board reiterated two observations from previous audits that receivables and liabilities on contributions should be separately shown in the Balance Sheet and not be netted and that NIMIC/MSIAC update its administrative support arrangements with NATO International Staff.

26. Naval Forces Sensor and Weapon Accuracy Check Sites (FORACS) Office – 2000 through 2004

Introduction

NATO Naval Forces Sensors and Weapon Accuracy Check Sites (FORACS) provide a comprehensive calibration of sensors associated with the weapon systems of NATO naval units such as surface ships, submarines and anti-submarine helicopters. These tests are conducted at three FORACS ranges under the jurisdiction of Norway (NFN), Greece (NFG), and the United States of America (NFA). The Board only audits the financial statements of the FORACS Office. It does not audit the accounts of the three FORACS Ranges that are audited nationally. The overall management of the program is the responsibility of the FORACS Steering Committee. The NATO FORACS Office (NFO), is located at the NATO Headquarters in Brussels, and serves as the executive staff of the Steering Committee. The Financial Controller IS provides administrative support to the FORACS Office.

Audit Highlights

The Board issued an unqualified opinion on the NATO FORACS Office for the years 2000 to 2004. The Board noted that for several of these years explanatory annexes to the financial statements were incorrect or incomplete and recommended that the Office issue a corrigendum. The Board noted that commitments relating to salary expenditure were approved once a year, after already several payments had been made and recommended that the commitment approval process be reviewed to ensure compliance with the regulations. The Board noted that the FORACS Office cash balance amounted to EUR 1.2 million in 2004 or 1.4 times the budget, and recommended that the Steering Committee take measures to reduce the NATO FORACS Office cash holdings. The Board also noted that all outstanding issues from previous audits had been satisfactorily resolved, but for the excess cash issue.

27. NATO Transatlantic Advanced Radar (Project Definition Office (NATAR PDO) - 2000, 2001, AND 2002

Introduction

The objective of the NATO Transatlantic Advanced Radar (NATAR) Project was to begin a project definition for a system to be offered as an option for a NATO-owned and operated Alliance Ground Surveillance capability. Annual budgets of the NATAR PDO in 2000, 2001, and 2002 were EUR 0.7, 0.6 and 0.7 million respectively. The NATAR PDO closed on 31 December 2002.

Audit Highlights

The Board issued an unqualified audit opinion on the NATAR PDO financial statements for the years ended 31 December 2000, 2001, and 2002 and had no observations. The Board reviewed the final disposition of NATAR PDO assets subsequent to closure and confirmed that assets were properly accounted for and that EUR 1,005,603.03 was remaining for distribution to 6 participating nations.

28. NATO Parliamentary Assembly (NPA) - 2004

Introduction

Since 1955, the NATO Parliamentary Assembly (NATO PA), formerly the North Atlantic Assembly (NAA), has been a forum for legislators from member countries of the North Atlantic Alliance. The work of the NATO PA is mainly financed by contributions from member countries. The contributions are based on the sharing key used for the NATO civil budget. NATO and other organisations also provide the Assembly with additional subsidies that may be designated to be spent on specific activities. NPA is independent of NATO and the Board carries out the audit with the authorisation of Council. NPA has a staff of 30 employees. 2004 NPA budget expenditure amounted to EUR 3.3 million (EUR 3.3 million in 2003). Assets of the NPA Provident Fund as at 31 December 2004 amounted to EUR 3.3 million.

Audit Highlights

The Board issued unqualified opinions on the financial statements of the NATO PA and the NATO PA Provident Fund for 2004. The Board noted that the financial limits for payment in petty cash were not consistently applied and recommended that the related rules be amended. The Board also noted that the NPA financial statements include nine different reserve accounts and recommended that the Assembly reassess the nature and levels required for these accounts. It also noted that all of the outstanding observations from previous years were satisfactorily resolved.

PERFORMANCE AUDITS AND SPECIAL STUDIES

29. Performance Audit on the of Allied Command Operations (ACO) Financial Organisation and Management

Introduction

The yearly accounts of ACO, previously ACE, have been qualified every year since 1989. These qualifications were due to various factors, indicating in general, an unsatisfactory quality of accounting. This audit evaluates to what extent organisation and management problems in the financial function in ACO were cause of the financial reporting weaknesses found in financial audits.

Audit Highlights

The Board's audit covered three important aspects of the ACO financial organisation and management: human resources, management and issues related to the NAFS financial system.

