

29 April 2011

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**ANNUAL ACTIVITIES REPORT**

**FOR 2010**



## 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-two 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, the NATO Security and Investment Programme (NSIP), and certain multi-nationally funded entities with a link to NATO. During 2010 the Board audited approximately EUR 12.5 billion, of which EUR 11.7 billion relates to NATO agencies and commands, and over EUR 0.80 billion to NSIP expenditures.

On 17 July 2002, the Council adopted the accrual based International Public Sector Accounting Standards (IPSAS) as the applicable accounting standards for all NATO entities effective for the fiscal year 2006. The Board completed and issued a special report to Council on the Second and Third Years of Implementation of IPSAS within NATO. The Board can report that progress has continued into the fourth year of IPSAS implementation. In 2010, the Board issued 29 financial audit reports which comprised 42 Auditor's Opinions on the accounts of NATO bodies and associated organisations. 32 of these accounts received unqualified audit opinions, including 2 accounts that were corrected and re-issued. The Board issued 9 qualified audit opinions and 1 disclaimer of audit opinion on the financial statements of 8 entities, of which the majority related to compliance with IPSAS. Beginning in financial year 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 883 million. It issued 258 Certificates of Final Financial Acceptance with a total value of EUR 958 million (including amounts audited in previous years). About 500 completed projects authorised between 1979 and 1994 are still not closed. The Board continues to actively monitor the application of the procedures agreed with a view to the accelerated closure of the slice programme.

The Board conducted several performance audits and studies in 2010. It completed the performance audits on the Implementation of Objective Based Budgeting in NATO (Descriptive Phase) and Real Life Support at Kandahar, Afghanistan. The Board also completed two special reports to Council; these were on (1) the Second and Third Years of Implementation of IPSAS within NATO and (2) on Strengthening the Role of IBAN in Respect of Management Reviews and Cost Efficiency Assessments. In addition, the Board began work on a special report to Council on the Critical Success Factors for NATO Agencies Reform which was completed and issued to Council in March 2011. The Board also began performance audits on the Implementation of Objective Based Budgeting in NATO (Evaluative Phase) and on NSIP Capability Packages.

The Board is actively monitoring the reform of NATO agencies and issued a special report to Council on the Critical Success Factors for NATO Agencies Reform.

The Board continued to formulate strong reserves against successive attempts to weaken the financial control function in the military commands and is concerned that this issue is unresolved after many years of debate.

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 2010.

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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 and 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, multi-nationally funded entities with a link to NATO, the NATO Security and Investment Programme (NSIP) expenditure and also carries out performance audits. The Board's audit scope in 2010 covered EUR 12.5 billion, of which EUR 11.7 billion related to financial statements audits and approximately EUR 0.80 billion related to NSIP audits.

1.5 The accounts of NATO bodies and multi-nationally funded entities 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 2010-2014 Strategic Plan established four strategic goals: (1) Strengthen accountability and corporate governance within NATO, (2) enhance management and ensure accountability in the NSIP, (3) contribute to efficient, effective, and economical operations and activities in NATO, and (4) develop the Board as an innovative and proactive audit organisation. The Board pursued these goals in 2010, based upon the priorities and specific targets and measures of success set out in its 2010 Annual Performance Plan. This annual report provides a brief summary of the Board's performance in 2010 for each of the strategic goals.

## **MAIN ISSUES IN THIS REPORT**

### **International Public Sector Accounting Standards in NATO (IPSAS)**

1.7 On 17 July 2002, the Council adopted the accrual 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 fourth full year of IPSAS implementation. 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 – 2.4).

### **NATO Agency Reform**

1.9 At the Lisbon Summit on 20 November 2010 the NATO member states approved the consolidation and rationalisation of the functions and programmes of the NATO Agencies into three Agencies. The Council was tasked to prepare a plan for implementing this reform, with the objective to achieving improved governance, demonstrable increased effectiveness, efficiency and savings, focusing on outputs, taking into account the specific needs of multinational programmes.

1.10 The outcome of NATO Agency Reform will have a significant impact on the Board's planning, conduct, and reporting of audits related to the NATO agencies. The Board has been closely monitoring developments related to NATO Agency Reform and in late 2010 the Board began work on a special report to Council on the Critical Success Factors for NATO Agencies Reform. This special report was completed and issued to Council in early March 2011 prior to the March meeting of NATO Defence Ministers (paras 2.5 – 2.6).

### **The Position of the Financial Controller in the Military Commands**

1.11 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 and the Board is



concerned that this issue remains unresolved after many years of debate (paras 2.7 – 2.10).

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

1.12 The Board's Annual Activities Report 2005 through 2008 and the Audit Report of the NSIP for 2006 through 2008 are available on the NATO web site (paras 2.23 – 2.24). The 2009 Annual Activities Report and Audit Report of the NSIP for 2009 are not yet available as they have not been approved by Council as of the writing of this report in March 2011 (paras 2.11 – 2.12).

### **Agency Financial Audits**

1.13 In 2010, the Board issued 29 financial audit reports and 42 Auditor's Opinions on the accounts of NATO bodies and multi-nationally funded entities with a link to NATO. In some cases these reports covered several entities, several sets of financial statements or several financial years. The Board issued unqualified opinions on thirty-two financial statements including two that were restated. The Board issued qualified opinions on the financial statements of ACO 2008 and 2009, HQ NRDC-GNL 2006 and 2007, CEPMA 2008, NAMSA 2009, NAPMA 2008, NCSA 2008, and FORACS 2006 and 2007 and a disclaimer of opinion on the financial statements of the International Staff (IS) for 2009. Most of the qualifications and restatements of accounts related to IPSAS compliance issues and lack of audit evidence (paras 3.1 - 3.25).

### **NATO Security Investment Programme**

1.14 The Board audited the expenditure presented by the nations and agencies in 2010 which totalled EUR 883 million compared to EUR 415 million in 2009. It issued 258 Certificates of Final Financial Acceptance (COFFAs) with a total value of EUR 958 million, compared to 265 COFFAs for EUR 682 million in 2009. The net credit to NATO resulting from the audit in 2010 was almost EUR 2 million. In 2004, the Infrastructure Committee, now the Investment 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 2010, 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 and is concerned at the lack of progress (paras 4.1 – 4.11).

### **Performance Audits and Studies**

1.15 The Board undertook both performance audits and studies in 2010. It completed the performance audits on the Implementation of Objective Based Budgeting in NATO (Descriptive Phase) and one on the Real Life Support Services at Kandahar, Afghanistan.

It began two new performance audits. One on NSIP Capability Packages and Implementation of Objective Based Budgeting in NATO (Evaluative Phase). The Board also issued two special reports to Council. These were on the Second and Third Years of Implementation of IPSAS within NATO, and also on Strengthening the Role of IBAN in Respect of Management Reviews and Cost Efficiency Assessments. In addition, the Board began work on a special report to Council on the Critical Success Factors for NATO Agencies Reform which was completed and issued to Council in March 2011. It was also involved in meetings related to the implementation of IPSAS, NATO Agency Reform, and NATO Resource Reform. The Board also advised NATO committees and working groups on issues related to audit, finance and governance. (paras 5.1 – 5.13).

### **Matters relating to the Board**

1.16 The Board had its full complement of six serving Members for the whole of 2010. As from 1 January, 2010, the auditor establishment was increased to twenty-two auditors. The auditor vacancy rate in 2010 was almost two staff years. The Board Members and auditors came from thirteen nations. The auditors came from eleven nations (paras 6.1 – 6.3).

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

1.18 In 2010 the Board continued to implement its Risk Based Audit Approach at NAMSA and at NC3A (paras 6.5 and 6.6).

1.19 The Board plans on an average of two to three weeks training for each auditor. In 2010 each auditor received on average 10 days of training. Common training included topics related to report writing, Risk Based Audit Approach, IPSAS 17, and auditing standards. Individual auditors also participated in training and seminars organised by their professional organisations and institutions (paras 6.8 and 6.9).

1.20 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 2010 (paras 6.10 – 6.12).

1.21 The Competent National Audit Bodies (CNABs) met on 16 May 2010 to discuss the Board's 2009 Annual Activities Report. The Board has not been able to present that report to the Council because of NATO committee reform in 2010. The Board continued to develop its contacts with the professional audit community (paras 6.13 – 6.15).

## 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 accrual 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 2010 the Board completed and issued a special report to Council on the Second and Third Years of Implementation of IPSAS within NATO. The Board noted a general trend of improvement regarding IPSAS implementation. In 2010, the Board issued 29 financial audit reports which comprised 42 Auditor's Opinions on the accounts of NATO bodies and associated organisations. 32 of these accounts received unqualified audit opinions, including 2 accounts that were corrected and re-issued. The Board issued 9 qualified audit opinions and 1 disclaimer of audit opinion on the financial statements of 8 entities, of which the majority related to compliance with IPSAS. Beginning in financial year 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.

2.3 Areas identified by the Board as 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;
- 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. It is clear to the Board that NATO entities have not fully taken advantage of the five-year transition period.

2.4 The Board continues to believe that the adoption and implementation of IPSAS has greatly increased the consistency and transparency of financial reporting within NATO and will continue to do so in the future. While further progress is needed for full IPSAS implementation, 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.

### **NATO AGENCY REFORM**

2.5 At the Lisbon Summit on 20 November 2010, the NATO member states approved the consolidation and rationalisation of the functions and programmes of the NATO Agencies into three Agencies. The Council was tasked to prepare a plan for implementing this reform, with the objective of achieving improved governance, demonstrable increased effectiveness, efficiency and savings, focusing on outputs, and taking into account the specific needs of multinational programmes.

2.6 The outcome of NATO Agency Reform will have a significant impact on the Board's planning, conduct, and reporting of audits related to the NATO agencies. The Board has been closely monitoring developments related to NATO Agency Reform and in late 2010 the Board began work on a special report to Council on the Critical Success Factors for NATO Agencies Reform. This special report was completed and issued to Council in early March 2011 prior to the March meeting of NATO Defence Ministers at NATO HQ.

### **THE POSITION OF THE FINANCIAL CONTROLLER IN THE MILITARY COMMANDS**

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

2.8 On many occasions in the past<sup>1</sup> the Board has, and continues to do so, formulated strong reservations against military command structure proposals made by the NATO Military Authorities 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 expected to apply control over a direct supervisor, a situation which creates a conflict of interest and weakens the authority and independence of the Financial Controller.

2.9 In the Board’s opinion, it is clear 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 the arrangements proposed by the NATO Military Authorities weaken the Financial Controller’s position at a time when their position should be strengthened.

2.10 The Board is concerned that this topic continues to be unresolved after many years of debate. The Board’s position is based upon good financial management principles and the NATO Financial Rules and Regulations.

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

2.11 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.

2.12 The Board’s Annual Activities Report 2005 through 2008 and the Audit Report of the NSIP for 2006 through 2008 are available on the NATO web site (<http://www.nato.int/issues/iban>). The Annual Activities Report for 2009 and the Audit Report of the NSIP for 2009 are not yet available as they have not been approved by Council as of the writing of this report (March 2011).

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<sup>1</sup> 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, and 29 November 2010 to the Resource Policy and Planning Board.

## 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 2010 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 (NPOs) plus 4 national divisions attached to these NPOs 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 NPOs, 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 2010, the agency accounts to be audited by the Board amounted to more than EUR 11.5 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, has been 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 (these audit reports are not presented to the Council). 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. In general, the Board's audits in 2010 covered the 2009 financial year and also prior financial years if there were delays in the publication of financial statements or processing of the Board's reports and/or entities that are only audited on a cyclical basis.

