



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

**ANNUAL  
ACTIVITIES  
REPORT  
2006**

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**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**ANNUAL ACTIVITIES REPORT**

**FOR 2006**

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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 21 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 2006 the Board audited some EUR 10.3 billion, of which EUR 9.7 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).

### 2006 HIGHLIGHTS

#### *Agency Financial Audits*

In 2006, the Board issued 32 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 one qualified audit opinion in respect of the accounts of Allied Command Operations (ACO) 2004 and one disclaimer of opinion for the AFNORTH International School 2002-2004. However, the AFNORTH International School received an unqualified opinion for the 2005 financial statements (paras 2.11 to 2.14).

The Board successfully completed the targets of timeliness and of a 70% response rate to its recommendations from its Annual Performance Plan (paras 2.4 and 2.5).

The Board qualified ACO's 2004 restated accounts because of a scope limitations on all financial transactions of JFC HQ Brunssum, many of which relate to the NATO operations in Afghanistan and contain significant errors and control weaknesses (para 2.16).

At the time of this annual report (April 2007), the ACO and ACT 2005 audit reports were being cleared with the commands. They will be included in the Board's annual report on 2007 (paras 2.17 to 2.19).

The Board has not expressed an audit opinion on the financial statements of the AFNORTH School for the years 2002, 2003 and 2004 because the accounting records of the School for those years were inadequate and no reliable financial statements were available (para 2.20).

The Board had previously qualified the NAMFI's 2004 accounts because of a significant breach of budgetary rules. NAMFI fully complied with the related rules in 2005 which resulted in an unqualified opinion on the 2005 financial statements (para 2.21).

#### *NATO Security Investment Programme (NSIP)*

The Board audited the expenditure presented by the nations and agencies in 2006 which totalled more than EUR 600 million compared to EUR 550 million in 2005. It certified approximately 630 projects with a total value of almost EUR 660 million, compared to 280 projects for EUR 720 million in 2005. The net credit to NATO resulting from the audit in 2006 was more than EUR 10 million.

In 2006 the Board reduced the percentage of the uncertified portion of projects in the nations to 15% and decreased the number of open projects by 60, reducing their number from 190 to 130. It audited more than EUR 400 million in the nations, against EUR 350 million as planned. In addition, EUR 200 million were audited in the agencies, as planned (paras 3.5 to 3.7).

More than 1000 completed projects for over 4.5 billion EUR authorised between 1979 and 1994 are still not closed. At the end of 2004, the Infrastructure Committee agreed on an accelerated closure of 380 projects authorised between 1979 and 1994, awaiting a technical inspection. More than 300 projects were closed this way in 2006. In February 2007, the NSIP staff and the Board made a joint proposal to the Committee to enhance the accelerated closure procedure. The proposal is under discussion in the Committee (paras 3.11 to 3.14).

The Board will issue a separate report dealing with NSIP issues.

### ***Performance Audits and Ad Hoc Studies***

The Board undertook both performance audits and ad hoc studies in 2006. It completed a review of the Internal Audit function NATO-wide and a short and focussed audit on the terms of reference for the Functional Review of the New NATO Command Structure. It carried out surveys on Customer Funding at NC3A and on Logistics for Deployed Operations with a view to audit in 2007. 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 2006 by presenting only reports that contain recommendations and/or options (paras 4.1 to 4.8).

## **ISSUES OF IMPORTANCE TO THE BOARD**

### ***International Public Sector Accounting Standards***

On 17 July 2002, Council decided that all NATO financial statements should be accruals based and IPSAS compliant starting in 2006. NATO Financial Controllers are generally well aware of what is expected from them in terms of IPSAS, although a number of outstanding issues still need to be resolved. The Board feels it is well prepared for a consistent approach to the audit of the NATO 2006 Financial Statements under IPSAS (paras 5.1 to 5.3).

### ***Corporate Governance in NATO***

The Board continued its efforts to improve accountability and transparency in NATO. It has conducted a benchmarking survey on key aspects of the Guidelines for Corporate Governance for future comparison. Most of the NATO entities issued the management representation letters and statements of internal control requested by the Board. It is now developing guidance for the evaluation of these statements during its audits of the financial statements (paras 5.4 and 5.5).

### ***Delegation of Budgetary Authority to a Subordinate Committee***

In early 2007, Council approved the revised terms of reference for the NATO military resource committees in the context of the NATO HQ Reform. These terms of reference devolve budget approval authority from Council to the Military Budget Committee which is a subordinate committee of the Senior Resource Board that itself responds to Council. The Board informed Council that the budget is a prerogative of the highest authority of an organisation which is not typically delegated to a lower committee and that the proposals contradicted the principles endorsed by Council in the Guidelines for Corporate Governance. The Board will follow up on this issue when these new arrangements will be evaluated in two years' time (paras 5.6 to 5.9).

### ***Publication of the Board's Reports***

On 21 February 2007 Council approved the recommendation of the Advisory Group of Financial Counsellors that the Annual Activities Report of the International Board of Auditors for NATO be released to the public, beginning with the 2005 report. The Board views this decision as an important step forward to increased transparency and accountability and prepares dissemination via the official NATO web site (paras 5.10 and 5.11).

## **MATTERS RELATING TO THE BOARD**

### ***Personnel Matters***

The Board had its full complement of six serving Members for the whole of 2006 and a vacancy of 1.3 staff year for its Auditors. In the 2006 budget, Council augmented the establishment to 21 audit staff. At the end of 2006, three of the twenty audit staff present and one of the Board Members were women. Board Members and Auditors came from thirteen nations (paras 6.1 to 6.3).

### ***Review of Board audit practices***

In 2003 and 2004 the Board carried out a review of its agency audit practices. In 2006, the Board implemented the last of the twenty-three recommendations of that review and carried out an internal review of its NSIP audit practices (para 6.5).

### ***The Board as a model audit organisation***

A satisfaction survey in 2005 among the staff to determine benchmarks had identified the need for better communication, feedback and training. The 2006 performance plan concentrated on improving these areas. The results of the 2006 survey showed an overall improvement but also that further work was needed, particularly in the areas of feedback and training (para 6.6).

### ***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 2006 covered a variety of topics including IPSAS and accrual accounting, TeamMate, performance audit and NSIP. Individual auditors participated in seminars organised by their professional organisations (paras 6.7 and 6.8).

### ***TeamMate and the implementation of a risk-based audit approach***

After two successful TeamMate pilot audits in 2005 the Board implemented 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 6.9).

***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 2006. It is important to note that the cost of the audit to NATO (EUR 3 million) constitutes about one third of the net cash return to NATO from the Board's audit (over EUR 10 million in 2006) for the NSIP audits alone (paras 6.11 and 6.12, and Annex D).

***Discussion of the 2005 Annual Activities Report in Council***

The NATO Council discussed the Board's 2005 Annual Activities Report. Permanent Representatives of the nations expressed strong support for the Board and its achievements. They also agreed that the Board's Annual Activities Report be published (para 6.14).

***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 2005 took place on 11 May 2006. The Board's representatives briefed visitors from the SAIs and several NATO bodies on its activities and led NSIP workshops in five nations that joined NATO in 2004 (paras 6.16 to 6.18).



## 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 the 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 2006 covered EUR 10.3 billion, of which EUR 9.7 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's 2005-2009 Strategic 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 in 2006, based upon the priorities and specific targets and measures of success set out in its 2006 annual performance plan. This annual report provides for each of the goals a brief summary of the achievements in 2006.

## 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 multi-nationally funded Commands and the NATO Parliamentary Assembly. The Board refers to all these audits as agency audits. In 2005 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 2006, the agency accounts audited by the Board amounted to EUR 9.671 million (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 with effect from the 2006 financial statements 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 and international standards on auditing.

#### PERFORMANCE IN 2006

2.4 One of the goals of the Board's 2005-2009 Strategic Plan aims at reinforcing financial management in the NATO bodies. The Annual Performance Plan for 2006 identified two criteria to measure successful achievement: timeliness of the audit reports and the amount of recommendations implemented. Target for the *timeliness of the audit reports* is to have 40% of the audit reports approved within 6 months after the publication of the financial statements. The Board approved 18 audit reports out of 42 (43%) before that deadline.

2.5 The Board also achieved its second target of 70% of the *recommendations implemented*, within a three-year period of the audit report date. Of the 119 observations formulated in 2003, 92 or 77% were resolved by 2005.

## AUDIT METHODOLOGY AND CONDUCT OF AUDITS

2.6 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). The audit process is fully integrated in the TeamMate audit software.

2.7 Audits are conducted on the agency site by auditors, under the oversight of a Board Member. The more significant agencies and those with a higher risk are audited every year. A few agencies posing only a small audit risk are audited every two or three years. In that case a minimal review of the financial statements is nevertheless undertaken during the years not covered by a full audit. Council endorsed this policy of cyclical auditing in 1990. Annex C shows the cyclical basis on which the Board plans and carries out the audits of agencies and commands. Twenty-one entities were not scheduled for audit in 2006 and will be audited over the next two years. They represent about EUR 75 million in annual budget, which is 0.8% of the Board's audit scope for 2006.

## ALLOCATION OF RESOURCES

2.8 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 6 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 million in 2006.

2.9 NSIP audits are resourced on the basis of expected missions and input by the nations. Agency audits are resourced on the basis of risk and available staff. The risk assessment takes into account elements such as the entity's *size* in budgetary and staff terms, its *organisational complexity* in terms of the number of locations, programmes and budgets, the *complexity of the transactions* (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.

2.10 Throughout the process, the Board maintains a high degree of flexibility, which allows it to make optimal use of its resources. The Board considers that, through its position in NATO and the inputs from the audit teams, it has a good overview on where the risks lie and on the resources needed to cover them.

## SUMMARY OF AGENCY AUDIT WORK IN 2006

2.11 In 2006, the Board issued 32 Auditor's Opinions on the accounts of some 67 NATO bodies and assimilated organisations, using 9.8 staff years. In several cases the opinions covered several entities, several sets of financial statements or several financial years.

2.12 Table 1 below summarises the amounts audited and resources used for the three types of agency audits during 2006 and 2005.

**TABLE 2.1**  
**AGENCY EXPENDITURE AND AUDIT EFFORT (2006-2005)**  
**(EUR Million)**

	Expenditure		Audit Effort In staff years		Amount Audited Per Staff year	
	2006	2005	2006	2005	2006	2005
NPLOs	8,450	6,994	3.8	3.5	2,224	1,998
Commands	857	877	3.7	3.2	231	274
Civ. & Mil. Agencies	364	355	2.3	2.4	158	148
<b>TOTAL</b>	<b>9,671</b>	<b>8,226</b>	<b>9.8</b>	<b>9.1</b>	<b>987</b>	<b>904</b>

2.13 Resources allocated to agency financial audits increased by 7.6%, from 9.1 to 9.8 staff years. This increase illustrates an overall improved staff situation and a considerable increase in workload from new financial audit responsibilities entrusted to the Board in NPLOs and multi-nationally funded commands. The disparity between amounts audited per staff year in NPLOs 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

2.14 In 2006 the Board issued 32 Auditor's Opinions comprising 28 unqualified opinions, one qualified opinion on ACO 2004 and a disclaimer of opinion for the AFNORTH International School 2002-2004. The Board also reported two long-standing scope limitations on the accounts of NAPMO (Annex B, para 11) and NSIP 2003 and 2004 (Annex B, paras 26 & 27), in view of the statutory and regulatory restrictions on the audit of these accounts. Although technically these scope limitations constitute an audit qualification, the Board does not classify them with the qualified opinions because these scope limitations result from an explicit decision of the NATO nations and cannot be influenced by Management. An explanatory note on the different types of audit opinions is provided on page 3 of Annex B.

