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INTERNATIONAL BOARD OF AUDITORS FOR NATO

ANNUAL ACTIVITIES REPORT

FOR 2009

EXECUTIVE SUMMARY

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 twenty-one 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 and Investment Programme (NSIP). During 2009 the Board audited approximately EUR 11.5 billion, of which over EUR 11 billion relates to NATO agencies and commands, and almost EUR 0.4 billion to NSIP expenditures.

On 17 July 2002, the Council adopted the accruals based International Public Sector Accounting Standards (IPSAS) as the applicable accounting standards for all NATO entities effective for the fiscal year 2006. The Board can report that progress has continued into the third year of IPSAS implementation. Both the number of audit qualifications and the restatement of financial statements have decreased compared with 2006. In 2009, the Board issued 32 financial audit reports which comprised fifty-one Auditor's Opinions on the accounts of NATO bodies and associated organisations. Forty-six of these accounts received unqualified audit opinions, including three accounts that were corrected and re-issued. The Board issued three qualified audit opinions and two disclaimer of audit opinions on the financial statements of four entities, of which all related to compliance with IPSAS. Starting in 2011 NATO entities will be required to recognise Property, Plant and Equipment in accordance with IPSAS 17 and further action is required to prepare for that important deadline.

Regarding NSIP, the Board audited expenditure totalling EUR 415 million. It issued 265 Certificates of Final Financial Acceptance with a total value of EUR 682 million (including amounts audited in previous years). About 500 completed projects authorised between 1979 and 1994 are still not closed. The Board is actively monitoring the application of the procedures agreed with a view to the accelerated closure of the slice programme.

The Board undertook both performance audits and studies in 2009. It completed the performance audits on the Management of the NSIP and on the NATO Logistics for Deployed Operations. It also completed follow-up audits of the performance audit of the NATO Early Warning and control system and also on Allied Command Operations Financial Management. The Board finalised fieldwork for the performance audit of the Prevention of Corruption and Fraud in NATO. It started performance audits on Objective Based Budgeting in NATO and also on Real Life Support at Kandahar, Afghanistan.

The Board continued to formulate strong reserves against the successive attempts to weaken the financial control function in the military commands. It also noted increasing audit tasks related to multi-national entities for which in future the cost will need to be recovered from these audited entities.

The Board provides in this annual report detailed information on the size of the budgets and expenditure audited, the staff allocated as well as the direct cost of these audits in 2009.

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CHAPTER 1

INTRODUCTION

BACKGROUND

1.1 This report to the Council has been prepared in accordance with Article 17 of the Charter of the 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 the 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 the Council and shall neither seek nor receive instructions from other authorities than the Council.

1.3 The primary function of the Board is to enable the Council and, through their Permanent Representatives, the Governments of member countries to satisfy themselves that the common funds have been properly used for the settlement of authorised expenditure. The Board's mandate also includes checking that the 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 and Investment Programme (NSIP) expenditure and also carries out performance audits. The Board's audit scope in 2009 covered EUR 11.5 billion, of which more than EUR 11 billion related to financial statements audits and approximately EUR 0.4 billion related to NSIP audits.

1.5 The accounts of NATO bodies may be expressed in several different currencies. To help readers, and to provide 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 the NSIP, encouraging effective and efficient operations in NATO and promoting the Board as a model international audit organisation. The Board pursued these goals in 2009, based upon the priorities and specific targets and measures of success set out in its 2009 Annual Performance Plan. This annual report provides for each of the goals a brief summary of the achievements in 2009. At the end of 2009, the Board approved its new Strategic Plan for 2010-2014.

MAIN ISSUES IN THIS REPORT

International Public Sector Accounting Standards in NATO (IPSAS)

1.7 On 17 July 2002, the Council adopted the accruals based International Public Sector Accounting Standards (IPSAS) as the applicable accounting standards for all NATO entities effective for the fiscal year 2006. Progress has continued into the third full year of IPSAS implementation. Both the number of audit qualifications and the restatement of financial statements have decreased in comparison with 2006. In general, improvements have been noted in the application of the accruals basis of accounting to expenses. In addition, improvements have been made to the consistency of footnote disclosures through the use of more standard disclosures of accounting policies.

1.8 Several areas for further improvement continue to be better cooperation between NATO entities that interact with each other in order to ensure that timely and accurate information is being reported between the entities, the measurement and presentation of inventories, consistency in the application of IPSAS, and more useful entity specific footnote disclosures. In addition, the expiration of the 5 year transition period for the recording of Property, Plant and Equipment is approaching (to be reported in the 2011 financial statements) and work continues to be needed in this area (paras 2.1 – 2.9).

Review of the Internal Audit Function

1.9 In its Review of the Internal Audit Function the Board formulated recommendations to harmonise the mandate and the standards for the Internal Audit function in NATO and to improve their functioning, organisational status and role in their entities, relying to a great extent on governance principles approved by the Council for NATO Production and Logistics Organisations (NPLOs). The Council, acting on recommendation of the Advisory Group of Financial Counsellors (AGFC), generally supported these recommendations (paras 2.10 – 2.13).

The Position of the Financial Controller in the Military Commands

1.10 Consistent with advice provided in the past on the same issue, the Board has continued to formulate strong reserves against Initial State Peacetime Establishment proposals that would result in weakening the financial control function in the Military Commands. In line with the NATO Financial Regulations (NFR) the Financial Controller should respond directly to the Supreme Commander and have full organisational independence from other important functions in the Headquarters (paras 2.14 – 2.15).

External Audit of Multi-national Entities and Reimbursement of the Cost of the Audit

1.11 In its report to the Council, the AGFC (AGFC-D(2009)0001 (INV)) agreed that the Board carry out the external audit of multi-national entities on a full cost recovery basis as from 2012 and that the Civil Budget Committee is the committee that should address the Board's resource problems in this respect. The Board noted that these and other additional

tasks will have an impact on its resources and on its responsibilities in the field of NSIP and performance auditing (paras 2.16 – 2.20).

Management Weaknesses in NSIP

1.12 The Board's performance audit of NSIP management raised several areas of concern to the Board. These included the following: financial implications of military requirements do not appear clearly and uncertain planning data can vary substantially over time; weaknesses in the baseline definition and the accountability mechanisms impeded the effectiveness of NSIP performance measurement; the lack of project prioritisation and planning is a cause for concern in the Alliance Operations and Missions (AOM) area; and the fact that the acceptance phase was considered as a low priority in the NSIP cycle.

Publication of the Board's Reports

1.13 The Board's Annual Activities Report 2005 through 2008 and the Audit Report of the NATO Security Investment Programme for 2006 through 2008 are available on the NATO web site (paras 2.23 – 2.24).

Agency Financial Audits

1.14 In 2009, the Board issued thirty-two financial audit reports and fifty-one 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 unqualified opinions on forty-six financial statements including three that were restated. It issued three qualified opinions on the financial statements of NATO Maintenance and Supply Agency (NAMSA) 2008, NATO CIS Services Agency (NCSA) 2007, NATO HAWK Management Office (NHMO) 2008, and disclaimers of opinion on the financial statements of the International Staff (IS) for 2007 and 2008. Most of the qualifications and restatements of accounts related to IPSAS compliance issues and lack of audit evidence (paras 3.13 - 3.24).

NATO Security Investment Programme

1.15 The Board audited the expenditure presented by the nations and agencies in 2009 which totalled EUR 415 million compared to EUR 759 million in 2008. It issued 265 Certificates of Final Financial Acceptance (COFFAs) with a total value of EUR 682 million, compared to 597 COFFAs for EUR 948 million in 2008. The net credit to NATO resulting from the audit in 2009 was almost EUR 11 million. In 2004, the Infrastructure Committee (IC) agreed to the Accelerated Joint Formal Acceptance Process for the accelerated closure of a number of projects authorised between 1979 and 1994. In 2008 it reached agreement on an Enhanced Accelerated Joint Formal Acceptance and Inspection (JFAI) Procedure applicable to Slices 21 to 45. At the end of 2009, about 500 completed NSIP projects, authorised between 1979 and 1994, were either not yet technically inspected, not presented for audit, or not closed for other reasons, such as outstanding audit observations. The Board continues to actively monitor the application of the accelerated closure procedures (paras 4.1 – 4.11).

Performance Audits and Studies

1.16 The Board undertook both performance audits and studies in 2009. It completed the performance audits on the Management of the NSIP, NATO Logistics for Deployed Operations, follow-up of the performance audit of the NATO Early Warning and Control System, and follow-up of ACO Financial Management. It completed fieldwork for the performance audit on the Prevention of Corruption and Fraud, and began two new performance audits. One on Objective Based Budgeting in NATO and one on the Real Life Support Services Contract at Kandahar, Afghanistan. The Board provided advice and support to the NATO Committees in relation to the financial regulations, internal audit, and took action to improve its own efficiency and working methods (paras 5.1 – 5.7).

Matters relating to the Board

1.17 The Board had its full complement of six serving Members for the whole of 2009. Since 2006 the Board has an authorised establishment of twenty-one auditors. As from 1 January, 2010, the auditor establishment was increased to twenty-two auditors. The auditor vacancy rate in 2009 was almost two staff years. At the end of 2009, five of the nineteen audit staff present were women. The Board Members and Auditors came from thirteen nations. The Auditors came from eleven nations (paras 6.1 – 6.3).

1.18 The publication of the Board's reports is an opportunity to improve its external visibility (para 6.4).

1.19 In 2009 the Board successfully implemented a pilot risk based audit at NAMSA, with the assistance of a consultant. The Board evaluated the results of the pilot project and decided to extend the methodology to two new entities for 2010 (paras 6.5 – 6.6).

1.20 The Board formulated and approved its new Strategic Plan for the period 2010-2014. The Strategic Plan for 2010-2014 provides information on the Board's vision, mission statement, and three core values: Independence, integrity, and professionalism. In addition, the Strategic Plan details the Board's four strategic goals, their objectives and strategies to achieve them, and related clarifications and implementing guidelines (para 6.8).

1.21 The Board plans on an average of two weeks' training for each auditor. In 2009 each auditor received on average 10 days of training. Common training included topics related to integrated risk assessment methodology, audit sampling/flowcharting, IT risks and controls, fraud auditing techniques. Individual auditors also participated in seminars organised by their professional organisations and institutions (paras 6.8 and 6.9).

1.22 The Board provides in this annual report detailed information on the size of the budgets and expenditure audited, the staff allocated as well as on the direct cost of these audits in 2009 (paras 6.10 – 6.12).

1.23 The Competent National Audit Bodies (CNABs) met on 12 May 2009 to discuss the Board's 2008 Annual Activities Report. The Board presented that report to the Council on 22 July 2009. The Board continued to develop its contacts with the professional audit community (paras 6.13– 6.17).

CHAPTER 2

ISSUES OF ACCOUNTABILITY AND GOVERNANCE IMPORTANT TO THE BOARD

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS IN NATO

Introduction

2.1 On 17 July 2002, the Council adopted the accruals based IPSAS as the applicable accounting standards for all NATO entities effective for the fiscal year 2006. The Ad Hoc Working Group of Financial Controllers prepared the transition to IPSAS and acts as a continuing forum where NATO entities can share knowledge and experience as well as working to ensure the consistent and coordinated application of IPSAS. The Board participates in these meetings and supports a consistent and coordinated approach to the full and compliant application of the IPSAS standards.

2.2 In its 2008 Annual Activities Report, the Board reported that NATO entities had achieved significant progress in improving the consistency and transparency of their financial reporting, despite a large number of audit qualifications and restatements of financial statements due to non-compliance with IPSAS. That progress has continued with the financial statements of 2008, the third year of IPSAS implementation.

2.3 The Board continues to believe that the adoption and implementation of IPSAS has greatly increased the consistency and transparency of financial reporting within NATO. While further progress is needed, this will ultimately lead to improvements in the oversight and accountability within NATO. Additionally, NATO will be in a better position to be able to demonstrate this accountability to the taxpayers of the NATO member states.

Results of Audit Reports Issued in 2009

2.4 The results of our audits of the 2008 financial statements indicate that both the number of audit qualifications and the restatement of financial statements, while still elevated, have decreased in comparison with 2006, the first year of IPSAS implementation. The results show that 8% of the 2008 financial statements were restated (compared with 35% in 2007) as a result of our audits and that another 14% of the 2008 financial statements received negative (qualified or disclaimer) audit opinions due to non-compliance with the IPSAS standards (compared to 17% in 2007). Without the restatements, approximately 22% of the financial statements would have been qualified in 2008 (compared to 52% in 2007). The results, while demonstrating that improvements have been made, also show that further progress is still necessary.

2.5 The Board applied its policy in which, if certain conditions were met, the Board would issue its audit opinion based on the restated financial statements. The Board extended such flexibility as a practical way to address the continued transition to IPSAS. In 2008, three entities took advantage of this policy, resulting in the restatement of three different financial statements (compared to eight in 2007). In all such cases where audits have been finalised as of the date of this report, the restated financial statements received unqualified audit opinions.

2.6 In general, improvements have been noted in the application of the accruals basis of accounting for expenses. In addition, improvements have been made to the consistency of footnote disclosures through the use by most entities of more standard disclosures of accounting policies.

2.7 Areas needing continued further improvement, while not exhaustive, include:

- The cooperation between NATO entities that interact with each other in order to ensure that timely and accurate information is being reported between the entities, particularly in the areas of expenses incurred against advances received from another NATO entity and inventories managed by one entity on behalf of another NATO entity;
- Consistency of accounting treatments and presentations, such as the timing and extent of revenue recognition and the related impact on the presentation of unearned revenues versus net assets/equity, the presentation of the direct versus the indirect method of the Cash Flow Statement, and the presentation of reimbursable activities and delegated budgets;
- A lack of attention to some of the more detailed requirements of IPSAS, particularly in relation to the adequacy of footnote disclosures, which can significantly reduce the usefulness of the financial statements;
- Compliance with the requirements of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates, and Errors*, in regards to the proper presentation of the correction of material prior period errors identified in the current year.

2.8 Importantly, the expiration of the five year transition period provided for in IPSAS 17, *Property, Plant and Equipment*, is quickly approaching. The inclusion of Property, Plant and Equipment (PP&E) is required for the 2011 financial statements, for which it is also necessary to determine the opening balances as of 1 January 2011. This is less than a year away. It is clear to the Board that NATO entities have not fully taken advantage of the five-year transition period. Much work, including the identification of assets to be reported and the valuing of such assets, continues to be needed in this area.

2.9 There has been much questioning and second-guessing of the need to implement IPSAS 17, *Property, Plant and Equipment*, within the NATO entities and committees. This has created an environment of uncertainty and, in the Board's opinion, has contributed to the entities not having taken full advantage of the five year transition period. If this uncertainty continues, the implementation of IPSAS 17, *Property, Plant and Equipment*, will not be successful.

Conclusion

2.10 The primary objective of IPSAS implementation "was to harmonise accounting standards and reporting formalities across NATO, taking into account the Alliance's heterogeneous structure."¹ The Board recognises the continuing efforts being made by the NATO entities to improve the application of IPSAS within their entities and the results of our audits of the 2008 and 2007 financial statements show a continual trend of improvement.

¹ PO(2002)109, dated 23 July 2002, Establishment of NATO Accounting Standards.

