



Supreme Audit Office

KON.410.002.02.2019

P/19/037/02

**Auditor's Report
on the Financial Statements of the
Headquarters Multinational Corps Northeast
for the year ended 31 December 2018 -
Shared Multinational Funded Budget**

December 2019

I. Audit identification data

Audit number and title	P/19/037 – Execution of the Shared Multinational Funded Budget (SMFB) 2018 by the Headquarters Multinational Corps Northeast
Auditing entity	Supreme Audit Office of Poland Department of National Defence
Auditors	1. Małgorzata Romanowicz, Senior Public Audit Expert; 2. Mariusz Tupaj, Senior Public Audit Expert; 3. Adam Gęstwicki, Senior Public Audit Expert.
Audited entity	Headquarters Multinational Corps Northeast (hereinafter “Corps” or “HQ MNC NE”), ul. Łukasińskiego 33, Szczecin 71-215.
Head of the audited entity	Lieutenant General Manfred Hofmann (until 11 September 2018), Lieutenant General Sławomir Wojciechowski (since 12 September 2018).

II. Introduction

Legal basis	The audit was conducted pursuant to Article 10 item 4 of the Corps Convention ¹ of 5 September 1998, Section VIII Article 5 of the Memorandum of Understanding between the Ministry of National Defence of the Republic of Poland, the Ministry of Defence of the Kingdom of Denmark, the Federal Ministry of Defence of the Federal Republic of Germany and the Supreme Headquarters Allied Powers Europe ² , (hereinafter Memorandum), the decision of the Senior Resources Committee ³ and the Agreement concluded by SAI Poland, SAI Denmark and SAI Germany ⁴ as well as Article 2 item 3 point 4 in conjunction with Article 12a item 1 and 2 of the Supreme Audit Act of 23 December 1994 ⁵ .
Mission, activity and elements of HQ MNC NE	Tasks and missions of the Corps were defined in Article 3 of the Corps Convention. Details concerning the organisation and activity of the Corps were defined in the Agreement between the Ministry of Defence of the Kingdom of Denmark, the

¹ Convention between the Government of the Federal Republic of Germany, the Government of the Kingdom of Denmark, and the Government of the Republic of Poland on the Multinational Corps Northeast signed on 5 September 1998 in Szczecin (Journal of Laws of 2000 No. 21, item 259, as amended).

² Memorandum of Understanding between the Ministry of National Defence of the Republic of Poland, the Ministry of Defence of the Kingdom of Denmark, the Federal Ministry of Defence of the Federal Republic of Germany and the Supreme Headquarters Allied Powers Europe concerning the Manning, Funding and Support of the Headquarters Multinational Corps Northeast as the NATO Deployable Corps Northeast dated 4 February 2005.

³ Decision 08/14 – Decision Sheet of the Senior Resources Committee Meeting 3 December 2014.

⁴ Agreement of 2 February 2001 and Amendment to the Agreement concerning SMFB audit to be carried out by SAIs of Denmark, Germany and Poland.

⁵ Journal of Laws of 2017, item 524.

Federal Ministry of Defence of the Federal Republic of Germany and the Ministry of National Defence of the Republic of Poland⁶. Tasks of the Corps financed by the Shared Multinational Funded Budget (SMFB) were defined in the Memorandum.

General information
budget execution of
HQ MNC NE

The Shared Multinational Funded Budget (SMFB) of HQ MNC NE amounted to PLN 5.003.215.

III. Opinion of the Supreme Audit Office of Poland

Aim and scope of the
audit

We have audited the Financial Statements of HQ MNC NE for 2018, including Statement of Cash Receipts and Payments, Statement of Budget and Actual Amounts and explanatory Notes to the Financial Statements, which were prepared in line with the International Public Sector Accounting Standards IPSAS, under the cash basis of accounting. The audit encompassed financial and executive aspects, in line with the procedures adopted by the Supreme Audit Institutions of Denmark, Germany and Poland, compliant with the standards⁷ of the International Organisation of Supreme Audit Institutions (INTOSAI), and all applicable rules and regulations of the MNC NE relating to gaining and spending the Corps' shared funds.