2.15 This section provides a summary of the modified opinions issued in 2006. It follows up on previous modified opinions as required.

2.16 **Qualified opinion on the ACO 2004 accounts.** In May 2006, ACO restated its 2004 Financial Statements to correct significant errors in the initial version issued in May 2005. The Board qualified ACO's restated 2004 Financial Statements because of a scope limitation on all financial transactions of JFC HQ Brunssum, many of which directly relate to JFC HQ Brunssum's accounting responsibilities for NATO's ISAF mission in Afghanistan and are afflicted with significant errors and control weaknesses.

2.17 Audit of the ACO 2005 accounts. The Board has completed its audit of the ACO 2005 Financial Statements. At the time of this annual report (March 2007), the ACO 2005 audit report was being cleared with the command and it will be included in the Annual Activities Report on 2007.

2.18 However, to anticipate any delays in reporting resulting from the restatement of the 2004 accounts, the Board had already started the audit of the 2005 financial statements. This allowed it in May and June 2006 to provide up-to-date information at a time the Military Budget Committee (MBC) had to make important budgetary decisions on the ISAF operations. The Board informed the MBC in a special report that the audit fieldwork for 2005 showed no major improvements and that the ISAF related accounts and transactions continued to be afflicted with inadequate documentation, errors and significant internal control weaknesses (See Annex B para 1).

2.19 Audit of the restated ACT 2005 Accounts. The initial statements received by the Board on 17 May 2006 were not officially distributed and were subsequently withdrawn by ACT to correct errors found by the Board. Updated statements issued in July 2006 still showed inconsistencies and oversights. At the time of this annual report (March 2007), the ACT 2005 audit report was being cleared with the command and it will be included in the Annual Activities Report on 2007.

2.20 **Disclaimer of opinion on the AFNORTH International School 2002 to 2004 accounts.** The Board did not express an audit opinion on the financial statements of the AFNORTH School for the years 2002, 2003 and 2004 because the accounting records of the School for these years were inadequate and no reliable financial statements were available. The Board issued an unqualified opinion on the 2005 financial statements of the School, as corrected during the audit. Regardless of the deficiencies noted in the previous years 2002-2004 the Board has been able to carry out reasonable alternative procedures to obtain sufficient evidence that the 2005 opening balances were, in all material respects, fairly presented (see Annex B para. 29).

#### **FOLLOW-UP ON PRIOR YEARS' QUALIFIED OPINIONS**

2.21 **Unqualified opinion on the NAMFI 2005 accounts.** The Board qualified the NAMFI 2004 accounts because it had overstated the authorised budget by EUR 264,972, overcommitted its budget by that same amount and carried forward commitments of EUR 0.7 million without a legal liability. NAMFI fully complied with the related rules and regulations in 2005 and the Board issued an unqualified opinion on the 2005 financial statements.

## 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 2006 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 2006

3.5 The Board audited the expenditure presented for audit by the nations and agencies in 2006. It conducted 34 audit missions in 15 nations and 4 agencies. These audits covered about 250 projects totalling more than EUR 600 million, compared to EUR 550 million in 2005. The Board issued about 630 COFFAs in 2006 with a total value of EUR 660 million, compared to 280 COFFAs for EUR 720 million in 2005. As a result of the audit of NSIP projects in 2006 the net credit in favour of NATO was more than EUR 10 million.

#### PERFORMANCE IN 2006

3.6 The Board continued 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 2006. One target was to reduce by 40 the audited projects still open, awaiting final audit or a technical inspection. 60 projects were closed in 2006, reducing their number from 190 to 130. Another target was to reduce the percentage of the uncertified portion for nations. This was reduced to 15%.

3.7 The amount to be audited in 2006 was targeted at EUR 550 million, EUR 350 million in nations and another EUR 200 million in agencies. The Board audited more than EUR 600 million and thus achieved its target. EUR 413 million was audited in nations and EUR 201 million in agencies.

### **THE BOARD'S 2005 NSIP REPORT**

3.8 In September 2006, the Board issued its report on the audit of NSIP in 2005.

3.9 The Board highlighted that, in the past few years, the expenditure reported and claimed by nations has started to increase and exceeds the expenditure nations have presented for audit. The Board expressed concern about a likely increase of non audited expenditure in the future.

3.10 The IC supported the Board's concern and Council noted the report.

### **CLOSURE OF THE OLD NSIP PROGRAMME**

3.11 More than 1000 completed NSIP projects, (with a value of over 4.5 billion EUR), authorised between 1979 and 1994 are still not technically inspected and/or not presented for audit or not closed for other reasons, such as outstanding audit observations.

3.12 In the end of 2004, the IC agreed on an accelerated closure of 380 projects authorised between 1979 and 1994, awaiting a technical inspection. About the same number of projects was identified as deleted and ready for closure after the authorisation of cancellation fees to the nations. The Board raised concern about the slow process in 2005 to the IC. However, all participants in the accelerated closure process have gained some understanding of the process and the speed has considerably increased. More than 300 projects were closed this way in 2006.

3.13 In February 2007, the International NSIP Staff and the Board made a joint proposal to the IC to enhance the accelerated closure procedure. Currently, projects up to a ceiling of EUR 0.5 million are subject to a simplified technical inspection and are authorised as a lump sum with no audit required. It is now proposed to increase the ceiling to EUR 2 million without materially increasing the audit risk. Increasing the ceiling from EUR 2 to 10 million would materially increase the risk and reduce the potential savings resulting from audit. Therefore, the Board recommended to the IC a "payback" of 1.8% of the expended amounts before they are converted into lump sums and certified. The 1.8% was calculated from statistical analysis of audit savings data for the years 2002 to 2004. The proposal is under discussion in the IC.

### **ACCOUNTABILITY IN THE NEW NSIP PROGRAMME**

3.14 When the Board agreed to the accelerated closure of the old NSIP programme, it partially waived its audit mandate. This was done after a careful risk assessment and under the clear condition that this approach was an exception made under special circumstances. It was seen as a one-off expedient to clear the Old NSIP Programme with projects up to 1994. For projects in the New Programme from 1994 onwards full accountability should apply, with a proper technical inspection and full audit. The Director, Security Investment Directorate assured the Board that his staff will keep up with the requests for technical inspections submitted by nations for the New Programme. Nations, including nations which joined NATO in 1999, have completed a number of projects, but are not able to present expenditure for audit, because their requests for technical inspection have not been processed. The milestone system requires completion of the technical inspection and subsequent publication of the inspection report within six months of the nations'

request. The Board is concerned that a situation similar to the one in the Old Programme is arising for the New Programme. It will carefully watch the development.

## **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 The Board is committed to carry out at least one substantial performance audit per year. In 2006, it has taken further structural steps to consolidate that commitment. It has developed performance auditing guidance, requiring regular consideration by the Board of new audit topics, a systematic follow up of the progress in ongoing performance audits and the involvement of financial auditors in the identification of potential topics in the agencies audited by them. The Board is working on the development of a TeamMate module for performance audits that incorporates the related procedures. It has also set up a core of three auditors that mainly carry out performance audits and studies and monitor NATO-wide performance risks.

4.3 In 2006 the Board spent 1.6 staff years on performance audits, corresponding to 8% of its resources (compared to 2.3 staff years or 13% in 2005). The Board noted that the same time the financial and NSIP audit effort increased by 0.9 staff years. It completed a short audit of the definition of terms of reference for the previous NATO command structure functional review and finalised a comparative study of the internal audit function in the main NATO bodies. The Board also carried out surveys for two major performance audits on the Logistics of Deployed Operations and on the system of Customer Funding at NC3A, which it will implement in 2007.

##### **Ad hoc studies**

4.4 As in the past, the Board responded to requests for advice from NATO bodies and committees. It was involved in meetings and workshops to prepare the introduction of IPSAS. It advised NATO committees on the position and authority of the Financial Controller in the military commands and advised on the revision of terms of reference for the main finance committees in NATO HQ. Board representatives participate as observer in the Independent Advisory Team that oversees the new review of the NATO command structure. The Board developed benchmarks for corporate governance against which it will measure progress in future. It also studied the IT environment in a number of important NATO bodies in support of its financial audits. Further internal study work related to the full implementation of TeamMate and the review of the Board's NSIP audit practices. In 2006 the Board used 2.1 staff years (10.7%) on such study work and advice to NATO bodies and committees (1.4 staff years or 8% in 2005).

#### **PERFORMANCE IN 2006**

4.5 One of the goals of the Board's 2005-2009 Strategic Plan is to encourage effective and efficient operations in NATO bodies. Success is measured through the proportion of reports



presenting recommendations and/or options (target 100%) and the percentage of recommendations implemented over a three-year period (target 70%).

4.6 The two performance audit reports issued in 2006 contained recommendations and consequently met the first target. Successful achievement of the second target of 70% implementation will be checked during follow-up audits in autumn 2007 for the NAEW&C performance audit and in early 2008 for the ACO Financial Organisation and Management audit. The Board has adopted the rule that such follow-up audits are scheduled two years after the approval of the audit report, which allows the auditee to take action on the report and the recommendations.

#### **PERFORMANCE AUDITS CARRIED OUT IN 2006**

4.7 In its **Review of the Internal Audit Function** the Board followed up on a previous audit with the aim to evaluate progress made in the various NATO bodies and to update the recommendations as required to take account of the changing role and environment in which the Internal Audit function operates. The Board formulated recommendations to harmonise the mandate of and the standards applied by the different Internal Audit sections in NATO and to improve their organisational status and role in their entities. The report covered issues in relation with the organisation of the audit work including medium term planning and risk analysis, the requirement to remain independent from the work audited, professional development and internal audit coverage in general (more detail in Annex B, para 33).

4.8 The Board's carried out a short and focussed audit on the **Terms of Reference for the Functional Review of the Peacetime Establishment for the new NATO Command Structure**. The Board had previously carried out a survey to determine the feasibility of a performance audit of the NATO command structure reform of 2003. It found, however, that all action from that reform had been stopped and that a new fundamental review of the command structure had been announced in December 2005. In these circumstances, it concluded that little benefit was to be gained from "looking backward", unless the lessons learned could be used in the context of the new review. Given the timeframe, the Board decided to focus on the 2003 functional review Terms of Reference (TOR) and to report its findings in a management letter. The Board concluded from the audit that a broader approach to organisational reform, going beyond manpower requirements; a careful consideration of the review's scope; and a reform and review process that integrates both independent views as well as the interests of stakeholders could contribute to the success of the future review of the NATO Command Structure (more detail in Annex B, para 34).

