

14 April 2014

INTERNATIONAL BOARD OF AUDITORS FOR NATO

ANNUAL ACTIVITIES REPORT

FOR 2013



SERVING THE NATIONS



MISSION

Through its audits, the Board provides the North Atlantic Council and the governments of NATO member states with assurance that financial reporting is true and fair and common funds have been properly used for the settlement of authorised expenditure. In addition, the Board reviews the operations of NATO Agencies and Commands to determine if they are being carried out effectively, efficiently and economically.

INDEPENDENCE

The Board and its individual members are responsible for their work only to the Council. They shall neither seek nor receive instruction from any authorities other than Council. The Board's budget is independent from that of the NATO International Staff.

INTEGRITY

The Board conducts its work in a fair, objective, balanced, unbiased and non-political manner, using all relevant evidence in its analyses and formulations of audit opinions.

PROFESSIONALISM

The Board's audit work is planned, executed and reported in accordance with the auditing principles and guidelines of the International Organisation of Supreme Audit Institutions, complemented by the audit standards of the International Federation of Accountants for financial audits. Board Members and auditors have the necessary competencies and qualifications to perform their work.

Foreword by the Chairman



The International Board of Auditors for NATO (Board) is an independent six-member external audit body reporting to the North Atlantic Council (Council). The Board carries out a diverse array of audits and is responsible for financial and performance audits of all NATO bodies, the NATO Security and Investment Programme (NSIP), and certain multi-nationally funded entities with a link to NATO. During 2013 the Board audited approximately EUR 12 billion of expenditures.

The Board acts in accordance with its Charter, which was approved by the North Atlantic Council. In 2013, the Board issued 39 financial audit reports comprising 47 Auditor's Opinions on the financial statements and on compliance, of which 35 were unqualified opinions. The Board issued 12 (26%) qualified, adverse, or disclaimer of audit opinion on the financial statements or on compliance of 11 different entities. This is in comparison to 2012, when the Board issued 44 Auditor's Opinions, of which 30 were unqualified audit opinions and 14 (32%) audit opinions were qualified, adverse, or disclaimer of audit opinions on the financial statements of 11 entities.

Regarding NSIP audits, the Board issued a total of 289 Certificates of Final Financial Acceptance (COFFAs) amounting to EUR 885 million certified, compared to 406 COFFAs for EUR 730 million in 2012.

The Board issued three performance audit special reports to Council in 2013, the same number as in 2012. The 2013 special reports to Council were on (1) Temporary Personnel in the International Staff and the NATO Staff Centre, (2) the Critical Success Factors for the Office of the Shared Services, and (3) the Financial Service (FinS) Project: Actions Needed to Apply Lessons Learned. The Board also made a presentation to the Resource Policy and Planning Board (RPPB) on the potential benefits to NATO of having a NATO-wide consolidated financial statement.

In March 2012 it was proposed to outsource the Board's external audit function. As a result, a Working Group was established to develop a business case on strengthening the external audit function in NATO. In May 2013 the Council approved the recommendations in the business case in the following subject areas:

- Revision of the Board's Charter,
- Restructuring of the Board's organisation,
- Using 25% of the Board's audit resources for performance auditing,
- Improving the timeliness and quality of the Board's reporting, and
- Conducting a peer review of the Board in 2014.

The Business Case also recommended that further work be done to develop a possible trial scheme for outsourcing some of the Board's audits. In December 2013 the Council reviewed the proposal and decided to not pursue a partial outsourcing trial.

Following the Council's decision in May 2013 the Board has taken significant steps in 2013 and 2014 to implement the business case recommendations. So far it has:

- Approved revisions to the Board's Charter pending approval by Council,
- Begun creation of a more pyramidal organisational structure by downgrading two A4 auditor posts to A3 each year until 2018,
- Assigned 25% of its audit resources to performance audit in 2014,
- Shared its annual performance plan with all NATO member state Supreme Audit Institutions (SAIs),
- Implemented a simpler financial statement audit reporting process, report structure, and shorter contradictory process in response to Council's request for more user friendly reports, and
- Initiated discussions with some SAIs on a peer review of the Board.