2.11 However, the results also demonstrate that much still needs to be done, including focusing efforts on the implementation of IPSAS 17, *Property, Plant and Equipment*, in 2011, on improving consistency of accounting treatments, and on improving the footnote disclosures so as to provide more useful and relevant information to the Nations. In regards to the environment of uncertainty caused by the questioning and second-guessing of the implementation of IPSAS 17, *Property, Plant and Equipment*, within NATO entities and committees, the Board believes that it is only the Council that can remove any uncertainties that are hampering the efforts to properly implement the standard. As a result of these areas in need of further improvement, it is the Board's opinion that the potential benefits of IPSAS are not yet being fully realised.

REVIEW OF THE INTERNAL AUDIT FUNCTION

2.12 In 2005, the Board followed-up on a previous review undertaken 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 formulated the following recommendations:

- The adoption of a common core internal audit mandate;
- Compliance with generally accepted internal auditing standards;
- Granting the possibility of direct access to senior management, also in military commands and the IS, where internal control is a financial control responsibility;
- The establishment of audit committees comprising selected nations representatives reinforced by high level executives from NATO;
- The avoidance of overlapping executive and internal audit functions; and
- The extension of the Council Guidelines of Corporate Governance for NPLOs to the International Staff and the military commands.

2.13 On behalf of the Council, the AGFC reviewed the Board's report in 2009 and finalised its report to the Council in late 2009 which noted support for a strong internal audit function in NATO. In general, the Council supported the Board's recommendations, with the exception of the establishment of audit committees. The Council decided that individual NATO bodies should have the flexibility to decide on whether or not to create audit committees.

2.14 As a result of this follow-up, the Board has been tasked by the Council to prepare a report for January 2011 on the status of implementation of these recommendations in all NATO entities.

THE POSITION OF THE FINANCIAL CONTROLLER IN THE MILITARY COMMANDS

2.15 Articles 21-25 of the NATO Financial Regulations and the related implementing measures define the responsibilities of the Financial Controller. The regulations grant him the organisational status and independence required to set up and manage a system of budgetary and financial control on behalf of the Supreme Commander and makes him personally accountable for financial anomalies.

2.16 On several occasions in the past² the Board has, and continues to do so, formulated strong reservations against military command structure proposals that make an artificial distinction between the Financial Controller as advisor with direct access to the Supreme Commander and as head of the J8 function reporting to Deputy Chief of Staff Support/Resources (DCOS) (the so-called “dotted line” or “twin hat” arrangement). The Board’s concern regarding that arrangement is that DCOS Support/Resources is an important budget holder who is subject to the Financial Controller’s mandate. This means that the Financial Controller is supposed to apply control over a supervisor, a situation which creates a conflict of interest. It is clear to the Board that the Financial Controller should be placed at the organisational level that allows him/her to interact directly at an equal level with other senior officers responsible for the main Headquarters functions. In the Board’s view, however, the proposed arrangements weaken the Financial Controller’s position at a time when their position should be strengthened.

EXTERNAL AUDIT OF THE MULTI-NATIONAL ENTITIES AND REIMBURSEMENT OF THE COST OF THE AUDIT

2.17 Over the past five years multi-national entities have requested audit services from the Board. The Board’s mandate does not normally cover such entities and explicit Council agreement is therefore required. Several nations in the Council raised issues for further discussion in the AGFC, namely that:

- The cost of the audit needed to be reimbursed by the multi-national entities;
- A discussion needed to be initiated about the role of IBAN and its contribution to the administrative reform of the Alliance; and
- IBAN should shoulder these additional tasks within its current staff and resources without burdening the civil budget.

2.18 The Board stated in the AGFC it was already auditing almost thirty multi-national entities, some of them since the early sixties and that it could accept additional entities subject to Council consent. It also stated that it had the cost information available, but that charging for the audit would not directly address the impact of such audits on the Board’s resources as the return from the audit would flow back to the nations as miscellaneous income. While the overall impact of such audits is relatively small³, the resource implications need to be addressed, in particular if the Board is to conduct more performance audits.

² Statement by the Chairman of the International Board of Auditors in the MBC meeting of 26 January 2005 subsequently brought under the attention of the Council as attachment to C-M(2005)0027 of 27 March 2005; Statement by the Chairman of the International Board of Auditors for NATO in the Military Committee on 19 July 2005 and by the Principal Auditor 30 July 2009; and letters by the Chairman of 13 December 2005 and 17 March 2009 to the Chairman Military Budget Committee, and 19 June 2009 to the Director, IMS, reiterating the position of the Board with regard to the alignment of the Financial Controllers in the military commands.

³ An audit cost of approximately EUR 186,000 in 2009, covering 192 staff days plus travel.

2.19 The AGFC recognised that multi-nationally funded entities have an operational linkage with NATO, but also that common funds should not be used on non common-funded activities and that the Civil Budget Committee is the appropriate committee to address the resource issues for the audit.

2.20 In its report to Council, the AGFC agreed (AGFC-D(2009)0001 (INV)) that the Board should carry out the external audit of multi-national entities on a full cost recovery basis, subject to the implementation of appropriate transition measures for pre-existing arrangements and that full cost recovery would start in January 2012. The Board is preparing for the implementation of this decision and has informed all such entities of the decision.

2.21 In the meantime, new multi-national entities are being established and new audit responsibilities have been created for the Board. These new tasks will have an impact on the Board's resources and affect its capability to carry out other responsibilities in the field of NSIP and particularly performance auditing. The Board intends, in the first place, to meet these challenges through increased efficiency in the NSIP and financial audits, but it cannot exclude requests for additional resources in the future given the interest of the Nations for the Board to conduct more performance audits.

MANAGEMENT WEAKNESSES IN THE NSIP

2.22 The Board's performance audit of NSIP management raised several areas of concern to the Board. These included the following:

- In the absence of direct traceability of the life cycle costs of NSIP projects, the growing interaction between the NSIP and the Military Budget is not clear, even though the impact of operation and maintenance on the military budgets is an increasing source of concern NATO-wide. As a result, financial implications of military requirements do not appear clearly and uncertain planning data can vary substantially over time;
- Weaknesses in the baseline definition and the accountability mechanisms impeded the effectiveness of NSIP performance measurement. The definition of targets are not always agreed with the entity responsible to meet them and the lack of a sound baseline against which to measure project progress limit the effectiveness of the monitoring;
- The lack of project prioritisation and planning is a potential cause for concern in the Alliance Operations and Missions (AOM) area. Improvements are necessary for operational as well as financial reasons. The financial pressures in NSIP will undoubtedly impact AOM projects in the coming years. So far, efforts that have been made to forecast AOM projects are hindered by the absence of resource estimations. The future weight of AOM projects in the NSIP, but also the overall financial pressure on military common funds, are not accurately known;
- The acceptance phase was considered as a low priority in the NSIP cycle. As a result, as at September 2009, more than 1,500 completed projects were not yet accepted.

PUBLICATION OF THE BOARD'S REPORTS

2.23 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 AGFC. Following a recommendation by the AGFC formulated during its review of the Board's 2005 annual report, the Council on 21 February 2007 agreed to the publication of the annual reports beginning with the 2005 report. Similarly, on recommendation of the Infrastructure Committee, the Council agreed on 12 October 2007 that the annual reports on the audit of NSIP may be released to the public, beginning with the 2006 report.

2.24 The Board's Annual Activities Report 2005 through 2008 and the Audit Report of the NATO Security Investment Programme for 2006 through 2008 are available on the NATO web site (<http://www.nato.int/issues/iban>).

CHAPTER 3

AGENCY FINANCIAL AUDITS

BACKGROUND

3.1 The Board audits civilian and military headquarters and other entities established pursuant to the North Atlantic Treaty. The Board also audits other activities or operations in which NATO has a particular interest such as the multi-nationally funded Commands and the NATO Parliamentary Assembly. The Board refers to all these audits as agency audits. In 2009 there were more than 80 such agencies that come under the Board's mandate. They include 47 military headquarters (HQ) of which 24 HQ are common funded by a NATO budget and 23 HQ are multi-nationally funded by the participating nations; 15 NATO Production and Logistics Organisations (NPLOs) plus 4 national divisions attached to these NPLOs with a budget approved by their respective finance committees or governing bodies; and 16 military, civilian and other bodies of which 4 entities have a multi-national status. The audited entities are listed in Annex C. These bodies are funded through the civil and military budgets approved by the Council, budgets approved by the governing bodies of NPLOs, or budgets approved by the nations participating in a multinational entity or activity. Some NATO bodies also implement NSIP projects and receive funding from that programme. The Board is also mandated to audit non-appropriated funds covering morale and welfare activities for NATO staff. In 2009, the agency accounts to be audited by the Board amounted to more than EUR 11 billion (see details in Annex D to this report).

3.2 NATO bodies have a varying degree of autonomy in managing their operations. All NATO bodies are subject to the NFR that are approved by the Council and that provide a high level financial and budgetary framework. These NFR also apply to most of the multinational entities via an explicit provision in their memoranda of understanding.

3.3 Although some entities group or consolidate financial information at varying levels, there is no NATO-wide financial reporting. The result is that in many cases the financial statements of the different NATO bodies are not homogeneous and difficult to compare. The implementation of IPSAS in the NATO funded entities, with effect from the 2006 financial statements, is an opportunity to harmonise and improve accounting and financial reporting.

AUDIT MANDATE

3.4 According to the Board's Charter, the primary function of the Board is, by its audit, to enable the Council and, through their Permanent Representatives, the Governments of member countries to satisfy themselves that common funds have been properly used for the settlement of authorised expenditure. The Board is responsible for checking that expenditure incurred by NATO bodies is within the physical and financial authorisations granted and that it is in compliance with applicable rules and regulations. The Board provides a similar assurance to the participating nations and the governing bodies of the multinational entities. The Board's financial audits result in an audit opinion issued in accordance with the NFR and international standards on auditing on the financial statements of NATO bodies. The Board's audits in 2009 generally covered the 2008

financial year, but in some cases also the 2007 financial year if there were delays in the publication of financial statements or processing of the Board's reports.

PERFORMANCE IN 2009

3.5 One of the goals of the Board's 2005-2009 Strategic Plan aims at strengthening financial management in the NATO bodies. The Annual Performance Plan for 2009 identified two criteria to measure successful achievement: (1) timeliness of the audit reports for high risk entities and (2) the number of recommendations implemented within three years of issuance of a report.

3.6 The target for the first objective (timeliness) was to have 100% of the high risk audits to be submitted for Board approval by the end of the calendar year. The Board approved audit reports for six of the nine entities identified as high risk (78% of the target). The reasons for not achieving this target are mostly external: audits scheduled late in the year, requests for extension of report clearance, and incorrect or incomplete financial statements requiring additional audit visits. The Board's audit work was also affected by the late publication of financial statements (six of the nine entities), often in connection with IPSAS related issues.

3.7 The Board achieved its second target of 80% of the recommendations implemented, within a three-year period of the audit report date. Of the 52 observations formulated in 2006, 46 observations (88%) were settled by 2009.

AUDIT METHODOLOGY AND CONDUCT OF AUDITS

3.8 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 into the TeamMate audit software.

3.9 Audits are conducted on the agency site by auditors, under the supervision 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. The 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. Eleven entities were not scheduled for audit in calendar year 2009 and will be audited over the next two years. They represent a value of about EUR 20 million in annual budgets, which is less than 0.5% of the Board's audit scope for 2009.

ALLOCATION OF RESOURCES

3.10 The Board is responsible for the audit of over 80 different agencies and commands, some of which consolidate their accounts. Amounts audited range from less than EUR 0.5 million to over EUR 5 billion. The Board also audits the expenditure of over 30 NSIP host nations (NATO bodies and nations), with an audited scope of EUR 415 million in 2009.

3.11 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, or why the audit effort is not necessarily proportional to the size of the entities' activities.

3.12 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 2009

3.13 In 2009, the Board issued thirty-two financial audit reports comprising fifty-one Auditor's Opinions on the accounts of more than sixty NATO bodies and assimilated organisations, using 11 staff years (57% of the authorised auditor establishment). In several cases the audit reports covered several entities, several sets of financial statements or several financial years.

3.14 Table 3.1 below summarises the amounts audited and resources used for the three types of agency audits during 2009 and 2008.

TABLE 3.1
AGENCY EXPENDITURE AND AUDIT EFFORT (2009-2008)

| | Audit Scope (EUR Million) | | Audit Effort In staff years | | Audited per Staff year (EUR Million) | |
|----------------------|------------------------------|--------------|--------------------------------|-------------|---|------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| NPLOs | 9,541 | 7,989 | 5.7 | 5.2 | 1,674 | 1,536 |
| Commands | 1,059 | 1,019 | 3.3 | 3.4 | 325 | 300 |
| Civ. & Mil. Agencies | 543 | 606 | 2.0 | 2.3 | 272 | 263 |
| Global Average | 11,143 | 9,614 | 11.0 | 10.9 | 1,017 | 882 |

3.15 Resources allocated to agency financial audits increased from 10.9 to 11 staff years in 2009. 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

3.16 In 2009 the Board issued fifty-one Auditor's Opinions comprising 46 unqualified opinions, including three accounts that were restated. The Board issued three qualified opinions on the financial statements of NAMSA 2008, NCSA 2007, and NHMO 2008. The Board issued disclaimers of audit opinion on the financial statements of the IS for 2007 and 2008. Most of the qualifications, disclaimers, and restatements of accounts related to IPSAS compliance issues. An explanatory note on the different types of audit opinions is provided on page 3 of Annex B.

3.17 This section provides a summary of the modified opinions issued in 2009. It follows up on previous modified opinions as required.

3.18 **Qualified opinion on the NAMSA 2008 accounts.** The Board issued a qualified opinion based upon the following IPSAS related observations: NAMSA did not retroactively correct a material prior period error related to stock depreciation and also systematically understated accrued expenses. (see Annex B para 8).

3.19 **Qualified opinion on the NCSA 2007 accounts.** The Board issued a qualified opinion based upon the following IPSAS related observations: expense recognition related to NAMSA delegated budgets is based upon cash and not accrual expenses, and the value of Communication and Information System inventories managed by NCSA on behalf of itself or other NATO entities is not known or reported.(see Annex B para 12).

3.20 **Qualified opinion on the NHMO 2008 accounts.** The Board issued a qualified opinion based upon the following IPSAS related observations: receivables were overstated, the cash flow statement was overstated, and provisions for liabilities were not properly recorded (see Annex B para 16).

3.21 **Disclaimer of opinion on the IS 2007 and 2008 accounts.** The Board issued disclaimers of opinion because the Board was unable to confirm that expenses in the

Statement of Financial Performance and the related payables in the Statement of Financial Position were properly recorded in accordance with the accrual basis of accounting due to limitations in the accounting system used by the IS (see Annex B paras 20 and 21).

FOLLOW-UP ON PRIOR YEARS' QUALIFIED OPINIONS

3.22 In 2008 the Board issued six qualified opinions on ACO 2007, ACT 2007, ARRC 2006, NAPMO 2007, NCSA 2006, and AGS3 2006. In 2009, NCSA 2007 received a qualified audit opinion. At the time this annual report was prepared (March 2010), no update information was available for the ACO 2008 or NAPMO 2008 accounts as the audit reports were not yet finalised.