## CHAPTER 5

### ISSUES OF IMPORTANCE TO THE BOARD

#### INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS IN NATO

5.1 In July 2002 the North Atlantic Council adopted the International Public Sector Accounting Standards (IPSAS), including the accrual and going concern assumptions, as the applicable accounting standards for NATO entities effective from the 2006 financial statements. The Ad Hoc Working Group of Financial Controllers and its subordinate IPSAS Working Group prepares for the transition to IPSAS and 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.

5.2 In December 2006, the working group released the NATO IPSAS Application Manual. The manual compiles the recommendations and conclusions of the working groups and provides practical guidance on the implementation of IPSAS. At the end of 2006, most of the Financial Controllers were well aware of what is expected from their agencies under IPSAS, although several issues were still under discussion at the time this report was prepared (April 2007). Examples are: the direct or indirect method selected for the preparation of the cash flow statement; problems linked with the evaluation and reporting of Inventory; the calculation of accruals at year end, potential incompatibilities with the NATO financial regulations and the reporting of pension and medical insurance liabilities in the financial statements. Additional proposals include the provision of continued NATO IPSAS training and the establishment of a central NATO IPSAS office, illustrating the concerns for continuity and a harmonised approach among NATO financial staff.

5.3 In the Board, a dedicated team follows up on all IPSAS related issues with the working groups, NATO entities and the Board's staff. IPSAS is a recurring topic on the agenda of the monthly staff meetings. The TeamMate audit programs include questionnaires and checklists to assess IPSAS compliance. Auditor training in January 2007 consisted of intensive discussion and exchange of information with finance and accounting staff of the European Commission that introduced IPSAS based accounting in 2005, and with staff of the European Court of Auditors that audited the European Commission accounts in 2006. The Board is prepared for a consistent approach to the audit of the NATO 2006 financial statements.

#### CORPORATE GOVERNANCE IN NATO

5.4 The Board continued its efforts for improving accountability and transparency in NATO. It conducted a survey to obtain preliminary indications of how NATO agencies are implementing key aspects of the "Guidelines for Corporate Governance of NATO Organisations", adopted by Council on 20 September 2005 as a result of the Review of NATO's Agencies. In that survey, and in its review of the Internal Audit function (annex B, Para 33), the Board included the recommendation that these guidelines not be restricted to NATO Production and Logistics Organisations, but made applicable to all other NATO bodies as well.

5.5 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 have issued these letters in 2006, except those that oversee NATO wide activities

with split responsibilities such as the Pension Scheme, where it is not clear of who should provide the assurance requested. The Board is working on this issue with the parties involved, as well as on the timing of the letters. It has also started to develop guidance for its auditors on how to evaluate the content of the management representation letter and the statement on internal control.

## **DELEGATION OF BUDGETARY AUTHORITY TO A SUBORDINATE COMMITTEE**

5.6 On 14 February 2007, Council approved C-M(2007)0010 - Revised Terms of Reference (TOR) for the Senior Resource Board (SRB), the Infrastructure Committee and the Military Budget Committee (MBC). The revision is a result of the NATO Headquarters Reform that comprises a number of initiatives to improve NATO's working practices and business procedures, inter-alia in the area of resource management that was previously dissipated over various committees.

5.7 Some of the proposals introduced significant modifications to budgetary principles of the NATO financial regulations. The Board advised that these proposals warranted a substantial discussion at the appropriate levels and should not be presented as a mere modification of TOR. Subsequent amendments to the draft TOR met most of the Board's concerns, except for the delegation of budget authority that previously was a Council prerogative, to the MBC, a subordinate committee of SRB.

5.8 On 13 February 2007 the Chairman of the Board wrote to Council as follows:

“Until now, the NATO financial regulations reserve budget approval authority for the Council or its equivalent in the NATO Production and logistics organisations. The Board would be concerned if Council were to delegate that authority to MBC, and to replace budget approval with the approval of contribution ceilings for the budget year, as proposed in the TOR.”

The budget is a prerogative of the highest authority, which is not typically delegated to a lower committee – that prerogative is also the reason why the Board's audit reports are addressed to Council.

In connection therewith, I would like to refer to the Guidelines on Corporate Governance, approved by Council in the context of the Review of NATO agencies. These guidelines explicitly confirm the prerogatives and responsibility of the highest authority in an organisation concerning budgetary and financial matters (in the case of NPLOs it is the BoD). I would be surprised if Council would not apply these principles of good governance it has imposed on other NATO bodies, to its own practices and procedures.

5.9 When it approved C-M(2007)0010 on 14 February 2007, Council noted that its prerogatives were maintained as it would set the contribution ceilings and the planning figures in the framework of the Medium Term Resource Plan. It also announced that the new arrangements would be reviewed in two years' time. The Board remains of the opinion that the budget is a prerogative of the highest authority of the organisation. It intends to revisit the issue on the evaluation of the current arrangements.

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

5.10 The question of public access to the Board's reports as a means to increase transparency and accountability has been raised several times in the past in the context of the Board's annual report, by Supreme Audit Institutions (SAIs) and in the Advisory Group of Financial Counsellors (AGFC). When the 2005 annual report was presented in the AGFC on 22 September 2006, the Chairman of the Board recognised that Council's consent would be required and proposed that publication of the Annual Activities Report would be a good first step forward.

5.11 There was a clear consensus in the AGFC on the utility of publishing the annual report. Several nations suggested giving the NATO bodies an opportunity to comment on their respective audit summaries in the annual report, specifically on the confidentiality and commercial sensitivity of the information in view of its public disclosure. The replies were generally positive. Council on 21 February 2007 agreed to the AGFC recommendation that the Board's Annual Activities Report be released to the public, beginning with the 2005 report. An accessible and efficient way of disclosure is dissemination via the Internet. The Board is inquiring on how information on its organisation and the annual reports can best be included in the official NATO web site.

## CHAPTER 6

### MATTERS RELATING TO THE BOARD

#### PERSONNEL MATTERS

6.1 The Board had its full complement of six serving members: Denmark, the Netherlands, Turkey and the United States were represented on the Board for the whole of 2006. France and Poland joined when Norway and the United Kingdom left on 6 January and 31 July 2006.

6.2 In 2006 Council approved two new auditor positions, augmenting the authorised establishment to 21 auditor posts, including one Principal Auditor, two Senior Auditors and 18 Auditors. Three auditors joined and two auditors left the Board in the course of 2006. The vacancies are expected to be filled in late spring 2007. In its recruitment, the Board strives for a proper geographical and gender balance. At the end of 2006, three of the twenty audit staff present and one of the six Board Members were women. Board Members and Auditors come from thirteen nations.

6.3 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

6.4 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, and the staff of the Board. In 2006 the Board implemented the last of the twenty-three recommendations and carried out an internal review of its NSIP audit practices. The working group has completed its report and its conclusions and recommendations have been submitted to the Board for consideration and further action.

#### PERFORMANCE IN 2006 - THE BOARD AS A MODEL AUDIT ORGANISATION

6.5 The fourth goal of the Board's 2005-2009 Strategic Plan aims at promoting the Board as a model international audit organisation. The measure of success is the level of staff satisfaction with the working environment. A survey carried out in 2005 to determine a baseline satisfaction level identified the need for better communication, feedback and training. The results of the 2006 survey showed an overall improvement but also that further work was needed: satisfaction with *feedback* rose from 42% to 71% (target 60%); with *training* from 50% to 58% (target 75%) and with *communication* between Board Members and Auditors from 65% to 70% (target 80%) and between Board Members and support staff from 11% to 75% (target 50%).

#### TRAINING AND PROFESSIONAL DEVELOPMENT

6.6 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.

6.7 During 2006 the Board provided on average about 10 days of training per auditor. The annual common training in January covered IPSAS and accrual accounting and intensive TeamMate workshops with evaluation of the 2005 pilots, training and hands on exercises. Other subjects related to the NATO Document Management System and NSIP. Board Members and auditors attended an information session on the performance audit approach of the European Court of Auditors, and a European Parliament conference on *Modernising Accounting in the Public Sector* and participated in seminars and courses organised by their professional organisations or specialised training institutes.

### TEAMMATE AND THE IMPLEMENTATION OF A RISK-BASED AUDIT APPROACH

6.8 In 2004, the Board purchased the TeamMate software to support its audits. In parallel with the customisation of the software to its working methods, the Board formalised 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 followed a phased approach to implementation, starting with the conversion of the current agency audit programmes in 2006 to full implementation of the risk based approach and customisation for performance audits and NSIP audits in 2007.

### RESOURCE ALLOCATION

6.9 Table 2 shows the use of the Board’s audit resources in 2006 and 2005.

**TABLE 6.1  
ALLOCATION OF AUDIT RESOURCES  
IN STAFF YEARS FOR 2006 and 2005**

	<b>Actual 2006</b>	<b>Actual 2005</b>
NSIP Financial Audits	2.5	2.3
Agency Financial	9.8	9.1
Performance Audits/studies	3.7	3.7
Training	0.9	1.0
Administration <sup>(1)</sup>	0.8	0.9
Board Support <sup>(2)</sup>	2.0	1.0
<b>Sub-total</b>	<b>19.7</b>	<b>18.0</b>
<i>Vacant positions</i>	1.3	1.0
<b>Total Establishment</b>	<b>21.0</b>	<b>19.0</b>

(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 (1.1 staff year) and sick and maternity leave (0.9 staff year).

**DIRECT COST OF THE AUDIT**

6.10 Table 3 shows the allocation of the Board's audit resources and their cost in 2006.

**TABLE 6.2  
DIRECT COST OF THE AUDIT IN 2006**

<b>Activity</b>	<b>Time Allocated (Staff days)</b>	<b>Direct Audit Cost (EUR million)</b>
Agency financial audit	2,094	1.6
NSIP financial audit	522	0.4
Performance audit + Studies	793	0.5
Other (Training, Board Support)	793	0.5
<b>Total</b>	<b>4,202</b>	<b>3.0</b>

6.11 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 3 million, constitutes about 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 2006 generated over EUR 10 million net adjustments in favour of NATO.

**ANNUAL MEETING WITH NATIONAL AUDIT BODIES**

6.12 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 will take these comments into account, as appropriate, when reporting to the Council".

6.13 The 16<sup>th</sup> meeting to discuss the 2005 Annual Activity Report took place on 11<sup>th</sup> May 2006 under the chairmanship of the United Kingdom. Representatives of twenty-four nations participated in the meeting, which was also attended by the Chairman and several national representatives of the AGFC.

6.14 On 21 February 2007, the Board presented its 2005 annual report in Council. The Chairman of the Board introduced the report and summarised the main achievements. She stressed the Board's efforts to close old (pre-1994) NSIP projects and the requirement for all NATO bodies to have IPSAS compliant financial statements in 2006. She requested nations' strong support for the recommendation to publish the Board's Annual Activities Report as a means to enhance transparency and accountability in NATO. Permanent Representatives in the Council expressed strong appreciation for the Board's audit work. They agreed that the Board's annual report be published.

6.15 The AGFC report to Council on the Board's annual report for 2005 (C-M(2007)0009) and the related Action Sheet are attached at Annex F.

**INTERNATIONAL CO-OPERATION**

6.16 In line with Article 14 of its Charter, the Board continued to collaborate with national audit bodies. In 2006, Board representatives participated in a seminar with SAIs – users of the TeamMate audit software in Denmark. Senior officers of the US GAO, the UK NAO and the NL Algemene Rekenkamer visited the Board to discuss audit matters and issues of common interest.