Last, but not least, the Board further improved its contacts with all NATO stakeholders and key players through continuous meetings with NATO delegations and participation in relevant NATO committee meetings.

This is a very challenging era for NATO as major reforms and restructuring initiatives are taking place. The Board is part of this reform and restructuring process and aims to be a pioneer in this dynamic and changing era.

Dr Charilaos Charisis
Chairman
International Board of Auditors for NATO

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CHAPTER 1

ABOUT THE BOARD

OUR MANDATE AND ROLE

1.1 This report to the Council has been prepared in accordance with Article 17 of the Charter of the International Board of Auditors for NATO (Board), which states that *"the Board shall prepare each year: ... a detailed report on the activities of the Board during the year."*

1.2 Chartered by the North Atlantic Council (Council) in 1953, 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. The Board Members are appointed for a non-renewable four year term and are Voluntary National Contributions fully paid for by their respective national administrations. The Board had its full complement of six serving Board Members. During 2013 Greece, Hungary, Italy (until July), the Netherlands, Norway, Turkey (as from August) and the United Kingdom were represented on the Board.

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 activities 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, military commands, 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 2013 covered more than EUR 12 billion, of which EUR 11.38 billion related to financial statements audits and approximately EUR 0.72 billion related to NSIP audits.

REVIEW TO STRENGTHEN THE EXTERNAL AUDIT FUNCTION IN NATO

1.5 In March 2012 it was proposed to outsource the Board's external audit function to an *"independent external auditor"* on the basis that this would result in greater independence, better service, and be more cost effective. The Council requested development of a business case to identify and analyse options, with recommendations on how to most effectively, efficiently and economically organise and implement the independent external auditing function in NATO. The options to be examined included, but were not limited to, maintenance of the status quo of the external audit function at NATO, outsourcing to external Supreme Audit Institutions of NATO Allies, outsourcing to private sector audit firms and a structural reorganisation of the Board.

1.6 A Working Group was established to develop the business case and a Steering Committee was formed to provide oversight, guidance, quality assurance and validation for the business case. The Working Group was chaired by a Board Member and had 15 members composed of other Board Members, the Board's Principal Auditor, representatives from the NATO International Staff including the Private Office of the Secretary General and the NATO Office of Resources, as well as representatives from six member states' Supreme Audit Institutions.

1.7 The business case was approved by Council in late May 2013 and included detailed recommendations to strengthen the external audit function in NATO in the following subject areas:

- Revision of the Board's Charter,
- Restructuring of the Board's organisation,
- Using 25% of the Board's audit resources for performance auditing,
- Improving the timeliness and quality of the Board's reporting, and
- Conducting a peer review of the Board in 2014.

1.8 The Board established two internal working groups to develop proposals to implement the recommendations from the business case. As of the date of this report (April 2014) the Board has done the following:

- Drafted the revisions to the Charter to be presented to Council in May 2014,
- Downgraded two A4 auditor posts to A3 as part of the creation of a more pyramidal organisational structure as from January 2014 and prepared a plan to downgrade a further eight posts through 2018,
- Assigned three auditors full time and two auditors part time to performance audit in 2014 – representing more than 25% of the Board's 2014 audit resources,
- Implemented a new, simpler, financial statement audit report structure as from February 2014,
- Created a new, shorter, report contradictory process as from February 2014, and
- Initiated discussions with Supreme Audit Institutions in December 2013 regarding the conduct of a peer review of the Board in 2014.

1.9 The Business Case also recommended the development of a possible trial scheme for outsourcing some of the Board's audits. This work was carried out by the NATO Office of Resources with input from SAIs to develop the concept in regards to terms and conditions, objectives, governance model, funding mechanisms, reporting procedures, entities in scope, access to information, and the period of the trial. In December 2013 the Council reviewed the proposal and decided to not pursue a partial outsourcing trial.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS IN NATO

1.10 On 17 July 2002, the Council adopted the accrual based IPSAS as the applicable accounting standards for all NATO entities effective as from the fiscal year 2006. Since that time, NATO bodies have experienced difficulty to implement IPSAS, in particular related to Property, Plant and Equipment. In general, only a few NATO bodies were able to successfully and fully implement IPSAS.