CHAPTER 4

NATO SECURITY INVESTMENT PROGRAMME AUDITS

BACKGROUND

4.1 The Annual Activities Report gives a brief outline of the Board's activities and concerns in respect of the NSIP. Under Article 17 of its Charter, the Board also prepares a separate report to the 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 2009 has been reported by nations and NATO agencies.

4.2 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. The Council made some major changes to the Programme in 1994 and renamed it the NATO Security Investment Programme. The Programme is overseen by the IC.

OBJECTIVES OF THE NSIP AUDITS

4.3 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.

AMOUNTS AUDITED AND CERTIFIED IN 2009

4.4 The Board audited the expenditure presented for audit by the nations and agencies in 2009. It conducted twenty audit missions in nine nations, two agencies and one strategic command. These audits covered expenditure amounting to EUR 415 million, compared to EUR 759 million in 2008. The Board issued 265 COFFAs with a total value of EUR 682 million, compared to 597 COFFAs for EUR 948 million in 2008. As a result of the audit of NSIP projects in 2009, the net credit in favour of the NSIP was almost EUR 11 million.

PERFORMANCE IN 2009

4.5 In 2009, the Board spent 1.8 staff years (9% of the authorised auditor establishment) on the audit of NSIP. The Board also performed a major performance audit on the management of the NSIP (see para 5.7). The Board continued implementing its 2005-2009 Strategic Plan. One of its goals is to improve accountability in the NSIP. In its Annual Performance Plan, the Board developed measures of success and set targets for 2009. One target was to increase the percentage of the certified portion for nations by 1%. The realised figure will be commented upon in the Board's 2009 report on the audit of the NSIP. A second target of auditing at least EUR 375 million in territorial host nations was not met. The third target, to issue 500 Certificates of Final Financial Acceptance, was also

not met. In general, these performance measures were dependent on factors outside of the Board's control, in particular the backlog of projects requiring a technical inspection and final acceptance report and also the reliance on territorial host nations to present projects for audit. As a result, the Board revised its performance measures related to NSIP for 2010.

THE BOARD'S 2008 NSIP REPORT

4.6 The Board issued its report on the 2008 audit of NSIP on 30th October 2009. The report contained a number of comments and proposals directed towards improving the accountability and transparency of the programme. The IC discussed the report in March 2010 and the report will be issued to Council.

ACCELERATED CLOSE-OUT OF THE SLICE PROGRAMME

4.7 In 2004, the IC agreed the proposals for an Accelerated Joint Formal Acceptance Process, aiming at the acceptance into – and the deletion from - the NATO inventory of whole groups of projects, without on-site inspection. It also agreed, in principle, that all projects qualifying under this process also automatically qualify for a lump sum conversion of the relating existing fund authorisations. This process was applicable to projects with a financial value of less than EUR 500,000.

4.8 In 2008, the IC reached agreement on an Enhanced Accelerated JFAI Procedure, applicable to Slices 21 to 45. The aim was to expedite the financial closure of projects, by means of an extension of the existing procedures to an additional group of projects, namely projects with a value from EUR 500,000 to EUR 2 million, and by new procedures for higher value projects, namely projects with a value above EUR 2 million to EUR 10 million. For these projects the JFAI reports are based on the authorised quantities, which may vary by up to 10 percent from the authorised figure within the limits of the authorised amount.

4.9 At the close of 2009, about 500 completed NSIP projects, authorised between 1979 and 1994, were either not yet technically inspected, not presented for audit, or not closed for other reasons, such as outstanding audit observations. In 2009, no projects were closed as a result of these accelerated procedures.

4.10 The Board continues to actively monitor, and advocate for, the application of the agreed procedures with a view to the accelerated closure of the Slice Programme.

CHAPTER 5

PERFORMANCE AUDITS AND STUDIES

INTRODUCTION

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

BACKGROUND

Performance audits

5.2 The Board is committed to carry out at least one substantial performance audit per year, complemented by a number of small scale studies in which limited performance aspects are covered. To support 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 Board Members and financial auditors in the identification of potential topics in the agencies audited by them. The Board also decided to enhance its performance audit capabilities by increasing the resources dedicated to performance audits, by recruiting staff with performance audit background and providing ad-hoc performance audit training to existing staff, and investigating the possibility of involving SAI experts in certain phases of conducted performance audits. The Board has also developed a TeamMate module for performance audits that incorporates the related procedures.

5.3 In 2009 the Board spent 2.4 staff years on performance audits, corresponding to 13% of its resources (compared to 2.2 staff years or 11% in 2008), despite a vacancy rate of almost two staff years. It carried out a performance audit on the Management of the NSIP and finalised the performance audit of NATO Logistics Support for Deployed Operations. The Board also finalised the follow-up audits on previous performance audits on the NAEW&C Programme and on the ACO Financial Organisation and Management. In addition, the Board completed field work for a NATO-wide performance audit on fraud prevention and detection and produced a Management Letter in its regular financial audit studies on procurement and contracting activities in NC3A. The Board began work on performance audits on the Implementation of Objective Based Budgeting and on Real Life Support at Kandahar, Afghanistan. These two audits will be conducted and finalised in 2010.

Studies

5.4 As in the past, the Board responded to requests for advice from NATO bodies and committees. It was involved in meetings and workshops related to the implementation of IPSAS. It advised NATO committees on audit, finance and governance related issues. As in the previous year, this included the ongoing issues of charging for the audit of multi-nationally funded entities, initiatives to enhance the internal audit function NATO-wide, and

questions relating to the position and independence of the financial controller in the military commands.

PERFORMANCE IN 2009

5.5 One of the goals of the Board's 2005-2009 Strategic Plan is to encourage effective and efficient operations in NATO bodies. Success in 2009 was measured through (1) the proportion of reports presenting recommendations and/or options (target 100%), (2) the percentage of recommendations implemented over a three-year period (target 70%) and (3) the percentage of performance audits that are followed up two years after approval of the report (target 100%).

5.6 Both performance audit reports issued in 2009 contained recommendations and consequently met the first target. The second target of implementing 70% of the recommendations within a three-year period was only partly met as only 50% of the observations resulting from the follow-up performance audits of the NAEW&C Programme and ACO Financial Management Organisation were resolved. The other half of the observations were either partly or not at all resolved. The third target of following up on previous performance audits within two years was not met. In general, follow-up audits are being conducted three to four years after approval of the original report. These delays occurred because the Board continues to give resource priority to the implementation of new performance audit topics.

PERFORMANCE AUDITS AND STUDIES CARRIED OUT IN 2009

5.7 In its audit of the Management of the NSIP, the Board audited performance aspects of the management of the NSIP, focussing on the programme procedures and organisation, considered as preliminary steps to any effective and efficient project management. In particular, the Board assessed the clarity of the segregation of duties and responsibilities of in the NSIP; assessed the monitoring of the implementation phase; and assessed specific aspects of the management of AOM projects. The Board made recommendations related to improving programme documentation, procedures, project management, and planning, funding, and resource estimation of the NSIP programme (see Annex B para 36).

CHAPTER 6

MATTERS RELATING TO THE BOARD

PERSONNEL MATTERS

6.1 The Board had its full complement of six serving members: France, Poland, Turkey, Spain, Germany, Portugal, and Italy were represented on the Board for part or all of 2009.

6.2 In 2006, the Council approved two new auditor positions, augmenting the authorised establishment to twenty-one auditor posts, including one Principal Auditor, two Senior Auditors and 18 Auditors. The Principal Auditor left the Board in June 2009. Two new auditors arrived in March and May 2009. At the end of 2009 there were two vacant auditor positions, of which one is planned to be filled in May 2010. The Council approved a new auditor post with effect from 1 January, 2010, bringing the establishment up to twenty-two auditor posts. Throughout 2009, the Board had an auditor vacancy rate of almost 2 staff years. The Board has an independent personnel policy, recognised by the Secretary General. The Board Members and Auditors came from thirteen nations. The Auditors came from eleven 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.

PERFORMANCE IN 2009 - THE BOARD AS A MODEL INTERNATIONAL AUDIT ORGANISATION

6.4 The fourth goal of the Board's 2005-2009 Strategic Plan aims at promoting the Board as a model international audit organisation. The publication of the Board's annual reports and annual NSIP reports on the internet are an opportunity for improving the external visibility of the Board. The Board continued its monthly staff meetings and increased its performance audit capacity in accordance with the 2009 Annual Performance Plan.

RISK BASED AUDIT PILOT AT NAMSA

6.5 The International Standard on Auditing (ISA) 315 and the supplementary guidance on public sector issues (ISSAI 1315) deal with the auditor's responsibility to identify and assess the risks of material misstatement of the financial statements, through understanding the entity's internal control. The standard requires the external auditor to put a greater focus on risk and controls in the audited entity through a better understanding of the entity, its processes and environment.

6.6 During 2009, the Board successfully implemented a pilot of the Risk Based Audit Approach methodology at NAMSA with the aim to improve the efficiency and effectiveness of its audits. The Board contracted a consultant to assist in the organisation of the audit and development of the methodology. The Board evaluated the results of the pilot project and decided to extend the approach to two new entities in 2010 – NC3A and NAMEADSMA. In addition, the Board completed a five year Project Management Plan detailing the future application of the Risk Based Audit Approach methodology to its

financial audits and the expected resource savings to be made in the long-term.

STRATEGIC PLAN FOR 2010-2014

6.7 The Board formulated and approved its new Strategic Plan for the period 2010-2014. The Strategic Plan for 2010-2014 provides information on the Board's vision, mission statement, and three core values: Independence, integrity and professionalism. In addition, the Strategic Plan details the Board's four strategic goals related to its work, with specific objectives and strategies to achieve them. Lastly, the Strategic Plan includes additional clarifications and implementing guidelines for each of the four strategic goals.

TRAINING AND PROFESSIONAL DEVELOPMENT

6.8 In accordance with the auditing standards of INTOSAI and International Federation of Accountants (IFAC), the Board ensures that its audit and administrative staff receive adequate on-the-job training. The Board 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 Review and Development system.

6.9 During 2009 the Board provided on average about 10 days of training per auditor. The annual common training covered workshops by external trainers on topics related to integrated risk assessment methodology, audit sampling/flowcharting, IT risks and controls, and fraud auditing techniques. In addition, auditors participated in seminars and courses organised by NATO and/or their professional organisations or specialised training institutes.

RESOURCE ALLOCATION

6.10 Table 6.1 below shows the use of the Board's audit resources in 2009 and 2008.

TABLE 6.1
ALLOCATION OF AUDIT RESOURCES
IN STAFF YEARS FOR 2009 and 2008

| | Actual 2009 | Actual 2008 |
|---------------------------------------|------------------------|------------------------|
| NSIP Financial Audits | 1.9 | 2.4 |
| Agency Financial | 11.0 | 10.9 |
| Performance Audits | 2.4 | 2.2 |
| Studies | 0.5 | 0.6 |
| Training | 0.9 | 1.0 |
| Administration ⁴ | 1.2 | 1.5 |
| Board Support ⁵ | 1.3 | 1.3 |
| Sub-total | 19.2 | 19.9 |
| <i>Vacant positions</i> | 1.8 | 1.1 |
| Total authorised establishment | 21.0 | 21.0 |

DIRECT COST OF THE AUDIT

6.11 Table 6.2 below shows the allocation of the Board's audit resources and their cost in 2009.

TABLE 6.2
DIRECT COST OF THE AUDIT IN 2009

| Activity | Time Allocated (Staff days) | Direct Audit Cost (EUR million) |
|----------------------------------|--|--|
| Agency financial audit | 2,266 | 1.8 |
| NSIP financial audit | 370 | 0.2 |
| Performance audit | 503 | 0.4 |
| Other (Training, Board, Studies) | 809 | 0.4 |
| Total | 3,948 | 2.8 |

6.12 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 in 2009, EUR 2.8 million, is considerably less than the net return to NATO in pure monetary terms in the area of NSIP audits alone. 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 2009 generated almost EUR 11 million of net adjustments in favour of NATO.

⁴ The item "Administration" includes activities such as preparing travel, handling personnel matters, management reporting, performance management, sick leave and tasks that cannot be assigned to a specific audit.

⁵ The item "Board Support" covers the preparation of the Board's Activities Report, the Annual NSIP Report, and the Strategic Plan, attendance at Board Meetings and at meetings of NATO committees.

ANNUAL MEETING WITH THE NATIONAL AUDIT BODIES

6.13 In accordance with the Council decision C-M(90)46, the CNABs 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".

6.14 The 19th meeting to discuss the 2008 Annual Activities Report took place on 12 May 2009 under the chairmanship of Bulgaria. Representatives of twenty-two nations participated in the meeting, which was also attended by the Chairman and several national representatives of the AGFC.

6.15 On 22 July 2009, the Board presented its 2008 Annual Activities Report to the Council. The Chairman of the Board introduced the report and summarised the main achievements. The Chairman brought the Council's attention to four specific issues:

- The progress related to the implementation of IPSAS and the need for NATO bodies to prepare for the implementation of IPSAS 17 (Property, Plant, and Equipment);
- The need to implement the recommendations of the Review of the Internal Audit Function in NATO;
- The weakening of the position of the Financial Controller in the Military Commands; and
- The delegation of authority to approve annual budgets to subordinate committees.

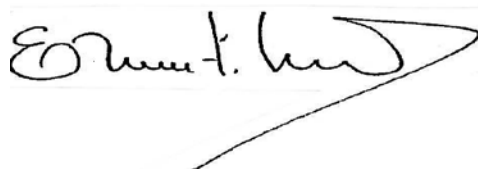
Permanent Representatives in the Council expressed strong appreciation for the Board's audit work.

INTERNATIONAL CO-OPERATION

6.16 In line with Article 14 of its Charter, the Board continued to collaborate with the national audit bodies.

6.17 The Board attempts through the activities such as those described above to stay within the mainstream of the professional audit community. The Board believes that professional contact and interchange with other audit bodies and NATO organisations are important for maintaining a "state-of-the-art" international audit organisation, which is one of the aims of its 2005-2009 Strategic Plan.

