NATO NORTH ATLANTIC COUNCIL

OTAN CONSEIL DE L'ATLANTIQUE NORD

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C-M(2016)0001-AS1

IBAN SPECIAL REPORT TO COUNCIL ON THE THEMATIC AUDIT OF CASH HOLDINGS IN NATO

ACTION SHEET

On 12 January 2016, under the silence procedure, the Council noted the IBAN report IBA-AR(2014)17 and agreed the recommendations contained in the RPPB report.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2016)0001.

5 January 2016

DOCUMENT
C-M(2016)0001
Silence Procedure ends:
12 Jan 2016 18:00

IBAN SPECIAL REPORT TO COUNCIL ON THE THEMATIC AUDIT OF CASH HOLDINGS IN NATO

Note by the Secretary General

1. I attach the International Board of Auditors for NATO (IBAN) Special report to Council on the thematic audit of cash holdings in NATO.

2. The cash holdings audit sought to determine and assess whether cash holdings in NATO bodies complied with applicable rules as well as how cash flow was monitored, planned and managed by 16 NATO bodies. This is the first audit implementing the concept of thematic audits: audits that seek to address NATO-wide topics or issues with a relatively narrow focus pertaining to economy, efficiency, and compliance.

3. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB), which has provided its own report, agreed on 30 November 2015, with conclusions and recommendations to Council.

4. I consider that no further discussion regarding this report is required. Consequently, **unless I hear to the contrary by 18:00 hours on Tuesday, 12 January 2016**, I shall assume that the Council has noted the IBAN report IBA-AR(2014)17 and agreed the recommendations contained in the RPPB report.

(Signed) Jens Stoltenberg

3 Annexes

2 Appendices

Original: English

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ANNEX 1
C-M(2016)0001

IBAN SPECIAL REPORT TO COUNCIL ON THE THEMATIC AUDIT OF CASH HOLDINGS IN NATO

Report by the Resource Policy and Planning Board (RPPB)

References:

(a) IBA-A(2014)238 & IBA-AR(2014)17

(b) BC-D(2015)0039-REV1

INTRODUCTION

1. The present report by the Resource Policy and Planning Board (RPPB) contains the RPPB's observations and recommendations concerning the International Board of Auditors for NATO (IBAN) report (reference (a)).

2. The report takes full account of the review of the IBAN report provided by the Budget Committee (BC) (reference (b)).

IBAN REPORT SUMMARY

Introduction

3. The IBAN has conducted a performance audit on the cash held and managed by NATO bodies. This is the first audit implementing the concept of thematic audits: audits that seek to address NATO-wide topics or issues with a relatively narrow focus pertaining to economy, efficiency, and compliance.

4. The cash holdings audit sought to determine and assess whether cash holdings in NATO bodies complied with applicable rules as well as how cash flow was monitored, planned and managed by 16 NATO bodies.

5. The IBAN in looking at the cash holdings at the end of 2012 and 2013 has reviewed the NATO bodies when IPSAS and the Financial Continuity Measures were in place (for 2012), as well as when the NATO Accounting Framework applied (2013). In both cases cash holdings were found to function within the provisions of the former NFRs Article13 (and revised NFRs Article 29)[1] in the common funded bodies (ACO, ACT, IS). For a variety of reasons a number of joint or customer funded bodies (NAHEMO, NAPMA, NSPA) had cash holdings above those foreseen in the NFRs[2].

[1] The IBAN audit was performed ahead of the approval of the revised NFRs (C-M(2015)0025). The articles in question are covered by Article 29 of the revised NFRs.

[2] Contribution installments shall be calculated to restrict total currency holdings to the minimum required to meet forecast expenditures prior to receipt of the following contribution installment.

Main findings

6. The IBAN found that five (NAMEADSMA, NAHEMA, NAMMO, NAPMA, and NSPA) of the 16 NATO bodies surveyed exceeded the threshold of the regulations in the NFRs and FRPs for average cash holdings versus average expenditures in 2012 (and reported on in the relevant financial statement audit reports issued by the IBAN). These bodies are all joint funded or customer funded. In some instances, the IBAN raised observations in its annual financial statement audits for these NATO bodies over several years. There are several factors that affect the levels of cash held at NATO bodies. These factors include the following:

- Multi-year large scale weapon system acquisition programmes;
- Voluntary advances by contributing nations in excess of cash called; and
- The number and timing of calls for contributions made in the year.