## **PERFORMANCE IN 2010**

3.5 One of the strategic goals of the Board's 2010-2014 Strategic Plan is for the Board's work to contribute to strengthening accountability and corporate governance within NATO. The Annual Performance Plan for 2010 identified two criteria to measure successful achievement: (1) the number of recommendations implemented within three years of issuance of a report and (2) implementation of the Project Management Plan for the Risk Based Audit Approach in three entities in 2010.

3.6 The target for the first objective was to have 80% of the recommendations implemented, within a three-year period of the audit report date. Of the 79 observations formulated in 2007, 68 (86%) were settled within three years of the report date.

3.7 The second performance measure was not fully achieved. The Board successfully implemented the Risk Based Audit Approach in NAMSA and NC3A, but the third scheduled entity (NAMEADSMA) was cancelled. This was due to the entity going through an intensive Critical Design Review during the autumn of 2010 that would have made it difficult for the entity to provide the Board with the required level of staff support to successfully carry out the Risk Based Audit Approach programme.

## **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, in accordance with IPSAS (or on a basis consistent with the previous year for those entities not required to implement IPSAS); 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 Board's 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. 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.

## **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 more than EUR 880 million in 2010.

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), and 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 of potential risks and what resources are needed to address them.

## **SUMMARY OF AGENCY AUDIT WORK IN 2010**

3.13 In 2010, the Board issued 29 financial audit reports comprising 42 Auditor's Opinions on the accounts of more than fifty-five NATO commands, bodies and assimilated organisations, using 11.7 staff years (59% of the authorised establishment). In some instances, the audit reports cover multiple 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 2010 and 2009.



TABLE 3.1

AGENCY EXPENDITURE AND AUDIT EFFORT (2010-2009)						
	AUDIT SCOPE (EUR Millions)		AUDIT EFFORT (In staff years)		Audited per staff year (EUR Millions)	
	2010	2009	2010	2009	2010	2009
NPLOs	10,055	9,541	6.2	5.7	1,622	1,674
Commands	1,129	1,059	3.3	3.3	342	325
Civ. & Mil. Agencies	604	543	2.2	2.0	274	272
<b>Totals</b>	<b>11,788</b>	<b>11,143</b>	<b>11.7</b>	<b>11.0</b>	<b>2,238</b>	<b>2,270</b>
<b>Global Average</b>					1,008	1,017

3.15 Resources allocated to agency financial audits increased from 11 to 11.7 staff years in 2010. 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 2010 the Board issued 42 Auditor's Opinions comprising 32 unqualified opinions, including two accounts that were restated. The Board issued qualified opinions on the financial statements of ACO 2008 and 2009, HQ NRDC-GNL 2006 and 2007, CEPMO 2008, NAMSA 2009, NAPMA 2008, NCSA 2008, and FORACS 2006 and 2007. The Board issued a disclaimer of audit opinion on the financial statements of the IS 2009. The majority 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. In addition, NAMO was unable to present financial statements to the Board for audit for the year ended 31 December 2009. As a result, the Board was not in a position to audit or issue an opinion on the NAMO 2009 financial statements.

3.17 This section provides a summary of the modified opinions issued in 2010. It follows up on previous modified opinions as required.

3.18 **Qualified opinion on the ACO 2008 and 2009 accounts.** The Board issued qualified opinions on the 2008 and 2009 financial statements because of a scope limitation resulting from the fact that the Board was not able to determine if inventories and expenses were accurately presented because inventory and expense data supplied by other NATO bodies was not always timely, accurate or complete, and that carry forwards of SHAPE budgetary credits delegated to other NATO entities were not supported by legal liabilities at 31 December 2008. In addition, the Board issued a qualified opinion in regards to compliance on the 2009 financial statements on whether the activities, financial transactions and information reflected in the financial statements are, in all material respects, in compliance with authorities which govern them due to significant weaknesses and instances of non-compliance with regulations in relation to the procurement activities performed at JFC Brunssum (see Annex B para 2).

3.19 **Qualified opinion on the HQ NRDC-GNL 2006 and 2007 accounts.** The Board issued a qualified opinion on the HQ NRDC-GNL Financial Statements for the year ended 31 December 2006 because supporting documents on EUR 235,676 of expenditures could not be provided. The Board issued a qualified opinion on the HQ NRDC-GNL Financial Statements for the year ended 31 December 2007 because HQ NRDC-GNL was not able to provide sufficient evidence that reimbursable expenditures and revenues for 2007 were accurate and complete (see Annex B para 6).

3.20 **Qualified opinion on the CEPMO 2008 accounts.** The Board issued a qualified opinion on the CEPMO Financial Statements for the year ended 31 December 2008 because CEPMO was not able to accurately assess at year end the level of the services/goods rendered/received and also was not able to have a bank account confirmed (see Annex B para 7).

3.21 **Qualified opinion on the NAMSA 2009 accounts.** The Board issued a qualified opinion on the NAMSA 2009 Financial Statements because the carry over effect of the weaknesses in the prior year accrual process led to the material overstatement of NAMSA 2009 expenses (see Annex B para 13).

3.22 **Qualified opinion on the NAPMA 2008 accounts.** The Board issued a qualified opinion on its audit due to a scope limitation on the value of USD 44.1 million of the Large Aircraft Infrared Counter Measure Projects (LAIRCM) assets in progress as at 31 December 2008. This represented additions to the asset resulting from work undertaken by the US contractor in 2007 (USD 24.1 million) and 2008 (USD 20 million). This is because the Board does not have access to the indirect contracting process that is used by the U.S. Government to transform the invoices received from the US contractors into the U.S. Government billing statements that are then sent to NAPMA. As a result, the Board is not in the position to assess that this process is either reliable or results in billings that accurately represent work performed by the US contractors (see Annex B para 14).

3.23 **Qualified opinion on the NCSA 2008 accounts.** The Board issued a qualified opinion on the 2008 financial statements based on the following IPSAS related observations: (1) 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 and (2) NCSA materially overstated expenses in fiscal year 2008. In addition, there is a lack of information on the receipt date of EUR 19.3 million of other services for fiscal year 2006 and 2007 that NAMSA had billed to NCSA in 2008. As a result of this lack of information, the Board cannot provide audit assurance that expenses related to these activities were recorded in the proper period in accordance with IPSAS 1, *Presentation of Financial Statements* (see Annex B para 16).

3.24 **Qualified opinion on the FORACS 2006 and 2007 accounts.** The Board issued a qualified opinion on the FORACS Financial Statements for the year ended 31 December 2006, because expenditure and revenue were not reported in accordance with the accruals basis of accounting and in compliance with IPSAS. The Board also issued a qualified opinion on the FORACS Financial Statements for the year ended 31 December 2007,

because of a material and equal overstatement of total assets and total liabilities (see Annex B para 19).

3.25 **Disclaimer of opinion on the IS 2009 accounts.** The Board issued a disclaimer 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 para 21).

## 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 annual report to the Council summarising the result of the audit of NSIP expenditure. This report will be issued later in the year, after all NSIP expenditure made in 2010 has been reported to NATO 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 2010

4.4 The Board audited the expenditure presented for audit by the nations and agencies in 2010. It conducted fifteen audit missions in ten nations, two agencies and one strategic command. These audits covered expenditure amounting to EUR 883 million, compared to EUR 415 million in 2009. The Board issued 258 COFFAs with a total value of EUR 958 million, compared to 265 COFFAs for EUR 682 million in 2009. The audit of NSIP projects in 2010 resulted in a net credit of EUR 1.7 million in favour of the Programme.

#### PERFORMANCE IN 2010

4.5 In 2010, the Board spent the equivalent of 1.7 staff years (8.3% of the authorised establishment) on the audit of NSIP. This figure was the lowest ever recorded, confirming the downward trend observed for a number of years.

4.6 On 1 December 2009, the Board issued its Strategic Plan for the period 2010-2014. One of its strategic goals is to enhance management and to improve accountability

in the NSIP. In its Annual Performance Plan for 2010, the Board developed measures of success with specific targets. The first performance measure was to reduce the number of “auditable” projects (i.e. operationally completed and technically inspected projects), to a target figure of 10 projects or less per nation. At year end 2010, this target was reached for most nations (except seven) and Agencies (except one). A second target was to meet 80% of the project audit requests from nations within six months. This target was exceeded, as 100% of national requests for audits were responded to within six months.

## **THE BOARD’S 2009 NSIP REPORT**

4.7 The Board issued its annual report on the 2009 audit of NSIP on 8 December 2010. The Board noted that the total number of operationally completed projects remaining to be inspected, audited, and certified had only marginally decreased, from 1,858 to 1,790. In the Board’s opinion this situation is cause for concern. As of March 2011, the report had not yet been discussed by the Resource Policy and Planning Board or presented to Council.

## **ACCELERATED CLOSE-OUT OF THE SLICE PROGRAMME**

4.8 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.

4.9 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.

4.10 In 2010, no projects were closed as a result of these accelerated procedures, as was the case in 2009.

4.11 The Board, concerned by the lack of progress, continues to actively monitor, and advocate for, the application of the agreed procedures to achieve an 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 smaller studies in which limited performance aspects are covered. To support that commitment, the Board 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 developed and implemented a TeamMate module for performance audits that incorporates the related procedures.

5.3 In 2010 the Board spent 2.6 staff years on performance audits, corresponding to 13% of its resources (compared to 2.4 staff years or 13% in 2009), despite a vacancy rate of almost two staff years. It carried out a performance audit on the Implementation of Objective Based Budgeting (Descriptive Phase) and on Real Life Support at Kandahar, Afghanistan. The Board also prepared special reports to Council on the Second and Third Years of Implementation of IPSAS within NATO and also on Strengthening the Role of IBAN in Respect of Management Reviews and Cost Efficiency Assessments. In addition, the Board continued work on a NATO-wide performance audit on fraud prevention and detection. The Board began work on performance audits on the Implementation of Objective Based Budgeting Second (Evaluative) Phase and on NSIP Capability Packages. These two audits will be completed and finalised in 2011. In addition, the Board began work on a special report to Council on the Critical Success Factors for NATO Agency Reform which was completed and issued to Council in March 2011.

##### Studies

5.4 As in the past, the Board responded to various requests for advice from NATO bodies, committees, and working groups. It was involved in meetings related to the

implementation of IPSAS, NATO Agency Reform, and NATO Resource Reform. The Board also advised NATO committees and working groups on issues related to audit, finance and governance.

## PERFORMANCE IN 2010

5.5 One of the strategic goals of the Board's 2010-2014 Strategic Plan is to contribute to effective, efficient, and economical operations and activities in NATO. Success in 2010 was measured through (1) the proportion of performance audit reports presenting recommendations and/or options (target 100%), (2) issuing at least two performance audit reports per year, 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 2010 contained recommendations and consequently met the first target. The second target to issue at least two performance audit reports was also achieved. 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 and will do so in the future as well.

## PERFORMANCE AUDITS AND STUDIES CARRIED OUT IN 2010

5.7 In its audit report on the **Implementation of Objective Based Budgeting in NATO (Descriptive phase)** the Board's audit objectives focused on the two following areas:

- providing benchmarking information from other international experiences in terms of OBB structure, implementation key factors and lessons learned; and
- describing the current status of OBB implementation in NATO and the challenges faced by the various entities to achieve a meaningful methodology.