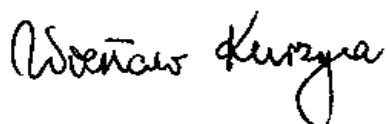
Approved by the Board on 30 April 2010



Chairman

Ernesto da Cunha

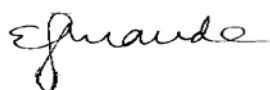
(Portugal)



Board Member

Wiesław Kurzyca

(Poland)



Board Member

Enrique Gómez de Aranda

(Spain)



Board Member

Klaus Getzke

(Germany)



Board Member

Pietro Russo

(Italy)



Board Member

Janos Revesz

(Hungary)

**LIST OF REPORTS
RESULTING FROM AGENCY AUDITS**

| LIST OF REPORTS RESULTING FROM AGENCY AUDITS | | | |
|---|--|--------------------|--|
| Subject | | Budget year | Reference of document and date |
| MILITARY COMMANDS | | | |
| 1. | ACT Group | 2008 | IBA-AR(2009)26, dated 18.12.2009 C-M(2010)0012-COR1 |
| 2. | CAOC Northern Region & Financial Administration | 2004-2008 | IBA-AR(2008)04, dated 30.10.2009 |
| 3. | CAOC Southern Region & Financial Administration | 2007 | IBA-AR(2009)07, dated 25.09.2009 |
| 4. | NRDC ITALY | 2006-2008 | IBA-AR(2009)34, dated 29.01.2010 |
| 5. | NRDC SPAIN | 2006-2008 | IBA-AR(2009)35, dated 29.01.2010 |
| NPLOs | | | |
| 6. | CEPMA | 2007 | IBA-AR(2009)013, dated 17.07.2009 C-M(2009)0131 |
| 7. | NAMEADSMA | 2008 | IBA-AR(2009)014, dated 26.06.2009 C-M(2009)0139 |
| 8. | NAMSA | 2008 | IBA-AR(2009)020, dated 08.09.2009 C-M(2010)0028 |
| 9. | NBA | 2007 | IBA-AR(2009)005, dated 27.03.2009 C-M(2009)0085 |
| 10. | NBA | 2008 | IBA-AR(2009)023, dated 30.10.2009 |
| 11. | NC3A | 2008 | IBA-AR(2009)31, dated 18.12.2009 C-M(2009)0020 |
| 12. | NCSA | 2007 | IBA-AR(2008)36, dated 30.04.2009 C-M(2009)0127 |
| 13. | NAMMO & NEFMO | 2008 | IBA-AR(2009)27, dated 29.01.2010 C-M(2010)0027 |

| LIST OF REPORTS RESULTING FROM AGENCY AUDITS | | | |
|--|---|--------------------|--|
| | Subject | Budget year | Reference of document and date |
| 14. | NAMMO, NEFMO & NETMA (ADMIN) | 2007 | IBA-AR(2009)02, dated 27.11.2009 C-M(2010)0002 |
| 15. | NETMA (ADMIN) | 2008 | IBA-AR(2009)15, dated 27.11.2009 C-M(2010)0003 |
| 16. | NHMO (HAWK) | 2008 | IBA-AR(2009)25, dated 29.01.2010 |
| CIVIL-MILITARY AGENCIES AND OTHER ORGANISATIONS | | | |
| 17. | AFNORTH International School | 2008-2009 | IBA-AR(2009)39, dated 29.01.2010 |
| 18. | AGS3 | 2007 | IBA-AR(2008)034, dated 30.01.2009 C-M(2009)0064 |
| 19. | IMS, NSA (including PfP, MD and ICI) | 2008 | IBA-AR(2009)16, dated 17.07.2009 C-M(2009)0110 |
| 20. | INTERNATIONAL STAFF | 2007 | IBA-AR(2009)01, dated 26.06.2009 C-M(2009)124 & C-M(2010)0031 |
| 21. | INTERNATIONAL STAFF | 2008 | IBA-AR(2009)017, dated 25.09.2009 C-M(2009)0138 & C-M(2010)0031 |
| 22. | MSIAC | 2008 | IBA-AR(2009)24, dated 29.01.2010 |
| 23. | NAMFI | 2008 | IBA-AR(2009)30, dated 29.01.2010 |
| 24. | NATO DEFENCE COLLEGE | 2007 | IBA-AR(2008)33, dated 27.02.2009 C-M(2009)0043 |
| 25. | NATO DEFENCE COLLEGE | 2008 | IBA-AR(2009)22, dated 18.12.2009 C-M(2010)0008 |
| 26. | NATO PARLIAMENTARY ASSEMBLY (NPA) | 2008 | IBA-AR(2009)009, dated 30.04.2009 |
| 27. | NATO PENSION SCHEME | 2007 | IBA-AR(2009)06, dated 27.03.2009 C-M(2009)0125 |

| LIST OF REPORTS RESULTING FROM AGENCY AUDITS | | | |
|---|--|--------------------|--|
| | Subject | Budget year | Reference of document and date |
| 28. | NATO PROVIDENT FUND | 2007 | IBA-AR(2009)03, dated 29.05.2009 |
| 29. | NEW NATO HQ | 2008 | IBA-AR(2009)19, dated 27.11.2009 C-M(2010)0005 |
| 30. | REPRESENTATION ALLOWANCE | 2008 | IBA-AR(2009)10, dated 17.07.2009 |
| 31. | RETIRED MEDICAL CLAIMS FUND (RMCF) | 2007 | IBA-AR(2009)08, dated 29.05.2009 C-M(2009)0128 |
| 32. | RTA | 2008 | IBA-AR(2009)18, dated 18.12.2009 |
| PERFORMANCE AUDITS & SPECIAL STUDIES | | | |
| 33. | ACO Financial Organisation & Management Follow-up | | IBA-AR(2009)11, dated 27.11.2009 C-M(2010)0017 |
| 34. | NAEW&C (AWACS) Follow-up | | IBA-AR(2008)37, dated 30.04.2009 C-M(2009)0119-REV1 |
| 35. | NATO Logistics Support to Deployed Operations | | IBA-AR(2008)29, dated 08.02.2010 |
| 36. | NATO Security Investment Programme Management (NSIP) | | IBA-AR(2009)12, dated 08.02.2010 |

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

In July 2002, the North Atlantic Council adopted the International Public Sector Accounting Standards (IPSAS), including the accrual and going concern assumptions, as the applicable accounting standards for NATO entities with effect from the 2006 financial statements. This has in many cases led to IPSAS related observations and the restatement of financial statements as observed in the summaries below.

RESULTS OF AUDITS RELATING TO MILITARY COMMANDS

1. Allied Command Transformation (ACT) – 2008

Introduction

The Allied Command Transformation (ACT) has the responsibility to lead the military transformation of Alliance forces and capabilities to improve the military effectiveness of the Alliance. The ACT group comprises HQ ACT in Norfolk (US), the NATO Undersea Research Centre in La Spezia (IT) (NURC), the Joint Warfare Centre in Stavanger (NO), the Joint Force Training Centre in Bydgoszcz (PL) and the Joint Analysis and Lessons Learned Centre in Lisbon (PO). The total expenditure in 2008 amounted to approximately EUR 116 million, compared with approximately EUR 129 million in 2007.

Audit Highlights

The Board has issued an unqualified opinion on the restated ACT 2008 Consolidated Financial Statements. ACT issued a revised note to the financial statements and amended statement of financial position.

The Board made observations concerning:

- the need for of a more detailed note on Segment Reporting in order to fully comply with IPSAS 18, *Segment Reporting*;
- the need for consistent application of accounting policies from year to year to ensure the consistent presentation of financial statements;
- the need to address significant weaknesses in the Notes to the Financial Statements and ensure that the notes are presented accurately, in accordance with the requirements of IPSAS 1, *Presentation of Financial Statements*, and fully reconciled to the respective figures on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity or cash flow statement;
- closer liaison with NC3A to ensure that the amount included in the accrual for NC3A is consistent with the corresponding amounts recorded by NC3A, and the need to ensure that all types of transaction are included for the identification of accrued expenses;
- the need to ensure that credit memos from other ACT entities are accounted for as an inter-entity receivable and cleared promptly;
- the need for improved accuracy in the consolidation process of future financial years;
- the need to ensure an effective control over the adjustments made by NATO HQ on the third call for contributions;
- the need for JWC to ensure that price adjustments are clearly stated in the Contract Award Committee reports and contracts in order to prevent any dispute;
- the need for JWC to ensure that contracts are signed before the start of the effective date of the contracts in order to prevent any uncertainty in case of dispute.

2. NORTHERN REGION COMBINED AIR OPERATIONS CENTRES (NR CAOCs) AND THE NORTHERN REGION FINANCIAL ADMINISTRATION (NR FA) Ramstein, Germany – 2004-2008

Introduction

The Combined Air Operations Centres (CAOCs) have been established to support NATO air operations in peacetime, periods of crises and war. The MOU based CAOCs were considered as an initial measure of the implementation of the NATO Air Command and Control System (ACCS). The transition plan to ACCS comprises the deactivation of the MOU based CAOCs, and the implementation of six new, internationally manned and common funded ACCS CAOC entities (four static CAOCs, two deployable CAOCs).

Since the transition to ACCS CAOCs has not started yet, and in aiming towards the reduction of the operational risks associated with this transition phase, the Military Committee has agreed to an Interim CAOC Structure (ICS). In 2008 the ICS was implemented in the Northern Region. Delays have been noted in the implementation of the ICS in the Southern Region.

Audit Highlights

The Board issued an unqualified opinion on the Northern Region CAOCs and the Northern Region Financial Administrator (NR FA) Financial Statements, (including the 2008 closing financial statements of CAOCs 3, 4 and 9). The Board concluded that the final closure of the CAOCs 3, 4 and 9 accounts was satisfactory.

3. SOUTHERN REGION COMBINED AIR OPERATIONS CENTRES (SR CAOCs) AND THE SOUTHERN REGION FINANCIAL ADMINISTRATION (SR FA) – 2007

Introduction

The Combined Air Operations Centres (CAOCs) have been established to support NATO air operations in peacetime, periods of crises and war. The MOU based CAOCs were considered as an initial measure of the implementation of the NATO Air Command and Control System (ACCS). The transition plan to ACCS comprises the deactivation of the MOU based CAOCs, and the implementation of six new, internationally manned and common funded ACCS CAOC entities (four static CAOCs and two deployable CAOCs).

Since the transition to ACCS CAOCs has not started yet, and in aiming towards the reduction of the operational risks associated with this transition phase, the Military Committee has agreed to an Interim CAOC Structure (ICS). In 2008 the ICS was implemented in the Northern Region. Delays have been noted in the implementation of the ICS in the Southern Region.

Audit Highlights

The Board issued an unqualified opinion on the Southern Region Combined Air Operations Centres CAOC 5, 6, 7, 8, 10 and the Southern Region Financial Administrator (SR FA) Financial Statements for the year ended 31 December 2007.

The Board reviewed the closure of the Southern Region Financial Administration function and confirmed that the assets and liabilities were adequately accounted for and transferred to the Northern Region Financial Administration. The SR FA refundable surplus recorded at the end of the financial year 2007 and amounting to EUR 45,191 has been redistributed to the contributing nations in the second call for funds in 2008. The Board was satisfied with the closure of the SR FA accounts.

4. NATO RAPID DEPLOYABLE CORPS ITALY (NRDC-ITALY) – 2006-2008

Introduction

The Headquarters NATO Rapid Deployable Corps Italy (HQ NRDC-IT) was activated as an international military headquarters under NATO command and granted international status with the decision of the North Atlantic Council (PO(2002)140).

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

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

The total approved budgets of HQ NRDC-IT for financial years ended 31 December 2006, 2007 and 2008 was EUR 5.96 million while total expenditure against these budgets for the same financial years amounted to EUR 4.5 million.

Audit Highlights

The Board issued an unqualified opinion on HQ NRDC-IT's Financial Statements for the years ended 31 December 2006, 2007 and 2008.

The Board made four observations concerning the following:

- Completeness of the financial statements;
- Unreceived cash calls;
- Budgetary credits carried forward exceeding the amounts of legal liabilities;
- Different service described on the invoice than the service ordered.

5. NATO RAPID DEPLOYABLE CORPS SPAIN (NRDC-SPAIN) – 2006-2008

Introduction

The HQ NATO Rapid Deployable Corps – Spain (HQ NRDC-SP) located in Valencia, is an International Military Headquarters established in 2002 with North Atlantic Council decision PO(2002)140.

A Memorandum of Understanding (MOU) for the manning, funding and administration of the HQ NRDC-SP was signed in September 2002 by eleven countries (Germany, Greece, Hungary, Italy, the Netherlands, Poland, Portugal, Spain, Turkey, the United Kingdom and the United States) together with SHAPE and HQ SACLANT. France and Romania joined the organisation with effect from 1 January 2005, while Canada joined to it from 1 January 2006. Hungary left the organisation on 1 January 2007.

The HQ NRDC-SP is part of the NATO Force Structure subordinate to Supreme Headquarters Allied Powers Europe (SHAPE). The mission of the HQ NRDC-SP is the maintenance of a capability to deploy in support of NATO Council (NAC) approved operations. The organisation may conduct defensive, offensive, peace support, humanitarian support and other operations throughout NATO territory.

The approved budgets of the HQ NRDC-SP for financial years 2006, 2007 and 2008 were EUR 1,498,050, EUR 1,478,150 and EUR 1,514,365, respectively. The corresponding expenditures were EUR 795,353, EUR 524,547 and EUR 839,244, respectively.

Audit Highlights

The Board issued an unqualified audit opinion on the financial statements of the HQ NRDC-SP for the year ended 31 December 2006, 2007 and 2008.

The Board raised the following observations:

- Late submission of financial statements to Senior Resource Committee and the Board;
- Commitments carried forward without legal obligation;
- Lack of independent cash counts;
- Service ordered without proper commitment authorisation.

RESULTS OF AUDITS RELATING TO THE NATO PRODUCTION AND LOGISTICS ORGANISATIONS

6. CENTRAL EUROPE PIPELINE MANAGEMENT ORGANISATION (CEPMO) – 2007

Introduction

With effect from 1 January 1998, the NATO Council endorsed the Charter defining the structure and responsibilities of the Central Europe Pipeline Management Organisation (CEPMO). CEPMO is tasked with managing 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, a system of pipelines, pump stations, input and delivery points, and depots. CEPMO supports Allied Joint Force Command Brunssum (JFC HQ Brunssum), with CEPS being the necessary asset. The CEPMO task is to guarantee the required military effectiveness of this asset.

Under the authority of the NATO Council, a Board of Directors (BoD) defines the general policy, missions, objectives and resources of the system. Tariffs, contracts and procedures to be applied are the joint responsibility of the Central Europe Pipeline Management Agency (CEPMA) and the National Organisations, established by the Host Nations. Total CEPMO payments for 2007 amounted to EUR 98.7 million.

Audit Highlights

The Board issued an unqualified opinion on the CEPMO Financial Statements for the year ended 31 December 2007.

The Board raised several observations and recommendations concerning the CEPMA and the CEPS organisations within Host Nations:

- Insufficient guidance and review by CEPMA of the financial reporting provided by the National Organisations;
- Late submission of the financial statements (CEPMA);
- Inadequate consolidation method used on CEPMO's cash flow statement (CEPMA);
- Wrong allocation of revenue for current year/previous years (CEPMA);
- "Personnel" payments understated by EUR 5.6 million (BE), corrected following the Board's audit;
- "Leave allowance" not properly accounted for (BE), corrected following the Board's audit;
- Inadequate booking of "provisions" (GE), corrected following the Board's audit;
- Cash flow statement receipts overstated by EUR 748 thousand (FR), CEPMA added a note to the financial statements acknowledging this misstatement;
- Inadequate disclosure of budgetary credits (FR and NL), corrected following the Board's audit.

7. NAMEADSMA – 2008

Introduction

The NATO MEADS Management Organization (NAMEADSMO) includes the NAMEADSMO Steering Committee (SC) and the NATO MEADS Management Agency (NAMEADSMA) based in Huntsville, Alabama, USA. The Participating Nations are Germany, Italy and the United States. As at 31 December 2008, NAMEADSMA had an authorised staff of 112 persons, of which 100 were filled. The Medium Extended Air Defence System (MEADS) is envisioned to be a tactically mobile and transportable air and missile defence system capable of countering a wide range of air threats such as cruise missiles and tactical ballistic missiles.

NAMEADSMO presented its financial statements for the year ending 31 December 2008 in accordance with accrual-based International Public Sector Accounting Standards (IPSAS). In 2008, NAMEADSMO's expenditures totalled U.S. Dollars (USD) 605 million, consisting of USD 12 million from the Administrative Budget and USD 593 million from the Operational Budget.