1.11 As a result of these difficulties, in 2013 the Council approved a NATO specific adapted IPSAS accounting framework specifically in relation to IPSAS 12 (Inventories), IPSAS 17 (Property, Plant, and Equipment), IPSAS 31 (Intangible Assets), and how NATO bodies should account for Morale and Welfare Activities in relation to IPSAS 6 (Consolidated and Separate Financial Statements). This modified IPSAS is applicable for the 2013 financial year financial statements.

1.12 Given that five of the qualified audit opinions issued by the Board in 2013 relate to IPSAS 17, the modified IPSAS adopted by NATO may lead to fewer qualifications on financial statements related to IPSAS 17. However, the Board will assess the impact of the NATO modified IPSAS on the accuracy and completeness of information that is made available to NATO governance structures through its audits of the financial statements.

NATO AGENCIES REFORM

1.13 At the Lisbon Summit on 20 November 2010, the NATO member states approved the consolidation and rationalisation of the functions and programmes of some existing NATO Agencies into three Agencies. The objective of this reform was to achieve improved governance, increased effectiveness, efficiency and savings, focusing on outputs, and taking into account the specific needs of multinational programmes.

1.14 As a result of agencies reform, eight NATO bodies were consolidated into three new bodies: the NATO Communications and Information Organisation (NCIO), the NATO Support Organisation (NSPO), and the Science and Technology Organisation (STO). The financial transition measures approved by Council resulted in no opening balances of the new Agencies or consolidated annual financial statements for the six months of operations in 2012 of the new agencies to be prepared. Instead, only separate segment financial statements of the legacy agencies as if they were in existence for the full calendar year of 2012 were prepared.

1.15 In 2013 the Board conducted the audits of the new successor agencies for the 2012 financial year and was unable to express an audit opinion on the financial statements of NCIO, NSPO, and STO as presented for audit. This was because the sum of these segment statements did not reflect the financial position, performance and cash flows of the new agencies since their inception on 1 July 2012. The presented segment financial statements are based on different accounting policies and are for the full year 2012.

COOPERATION WITH THE RESOURCE POLICY AND PLANNING BOARD

1.16 The Board continued and solidified its cooperation with the Resource Planning and Policy Board (RPPB) during 2013. The RPPB is the most senior resource committee in NATO and reports directly to the Council to advise it on mid and long-term requirements for military resources and on issues such as NATO resource policy and planning.

1.17 Since 2011 the RPPB has been designated as the responsible committee for handling and providing relevant advice to Council concerning the Board's audit reports, acting as a de facto audit committee. In addition to regularly briefing the RPPB on the results of the audits, the Board cooperates closely with the RPPB on issues such as the publication of the Board's audit reports, IPSAS, governance issues, and performance audit topics.

OUR ANNUAL MEETING WITH THE NATIONAL AUDIT BODIES

1.18 In accordance with the Council decision C-M(90)46, the Competent National Audit Bodies (CNABs), which are usually represented by the Supreme Audit Institutions (SAIs), have the opportunity to discuss the content of this annual report with the Board. Para A.7 of the same document states that *"the Advisory Group of Financial Counsellors 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 Advisory Group of Financial Counsellors has been taken by the Resource Policy and Planning Board (RPPB).

1.19 The 23rd CNAB meeting to discuss the 2012 Annual Activities Report took place on 14 May 2013 under the chairmanship of the State Audit Office of Denmark. Issues raised by the CNAB representatives during the meeting included the following:

- Expressed concern that NATO had been unable to fully implement IPSAS and had decided to adopt a modified IPSAS which could pose potential risks to the organisation as it could no longer state it is compliant with IPSAS,
- Stressed that the decision to publish reports should rest solely with the Board, as NATO's external auditor, as the current procedure is not in compliance with the basic principles of INTOSAI and the general practice in member state SAIs,
- Stated that the default criteria should be automatic publication of reports in order to ensure full transparency and accountability within NATO and availability to other organisations such as the NATO Parliamentary Assembly. In addition, they expressed strong support that the financial statements should also be published along with the relevant Board audit reports,
- Expressed concern at the high level of modified opinions given by the Board as this indicated significant weaknesses in NATO's financial and accounting practices and highlighted the lack of improvement in financial management and internal audit in NATO and this should be the subject of reform efforts as well,
- Encouraged the Board to meet or exceed its stated goal of allocating 20% of total available staff resources to performance audits as soon as possible and suggested a specific number of staff be exclusively assigned to performance audits, and
- Stressed the usefulness of a peer review of the Board as soon as practicable.