7. The IBAN's audit found that cash holdings in NATO bodies, even when they exceed the NFR threshold, are managed in accordance with the NFRs[3] and are adequately safeguarded. The risk of significant financial losses related to cash holdings appears to be low. However, the risk of loss due to fraud, error, or the collapse of individual banks cannot be fully mitigated against.

8. The IBAN makes three recommendations related to cash holdings:

a. In relation to multi-year programme contracts driven by milestone payment plans, the IBAN recommends that NATO joint funded bodies and their member nations adjust the calls for contribution to accurately reflect the cash requirements of the NATO body. The IBAN recommends that any such adjustments take into account the actual expenditures and delays in the programmes;

b. To enhance transparency, the IBAN also recommends that Council direct all non-common funded NATO bodies to report the actual cash contributions and voluntary advances made by each nation in the notes to the financial statements, as some bodies already do. In addition, Council should direct all NATO bodies to report in the financial statements the reasons why average cash holdings exceeded average expenditures as required by the NFRs; and

c. The IBAN recommends that Council direct the BC to decide how best to determine and manage the desired level of cash holdings by NATO bodies within the context of the revision of the NFRs/FRPs.

[3] Noting that excess cash is not in accordance with the NFRs.

RPPB CONCLUSIONS

9. The RPPB notes that the cash holdings for NATO common funded entities are in line with agreed rules, regulations and policy. The risk of significant financial loss related to cash holdings appears to be low. While the risk of loss due to fraud, error, or the collapse of individual banks cannot be fully mitigated against, the entities have a variety of tools to alleviate the risk. These tools are used in the common funded entities and have proven effective over time.

10. A number of multinational and customer funded NATO bodies had excess cash holdings in comparison to applicable rules and regulations in 2012 and 2013. The IBAN has listed factors that affect the cash levels held, including multi-year large scale weapons system acquisition programmes, voluntary advances by contributing nations in excess of cash called, and the number and timing of calls for contributions made. Given the reasons and nature of the observations for the excess cash holdings by some multinational and customer funded NATO bodies, the respective governing bodies will need to determine what, if any, measures they would wish to put in place as a result.

11. The RPPB notes and agrees with the BC that the IBAN recommendations related to cash holdings directed toward non common funded NATO bodies with a view to reflecting the cash requirements and to enhancing transparency should be adopted at an aggregate level with individual bodies determining the level of detail provided. This will require further internal work and analysis by the NATO bodies in the context of the review of the NATO Financial Regulations and the specific NATO body governance agreements and charters. It is recognized that there may be the need to adjust regulations or grant specific deviations to avoid ongoing and potentially unresolvable conflicts given the difference in programmatic and annually budgeted bodies.

12. The third IBAN recommendation considers that the BC should determine and manage the desired level of cash holdings by NATO bodies within the context of the review and revision of the NATO Financial Regulations. As part of the governance of the NATO bodies the consideration and management of cash holdings, including any modification of the number and timing of cash calls, should be part of their detailed Financial Regulations and Procedures work.

13. One Nation considers that there could be efficiencies and economies which could be achieved by reducing the number of treasuries and perhaps even moving to a single, central treasury.

14. The RPPB concludes that the subject IBAN report does not contain information which, according to the NATO Policy on Public Disclosure of NATO Information, shall be withheld from public disclosure, and in line with the agreed policy in PO(2015)0052, recommends that Council agree to the public disclosure of the subject IBAN report.

RPPB RECOMMENDATIONS

15. The Resource Policy and Planning Board (RPPB) recommends that Council:

(a) note the present report along with IBA-AR(2014)17;

(b) endorse the conclusions as outlined in paragraphs 9 to 14;

(c) note that cash holdings will continue to be monitored as part of the NATO bodies financial statements to ensure consistency and reporting;

(d) invite the relevant governing bodies of NATO entities to consider the level of cash holdings nations want to have within the context of their governance charters, the revised NATO Financial Regulations (NFRs), and their revisions to the relevant Financial Rules and Procedures (FRPs);

(e) Invite the Budget Committee to address how best to determine and manage the desired level of cash holdings of the NATO International Staff and military headquarters financed from common-funded resource allocations approved by the North Atlantic Council within the context of the revised NATO Financial Regulations and the associated Financial Rules and Procedures that are currently being revised by the Budget Committee;

(f) in line with the agreed policy in PO(2015)0052, agree to the public disclosure of the IBAN report IBA-AR(2014)17.