Audit Highlights

The Board issued an unqualified opinion on the NAMEADSMO Financial Statements for the year ended 31 December 2008. There are no current year observations.

8. NATO MAINTENANCE AND SUPPLY AGENCY (NAMSA) – 2008

Introduction

The mission of the NATO Maintenance and Supply Organisation (NAMSO) and its executing agency, the NATO Maintenance and Supply Agency (NAMSA) is to provide logistic support services to NATO or to its member states individually or collectively. The objective of this mission is to maximise in peacetime and in wartime the effectiveness of logistics support to armed forces of NATO states and to minimise costs. NAMSA staff is about 974. Expenses in 2008 were more than EUR 1.18 billion.

Audit Highlights

The Board issued a qualified opinion on the 2008 financial statements because NAMSA did not retrospectively correct a material prior period error related to the stock depreciation and also systematically understated accrued expenses. The Board issued an unqualified opinion on the NAMSA administrative costs charged to MBC funded programmes.

The Board made audit observations in the following areas:

- Financial Statements were issued after NFR deadline;
- Weakness in the Financial Reporting of Inventories;
- Inaccurate recognition of accrued expenses;

- Weaknesses in inventory cycle count procedures;
- Weak confirmation process of inventories held at contractors;
- Foreign exchange gains and losses;
- Presentation of the Financial Statements.

A separate Management Letter has been sent to NAMSA management. This letter contains issues related to Procurement and Information Technology requiring Management attention.

9. NATO BATTLEFIELD INFORMATION COLLECTION AND EXPLOITATION SYSTEMS AGENCY (NBA) – 2007

10. NATO BATTLEFIELD INFORMATION COLLECTION AND EXPLOITATION SYSTEMS AGENCY (NBA) – 2008

Introduction

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

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

Budget authorisations for the NBA administrative budget and pension scheme for the year 2007 (included brought forward) amounted to EUR 2.8 million. The cumulative authorisation for the open operational enhancement projects as of 31 December 2007 was EUR 2.2 million. Self-funded projects (formerly known as third-party procurement projects) expenditures amounted to EUR 0.624 million in 2007.

Budget authorisations for the NBA administrative budget and pension scheme for the year 2008 (including brought forward) amounted to EUR 3.2 million while administrative budget expenses amounted to EUR 3.0 million. The payments for operational enhancement projects were EUR 1.0 million in 2008; the cumulative authorisations as of 31 December 2008 were EUR 1.2 million. Self-funded projects expenditures amounted to EUR 0.4 million in 2008.

Audit Highlights 2007

The Board issued an unqualified opinion on the NBA's 2007 Financial Statements.

The Board made one observation concerning the segregation of relations between the NBA and NACMA on financial procedures.

Audit Highlights 2008

The Board issued an unqualified opinion on the NBA's 2008 Financial Statements. The Board had no observations to report.

11. NATO CONSULTATION, COMMAND AND CONTROL AGENCY (NC3A) – 2008

Introduction

The present arrangement for the NATO Consultation, Command and Control was adopted by establishing the NATO C3 Organisation in 1996. The NATO C3 Agency (NC3A) is part of this organisation with responsibility for the delivery of products and services to NATO and NATO nations.

As from 1 January 2000, NC3A has been operating under a customer funding regime. In the past, the costs of the agency were met jointly by the Military Budget Committee and the Infrastructure Committee. With the Introduction of customer funding, the Major NATO Commands bid for funds for NC3A services to the Military Budget Committee and pay NC3A directly 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 firm price basis). External customers also pay for services on a price negotiated with NC3A and for acquisitions on a 100% refundable basis. In 2008, NC3A spent a total of EUR 302.7 million.

Audit Highlights

The Board issued an unqualified opinion on the NC3A Financial Statements for the year ended 31 December 2008. The Board made an observation leading to a recommendation that the agency should:

- net the advances received from the NSIP Programme against the receivables recorded from the same programme.

The Board also issued a Management Letter to the NC3A General Manager with a number of observations regarding the Agency's procurement policy and practices, and project funds allocation and accounting.

12. NATO CIS SERVICES AGENCY (NCSA) – 2007

Introduction

The implementation of the new NATO Military Command Structure and its supporting Peacetime Establishments (PE) included the transformation of the NATO Communication and Information System (CIS) Operating and Support Agency (NACOSA) into a new agency focusing on CIS service provision. This new agency was named the "NATO CIS Services Agency" (NCSA) by the NATO C3 Board and is the result of the integration of

NATO's fragmented CIS service provision into one centralised organisation, thereby separating "customers" from "suppliers".

The re-alignment of the strategic commands required a detailed revision of tasks and responsibilities. This included adapting and re-assigning the roles of the C3 capability system and service management. NCSA was assigned the lead roles of "Accept C3 capabilities, system and service provision" and "Provide end-to-end information processing and exchange services." The activation of NCSA occurred in November 2004 along with the new Peacetime Establishment implementation and the transfer of staff from NACOSA to NCSA.

Audit Highlights

The Board issued a qualified opinion on the 2007 financial statements.

The Board raised observations on the following issues:

- Expense recognition related to NAMSA delegated budgets is based upon invoices received from NAMSA that reflect cash payments, not accrual expenses. As such, the Board is not in a position to provide assurances regarding the accuracy of these expenses in accordance with the accrual basis of accounting. In addition, NCSA did not always receive supporting documentation justifying amounts invoiced by NAMSA;
- The value of the CIS inventories managed by NCSA on behalf of itself or other NATO entities is not known or reported and as such, the Board is not in a position to provide assurance regarding the completeness and accuracy of inventories;
- Weaknesses with the NAMSA Global Funding Concept;
- Internal Control Weaknesses in Procurement;
- Weaknesses in the presentation of reimbursable budgets in the Budget Execution Statement;
- Payables not accrued.

13. NAMMO & NEFMO – 2008

Introduction

NAMMO and NEFMO, the organisations for the Tornado and Eurofighter 2000 (EF 2000) programmes, are subsidiary bodies of NATO. NEFMO is the largest single NATO programme. The participating nations for the Tornado programme are Germany, Italy and the United Kingdom. Spain joined these three nations in the Eurofighter programme. Total expenses in 2008 amounted to EUR 5.4 billion.

Audit Highlights

The Board issued unqualified audit opinions on the restated financial statements of NAMMO and NEFMO.

The Board made 7 observations leading to recommendations that the agency should:

- Review its financial statements prior to issuing them to avoid mistakes and reduce the time necessary, for both the agency and the Board, to finalise their work;
- Comply with the requirements of IPSAS 1, *Presentation of Financial Statements*, when producing future financial statements;
- Comply with its financial regulations regarding calls and miscellaneous income at NAMMO;
- Ensure, in future, that NAMMO calls clearly specify the budget year to which they relate;
- Analyse all invoices in January/February after year end to ensure that expenses are fully accrued at NAMMO;
- Reconcile the discrepancy between the NEFMO budgetary and expenses figures.

14. NAMMO, NEFMO & NETMA (ADMIN) – 2007

Introduction

NAMMO and NEFMO, the organisations for the Tornado and Eurofighter 2000 (EF 2000) programmes, are subsidiary bodies of NATO. 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. The NATO EF 2000 and Tornado Development, Production and Logistics Management Agency (NETMA) manage the two programmes and their related budgets. The total expenditure in 2007 amounted to EUR 5.3 billion (equivalent) (EUR 5.2 billion cash payments).

Audit Highlights

The Board issued unqualified opinions for NAMMO, NEFMO, and NETMA.

The Board made observations on the following topics:

- NAMMO, NEFMO and NETMA: the need to ensure that financial statements are produced accurately and on time, together with supporting documentation. Particular attention should be paid to year end procedures that transform Oracle accounting data into accurate financial statements;
- NAMMO: the need for reconciliation of the statement of financial performance to the budget execution statement;
- NAMMO: the need to ensure that budget approval by the BoD is sought in compliance with the NETMA financial regulations (UK expenditure exceeded approved budget);
- NAMMO: the need to review and advise Nations of the current cash holdings before and during the calls for contributions;
- NAMMO: presentation issues;
- NAMMO and NEFMO: the need to investigate, reconcile and expense all gains and losses arising from the converted year end non-EUR bank balances to ensure that the converted EUR value within the accounting system matches the converted bank balances in the banking records;

- NEFMO: the importance of ensuring that the financial statements are properly reconciled and supported by the trial balance, and supported by the underlying records; and the need to ensure unreconciled differences are clearly documented along with any decision not to investigate further;
- NEFMO: the need to include all managed and agreed contractual retentions within the year end accrual;
- NEFMO: presentation issues;
- NETMA: the need to activate reports available directly from the accounting system in order to identify credits carried forward, and the need to follow the correct format for the Comparison of Budget to Actual schedule, and to omit Miscellaneous Income;
- NETMA: the need to activate the facility in the accounting system to identify receipts of goods and services, and to investigate discrepancies in unearned revenue and undertake a recalculation as necessary;
- NETMA: the need for greater care to ensure that related figures involving cash and cash equivalents in the financial statements are in agreement, and to fully resolve any discrepancies and booking errors which may arise in advance of finalising the financial statements;
- NETMA: the need for regular reconciliation between the payroll and accounting systems. In addition, the Board recommends that a full internal audit of the payroll function be undertaken in the immediate future;
- NETMA: presentation and other issues.

15. NETMA (ADMIN) – 2008

Introduction

The NATO EF 2000 and Tornado Development, Production and Logistics Management Agency (NETMA) was established by the NATO Multi-Role Combat Aircraft Development Production and In-Service Support Organisation (NAMMO) and the NATO European Fighter Aircraft Development, Production and Logistic Management Organisation (NEFMO), the organisations responsible for the Tornado and Eurofighter 2000 (EF 2000) programmes, the two largest single NATO programmes.

NETMA's mandate is to provide the Tornado and EF 2000 participants with efficient and effective programme management to support the long-term in-service activities of the Tornado Weapon System and the development, production and in-service support of the EF 2000 Weapon System. Expenditure incurred by NETMA in performing this function in 2008 amounted to EUR 46 Million.

Audit Highlights

The Board issued an unqualified opinion on the NETMA Admin Financial Statements.

The Board made observations on the following topics:

- Issues concerning the accuracy and presentation of the Budget Reconciliation;
- IPSAS compliance issues;
- Presentation issues.

16. NATO HAWK PRODUCTION AND LOGISTICS ORGANISATION – 2008

Introduction

The NATO HAWK Production and Logistics Organization (NHPLO) was established to provide its member countries with the HAWK weapon system. The member countries are France and Italy and the executive body is the NATO HAWK Management Office (NHMO). At the end of 2008, NHMO counted a staff of 25 and its administrative expenditure was budgeted at EUR 3.7 million.

In 2008, the only operational programme in force was the Logistics Programme as the other programmes were completed in 2005. However, the 2008 operational budget includes credits brought forward from these programs as its financial liquidation was over only in 2009. Since 2006 the operational budget has been managed on an annual basis. Previously it was managed on a multi-annual basis. Operational expenditure was budgeted at EUR 4.9 million.

In December 2007 the Board of Directors (BOD) took note of France's decision to withdraw from the Organization as from 31 December 2009. In February 2009 the BOD requested the dissolution of NHPLO to the North Atlantic Council, through the Secretary General of NATO, and on 4 May 2009, the Council approved the dissolution of the NHPLO.

Audit Highlights

The Board issued a qualified opinion on the 2008 financial statements.

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

- NHMO overstated "Receivables" as it included EUR 1.2 million of unpaid calls for funds, which should have been financed through the available funds as per Italy's instructions;
- The Agency has called EUR 2.3 million to fund the staff costs resulting from the dissolution of NHPLO but it has not properly recorded the provisions for such liabilities, which is not in line with IPSAS 19;
- The cash inflows and outflows in the cash flow statement are overstated by EUR 5.5 million due to the recording of internal transfers to finance calls for contributions through the available funds.

In addition to the qualification of its opinion (outlined above), the Board raised one further observation and recommendation related to "inconsistency in the notes to the financial statements".

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

17. AFNORTH INTERNATIONAL SCHOOL 2008 – 2009

Introduction

The Allied Forces North Europe (AFNORTH) International School (Brunssum, NL) provides the educational service for the children of entitled staff working in the NATO community. It comprises four independent units funded by the four founding nations of Canada, Germany, United Kingdom and the United States. Each nation supports their own education unit but many programmes and activities are common and support the cultural exchange of the children of the different nations. While each nation finances its own educational unit, some expenditure is common funded. This common funded budget is the subject of this audit. The approved common funded budget for 2008/2009 was EUR 4.0 million. The average school population during the year was 1,014 students.

Audit Highlights

The Board issued an unqualified audit opinion on the financial statements of the AFNORTH International School for the year ended 31 July 2009.

The Board made one observation concerning:

- an overstatement of commitments brought forward from the previous year.

18. ALLIANCE GROUND SURVEILLANCE SUPPORT STAFF – 2007

Introduction

The objective of the Alliance Ground Surveillance (AGS) Programme is to provide the Alliance with a NATO owned and operated AGS core capability. The progress of the Programme is placed under the responsibility of the AGS Capability Steering Committee. The AGS Capability Steering Committee is supported by the AGS Support Staff (AGS3). The International Staff (IS) Financial Controller provides financial and accounting services to the AGS3. The annual budget for AGS3 was EUR 4.7 million in 2007, including EUR 1.6 million of brought forward credits.

Audit Highlights

The Board issued an unqualified opinion on the AGS3' Financial Statements for the year ended 31 December 2007.

The Board made one observation recommending that the prior year's comparative figures should be correctly reflected in the current year's financial statements.

**19. THE INTERNATIONAL MILITARY STAFF (IMS),
THE NATO STANDARDISATION AGENCY (NSA),
THE IMS BUDGET GROUP – PARTNERSHIP FOR PEACE (PfP),
THE MEDITERRANEAN DIALOGUE (MD) AND
THE ISTANBUL COOPERATION INITIATIVE (ICI) – 2008**

Introduction

The International Military Staff (IMS) is headed by a Director and supports the Military Committee (MC). Acting as the executive agency of the MC, the IMS is tasked with ensuring that the policies and decisions of the MC are implemented as directed. The IMS also prepares plans, initiates studies and recommends policy on matters of a military nature.

The NATO Standardisation Agency (NSA) is a single, integrated body, composed of Military and Civilian staff headed by a Director. The mission of the NSA is to initiate, coordinate, support and administer the standardisation activities conducted under the authority of the NATO Committee for Standardisation.

The IMS Budget Group Partnership for Peace (PfP) manages the PfP Work Programme for all the Agencies funded under the IMS budget group and for NC3A.

The Mediterranean Dialogue (MD) is intended to contribute to security and stability for the Alliance by developing a better mutual understanding and dispelling misconceptions.

The Istanbul Cooperation Initiative (ICI) was launched to offer cooperation in the broader Middle East region. The aim of the ICI is to enhance security and regional stability through a new transatlantic engagement with the region. This can be essentially achieved through practical cooperation and assistance in different areas, and specific activities.

The total authorisations of the IMS, NSA, PfP, MD and ICI for the year ended 31 December 2008 were EUR 26.2 million.