1.20 Where possible, the Board has addressed those points raised by the CNAB representatives that it has control over. However, several issues noted above are outside the scope of the Board's control and any decisions related to those topics rest with Council.

CHAPTER 2

OUR FINANCIAL STATEMENT AUDITS

BACKGROUND

2.1 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. In 2013, the expenditure audited by the Board in its financial statement audits amounted to more than EUR 11 billion.

2.2 NATO bodies have a varying degree of autonomy in managing their operations. All NATO bodies are subject to the NATO Financial Regulations (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.

2.3 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.

AUDIT METHODOLOGY AND CONDUCT OF AUDITS

2.4 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 undertakes its audits in accordance with the principles of 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 and methodology is integrated into the Board's TeamMate audit software.

2.5 Audits are conducted on the agency site by auditors, under the supervision of middle management and 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.

ALLOCATION OF RESOURCES

2.6 The Board is responsible for the audit of over 60 different agencies and commands, some of which consolidate their accounts. Amounts audited per entity range from less than EUR 0.5 million to over EUR 5 billion. Resources allocated to financial statement audits increased from 63% of the Board's available staff days in 2012 to 66% in 2013.

2.7 Agency audits are resourced on the basis of a risk assessment. 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, and the time expired between audits. Other issues that may affect the allocation of resources include a prior qualified or adverse audit opinion, the implementation of new activities, a reorganisation, or any other event that creates an additional risk for the agency's activities.

SUMMARY OF FINANCIAL STATEMENT AUDIT WORK IN 2013

2.8 In 2013 the Board issued 39 financial audit reports comprising 47 Auditor's Opinions on the financial statements and on compliance. Table 2.1 below shows the auditors opinions issued in 2013 compared to 2012.

Table 2.1: Auditor's Opinions		
	2013	2012
Auditor's Opinions Issued	47	44
Unqualified Opinion	35	30
Qualified Opinion	8	13
Disclaimer of Opinion	4	1

2.9 Of the 12 qualified or disclaimer of audit opinions issued in 2013, two were related to the implementation of agencies reform, eight were related to IPSAS (5 of which were on IPSAS 17 PP&E), one was due to a material understatement of work in progress, and one was a disclaimer of opinion on compliance with authorities. The number of IPSAS 17 related qualified opinions in 2013 were similar to that of 2012. This highlights, once again, the difficulty of NATO bodies to successfully implement IPSAS and IPSAS 17 PP&E in particular.

2.10 The Board's 2013 financial statement audit reports included 131 observations on a range of issues or errors which can affect the audit opinion if they are material. Observations can be related to the presentation of the financial statements, IPSAS, internal controls, compliance with NATO rules and regulations, and accounting errors. Of the most numerous type of observation, 12 (9% of the total) were related to IPSAS 17 PP&E and 7 (5%) were related to general procurement activities. Four (3%) of the observations were related to the late issuance of the annual financial statements. Each year the Board follows-up on the status of observations raised in prior years' audit reports.