ANNEX 2
C-M(2016)0001

**Summary Note for the Council
by the International Board of Auditors for NATO
on the thematic audit of cash holdings in NATO**

Introduction

Chartered by the North Atlantic Council (Council) the International Board of Auditors for NATO (Board) is the independent, external audit body of NATO. Through the Board's performance audits it evaluates if the operations and activities of NATO bodies have been carried out with effectiveness, efficiency and economy.

The Board conducted the audit work for this thematic audit with the objectives to determine and assess the following: (1) Whether the level of cash holdings in NATO bodies are in compliance with applicable NATO Financial Regulations (NFRs), Financial Rules and Procedures (FRPs), and the reasons for excess cash holdings if present; (2) How NATO bodies monitor cash flow and plan their future cash requirements; and (3) How cash holdings are managed by NATO bodies.

Audit Highlights

The Board found that five (NAMEADSMA, NAHEMA, NAMMO, NAPMA, and NSPA) of the 16 NATO bodies surveyed exceeded the threshold of the regulations in the NFRs and FRPs for average cash holdings versus average expenditures in 2012 (and reported on in the relevant financial statement audit reports issued by the Board). These bodies are all joint funded or customer funded. In some instances, the Board raised observations in its annual financial statement audits for these NATO bodies over several years. There are several factors that affect the levels of cash held at NATO bodies. These factors include the following:

- Multi-year large scale weapon system acquisition programmes;
- Voluntary advances by contributing nations in excess of cash called; and
- The number and timing of calls for contributions made in the year.

The Board's audit found that cash holdings in NATO bodies, even when they exceed the NFR threshold, are managed in accordance with the NFRs and are adequately safeguarded. The risk of significant financial losses related to cash holdings appears to be low. However, the risk of loss due to fraud, error, or the collapse of individual banks cannot be fully mitigated against.

The Board makes three recommendations related to cash holdings:

1. In relation to multi-year programme contracts driven by milestone payment plans, the Board recommends that NATO joint funded bodies and their member nations adjust the calls for contribution to accurately reflect the cash requirements of the

NATO body. The Board recommends that any such adjustments take into account the actual expenditures and delays in the programmes;

2. To enhance transparency, the Board also recommends that Council direct all non-common funded NATO bodies to report the actual cash contributions and voluntary advances made by each nation in the notes to the financial statements, as some bodies already do. In addition, Council should direct all NATO bodies to report in the financial statements the reasons why average cash holdings exceeded average expenditures as required by the NFRs; and

3. The Board recommends that Council direct the BC to decide how best to determine and manage the desired level of cash holdings by NATO bodies within the context of the revision of the NFRs.

ANNEX 3
C-M(2016)0001
IBA-AR(2014)17

28 October 2014

(Final version – 28 November 2014 – including the comments of the Director - NATO Office of Resources)

INTERNATIONAL BOARD OF AUDITORS FOR NATO

SPECIAL REPORT TO COUNCIL ON THE

THEMATIC AUDIT OF CASH HOLDINGS IN NATO

ANNEX 3
C-M(2016)0001
IBA-AR(2014)17

TABLE OF CONTENTS

Page N°

1. INTRODUCTION

1.1 Mandate of the Board

1.1.1 Chartered by the North Atlantic Council (Council) the International Board of Auditors for NATO (Board) is the independent, external audit body of NATO. By 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 regulations in force. Through the Board's performance audits it evaluates if the operations and activities of NATO bodies have been carried out with effectiveness, efficiency and economy.

1.2 Background

1.2.1 As part of the Board's initiative to conduct more performance audits the Board decided to implement the concept of thematic audits to be carried out annually. Thematic audits will address NATO-wide topics or issues with a relatively narrow focus pertaining to economy, efficiency, and compliance. This special report to Council is the result of the first thematic audit executed by the Board.