Audit Highlights

The Board issued an unqualified opinion on the IMS, NSA, PfP, MD and ICI Financial Statements for the year ended 31 December 2008. The Board made one observation and recommendation related to the IMS to ensure that the cash flow statement is presented in compliance with IPSAS 2, *Cash Flow Statements*.

**20. THE INTERNATIONAL STAFF (IS) – 2007
21. THE INTERNATIONAL STAFF (IS) – 2008**

Introduction

The International Staff (IS) supports the work of the North Atlantic Council (NAC) and its committees. The IS is composed of five operational divisions, the Private Office of the

Secretary General, the Executive Management Division, the Office of Financial Control, the NATO Office of Resources, and the NATO Office of Security. The IS staffing complement was almost 1,250 at the end of 2007. The total budgetary authorisations amounted to EUR 220 million including carry forwards from previous years. The IS staffing complement was almost 1,250 at the end of 2008. The total budgetary authorisations amounted to EUR 226 million including carry forwards from previous years.

Audit Highlights 2007

The Board was not able to confirm that expenses in the Statement of Financial Performance and the related payables in the Statement of Financial Position were properly recorded in accordance with the accrual basis of accounting due to limitations in the accounting system used by the IS. Because of the significance of these matters, the Board was not able to express an opinion on the accrual basis IS 2007 Financial Statements (disclaimer of opinion).

However, the Board was able to satisfy itself that the Statement of Budget Execution and the underlying transactions of the entity are in all significant respects in compliance with budgetary authorisations and applicable NATO regulations. In addition, we were able to confirm that the cash balances were, in all material respects, fairly presented.

The Board made observations leading to the following thirteen recommendations:

IPSAS RELATED:

- To develop an approach to recording expenses on the accrual basis that is more fundamentally based on when goods and services are received;
- To ensure that the process of assessing the recording of expenses on the accrual basis is also linked to the recording of related accounts payable or accruals within the Statement of Financial Position to accurately reflect the liability due to suppliers as of year-end;
- To ensure that cash-based accounting and accrual-based accounting are not being intermingled within the same set of IPSAS financial statements;
- Comparative information should be provided for all statements and explanatory notes in the financial statements;
- Greater care and review should be given to preparing the IPSAS financial statements in order to ensure that inconsistencies and other errors are detected and corrected before issuance;
- To ensure that a formal IPSAS implementation plan is established in order to inform the Nations how and when the IS plans to achieve IPSAS compliancy.

PROCUREMENT

- To implement the recommendations made by the Board as far as the procurement activities are concerned: guidelines for procurement, exclusion criteria, financial analysis, conflicts of interest, technical evaluation, dissemination, protective provisions, enforce the return of the duly signed general and special conditions, Supplier Quality report;
- To ensure that Article 20 in the NATO Financial Regulations (NFR) be followed in

relation to competitive bidding, including for contract extensions, which are to be considered as new contracts unless specifically foreseen in the original contracts;

- To ensure that the IS, in cases of departure from the call for bids requirements, strictly adheres to the NFR provisions;
- To issue guidelines to all the IS divisions on how to improve their assessment of their annual or pluriannual needs, and that open-ended contracts are awarded when necessary using the appropriate level of competitive bidding procedures;
- To ensure that a proper audit trail is kept in the file to support the entire procurement process. In particular, when exceptional circumstances arise.

COMPLIANCE WITH REGULATIONS

- To strictly adhere to the provisions established by the Civilian Personnel Regulations for consultant and temporary contracts.

COMMITMENT CONTROLS RELATED TO THE ICTM BUDGET

- To develop a more robust internal control system in order to reduce to the minimum possible level the number of budget changes to be made after year-end. The Information Communication Technology Management (ICTM) Directorate should carefully establish its request for commitments, taking care to identify the correct budget credits to be charged and the IS Office of Financial Control should better review the directorates' request for commitments and challenging when necessary the budget credits requested to be charged.

Audit Highlights 2008

The Board was not able to confirm that expenses in the Statement of Financial Performance and the related payables in the Statement of Financial Position were properly recorded in accordance with the accrual basis of accounting due to limitations in the accounting system used by the IS. Because of the significance of these matters, the Board was not able to express an opinion on the accrual basis IS 2008 Financial Statements (disclaimer of opinion).

However, the Board was able to satisfy itself that the statement of budget execution and the underlying transactions of the entity are in all significant respects in compliance with budgetary authorisations and applicable NATO regulations. In addition, we were able to confirm that the cash balances were, in all material respects, fairly presented.

As a result of the audit of the 2008 financial statements, the Board made three observations concerning:

- Non-compliance with International Public Sector Accounting standards (IPSAS);
- Irregular carry-forward of a commitment;
- Non-receipt of Letters of Representation from IS Senior Management.

22. THE MUNITIONS SAFETY INFORMATION ANALYSIS CENTRE (MSIAC) – 2008

Introduction

The Munitions Safety Information Analysis Centre (MSIAC) aims to provide a focal point within NATO to assist national and NATO Munitions development and logistics programmes in efficiently and expeditiously addressing the problems associated with achieving Munitions Safety. As of 31 December 2008, there were 12 MSIAC Member Countries. The staff complement of the MSIAC stood at 9 persons as of the end of 2008. The NATO International Staff Office of Financial Control (OFC) provides the Agency's accounting services and issues its financial statements. The MSIAC budget authorisations for 2008 were EUR 1.6 million.

Audit Highlights

The Board issued an unqualified opinion on the MSIAC's 2008 Financial Statements.

The Board raised four observations as follows:

- Lack of clear guidelines related to the functioning of the Reserve Fund;
- Understatement of expenses in the Statement of Financial Performance;
- Different accounting treatment for expatriation allowances;
- Non-receipt of Management Representation Letter.

23. NATO MISSILE FIRING INSTALLATION (NAMFI) – 2008

Introduction

In June 1964, a Multilateral Agreement (MA) established the NATO Missile Firing Installation (NAMFI). The MA provides that NAMFI facilitate the practice firing, by visiting military units, of missile weapon systems such as HAWK and Patriot. The missiles are aimed towards unmanned flying targets. In 2008, there were four User Nations: Belgium, Germany, Greece and the Netherlands. Each year technical arrangements are signed with other nations for use of NAMFI on a cost reimbursable basis. The NAMFI budgetary expenditure for 2008 amounted to EUR 10.46 million. NAMFI is located in Greece, on the island of Crete.

Audit Highlights

The Board has issued an unqualified opinion on the 2008 financial statements. The Board had no new observations relating to the 2008 financial statements.

24. NATO DEFENCE COLLEGE (NDC) – 2007

25. NATO DEFENCE COLLEGE (NDC) – 2008

Introduction

The mission of the NATO Defence College (NDC) is to contribute to the effectiveness and cohesion of the Alliance, through courses and other programmes designed to prepare selected officers and officials for important NATO and NATO-related appointments and disseminate awareness of NATO initiatives and interests. With the new opportunities to better serve the Alliance, while at the same time consolidating the quality of its core business areas, it further expanded its role in support of members and partners in the challenging process of educational transformation. The major change to the NDC activity over the last period refers to the establishment of the NATO Regional Cooperation Course (NRCC). The college has with the approval of the Military Committee and the North Atlantic Council, developed the NRCC Course to support strategic education for the Mediterranean Dialogue and Istanbul Cooperation Initiative partner nations, as part of the overall NATO Training Cooperation Initiative (NTCI).

The total authorisation of the NDC for the year ended 31 December 2007 was approximately EUR 6.2 million. The total authorisation of the NDC for the year ended 31 December 2008 was approximately EUR 6.3 million.

Audit Highlights 2007

The Board issued an unqualified opinion on the NDC Financial Statements for the year ended 31 December 2007.

The Board raised the following observations:

- Procurement contracts should be renewed by initiating a bidding process to ensure the best value for money;
- Delegated and reimbursable budget reporting should include expenses for goods and services received during the fiscal year.

Audit Highlights 2008

The Board issued an unqualified opinion on the NDC Financial Statements for the year ended 31 December 2008.

The Board raised the following observations:

- The delegated and reimbursable budget execution report should include expenses for goods and services in the fiscal year in which these goods and services were received;
- Purchase Orders should be established for the services provided by lecturers/interpreters and subsidies.

26. NATO PARLIAMENTARY ASSEMBLY (NATO PA) AND THE NATO PA PROVIDENT FUND – 2008

Introduction

Since 1955, the NATO Parliamentary Assembly (NATO PA), formerly the North Atlantic Assembly (NAA), has been a forum for legislators from member countries of the North Atlantic Alliance. The work of the NATO PA is mainly financed by contributions from member countries. The contributions are based on the sharing key used for the NATO civil budget. NATO and other organisations also provide the Assembly with additional subsidies that may be designated to be spent on specific activities.

Audit Highlights

The Board issued an unqualified opinion on the NATO PA Financial Statements and the NATO PA Provident Fund for the year ended 31 December 2008. During its audit, the Board raised two observations regarding the non disclosure of contingent liabilities and the lack of precision related to the timing of contributions payments.

27. NATO PENSION SCHEME – 2007

Introduction

The NATO Pension Scheme applies to all staff recruited between 1 July 1974 and 30 June 2005. The Pension Scheme currently supports 2,559 pensioners, and over 4,050 staff pay into the Scheme. The majority of all NATO civilian staff are members of the Scheme. The members of staff recruited prior to July 1974 are members of the Provident Fund. The remaining staff members recruited after 1 July 2005 are members of the Defined Contribution Pension Scheme.

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

The benefits of the Pension Scheme are paid from annual budgets mainly financed by the nations. In 2007, serving staff contributed 8.9% of their basic salary to the Pension Scheme. On a long term actuarial basis, staff contributions are intended to finance one-third of the costs of the Pension Scheme. The member states jointly guarantee the payment of benefits. Total payments made under the Pension Scheme for 2007 amounted to EUR 100 million.

Audit Highlights

The Board issued an unqualified opinion on the financial statements of the Pension Scheme for the year ended 31 December 2007. The Board raised one observation related to the entitlement to pension benefits for past service.

28. NATO PROVIDENT FUND – 2007

Introduction

The NATO Provident Fund provides retirement benefits to civilian staff who joined NATO before 1 July 1974, and who are not members of the NATO Pension Scheme. The value of the Fund's assets at 31 December 2007 was EUR 67 million. As at that date, there were 167 members contributing to the Fund.

Audit Highlights

The Board issued an unqualified opinion on the restated financial statements of the Provident Fund for the year ending 31 December 2007.

The Board raised two observations regarding the following:

- The omission of the investment value in the assets of the statement of net assets available for benefits. The observation was settled with the issuance of a restated statement of net assets available for benefits;
- The non-submission of the Management Representation Letter.

29. NEW NATO HQ – 2008

Introduction

At the Washington Summit in April 1999, the Heads of State and Government of the NATO countries formally decided to build a new NATO Headquarters in Brussels to meet the Alliance's needs in the twenty-first century. The North Atlantic Council, upon recommendation of the Civil Budget Committee, approves the annual budget for the new NATO Headquarters. It is funded from national contributions based on a specific cost-share agreement among the NATO nations. The project is in its ninth operational year and the estimated date for completion of the project is 2015.

The New NATO Headquarters' project is managed in accordance with the principles of the NSIP procedures and Belgium is the Host Nation for the construction contract.

Audit Highlights

The Board issued an unqualified opinion on the financial statements of the New NATO Headquarters' project for the year ended 31 December 2008.

The Board made the following observations:

- The understatement of “Payables” to PMT;
- The non-compliant application of accrual accounting;
- The misclassification within Unearned Revenues;
- The transfers between budget chapters not in line with the applicable regulation;
- The lack of receipt of the Management Representation Letter and the Letter from the Legal Advisor.

30. REPRESENTATION ALLOWANCES – 2008

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 2008 allowances amounted to EUR 0.2 million.

Audit Highlights

In most cases, the Representation Allowance expenditures for 2008 have been reported by the recipients in compliance with the Permanent Representatives’ accountability requirements. Three recipients of the 2008 Representation Allowance did not submit to IBAN their report on representational activities. Five recipients submitted the report after the prescribed deadline of 15 January 2009. In some cases the recipients did not disclose the purpose of the various representational functions involved, and the number of NATO Staff entertained exceeded the number of official guests from outside the organisation.

31. RETIREES MEDICAL CLAIMS FUND (RMCF) – 2007

Introduction

Qualifying NATO retirees are permanently entitled to the reimbursement of certain medical expenses. The reimbursements are provided via private medical insurance. NATO has a contract with an insurance broker to provide for the Continued Medical Coverage (CMC) of former staff. The Retirees Medical Claims Fund (RMCF) was established in 2001. The fund is intended as a reserve to finance the 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. 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.

In 2007 receipts from NATO bodies and staff were some EUR 19.6 million and insurance premiums paid out of these receipts were EUR 6.5 million. At the end of the 2007 the fund

manager held EUR 104 million on behalf of NATO.

Audit Highlights

The Board issued an unqualified opinion on the restated RMCF Financial Statements for the year ended 31 December 2007. Annex 1 (the balance sheet) of the RMCF 2007 Financial Statements was reissued under FC(2009)057, dated 27 April 2009, and it is on the revised statements that the Board issues its opinion.

The audit of the revised RMCF 2007 Financial Statements raised no new audit observations requiring the attention of management.

32. THE NATO RESEARCH AND TECHNOLOGY AGENCY (RTA) – 2008

Introduction

The NATO Research & Technology Organisation (RTO) is a NATO subsidiary body created within the framework of the North Atlantic Treaty. Its Charter was approved by the North Atlantic Council in December 1997 and became effective 1 January 1998. Its mission is to conduct and promote co-operative research and information exchange, to support the development of national defence research and technology, to maintain a technology lead, and to advise NATO decision-makers.

The costs of the RTO's activities are mainly supported by the Nations. The RTO's support element RTA is funded by both the MBC, (for its office in Paris, France) and the CBC (for the staff element in NATO HQ Brussels, Belgium). The RTA total authorisations (both MBC and CBC funded) for 2008 amounted to approximately EUR 6.8 million.

Audit Highlights

The Board issued an unqualified opinion on RTA's Financial Statements for the year ended 31 December 2008. The Board raised one observation with regards to the reporting of accruals for Reimbursable Budgets.

PERFORMANCE AUDITS AND SPECIAL STUDIES

33. Follow-up on the ACO Financial Organisation and Management Performance Audit

Introduction

The Board's initial performance audit report on the ACO Financial Organisation and Management (IBA-AR(2005)36) was distributed in December 2005 and contained several findings and recommendations. As part of its normal audit cycle, the Board followed-up on the status of the implementation of the recommendations made in that report.

Audit Highlights

The International Board of Auditors for NATO (Board) conducted a follow-up performance audit to determine the status of the implementation of recommendations from its 2005 audit report on the ACO Financial Organisation and Management. The Board's 2005 report found that factors contributing to weaknesses in the area of financial organisation and management were staffing shortages and the lack of continuity of qualified and/or experienced finance staff, outdated finance organisational structures, complex financial processes and staff environment, and the lack of guidance and coordination. In addition, the implementation of the NATO Automated Financial System (NAFS) had both a positive and negative affect on the quality of financial reporting.