The Board found that:

1. Staffing shortages and the lack of continuity of qualified and/or experienced finance staff directly contribute to the weaknesses in ACO's financial reporting.
2. An outdated finance organisational structure, complex financial processes and staff environment, and the lack of guidance and coordination contribute to the weaknesses in ACO's financial reporting.
3. The implementation of NAFS has had both positive and negative effects on the quality of ACO financial reporting.

The Board recommended that:

1. The approved military and civilian positions should be filled. Accounting qualifications and continuity should be improved, especially for fiscal staff.
2. Given the complexity of the financial processes in ACO, ACO Treasury staffing levels should be re-examined.
3. Some articles of the NATO Financial Regulations should be revised to clarify the authority of the ACO Financial Controller (FC) to issue regulations and technical guidance to the subordinate HQs.
4. ACO FC should reinforce its role as policy maker and guidance provider; design a vision consistent with "SACEUR's Vision"; and define the roles and responsibilities of each ACO branch in providing guidance to the subordinate HQs.

Concerning NAFS, an option could be for ACO to reconsider whether the system is needed at smaller HQs, and whether their accounting could be made with support from bigger HQs ("reachback" principle).

SACEUR generally concurred with the Board's findings and recommendations and the Board included his formal comments in the report.

30. Performance Audit On The NATO Airborne Early Warning And Control Programme

Introduction

The NATO Airborne Early Warning and Control (NAEW&C) Programme was the first operational military flying unit acquired, maintained, and operated by the Alliance and is staffed by almost 2,700 military and civilian personnel in three NATO bodies: NAPMO and its agency NAPMA in Brunssum (NL), NAEW&C Force Command, collocated with SHAPE in Mons (BE) and the E3A Component in Geilenkirchen (GE). The programme has 17 Boeing Sentry aircraft and 3 Boeing 707 Training Gargo aircraft. Its budgets amounted to over EUR 450 million in 2004. Within NATO, the organisation and total amounts of the military and acquisition budgets of the NAEW&C Programme have not been described or presented in a consolidated manner to the North Atlantic Council.

Audit Highlights

The Board conducted a performance audit of the NAEW&C programme to review specific performance aspects of the programme's organisation and operations. The scope of the audit covered the operations of the three main NATO organisations involved in the NAEW&C programme. It did not include NAMSAs, the NATO Security Investment Programme, or national NAEW&C systems committed to NATO.

The Board selected three main areas for its audit:

- (1) The annual objectives of the programme and reporting on the results achieved both internally (to SACEUR and NAPMO Board of Directors) and to the North Atlantic Council.
- (2) Implementing and funding of new operational requirements for the fleet, analyzing the two examples of air collision avoidance systems and infra-red counter measures.
- (3) Cost-reimbursement for the use of the fleet in case of selected major events (previously called high visibility events), such as the Olympic Games. In 2004 such events required about 11 percent of the fleet's flying hours.

The Board's main conclusions and recommendations were:

Regarding the annual objectives and performance reporting:

Force Command/E-3A have developed annual objectives and internal performance reports, that generally satisfied the Board's criteria. What is missing is a link of annual objectives to resources needed and used, as required by the objective-based-budgeting approach of ACO. Also, statements on the impact of annual objectives not met on the programme's strategic objectives are lacking and could be developed.

For NAPMA, recent attempts to formulate annual objectives have been made, but they did not meet the Board's criteria. In particular, more specific objectives are needed, accompanied by performance indicators. Contrary to ACO, the NAPMO Board of Directors does not currently require NAPMA to develop such annual objectives and performance indicators. The Board did recommend NAPMO BoD to do so.

Reporting to the North Atlantic Council could be improved for all entities involved. In the Board's opinion, Council is currently not provided with an annual report that gives a comprehensive picture of the programme, including its annual performance in the areas of operations, support and acquisition/modernisation. A joint report by NAPMO BoD and Force Command could serve this purpose.

Regarding the implementation of new operational requirements for the fleet:

The Board analyzed the implementation of new operational requirements in two cases and concluded that the lack of agreed criteria between NAPMO BoD and SRB/MBC to determine the funding eligibility for new operational requirements caused significant delays. The Board recommended NAPMO BoD to agree as soon as possible those criteria with SRB/MBC. In the formal comments on the audit report NAPMO BoD indicated that new funding arrangements are being developed. The Board appreciates those actions, but notes that they do not address the issue of agreeing criteria with SRB/MBC.