5.8 The Board reviewed the implementation of OBB in NATO IS, International Military Staff (IMS), ACO and ACT. The Board recommended that any further OBB development should be based on a clear commitment from the Council in terms of performance expectations, monitoring and guidance to the entities and development of a comprehensive OBB structure including all basic components (see Annex B para 30).

5.9 The ISAF mission is currently NATO's top operational priority. Kandahar Airfield (KAF) is NATO's largest base in the world and the establishment and sustainment of the Air Port of Debarcation (APOD) at KAF is a key factor in supporting NATO's mission in Afghanistan. NATO is the lead nation at KAF and NAMSA is the contracting agency providing programme management and contracting functions for the Real Life Support (RLS) and APOD services at KAF. The Board's report on **Real Life and APOD Support at Kandahar, Afghanistan**, had the following objectives:

- to determine whether the RLS and APOD contracts were awarded in accordance with the relevant NATO regulations - *NAMSA Procurement Directives and Regulations*;
- to evaluate how effectively NAMSA monitors contractors' performance, as regards to the existence and completion of inspection plans, to the reporting of the results and to the timely implementation of the required corrective action;
- to assess whether the RLS/APOD services provide the quantity and the quality of deliverables to satisfy the current requirements; whether current requirements have been incorporated into the contracts in force; compliance between contractors' performance and their contractual obligations; and stakeholders' overall satisfaction with RLS/APOD arrangements and delivery of services.

5.10 This audit report is classified **NATO Restricted** and its findings and recommendations cannot be presented in this report (see Annex B para 31).

5.11 In its special report to Council on **the Second and Third Years of Implementation of IPSAS within NATO** the Board has compiled the main conclusions relevant to the implementation of IPSAS NATO-wide from its audit of the 2007 and 2008 financial statements. The Board's audits confirmed that the NATO entities have continued to make progress in improving the consistency and transparency of financial reporting, but also that further progress is still necessary. 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.

5.12 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 (see Annex B para 32).



5.13 The Board issued a special report to Council on **Strengthening the Role of the Board in Respect of Management Reviews and Cost Efficiency Assessments** in response to taskings arising from the 2010 Istanbul Ministerial meeting regarding the reform needed to achieve the balancing of requirements and resources within NATO. This audit report is classified **NATO Restricted** and its findings and recommendations cannot be presented in this report (see Annex B para 33).

## **CHAPTER 6**

### **MATTERS RELATING TO THE BOARD**

#### **PERSONNEL MATTERS**

6.1 The Board had its full complement of six serving members: Poland, Spain, Germany, Portugal, Italy, Hungary, and Norway were represented on the Board for part or all of 2010 (with the Board Member from Poland departing in the year and replaced by a Board Member from Norway).

6.2 The authorised establishment of the Board in 2010 was twenty-two auditor posts, including one Principal Auditor, two Senior Auditors and 19 auditors. Two new auditors arrived in May and September 2010. At the end of 2010 there were two vacant auditor positions. During 2010, the Board had an average auditor vacancy rate of approximately 2 staff years. The Board Members and auditors came from thirteen different nations. The auditors came from eleven different 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 agency, NSIP, and performance audits and general administration of the Board.

#### **PERFORMANCE IN 2010 - THE BOARD AS AN INNOVATIVE AND PROACTIVE AUDIT ORGANISATION**

6.4 The fourth strategic goal of the Board's 2010-2014 Strategic Plan aims at developing the Board as an innovative and proactive 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 continues to increase its performance audit capacity in accordance with the Annual Performance Plan.

#### **RISK BASED AUDIT APPROACH**

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 2010, the Board continued implementation of the Risk Based Audit Approach methodology at NAMSA and also at NC3A with the objective to improve the efficiency and effectiveness of the audits. The Board is implementing a five year Project Management Plan which details the application of the Risk Based Audit Approach methodology to all of its financial audits and the expected potential resource savings to be made in the long-term.

## **STRATEGIC PLAN FOR 2010-2014**

6.7 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. These strategic goals are the following: (1) Strengthen accountability and corporate governance within NATO, (2) enhance management and ensure accountability in the NSIP, (3) contribute to efficient, effective, and economical operations and activities in NATO, and (4) develop the Board as an innovative and proactive audit organisation. 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 to three weeks training for each auditor (one to two weeks shared training and up to 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 2010 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 report writing, Risk Based Audit Approach, IPSAS 17, and auditing standards. In addition, audit staff participated in internal and external seminars and courses organised by NATO, 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 2010 and 2009.

TABLE 6.1

<b>ALLOCATION OF AUDIT RESOURCES IN STAFF YEARS FOR 2010 AND 2009</b>		
	<b>Actual 2010</b>	<b>Actual 2009</b>
NSIP Financial Audits	1.6	1.9
Agency Financial	11.7	11.0
Performance Audits	2.6	2.4
Studies	0.5	0.5
Training	0.9	0.9
Administration + Miscellaneous <sup>2</sup>	1.3	1.2
Board Support <sup>3</sup>	1.4	1.3
<b>Sub Total</b>	<b>20.0</b>	<b>19.2</b>
<i>Vacant Positions</i>	2.0	1.8
<b>Total authorised establishment</b>	<b>22.0</b>	<b>21.0</b>

## DIRECT COST OF THE AUDIT

6.11 Table 6.2 below shows the allocation of the Board's audit resources and their cost in 2010.

TABLE 6.2

<b>DIRECT COST OF THE AUDIT IN 2010</b>		
<b>Activity</b>	<b>Time Allocated (Staff Days)</b>	<b>Direct Audit costs (EUR million)</b>
Agency financial audit	2,392	1.6
NSIP financial audit	337	0.2
Performance audit	526	0.4
Other (Training, Board, Studies)	819	0.6
<b>Total</b>	<b>4,074</b>	<b>2.8</b>

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 2010, EUR 2.8 million, is only EUR 1 million more 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 performance and agency audits, the Board's audits of NSIP projects in 2010 generated almost EUR 2 million of net adjustments in favour of NATO.

<sup>2</sup> The item "Administration + Miscellaneous" 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.

<sup>3</sup> The item "Board Support" covers the preparation of the Board's Annual Activities Report, the Annual NSIP Report, 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". As a result of NATO committee reform which took place in July 2010, the role of the AGFC will now be taken by the Resource Policy and Planning Board (RPPB).

6.14 The 20<sup>th</sup> meeting to discuss the 2009 Annual Activities Report took place on 18 May 2010 under the chairmanship of the Office of the Auditor General of Canada. Representatives of twenty-two nations participated in the meeting, which was also attended by the Chairman and several national representatives of the AGFC and representatives from the MBC/CBC.

6.15 As of writing this report, the Board has not yet been invited to present the 2009 Annual Activities Report to Council. This is a result of the committee reform undertaken in July 2010 by NATO that resulted in the deletion of the AGFC. At that time, no committee was appointed as being responsible for the reports of the Board. The Board, in cooperation with the Chairman RPPB, established with the Private Office of the Secretary General that the RPPB would take over the role of the deleted AGFC. As a result of this uncertainty, some of the Board's reports have been significantly delayed in being presented to Council. The Board is working in close cooperation with the Chairman RPPB to clear this back log of reports.

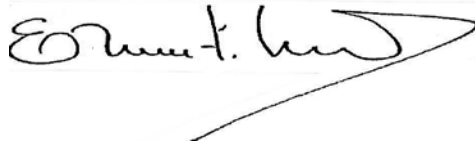
## **INTERNATIONAL CO-OPERATION**

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

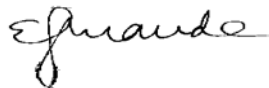
6.17 The Board attempts through the activities such as those described above to stay within the mainstream of the professional audit community. The Board believes that professional contact and interchange with other audit bodies and NATO organisations are important for maintaining a "state-of-the-art" international audit organisation, which is one of the aims of its 2009-2014 Strategic Plan.



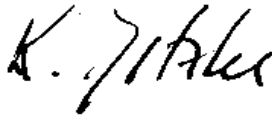
Approved by the Board on 29 April 2011




**Chairman**                      **Ernesto da Cunha**                      **(Portugal)**



**Board Member**                      **Enrique Gómez de Aranda**                      **(Spain)**



**Board Member**                      **Klaus Getzke**                      **(Germany)**



**Board Member**                      **Pietro Russo**                      **(Italy)**



**Board Member**                      **Janos Revesz**                      **(Hungary)**



**Board Member**                      **Kirsten Astrup**                      **(Norway)**





**LIST OF REPORTS  
RESULTING FROM AGENCY AUDITS**



<b>LIST OF REPORTS RESULTING FROM AGENCY AUDITS</b>			
<b>Subject</b>		<b>Budget year(s)</b>	<b>Reference of document and date</b>
<b>MILITARY COMMANDS</b>			
<b>1.</b>	<b>ACO Group</b>	<b>2008</b>	IBA-AR(2010)12, dated 28.05.2010 C-M(2010)0068
<b>2.</b>	<b>ACO Group</b>	<b>2009</b>	IBA-AR(2010)26, dated 26.11.2010 C-M(2011)0006
<b>3.</b>	<b>ACT Group</b>	<b>2009</b>	IBA-AR(2010)28, dated 26.11.2010 C-M(2010)0112
<b>4.</b>	<b>COE-DAT</b>	<b>2006-2008</b>	IBA-AR(2010)02, dated 25.06.2010
<b>5.</b>	<b>JAPCC</b>	<b>2006-2008</b>	IBA-AR(2009)36, dated 25.06.2010
<b>6.</b>	<b>NRDC-GE/NL</b>	<b>2006-2008</b>	IBA-AR(2010)08, dated 17.12.2010
<b>NPLOs</b>			
<b>7.</b>	<b>CEPMO</b>	<b>2008</b>	IBA-AR(2009)28, dated 16.07.2010 C-M(2011)0016
<b>8.</b>	<b>NACMA</b>	<b>2008</b>	IBA-AR(2009)33, dated 26.02.2010 C-M(2010)0044
<b>9.</b>	<b>NACMA</b>	<b>2009</b>	IBA-AR(2010)31, dated 17.12.2010 C-M(2011)0008
<b>10.</b>	<b>NAHEMA</b>	<b>2008</b>	IBA-AR(2009)29, dated 26.03.2010 C-M(2010)0050
<b>11.</b>	<b>NAMA</b>	<b>2008</b>	IBA-AR(2010)13, dated 16.07.2010 C-M(2010)0094
<b>12.</b>	<b>NAMEADSMA</b>	<b>2009</b>	IBA-AR(2010)14, dated 16.07.2010 C-M(2010)089
<b>13.</b>	<b>NAMSA</b>	<b>2009</b>	IBA-AR(2010)20, dated 06.09.2010 C-M(2011)0017

