

Opinion of National Audit Office
on 2014 and 2015 Financial
Statements of NATO
Cooperative Cyber Defence
Centre of Excellence

Report of the National Audit Office to the
Riigikogu
Tallinn, 26 August 2016

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Accuracy of 2014 and 2015 Financial Statements of NATO Cooperative Cyber Defence Centre of Excellence

The 2014 and 2015 Financial Statements of NATO Cooperative Cyber Defence Centre of Excellence are accurate.

1. The Financial Statements of the NATO Cooperative Cyber Defence Centre of Excellence according to which the result for 2014 amounts to 17,388 euros and the total assets as at 31 December 2014 amount to 402,353 euros give a true and fair view of the financial position and financial performance of the Centre of Excellence for the accounting period ended in all material respects and in accordance with the Generally Accepted Accounting Principles of Estonia.

Accuracy of the Financial Statements

2. The Financial Statements of the NATO Cooperative Cyber Defence Centre of Excellence according to which the result for 2015 amounts to 387,629 euros and the total assets as at 31 December 2015 amount to 673,617 euros give a true and fair view of the financial position and financial performance of the Centre of Excellence for the accounting period ended in all material respects and in accordance with the Generally Accepted Accounting Principles of Estonia.

Organisation of accounting

Organisation of annual stock-takes in NATO Cooperative Cyber Defence Centre of Excellence requires improvement

3. The National Audit Office is of the opinion that the organisation of accounting is generally good, but the organisation of annual stock-takes requires improvement. Less important observations about the structure and functionality of the internal control system are given in the memorandum prepared by the National Audit Office.

Observation about stock-takes

4. The Accounting Act states that for the purposes of preparing an annual report, it is necessary to take stock of the balances of assets and liabilities and assess the conformity of the value of the assets and liabilities recorded in the journals and ledgers to the accounting policies and procedures. The 2015 year-end stock-take had not been carried out by the commencement of the audit procedures in June 2016, and it was done at the time of the accounting procedures instead.

5. The National Audit Office is of the opinion that the annual stock-take is one of the most important and effective internal control measures for determining the preservation and status of assets. An appropriately carried out stock-take also makes it possible to manage the risks arising from potential fraud and is necessary for the preparation of the financial statements.

6. The National Audit Office is of the opinion that the year-end stock-take must be organised as close to the end of the financial year as possible in order to obtain data about the actual value of assets and liabilities as at the balance sheet date that are as accurate as possible. The longer the year-end stock-take is postponed, the more difficult it becomes to obtain detailed explanations from the persons responsible for the assets.

7. Recommendation of the National Audit Office to the Director of the NATO Cooperative Defence Centre of Excellence: to guarantee

that year-end stock-takes are carried out as close to the end of year as possible.

Response of the director of the NATO Cooperative Cyber Defence Centre of Excellence: Based on the recommendations, the Director of the Centre will ensure that hereinafter the annual inventory will be carried out as soon as possible after the end of the financial year

Budgetary funds of NATO Cooperative Cyber Defence Centre of Excellence have been used purposefully

Use of budgetary funds

8. The budgetary expenditure of the NATO Cooperative Cyber Defence Centre of Excellence in 2014 totalled 881,273 euros. The budgetary expenditure of the Centre in 2015 amounted to 977,486 euros. The National Audit Office audited whether the organisation of work and the internal control system of the Centre provide an adequate basis for the purposeful use of the allocated money, and audited the functionality thereof on a random basis.

9. The National Audit Office is of the opinion that the preconditions for a well-functioning internal control system have been created and the NATO Cooperative Cyber Defence Centre of Excellence has used the allocated money purposefully in the audited extent.

/Signed digitally/

Krista Zibo
Audit Director,
Financial Audit Department

Recommendations of the National Audit Office and responses of the Director of NATO Cooperative Cyber Defence Centre of Excellence

The National Audit Office made a recommendation to the Director of the NATO Cooperative Cyber Defence Centre of Excellence as a result of the audit. On 22.08.2016 the Director of the Centre of Excellence sent his response to the draft audit report of the National Audit Office.

General comments of the Director of the NATO Cooperative Cyber Defence Centre of Excellence on audit report

On our part we would like to thank the auditors for pleasant cooperation. All the observations made in this memo, as well as the interviews conducted in the course of audit are professional and constructive and will certainly contribute to making the NATO CCD COE activities more transparent and more efficient

Recommendation of the National Audit Office	Response of the auditee
Observation about stock-takes 7. Recommendation of the National Audit Office to the Director of the NATO Cooperative Defence Centre of Excellence: To guarantee that year-end stock-takes are carried out as close to the end of year as possible. Points 4–6	Response of the director of the NATO Cooperative Cyber Defence Centre of Excellence: Based on the recommendations, the Director of the Centre will ensure that hereinafter the annual inventory will be carried out as soon as possible after the end of the financial year.

General characteristics of institution

The NATO Cooperative Cyber Defence Centre of Excellence (NATO CCD COE) is an international military organisation (IMO), which received the full accreditation of the NATO on 28 October 2008 with the resolution of the North Atlantic Council. Although the Centre offers numerous products and services to NATO in the field of cooperative cyber defence, it is not an operative centre or a part of NATO's management and military command structure. The NATO Cooperative Cyber Defence Centre of Excellence (hereinafter the Centre) is an international military organisation for the purposes of the Paris Protocol.