6.17 The Board met with the NATO governing bodies and managers to introduce them to the Board's mandate, activities and concerns. It held NSIP workshops in five of the seven nations which joined NATO in 2004 and carried out first NSIP audits in these nations, resulting in five COFFAs. The Board also briefed representatives from national authorities when they stay with the International NSIP Staff as trainees. Board representatives contributed to a *Network Meeting of Heads of internal audit* of European international organisations.

6.18 The Board attempts through the activities such as described above to stay within the mainstream of the professional audit community. The Board believes that professional contact and interchange with other audit bodies are 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 23 April 2007:



Chairman

Susan S. Westin

(United States)



Board Member

Kai Nybo Nielsen

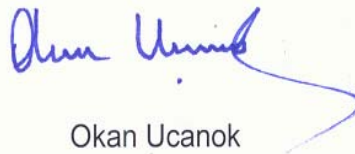
(Denmark)



Board Member

Hans de Groot

(The Netherlands)



Board Member

Okan Ucanok

(Turkey)



Board Member

Hervé Adrien Metzger

(France)



Board Member

Wieslaw Kurzyca

(Poland)

**LIST OF REPORTS  
RESULTING FROM AGENCY AUDITS**

LIST OF REPORTS RESULTING FROM AGENCY AUDITS

Subject	Budget year	Reference of document and date
<b>MILITARY COMMANDS</b>		
1. ACO	2004	IBA-AR(2006)25, 29.09.2006 C-M(2006)0111
2. CAOC 1	2002-2004	IBA-AR(2006)14, 29.09.2006
3. CAOC 2, 2 Detachment & CAOC 4	2003-2005	IBA-AR(2006)12, 29.09.2006
4. CAOC BFWG Secretariat & NR FA	2003-2005	IBA-AR(2006)13, 24.11.2006
5. CAOC Southern Region & Financial Administration	2002-2004	IBA-AR(2005)19, 24.02.2006
6. JAPCC	2005	IBA-AR(2006)15, 08.09.2006
7. NRDC SPAIN	2003-2005	IBA-AR(2006)23, 08.09.2006
8. RFAS	2001-2005	IBA-AR(2006)3, 27.10.2006
<b>NPLOs</b>		
9. NAMSO	2005	IBA-AR(2006)22, 08.09.2006 C-M(2007)0002
10. NETMA	2005	IBA-AR(2006)30, 15.12.2006 C-M(2007)0007
11. NAPMO	2005	IBA-AR(2006)21, 08.09.2006 C-M(2007)0011

LIST OF REPORTS RESULTING FROM AGENCY AUDITS

Subject	Budget year	Reference of document and date
12. CEPMO	2004	IBA-AR(2006)06, 22.05.2006 C-M(2006)0092
13. NC3A	2004	IBA-AR(2006)02, 24.02.2006 C-M(2006)0063
14. NACMO	2005	IBA-AR(2006)33, 15.12.2006
15. NAMEADSMO	2005	IBA-AR(2006)9, 14.07.2006 C-M(2007)0001
16. NHPLO	2004	IBA-AR(2005)37, 24.02.2006 C-M(2006)0100
17. NHPLO	2005	IBA-AR(2006)28, 15.12.2006
18. BICES	2005	IBA-AR(2006)16, 29.09.2006 C-M(2006)0134
19. RTO	2005	IBA-AR(2006)10, 14.07.2006 C-M(2006)0083
<b>CIVIL-MILITARY AGENCIES AND OTHER ORGANISATIONS</b>		
20. IMS Budget Group	2005	IBA-AR(2006)08, 30.06.2006
21. MSIAC	2005	IBA-AR(2006)18, 29.09.2006
22. NDC	2005	IBA-AR(2006)11, 24.09.2006 C-M(2006)0099
23. NATO Provident Fund	2004	IBA-AR(2005)42, 31.03.2006
24. RMCF	2004	IBA-AR(2006)01, 31.03.2006 C-M(2006)0079
25. RMCF	2005	IBA-AR(2006)26, 27.10.2006 C-M(2007)0003

**LIST OF REPORTS RESULTING FROM AGENCY AUDITS**

<b>Subject</b>	<b>Budget year</b>	<b>Reference of document and date</b>
26. NSIP	2003	IBA-AR(2005)25, 24.02.2006 C-M(2006)0027
27. NSIP	2004	IBA-AR(2006)0019, 29.09.2006 C-M(2006)0105
28. Representation Allowances	2005	IBA-AR(2006)20, 29.09.2006
29. AFNORTH International School	2002-2004	IBA-AR(2005)41, 31.03.2006
30. AFNORTH International School	2005	IBA-AR(2005)41, 31.03.2006
31. NAMFI	2005	IBA-AR(2006)29, 15.12.2006
32. NATO Parliamentary Assembly	2005	IBA-AR(2006)05, 22.05.2006
<b>PERFORMANCE AUDITS &amp; SPECIAL STUDIES</b>		
33. Review of the Internal Audit Function		IBA-AR(2006)04, 29.05.2006
34. New Command Structure (Management Letter)		IBA-AML(2006)04

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

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

### **1. Allied Command Operations (ACO) – 2004**

#### **Introduction**

In 2003, the NATO Command Structure was reorganised into Allied Command Operations (ACO) and Allied Command Transformation (ACT). Instead of a geographical distribution of tasks between the major NATO Commands, a functional distribution of tasks was implemented. ACO, which is the successor of ACE, embraces all NATO commands in Europe plus those operational elements that formerly came under the Supreme Allied Command Atlantic (SACLANT). This includes the operation of the NATO Airborne Early Warning & Control System (NAEW&CS). ACT is leading the transformation of the NATO military structures and capabilities to improve the military effectiveness of the Alliance. Commitments in 2004 amounted to EUR 860.9 million. Actual payments were EUR 639.9 million in 2004.

#### **Audit Highlights**

In May 2006, ACO issued a restated version of its 2004 Financial Statements to correct significant errors that had been disclosed in its original 2004 Financial Statements published in May 2005, or that were reported by the Board as a result of its audit work on the original statements.

The Board's audit opinion on the restated 2004 financial statements includes one qualification (by comparison, the 2003 audit opinion included three separate audit qualifications). The qualification results from a scope limitation on all financial transactions of JFC HQ Brunssum, many of which directly relate to JFC HQ Brunssum's accounting responsibilities for NATO's ISAF mission in Afghanistan and are afflicted with significant errors and control weaknesses. For example, it is not clear who is responsible for ISAF accounting and internal control; there is insufficient audit support for commitments carried forward and weaknesses in purchasing and contract management; there is a lack of control over ISAF Nation Borne Costs, inadequate reconciliation control over ISAF cash accounts and a double booking of EUR 0.5 million ISAF expenditure. The command has made a EUR 8.6 million payment without any verification procedures and held excess amounts of cash at the year end.

In June 2006, the Board had already informed the MBC of these observations and the bad state of



internal controls, at a time when the committee needed to take important budgetary decisions on the ISAF operations (special report IBA-A(2006)1009). In response to this special report, the ACO and JFC HQ Brunssum Financial Controllers recognised these weaknesses and prepared an action plan to re-establish a robust system of internal controls. These improvements will take some time to implement.

Other observations relate to the way ACO accounts for foreign currency transactions, which may necessitate a revision of the calculation methodology used by the NAFS accounting system; the signature of a EUR 6.7 million long-term contract for IT support to SFOR without sufficient budgetary coverage or MBC approved contract authority; the insufficient reconciliation of a EUR 42.4 million liability to the NATO Security Investment Programme, at the different ACO sites and at the ACO consolidated level; the incorrect split of the current end-of-year result on the Statement of Financial Performance in an ACO and ACT component; the reporting of NCSA transactions, a separate agency, in the ACO Financial Statements; inadequate NAFS system configuration control resulting in different set-up position at the different sites; diversion of internal audit resources to the financial statement preparation and resulting lack of internal audit activity; lack of segregation of budget and fiscal functions at NHQ Sarajevo during the vacancy of the financial controller position.

- 2. Combined Air Operations Centre 1 (CAOC 1) – 2002-2003-2004**
- 3. Combined Air Operations Centre 2, 2 Det. & 4 (CAOC 2, 2 Det & 4) – 2003-2004-2005**
- 4. Combined Air Operations Centres Budget and Finance Working Group Secretariat & Northern Region Financial Administration (CAOC BFWG Secretariat & NRFA) – 2003-2004-2005**
- 5. Combined Air Operations Centres Southern Region & Financial Administration (CAOCs SR and SRFA) – 2002-2003-2004**

## **Introduction**

The 11 Combined Air Operations Centres (CAOCs) were established to support NATO air operations. They are multi-nationally manned and funded except when deployed for NATO operations. The Financial Controllers of JFC HQ Naples and CC Air HQ Ramstein provide financial administrative support to the CAOCs. The CAOCs Secretariat and the two support units each have their own budget and issue separate financial statements. The CAOCs and their support organisations are subject to cyclical audit in view of their small size in budgetary terms and the lower risk involved.

CAOC 1 is located in Finderup, Denmark and has a peacetime establishment of 66 staff and reported annual expenditure of EUR 0.6 million in 2002, 2003 and 2004.

CAOCs 2, 2 Detachment and 4 are located in Germany, respectively in Kalkar, Ramstein and Messtetten. The annual expenditure during the years audited amounted to approximately EUR 0.7 million for CAOC 2, 0.3 million for CAOC 2 Det. and 0.4 million for CAOC 4.

The CAOCs of the Southern Region are: CAOC 5, CAOC 6, CAOC 7, CAOC 8 and CAOC 10 and are located in Italy, Turkey, Greece, Spain and Portugal. The Southern Region Financial Administrator is based in Regional Headquarters Allied Forces Southern Europe (RHQ AFSOUTH) in Naples, Italy and provides the administrative support and accounting for all the Southern Region CAOCs. Total expenditure of the SR CAOCs amounted to EUR 2.6 million in 2004, 3.0 million in 2003 and 3.3 million in 2002.

Annual expenditure of the CAOCs Secretariat and the Northern Region Financial Administration amounts to approximately EUR 0.1 million each.

## Audit Highlights

The Board issued an unqualified opinion on the CAOC 1 restated Financial Statements of for the years 2002, 2003 and 2004. The restatement followed from the Board's recommendation that the financial statements should be amended to include a balance sheet and re-issued to the nations. The Board also recommended that the command reconcile the financial statement accounts with the accounting records. CAOC 1 subsequently prepared the required reconciliations. The Board also raised a number of minor observations in a separate letter to CAOC 1 management.

The Board issued an unqualified opinion on the CAOC 2, CAOC 2 Detachment and CAOC 4 Financial Statements for the years 2003, 2004 and 2005. The Board raised a number of observations in a separate letter to management on minor issues that did not require action by the supervisory committee.

The Board issued an unqualified opinion on the CAOC BFWG Secretariat and NR Financial Administration Financial Statements for the years 2003, 2004 and 2005. The Board also recommended that the NR Financial Administration urgently complete its analysis of the "Accumulated Contributions" account balance and refund the surplus to the nations.