SUMMARY OF SIGNIFICANT AUDIT OPINIONS

2.11 An explanatory note on the different types of audit opinions is provided in Annex B. The following is a summary of the modified audit opinions issued in 2013:

- Allied Command Transformation (ACT): The Board issued a qualified opinion on the ACT Financial Statements for the year ended 31 December 2012. There were two reasons for the qualification: The first related to material misstatements arising from consolidating the Centre for Maritime Research & Experimentation (CMRE) Charter and Supplementary Work Programme (SWP) activities into the 2012 Financial Statements of ACT. A further qualification relates to the non-recognition of Property, Plant & Equipment (PP&E) in the ACT Financial Statements for 2012 as required by IPSAS 17.
- Central Europe Pipeline Management Organisation (CEPMO): The Board issued a qualified opinion on the CEPMO Financial Statements for the year ended 31 December 2011. CEPMO has not recognised the Property, Plant and Equipment (PP&E) associated with the CEPS pipeline network, as required by IPSAS 17. This represents a material omission of PP&E from the financial statements.
- NATO Airlift Management Organisation (NAMO): The Board issued a qualified opinion on the NAMO restated Financial Statements for the year ended 31 December 2011 due to a scope limitation on Foreign Military Sales (FMS) expenditure and FMS purchased Property, Plant and Equipment, Inventory and Services. The Board was not able to confirm that the FMS purchased Property, Plant and Equipment, inventory and services in the NAMO 2011 restated financial statements accurately represent services performed and goods delivered by the US contractor.
- NATO Airborne Early Warning and Control Programme Management Organisation (NAPMO): The Board issued a qualified opinion on the NAPMO restated Financial Statements for the year ended 31 December 2011 due to the Work in Progress being materially understated. In addition, there is also a scope limitation which does not allow the correct Work in Progress figure to be known. Secondly, the Board was not able to satisfy itself on the value of the Follow-on Upgrade Programme asset in progress as at 31 December 2011. The Board found evidence that the asset in progress is materially understated, however due to a scope limitation, the correct figure is unknown. In accordance with the NAPMO Charter, the Board does not have access to the indirect contracting processes that are used by the US Government to transform invoices received from the US contractors into the US Government billing statements that are then sent to NAPMA. As a result, the Board is not in a position to assess that this process is either reliable or results in billings that accurately represent work performed by US contractors.
- NATO Communications & Information Organisation (NCIO): The Board was not able to express an opinion on the NCIO Financial Statements for the year ended 31 December 2012. In line with financial continuity measures approved

by Council for the 2012 financial year, NCIO presented for audit separate 'segment' financial statements. However, the Board was not able to issue an opinion on these 'segment' financial statements because the sum of these statements does not reflect the financial position, performance and cash flows of the NCIO since its inception on 1 July 2012. They are based on different accounting policies and are for the full year 2012.

- NATO CIS Services Agency (NCSA): The Board issued a qualified opinion on the NCSA Financial Statements for the year ended 31 December 2011. The qualification relates to the non-reporting of Property, Plant and Equipment and non-compliance with IPSAS 17.
- NATO European Fighter Aircraft Development, Production and Logistics Management Organisation (NEFMO): The Board issued a qualified opinion on the NEFMO Financial Statements for the year ended 31 December 2012 due to a scope limitation on the value and completeness of Property, Plant and Equipment for NEFMO. This was because the Board was unable to obtain sufficient appropriate audit evidence in these areas.
- NATO Support Organisation (NSPO): The Board was not able to express an opinion on the NSPO Financial Statements for the year ended 31 December 2012. In line with financial continuity measures approved by Council for the 2012 financial year, NSPO presented for audit separate 'segment' financial statements. However, the Board was not able to issue an opinion on these 'segment' financial statements because the sum of these statements does not reflect the financial position, performance and cash flows of the NSPO since its inception on 1 July 2012. They are based on different accounting policies and are for the full year 2012.
- International Staff (IS): The Board was not able to express an opinion on the IS Financial Statements for the year ended 31 December 2011 or 2012. The Board was not able to confirm that expenses in the Statement of Financial Performance and the related payables and unearned revenue 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.
- Staff Centre: The Board was not able to express an opinion on the Financial Statements of the Staff Centre for the year ended 31 December 2011. The Staff Centre did not prepare and present financial statements in accordance with IPSAS. The 2011 financial statements of the Staff Centre did not disclose under which financial reporting framework the financial statements were prepared. In addition, the Board was not able to express an opinion on compliance. The Board found that in the area of procurement, the Staff Centre did not comply with the NFRs because of a lack of clarity on which regulations govern the Staff Centre. The Board was also not able to confirm that all activities and financial transactions were in compliance with the authorities which govern them.