The Board closed observations contained in the original report related to: (1) improved accounting qualifications of Fiscal Officers, (2) reinforced role of the ACO Financial Controller (FC) as policy maker and guidance provider, and (3) NAFS implementation. However, the following recommendations remain open:

- That qualified military staff members should be assigned in time, and for at least a period of three years to the approved positions;
- That the End State Peacetime Establishment (ESPE) should authorise on each site a sufficient number of qualified civilians in order to grant continuity and experience;
- That in order to ensure an adequate level of continuity of accounting staff in fiscal departments, ACO should re-examine the grading of these posts vis-à-vis other finance positions;
- That Articles 21 to 25 of the NATO Financial Regulations (NFRs) and Financial Rules and Procedures (FRPs) should be revised to clarify the authority of the ACO FC to issue regulations and technical guidance to the subordinate Headquarters. The revision should include the obligation of subordinate Headquarters FCs to implement the technical guidance;
- Given the complexity of the financial processes in ACO, that ACO Treasury staffing levels should be re-examined.

34. Follow-up on the Implementation of Recommendations from the Performance Audit Report on the NATO Airborne Early Warning and Control Programme (NAEW&C)

Introduction

The Board undertook a performance audit of the NAEW&C programme to review specific performance aspects of the programme's organisation and operations. The Board's initial performance audit report on the NATO Airborne Early Warning and Control Programme (IBA-AR(2005)22) was distributed in December 2005 and contained several findings and recommendations. As part of its normal audit cycle, the Board decided to follow-up on the status of the implementation of the recommendations made in that report.

The Board's findings in that report included the following observations:

- Annual Objectives and Performance Indicators were still under development;
- Annual Reporting to decision making bodies could be improved;
- NAEW&C Programme Organisation delayed funding of urgent requirements;
- Limited Co-ordination on NAEW&C requirements for NATO Response Force;
- O&S MOU agreed budget ceiling exceeded;
- Reimbursement Policy for NAEW&C Force Operations needs to be finalised;
- Force Command Cost per Flying Hour Methodology needs to be developed.

Audit Highlights

The Board found that in regards to the status of implementation of recommendations related to NAPMA that:

- Annual Objectives and Performance Indicators still under development (Observation 3.1). The recommendation has been implemented and the observation is closed;
- Annual Reporting to Decision Making Bodies Could Be Improved (Observation 3.2). The recommendation is not completely implemented; the observation remains open;
- NAEW&C Programme Organisation delayed funding of urgent requirements (Observation 4.1). The recommendations related to this observation remain open.

The Board found that in regards to the status of implementation of recommendations related to Force Command and E-3A Component that:

- Annual Objectives and Performance Indicators still under development (Observation 3.1). The recommendation has been implemented and the observation is closed;
- Limited Co-ordination on NAEW&C Requirements for NRF (Observation 4.2). The recommendation has been implemented and the observation is closed;
- Force Command Cost per Flying Hour Methodology needs to be developed (Observation 5.2). The observation is closed.

35. NATO Logistics Support to Deployed Operations

Introduction

Since the end of the Cold War in 1990, NATO has increasingly engaged in operations such as crisis response operations (CRO) and disaster relief, requiring the deployment of NATO member states' forces. The majority of the NATO costs related to these operations are funded from varying NATO sources (military budgets, NSIP) and are under the command and control of different NATO military authorities. Other NATO organisations such as NC3A and NAMSA provide support to NATO deployed operations. NATO has six on-going operations/missions, and NATO CRO budgets were almost 200 million Euro in 2007. The Board audited specific performance aspects of NATO logistics support to deployed operations, dealing with such questions as:

- How effectively has NATO implemented its concept of Multinational Logistics in actual deployed operations? Has it clearly delineated its responsibilities versus those of the member nations? Has it been able to effectively implement the concept of "lead-nation" role in multinational logistics?
- To what extent do NATO's decision-making processes and funding mechanisms, regulations and policies ensure that logistical support for deployed operations is effective and efficient?
- To what extent has NATO learned and applied lessons from challenges and obstacles encountered in providing logistics support to past and on-going deployed operations?

The audit encompassed operations and NATO financial expenditures related to the years 2003-2007. The audit focused on NATO logistical support to the following operations: International Security Assistance Force (ISAF) and the Kosovo Force (KFOR).

Audit Highlights

The Board found that:

- KFOR command is generally aware of the different bi or multi-lateral logistics arrangements among national forces. In ISAF this is not the case and the command is not aware of the details of all cooperative, bi or multilateral logistics arrangements in-theatre and does not have a truly accurate and comprehensive view of the logistics capabilities, assets, or resources that are in the theatre. This limits the ability of the commander to effectively establish the logistic requirements and coordinate logistic planning and support within the area of responsibility;
- Nations are reluctant to rely on multinational logistics solutions where the nation would have to cede national control or authority to another nation or NATO. As a result, duplication of logistics efforts is not minimised. With fewer nations willing to assume "lead nation" roles, NATO may have to undertake more such responsibilities in the future;
- The creation of true Multinational Integrated Logistic Units (MILU) in KFOR and ISAF has not yet happened because of obstacles to successful implementation of the concept;
- In general, the Board did not find significant problems related to the provision of

logistic support to KFOR. In ISAF the current procedures related to NATO's decision-making processes and funding mechanisms pose a greater problem because the operational environment is dynamic and constantly changing. Obstacles in ISAF include decisions taken to put interim solutions in place based upon the Minimum Military Requirement (MMR) principle;

- The frequent rotation of in-theatre staff and the lack of continuity of information and knowledge of NATO funding rules and procedures poses an obstacle to the successful implementation of the Project Submission Requirements process;
- KFOR and ISAF logistics staff were unaware of the extent of lessons learned documentation available and documentation specifically related to logistics is limited. Because of frequent staff rotation, institutional knowledge about previous challenges and solutions are not always kept. It does not appear that any entity in NATO is actively disseminating lessons learned and monitoring other NATO bodies to determine if these lessons learned are implemented. Although the exploitation of lessons learned could be done at a national level, there seems to be no organised process to put them in common at the coalition level or even more in the NATO community.

The Board recommended that:

- ACO develop procedures to ensure that the KFOR and ISAF commanders have the authority to coordinate logistic support within their area of responsibility;
- The Council review the concept of “cost lie where they fall” to determine if revised common-funding or eligibility rules could encourage more nations to take on “lead-nation” roles in order to minimise duplication of logistic functions;
- The Council should task ACO to review the ambiguity in MC-319/2 relating to collective responsibility and national responsibility which limits the effectiveness of the concept of multinational logistics;
- The Council task ACO to review the concept of MILU's to determine if emphasis should be placed on the development of more bi and multilateral cooperative logistics solutions, or to consider creation of the nucleus of MILU's in the force structure;
- A dialogue be established between all parties in determining the definition of the MMR in regards to specific projects;
- SHAPE/JFCs should provide KFOR/ISAF with more support to instruct KFOR/ISAF staff on NATO procedures;
- KFOR/ISAF should better train staff on the existence and use of the JALLC lessons learned database. In addition, ACO be tasked to ensure that logistics lessons learned are implemented and applied to other NATO operations;
- KFOR/ISAF should develop additional training and more specific and detailed handover procedures for new logistics staff;
- A larger debate needs to occur between the nations, NATO Military Authorities, and NATO HQ, to determine if NATO is effectively structured to logistically support out of area operations such as ISAF and determine if it is still worthwhile to pursue multinational logistics as a preferred solution.

36. NATO Security Investment Programme Management

Introduction

Major evolutions have impacted the NATO Security Investment Programme (NSIP) over the past 15 years, including greater technological content, investments in support of the Alliance Operations and Missions (AOM) and increased direct participation of NATO entities all along the NSIP cycle. These evolutions are challenging for the management approach as the financial constraints put additional pressure on the programme. The Board audited the NSIP management focussing on the programme procedures and organisation, considered as preliminary steps to any effective and efficient project management. In particular, the Board assessed the clarity of the segregation of duties and responsibilities in the NSIP; assessed the monitoring of the implementation phase; and assessed specific aspects of the management of AOM projects.

Audit Highlights

The Board found that:

- A lack of common guidelines shared NATO-wide could lead to confusion about “who does what” in the process. As a result, the NSIP management is based on corporate knowledge where thorough experience and continuity of staff are key factors;
- The overall delineation of the Strategic Commands’ (SC) NSIP responsibilities was uncertain. There is no shared view NATO-wide on what the role of the SCs should be during implementation, other than the generic support to the Minimum Military Requirement. In addition, the high turnover in military posts impairs the needed continuity in NSIP matters;
- In the absence of direct traceability of the life cycle costs of NSIP projects, the growing interaction between the NSIP and the Military Budget is not clear, even though the impact of operation and maintenance (O&M) on the military budgets, known as the “O&M tail”, is an increasing source of concern NATO-wide. As a result, financial implications of military requirements do not appear clearly and uncertain planning data can vary substantially over time;
- The accumulation of information from various sources led to inconsistencies among the various NSIP data bases and, as a consequence, risks of inaccuracy and confusion in the information provided to decision-makers;
- Weaknesses in the baseline definition and the accountability mechanisms impeded the effectiveness of NSIP performance measurement. The definition of targets are not always agreed with the entity responsible to meet them and the lack of a sound baseline against which to measure project progress limit the effectiveness of the monitoring;
- The acceptance phase was considered as a low priority in the NSIP cycle. As a result, as at September 2009, 1,553 completed projects were not yet accepted;
- NATO’s high priority given to operations was clearly present at the NSIP level, through specific regulations, procedures, and through consistent awareness all along the investment cycle. However, AOM project management faced similar challenges as the rest of the NSIP, although efforts have been made on improving the reporting mechanisms;

- The balance between urgency and definition of requirement is increasingly difficult to achieve as AOM projects implemented in evolving operational theatres were growing in size and complexity. Current and future complex AOM requirements could hardly be defined with sufficient detail by ACO without an early external assistance. The funding of such assistance via the NSIP is currently under debate;
- The lack of project prioritisation and planning is a potential cause for concern in the AOM area. Improvements are necessary for operational as well as financial reasons. The financial pressures in NSIP will undoubtedly impact AOM projects in the coming years. So far, efforts that have been made to forecast AOM projects are hindered by the absence of resource estimations. The future weight of AOM projects in the NSIP, but also the overall financial pressure on military common funds, are not accurately known.

The Board recommended that:

- An agreed NSIP Manual serve as the common NATO-wide NSIP handbook;
- The NSIP Manual glossary updated as a reference;
- The nations determine the role of the SCs during implementation and that the NSIP guidelines be updated accordingly;
- The SCs enhance the stability and continuity of NSIP key staff in the military structure;
- O&M relevant information related to NSIP projects be systematically tracked by the SCs and the HNs and recorded by the NOR;
- The interaction between the NSIP and the Military Budget be better defined and presented in the planning documents;
- The Information system be considered as the central reference database for NSIP and that current and future databases;
- The IC defines clearly which level of detail is the most appropriate for its monitoring role and that the tools and the guidance documents be consistent with the defined monitoring level;
- Agreed upon performance targets such as milestones and costs, be fixed between responsible parties at each step of the NSIP process;
- Host Nations and other responsible parties commit to these agreed targets on a contractual basis;
- The IC reviews the current procedures for the final inspection and the formal acceptance of NSIP projects. As part of this overall specific rules and procedures should be defined for the acceptance of AOM projects, taking account of their specificities regarding notably their operational location and O&M;
- The IC continues to explore the possibility of providing an incentive to nations to present projects within the agreed milestone periods for JFAI and final audit;
- A lessons learned mechanism and an evaluation process be created for selected completed projects;
- ACO clarify its internal organisation related to the definition of AOM requirements in order to avoid duplication between the different endorsement levels and to shorten the process;
- New funding arrangements for early involvement of the agencies be developed;
- The degree of urgency of AOM projects be clearly defined by ACO at the requirement stage;

- Efforts on the planning and forecast of AOM projects continue with a specific focus on cost estimation.

**AUDITED ENTITIES AND ACTIVITIES
AND AUDIT CYCLE**

The Board audits 82 entities, of which 46 are audited on an annual basis, and 36 are audited on a cyclical basis, every two to three years.

MILITARY COMMANDS AND OPERATIONS

Annual

- ACO Consolidated⁶
 - 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. JFC, KFOR, NHQSa, ISAF, NTMI, AMIS/Trust Funds)
 - 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

- ARRC⁷
- CAOCS (8 commands)⁷
- CCOE⁷
- COE-DAT⁷
- HQ RRC-FR⁷
- IFC⁷
- JAPCC⁷
- JCBRN Defence COE⁷
- MNCG⁷
- NDC Greece⁷
- NRDC (4 commands)⁷

⁶ 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.

⁷ Multi-nationally funded command(s).

NATO PRODUCTION AND LOGISTICS ORGANISATIONS

Annual

CEPMO
- CEPMA
- Belgian Division
- French Divisions
- German Divisions
- Netherlands Division
NACMO
NAGSMO
NAHEMO
NAMA
NAMEADSMO
NAMSO
NAPMO
NBA
NC3A (incl. ALTBMDPMO)
NCSA (incl. NCISS)
NETMA
- NAMMO
- NEFMO
NHMO

MILITARY, CIVILIAN AND OTHER BODIES

Annual

AFNORTH International School⁸
AGS3/NAGSMA
Defined Contribution Pension Scheme
FORACS
IMS, NSA (including PfP, MD & ICI)
IS
MSIAC
NAMFI⁸
NATO Defence College
New NATO HQ
NPA⁸
Provident Fund
Pension Scheme
Representation Allowances
Research & Technology Agency
Retirees Medical Claims Fund
SHAPE International School⁸

⁸ Multi-nationally funded entity.