<b>LIST OF REPORTS RESULTING FROM AGENCY AUDITS</b>			
<b>Subject</b>		<b>Budget year(s)</b>	<b>Reference of document and date</b>
14.	<b>NAPMA</b>	<b>2008</b>	IBA-AR(2010)07, dated 25.06.2010 C-M(2011)0012
15.	<b>NBA</b>	<b>2009</b>	IBA-AR(2010)24, dated 29.10.2010 C-M(2010)0105
16.	<b>NCSA</b>	<b>2008</b>	IBA-AR(2010)01, dated 30.04.2010 C-M(2010)0054
17.	<b>NETMA, NAMMO &amp; NEFMO</b>	<b>2009</b>	IBA-AR(2010)22, dated 17.12.2010
<b>CIVIL-MILITARY AGENCIES AND OTHER ORGANISATIONS</b>			
18.	<b>AGS3</b>	<b>2008</b>	IBA-AR(2009)38, dated 25.06.2010 C-M(2011)0013
19.	<b>FORACS</b>	<b>2005-2008</b>	IBA-AR(2009)32, dated 25.06.2010 C-M(2011)0015
20.	<b>IMS, NSA (INCL. Pfp-MD-ICI-OMC)</b>	<b>2009</b>	IBA-AR(2010)18, dated 16.07.2010 C-M(2010)0085
21.	<b>INTERNATIONAL STAFF</b>	<b>2009</b>	IBA-AR(2010)21, dated 29.10.2010 C-M(2010)0107
22.	<b>NAMFI</b>	<b>2009</b>	IBA-AR(2010)29, dated 17.12.2010
23.	<b>NATO DEFINED CONTRIBUTION PENSION SCHEME (DCPS)</b>	<b>2005-2008</b>	IBA-AR(2010)09, dated 29.10.2010
24.	<b>NATO PARLIAMENTARY ASSEMBLY (NPA)</b>	<b>2009</b>	IBA-AR(2010)03, dated 30.04.2010
25.	<b>NATO PENSION SCHEME</b>	<b>2008</b>	IBA-AR(2010)06, dated 16.07.2010 C-M(2010)0095
26.	<b>NATO PROVIDENT FUND</b>	<b>2008</b>	IBA-AR(2010)10, dated 25.06.2010

<b>LIST OF REPORTS RESULTING FROM AGENCY AUDITS</b>			
<b>Subject</b>		<b>Budget year(s)</b>	<b>Reference of document and date</b>
<b>27.</b>	<b>REPRESENTATION ALLOWANCES</b>	<b>2009</b>	IBA-AR(2010)05, dated 25.06.2010
<b>28.</b>	<b>RETIRED MEDICAL CLAIMS FUND</b>	<b>2008</b>	IBA-AR(2010)04, dated 26.11.2010
<b>29.</b>	<b>SHAPE INTERNATIONAL SCHOOL</b>	<b>2008-2009</b>	IBA-AR(2010)25, dated 29.10.2010
<b>PERFORMANCE AUDITS &amp; SPECIAL STUDIES</b>			
<b>30.</b>	<b>OBJECTIVE BASED BUDGETING (OBB)</b>		IBA-AR(2010)15, dated 06.09.2010 C-M(2010)0084
<b>31.</b>	<b>REAL LIFE &amp; APOD SUPPORT AT KANDAHAR AIRFIELD</b>		IBA-AR(2010)16, dated 16.07.2010 C-M(2010)0106
<b>32.</b>	<b>SPECIAL REPORT TO COUNCIL ON THE SECOND AND THIRD YEARS OF IMPLEMENTATION OF THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS) WITHIN NATO</b>		IBA-AR(2010)11, dated 30.04.2010 C-M(2010)0040
<b>33.</b>	<b>SPECIAL REPORT TO COUNCIL ON STRENGTHENING AUDITING, INCLUDING THE ROLE IBAN IN RESPECT OF MANAGEMENT REVIEWS AND COST AND EFFICIENCY ASSESSMENTS</b>		IBA-AR(2010)17, dated 10.06.2010 C-M(2010)0057



**SUMMARY OF THE FINDINGS  
IN THE AGENCY AUDIT REPORTS**





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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 OPERATIONS (ACO) – 2008**

#### **Introduction**

The International Board of Auditors for NATO (Board) audited the Allied Command Operations (ACO) Consolidated Financial Statements for the year ended 31 December 2008. The total budgetary spend (commitments plus actuals) for ACO against Military Budget Committee (MBC) funded budgets in 2008 amounted to EUR 1,088.9 million (in 2007, EUR 954.4 million). In addition to the execution of the military budgets, ACO also incurred EUR 109.4 million of other expenditure (reimbursable, trust funds, etc.) and EUR 15.4 million of NSIP project expenditure.

#### **Audit Highlights**

The Board issued a qualified opinion on the 2008 financial statements because of a scope limitation resulting from the fact that the Board was not able to determine if inventories and expenses were accurately presented because inventory and expense data supplied by other NATO bodies was not always timely, accurate or complete, and that carry forwards of SHAPE budgetary credits delegated to other NATO entities were not supported by legal liabilities at 31 December 2008.

The Board raised the following observations that support the qualified opinion of the ACO 2008 Consolidated Financial Statements:

- reliance on other NATO entities, that led to weaknesses related to ACO inventories managed by other NATO entities, weaknesses in expense data reported by NAMSA, and unsupported carry forward of SHAPE budgetary credits delegated to other NATO entities.

In addition to the observations that support the qualified opinion, the Board raised three further observations and recommendations related to reliance on other NATO entities as follows:

- SHAPE: Weaknesses in Global Funding;
- Brunssum: NAMSA Airport of Debarcation (APOD) contract - Expenditures exceed commitments;
- other inventory related observations and recommendations.

The Board raised five further observations that were not related to reliance on other NATO entities:

- ISAF: Responsibilities of JFC Brunssum;
- ISAF: National Borne Cost;
- ISAF: Account receivable managed at ISAF HQ Kabul;
- Naples: NATO Training Mission – Iraq;
- late issuance of the financial statements.

## **2. ALLIED COMMAND OPERATIONS (ACO) – 2009**

### **Introduction**

The International Board of Auditors for NATO (Board) audited the Allied Command Operations (ACO) Consolidated Financial Statements for the year ended 31 December 2009. The total budgetary spend (commitments plus actuals) for ACO against Military Budget Committee (MBC) funded budgets in 2009 amounted to EUR 1,197.8 million (in 2008, EUR 1,088.9 million). In addition to the execution of the military budgets, ACO also incurred EUR 82.5 million of other expenditure (reimbursable, trust funds, etc.) and EUR 13.5 million of NSIP project expenditure.

### **Audit Highlights**

#### Opinion on the Financial Statements

The Board issued a qualified opinion on the 2009 financial statements because of a scope limitation resulting from the fact that we were not able to satisfy ourselves that inventories and expenses were accurately presented because inventory and expense data supplied by

other NATO bodies was not always timely, accurate or complete.

### Opinion on Compliance

The Board issued a qualified opinion on whether the activities, financial transactions and information reflected in the financial statements are, in all material respects, in compliance with authorities which govern them due to significant weaknesses and instances of non-compliance with regulations in relation to the procurement activities performed at JFC Brunssum.

The Board raised the following observations that support the qualified opinion on the presentation of the 2009 ACO Consolidated Financial Statements:

- weaknesses related to ACO inventories managed by other NATO entities.

In addition to the observations that support the qualified opinion on the presentation of the 2009 ACO Consolidated Financial Statements, the Board raised seven further observations and recommendations that, collectively, support the qualified opinion in relation to compliance with the Procurement Rules and Regulations as follows:

- Brunssum: Lack of compliance with policies relating to advance payments to NATO agencies;
- Brunssum: Lack of validation process for services provided by NATO agencies;
- Brunssum: Poor management of rotary wing contract;
- Brunssum: Deviations from normal Procurement Procedures not approved;
- Brunssum: Weaknesses related to indefinite quantity contracts;
- Brunssum: Lack of update of contractual relationships between the ACO Commands and the supporting agencies;
- ISAF: No evidence supporting biddings being performed.

The Board raised six further observations related to non-compliance with the NATO Financial Rules and Regulations and internal controls as follows:

- E-3A Carry forward of unexpended balances of committed credits for which a legal liability exists beyond the third financial year;
- E-3A Morale and Welfare activities potential insolvency;
- Brunssum: NAMSAs reported expenditures over the committed amount without prior approval;
- Brunssum: TCSOR provisions;
- other Inventory related Observations and Recommendations;
- other Procurement related Observations and Recommendations.

### **3. ALLIED COMMAND TRANSFORMATION (ACT) – 2009**

#### **Introduction**

The Board's audit report covers the audit of the restated 2009 financial statements of the Allied Command Transformation (ACT). These statements were the fourth annual set of financial statements produced that were required to be prepared on an accruals and International Public Sector Accounting Standards (IPSAS) compliant basis, the first having been prepared for 2006. The total expenditure in 2009 amounted to approximately EUR 130 million, compared with approximately EUR 117 million in 2008.

The framework for a new NATO Command Structure as announced by the Heads of State and Government on 20 November 2010, which represents a significant reduction in the number of headquarters and manpower, is anticipated to have a significant impact on ACT. However, since the timing of the announcement occurred after the issuance of the 2009 financial statements, ACT was not required to disclose this reform in the financial statements and the use of the going concern assumption in preparing the financial statements was appropriate.

#### **Audit Highlights**

The Board has issued an unqualified opinion on the restated 2009 ACT Consolidated Financial Statements.

The Board made observations and recommended corrective action to be taken which resulted in ACT restating the financial statements and on the following topics:

- other Procurement related Observations and Recommendations;
- the need for ACT Headquarters (ACT HQ) to prepare the final call for contributions based on all previous years adjustments and ensure that the call made by the IS Treasury agrees with HQ ACT's expectation;
- the need for ACT HQ to revise Notes 14 and 15 to the financial statements so that there is a clear reconciliation between the categories and total operational expenses disclosed on the Statement of Financial Performance, and the main elements of staff and operational expenses listed in the supporting Notes;
- the need for sole source contracting by ACT HQ and Joint Warfare Centre (JWC) to be approved before contract start date;
- that ACT HQ should in future comply with the Financial Rules and Procedures relating to restrictions on transfers of commitments carried forward;
- that for financial accounting of the NATO Undersea Research Centre (NURC) Special Work Programme (SWP), the actual revenue and expenses should be recorded, with a resultant surplus or deficit, as the SWP is in effect a commercial operation and not a budgetary funded activity.

#### **4. CENTRE OF EXCELLENCE DEFENCE AGAINST TERRORISM (COE-DAT) – 2006-2008**

##### **Introduction**

The Centre of Excellence Defence against Terrorism (the COE-DAT) was established in June 2005. The Operational and Functional MOUs have been signed by Turkey, Bulgaria, Romania, the UK and the USA as Sponsoring Nations (SNs). In 2006, Germany and the Netherlands joined the COE-DAT.

The COE-DAT assumes the mission of supporting the Supreme Allied Commander Transformation (SACT) in his efforts of transforming NATO in the field of defence against terrorism. In this context, the COE-DAT in particular provides training and education at the strategic and operational level; provides subject matter expertise on defence against terrorism to HQ SACT; assists HQ SACT in testing and validating terrorism related NATO concepts through experimentation; assists in doctrine development by contributing knowledge and lessons identified and contributes to NATO standardisation and the improvement of capabilities and interoperability.

The total approved budgets of the COE-DAT for financial years ended 31 December 2006, 2007 and 2008 were EUR 2.4 million, while total expenditures against these budgets for the same financial years amounted to EUR 1.2 million.

##### **Audit Highlights**

The Board issued an unqualified opinion on the COE-DAT's Financial Statements for the years ended 31 December 2006 to 31 December 2008.

The Board has made the following observations:

- presentation of the financial statements;
- contradiction between local financial rules;
- non-application of VAT exemption for some transactions.

#### **5. JOINT AIR POWER COMPETENCE CENTRE MULTINATIONAL BUDGET (JAPCC) – 2006-2008**

##### **Introduction**

The Joint Air Power Competence Centre (JAPCC) is a multi-nationally sponsored Centre of Excellence that became operational in January 2005. It deals with all Joint Air Power Transformation related issues at the strategic level and may support sponsoring nations as well as NATO-customers.