Regarding cost-reimbursement of the use of the fleet for selected major events:

The Board concluded that almost three years have elapsed since the need for a policy on cost-reimbursement was recognized by the Senior Resource Board. It also recommended Force Command to review cost per flying hour methodologies in use for other E-3 fleets and national air forces to develop full cost and incremental cost per flying hour methods in preparation for when, and if, a policy is approved.

The Board cleared its report factually with the audited entities and formally with SACEUR and NAPMO BoD. SACEUR generally concurred with the findings and recommendations, while the NAPMO BoD did not. The Board included its position with respect to the formal comments provided in the report.

31. Audit of the Increased Reimbursement of Education Allowance in NATO HQ, Agencies and Commands for the academic year 2003-2004

Introduction

The objective of the increased reimbursement of education allowance was to improve NATO's competitiveness as employer on the labour market. Under the new rules applicable from the 2003-2004 academic years, Heads of NATO bodies may authorise reimbursement of educational expenditure at a higher rate than was previously the case. When introducing the new rules, Council requested the Board to monitor their implementation.

Audit Highlights

The Board's audit covered the following aspects of the increased reimbursement: (1) compliance with the regulations, (2) consistency in the application of the provisions, (3) internal control, (4) calculation methods and (5) extent of use. The review covered the seventeen most important entities that employ over 85% of the total NATO civilian staff.

The Board noted that for the school year 2003-2004 in the seventeen entities reviewed, 251 staff members received the increased education allowance for 390 children and that in four cases a request for increased reimbursement was disallowed. Detailed statistical information on the increased reimbursement and the criteria applied by the entities to evaluate the requests are included in the audit report.

The Board concluded from its review that all NATO entities applied the same implementing guidelines but that the approving authority varies from entity to entity. The Board also found that the provisions on increased reimbursement for tertiary education were not applied consistently throughout NATO. However, during the factual clearance process for this report NATO amended the implementing guidelines to address the Board's concerns, and the issue is therefore settled.

The Board questioned the calculation method used for the increased reimbursement to staff members that are charged higher educational fees in view of the staff member's employment with NATO. In that case, increased reimbursement rates are applied regardless of the level of the fees. The Board considers that the criterion of exceptionally high expenditure is not always fulfilled and that the implementing guidelines lead to a different treatment of and a financial advantage for a part of the NATO staff.

The Board cleared the report with the entities reviewed and included their comments and a Board position as appropriate.

32. Survey of Bank Services in NATO

Introduction

The Board carried out a review of the management of Cash in 2003 at several NATO bodies. Following that review, the Board decided to conduct a further survey on bank services in five NATO entities identified as high cash holders. The aim of the survey was to analyse bank services and investment policies in order to identify best practices.

Survey Highlights

The Board identified best practices in the following areas:

Contracts and Working Agreement with banks:

The Board's analysis indicated that arrangements with banks vary among the five entities considered. Good practice would be that NATO entities liaise to draft a pre-defined set of legal

clauses, including acknowledgement of the tax-exempt status of the organisation; In addition, regular communication links and sharing of financial information between NATO entities would help identify best offers on the bank services market.

Bank Selection Procedure and Bidding Regularity:

The Board noted different approaches to the selection of banks, the frequency of bidding procedures and the regularity of competitiveness checks. The Board concluded that two entities use procedures that set best practice. After a "Request for Proposal" to identify interested candidates, bank contracts are drafted by the Treasury Staff and Legal Adviser and reviewed by the Procurement Office, Financial Controller, and General Manager. The final contract with the bank is signed after a trial period of three months to test the services provided by the bank. Best practice is also set in one agency that regularly revises the financial conditions and services offered. In this entity banking contracts are subject to a full re-bidding and competition every three years.

Investment Operational Procedure and Practices

The Board found that detailed and comprehensive operating procedures on treasury, cash management and investment activities are applied in most of the entities analysed. Those procedures, and in particular the investment practices, should be regularly reviewed to adapt evolving financial markets. In that context, the Board suggested the establishment of an ad-hoc policy group in each entity, composed of the relevant financial and treasury staff and external expertise as required, as is the case in one of the Agencies. That group regularly reviews cash flow and investment program results, and establishes the short-term investment guidelines for the next quarter. Concerning the selection of banks for investment purposes, the Board stressed the importance of strong communication between NATO entities to share experience, market knowledge and leverage on existing business relationships.