1.2.2 As a result of its annual financial statement audits, the Board previously identified and reported on high levels of cash held by a number of NATO bodies in excess of the thresholds established in the NATO Financial Regulations (NFRs). However, these observations in Board reports have not resulted in a significant decrease in such instances of excess cash holdings. Therefore, the Board decided to conduct a thematic audit of the cash held and managed by NATO bodies. This thematic audit was done in conjunction with the normally scheduled audits of the financial statements of NATO bodies by the relevant audit teams under the leadership of a small audit team responsible for collating and analysing the information gathered.

1.2.3 The Board previously issued a survey report on cash management in NATO agencies and commands for the year ended 31 December 2002[4].

1.3 Audit Objectives, Scope and Methodology

1.3.1 The Board conducted the audit work for this thematic audit with the objectives to determine and assess the following:

[4] IBA-AR(2004)09

1. Whether the level of cash holdings in NATO bodies are in compliance with applicable NATO Financial Regulations (NFRs), Financial Rules and Procedures (FRPs), and the reasons for excess cash holdings if present;
2. How NATO bodies monitor cash flow and plan their future cash requirements; and
3. How cash holdings are managed by NATO bodies.

1.3.2 The scope of the audit covered a high level survey of the following NATO bodies (and in some cases their individual subordinate bodies) for the year ended 31 December 2012:

- Allied Command Operations (ACO),
- Allied Command Transformation (ACT)
- Battlefield Information Collection and Exploitation Systems Group Executive (BICES GX)
- International Military Staff (IMS)
- International Staff (IS)
- NATO Defence College (NDC)
- NATO Alliance Ground Surveillance Management Agency (NAGSMA)
- NATO Helicopter for the 1990's Design, Development, Production, and Logistics Management Agency (NAHEMA)
- NATO Medium Extended Air Defence System Management Agency (NAMEADSMA)
- NATO Airborne Early Warning and Control Programme Management Agency (NAPMA)
- NATO Communications and Information Agency (NCIA)
- NATO Multi-Role Combat Aircraft Development Production and In-Service Support Management Organisation (NAMMO)
- NATO European Fighter Aircraft Development Production and Logistics Management Organisation (NEFMO)
- NATO EF 2000 and Tornado Development , Production and Logistics Management Agency/NATO Multi-Role Combat Aircraft Development Production and In-Service Support Management Organisation/NATO European Fighter Aircraft Development Production and Logistics Management Organisation (NETMA)
- NATO Support Agency (NSPA)
- Science and Technology Organisation (STO)

1.3.3 The thematic audit fieldwork was conducted by the financial statement audit teams on-site in parallel with the normal annual audit of financial statements for the year ended 31 December 2012. The audit teams gathered information via a survey questionnaire, analysis of the NATO bodies' annual financial statements, bank confirmations, and interviews with the relevant officials of the NATO bodies within the audit scope. Key areas of focus during the review were compliance with current regulations, calls for contributions, level of cash held, and cash management and investment strategy. Appendix 1 of this report shows the

level of cash held at 31 December 2012 and 2013 by the NATO bodies in scope of this report.

2. APPLICABLE NATO REGULATIONS

2.1 The applicable regulations for calls for contributions and cash management in NATO are the NATO Financial Regulations (NFRs) and the associated Financial Rules and Procedures (FRPs). The NFRs are currently under revision by the Budget Committee (BC) and regular discussions are ongoing. As at the time of issuing this report, the latest version of the revised NFRs was BC-D(2013)0112-REV6. The objective of the BC is to approve the revised NFRs by the end of 2014.

2.2 The NFRs are contained in three parts:

- Part 1 - Financial Regulations of NATO,
- Part 2 - Rules and Procedures in implementation of the NFRs for International Military Headquarters and Agencies, and
- Part 3 - Rules and Procedures in implementation of the NFRs for the NATO International Staff.

2.3 The NFRs regarding calls for contribution are the same for NATO bodies and agencies. NFR Article 13 specifies that contributions will be called for in a minimum of three instalments per year, although a lower number of calls for contributions may be authorised by the relevant finance committee.