Audit Opinion

The Supreme Audit Office of Poland issues an unqualified opinion⁸

In our opinion, the accompanying Financial Statements of the Headquarters Multinational Corps Northeast in the framework of the Shared Multinational Funded Budget present, in all material respects, true and fair view of the Corps' Cash Receipts and Payments, Budget and Actual Amounts, including explanatory Notes to the Financial Statements, for the year ended 31 December 2018. In our opinion, transactions carried out by the Corps in the framework of the Shared Multinational Funded Budget were in compliance with the principals specified in Section VIII of Memorandum and Financial Administrative Procedures (Staff Directive No 60-70) and all other applicable rules and regulations.

Basis for Opinion

We conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the audited Organisation in accordance with the ISSAI 10 – Mexico Declaration of SAI⁹ Independence and ISSAI 30 – Code of Ethics, together with other requirements that are relevant to our audit of the financial statements of an international institution as stated in ISSAI 5000 – Audit of International Institutions – Guidance for SAIs, and we have fulfilled our ethical and other responsibilities in accordance with the said standards, including the Code of Ethics of the Supreme Audit Office of Poland. **In our opinion the audit evidence we have obtained was sufficient and appropriate to provide a basis for an unqualified opinion.**

⁶ Agreement between the Ministry of Defence of the Kingdom of Denmark, the Federal Ministry of Defence of the Federal Republic of Germany and the Ministry of National Defence of the Republic of Poland concerning Operation of the Multinational Corps Northeast of 16 April 2009, hereinafter "Agreement".

⁷ International Standards of Supreme Audit Institutions (ISSAI) and International Public Sector Accounting Standards (IPSAS).

⁸ The Supreme Audit Office of Poland may issue: an unqualified opinion, qualified opinion, adverse opinion or a disclaimer of an opinion.

⁹ SAI-Supreme Audit Office.

Responsibility of the management for Financial Statements

The Commander MNC NE was responsible for all budgetary and financial matters before the Corps Committee and the Senior Resources Committee. Among other things, he is responsible for the preparation of the annual Financial Statements for 2018, in line with the International Public Sector Accounting Standards IPSAS, under the cash basis of accounting. The Commander HQ MNC NE also produced and submitted for approval the budget estimates and was responsible for the budget execution and internal control over the whole process.

Responsibility of auditors for the opinion on Financial Statements issued on the basis of the audit

In line with the procedures applied by the Supreme Audit Office of Poland, ethical requirements were complied with, and the audit was planned and performed in such a way, so as to obtain rational assurance that the Financial Statements do not contain any material irregularities. On the basis of the sampled accounts, the audit team checked, among other things, the data confirming the amounts and information presented in the Financial Statements. Auditors also reviewed, whether transactions were made in compliance with the relevant authorisations and regulations.

On the basis of their own judgement the auditors selected audit procedures, including the risk assessment of material irregularities in the Financial Statements due to fraud or error. While conducting the risk analysis, the audit team took into consideration the internal control processes, essential to prepare reliable Financial Statements of the HQ MNC NE. The applied accounting principles were also reviewed with regard to their adequacy, and the general presentation of the Financial Statements was assessed.

IV. Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and of compliance authorities¹⁰. These matters were addressed in the context of our audit of the financial statement as a whole and compliance with authorities, and forming our opinion thereon.

Facts, comments and conclusions regarding the audited area

1. Financial Statements for 2018

The Statement of Cash Receipts and Payments presents cash inflows 2018 amounting to PLN 3.785.979 and expenditure amounting to PLN 4.326.838¹¹.

The 2018 receipts were lower than the receipts 2017 by PLN 1.774.411 (31,9%). The receipts were mostly comprised of the contributions of the Participating Nations¹² in total amount of PLN 3.563.783¹³, as well as VAT reimbursements amounting to PLN 170.434.