Investment Instruments:

Short-term deposits are the standard investment tool foreseen by the financial regulations. Two of the reviewed entities use "investment accounts" that combine comparable returns with the extended operational flexibility of a current account. The Board considers this a candidate for best practice on investment instruments.

Internet is commonly used in everyday financial practice by most of the entities. Also the subscription in one entity to a financial service provider can help monitor and benchmark the interest rates offered on short-term investments. The Board finally stressed that NATO entities should implement the criterion "most favourable conditions for the services" indicated in the NATO Financial Regulations and liaise to exchange information on the financial standards available.

Banking Service Performance Monitoring and Management Reporting

The Board noted that the monitoring of quality and performance of bank services is inconsistent among entities and sometimes weak in the entities surveyed. Management reporting varies considerably and is not always adequate.

Regarding management reporting, Art. 17 of the NATO Financial Rules and Regulations states that "senior responsible officers designate the banks..., ...make short-term investments... and shall annually inform the finance committee of such investments". In practice, management reporting on banking activity, performance, and investment results is non-existent or inadequate.

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Best practice is set by one entity that periodically produces a detailed report for management, including information on the holdings at each bank and its share of the total portfolio, a summary of all bids received and deposits offered, as well as a comparison of estimated and actual interest earnings. The Board also recommended that the NATO entities establish a performance monitoring system in order to regularly review and report on the quality of the financial services provided by the banks.

The Board forwarded this report to the Secretary General of NATO and to the Financial Controllers of all the NATO entities, recommending that they incorporate these best practices in the banking arrangements for their entity, as applicable. The Board will follow-up on the implementation of its recommendation during future audits.

**AUDITED ENTITIES AND ACTIVITIES
AND AUDIT CYCLE**

The Board audits 82 entities of which 47 are audited on an annual basis, and 35 are audited on a cyclical basis, every two to three years.

MILITARY COMMANDS

Annual	Cyclical
ACO Consolidated ¹	ARRC
- ACO Treasury	RFAS ² /JAPCC
- SHAPE	CAOCS (11 commands)
- Joint HQ Lisbon	CIMIC Group North
- JFC HQ Brunssum	CIMIC Group South
- JFC HQ Naples	NRDC (5 commands)
- CC-Air HQ Ramstein	
- CC-Land HQ Heidelberg	
- CC-Air HQ Izmir	
- CC-Land HQ Madrid	
- CC-Mar HQ Northwood	
- MEWSG Landet	
- MEWSG Yeovilton	
- BAM	
- JFC	
- KFOR	
- NHQSa	
- ISAF	
- NTM-I	
- AMIS	
- E-3A Component	
- NAEW FC	
(+ associated budgets not linked to a specific location)	
ACT consolidated	
- SACT HQ	
- JFTC Bydgoszcz	
- NURC La Spezia	
- JALLC Monsanto	
- JWC Stavanger	
(+ associated programme budgets)	

¹ The Board audits the most important commands every year. Smaller commands are audited on a bi- or tri-annual basis. The audit of these commands also includes a number of programmes that are budgeted and reported separately from the command's budgets.

² Deactivated on 1 January 2005 – replaced by the Joint Airpower Competence Centre (JAPCC) activated on 1 January 2005.

NATO PRODUCTION AND LOGISTICS ORGANISATIONS

Annual

NAMSO
NETMA
- NAMMO
- NEFMO
NAPMO
NHMO
CEPMO
- CEPMA
- Belgian Division
- French Divisions
- German Divisions
- Netherlands Division
NC3A
NACMO
NAHEMO
NAMEADSMO
BICES
RTO
NSA
NCSA
NAGSMO
ALTBMDPMO

MILITARY, CIVILIAN AND OTHER BODIES

Annual

IS
NATO HQ Adaptation
NAMFI
Provident Fund
Pension Scheme
New Pension Scheme
Retirees Medical Claims Fund
Representation Allowances
IMS, PfP and MD
NDC
NPA