2.4 FRP XIII.2 of the NFRs Part 2, Rules and Procedures in implementation of the NFRs for International Military Headquarters and Agencies, state the following in regards to the level of cash that may be held:

> *"In cases where contributions are called for in at least three instalments per year, average treasury holdings exceeding three times one month's average expenditure calculated over the financial year shall be considered excessive and the circumstances having caused the excess shall be reported to the MBC (now BC). In cases where the MBC (now BC) authorises calls for contributions in less than three instalments per year, the basis for calculation of excessive treasury holdings shall be appropriately adjusted."*

2.5 FRP XIII of the NFRs Part 3, Rules and Procedures in implementation of the NFRs for the NATO International Staff, state the following in regards to the level of cash that may be held by the International Staff:

> *"For the contributions called in at least three instalments per year, the average monthly treasury holdings will not exceed three times the average*

monthly expected expenditure. If the frequency of calls is lower than three a year, the amount of the instalment will consequently be adjusted."

2.6 In principle therefore, all NATO bodies should not have average cash (treasury) holdings which exceed three times the bodies' average monthly expenditure. In other words, average cash holdings over the year should usually be 25% or less of the annual expenditure. For example, a NATO body that averaged EUR 1 million of expenditure per month would be expected to maintain average cash holdings of EUR 3 million or less. In addition, in those cases where only two calls for contributions are made in a year this would be adjusted to six times the bodies' average monthly expenditure, so average cash holdings should usually be 50% or less of the annual expenditure.

2.7 Calls for contributions are made centrally by the Office of the Financial Controller of the International Staff twice a year for common funded bodies. This is to limit the administrative burden by reducing the number of call letters to be sent to the nations and the number of payments that need to be made. The calculation for the calls for contribution made by each NATO body should take into account the current levels of cash held, amounts still receivable on previous calls, advances on contributions from nations, to yield an amount sufficient to cover the payments anticipated during the period covered by the call.

2.8 Joint funded and customer funded (usually for administrative budgets only) NATO agencies are responsible for preparing and implementing their calls for contributions. The number of calls varies by body and can be anywhere from 2 to 4 per year. This variance in calls is usually at the request of specific nations for national administrative purposes.

3. HIGH LEVELS OF CASH HOLDINGS IN SOME NATO BODIES

3.1 The Board found that five (NAMEADSMA, NAHEMA, NAMMO, NAPMA, and NSPA) of the 16 NATO bodies surveyed exceeded the threshold of the regulations in the NFRs and FRPs for average cash holdings versus average expenditures in 2012 (and reported on in the relevant financial statement audit reports issued by the Board). These bodies are all joint funded or customer funded. In some instances, the Board raised observations in its annual financial statement audits for these NATO bodies over several years. There are several factors that affect the levels of cash held at NATO bodies. These factors include the following:

- Multi-year large scale weapon system acquisition programmes;
- Voluntary advances by contributing nations in excess of cash called; and
- The number and timing of calls for contributions made in the year.

Director, NATO Office of Resources Formal Comments

For the 5 NATO bodies that exceeded the NFR threshold in 2012, it would be helpful if the report could clearly explain whether this was because of a smooth-out of cash

requests over the life cycle of the acquisition programme (para 3.2), because of voluntary cash advances made by the Nations (para 3.5), because of the number and timing of calls (para 3.6), or because of a combination of the three factors. This is important information to assess exactly what caused the high cash holdings for the 5 entities.

Board's Position

This information is available in the specific audit reports on the financial statements of the individual NATO bodies. It should also be noted, however, that there is not always a clear reason why Nations are sending funds or retaining funds at NATO bodies in excess of requirements. The Board's audit mandate doesn't extend to the Nations, and each Nation likely has different reasons for doing so.

3.2 Cash holdings are often driven by large scale multi-year weapon system acquisition programmes in the joint funded NATO agencies. The related budgets are prepared taking into account contractual milestones that are based on industry forecasts of anticipated calls and projected budget execution. The budget forecasts related to these programmes are set to ensure consistent calls from one year to another and to smooth the cash requests to the nations over the life cycle of the acquisition programme. However, the current NFRs as written do not take this into account.