All receipts of the HQ MNC ME consisting of the contributions of Participating Nations and VAT reimbursements, amounting to 98,6% of the total 2018 receipts, were audited. No irregularities were found in their records and reporting.

¹⁰ HQ MNC NE regulations, rules, procedures, standards, and good practice.

¹¹ The temporary support of SMFB by cash assets FNB in the amount of PLN 1.200.00 occurred on 22 October 2018 to cover the prepayment for accommodation and messing for the exercises.

¹² In line with Annex C to the Memorandum, the Framework Nations (Poland, Germany and Denmark) contributed 5% (1,67% each), and the other Participating States paid contributions proportional to their share of officer establishment (95% of contribution).

¹³ Included Turkish contribution for years 2016 and 2017 received on 12 march 2018.

Observation 1:

Situation:

The Notes to the Financial Statement do not include in the position 4.4. *other income* the explanation about the amount of contribution for the FY 2017 paid by Norway in 2016 (PLN 130.163).

Criteria:

- 1) ISSAI 1.3.8: "Notes to the financial statements include narrative descriptions or more detailed schedules or analyses of amounts shown on the face of the financial statements, as well as additional information. They include disclosures considered necessary to achieve a fair presentation and enhance accountability.
- 2) ISSAI 1.3.8: "Notes to the financial statements include narrative descriptions or more detailed schedules or analyses of amounts shown on the face of the financial statements, as well as additional information. They include disclosures considered necessary to achieve a fair presentation and enhance accountability.
- 3) Best presentation practice: numbers of all notes are given on the face of the financial statements and clear explanations provide easy reference to accompanying explanatory notes.

Impact:

The lack of explanations in the Notes to the Financial Statement hinders the readability of the financial statements.

Recommendation:

It is recommended that all Note numbers be inserted in the column "Note" on the face of the Financial Statements and all necessary explanation be given to improve the presentation of data and facilitate their reading in the statements¹⁴.

2. Shared Multinational Funded Budget for 2018

The 2018 expenses totalled PLN 3.393.418 and constituted 67,8% of the amount planned (PLN 5.003.215- included carry forward 2019).

While auditing the expenditure of the HQ MNC NE 99 accounting records and documents were examined in the total amount of PLN 1.626.551, constituting 52,9% of the payments made by HQ MNC NE in 2018, presented in the statements in the column Actual Amounts (PLN 3.072.459). The monetary unit sampling (MUS¹⁵) method was applied on 1003 accounting records concerning the HQ MNC NE SMFB expenditure in 2018.

The conducted examination of individual documents proved that the HQ MNC NE payments were made in line with the regulations in force, and they were used to perform the tasks of the Corps related to trainings and exercises financed by SMFB. The accounting records for particular payments were compliant, reliably linked with the accounting documents and correctly presented in the accounting ledgers (on proper cost accounts), which was a basis for the preparation of reliable Financial Statements with regard to material items of the HQ MNC NE payments.

¹⁴ In accordance with best practice and IPSAS.

¹⁵ Probability Proportional to Size sampling.

The accounting records of the Corps enable to establish total costs of individual exercises and undertakings performed within SMFB.

Observation 2: Discrepancy in rules and regulations in reference to expenditure/costs categories.

Situation:

Three categories of expenditures in the Statement of Cash Receipts and Payments and in the Statements of Comparison of Budget and Actual Amounts were presented in line with the NATO Financial Rules and Regulations and with Staff Directive Number 60-70 – Financial Administrative Procedures, which provide three cost categories that correspond with the said three categories of expenditures.