FINANCIAL AUDIT COVERAGE FOR AUDITED ENTITIES

| | Last Audit | | Next Audit | |
|------------------------------|--------------|------------------|--------------------|------------------|
| | Done in year | Covering year(s) | To be done in year | Covering year(s) |
| MILITARY COMMANDS | | | | |
| ACO Group | 2009 | 2008 | 2010 | 2009 |
| ACT Group | 2009 | 2008 | 2010 | 2009 |
| ARRC | 2008 | 2004-2006 | 2010 | 2007-2009 |
| CAOCs (8 sites) | 2009 | 2004-2008 | 2010 | 2006-2009 |
| CCOE | | | 2010 | 2007-2009 |
| COE-DAT | 2009 | 2006-2008 | 2012 | 2009-2011 |
| HQ RRC-FR | 2009 | 2006-2008 | 2012 | 2009-2011 |
| IFC | | | 2010 | 2007-2009 |
| JAPCC | 2009 | 2006-2008 | 2012 | 2009-2011 |
| JCBRN Defence COE | | | 2010 | 2007-2009 |
| MNCG (ex CIMIC Group South) | 2009 | 2006-2008 | 2012 | 2009-2011 |
| NDC Greece | | | 2010 | 2006-2009 |
| NRDC GE/NL | 2009 | 2006-2008 | 2012 | 2009-2011 |
| NRDC ITALY | 2009 | 2006-2008 | 2012 | 2009-2011 |
| NRDC SPAIN | 2009 | 2006-2008 | 2012 | 2009-2011 |
| NRDC TURKEY | 2007 | 2003-2006 | 2010 | 2007-2009 |
| NPLOs | | | | |
| CEPMO | 2009 | 2008 | 2010 | 2009 |
| NACMO | 2009 | 2008 | 2010 | 2009 |
| NAHEMO | 2009 | 2008 | 2010 | 2009 |
| NAMA | 2009 | 2007-2008 | 2010 | 2009 |
| NAMEADSMO | 2009 | 2008 | 2010 | 2009 |
| NAMSO | 2009 | 2008 | 2010 | 2009 |
| NAPMO | 2009 | 2008 | 2010 | 2009 |
| NBA | 2009 | 2008 | 2010 | 2009 |
| NC3A (incl. ALTBMDPMO) | 2009 | 2008 | 2010 | 2009 |
| NCSA | 2009 | 2008 | 2010 | 2009 |
| NAMMO, NEFMO & NETMA (ADMIN) | 2009 | 2008 | 2010 | 2009 |
| NCSA (incl. NCISS) | 2009 | 2008 | 2010 | 2009 |
| NHMO (HAWK) | 2009 | 2008 | 2010 | 2009 |

FINANCIAL AUDIT COVERAGE FOR AUDITED ENTITIES

| | Last Audit | | Next Audit | |
|--|--------------|-------------------|--------------------|------------------|
| | Done in year | Covering year(s) | To be done in year | Covering year(s) |
| MILITARY, CIVILIAN AND OTHER BODIES | | | | |
| AFNORTH International School | 2009 | 2009 ⁹ | 2010 | 2009-2010 |
| AGS3/NAGSMA | 2009 | 2008 | 2010 | 2009 |
| Defined Contribution Pension Scheme | 2009 | 2005-2008 | 2010 | 2009 |
| FORACS | 2009 | 2005-2008 | 2010 | 2009 |
| IMS, NSA (incl. PfP, MD & ICI) | 2009 | 2008 | 2010 | 2009 |
| INTERNATIONAL STAFF | 2009 | 2008 | 2010 | 2009 |
| MSIAC | 2009 | 2008 | 2010 | 2009 |
| NAMFI | 2009 | 2008 | 2010 | 2009 |
| NATO DEFENCE COLLEGE | 2009 | 2008 | 2010 | 2009 |
| NATO Pension Scheme | 2009 | 2008 | 2010 | 2009 |
| NATO Provident Fund | 2009 | 2008 | 2010 | 2009 |
| New NATO HQ | 2009 | 2008 | 2010 | 2009 |
| NPA | 2009 | 2008 | 2010 | 2009 |
| Representation Allowances | 2009 | 2008 | 2010 | 2009 |
| Retirees Medical Claims Fund | 2009 | 2008 | 2010 | 2009 |
| RTA | 2009 | 2008 | 2010 | 2009 |
| SHAPE International School | 2008 | 2007 | 2010 | 2008-2009 |

⁹ Fiscal year ended 31 July 2009.

**AUDIT UNIVERSE AND DIRECT COST OF THE AUDIT
IN 2009**

AUDIT UNIVERSE AND DIRECT COST OF THE AUDIT IN 2009

| BODIES | Audit Universe in 2009 Millions of EUR (1) | Auditor Time (days) (2) | Salary + Travel Cost 2009 EUR (3) |
|---|---|----------------------------------|--|
| AGENCY FINANCIAL | | | |
| Commands | | | |
| ACO Group ⁽¹⁾ | 926.5 | 389.5 | 345,258 |
| ACT Group | 118.0 | 145.3 | 135,275 |
| HQ RRC FR | 1.7 | 11.8 | 12,223 |
| JAPCC | 0.9 | 16.7 | 14,146 |
| CAOC Northern Region | 2.9 | 25.8 | 22,800 |
| CAOC Southern Region | 2.8 | - | - |
| CIMICs - 2 commands | 1.2 | 17.2 | 15,626 |
| COE DAT | 0.7 | 17.2 | 15,422 |
| NRDC - IT | 1.3 | 17.2 | 15,914 |
| NRDC - SP | 1.5 | 18.3 | 17,456 |
| NRDC - GNL | 1.8 | 14.0 | 13,396 |
| NPLOs | | | |
| BICES | 6.2 | 34.4 | 27,066 |
| CEPMO | 114.2 | 110.3 | 107,418 |
| NACMO ⁽²⁾ | 23.8 | 51.6 | 40,599 |
| NAHEMO | 396.8 | 40.3 | 35,426 |
| NAMA | 561.3 | 26.9 | 22,273 |
| NAMEADSMO | 538.0 | 41.4 | 39,430 |
| NAMMO-NEFMO-NETMA (ADMIN) | 6,081.7 | 129.7 | 115,574 |
| NAMSO | 1,181.0 | 346.5 | 324,629 |
| NAPMO | 148.2 | 54.9 | 50,683 |
| NC3A | 304.8 | 117.0 | 145,395 |
| NCSA | 170.7 | 100.1 | 83,530 |
| NHMO | 8.6 | 52.7 | 46,854 |
| RTO | 5.5 | 16.7 | 16,987 |
| Civilian & Military & Agencies | | | |
| AFNORTH SCHOOL | 3.9 | 15.1 | 12,631 |
| AGS3 | 0.8 | 16.7 | 13,110 |
| DCPS ⁽³⁾ | 30.0 | 25.8 | 20,300 |
| FORACS | 0.8 | 25.3 | 19,877 |
| IMS (Incl. NSA, PfP, MD) | 22.7 | 24.7 | 19,454 |
| IS | 178.0 | 65.6 | 51,595 |
| IS New HQ | 15.8 | 56.0 | 43,982 |
| MSIAC | 1.6 | 16.1 | 12,687 |
| NAMFI | 12.3 | 32.3 | 32,185 |
| NADEFCOL | 6.4 | 19.4 | 18,853 |
| NPA ⁽³⁾ | 7.2 | 20.4 | 16,438 |
| PENSION SCHEME | 106.0 | 33.9 | 26,643 |

AUDIT UNIVERSE AND DIRECT COST OF THE AUDIT IN 2009

| BODIES | Audit Universe in 2009 Millions of EUR | Auditor Time (days) | Salary + Travel Cost 2009 EUR |
|-------------------------------------|---|------------------------------------|--|
| | (1) | (2) | (3) |
| PROVIDENT FUND | 53.1 | 38.2 | 30,026 |
| REP. ALLOWANCE | 0.2 | 16.1 | 12,687 |
| RMCF | 103.6 | 5.4 | 4,229 |
| Subtotal | 11,142.5 | 2,266.0 | 1,998,077 |
| NSIP FINANCIAL | | | |
| Annual File Review | - | 139.5 | 84,582 |
| General | - | 8.4 | 5,075 |
| ACO | 45.4 | 11.2 | 7,459 |
| BELGIUM | 18.0 | 10.5 | 6,344 |
| CEPMO | 2.7 | 4.2 | 2,537 |
| FRANCE | 13.8 | - | - |
| GERMANY | 27.8 | 38.4 | 26,948 |
| GREECE | 28.4 | 18.1 | 13,944 |
| HUNGARY | - | 0.7 | 423 |
| ITALY | 9.2 | 8.4 | 7,687 |
| LATVIA | 0.5 | - | - |
| NACMO | 14.7 | - | - |
| NC3A | 116.0 | 40.5 | 24,529 |
| The NETHERLANDS | 40.8 | 16.7 | 12,084 |
| NORWAY | 49.7 | 15.4 | 13,134 |
| POLAND | 10.2 | 12.6 | 10,116 |
| PORTUGAL | 1.7 | 7.0 | 6,127 |
| TURKEY | 45.2 | 27.9 | 18,568 |
| UNITED KINGDOM | 2.9 | 11.2 | 7,837 |
| Subtotal | 427.0 | 370.5 | 247,392 |
| PERFORMANCE AUDITS | | | |
| ACO HR Follow-up | | 16.1 | 12,764 |
| Logistics Support for Deployed Ops. | | 3.2 | 2,487 |
| NAEW&C Follow-up | | 2.2 | 1,658 |
| NSIP Management | | 171.5 | 140,529 |
| Corruption & Fraud | | 221.2 | 181,656 |
| Real Life Support Kandahar | | 47.4 | 43,440 |
| Objective Based Budgeting | | 41.4 | 31,982 |
| Subtotal | | 503.0 | 414,517 |
| STUDIES | | | |
| IT revitalisation | | 7.8 | 5,620 |
| IPSAS | | 5.6 | 7,816 |
| TeamMate-IDEA | | 30.2 | 21,678 |
| Multinational Coordination | | - | - |
| Board Structure | | - | - |

AUDIT UNIVERSE AND DIRECT COST OF THE AUDIT IN 2009

| BODIES | Audit Universe in 2009 Millions of EUR (1) | Auditor Time (days) (2) | Salary + Travel Cost 2009 EUR (3) |
|---------------------------|---|--|--|
| Risk Based audit approach | | 42.0 | 30,080 |
| Subtotal | | 98.5 | 74,428 |
| BOARD | | 271.0 | 25,970 |
| ADMINISTRATION | | 245.0 | 181,850 |
| TRAINING | | 187.5 | 142,267 |
| MISCELLANEOUS | | 6.5 | 5,693 |
| GENERAL TOTAL | 11,569.5 | 3,948.0 | 3,090,195 |

Column (1)

Represents the budget authorised in 2008 audited in 2009 in the case of Agencies, or the NSIP amounts presented for audit during 2009.

Column (2)

Represents the time spent by the audit staff during 2009.

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 600,708 and the salaries and allowances of Board Members that are a national charge.

Footnotes

(1) not including EUR 18 million NSIP project expenditure.

(2) not including EUR 43 million NSIP project expenditure.

(3) not including EUR 3 million assets of the 30 members of the NPA Provident Fund.

LIST OF ABBREVIATIONS

| | |
|-----------|--|
| ACO | Allied Command Operations |
| ACT | Allied Command Transformation |
| AFNORTH | Allied Forces, Northern Europe |
| AGFC | Advisory Group of Financial Counsellors |
| AGS3 | Alliance Ground Surveillance Support Staff |
| ALTBMDPMO | Active Layered Theatre Ballistic Missile Defence Programme Management Organisation |
| AMIS | African Union Mission in Sudan |
| AOM | Alliance Operations and Missions |
| ARRC | Allied Rapid Reaction Corps |
| Board | International Board of Auditors for NATO |
| BoD | Board of Directors |
| BPO | Belgian Pipeline Organisation |
| CAOCs | Combined Air Operation Centres |
| CCOE | Civil-Military Cooperation Centre of Excellence |
| COE-DAT | Centre Of Excellence Against Terrorism |
| CEPMA | Central Europe Pipeline Management Agency |
| CEPMO | Central Europe Pipeline Management Organisation |
| CEPS | Central Europe Pipeline System |
| CF | Customer Funding |
| CNABs | Competent National Audit Bodies |
| COE-DAT | Centre of Excellence-Defence against Terrorism |
| COFFA | Certificate of Final Financial Acceptance |
| Council | North Atlantic Council |
| CRO | Crisis Response Operations |
| DCOS | Deputy Chief of Staff Support/Resources |
| DCPS | Defined Contribution Pension Scheme |
| DPO | Defensie Pijpleiding Organisatie |
| EUR | Euro |
| EUROSAI | European Organisation of Supreme Audit Institutions |
| FBG | Fernleitungs-Betriebsgesellschaft |
| FORACS | NATO Naval Forces Sensor and Weapons Accuracy Check Sites |
| GF | Global Funding |
| HQ | Headquarters |
| HQ RRC | Headquarters Rapid Reaction Corps |
| IBAN | International Board of Auditors for NATO |
| IC | Infrastructure Committee |
| ICI | Istanbul Cooperation Initiative |
| IDEA | Interactive Data Extraction and Analysis |
| IFAC | International Federation of Accountants |
| IFC | Intelligence Fusion Centre |
| IMS | International Military Staff |
| INTOSAI | International Organisation of Supreme Audit Institutions |
| IPSAS | International Public Sector Accounting Standards |
| IS | International Staff |
| ISA | International Standard on Auditing |

| | |
|--------------|--|
| ISAF | International Security Assistance Force [Afghanistan] |
| ISSAI | International Standard of Supreme Audit Institutions |
| JALLC | Joint Analysis and Lessons Learned Centre |
| JAPCC | Joint Airpower Competence Centre |
| JCBRN | Joint Chemical Biological Radiological and Nuclear Defence Centre of Excellence |
| JFAI | Joint Final Acceptance Inspection |
| JFC | Joint Force Command |
| JFTC | Joint Force Training Centre |
| JWC | Joint Warfare Centre |
| KFOR | KOSOVO Forces |
| MBC | Military Budget Committee |
| MD | Mediterranean Dialogue |
| MEADS | Medium Extended Air Defence System |
| MEWSG | Multiservice Electronic Warfare Support Group |
| MILU | Multi-national Integrated Logistics Unit |
| MMR | Minimum Military Requirement |
| MNCG | Multinational CIMIC Group |
| MOU | Memorandum of Understanding |
| MSIAC | Munitions Safety Information Analysis Centre |
| NAFS | NATO Automated Financial System |
| NACMA | NATO ACCS Management Agency |
| NACMO | NATO ACCS Management Organisation |
| NACOSA | NATO Communication and Information System (CIS) Operating and Support Agency |
| NAEW&C | NATO Airborne Early Warning and Control |
| NAEWF | NATO Airborne Early Warning Force |
| NAGSMO | NATO Alliance Ground Surveillance Management Organisation |
| NAHEMO | NATO Helicopter Design and Development Production and Logistics Management Organisation |
| NAMA | NATO Airlift Management Agency |
| NAMEADSMASMA | 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 |
| NAPMA | NATO AEW&C Programme Management Agency |
| NAPMO | NATO AEW&C Programme Management Organisation |
| NBA | NATO Battlefield Information Collection & Exploitation Systems Agency |
| NC3A | NATO Consultation, Command and Control Agency |
| NCISS | NATO Communications and Information Systems School |
| NCSA | NATO CIS Services Agency |
| NDC | NATO Defence College |
| NDC Greece | NATO Deployable Corps Greece |

| | |
|---------|--|
| NEFMO | NATO European Fighter Aircraft Development, Production and Logistics Management Organisation |
| NETMA | NATO Eurofighter 2000 and Tornado Development Production and Logistics Management Agency |
| NFR | NATO Financial Regulations |
| NHMO | NATO HAWK Management Office |
| NHPLO | NATO HAWK Production and Logistics Organisation |
| NATO PA | NATO Parliamentary Assembly |
| NPA | NATO Parliamentary Assembly |
| NPLO | NATO Production and Logistics Organization |
| NRDC | NATO Rapid Deployable Corps |
| NRFA | Northern Region Financial Administration |
| NRRC | NATO Regional Cooperation Course |
| NSA | NATO Standardization Agency |
| NSIP | NATO Security Investment Programme |
| NTCI | NATO Training Cooperation Initiative |
| NTM-I | NATO Training Mission Iraq |
| NURC | NATO Undersea Research Centre |
| PfP | Partnership for Peace |
| RMCF | Retirees Medical Claims Fund |
| RTA | Research and Technology Agency |
| RTO | Research and Technology Organisation |
| SACLANT | Supreme Allied Commander Atlantic |
| SACT | Supreme Allied Command Transformation |
| SAIs | Supreme Audit Institutions |
| SC | Strategic Command |
| SHAPE | Supreme Headquarters Allied Powers Europe |
| USD | United States Dollar |