3.3 In order to facilitate the nations who choose to pay higher amounts, one NATO body shows different overall cash requirements on the individual call letters. In addition, the call letters do not state to what extent the contribution call was over and above actual cash requirements. The Board has had an outstanding observation on this matter with this NATO body since the 2005 fiscal year.

3.4 Another NATO body has facilitated the nations by calling up to the ceiling of the weapon system programme, which exceeds the annual budget (i.e. the estimated annual cash requirements) of the body. The result was a significant build-up of unnecessary cash holdings that are not tied to the actual annual expenditure of the NATO body. The Board has had an outstanding observation on this matter with this body since the 2009 fiscal year.

3.5 Cash holdings can also be raised by voluntary advances by contributing nations in excess of the actual cash contribution called. The voluntary advances can include unspent funding that the contributing nations decide to keep at the NATO body rather than being returned to them. These voluntary advances can be made for a number of reasons, such as the timing of national administration's budget years or national legal requirements. For example, one NATO body surveyed in this audit received cash from a nation to pay for national staff travel related to the agency, but outside of the agency's budget. This cash amounted to approximately EUR 1.2 million to the NATO body. However, the average annual expenditure for this national staff travel was EUR 0.18 million. At this average rate, it will take approximately 7 years for the nation to use up the funds held in the NATO body's

bank account on behalf of that nation. NATO bodies do not refuse or return such voluntary advances that have not been called by the body.

3.6 Lastly, the number and timing of the calls for contributions made during the year has a direct impact on the level of cash holdings. If few calls for contributions are made this results in large receipts of cash to the NATO body, often in the 4th quarter of the year with increased cash holdings reported in the financial statements at year end. In addition, these contributions made at the end of the year include the funding necessary for the end of the current year plus advances for the following budget year.

3.7 NATO bodies receive conflicting messages regarding cash holdings from nations and governance structures. On the one hand, the Council approved NFRs seeking to limit cash holdings, while on the other hand, nations themselves provide cash in excess of cash called and directly contribute to the creation of excess cash holdings in NATO bodies.

3.8 The ongoing revision of the NFRs and FRPs represent an opportunity for the nations, through the BC, to decide how best to determine and manage the desired level of cash holdings by NATO bodies. For example, the BC could decide to amend the NFR and FRP relating to cash holdings to increase the threshold or leave it up to individual governance bodies, such as the BC, Agency Supervisory Boards, and Boards of Directors, to determine the cash holding threshold for their respective NATO body.

Conclusion

3.9 Common funded bodies did not exceed the cash holding threshold in 2012. However, cash holdings in five (joint funded or customer funded) of the 16 NATO bodies surveyed exceeded the threshold of the regulations in the NFRs and FRPs for average cash holdings versus average expenditures in 2012. Several external and internal factors in NATO bodies affect the level of cash held.

Recommendations

3.10 In relation to multi-year programme contracts driven by milestone payment plans, the Board recommends that NATO joint funded bodies and their member nations adjust the calls for contribution to accurately reflect the cash requirements of the NATO body. The Board recommends that any such adjustments take into account the actual expenditures and delays in the programmes.

3.11 To enhance transparency, the Board also recommends that Council direct all non-common funded NATO bodies to report the actual cash contributions and voluntary advances made by each nation in the notes to the financial statements, as some bodies already do. In addition, Council should direct all NATO bodies to report in the financial statements the reasons why average cash holdings exceeded average expenditures as required by the NFRs.

Director, NATO Office of Resources Formal Comments

Para 3.11 indicates that some NATO bodies already report actual cash contributions by Nations in their financial statements. Can you be specific as to which entities do and which do not report this in their financial statements? It would be useful to know whether this is an important problem. In any case, it may also be inopportune at this time to direct NATO bodies to report the reasons why average cash holdings are high (against the old thresholds) when the FRPs (which will provide additional policy the level of holdings) are in the process of being revised.

Board's Position

The Board reiterates its recommendation. With the focus of the Alliance on increasing transparency and accountability the Board believes that better and more accurate financial reporting is crucial to decision makers to reform financial management in NATO.