The Memorandum of Understanding dated 13 December 2004 concerning the functional

relationship of the JAPCC has been signed by 16 sponsoring nations (Belgium, Canada, Czech Republic, France, Germany, Greece, Hungary, Italy, the Netherlands, Norway, Poland, Portugal, Spain, Turkey, the United Kingdom and the United States) and by HQ SACT (Supreme Allied Commander Transformation). Romania joined JAPCC with effect from 01 January 2006.

The approved budget of JAPCC and related expenditures for the audited years are as follow:

YEAR	BUDGET	EXPENDITURES
2008	946,400	725,134
2007	1,235,400	962,869
2006	1,160,000	819,869

### **Audit Highlights**

The Board issued an unqualified opinion on the financial statements of JAPCC for the years ended 31 December 2008, 2007 and 2006.

The Board made two observations leading to recommendations that JAPCC should:

- seek the JAPCC Senior Resource Committee (SRC) agreement to delegate the authority to authorise local purchases of goods and services from the JAPCC Director of Staff (DOS) to a lower level and to modify article 17 of JAPCC Financial Administrative Procedures (FAPs) in order to allow for local purchases of goods in cases where the framework nation procurement system can not be used due to its legal constrains;
- seek the JAPCC SRC agreement to grant the necessary contract authority to enter in a legal liability not covered by a budgetary commitment.

## **6. HEADQUARTERS NATO RAPID DEPLOYABLE CORPS GERMANY/THE NETHERLANDS (NRDC GE/NL) – 2006-2008**

### **Introduction**

The Headquarters NATO Rapid Deployable Corps Germany The Netherlands (HQ NRDC-GNL) is prepared to operate as Corps HQ or Land Component Command (LCC) throughout the entire mission spectrum, in high-intensity and low-intensity operations.

A Memorandum of Understanding (MOU) was signed in September 2002 by nine countries (Denmark, Germany, Italy, the Netherlands, Norway, Spain, Turkey, the United Kingdom and the United States of America), the Supreme Headquarters Allied Powers Europe (SHAPE) and the Allied Command Transformation (ACT). Three additional countries, Belgium, Greece and France, joined the Organisation in the years 2004-2006.



The HQ NRDC-GNL has been activated as an international military Headquarters under NATO command and granted international status with the decision of the NAC PO(2002)140.

The administration and financial management of HQ NRDC-GNL is carried out in compliance with the NATO Financial Rules and Regulations as well as with the Allied Command Operations (ACO) Directives.

The approved budget of HQ NRDC-GNL for financial years 2006, 2007 and 2008 was EUR 5.6 million while expenditure against the budget in the financial years 2006, 2007 and 2008 amounted to EUR 3.6 million.

### **Audit Highlights**

The Board issued a qualified opinion on the HQ NRDC-GNL Financial Statements for the year ended 31 December 2006 because supporting documents on EUR 235,676 of expenditures could not be provided.

The Board issued a qualified opinion on the HQ NRDC-GNL Financial Statements for the year ended 31 December 2007 because HQ NRDC-GNL was not able to provide sufficient evidence that reimbursable expenditures and revenues for 2007 were accurate and complete.

The Board issued an unqualified opinion on the HQ NRDC-GNL Financial Statements for the year ended 31 December 2008.

The Board has made the following observations:

- delay in producing the 2006 and 2007 Financial Statements;
- insufficient supporting documentation for 2006 and 2007 reimbursable expenditures and revenues;
- difficulties in managing the Financial Management Information System;
- weaknesses related to procurement process;
- unsupported expenditures;
- application of the 'commit and pay' process;
- charging the consumption tax as expenditure.

## RESULTS OF AUDITS RELATING TO THE NATO PRODUCTION AND LOGISTICS ORGANISATIONS

### 7. CENTRAL EUROPE PIPELINE MANAGEMENT AGENCY (CEPMA) – 2008

#### 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 (CEPS), 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 2008 amounted to EUR 96.2 million.

#### Audit Highlights

The Board issued a qualified opinion on the CEPMO Financial Statements for the year ended 31 December 2008 because CEPMO was not able to accurately assess at year end the level of the services/goods rendered/received and also was not able to have a bank account confirmed.

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

- overstatement of interests to be received (CEPMA);
- inappropriate access rights and update of identification in the system (CEPMA);
- bank account balance could not be confirmed (BPO);
- lack of accuracy between services rendered and not rendered (BPO);
- the non-recording of inventory received and issued during the year (stock turnover data at BPO);
- other payables could not be confirmed (FBG);
- difference in the cash reconciliation (SNOI);
- the introduction of pre-existing stock into the Financial Statements (BPO, SNOI and FBG).

## **8. NATO AIR COMMAND AND CONTROL SYSTEM MANAGEMENT AGENCY (NACMA) – 2008**

### **Introduction**

The NATO Air Command and Control System (ACCS) is a major programme aimed at combining, at the tactical level, the planning, tasking and execution of allied air operations. It is a mixture of national and common funded projects. The programme has been in existence since 1981.

On 7 January 1991, Council created the NATO ACCS Management Agency (NACMA) to support the programme. NACMA is the implementing body and acts as host nation and/or procurement agent for the NATO Security Investment Programme (NSIP) projects and for national projects assigned to it. NACMA reports to a Board of Directors representing the nations. The Agency and the Board of Directors are collectively known as the NATO ACCS Management Organisation (NACMO).

The financial statements of NACMA include the Administrative and the Operational Budgets items together. The NACMA 2008 total expenditure (based on the accrual basis under IPSAS) was EUR 70 million.

### **Audit Highlights**

The Board issued an unqualified opinion on the NACMA Financial Statements for the year ended 31 December 2008. The Board raised the following observations:

- irregular Procurement of Consultancy Services;
- irregular Separation Payment of EUR 220,000 to Terminate a Definite Duration Contract;
- double Counting of Unrealised Foreign Exchange Gains and Losses; and
- overstatement of the Cumulative Value of NSIP projects.

The NSIP share of the funding of the Administrative Budget is examined as an NSIP project. As a result of this audit, the Board issued two Certificates of Final Financial Acceptance (COFFA). The first covered the NSIP share of the 2006 administration budget (EUR 14,316,417). The second covered the Building Z relocation costs (EUR 423,689).

## **9. NATO AIR COMMAND AND CONTROL SYSTEM MANAGEMENT AGENCY (NACMA) – 2009**

### **Introduction**

The NATO Air Command and Control System (ACCS) is a major programme aimed at combining, at the tactical level, the planning, tasking and execution of allied air operations. It is a mixture of national and common funded projects. The programme has been in existence since 1981.

On 7 January 1991, Council created the NATO ACCS Management Agency (NACMA) to support the programme. NACMA is the implementing body and acts as host nation and/or procurement agent for the NATO Security Investment Programme (NSIP) projects and for national projects assigned to it. NACMA reports to a Board of Directors representing the nations. The Agency and the Board of Directors are collectively known as the NATO ACCS Management Organisation (NACMO).

The financial statements of NACMA include the Administrative and the Operational Budgets items together. The NACMA 2009 total expenditure (based on the accruals basis under the International Public Sector Accounting Standards (IPSAS)) was EUR 82 million.

The consolidation and rationalisation of the functions and programmes of the NATO Agencies into three Agencies, as announced by Heads of State and Government on 20 November 2010, is anticipated to have a significant impact on NACMA. However, since the timing of the announcement occurred after the issuance of the 2009 financial statements, NACMA was not required to disclose this reform in the financial statements and the use of the going concern assumption in preparing the financial statements was appropriate.

### **Audit Highlights**

The Board issued an unqualified opinion on the NACMA Financial Statements for the year ended 31 December 2009.

The Board raised the following observations:

- irregular Carry-Forward of Commitments;
- budgetary Approval for Temporary Staff;
- overstatement of Assets and Liabilities;
- overstatement of prior year comparative figures;
- end of year foreign currency conversion rates.

## **10. NATO HELICOPTER FOR THE 1990s (NH90) DESIGN AND DEVELOPMENT, PRODUCTION AND LOGISTICS MANAGEMENT AGENCY (NAHEMA) – 2008**

### **Introduction**

The objective of the NATO Helicopter for the 1990s (NH90) programme is to design and develop a new transport and naval helicopter for the forces of France, Germany, Italy and the Netherlands. Portugal joined the NH-90 program in 2001 and Belgium in 2007. NAHEMA is located in Aix-en-Provence in France. The agency became operational in 1992. The expenditure in 2008 amounted to EUR 387.8 million (operational) and EUR 8.2 million (administrative).

## **Audit Highlights**

The Board issued an unqualified opinion on the restated NAHEMA Financial Statements for the year ended 31 December 2008. This means that the statements fairly present the financial position of NAHEMA and that the underlying transactions conform with the applicable regulations.

The Board made the following observations:

- ensure, in future, that payments made prior to receipts of goods or services are disclosed as prepayments rather than expensed on the Statement of Financial Performance;
- continue to work with nations to reduce overall levels of cash held by the agency; and
- review its procedures for creating and carrying forward budgetary commitments on the administrative budgets to ensure it adheres to its financial regulations in future.

## **11. NATO AIRLIFT MANAGEMENT ORGANISATION (NAMO) – 2008**

### **Introduction**

On 29 September 2008 the NATO Airlift Management Organisation and its NATO Airlift Management Agency was activated by the entering into effect of the Strategic Airlift Capability Memorandum of Understanding. The multinational Strategic Airlift Capability Program fulfills the strategic airlift requirements of the participating nations.

### **Audit Highlights**

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

The Board made four observations concerning:

- the late issuance of the 2008 financial statements;
- the need to improve the controls on budget commitments, liabilities and payments;
- unclear budget approval and call currency;
- presentation of the 2009 Budget's First Call for Contribution.

## **12. NATO MEDIUM EXTENDED AIR DEFENCE SYSTEM MANAGEMENT ORGANISATION (NAMEADSMO) – 2009**

### **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 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. The Participating Nations are Germany, Italy and the United States. As at 31 December 2009, NAMEADSMA had an authorised staff of 112 persons, of which 104 were filled.

NAMEADSMO presented its financial statements for the year ending 31 December 2009 in accordance with accrual-based International Public Sector Accounting Standards (IPSAS).

In 2009, NAMEADSMO's expenditures totalled U.S. Dollars (USD) 607 million, consisting of USD 14 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 2009.

The Board made two observations leading to the following recommendations:

- to restrict cash currency holdings to the minimum required to meet forecast expenditure and not tailor the contributions calls to the convenience of each nation in excess of cash requirements; and
- to comply fully, in future, with the disclosure requirements of IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*, IPSAS 13 *Leases*, IPSAS 17 *Property, Plant and Equipment* and IPSAS 24 *Presentation of Budget Information in Financial Statements*.

## **13. NATO MAINTENANCE & SUPPLY AGENCY (NAMSA) – 2009**

### **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 1,146. Expenses in 2009 were more than EUR 1.67 billion.

### **Audit Highlights**

The Board issued a qualified opinion on the NAMSA 2009 Financial Statements because the carry over effect of the weaknesses in the prior year accrual process led to the material overstatement of NAMSA 2009 expenses.

The Board issued an unqualified opinion on the NAMSA administrative costs charged to MBC funded programmes.