The Board issued an unqualified opinion on the CAOC 5, 6, 7, 8 and 10 and the SR Financial Administration Financial Statements for the years 2002, 2003 and 2004. The Board noted that the SR Financial Administrator had prepared a new format of the CAOCs SR Financial Statements from 2004 onwards and recommended that this new format be submitted for approval to the CAOCs Budget and Finance Working Group. The Board also formulated a number of minor observations concerning the format and the presentation of the financial statements in a separate letter to management.

## **6. Joint Air Power Competence Centre (JAPCC) - 2005**

### **Introduction**

The Joint Air Power Competence Centre (JAPCC) is a multi-nationally funded command that is responsible for the Joint Air Power Transformation related issues at the strategic level. It may support sponsoring nations as well as NATO-customers and became operational in January 2005. The Memorandum of Understanding was signed by sixteen sponsoring NATO member nations and the Supreme Allied Command Transformation. JAPCC is located in Kalkar (GE) and its expenditure for 2005 amounted to EUR 0.7 million.

### **Audit Highlights**

The Board issued an unqualified opinion on the JAPCC 2005 restated Financial Statements. The restatement followed from the Board recommendation that the financial statements should be corrected to include a balance sheet and be re-issued to the nations. The Board also noted that a commitment of EUR 34,000 had been carried over to 2006 without any supporting legal liability and recommended that the financial regulations be complied with. The Board also issued a separate management letter with a number of minor observations that do not require action by the JAPCC supervisory committee.

## **7. NATO Rapid Deployable Corps Spain (NRDC-SP) – 2003-2004-2005**

### **Introduction**

The HQ NRDC-SP is a multi-national command responsible for establishing and maintaining a rapid deployment capability in support of Council approved operations with a view to conduct defensive, offensive, peace support, humanitarian support and other operations throughout NATO territory. It is part of the NATO Force Structure subordinate to Supreme Headquarters Allied Powers Europe (SHAPE) and is located in Valencia (SP). NRDC-SP was established in 2002 (Council decision PO(2002)140) and the Memorandum of Understanding for the manning, funding and administration of the HQ NRDC-SP was signed in September 2002 by eleven NATO member nations, SHAPE and SACLANT. Two additional NATO member nations joined in 2005. The annual expenditure of NRDC-SP in 2003, 2004 and 2005 amounted to EUR 1.1 million.

### **Audit Highlights**

The Board issued an unqualified opinion on the NRDC-SP restated Financial Statements for the years 2003, 2004 and 2005. The restatement corrected an audit observation related to the format and content of the NRDC-SP's Financial Statements for each of the three years audited.

## **8. Reaction Force Air Staff (RFAS) - 2001-2002-2003-2004 & Closure 2005**

### **Introduction**

The objective of the multi-nationally headquarters RFAS was to develop detailed concepts for, and to plan and co-ordinate the deployment, support and redeployment of the Reaction Forces (Air) units to meet regional contingency requirements in support of the Supreme Allied Commander Europe. The RFAS Memorandum of Understanding made provision for the funding, manning, equipment and infrastructure as well as for the administrative and logistical support to RFAS. RFAS was located in Kalkar (GE) and expenditures in 2002, 2003 and 2004 were EUR 1 million and EUR 0.7 million in 2005. The RFAS Memorandum of Understanding was terminated and all RFAS activities ceased on the formal activation of the Joint Air Power Competence Centre on 1<sup>st</sup> January 2005.

### **Audit Highlights**

The Board issued an unqualified opinion on the RFAS' Financial Statements for the years 2001, 2002, 2003 and 2004 and the subsequent closing of the RFAS accounts in 2005. The Board had no observations.

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

**9. NATO Maintenance and Supply Organisation (NAMSO) – 2005**

**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 the armed forces of the NATO States and to minimise costs. In 2005, the agency's support and services extended to 21 Weapon System Partnerships, 6 Support Conferences, and several Sales Agreements and other partnership or subscription arrangements. NAMSA's activities take place at three main locations: Capellen (Luxemburg) for most of the storage and maintenance works, Rueil-Malmaison (France) for the HAWK Logistics management, and Taranto (Italy) for the Southern Operational Centre. There are approximately 970 permanent staff. The total expenses in 2005 amounted to EUR 680 million.

**Audit Highlights**

The Board issued an unqualified opinion on the NAMSA 2005 financial statements. 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.

In previous audit reports, the Board outlined significant internal control problems at the agency following the implementation of its new information system and the clean up exercise undertaken since 2001 by the agency to identify and correct doubtful balances in various account areas that were the result of accumulated mispostings during the implementation period of that computer system. NAMSA successfully completed that clean up exercise in 2005.

The Board recommended that NAMSA:

- identify differences between the stock book value and the stock reported value of items, and if necessary, recognise these differences through the statement of financial performance. For example, stocks distributed to countries at no cost should be valued as such and recognised as expenses; and
- in order to achieve a better matching of revenue and expenses for individualised activities, include in unbilled sales an estimate of the revenue corresponding to the accrued expenses.

**10. 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) – 2005**

**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 authorised establishment of 305 staff in 2005. Total expenditure in 2005 for the agency and the two programmes amounted to EUR 5,966 million of which EUR 43 million against the administrative budget, EUR 766 million (equivalent) against the NAMMO operational budget and EUR 5,157 million (equivalent) against the NEFMO operational budget.

**Audit Highlights**

The Board issued an unqualified audit opinion on the financial statements of NAMMO, NEFMO and NETMA for 2005.

The Board also noted that the information in the NAMMO Financial Statements on unpaid invoices (GBP 0.1 million) in respect of one nation was not consistent with the figures provided to that nation in other documents (GBP 3.2 million). It also observed that the NAMMO budget figure in the financial statements for another nation was understated by EUR 2.4 million, and recommended that a corrigendum be issued to the financial statements. The Board also observed internal control weaknesses in the NETMA payroll administration and recommended that procedures be put in place to ensure that more than one staff member in the HR section be involved in the data production process. The Board also recommended that the agency disclose in an explanatory note to the annual financial statements the funding arrangements and amounts paid for the replacement of the system.

**11. NATO Airborne Early Warning and Control Programme Management Organisation (NAPMO) – 2005**

**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. The US System Project Office (SPO) administers the main contract with Boeing on behalf of NAPMA. The NAPMA agency has an authorised Peacetime Establishment of 135 personnel and is located in Brunssum (NL). The NAPMA expenditures in 2005 totalled the equivalent of USD 247 million (at August 1997 exchange rates) equalling EUR 206 million at 2005 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, which is contracted to report directly to the US SPO, rather than to NAPMA. The reported value of this work in 2005 was USD 110 million, about 45% of NAPMA's expenditure. Within the confines of this statutory restriction, the Board expressed the opinion that the financial statements of NAPMA are fairly presented and that the underlying transactions are, in all significant respects, in compliance with the budgetary authorisations and applicable regulations.

The Board noted that the agency issued calls for contributions that were in excess of requirements, provided inconsistent information about the overall NAPMA cash requirement and failed to disclose the extent to which the call is to be considered as an advance. The Board recommended that NAPMA:

- abide by its financial regulations and call contributions to restrict currency holdings to the minimum required to meet forecast expenditure;
- issue consistent contribution letters to all nations and not tailor the overall cash requirement figure for the convenience of each nation; and
- ensure that the contribution letters explicitly state which amounts are to be treated as advances.

At factual clearance stage, NAPMA recognised that it is aware of the difference between the current practice and the financial regulations and announced that it would submit for the nations' approval changes to the NAPMA Financial Regulations to bring them in line with the current cash call practices approved by the nations.

## **12. Central Europe Pipeline Management Organisation (CEPMO) - 2004**

### **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, within the guidelines provided by the CEPMO Board of Directors. The National Organisations are established by the Host Nations which include Belgium, France, Germany, The Netherlands and Luxembourg. The United States and Canada are User Nations. The total CEPMO expenditure for 2004 amounted to EUR 94.6 million.

### **Audit Highlights**

The Board issued an unqualified opinion on the CEPMO Financial Statements, including CEPMA and the National Organisations, for the year 2004.

The Board noted the agency's efforts to develop the presentation of the CEPMO Financial Statements and to present proper management representations and a statement on internal control.

The Board recommended that overtime hours be authorised in advance as required by the Civilian Personnel Regulations. One national organisation carried forward credits of EUR 124,400 to 2005 without a legal liability and the Board recommended that the related financial regulations be complied with. In another nation, the Board recommended that the national organisation obtain contract details and supporting documentation relating to all payments made to the national or regional construction offices. In one national organisation, the Board had difficulties to reconcile payroll data in the main accounting system with information in the personnel system that is phasing out. The Board recommended that the national organisation prepare that reconciliation for the 2004 and 2005 years awaiting the integration of a new personnel system in 2006.

The Board also formulated a number of observations with minor financial impact, relating to the purchase of fuel for pumping without a formal contract, the unauthorised transfer of carried forward credits between chapters, a charge for national administrative support that had not been reviewed since its establishment in 1990 and an annual lump sum payment approved in the budget, for which no details are available.

### **13. NATO Consultation, Command and Control Agency (NC3A) - 2004**

#### **Introduction**

The NC3A supports NATO with advice, research and development of consultation, command and control systems. As from 1 January 2000, the NC3A has been operating under a customer-funding regime. Under this 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 2004, NC3A expenditure amounted to EUR 171 million, of which 47% was for NSIP projects, 12% for acquisitions for third parties (100% reimbursable) and 41% 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 the NC3A Financial Statements for 2004, and recommended that the agency, as part of its conversion to the new accounting system:

- carry out a review of its cumulative historical NSIP receivables balances in order to provide the Board with a detailed breakdown of the project service cost receivable figure disclosed in future financial statements;
- analyse the nature of internal receivable and payable balances so that they can be excluded from the 2005 financial statements.



## **14. NATO Air Command and Control System Management Organisation (NACMO) – 2005**

### **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 NACMA 2005 financial statements are presented in a new IPSAS format and provide information about NACMA as a consolidated entity. They also include the Administrative Budget statements and the NSIP statements. The NSIP funded (operational) expenditures of NACMA in 2005 amounted to EUR 75 million. The administrative budget amounted to EUR 16.6 million shared between the MBC (11.4%) and NSIP (78.3%), from direct contributions from nations that acquired the replica software (10.2%) and from a BICES contribution for the support it receives from NACMA (0.1%). In 2005, the agency had an authorised establishment of 114 staff.

### **Audit Highlights**

The Board issued an unqualified opinion on the NACMA 2005 Financial Statements. The Board also audited the expenditure for NSIP projects authorised for NACMA and will issue the Certificates of Final Financial Acceptance for the audited projects for which technical inspections are completed and accepted. The Board had no observations.

## **15. NATO Medium Extended Air Defence System Design and Development, Production and Logistics Management Organisation (NAMEADSMO) - 2005**

### **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 be in service by 2012. NAMEADSMO is based in Huntsville, Alabama, USA and has an authorised staff of 91 (including 49 staff made available by the United States). It monitors the day-to-day implementation of the programme. Operational expenditure in 2005 amounted to equivalent USD 159 million (EUR 132.5 million at year-end 2005 rates)<sup>1</sup>. Expenditure for the Administrative budget totalled USD 5.1 million (EUR 4.2 million).