Criteria:

- 1) NATO Financial Rules and Regulations – Review of NATO Financial Regulations, Note by the Secretary General, 24 April 2015,
- 2) Staff Directive Number 60-70 – Financial Administrative Procedures, Chapter 2, item 2-2 Budget Structure says that “Costs of the Corps elements are to be ascertained and estimated in accordance the NATO cost structure. The Multinational budget is to be divided into the following categories:
 - Chapter 1: Personnel costs
 - Chapter 2: Contractual supplies and services costs
 - Chapter 3: Capital and investments costs”,
- 3) Annex D to the Agreement between The Ministry of National Defence of the Republic of Poland, The Ministry of Defence of the Kingdom of Denmark, and The Federal Ministry of Defence of the Federal Republic of Germany concerning Operation of the Multinational Corps Northeast Finance and Multinational Budget, item II, sub-item 2. says that “The Multinational budget will be divided into the following cost categories:
 - a) cost category 1: Personnel costs
 - b) cost category 2: Material and administrative costs, including the cost of training projects
 - c) cost category 3: Exercise costs
 - d) cost category 4: Investments costs
 - e) cost category 5: Receipts”,
- 4) Minutes Budget and Finance Group – proposed changes to Corps Agreement Annex D agreed on the meeting held 19-21 October 2016.

Impact:

The foregoing criteria provide for different sets of cost categories whereas all of them are formally valid. Annex D to the Agreement between the Ministries shall be superior to other internal regulations. The current financial reporting practice in the Corps is based on the NATO Financial Regulations and the internal Directive 60-70 and, consequently, is not in compliance with the Annex D to the ministerial agreement.

Recommendations:

It is recommended that that the amendments to the Annex D of the Agreement proposed during BFG Meeting of 19-21 October 2016 be implemented to remove

discrepancy between the principal ministerial agreement and the internal Corps regulations and, consequently, the current practice in financial reporting.

3. Other observations

- 3.1 The Table 5.4.3.2 in the explanatory Note 5.4.3 Cash Outflow did not include the total sum of the budget expenditures in 2018 and a column with the information concerning the actual amounts spent (payments together with the carry forwards for the next year), which in our opinion hindered the analysis of the statements and Notes to the Financial Statements.
- 3.2 SMFB expenditure made in 2018 enabled to perform all HQ MNC NE tasks related to military exercises and training not financed by the Framework Nations Budget.
- 3.3 Based on the current NATO policy, for reasons of transparency, expenditure for official Representation and Hospitality were included in the Financial Statements in the amount of PLN 22.873 constituting 20,8% of planned (PLN 110.000).
- 3.4 Cash balances with bank and cash on hand were compliant with the accounting records and data in the HQ MNC NE SMFB Financial Statements for 2018.

4. Implementation of audit recommendations

HQ MNC NE could not implement the observations and recommendations made by the auditors of Supreme Audit Office of Poland concerning the Financial Statements for the year ended 31 December 2016 during preparation of the Financial Statements for the year ended 31 December 2017 SMFB. The HOTO¹⁶ meeting between SAIs of Denmark, Poland and Germany was held on 28 June 2017 when SAI of Poland got the mandate to conduct the audits of HQ MNC NE Financial Statements. Consequently the audit of FN 2016 was performed by SAI of Poland in 2018.

Status of prior period audit recommendations

OBSERVATION/RECOMMENDATION	ACTION TAKEN	STATUS
Rigsrevisionen - Audit Report on the Shared Budget Financial Statement 2015 Headquarters Multinational Corps Northeast, January 2017 Supreme Audit Office - Audit Report on the Shared Budget Financial Statement 2018 Headquarters Multinational Corps Northeast, December 2019.		
Observation In line with the Corps Agreement, Financial Statements shall be presented in five main cost groups, whereas HQ MNC NE applied the division into three such groups: personnel costs, contractual supplies and	HQ MNC has informed the Framework Nations on necessary amendments at the BFG meetings in May 2013 and May 2014 and additionally at the Corps Committee meeting in May 2013, thereby initiating revision of the respective Corps documents including	IN PROGRESS