The Board raised the following observations:

- contracts signed with firms located in NATO nations, subsequent invoicing from subsidiaries located in non-NATO Nations;
- weakness in validation process related to the Fuel price at Kandahar Airfield;
- non-recording of inventories in return;
- lack of assessment of net realisable value for unserviceable inventories;
- improvements needed in Service Level Agreements;
- weaknesses in documenting controls on NSIP activities;
- non-offsetting of assets/receivables with liabilities/advances accounts;
- offsetting Unearned Revenue and Unbilled Sales.

#### **14. NATO AIRBORNE EARLY WARNING AND CONTROL PROGRAMME MANAGEMENT AGENCY (NAPMA) – 2008**

##### **Introduction**

The NATO Airborne Early Warning and Control Programme Management Organisation (NAPMO) is responsible for the direction, co-ordination, and execution of the co-ordinated acquisition programme of the NATO Airborne Early Warning and Control (NAEW&C) system.

The NATO AEW&C Programme Management Agency (NAPMA) oversees the execution of the programme for NAPMO. The U.S. System Project Office (SPO) administers contracts rendered by the NAEW&C Programme Agent (USG Agent) on behalf of NAPMA. Total NAPMA expenditure - including additions to the modernisation assets - in 2008 amounted to USD 259 million.

##### **Audit Highlights**

The Board issued a qualified opinion on its audit due to a scope limitation on the value of USD 44.1 million of the Large Aircraft Infrared Counter Measure Projects (LAIRCM) assets in progress as at 31 December 2008. This represented additions to the asset resulting from work undertaken by the US contractor in 2007 (USD 24.1 million) and 2008 (USD 20 million). This is because the Board does not have access to the indirect contracting process that is used by the U.S. Government to transform the invoices received from the US contractors into the U.S. Government billing statements that are then sent to NAPMA. As a result, the Board is not in the position to assess that this process is either reliable or results in billings that accurately represent work performed by the US contractors.

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

- continue its efforts, with the U.S. authorities, to provide the Board with sufficient evidence to support the value of work undertaken by U.S. contractors. Specifically, NAPMA requires information to reconcile amounts in billing statements to work that has been delivered;
- change the presentation of the budget execution statement to show one exchange rate, more detail and separate operational and administrative budget statements, and to ensure compliance with IPSAS 24, *Presentation of Budget Information in Financial Statements*, which is effective for the 2009 financial statements;
- comply fully, in future, with the disclosure requirements of IPSAS 17, *Property, Plant and Equipment*, IPSAS 2, *Cash Flow Statements*, and IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*;
- ensure, in future, that its financial statements are issued by 30 April in accordance with the NATO Financial Regulations (NFRs).

## **15. NATO BATTLEFIELD INFORMATION COLLECTION AND EXPLOITATION SYSTEMS (NBA) AGENCY - 2009**

### **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 2009 (including brought forward) amounted to EUR 3.1 million while administrative budget expenses amounted to EUR 2.8 million. The payments for operational enhancement projects were EUR 0.9 million in 2009; the cumulative authorisations as of 31 December 2009 were EUR 1.1 million. Self-funded projects expenditures amounted to EUR 0.3 million in 2009.

The consolidation and rationalisation of the functions and programmes of the NATO Agencies into three Agencies, as announced by Heads of State and Government on 20 November 2010, is anticipated to have a significant impact on NBA. However, since the timing of the announcement occurred after the issuance of the 2009 financial statements, NBA was not required to disclose this reform in the financial statements and the use of the going concern assumption in preparing the financial statements was appropriate.



## **Audit Highlights**

The Board issued an unqualified opinion on the NBA's 2009 Financial Statements. The Board had no observations to report.

## **16. NATO CIS SERVICES AGENCY (NCSA) – 2008**

### **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 2008 financial statements.

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

- 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; and
- NCSA materially overstated expenses in fiscal year 2008. In addition, there is a lack of information on the receipt date of EUR 19.3 million of other services for fiscal year 2006 and 2007 that NAMSAs had billed to NCSA in 2008. As a result of this lack of information, the Board can not provide audit assurance that expenses related to these activities were recorded in the proper period in accordance with IPSAS 1, *Presentation of Financial Statements*.

In addition to the qualifications of its opinion (outlined above), the Board raised further observations and recommendations, as follows:

- receipts of goods and services entered into NAFS with the default date;
- initial authorisations not being in-line with MBC decision;
- internal audit function;
- weaknesses in the follow-up of Invoices to be Established;
- Global Funding.

## **17. NETMA, NAMMO & NEFMO – 2009**

### **Introduction**

The NATO Multi Role Combat Aircraft Development, Production and In-Service Support Management Organisation (NAMMO) and the NATO European Fighter Aircraft Development, Production and Logistics Management Organisation (NEFMO), the organisations for the Tornado and Eurofighter 2000 (EF2000) programmes, are subsidiary bodies of NATO. The participating nations for the Tornado programme are Germany, Italy and the United Kingdom. Spain joined these three nations in the Eurofighter programme. The NATO EF2000 and Tornado Development, Production and Logistics Management Agency (NETMA) manages the two programmes and their related budgets. The total expenditure in 2009 amounted to EUR 5.9 billion (EUR 5.8 billion cash payments).

NETMA's mandate is to provide the Tornado and EF2000 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 EF2000 Weapon System.

The consolidation and rationalisation of the functions and programmes of the NATO Agencies into three Agencies, as announced by Heads of State and Government on 20 November 2010, is anticipated to have a significant impact on NETMA, NAMMO and NEFMO. However, since the timing of the announcement occurred after the issuance of the 2009 financial statements, NETMA, NAMMO and NEFMO were not required to disclose this reform in the financial statements and the use of the going concern assumption in preparing the financial statements was appropriate.

### **Audit Highlights**

The Board issued unqualified audit opinions on the NETMA/NAMMO/NEFMO financial statements.

The Board made 13 observations leading to recommendations that the agency should:

- NEFMO: ensure that it correctly identifies all payables at 31 December by applying its cut-off policies and also ensure that it captures all data for its accrual calculation as at 1 January following the financial year in question. In addition, commercial

and technical staff should be involved in the accrual calculation to provide additional assurance on the calculation and underlying methodology;

- NETMA, NAMMO and NEFMO: ensure that all financial statements comply with IPSAS 24. The agency should fully reconcile budgetary payments to net cash flows and should disclose reasons for differences between original and final budgets. In addition, the agency should also fully reconcile accrual based and cash based expenditures and disclose this reconciliation in its financial statements;
- NETMA, NAMMO and NEFMO: ensure that details on all commitments are given in Schedule 5 of the three financial statements and a note disclosed on unrecognized contracted commitments;
- NETMA, NAMMO and NEFMO ensure that, in future, the agency fully complies with the disclosure provisions in IPSAS 3 regarding standards issued but not yet applicable;
- NETMA: lapse chapter one credits of EUR 962,000 before the end of the 2010 financial year and, in future, ensure they comply with NATO and NETMA financial regulations with regard to the carry forward of budgetary credits;
- NETMA: adjust its annual calculation of amounts to be called to ensure that income is only netted off against calls once and investigate any cumulative undercalls prior to 2009 and adjust future calls if deemed necessary;
- NAMMO: ensure non-budgetary transfers made to reimburse one nation for the work done by another, be excluded from the statement of financial performance. The cash flows that result should be included as notes to the financial statements;
- NAMMO: investigate and explain why its system identified invoices as payable at year end before services/goods had been received. In addition, the agency should ensure it identifies subsequently cancelled payables when preparing future financial statements;
- NEFMO: amend its accounting records to correct the overstatements of advances and receivables ( EUR 40 million) so that the 2010 financial statements are correctly stated;
- NEFMO: provide the Board with additional information to support the disclosure of EUR 7.16 million as a miscellaneous revenue on the 2009 statement of financial performance;
- NEFMO: investigate and clarify the accounting for CADPS system enhancement expenditure. If this expenditure has yet to be expensed against a budget, the agency should rectify this situation in the future;
- NEFMO: review its year end closing procedures to ensure all transactions are accounted for in the correct financial year; and
- NEFMO: follow its Financial Rules and Regulations and seek authorisation from Nation(s) to transfer credits between Chapters to avoid an overspend.

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

### **18. ALLIANCE GROUND SURVEILLANCE (AGS3) – 2008**

#### **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 2.6 million in 2008, including EUR 1.8 million of brought forward credits.

#### **Audit Highlights**

The Board issued an unqualified opinion on the AGS3 Financial Statements for the year ended 31 December 2008.

The Board made the following observations:

- the need to ensure that financial statements are prepared on time; and
- the need for clearer notes concerning expense recognition and disclosure.

### **19. NATO NAVAL FORACS SENSOR AND WEAPON ACCURACY CHECK SITES (FORACS) – 2005-2008**

#### **Introduction**

NATO Naval Forces Sensors and Weapon Accuracy Check Sites (FORACS) provide a comprehensive calibration of sensors associated with the weapon systems of NATO naval units such as surface ships, submarines and anti-submarine helicopters. These tests are conducted at three FORACS ranges under the jurisdiction of Greece (NFG), Norway (NFN), and the United States of America (NFA).

The overall management of the program is the responsibility of the FORACS Steering Committee. The NATO FORACS Office (NFO), is located at the NATO Headquarters in Brussels, and serves as the executive staff of the Steering Committee.

## **Audit Highlights**

The Board issued a qualified opinion on the NFO Financial Statements for the year ended 31 December 2006, because expenditure and revenue were not reported in accordance with the accruals basis of accounting and in compliance with IPSAS. The Board also issued a qualified opinion on the NFO Financial Statements for the year ended 31 December 2007, because of a material and equal overstatement of total assets and total liabilities.

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, the Board was able to confirm that the cash balances were, in all material respects, fairly presented.

The Board issued unqualified opinions on the NFO Financial Statements for the years ended 31 December 2005 and 31 December 2008.

In addition to the observations resulting in qualified opinions, the Board raised the following observation relating to the 2008 financial statement:

- procedures for establishing approved budget sub-article, commitment of credits and accurate accounting not followed.

## **20. INTERNATIONAL MILITARY STAFF (IMS), NATO STANDARDISATION AGENCY (NSA) (INCL. PfP-MD-ICI-OMC) – 2009**

### **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.

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 Other Military Cooperation (OMC) budget reflects the evolving cooperation with Afghanistan, Pakistan and the African Union.

The total authorisations of the IMS, NSA, PfP, MD, ICI and OMC for the year ended 31 December 2009 were EUR 26.4 million.

### **Audit Highlights**

The Board issued an unqualified opinion on the IMS, NSA, PfP, MD, ICI and OMC Financial Statements for the year ended 31 December 2009.

## **21. INTERNATIONAL STAFF (IS) – 2009**

### **Introduction**

The International Staff (IS) supports the work of the North Atlantic Council (NAC) and its committees. The IS is composed of six divisions, and three independent offices. The IS staffing complement was almost 1,250 at the end of 2009. Total budgetary authorisations for 2009 amounted to EUR 230 million, including EUR 180 million of new credits authorised for 2009.

The reform for the NATO Headquarters, as announced by the Heads of State and Government on 20 November 2010, is anticipated to have a significant impact on the IS. However, since the timing of the announcement occurred after the issuance of the 2009 financial statements, the IS was not required to disclose this reform in the financial statements and the use of the going concern assumption in preparing the financial statements was appropriate.

### **Audit Highlights**

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 the matters discussed in the preceding paragraph, the Board was not able to express an opinion on the accrual basis 2009 IS 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, the Board was to confirm that the cash balances were, in all material respects, fairly presented.