Of the five NATO bodies mentioned in paragraph 3.1, only NAMEADSMO and NAMMO provided information on advances by Nation. To highlight the magnitude of advances, for example, NSPO had approximately EUR 2 billion of advances from customers at the end of both 2013 and 2012.

3.12 Lastly, the Board recommends that Council direct the BC to decide how best to determine and manage the desired level of cash holdings by NATO bodies within the context of the revision of the NFRs.

Director, NATO Office of Resources Formal Comments

Para 3.12 will be a key element of the review of the FRPs that will directly follow the finalisation of the review of the NFRs. It would be helpful if you could indicate which, if any, of the three factors at 3.1 should be incorporated into the revised thresholds. Para 3.12 should read the "relevant NATO bodies" rather than the BC, since the BC has neither the authority nor the responsibility to deal with the level of cash holdings by all NATO bodies, as you correctly highlight in para 3.8.

Board's Position

With the increased focus on transparency and accountability the Board's opinion is that it is essential that such financial matters are dealt with centrally to ensure consistent implementation and reporting across NATO. The revision of the NFR's by the BC offers such an opportunity.

4. CASH HOLDINGS ARE ADEQUATELY SAFEGUARDED

4.1 The Board's audit found that cash holdings in NATO bodies, even when they exceed the NFR threshold, are managed in accordance with the NFRs and are adequately safeguarded. The risk of significant financial losses related to cash holdings appears to be low.

4.2 Cash in NATO bodies is held in current bank accounts or on short term investment accounts (in accordance with NFRs Article 17). While these types of accounts are generally low interest yielding financial instruments, they avoid the risks associated with higher interest yielding long term investment accounts or investments in securities, such as financial losses on investments or cash not readily available for use. Cash held in current bank accounts or on short term investment accounts is readily available to the NATO bodies for authorised expenditures.

Conclusion

4.3 The Board found no evidence that cash holdings in NATO are being poorly managed or at significant risk. However, the risk of loss due to fraud, error, or the collapse of individual banks cannot be fully mitigated against.

5. OVERALL CONCLUSION

5.1 Cash holdings at five joint funded or customer funded NATO bodies surveyed exceeded the threshold of the regulations in the NFRs and FRPs in 2012. There are specific factors for the reasons why this occurs in NATO, but in particular they can be raised by voluntary advances by contributing nations in excess of the actual cash contribution called, and the Board found no evidence that cash holdings in NATO are poorly managed or at significant risk. However, it is clear that despite clear and specific regulations in the current NFRs, they do not work in regards to limiting cash holdings at all NATO bodies. The revision of the NFRs provides an opportunity for nations to determine the level of cash holdings that they want NATO bodies to have.

Director, NATO Office of Resources Formal Comments

> *Thank you for the opportunity to further review the subject report). We had previously provided extensive comments on the initial draft and I note, with regret, that the IBAN has not taken many of our earlier comments into account. The revised version remains substantially unchanged and thus in our view, continues to raise more questions than it provides answers.*
>
> *The tables provided at page 2-11 and 2-12 do not clearly demonstrate which NATO bodies have excessive cash holdings — and without additional information and*

clarification these tables are confusing. It is also unclear if the IBAN's conclusions are valid for both 2012 and 2013.
If the conclusion of the IBAN's findings is that the common-funded NATO bodies do not have cash holdings in excess of the regulations, as stated in para 3.9, then we believe that it would be helpful if this important element were also included in the overall concluding paragraph at 5.1.

Board's Position

The Board amended the draft report where appropriate based upon the factual comments received. The tables at Appendix 1 show the level of cash held at 31 December 2012 and 2013 by the NATO bodies in scope of this report for contextual information purposes only. The Board's conclusion specifically states the five bodies with excess cash holdings were joint or customer funded.

In respect to 2013, the five bodies included in the report continued to have cash levels that exceeded the threshold of the regulations in the NFRs and FRPs. In addition, the Board reported in its audit of the 2013 IMS Financial Statements that the IMS also had cash levels that exceeded the threshold of the regulations.