Cyclical

FORACS
NIMIC/MSIAC
AFNORTH School
SHAPE School
AGS3

FINANCIAL AUDIT COVERAGE FOR AUDITED ENTITIES

		Last Audit		Next Audit	
		Done in	Covering	To be done in	Covering
MILITARY COMMANDS					
1.	ACO Group	2005	2004	2006	2005
2.	ACT Group	2005	2004	2006	2005
3.	ARRC	2004	2000/01/02/03	2007	2004/05/06
4.	RFAS/JAPCC	2005	2001/02/03/04	2006	2005
5.	CAOCs (3 sites out of 11)	2005	2002/03/04	2006	2003/04/05
6.	Cimic (1 site out of 2)	2004	-	2006	2005
7.	NRDC	-	-	2006	2003/04/05
NPLOs					
1.	NAMSO	2005	2004	2006	2005
2.	NETMA	2005	2004	2006	2005
3.	NAPMO	2005	2004	2006	2005
4.	NHMO	2005	2004	2006	2005
5.	CEPS	2005	2003	2006	2005
6.	NC3A	2005	2003	2006	2005
7.	NACMO	2005	2004	2006	2005
8.	NAHEMO	2005	2004	2006	2005
9.	NAMEADSMO	2005	2004	2006	2005
10.	BICES	2005	2004	2006	2005
11.	RTO	2005	2004	2006	2005
12.	NSA ¹	2005	2004	2006	2005
13.	NCSA	-	-	2006	2005
14.	NAGSMO	-	-	2006	2005
15.	ALTBMDPMO	-	-	2006	2005

¹ From 2003, the audit of the NSA is combined with the audit of the IMS that prepares consolidated IMS-NSA financial statements.

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MILITARY, CIVILIAN AND OTHER BODIES					
1.	IS	2005	2004	2006	2005
2.	NATO HQ Adaptation	2005	2004	2006	2005
3.	IMS	2005	2004	2006	2005
4.	NAMFI	2005	2004	2006	2005
5.	Provident Fund	2005	2004	2006	2005
6.	Pension Scheme Group	2005	2004	2006	2005
7.	New Pension Scheme	-	-	2006	2005
8.	Retirees Med. Claims Fund	2005	2004	2006	2005
9.	Representation Allowance	2005	2004	2006	2005
10.	NDC	2005	2004	2006	2005
11.	FORACS	2005	2000/01/02/03/04	2008	2005/06/07
12.	NIMIC/MSIAC	2005	2004	2006	2005
13.	AFNORTH School	2005	2002/03/04/05	2008	2005/06/07
14.	SHAPE School	2004	2001/02/03	2007	2004/05/06
15.	AGS3	2004	2000/01/02/03	2006	2004/2005
16.	NPA	2004	2003	2005	2004

AUDIT UNIVERSE AND DIRECT COST
OF THE AUDIT IN 2005

AUDIT UNIVERSE AND DIRECT COST OF THE AUDIT IN 2005

BODIES	Audit Universe in 2005 Million EUR (1)	Auditor Time (days) (2)	Salary + Travel Cost 2005 EUR (3)
AGENCY FINANCIAL			
ACO Group (incl. PSO)	774.8	390.2	275,129
ACT Group	88.4	132.2	106,977
ARRC	4.5	-	0
RFAS	0.7	31.6	23,650
CAOCs	6.7	79.5	67,707
CIMICs	2.0	15.5	11,721
NRDCs	-	5.2	3,124
NAMSO	508.8	123.9	90,751
NAMMO-NEFMO-NETMA	5,540.6	128.3	102,482
NAPMO	95.4	59.0	41,664
NHMO	13.8	49.9	39,118
CEPMO	99.6	102.3	76,526
NC3A	171.0	144.1	91,815
NCSA	-	8.2	4,935
NACMO	65.8	15.1	9,089
NAHEMO	409.3	39.8	31,768
NAMEADSMO	81.9	13.3	13,202
BICES	2.4	19.1	11,516
RTO	5.5	14.6	11,363
IS	161.1	104.9	63,355
IS New HQ	3.2	31.5	19,015
NAMFI	17.1	49.4	37,189
NDC	5.4	14.0	9,856
PROVIDENT FUND (a)	28.7	44.2	27,790
PENSION SCHEME	79.4	48.5	29,260
NEW PENSION	-	16.3	9,835
REP. ALLOWANCE	0.2	21.2	12,786
RMCF (b)	19.0	15.7	9,507
IMS (Incl. NSA, PfP, MD)	24.1	11.7	7,049
FORACS	0.9	37.5	22,621
NAVSTAR	-	4.3	2,623
NIMIC-MSIAC	1.6	5.2	3,114
AFNORTH SCHOOL	3.9	16.0	10,076
SHAPE SCHOOL	4.7	-	0
AGS ex-PPO	1.8	-	0
NATAR (closure)	-	7.1	4,262
NPA (c)	3.5	18.7	14,519
NSIP Financial Statements		42.9	25,899
Subtotal	8,225.8	1,860.6	1,321,294