¹⁶ Hand Over-Take Over

<p>services, and capital and investments – in line with the relevant NATO regulations.</p> <p>Recommendation:</p> <p>The Supreme Audit Office of Denmark recommended ensuring consistency between the practice of HQ MNC NE and the provisions of the Corps Agreement by updating Annex D to the Corps Agreement concluded by the Framework Nations. This matter was raised in all previous audit reports. Despite the efforts made by HQ MNC NE¹⁷ Framework Nations did not update the Agreement.</p>	<p>their annexes, the Sub-Working Group Legal was informed during the meeting held on 21-24 September 2015. The Framework Nations started a discussion on the future cost sharing of the Framework Nations in 2015. As a result, the revision of the financial regulations by the Sub-Working Group Legal was suspended until the final agreement on the sharing of costs was reached.</p> <p>Budget and Finance Group proposed changes to the Corps Agreement Annex D agreed at the meeting held on 19-21 October 2016 (Minutes from the meeting).</p> <p>Frame Nations signed on 30 April 2019 the Implementing Arrangement between the Ministry of Defence of the Kingdom of Denmark, the Federal Ministry of Defence of the Federal Republic of Germany, and the Minister of National Defence of the Republic of Poland, on the Funding, Manning, and Support of the Multinational Corps Northeast.</p> <p>The Arrangement will be the starting point to initiate the necessary adjustments to the policy and legal documents of Multinational Corps Northeast.</p> <p>Sob-Working Group Legal on the meetings on 6-7 JUNE 2019 and 28-30 October 2019 agreed on the Time Schedule MNC NE documents revision process. The revision of the Corps Agreement (CA) is planned in 1st Quarter 2020.</p>	
<p>Observation:</p> <p>The column “Note” on the face of the Financial Statements 2016 does not specify numbers of the annotations included in the Notes to the Financial Statements.</p> <p>Recommendation:</p> <p>It is recommended that all Note numbers be inserted in the column “Note” on the face of the Financial Statements to improve the presentation of data and facilitate their reading in the statements.</p> <p>Best presentation practice: numbers of all notes are given on the face of the financial statements to provide easy reference to accompanying explanatory notes.</p>	<p>The column “Note” on the face of the Financial Statements 2018 specify numbers of the annotations included in the Notes to the Financial Statements.</p>	<p>CLOSED</p>

¹⁷ HQ MNC NE informed the Framework Nations on the necessity to amend Annex D to the Corps Agreement at the meeting of the Budget and Finance Group (BFG) in May 2013 and 2014. At the meeting of the Corps Committee in May 2013 amendments to Annex D were presented, aimed to regulate the presentation of cost groups in financial statements, according to the NATO regulations. Moreover, the matter was presented to the Sub-Working Group Legal at the meeting on 21-24 September 2015, and further to the Corps Committee in 2016.

V. Other information and instruction

Right to submit objections

The report was prepared in two identical copies in Polish, and in two identical copies in English, two for each of the parties.

Obligation to inform the Supreme Audit Office of Poland on the utilisation of the comments and implementation of the recommendations

In line with Article 54 item 1 and 2 of the Supreme Audit Office Act, Commander MNC NE shall have the right to file substantiated reservations to the audit report in writing, within 21 days of the receipt thereof. The reservations shall be submitted to the Director of the Department of Defence at the Supreme Audit Office of Poland.

In line with Article 62 of the Supreme Audit Office Act, please inform the Supreme Audit Office of Poland within 14 days of the audit report receipt, on how the audit comments and recommendations have been utilised, as well as on the measures taken or grounds for failing to take such measures.

Should reservations to the audit report be submitted, the aforementioned information shall be submitted within 14 days of the receipt of the NIK's resolution rejecting reservations in whole or the modified audit report.

Warsaw, 17 December 2019

Department of National Defence

Auditors:

Director
Marek Zająkala

Małgorzata Romanowicz
Senior Public Audit Expert

Adam Gęstwicki
Senior Public Audit Expert

Mariusz Tupaj
Senior Public Audit Expert