The Board made four observations concerning:

- controls over mobile telephony and data roaming;
- staff leaving NATO: Pay taken in lieu of untaken leave;
- the Issuance of Contracts by Divisions rather than the Procurement & Supplies Services; and
- manual payments on behalf of Trust Funds.

## **22. NAMFI – 2009**

### **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 2009, 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 2009 amounted to EUR 9.91 million. NAMFI is located in Greece, on the island of Crete.

### **Audit Highlights**

The Board issued an unqualified opinion on the 2009 financial statements.

The Board had no observations relating to the 2009 financial statements.

## **23. NATO PARLIAMENTARY ASSEMBLY (NATO PA) AND THE NATO PA PROVIDENT FUND – 2009**

### **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 2009.

The Board raised one observation regarding the presentation of the financial statements.

## **24. NATO DEFINED CONTRIBUTION PENSION SCHEME (DCPS) – 2005-2008**

### **Introduction**

The NATO Defined Contribution Pension Scheme (DCPS) applies to all staff recruited after 1 July 2005. It is a money purchase pension scheme with the contribution provided by staff and NATO.

The value of the DCPS's assets at 31 December 2005 was EUR 1 million, at 31 December 2006 was EUR 7.9 million, at 31 December 2007 was EUR 23.9 million, at 31 December 2008 was EUR 29.7 million. In 2005 269, in 2006 800, in 2007 1296, in 2008 1762 members contributed to the DCPS.

The International Board of Auditors for NATO (Board) has audited the DCPS's Financial Statements for the years ended 31 December 2005 and 2006 concentrating on:

- the statement of financial position;
- the statement of financing operations;
- the cash flow statement; and
- the investment valuation (in 2006).

While for the years ended 31 December 2007 and 2008 concentrating on:

- the statement of net assets available for benefits;
- the statement of changes in net assets available for benefits; and
- the notes to financial statements.

Starting from financial year 2006 the DCPS Financial Statements had to be prepared in conformity with International Public Sector Accounting Standards (IPSAS).

### **Audit Highlights**

The Board issued an unqualified opinion on the NATO DCPS's Financial Statements for the years ended 31 December 2005, 2006, 2007 and 2008.

Five issues requiring an audit observation were raised by this audit. These issues concern the following:



- late submission of financial statements;
- late transfer of contributions from payroll centres;
- late signature of the contract with the pension administrator and lack of contract with the investment manager;
- non-receipt of the Letter of Representation;
- weaknesses in the presentation of the 2006 financial statements.

## **25. NATO PENSION SCHEME – 2008**

### **Introduction**

The NATO Pension Scheme applies to all staff recruited between 1 July 1974 and 30 June 2005. The Pension Scheme currently supports 2,648 pensioners, and over 3,950 staff pay into the Scheme. The majority of NATO civilian staff are members of the Pension Scheme. Members of staff recruited prior to July 1974 are members of the Provident Fund. 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 2008, 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 2008 amounted to EUR 99 million.

### **Audit Highlights**

The Board issued an unqualified opinion on the financial statements of the Pension Scheme for the year ended 31 December 2008.

The Board raised the following observations:

- no Staff Centre employer’s contributions were made between 2001 and 2008; and
- non-receipt of Management Representation Letter.

## **26. NATO PROVIDENT FUND – 2008**

### **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 2008 was EUR 58 million. As at that date there were 136 members contributing to the Fund.

The International Board of Auditors for NATO (Board) audited the Provident Fund's Financial Statements for the year ending 31 December 2008 concentrating on:

- the net assets available for benefits;
- the statement of changes in net assets available for benefits; and
- the Notes to the financial statements.

### **Audit Highlights**

The Board issued an unqualified opinion on the Provident Fund's Financial Statements for the year ended 31 December 2008.

The Board made an observation on the presentation of the Statement of Changes in Net Assets and the Statement of Net Assets and an observation on the treatment of bank interest.

## **27. REPRESENTATION ALLOWANCES – 2009**

### **Introduction**

The International Board of Auditors for NATO (Board) audited the Representation Allowance expenditures of senior NATO officials for the year ended 31 December 2009. The Board conducted its audit in accordance with the provisions set by the Permanent Representatives in letter SG/80/158, dated 21 March 1980, signed by the Secretary General, the Director of the Secretary General's Private Office letter DC(2006)0176, dated 4 December 2006 and with further clarifications provided by the Board in its letter IBA-C(98)67, dated 24 June 1998.

### **Audit Highlights**

In most cases, the Representation Allowance expenditures for 2009 have been reported by the recipients in compliance with the Permanent Representatives' accountability requirements. The total of the allowances paid in 2009 by NATO for representational purposes (not including the Secretary General and the Deputy Secretary General) amounted to EUR 221,216, of which EUR 35,988 was available as rental supplement; EUR

152,274 was presented as receipted representational expenditure, and EUR 6,973 was presented as self-certified expenditure.

Thirteen recipients of the 2009 Representation Allowance submitted their report on representational activities after the deadline of 15 January 2010.

Thirteen of the recipients spent more on representational activities than they received in allowance, and the remainder of the recipients spent an aggregate of EUR 34,544 less than the allowance received.

In a few cases, the recipients exceeded the per capita limits foreseen for entertainments held at home, and purchased items which were not considered permitted use of the allowance. In some cases, the recipients did not disclose the specific purpose of the various representational activities, calculated exchange rate conversions incorrectly, and the number of NATO Staff entertained exceeded the number of official guests from outside the organisation.

The Board recommended that the Assistant Secretary General, Executive Management Division, remind the recipients of the related provisions.

## **28. RETIRED MEDICAL CLAIMS FUND – 2008**

### **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 has a Supervisory Committee established to oversee the management of the fund. The Committee meets at least twice a year.

Each month, the fund receives an amount equal to 4.5% of the salaries of serving staff. In addition, some retirees are required to make a contribution. Two-thirds of these amounts are paid by NATO bodies; one-third is deducted from salaries or pensions. The fund is managed by a private investment company. Fortis Investment Management performed this function until July 2008, when, following the decision of the Supervisory Committee, the Vanguard Group was appointed as new fund manager.

In 2008 receipts from NATO bodies and staff were some EUR 19.8 million and insurance premiums paid out of these receipts were EUR 7.9 million. At the end of the 2008 the fund manager held EUR 104 million on behalf of NATO.

## **Audit Highlights**

The Board issued a qualified opinion on the presentation of the RMCF Financial Statements for the year ended 31 December 2008 due to weaknesses in the reporting of the financial statements related to the lack of disclosure of investment losses of EUR 14.3 million, the lack of 2007 comparative balances, and the lack of footnote disclosures.

The Board made two observations on the RMCF's 2008 Financial Statements concerning:

- weaknesses in the reporting of the financial statements; and
- contributions not paid by a beneficiary.

## **29. SHAPE INTERNATIONAL SCHOOL – 2008-2009**

### **Introduction**

The Supreme Headquarters Allied Powers Europe (SHAPE) International School (SIS) provides schooling for dependants of the SHAPE community. The school comprises 13 school units. Nations determine the curricula of their national units, pay their own teachers, and provide supplies. This expenditure is accounted for and audited nationally. Currently, the SIS has about 2,400 students.

The SIS's General Services Unit (GSU) accounts for about 10% of the costs of the school. It is funded internationally by contributions from member countries. These contributions mainly depend on the number of nationals attending the school. The GSU budget for 2008 was approximately EUR 4.29 million and in 2009 approximately EUR 4.44 million.

### **Audit Highlights**

The Board issued an unqualified audit opinion on the financial statements of the SHAPE International School General Services Unit for the years ended 31 December 2008 and 2009.

The Board's audit raised no observations.

## PERFORMANCE AUDITS AND SPECIAL STUDIES

### 30. OBJECTIVE BASED BUDGETING (OBB)

#### Introduction

Objective Based Budgeting (OBB) is a management methodology that links budget allocations to specific objectives and provides performance measurement. OBB is designed to focus management on outputs to be achieved and is expected to enhance the scrutiny of decision making as well as to eventually enable cost savings. The Board reviewed the implementation of OBB in NATO IS, IMS, ACO and ACT. The implementation of OBB is subject to two different reports by the Board. The first phase has focused on the description of OBB in NATO, together with international benchmarking information. A second report will focus on the evaluation of OBB implementation in NATO and possible ways ahead.

The Board's audit objectives focused on the two following areas:

- providing benchmarking information from other international experiences in terms of OBB structure, implementation key factors and lessons learned;
- describing the current status of OBB implementation in NATO and the challenges faced by the various entities to achieve a meaningful methodology.

#### Audit Highlights

The Board recommended that any further OBB development should be based on:

- clear commitment from the North Atlantic Council in terms of performance expectations, monitoring and guidance to the entities; and
- development of a comprehensive OBB structure including all basic components.

### 31. REAL LIFE & APOD SUPPORT AT KANDAHAR AIRFIELD

#### Introduction

The ISAF mission is currently NATO's top operational priority. Kandahar Airfield (KAF) is NATO's largest base in the world and the establishment and sustainment of the Air Port of Debarkation (APOD) at KAF is a key factor in supporting NATO's mission in Afghanistan. NATO is the lead nation at KAF and NAMSA is the contracting agency providing programme management and contracting functions for the Real Life Support (RLS) and APOD services at KAF.

The following audit objectives were agreed to by the International Board of Auditors for NATO (Board) to form the basis of the performance audit of RLS and APOD services.

- to determine whether the RLS and APOD contracts were awarded in accordance with the relevant NATO regulations - *NAMSA Procurement Directives and Regulations*.
- to evaluate how effectively NAMSA monitors contractors' performance, as regards to the existence and completion of inspection plans, to the reporting of the results and to the timely implementation of the required corrective action.
- to assess whether the RLS/APOD services provide the quantity and the quality of deliverables to satisfy the current requirements; whether current requirements have been incorporated into the contracts in force; compliance between contractors' performance and their contractual obligations; and stakeholders' overall satisfaction with RLS/APOD arrangements and delivery of services.

### **Audit Highlights**

This audit report is classified **NATO Restricted** and its findings and recommendations cannot be presented in this report.

## **32. SPECIAL REPORT TO COUNCIL ON THE SECOND AND THIRD YEARS OF IMPLEMENTATION OF THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS) WITHIN NATO**

### **Introduction**

On 17 July 2002, the Council adopted IPSAS, including the accrual and going concern assumptions, as the applicable accounting standards for all NATO entities effective for the fiscal year 2006. Expected benefits were harmonisation and consistency of accounting and financial reporting NATO-wide, improved accountability as well as comprehensive and more accurate financial information for the users of the financial statements. The Board has compiled in this report the main conclusions relevant to the implementation of IPSAS NATO-wide from its audit of the 2007 and 2008 financial statements.

### **Audit Highlights**

The audits confirmed that the NATO entities have continued to make progress in improving the consistency and transparency of financial reporting. The results of our audits indicate that both the number of negative audit opinion modifications (qualifications or disclaimers of opinion) and the number of restatements of financial statements, while still elevated, have decreased in comparison with 2006, the first year of IPSAS implementation. The results, while demonstrating that improvements have been made, also show that further progress is still necessary.

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.

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.

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. 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.

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.