CHAPTER 3

OUR NATO SECURITY INVESTMENT PROGRAMME AUDITS

BACKGROUND

3.1 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 (NSIP). The Programme is overseen by the Investment Committee (IC). 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.

THE NSIP PROJECT AUDIT PROCEDURE

3.2 When a project is presented for audit, the Host Nation prepares a cost statement, reflecting all costs incurred for the project implementation, and calculates the amount it deems eligible for NATO funding. The Board’s aim is to ascertain that the cost statement is complete, correct, and is compliant with the terms of the project scope and fund authorisations approved by the IC. The outcome of this process is either a Certificate of Final Financial Acceptance (COFFA) or a Letter of Observations. A COFFA is issued when all of the following criteria have been met:

- The project is operationally and financially complete and has been presented for audit as such;
- The project has been technically inspected and accepted (JFAI report approved by the IC);
- The amount of expenditure found eligible for NATO funding remained within the limits of the funds authorized;
- There are no audit observations, or any audit observation raised has been agreed by the Host Nation during the audit fieldwork.

3.3 In the case that one or more of the above criteria have not been met, the Board issues a Letter of Observations to the Host Nation specifying the corrective actions required for the issuance of a COFFA.

2013 NSIP PROJECT AUDIT ACTIVITY

3.4 In 2013 the Board spent the equivalent of 1.5 staff years, or 6% of the available staff resources, on the audit of NSIP projects. Chart 3.1, below, shows the Board’s NSIP audit activity for 2013 in comparison to 2012.

Chart 3.1: 2013 NSIP PROJECT AUDIT ACTIVITY			
	2013	2012	% Change
Amount audited	716 MEUR	557 MEUR	+ 28 %
Amount certified (COFFAs)	885 MEUR	730 MEUR	+ 21 %
Number of COFFAs Issued	289	406	- 31 %
Number of Letters of Observation	37	42	-12 %
Funds returned to NSIP as a result of audit observations	EUR 3,967,097	EUR 1,076,218	+ 268 %
Staff-years used	1.5	1.8	-17 %

3.5 In light of decreasing resources needed to audit NSIP activity the 2013 results were encouraging, with a significant increase in the amount recovered to the programme as a result of audit observations. The recovered amount of almost EUR 4 million represents more than the Board's entire budget for 2013.

THE CERTIFICATES OF FINAL FINANCIAL ACCEPTANCE

3.6 The 289 projects closed by a COFFA in 2013, amounting to EUR 885 million, represent about 10% of the entire population of open NSIP projects (about 3,000 projects with EUR 8.8 billion of expenditure reported, as at December 2013). As in previous years, the amount certified by the Board in 2013 continued to exceed the amount spent in that year by the Host Nations. As a consequence, the total amount certified by the Board of the programme increased from 72% to 73% of the total cumulative NSIP expenditure over the life of the programme.

3.7 Out of the 289 COFFA's issued, 44 projects were closed under the Accelerated Joint Formal Acceptance and Accelerated Closure procedures, approved by the Investment Committee in 2004, with enhanced measures approved in 2008 and 2012. Under these procedures the reported expenditure is converted to a lump sum and is therefore not subject to audit by the Board.

AUDIT OBSERVATIONS AND RESULTING FINANCIAL ADJUSTMENTS

3.8 Audit observations concern the accuracy of the audited cost statements. When the audit team and the Host Nation cannot reach agreement on the observation during the audit mission, this is mentioned in the Letter of Observation. The Host Nation needs to reply to the observation within one year and provide a motivated explanation.

3.9 The most important factors affecting the accuracy of the cost statements are:

- Inclusion of ineligible expenditure (outside the authorized scope),
- Erroneous cost sharing between the various project funding sources,
- Incorrect currency conversion,
- Mathematical errors, and
- Other observations (e.g. taxes, items to be covered by National Administrative Expenses, etc.).

3.10 These observations result in financial adjustments, both in favour of the NSIP accounts and in favour of the Host Nations. These adjustments are recorded at the moment they have been agreed by the Host Nation. In most cases, audit observations are settled during the audit fieldwork, but in some cases agreement can only be reached after a contradictory process, with a Letter of Observations and a reply. The resulting adjustments are only recorded when the project is financially closed.