AUDIT UNIVERSE AND DIRECT COST OF THE AUDIT IN 2005

BODIES	Audit Universe in 2005 Million EUR (1)	Auditor Time (days) (2)	Salary + Travel Cost 2005 EUR (3)
NSIP FINANCIAL			
Annual File Review		169.5	102,335
BELGIUM	0.1	-	0
CEPMO	9.6	18.9	14,096
CFE/TLE	1.0	3.2	1,953
CZECH REPUBLIC	-	2.9	2,313
DENMARK	6.1	18.4	13,638
GERMANY	87.0	81.3	67,322
GREECE	3.1	8.9	2,274
HUNGARY	2.3	2.9	6,704
ITALY	10.2	10.3	11,976
NACMO	62.7	17.9	10,790
NAMSO	3.1	1.3	781
NC3A	95.4	26.0	15,721
NORWAY	13.5	6.1	5,079
POLAND	-	2.9	2,314
PORTUGAL	25.7	14.9	11,695
SHAPE	44.3	14.6	14,538
SPAIN	8.4	11.3	8,721
THE NETHERLANDS	11.8	7.4	6,010
TURKEY	91.6	21.0	17,761
UNITED KINGDOM	48.0	29.4	27,306
UNITED STATES	29.3	12.3	10,579
<i>Subtotal</i>	553.2	481.6	353,907
PERFORMANCE AUDITS			
ACO Fin. Man.		90.7	60,036
NAEW&C Program		205.3	130,318
Bank Services		15.5	9,371
Command Structure		147.7	89,302
Education Allowance		12.3	7,398
<i>Subtotal</i>		471.4	296,425
STUDIES			
Internal Audit		30.2	18,248
IPSAS		89.8	60,303
Audit Manual		29.3	17,673
TeamMate		99.3	61,917
Roles within IBAN		31.1	18,780
<i>Subtotal</i>		279.7	176,921
BOARD		210.5	138,835.6
ADMINISTRATION		182.0	109,895
TRAINING		211.7	140,650
GENERAL TOTAL	8,779.0	3,697.3	2,537,928

Column (1)

Represents the amount of the 2004 budget subject to audit in 2005 in the case of Agencies, or the NSIP amounts presented for audit during 2005.
Non-EURO currencies are converted at 31 December 2004 rates.

Column (2)

Represents the time spent by the audit staff during 2005.

Column (3)

Represents the cost of the audit to the NATO Civil Budget, including remuneration and a notional pension/leaving allowance amount of auditors and travel cost of auditors and Board Members. It does not contain the cost of support staff amounting to EUR 524,988 and the salaries and allowances of Board Members that are a national charge.

Footnotes

- (a) Not including EUR 114 million assets spread over 308 individual members' accounts.
- (b) Not including EUR 5.6 million assets of the investment fund.
- (c) Not including EUR 3.3 million assets of the 30 members of the NPA Provident Fund.