APPENDIX 1
ANNEX 3
C-M(2016)0001
IBA-AR(2014)17

Cash Holdings at 31 December 2012 by surveyed NATO Body

NATO Body	2012 Expenses (millions)		Cash at 31/12/2012 (millions)	
	EUR	USD	EUR	USD
Common Funded				
ACO	1,157.00		750.90	
ACT	134.00		43.50	
BICES GX	5.00		3.80	
IMS	22.70		16.70	
IS	186.39		43.10	
NDC	9.49		2.50	
STO[1]	5.34		2.40	
Joint Funded				
NAGSMA	211.40		164.44	
NAHEMA	643.00		1,013.30	
NAMEADSMA		444.45		433.67
NAPMA		62.54		221.30
NAMMO	452.09		378.57	
NEFMO	4,638.52		345.08	
NETMA	44.46		59.91	
Customer Funded				
NCIA	604.83		190.80	
NSPA[2]	1,966.65	132.20	1,504.00	170.60

[1] STO was partially common funded and customer funded in 2012. In the future it will be a fully customer funded body.

[2] NSPA used segment reporting for its component parts in 2012.

Source: Financial Statements for the year ended 31 December 2012.

Note: This table only shows the level of total cash held at 31 December 2012 and is not a calculation of average monthly cash holdings over the entire year. The Board found that NAMEADSMA, NAHEMA, NAMMO, NAPMA, and NSPA exceeded the threshold of the regulations in the NFRs and FRPs for average cash holdings versus average expenditures in 2012.

APPENDIX 1
ANNEX 3
C-M(2016)0001
IBA-AR(2014)17

Cash Holdings at 31 December 2013 by surveyed NATO Body

NATO Body	2013 Expenses (millions)		Cash at 31/12/2013 (millions)	
	EUR	USD	EUR	USD
Common Funded				
ACO	1,057.00		916.00	
ACT	132.79		62.50	
BICES GX	5.20		3.80	
IMS	25.18		15.90	
IS	179.65		80.41	
NDC	9.95		2.47	
STO[1]	29.63		13.50	
Joint Funded				
NAGSMA	386.03		218.79	
NAHEMA	865.65		757.11	
NAMEADSMA		404.22		420.07
NAPMA		98.54		241.81
NAMMO	410.55		431.09	
NEFMO	2,543.70		437.08	
NETMA	45.59		18.21	
Customer Funded				
NCIA	589.96		191.67	
NSPA	2,129.90		1,679.72	

[1] STO was partially common funded and customer funded in 2013. In the future it will be a fully customer funded body.
Source: Financial Statements for the year ended 31 December 2013.

Note: This table only shows the level of total cash held at 31 December 2013 and is not a calculation of average monthly cash holdings over the entire year. The Board found that NAHEMA, NAMMO, NAPMA, NSPA and the IMS exceeded the threshold of the regulations in the NFRs and FRPs for average cash holdings versus average expenditures in 2013. For NAMEADSMA, the participating nations had transferred all contributions required for funding the operations of the agency until the completion of the Design & Development phase (expected to be January 2015), after which there will be a period of liquidation and final dissolution of the agency (expected to be January 2016).

LIST OF ABBREVIATIONS

ACO	Allied Command Operations
ACT	Allied Command Transformation
BC	Budget Committee
BICES GX	Battlefield Information Collection and Exploitation Systems Group Executive
Board	International Board of Auditors for NATO
Council	North Atlantic Council
FRPs	Financial Rules and Procedures
IS	International Staff
IMS	International Military Staff
NAGSMA	NATO Alliance Ground Surveillance Management Agency
NAHEMA	NATO Helicopter Management Agency
NAMA	NATO Airlift Management Agency
NAMEADSMA	NATO Medium Extended Air Defence System Design and Development Production and Logistics Management Agency
NAMMO	NATO Multi-Role Combat Aircraft Development and Production Management Organization
NAMSA	NATO Maintenance and Supply Agency
NAPMA	NATO Airborne Early Warning and Control Programme Management Agency
NCIA	NATO Communications and Information Agency
NDC	NATO Defence College
NEFMO	NATO European Fighter Aircraft Development Management Organization
NETMA	NATO EF 2000 and Tornado Development, Production & Logistics Management Agency
NFRs	NATO Financial Regulations
NSPA	NATO Support Agency
STO	Science and Technology Organization