### **Audit Highlights**

The Board issued an unqualified opinion on the NAMEADSMO 2005 Financial Statements. The Board recommended proper segregation of duties, and that payments by bank transfers should be effected by two signatories, as provided by the agency's Financial Rules and Regulations. The agency has implemented the recommendation.

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<sup>1</sup> The "Equivalent-US Dollar" (EUSD) is the accounting currency of the operational budget of NAMEADSMO. Its exchange rate against the Euro is stated in the MOU between participating nations.

- 16. NATO HAWK Production and Logistics Organisation (NHPLO) – 2004**
- 17. NATO HAWK Production and Logistics Organisation (NHPLO) – 2005**

### **Introduction**

The NATO HAWK Production and Logistics Organisation (NHPLO) was established to provide its member countries with the HAWK weapon system. The executive body is the NATO HAWK Management Office (NHMO). Since 1995, only two countries, France and Italy, are members of the agency. Each of the three remaining operational programmes executed jointly by Italy and France – the Viability Programme, the AN/TSQ-73 Upgrade and Support Programme, and the Logistics Programme – has its own multi-year budget expressed in Euros. NHMO has an authorised establishment of twenty-four staff.

The 2004 operational expenditure was EUR 10.4 million, spread over the Viability Programme (EUR 3 million), the AN/TSQ-73 Upgrade and Support Programme (EUR 0.4 million), and the Logistics Programme (EUR 7 million). The administrative expenditure was EUR 2.9 million.

The 2005 operational expenditure was EUR 6.4 million, spread over the Viability Programme (EUR 0.4 million) and the Logistics Programme (EUR 6 million). The administrative expenditure was EUR 3.3 million.

### **Audit Highlights**

The Board issued an unqualified opinion on the NHMO 2004 Financial Statements. The Board observed some immaterial errors in the administrative budget financial statements and recommended that a corrigendum to the financial statements be issued. It also recommended that the agency submit a letter of management representation and a statement on internal control. The Board also formulated a number of minor observations relating to management and accounting in a separate management letter. The Board is satisfied with the action taken by the agency.

The Board issued an unqualified opinion on the NHMO 2005 Financial Statements. The Board observed some errors in the administrative budget financial statements and recommended that a corrigendum to the financial statements be issued. It also noted that the agency had prepared a management representation letter for 2005 and recommended that the agency submit a statement on internal control. The consolidation of loans between budgets revealed errors and abnormal balances that need to be corrected before preparing the 2006 consolidated balance sheet. The Board also recommended that the agency ensure that the entitlement to allowance forms be duly completed and verified in order to allow correct calculation of the household allowance.

- 18. NATO Battlefield Information Collection and Exploitation Systems (BICES) – 2005**

### **Introduction**

The Battlefield Information Collection and Exploitation Systems (BICES) Organisation was established in 1999 with the objective of sharing and exchanging information and intelligence between and among the participants, NATO, and other nations and organisations, through the use of interoperable ADP-based national and NATO intelligence support systems. The BICES Board of Directors is composed of representatives of each of the 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 expenditure for 2005 amounted to EUR 2.2 million. The cumulative authorizations for the

ongoing Operational Enhancement Projects as of 31 December 2005 were EUR 4.1 million, of which EUR 0.9 million was spent in 2005. Expenditure for self-funded projects (formerly called third-party procurement) were EUR 0.5 million in 2005.

### **Audit Highlights**

The Board issued an unqualified opinion on the BICES 2005 Financial Statements and recommended that, in the future, transfers between Operational Enhancement Projects, regroupings and current year expenditure against these projects be adequately disclosed in the financial statements.

The Board also followed up on its 2004 observation that the collection of funds for Operational Enhancement projects substantially exceeded expenditure needs and is not in accordance with the NATO Financial Regulations. BICES made a request to the Council for a deviation from the financial regulations, to eliminate the link binding the collection of funds for Operational Enhancement projects to the anticipated expenditures in the coming year. The Advisory Group of Financial Counsellors recommended that Council do not grant this deviation and invite the agency to take steps to amend the next BICES Memorandum of Understanding to deal with this situation. BICES subsequently decided not to proceed with the requested amendment and that it would seek to change the financing system in the next Memorandum of Understanding since, in current circumstances, the matter was not considered material and would not constitute a qualified opinion in future audits.

## **19. Research and Technology Organisation (RTO) – 2005**

### **Introduction**

The NATO Research & Technology Organisation (RTO) is a NATO subsidiary body created within the framework of the North Atlantic Treaty. 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 by MBC and CBC. The total 2005 payments of RTA (MBC + CBC funded) amounted to EUR 5.8 million (EUR 5.1 million in 2004).

### **Audit Highlights**

The Board issued an unqualified opinion on the RTO 2005 Financial Statements. The Board had previously qualified the RTO 2001 accounts because they did not include the CBC funded activities. Since then, RTA provides 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 also noted that one observation of previous years had been settled and that appropriate action is under way for the two other outstanding observations.

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

**20. International Military Staff (IMS) – NATO Standardisation Agency (NSA) – IMS Group Partnership for Peace (PfP) – Mediterranean Dialogue – 2005**

**Introduction**

The IMS supports the Military Committee. It is tasked with ensuring that the policies and decisions of the MC are implemented as directed. The IMS also prepares plans, initiates studies and recommends policies on matters of a military nature. IMS centralises PfP Activities for all the agencies funded under the IMS budget group (IMS, NSA, NDC, RTA) and NC3A. It also centralises MD activities of IMS and NDC together with the Allied Command Operations and Allied Command Transformation. The payments in 2005 for IMS, NSA, PfP and MD were respectively EUR 18.2 million, 2.2 million, 1 million and 0.5 million (respectively EUR 16.1, 2.1, 1 and 0.5 million in 2004).

**Audit Highlights**

The Board issued an unqualified opinion on the IMS, NSA, PfP and MD 2005 Financial Statements. The Board had no new observations and noted that one observation from previous years had been satisfactorily resolved and that the appropriate action had been taken to deal with the two remaining open issues.

**21. Munitions Safety Information Analysis Centre (MSIAC) – 2005**

**Introduction**

The MSIAC provides a focal point within NATO to assist national and NATO Munitions development and logistics programmes in efficiently and expeditiously addressing the problems associated with achieving Munitions Safety. Twelve nations of which 3 are non-NATO participate to MSIAC. The MSIAC project is directed and administered by a Steering Committee and a Project Manager. It is located at the NATO headquarters in Brussels and the NATO IS Financial Controller provides the accounting services. In 2005, the staff was composed of 9 persons. The MSIAC payments in 2005 were EUR 1.1 million (EUR 1.3 million in 2004).

**Audit Highlights**

The Board issued an unqualified opinion on the MSIAC 2005 Financial Statements. The Board observed that the MSIAC Statement of Financial Performance reported comparative figures for operational costs and operational revenue that were not consistent with other information in the 2004 statements. Following the audit, MSIAC issued a corrigendum to correct these inconsistencies. Concerning an explanatory note in the 2005 financial statements, explaining that the expenditure figures reported are commitments because the financial software does not allow full accrual accounting, the Board recommended that MSIAC continue in its efforts towards being IPSAS compliant.

## **22. NATO Defence College (NDC) – 2005**

### **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 2005 amounted to EUR 5.5 million (EUR 5.4 million in 2004).

### **Audit Highlights**

The Board issued an unqualified opinion on the NDC Financial Statements for 2005. The Board recommended that transactions against budgets delegated to NDC in the context of Partnership for Peace or Mediterranean Dialogue and against reimbursable budgets should be fully disclosed in the financial statements, and that the issue of disclosure of these transactions be brought before the IPSAS working group to achieve a common approach in the various NATO bodies. The Board also noted that the NDC cash at year end were reduced by EUR 0.6 million (16%) compared to 2004 and recommended that the possibility of achieving a further reduction should be investigated. The Board also followed up on previous years' observation and noted that appropriate action is being taken to resolve the three outstanding issues.

## **23. Provident Fund – 2004**

### **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 the basic salary from members and 14% from NATO) using the services of an investment banker. ACO Treasury carried out the day to day accounting of the Fund and transferred that responsibility to the International Staff starting as from 2005. The value of the Fund's assets at 31 December 2004 was 114 million EUR (119 million in 2003). As at 31 December 2004, there were 308 members contributing to the Fund, (359 members in 2003).

### **Audit Highlights**

The Board issued an unqualified opinion on the Provident Fund 2004 restated Financial Statements. That restatement was required to correct a number of material errors, omissions and minor discrepancies in the Statement of Financial Position, the Income and Expenditure Account, the Summary of Accruals and in the annexes to the financial statements that detail the Bonds Portfolio and the Bonds Sold and Bought in 2004. The Board also noted that the one outstanding observation had been satisfactorily resolved in 2004.

- 24. Retirees Medical Claims Fund – 2004**
- 25. Retirees Medical Claims Fund – 2005**

### **Introduction**

Qualifying NATO retirees are permanently entitled to the reimbursement of certain medical expenses. The reimbursements are provided via private medical insurance. The Retirees Medical Claims Fund (RMCF) was established in 2001 as a reserve to finance future medical insurance premiums for NATO retirees who reached the age of 65 after 1 January 2001. The fund is managed by a private investment company, Fortis Investment Management. Each month, the fund receives an amount equal to 4.5% of the salaries of serving staff. In addition, some retirees are required to make a contribution. Two-thirds of these amounts are paid by NATO bodies; one-third is deducted from salaries or pensions. The fund has a Supervisory Committee which oversees the management of the fund.

In 2004, the receipts from agencies and staff into the fund were some EUR 16.44 million and the insurance premiums paid out of the fund were EUR 2.58 million. At the end of 2004 the fund manager held EUR 58.6 million on behalf on NATO.

In 2005, the receipts from agencies and staff were some EUR 17.15 million and the insurance premiums paid out these receipts were EUR 3.86 million. At the end of 2005 the fund manager held EUR 77 million on behalf of NATO.

### **Audit Highlights**

The Board issued an unqualified opinion on the RMCF 2004 restated Financial Statements. The restatement was required to disclose the EUR 58.6 million assets of the fund that were not included in the initial version of the statements. The Board recommended that the RMCF issue a management representation letter and a statement on internal control. It also recommended that the Office of the Financial Control undertake periodic and timely reconciliations between receipts and payments and the balances held at in the transitional bank accounts. The Board also followed up the status of the eight issues raised in the previous audit, which covered the first three years of the RMCF, from 2001 to 2003. Six of these issues could be considered closed and appropriate action is being taken on the two remaining outstanding issues.

The Board issued an unqualified opinion on the 2005 financial statements of the RMCF and had no observations. It also noted that all outstanding issues from previous years had been resolved.

- 26. NATO Security Investment Programme (NSIP) – 2003**
- 27. NATO Security Investment Programme (NSIP) – 2004**

### **Introduction**

The NSIP is a key element of NATO common funding. The NSIP provides an established mechanism for implementing capital investments in response to identified operational requirements. It finances the provision of capabilities recognised as exceeding the national defence requirements of individual member nations. The NSIP is implemented under the supervision and management of the Infrastructure Committee within annual contribution ceilings approved by the North Atlantic Council. The Security Investment Directorate provides technical and administrative support to the

programme. Cash outflows of the programme, consisting of expenditure reported by host nations were EUR 653 million in 2004 and EUR 679 million in 2003.