The Centre is located in Tallinn, Estonia, and all NATO Member States can become its members. The Centre's main areas of research in the area of cooperative cyber defence are as follows: law and politics; principles and strategy; tactical environment and defence of the infrastructure of significant information. The Centre is funded by the member states, not NATO.

The obligation of Estonia as the leading state is to guarantee full support of the receiving country, which also covers the organisation's infrastructure and administration expenses. Member states are obliged to pay the salaries and living expenses of their researchers, and make proportional payments into the common activity budget.

The NATO Cooperative Cyber Defence Centre of Excellence was established with a memorandum of understanding that was signed by the representatives of the Ministries of Defence of Estonia, Germany, Italy, Latvia, Lithuania, Slovakia and Spain on 14 May 2008. The Centre's financing, accounting and audit principles were stipulated in the memorandum of understanding and in the specified financial regulation. Proceeding from the Memorandum, the NATO Cooperative Cyber Defence Centre of Excellence organises its accounting according to the legislation of the Republic of Estonia, a more detailed specification and supplementation of the accounting is provided in the accounting policies and procedures of the Centre.

Colonel Artur Suzik was the director of the Centre during the audited period. Sven Sakkov became the Centre's director on 27 August 2015. The Director of the Centre has confirmed the accuracy of 2014 and 2015 Financial Statements with his signature. Mirjam Boiko was the accountant.

Characteristics of audit

Reason and objective of audit

According to the foundation agreement of the NATO Cooperative Cyber Defence Centre of Excellence, the auditor is elected on the basis of the guidelines of the Steering Committee. According to the agreement between the steering committee and the National Audit Office, the Financial Statements of the Centre are audited by the National Audit Office.

The purpose of the audit is to express an opinion on the accuracy of the 2014 and 2015 Financial Statements of the NATO Cooperative Cyber Defence Centre of Excellence. The Financial Statements of the Centre consist of the balance sheet as at 31 December of the respective year, income statement, cash flow statement and statement of changes in owners' equity for the financial years ended, a summary of the accounting policies and procedures used in preparing the financial statements and other explanatory notes.

Scope and focus of audit

In the course of giving an opinion on the accuracy of the 2014 and 2015 Financial Statements of the NATO Cooperative Cyber Defence Centre of Excellence, the National Audit Office evaluated the compliance of the annual accounts with the Generally Accepted Accounting Principles of Estonia. The

Generally Accepted Accounting Principles are based on internationally recognised accounting policies and procedures (EU directives on accountancy, international standards of financial accounting and international standards of state accountancy) and their main requirements are established in the Accounting Act of the Republic of Estonia, which are supplemented by the guidelines issued by the Accounting Standards Board.

The National Audit Office performed the audit in accordance with the Audit Standards of the International Organisation of Supreme Audit Institutions (INTOSAI), which regulate the auditing of financial statements as well as the regularity of transactions within the scope of auditing financial statements. These standards require that an audit be planned and performed in a manner that makes it possible to decide with sufficient assurance that the financial statements are free of material misstatement.

During the audit, evidence was collected about the figures presented and the information disclosed in the financial statements. In order to plan the relevant audit operations, the National Audit Office took into account the internal audit system implemented to prepare true and fair financial statements without expressing an opinion on the efficiency of the internal audit. The relevance of the accounting principles and procedures used, the justification of the accounting assessments made by the management and the general manner of presentation of the financial statements were also assessed in the course of the audit. The National Audit Office is of the opinion that the audit provides a sufficient basis for expressing an opinion on accuracy of the financial statements of the Centre.

The attention of the auditee was drawn to the less significant omissions found during the audit at the time when the audit was being carried out, and also in the memorandum sent to the auditee.

The Financial Statements of the NATO Cooperative Cyber Defence Centre of Excellence are accurate in all material respects.

In expressing its opinion on the financial statements, the National Audit Office relied on the following criteria:

- assets and liabilities exist as at 31 December;
- assets and liabilities belong to the institution as at 31 December;
- transactions were conducted or events took place in 2014 or 2015;
- all assets, liabilities, transactions and events have been recognised and indicators have been disclosed;
- assets and liabilities are recognised at the correct value;
- transactions or events have been recognised in the correct amounts, and revenues and expenses have been entered in the correct period;
- indicators have been disclosed, classified and described in accordance with the generally accepted accounting principles; and
- the numeric information given in the management report, which arises from the financial statements, has been recognised in the correct amounts.

Time of completion of audit

The audit activities were completed in July 2016.

Audit team

Senior Auditor acting as Audit Manager Gert Schultz and Senior Auditors Alina Green and Kristi Kährin took part in the audit.

Contact information

Further information on the audit is available from the Communication Service of the National Audit Office:

telephone: +372 640 0704 or +372 640 0777; e-mail: riigikontroll@riigikontroll.ee

An electronic copy of the audit report (PDF) is available online at www.riigikontroll.ee.

A summary of the audit report is also available in English.

The number of the audit report in the records management system of the National Audit Office is 2-1.8/16/60142/8-2.

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Previous audits of National Audit Office in the area of accounting of NATO Cooperative Cyber Defence Centre of Excellence

29 September 2014 – **Opinion of National Audit Office on 2012 and 2013 Financial Statements of NATO Cooperative Cyber Defence Centre of Excellence**

11 September 2012 – **Opinion of National Audit on 2011 Financial Statements of NATO Cooperative Cyber Defence Centre of Excellence**

All reports are available on the website of the National Audit Office at www.riigikontroll.ee