### **33. SPECIAL REPORT TO COUNCIL ON STRENGTHENING THE ROLE OF IBAN IN RESPECT OF MANAGEMENT REVIEWS AND COST EFFICIENCY ASSESSMENTS**

#### **Introduction**

The International Board of Auditors for NATO (Board) is the independent, external audit body of NATO. Through its audits, the Board enables the Council and the governments of member countries to satisfy themselves that common funds have been properly used for the settlement of authorised expenditures as well as in compliance with the regulations in force. The Board conducts performance audits to evaluate if the operations and activities of NATO bodies have been carried out with economy, efficiency and effectiveness. By a Council decision, the Board adheres to the audit standards of the International Organisation of Supreme Audit Institutions.

The Board provided this special report to the Council in response to the taskings arising from the Istanbul Ministerial meeting regarding the reform needed to achieve the balancing of requirements and resources.

#### **Audit Highlights**

This audit report is classified **NATO Restricted** and its findings and recommendations cannot be presented in this report.



**AUDITED ENTITIES AND ACTIVITIES**  
**AND AUDIT CYCLE**



The Board audits approximately 80 entities.

## MILITARY COMMANDS AND OPERATIONS

### Annual

#### ACO Consolidated<sup>4</sup>

- ACO Treasury
  - SHAPE
  - Joint HQ Lisbon
  - JFC HQ Brunssum
  - JFC HQ Naples
  - CC-Air HQ Ramstein
  - CC-Land HQ Heidelberg
  - CC-Air HQ Izmir
  - CC-Land HQ Madrid
  - CC HQ Northwood (incl. MEWSG)
  - CRO (incl. 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)

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<sup>4</sup> The Board audits the most important commands every year. Smaller commands are audited on a bi- or tri-annual basis. The audit of these commands also includes a number of programmes that are budgeted and reported separately from the command's budgets.

## **NATO PRODUCTION AND LOGISTICS ORGANISATIONS**

### **Annual**

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**

AGS3/NAGSMA

Defined Contribution Pension Scheme

FORACS

IMS, NSA (including PfP, OMC, MD & ICI)

IS

MSIAC

NATO Defence College

New NATO HQ

Provident Fund

Pension Scheme

Representation Allowances

Research & Technology Agency

Retirees Medical Claims Fund

## **MULTI-NATIONALLY FUNDED MILITARY COMMANDS AND OPERATIONS**

### **Cyclical**

ARRC  
CAOCS (8 commands)  
CCOE  
COE-DAT  
HQ RRC-FR  
IFC  
JAPCC  
JCBRN Defence COE  
MNCG  
NDC Greece  
NRDC (4 commands)

## **MULTI-NATIONALLY FUNDED MILITARY, CIVILIAN AND OTHER BODIES**

### **Annual**

AFNORTH International School  
NAMFI  
NPA  
SHAPE International School

**FINANCIAL AUDIT COVERAGE FOR AUDITED ENTITIES**

	Last Audit		Next Audit	
	Done in year	Covering year(s)	To be done in year	Covering year(s)
<b>MILITARY COMMANDS</b>				
ACO Group	2010	2009	2011	2010
ACT Group	2010	2009	2011	2010
ARRC	2010	2007-2009	2013	2010-2012
CAOCs	2010	2006-2009	2011	2008-2010
CCOE	2010	2007-2009	2013	2010-2012
COE-DAT	2009	2006-2008	2012	2009-2011
HQ RRC-FR	2009	2006-2008	2012	2009-2011
IFC	2010	2007-2009	2013	2010-2012
JAPCC	2009	2006-2008	2012	2009-2011
JCBRN Defence COE	2010	2007-2009	2013	2010-2012
MNCG (ex CIMIC Group South)	2009	2006-2008	2012	2009-2011
NDC Greece	2010	2006-2009	2013	2009-2012
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	2010	2007-2009	2013	2010-2012
<b>NPLOs</b>				
CEPMO	2010	2009	2011	2010
NACMO	2010	2009	2011	2010
NAHEMO	2010	2009	2011	2010
NAMO	2009	2008	2011	2010
NAMEADSMO	2010	2009	2011	2010
NAMSO	2010	2009	2011	2010
NAPMO	2010	2009	2011	2010
NBA	2010	2009	2011	2010
NC3A (incl. ALTBMDPMO)	2010	2009	2011	2010
NCSA	2010	2009	2011	2010
NAMMO, NEFMO & NETMA (ADMIN)	2010	2009	2011	2010
NCSA (incl. NCISS)	2010	2009	2011	2010
NHMO (HAWK) (closure 2010)	2010	2009	2011	2010

	Last Audit		Next Audit	
	Done in year	Covering year(s)	To be done in year	Covering year(s)
<b>MILITARY, CIVILIAN AND OTHER BODIES</b>				
AFNORTH International School	2010	2009-2010	2011	2010
AGS3/NAGSMA	2010	2008	2011	2009/2010
Defined Contribution Pension Scheme	2010	2009	2011	2010
FORACS	2010	2009	2011	2010
IMS, NSA (incl. PfP, MD, ICI & OMC)	2010	2009	2011	2010
INTERNATIONAL STAFF	2010	2009	2011	2010
MSIAC	2010	2009	2011	2010
NAMFI	2010	2009	2011	2010
NATO Defence College	2010	2009	2011	2010
NATO Pension Scheme	2010	2009	2011	2010
NATO Provident Fund	2010	2009	2011	2010
New NATO HQ	2010	2009	2011	2010
NATO P.A.	2010	2009	2011	2010
Representation Allowances	2010	2009	2011	2010
Retirees Medical Claims Fund	2010	2009	2011	2010
RTA	2010	2009	2011	2010
SHAPE International School	2010	2008-2009	2011	2010





**AUDIT UNIVERSE AND DIRECT COST OF THE AUDIT  
IN 2010**



**AUDIT UNIVERSE AND DIRECT COST OF THE AUDIT IN 2010**

<b>BODIES</b>	<b>Audit Universe in 2010 Million EUR (1)</b>	<b>Auditor Time (days) (2)</b>	<b>Salary + Travel Cost 2010 EUR (3)</b>
AGENCY FINANCIAL			
ACO Group	975.6	407.9	347,950
ACT Group	130.0	131.6	124,274
ARRC	3.1	18.3	15,011
HQ RRC FR	1.7	5.4	4,071
IFC	1.2	19.0	16,050
JAPCC	0.9	-	-
JCBRN	0.3	16.5	13,043
CAOCs	5.1	7.6	5,790
CIMIC (CCOE)	0.9	21.6	19,060
CIMIC Grp South	0.6	-	-
COE DAT	0.7	-	-
NDC - GR	1.1	20.0	18,124
NRDC - IT	2.2	-	-
NRDC - GNL	1.8	14.4	10,928
NRDC - SP	1.5	-	-
NRDC - TU	1.9	13.0	12,125
BICES	5.9	16.8	12,752
CEPMO	118.5	121.6	108,738
NACMO	21.5	61.8	46,927
NAGSMA	2.1	7.3	5,570
NAHEMO	575.6	43.1	38,100
NAMA	204.0	32.2	26,840
NAMEADSMO	642.4	44.6	44,836
NAMMO-NEFMO-NETMA	6,052.9	162.3	145,171
NAMSO	1,722.0	279.3	254,935
NAPMO	88.8	103.9	90,496
NC3A	418.3	227.0	177,285
NCSA	188.2	90.5	70,263
NHMO	8.7	64.0	58,187
RTO	5.7	17.5	16,195
AFNORTH SCHOOL	4.0	16.4	13,096
AGS3	0.2	2.8	2,142
DCPS	60.6	24.8	18,859
FORACS	1.0	24.1	18,321
IMS (Incl. NSA, PfP, MD)	22.3	28.5	21,644
IS	182.9	77.8	59,141
IS New HQ	12.1	64.0	48,645
MSIAC	1.6	16.9	12,857
NAMFI	11.7	30.6	28,694
NADEFCOL	7.8	17.2	16,280
NPA	7.6	16.2	13,233
PENSION SCHEME	107.0	43.0	32,677
PROVIDENT FUND	44.2	21.9	16,603

ANNEX D  
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REP. ALLOWANCE	0.2	10.7	8,143
RMCF	136.2	28.2	21,432
SHAPE SCHOOL	4.4	21.7	16,497
<b>Subtotal</b>	<b>11,787.2</b>	<b>2,392.1</b>	<b>2,030,984</b>
<b>NSIP FINANCIAL</b>			
Annual File Review	-	100.4	56,250
General	-	7.3	4,071
ACO	26.9	23.7	14,412
BELGIUM	43.7	8.0	4,503
CEPMO	8.3	7.6	5,491
CZECH REPUBLIC	-	-	20
France	-	-	-
GERMANY	60.2	35.9	22,850
GREECE	30.1	10.6	5,920
HUNGARY	18.9	21.8	13,802
ITALY	-	-	-
LATVIA	-	-	-
NACMO	15.1	-	-
NC3A	466.4	37.1	20,789
The NETHERLANDS	-	-	-
NORWAY	71.9	17.2	13,030
POLAND	10.5	7.1	5,611
Portugal	1.6	-	-
SPAIN	2.8	-	2,075
TURKEY	48.1	30.6	20,703
UNITED KINGDOM	25.1	12.2	11,058
UNITED STATES	53.2	17.4	13,348
<b>Subtotal</b>	<b>882.8</b>	<b>336.9</b>	<b>213,933</b>
<b>PERFORMANCE AUDITS</b>			
NSIP Management		7.2	5,358
Fraud & Corruption		19.7	15,503
RLS Kandahar		113.2	89,400
OBB		223.2	178,731
Capability Package		162.7	121,181
<b>Subtotal</b>		<b>526.1</b>	<b>410,173</b>
<b>STUDIES</b>			
IPSAS		5.4	4,515
TeamMate-IDEA		16.5	11,359
Multinational Coordination		11.5	7,931
Agency Manual		57.6	39,753
Risk Based Audit Approach		7.1	4,926
<b>Subtotal</b>		<b>98.2</b>	<b>68,485</b>
<b>BOARD</b>		281.3	124,090
<b>ADMINISTRATION</b>		263.7	111,312
<b>TRAINING</b>		175.3	76,752
<b>GENERAL TOTAL</b>	<b>12,670.0</b>	<b>4,073.5</b>	<b>3,077,171</b>

Column (1)

Represents the budget authorised in 2009 audited in 2010 in the case of Agencies, or the NSIP amounts presented for audit during 2010.

Column (2)

Represents the time spent by the audit staff during 2010.

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 604,191 and the salaries and allowances of Board Members that are at a national charge.



## 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
AOM	Alliance Operations and Missions
APOD	Air Port of Debarkation
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
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	Investment Committee (formerly 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
KAF	Kandahar Air Field
KFOR	KOSOVO Forces
MBC	Military Budget Committee
MD	Mediterranean Dialogue
MEADS	Medium Extended Air Defence System
MEWSG	Multiservice Electronic Warfare Support Group
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
NAMEADSMA	NATO Medium Extended Air Defence System Design and Development, Production and Logistics Management Agency
NAMEADSMO	NATO Medium Extended Air Defence System Design and Development, Production and Logistics Management Organisation
NAMFI	NATO Missile Firing Installation
NAMMO	NATO Multi-Role Combat Aircraft Development and In-Service Support Management Organisation
NAMSA	NATO Maintenance and Supply Agency
NAMSO	NATO Maintenance and Supply Organisation
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
NTMI	NATO Training Mission in Iraq
NURC	NATO Undersea Research Centre
OMC	Other Military Cooperation
PfP	Partnership for Peace
RLS	Real Life Support
RMCF	Retirees Medical Claims Fund
RPPB	Resource Policy and Planning Board
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