The 2003 financial statements are the first annual statements issued by the programme and the first time the Board issues an audit opinion on the annual NSIP Financial Statements. The initiative to prepare annual NSIP Financial Statements was started by management as a result of its participation in the Working Group on NATO Accounting Standards. Management has prepared these 2003 statements as much as possible, based upon formats that comply with International Public Sector Accounting Standards (IPSAS), even though the deadline for full compliance with these standards is not until the end of 2006. Although the NSIP Financial Statements should not be described as complying with IPSAS, it is clear that they represent important progress in that overall direction.

### **Audit Highlights**

The Board's audit reports on 2003 and 2004 include a scope limitation. The scope limitation occurs only because the Board cannot finally audit expenditure on NSIP projects until projects are technically inspected and financially completed. The Board's NSIP audits occur on a project-by-project basis; often many years after the nations have incurred and reported the project expenditure in the semi-annual financial reports that provide the information for the preparation of the annual financial statements. Consequently, there is an unavoidable time lag between the audit of the financial statements that are based upon current expenditure for the projects, and the final audit determinations as to what constitutes eligible project expenditure, after completion and technical inspections and acceptance of the individual project. Although the audit assurance arrives at two very different times, the Board is satisfied that the combined effect of the two audit processes will be comprehensive.

Within the context of this scope limitation, the Board's audits of the NSIP 2003 and 2004 Financial Statements did not identify any material accounting errors or omissions.

With regard to the NSIP 2003 Financial Statements, the Board observed administrative errors with respect to the application of revised cost shares that were subsequently corrected. The Board also noted incomplete recording of miscellaneous income earned by NC3A and other NATO bodies acting as NSIP host nations and recommended that disclosure should be added to better explain details of reimbursable balances between MBC budgets and NSIP.

In its audit of the NSIP 2004 Financial Statements, the Board reiterated the latter two observations on the incomplete recording of miscellaneous income earned by NATO bodies acting as NSIP host nations and that disclosure should be added to better explain details of reimbursable balances between MBC budgets and NSIP.

## **28. Representation Allowances - 2005**

### **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 total 2005 allowances amounted to EUR 0.2 million.

## **Audit Highlights**

The Board found that for 2005, most of the recipients of the allowance complied with the accountability requirements. In a number of cases, recipients spent less than the allowance received. Such underspends are to be reimbursed in accordance with the Secretary General's instructions. The Board further found instances of poor documentation or unauthorised use of the funds and recommended that the administration clarify the rules in those respects, and that all recipients use the standard reporting form.

### **29. AFNORTH International School – 2002-2003-2004**

### **30. AFNORTH International School – 2005**

## **Introduction**

The AFNORTH International School (Brunssum, NL) provides schooling for the children of staff from Canada, Germany, the United Kingdom and the United States who work at the Joint Force Command Headquarters in Brunssum and at other military bases in Belgium, Germany and the Netherlands. Each nation finances and audits its own education unit. The School's General Services are financed by the four participating nations on the basis of the student population. The Board's audit mandate only covers the General Services unit. The financial year is the school year, which extends from 1 August to 31 July. For the years audited, the average of the General Service's budget was around EUR 3.9 million. As of 1 June 2005 the School had 1,194 students.

## **Audit Highlights**

The Board formulated a disclaimer of opinion on the AFNORTH School's Financial Statements for the years ended 31 July 2002, 2003 and 2004 because the accounting records of the School for these years were inadequate and no reliable financial statements were available. Because of the significance of these matters, the Board has not expressed an audit opinion on the financial statements of the School for the school years ended 31 July 2002, 2003 and 2004.

The Board issued an unqualified audit opinion on the financial statements of the School for the school year ended 31 July 2005, as corrected during the audit. The financial statements needed to be restated because they did not meet the minimum reporting requirements of the NATO Financial Regulations with regard to commitments carried forward, extra-budgetary transactions (e.g. tuition income), contributions called and received, and other assets and liabilities. The lack of this information made any calculation of the surplus doubtful.

Although for the previous school years ended 31 July 2002, 2003 and 2004 the Board has not been able to carry out all the audit procedures it would have wished to do, it has nevertheless carried out reasonable alternative procedures to obtain sufficient evidence that the opening balances related to the school year ended 31 July 2005 were, in all material respects, fairly presented.

The Board recommended that the School:

- establish formal closure procedures at the end of each school year;
- prepare a comprehensive budget that includes all predictable transactions necessary to operate and maintain the School improve transparency of the funding by abandoning the practice of case-by-case budgeting;
- establish proper commitment and commitment control procedures.



The Board also followed up on previous years' observations and noted that four issues had been settled. The Board is satisfied with the action taken on the two remaining outstanding observations.

### **31. NATO Missile Firing Installation (NAMFI) - 2005**

#### **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 2005 there were four User Nations: Belgium, Germany, Greece and the Netherlands. They are represented in the User Nations Committee (UNAC). Greece is also host nation for NATO funded infrastructure. Other nations use the NAMFI installations on a cost reimbursable basis. NAMFI is located in Greece, on the island of Crete. Its expenditure for 2005 amounted to EUR 13.2 million including expenditure for the target services contract of EUR 2.7 million (respectively EUR 13 million and 3.1 million in 2004).

#### **Audit Highlights**

The Board issued an unqualified audit opinion on the NAMFI 2005 Financial Statements. It recommended that UNAC consider delegating to the Financial Controller the authority to make transfers between budget chapters, which would simplify budget management and the budgetary revision process. The Board also followed up on six observations unresolved from previous year's audits and found that all of these observations have now been settled.

### **32. NATO Parliamentary Assembly (NATO PA) - 2004**

#### **Introduction**

Since 1955, the 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, 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. NATO PA is independent of NATO and the Board carries out the audit with the authorisation of Council. It has a staff of 30 employees. The NATO PA 2005 budget expenditure amounted to EUR 3.6 million (EUR 3.3 million in 2004). The assets of the NATO PA Provident Fund as at 31 December 2005 amounted to EUR 3.9 million (EUR 3.3 million in 2004).

#### **Audit Highlights**

The Board issued unqualified opinions on the financial statements of the NATO PA and the NATO PA Provident Fund for 2005. The Board formulated two minor observations in a separate letter to NATO PA management. All outstanding issues are settled, except for the need to reassess the requirement for and levels of the NATO PA reserve accounts. The related rules have been amended in 2006 and will be followed up on during the 2006 financial statements audit.

## **PERFORMANCE AUDITS AND SPECIAL STUDIES**

### **33. Review of the Internal Audit Function**

#### **Introduction**

In 2005, the Board followed up on a previous review in 1996 of the Internal Audit function in NATO. The purpose of the review was to evaluate progress made in the various NATO bodies and to update the recommendations as appropriate, taking account of the changing role and environment in which the Internal Audit function operates. The Board's review was carried out in December 2005.

#### **Audit Highlights**

The Review covered the role and mandate of the Internal Audit function; the auditing standards used; the function's organisational status within the NATO body; issues in relation with audit planning and reporting and professional proficiency and audit coverage.

The Board found that:

- There is no common charter for the Internal Audit function in NATO and no common definition of its attributes, mission and scope of work, or of the access rights and level of independence required. Only one organisation has formally adopted internal auditing standards.
- In nearly all cases, internal audit is able to have direct access to senior management. However, very few entities have created an audit committee or combined their internal audit into a single audit group.
- All NATO bodies prepare an annual audit plan but very seldom integrate it in a longer term perspective. Risk assessment, although a standard requirement of the Internal Audit function, is still not a wide spread practice.
- In 2005, one fourth of the internal audit staff was assigned to operational tasks. That practice puts at risk the internal auditor's independence.
- The NATO guidelines for corporate governance only apply to NPLOs. Implementing these guidelines also in the IS and the military commands would confirm NATO's commitment to the principles of corporate governance and promote a common conception of the internal audit function in NATO.

The Board recommended that:

- NATO should develop a common core internal audit mandate for all NATO organisations and adopt the Standards of the Institute of internal auditors as the common standards to be applied within NATO.
- Direct and permanent access to senior management should be granted to internal auditors. NATO entities should establish an audit committee that is independent from management and that has functional responsibility for internal audit.

- Internal auditors should be involved in the identification, evaluation, and improvement of risk management and control systems.
- Independence is an essential attribute and internal auditors should not be assigned responsibility for duties that they may subsequently have to audit.
- Council should consider extending the application of the Guidelines for Corporate Governance to the IS and the military commands. These guidelines contain very specific provisions on the Internal Audit function

### **34. Management Letter on the Terms of Reference for the Functional Review of the Peacetime Establishment for the new NATO Command Structure**

#### **Introduction**

The new NATO Command Structure (NCS), approved in 2003, marked a very important development in the Alliance's military organisation. Since then, the results of the associated review of the NCS manpower requirements have remained at the centre of attention. With the NCS Full Operational Capability planned for 30 June 2006, the next review of these requirements is already being scheduled. The Board intended to find out whether any lessons could be learned from a performance audit of the 2003 functional review Terms of Reference (TOR). Given the timeframe of the new NCS review, the Board carried out a short and focussed audit, reported as a management letter.

#### **Audit Highlights**

The Board found that several factors limited the usefulness of the TOR for the 2003 functional review of the peacetime establishments for the new NATO Command Structure. Most importantly, the TOR were developed before critical policy guidance was finalised, concerning either the proposed new NATO military command structure or the review's priorities. Key parameters, assumptions, and constraints for the review were therefore not always consistent or accurate, and the time for actual analysis became very short. As a result, the 2003 review focussed more on producing manpower figures than on the other, more qualitative, objectives, related to efficiency improvements.

The Board recommended that the TOR for a future review should clearly specify the applicable policy guidance, whose internal consistency should be validated. They should identify SMART objectives and performance indicators, as well as the level of financial and staff resources needed. Achievement of objectives and use of resources should be reported and potential risks to the successful achievement of the project's objectives or deliverables should be identified and documented. The Board concluded that a broader approach to organisational reform, going beyond manpower requirements; a careful consideration of the review's scope; and a reform and review process that integrates both independent views as well as the interests of stakeholders could contribute to the success of the future review of the NATO Command Structure.

**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 AND OPERATIONS**

### **Annual**

ACO Consolidated<sup>1</sup>

- ACO Treasury
  - SHAPE
  - Joint HQ Lisbon
  - JFC HQ Brunssum
  - JFC HQ Naples
  - CC-Air HQ Ramstein
  - CC-Land HQ Heidelberg
  - CC-Air HQ Izmir
  - CC-Land HQ Madrid
  - CC HQ Northwood (incl. MEWSG)
  - CRO (incl. BAM, JFC, KFOR, NHQSa, ISAF, NTMI, AMIS, PA relief)
  - E-3A Component
  - NAEW FC
  - NPC Glons
- (+ associated budgets not linked to a specific location)

ACT consolidated

- SACT HQ
  - JFTC Bydgoszcz
  - NURC La Spezia
  - JALLC Monsanto
  - JWC Stavanger
- (+ associated programme budgets)

### **Cyclical**

ARRC  
JAPCC  
CAOCS (11 commands)  
CIMIC Group North  
CIMIC Group South  
NRDC (5 commands)

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<sup>1</sup> 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.