3.11 For 2013, the agreed audit observations and corresponding financial adjustments amounted to EUR 4.9 million in favour of the Programme, and to EUR 942 thousand in favour of the Host Nations, leaving a net return of EUR 3.9 million to the NSIP. Audit observations with financial impact were recorded at the closure of 53 different projects.

3.12 By category, the adjustments in favour of the NSIP were recorded as follows:

• Ineligible expenditure:	EUR 4,199,827
• Cost sharing errors:	EUR 285,634
• Unsubstantiated expenses:	EUR 135,667
• Currency conversion:	EUR 39,198
• Mathematical errors	EUR 29,229
• Other observations:	EUR 220,072

3.13 The significant amount of expenditure disallowed as being “ineligible” was largely the result of three agreed observations, amounting to EUR 2.4 million, EUR 1 million and EUR 539 thousand respectively.

ADDITIONAL AUTHORISATIONS

3.14 The NSIP regulatory framework does not allow Host Nations to spend more than the funds provided to them for project implementation. However, quite frequently the cost statements presented for audit exceed the amount of the approved project authorisations. In these cases, the Board endeavours to establish the total cost, potentially eligible for NATO funding, and informs the Host Nation. The Host Nation is responsible for seeking an additional fund authorisation, covering the cost overrun, through a motivated request. In 2013, the Board issued 37 Letters of Observation of which 19 (51%) concerned a cost overrun.

3.15 In 2013 the Investment Committee also approved additional authorisations for 37 projects, in response to the 2013 and prior years’ Letters of Observation and Host Nations requests. These 2013 additional authorisations amounted to a total of EUR 9.8 million. Three specific costs overruns authorised by the IC exceeded EUR 1 million each.

3.16 It is to be noted that a number of these cost overruns resulted from premature de-authorisations of project funds. These cases do not constitute real cost overruns; rather they are indicative of poor project administration and erroneous expenditure reporting by the Host Nations.

THE BOARD'S ANNUAL NSIP REPORT FOR 2012

3.17 The Board issued its annual report on the 2012 audit of NSIP projects in October 2013. This report draws on information provided in the NSIP Financial Statistics for the year 2012, which were issued in September 2013. The Board noted that significant backlogs in the audit and certification of projects remain a serious issue. As from 2013 the NSIP annual report will no longer be issued separately as it is incorporated into this Annual Activity Report.

CHAPTER 4

OUR PERFORMANCE AUDITS AND STUDIES

BACKGROUND

4.1 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 also 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.

4.2 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. In 2013 the Board issued three performance audit special reports to Council. These special reports to Council were on (1) Temporary Personnel in the International Staff and the NATO Staff Centre, (2) the Critical Success Factors for the Office of the Shared Services, and (3) the Financial Service (FinS) Project: Actions Needed to Apply Lessons Learned. The Board also made a presentation to the RPPB on the potential benefits to NATO of having a NATO-wide consolidated financial statement.

ALLOCATION OF RESOURCES

4.3 In 2013 the Board used 20% of its staff resources on performance audit (22% of the total number of audit days). This represents a significant increase compared to 2012 when the Board used 11% of its staff resources for performance audit. In 2013 the Board decided to assign three auditors full time and two auditors part time to performance audit in 2014. This represents more than 25% of the Board's available staff resources for 2014.

PERFORMANCE AUDIT PLANNING

4.4 In 2013 the Board continued the work of the Performance Audit Working Group that was created in mid-2012. This working group, under the leadership of a Board Member, comprised the Principal Auditor and four performance auditors. The Working Group's role is to assist the Board by preparing material for decision and performing an advisory role within the Board with regard to Performance Auditing. The Working Group's tasks include the following:

- Topic monitoring, including evaluating potential topics and assisting colleagues in preparing Performance Audit Proposals;
- Review Performance Audit Proposals and prepare recommendations to the Board;
- Support the Board by engaging with external stakeholders;
- Propose new guidance and methodology, and
- Prepare and present the annual Performance Audit Programme on a two year rolling basis.