LIST OF ABBREVIATIONS

LIST OF ABBREVIATIONS

AAR	Annual Activities Report
ACAS/RVSM	Air Collision Avoidance System / Reduced Vertical Separation Minima
ACE	Allied Command Europe
ACO	Allied Command Operations
ACLANT	Allied Command Atlantic
ACT	Allied Command Transformation
AFNORTH	Allied Forces, Northern Europe
AFSOUTH	Allied Forces Southern Europe
AGFC	Advisory Group of Financial Counsellors
ALTBMDPMO	Active Layered Theatre Ballistic Missile Defence Programme Management Organisation
AMIS	African Union Mission in Sudan
ARRC	ACE Rapid Reaction Corps
BAM	Balkans Air Mission
BICES	Battlefield Information Collection and Exploitation System
Board	International Board of Auditors for NATO
BoD	Board of Directors
CALS	NATO Continuous Acquisition & Life-cycle Support Office
CAOCs	Combined Air Operation Centres
CEPMA	Central Europe Pipeline Management Agency
CEPMO	Central Europe Pipeline Management Organisation
CEPS	Central Europe Pipeline System
CIMIC	Civil and Military Cooperation
CNABs	Competent National Audit Bodies
COFFA	Certificate of Final Financial Acceptance
CRO	Crisis Response Operations
D&D	Design and Development
DIRCM	Directed Infra-Red Counter Measures
DRG	Defence Research Group
EF 2000	Eurofighter 2000
FORACS	NATO Naval Forces Sensor and Weapons Accuracy Check Sites
FRP	Financial Rules and Procedures
HQ	Headquarters
IC	Infrastructure Committee
IFAC	International Federation of Accountants
IMS	International Military Staff
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
IS	International Staff
ISAF	International Security Assistance Force [Afghanistan]
JALLC	Joint Analysis and Lessons Learnt Centre
JAPCC	Joint Airpower Competence Centre
JFAI	Joint Final Acceptance and Inspection
JFC	Joint Force Command Balkans Operations
KFOR	KOSOVO Forces
MBC	Military Budget Committee
MD	Mediterranean Dialogue
MEADS	Medium Extended Air Defence System

MEWSG	Multiservice Electronic Warfare Support Group
MOD	Ministry of Defence
MOU	Memorandum of Understanding
MSIAC	Munitions Safety Information Analysis Centre
NAFS	NATO Automated Financial System
NACMA	NATO ACCS Management Agency
NACMO	NATO ACCS Management Organisation
NADEFCOL	NATO Defense College
NAEW&C	NATO Airborne Early Warning and Control
NAEW&CS	NATO Airborne Early Warning and Control System
NAGSMO	NATO Alliance Ground Surveillance Management Organisation
NAHEMA	NATO Helicopter D&D Production and Logistics Management Agency
NAHEMO	NATO Helicopter D&D Production and Logistics Management Organisation
NAMEADSM	NATO Medium Extended Air Defence System Design and Development, Production and Logistics Management Agency
NAMEADSMO	NATO Medium Extended Air Defence System Design and Development, Production and Logistics Management Organisation
NAMFI	NATO Missile Firing Installation
NAMMO	NATO Multi-Role Combat Aircraft Development and In-Service Support Management Organisation
NAMSA	NATO Maintenance and Supply Agency
NAMSO	NATO Maintenance and Supply Organisation
NAO	National Audit Office
NAPMA	NATO AEW&C Programme Management Agency
NAPMO	NATO AEW&C Programme Management Organisation
NAVSTAR	Navigation Satellite Timing and Ranging
NC3A	NATO Consultation, Command and Control Agency
NC3O	NATO Consultation, Command and Control Organisation
NCCB	NATO Centralised Communications and Information Systems Budget
NCSA	NATO CIS Services Agency
NDC	NATO Defence College
NEFMO	NATO European Fighter Aircraft Development, Production and Logistics Management Organisation
NETMA	NATO EF2000 and Tornado Development Production and Logistics Management Agency
NFO	NATO FORACS Office
NFR	NATO Financial Regulations
NHMO	NATO HAWK Management Office
NHQSa	NATO HQ Sarajevo
NIMIC	NATO Insensitive Munitions Information Centre
NPA	NATO Parliamentary Assembly
NPC	NATO Programming Center
NPLO	NATO Production and Logistics Organization
NRDC	NATO Rapid Deployment Corps
NRF	NATO Response Force
NSA	NATO Standardization Agency
NSIP	NATO Security Investment Programme
NTM-I	NATO Training Mission Iraq
O&M	Operation and Maintenance
PfP	Partnership for Peace

ANNEX E
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PI/P	Production Investment and Production Phase
PSO	Peace Support Operations
RFAS	Reaction Force Air Staff
RMCF	Retirees Medical Claims Fund
RTA	Research and Technology Agency
RTB	Research and Technology Board
RTO	Research and Technology Organisation
SACEUR	Supreme Allied Commander, Europe
SACLANT	Supreme Allied Commander Atlantic
SACLANTCEN	SACLANT Undersea Research Centre
SAIs	Supreme Audit Institutions
SHAPE	Supreme Headquarters Allied Powers Europe
SID	Security Investment Directorate
SPO	System Project Office
SPOW	Scientific Program of Work
SRB	Senior Resource Board
SSC-AGS3	Support Staff Cell / Alliance Ground Surveillance Support Staff
UNAC	User Nations Committee
USD	United States Dollar
VAT	Value Added Tax