## 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 (incl. NCISS)  
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  
MSIAC  
AFNORTH School  
SHAPE School  
AGS3

FINANCIAL AUDIT COVERAGE FOR AUDITED ENTITIES

		Last Audit		Next Audit	
		Done in year	Covering year(s)	To be done in year	Covering year(s)
<b>MILITARY COMMANDS</b>					
1.	ACO Group	2006	2005	2007	2006
2.	ACT Group	2006	2005	2007	2006
3.	ARRC	2004	2000/01/02/03	2007	2004/05/06
4.	JAPCC	2006	2005	2009	2006/07/08
5.	CAOCs (3 sites out of 11)	2006	2003/04/05	2007	2004/05/06
6.	Cimic (1 site out of 2)	2006	2004/05	2007	2004/05/06
7.	NRDC	2006	2003/04/05	2007	2004/05/06
<b>NPLOs</b>					
1.	NAMSO	2006	2005	2007	2006
2.	NETMA	2006	2005	2007	2006
3.	NAPMO	2006	2005	2007	2006
4.	NHMO	2006	2005	2007	2006
5.	CEPS	2006	2005	2007	2006
6.	NC3A	2006	2005	2007	2006
7.	NACMO	2006	2005	2007	2006
8.	NAHEMO	2006	2005	2007	2006
9.	NAMEADSMO	2006	2005	2007	2006
10.	BICES	2006	2005	2007	2006
11.	RTO	2006	2005	2007	2006
12.	NSA <sup>1</sup>	2006	2005	2007	2006
13.	NCSA	2006	2005	2007	2006
14.	NAGSMO	-	-	2007	2006
15.	ALTBMDPMO	-	-	2007	2006

<sup>1</sup> The audit is combined with the audit of the IMS which prepares the consolidated IMS-NSA Financial Statements.

FINANCIAL AUDIT COVERAGE FOR AUDITED ENTITIES

		Last Audit		Next Audit	
		Done in year	Covering year(s)	To be done in year	Covering year(s)
<b>MILITARY, CIVILIAN AND OTHER BODIES</b>					
1.	IS	2006	2005	2007	2006
2.	NATO HQ Adaptation	2006	2005	2007	2006
3.	IMS	2006	2005	2007	2006
4.	NAMFI	2006	2005	2007	2006
5.	Provident Fund	2006	2005	2007	2006
6.	Pension Scheme Group	2006	2005	2007	2006
7.	New Pension Scheme	-	-	2007	2006
8.	Retirees Med. Claims Fund	2006	2005	2007	2006
9.	Representation Allowance	2006	2005	2007	2006
10.	NDC	2006	2005	2007	2006
11.	FORACS	2005	2000/01/02/03/04	2008	2005/06/07
12.	MSIAC	2006	2005	2007	2006
13.	AFNORTH School	2006	2002/03/04/05	2009	2006/07/08
14.	SHAPE School	2004	2001/02/03	2007	2004/05/06
15.	AGS3	2006	2004/05	2007	2006
16.	NPA	2006	2005	2007	2006



**AUDIT UNIVERSE AND DIRECT COST**  
**OF THE AUDIT IN 2006**

### AUDIT UNIVERSE AND DIRECT COST OF THE AUDIT IN 2006

BODIES	Audit Universe in 2006 Million EUR (1)	Auditor Time (days) (2)	Salary + Travel Cost 2006 EUR (3)
<b>AGENCY FINANCIAL</b>			
ACO Group (incl. PSO)	725.3	494.4	362,945
ACT Group	112.0	120.4	106,382
ARRC	3.3	3.3	2,123
JAPCC	1.0	20.9	16,415
CAOCs - 11 commands	6.3	75.3	57,451
CIMICs - 2 commands	1.7	34.1	25,448
NRDCs - 4 commands	7.6	43.9	34,463
ALTBMDPO	0.9	7.4	4,761
BICES	3.5	17.9	12,183
CEPMO	98.1	140.6	106,549
NACMO	91.6	47.7	30,690
NAHEMO	579.0	38.6	30,479
NAMEADSMO	243.3	31.4	28,918
NAMMO-NEFMO-NETMA	6,402.0	136.8	120,476
NAMSO	624.0	122.4	93,330
NAPMO	206.0	77.1	58,506
NC3A	184.7	136.4	91,539
NCSA		14.2	9,136
NHMO	9.8	34.5	28,492
RTO	6.8	14.1	11,904
AFNORTH SCHOOL	4.1	12.5	8,733
AGS3	0.3	24.6	15,828
FORACS	0.9	5.1	3,281
IMS (Incl. NSA, PfP, MD)	26.1	21.7	13,962
IS (Incl. Moscow Centre)	164.0	98.2	70,766
IS New HQ	9.5	39.5	25,414
MSIAC	1.5	7.3	4,697
NAMFI	13.8	47.7	38,288
NDC	5.6	24.2	19,890
NEW PENSION	1.0	-	0
NPA (c)	4.0	23.3	18,686
NSIP Financial Statements		29.4	18,916
PENSION SCHEME	84.6	57.3	36,867
PROVIDENT FUND (a)	23.7	38.6	25,335
REP. ALLOWANCE	0.2	8.1	5,212
RMCF (b)	21.0	45.0	28,953
SHAPE SCHOOL	3.8	-	0
<b>Subtotal</b>	<b>9,671.0</b>	<b>2,093.9</b>	<b>1,567,021.2</b>

**AUDIT UNIVERSE AND DIRECT COST OF THE AUDIT IN 2006**

<b>BODIES</b>	<b>Audit Universe in 2006 Million EUR (1)</b>	<b>Auditor Time (days) (2)</b>	<b>Salary + Travel Cost 2006 EUR (3)</b>
<b>NSIP FINANCIAL</b>			
Annual File Review		187.4	120,574
BELGIUM	12.5	6.0	3,860
CANADA	1.3	6.4	5,235
CEPMO	4.6	12.2	7,850
CZECH REPUBLIC	7.1	8.1	7,935
DENMARK	4.4	9.7	7,938
FRANCE	5.8		0
GERMANY	44.5	54.8	47,952
GREECE	27.6	6.0	7,011
ITALY	9.4	8.1	10,446
LITHUANIA	9.4	2.0	1,287
LUXEMBURG	6.3	6.0	4,669
NACMO	75.8	17.5	11,260
NAMSO	13.7	3.1	1,995
NC3A	90.2	29.1	18,723
NORWAY	19.0	21.8	17,828
POLAND	13.4	32.0	32,866
ROMANIA	-	2.0	1,287
SACT	0.2		0
SHAPE	16.2	13.2	8,493
THE NETHERLANDS	0.8		0
TURKEY	85.5	20.4	18,251
UNITED KINGDOM	123.9	59.2	52,773
UNITED STATES	42.2	16.9	17,268
<b>Subtotal</b>	<b>613.8</b>	<b>521.9</b>	<b>405,498.4</b>
<b>PERFORMANCE AUDITS</b>			
ACO Fin. Man.		3.0	1,930
Command Structure		152.2	97,926
Development of proposals		69.9	44,974
Internal Audit		10.6	6,820
Logistics of Deployed Ops		64.3	41,371
NC3A Customer Funding		41.4	26,637
<b>Subtotal</b>		<b>341.4</b>	<b>219,658.1</b>
<b>STUDIES</b>			
Audit Manual		6.4	4,118
Corp. Governance Benchmark		63.0	40,534
IPSAS		105.5	73,834
MIS (NC3A, ACO, NETMA)		82.0	55,766
NSIP Review		19.4	12,482
TeamMate		166.8	109,281
Various (TORs SRB, FC pos.)		8.0	5,147
<b>Subtotal</b>		<b>451.1</b>	<b>301,162.4</b>
<b>BOARD</b>		418.7	283,777.2
<b>ADMINISTRATION</b>		180.8	116,327
<b>TRAINING</b>		194.0	125,680

**GENERAL TOTAL**                      **10,284.8**                      **4,201.8**

Column (1): Represents the budget authorised in 2005, audited in 2006 in the case of Agencies, or the NSIP amounts presented for audit during 2005 by the nations.

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 527,265 and the salaries and allowances of Board Members that are a national charge.

Footnotes:

(a) Not including EUR 98 million assets spread over 263 individual members' accounts.

(b) Not including EUR 77.0 million assets of the investment fund.

(c) Not including EUR 3.9 million assets of the 30 members of the NPA Provident Fund.

## LIST OF ABBREVIATIONS

ACE	Allied Command Europe
ACO	Allied Command Operations
ACLANT	Allied Command Atlantic
ACT	Allied Command Transformation
AFNORTH	Allied Forces, Northern Europe
AGFC	Advisory Group of Financial Counsellors
ALTBMDPMO	Active Layered Theatre Ballistic Missile Defence Programme Management Organisation
AMIS	African Union Mission in Sudan
ARRC	Allied 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
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
EUR	Euro
FORACS	NATO Naval Forces Sensor and Weapons Accuracy Check Sites
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
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
MOU	Memorandum of Understanding
MSIAC	Munitions Safety Information Analysis Centre
MYR	Mid-year review
NAFS	NATO Automated Financial System
NACMA	NATO ACCS Management Agency
NACMO	NATO ACCS Management Organisation
NAEW&C	NATO Airborne Early Warning and Control

NAEW&CS	NATO Airborne Early Warning and Control System
NAGSMO	NATO Alliance Ground Surveillance Management Organisation
NAHEMO	NATO Helicopter Design & Development Production and Logistics Management Organisation
NAMEADSMA	NATO Medium Extended Air Defence System Design and Development, Production and Logistics Management Agency
NAMEADSMO	NATO Medium Extended Air Defence System Design and Development, Production and Logistics Management Organisation
NAMFI	NATO Missile Firing Installation
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
NC3A	NATO Consultation, Command and Control Agency
NCSA	NATO CIS Services Agency
NDC	NATO Defence College
NEFMO	NATO European Fighter Aircraft Development, Production and Logistics Management Organisation
NETMA	NATO Euro Fighter 2000 and Tornado Development Production and Logistics Management Agency
NFR	NATO Financial Regulations
NHMO	NATO HAWK Management Office
NHQSa	NATO HQ Sarajevo
NATO PA	NATO Parliamentary Assembly
NPC	NATO Programming Centre
NPLO	NATO Production and Logistics Organization
NRDC	NATO Rapid Deployment Corps
NRFA	Northern Region Financial Administration
NSA	NATO Standardization Agency
NSIP	NATO Security Investment Programme
NTM-I	NATO Training Mission Iraq
PfP	Partnership for Peace
PSO	Peace Support Operations
RFAS	Reaction Force Air Staff
RMCF	Retirees Medical Claims Fund
RTA	Research and Technology Agency
RTO	Research and Technology Organisation
SACLANT	Supreme Allied Commander Atlantic
SAIs	Supreme Audit Institutions
SHAPE	Supreme Headquarters Allied Powers Europe
SPO	System Project Office
SRB	Senior Resource Board
UNAC	User Nations Committee
USD	United States Dollar