4.5 The Working Group presented a comprehensive Performance Audit Programme for 2014-15 which prioritised the Board's performance audit work for the next two years and identified the resources needed for performance audit. This plan was also developed to help the Board become more transparent in communicating how and what it chooses to audit to external stakeholders. The programme included performance audit topic proposals based upon input from Board Members, audit staff, and interviews with senior NATO managers and NATO resource committee Chairpersons and members. The results of the performance audit planning were shared with the RPPB and the Supreme Audit Institutions.

4.6 In addition, as from January 2013, the Board introduced the concept of thematic audit topics which will eventually be reported as either a Special Report to Council or a briefing to the RPPB. In general, these audits will pertain to NATO-wide economy, efficiency, and compliance issues. The first thematic audit, implemented in 2013, reviewed the topic of cash management in NATO. The results of this audit will be issued in 2014. The topic for the 2014 thematic audit is a NATO-wide review of the use of contractors and consultants.

SUMMARY OF PERFORMANCE AUDITS CARRIED OUT IN 2013

Temporary Personnel in the International Staff and the NATO Staff Centre

4.7 In the special report to Council on Temporary Personnel in the International Staff and the NATO Staff Centre, the Board addressed the potential financial risks as well as the risk to NATO's reputation, associated with the status of temporary personnel employed by the IS and the Staff Centre.

4.8 The Board had three key findings relating to the employment of temporary personnel in the IS and the NATO Staff Centre:

- The implementation of a social benefit package to temporary personnel in the IS and the Staff Centre was not, in the Board's opinion, carried out in accordance with the Civilian Personnel Regulations (CPRs).
- The IS implemented their own social insurance package for temporary personnel, separate from the Host Nation's social security scheme.
- The current arrangement of paying an additional amount of base salary to the temporary personnel to cover potential pension contributions has no regulatory basis in the CPRs in the Board's opinion.

4.9 In the Board's opinion, there is a potential risk of employee tax fraud due to the fact that deductions for taxes (and for social security contributions) are not made to the Host Nation nor is a communication of taxable salaries paid sent to the Host Nation. This, although no specific obligations for NATO are established in the CPRs, in turn, creates a reputational risk for NATO.

4.10 The Board made four recommendations related to the employment of temporary Personnel:

- The IS should agree with the Host Nation the extent to which temporary personnel should participate in the Host Nation's social security scheme;
- The IS should consider strengthening cooperation with the Host Nation for tax compliance purposes considering the potential reputational risks involved;
- The Staff Centre, in coordination with the IS, should find an appropriate form of employment of staff in the Staff Centre that covers the specific needs of the Centre and its activities; and
- Council should ensure the issue is addressed NATO-wide.

Critical Success Factors for the Office of the Shared Services

4.11 The Board issued the special report to Council on the Critical Success Factors for the Office of the Shared Services with the objectives of assessing (1) the current status of the detailed design of the Office of Shared Services (OSS) and (2) the extent to which the implementation planning for the OSS incorporates critical success factors and best practices.

4.12 The Board found that limited project documentation is available to assess the progress of the detailed design for finance and accounting in particular or the Shared Services Operation overall. Without an adequately resourced core team to deliver this challenging business transformation program, the Board cautions that the project is at risk of not meeting the Nation's expectations. The Board notes that the recommendation in its 2012 report on Agencies Reform to complete the overall Business Case had not yet been implemented.

4.13 The Board made two recommendations, including five broad Critical Success Factors:

1. Together with the Detailed Design under development by the OSS, an updated and completed overall Business Case should be presented with clearly stated assumptions, an updated estimate of expected savings with supporting documentation based on a validated "as is" financial baseline, and investment costs (loss of job indemnity, IT infrastructure, and other less visible start-up costs). This overall Business Case, along with a proposed Operating Model and Migration Strategy should go to the Nations for approval. This comprehensive proposal should address the following critical success factors:
 - Agreement on the appropriate governance structure for Shared Services,
 - A clear work plan incorporating project management best practices,
 - A set of options for Nations to choose from prior to implementation,
 - A harmonisation tool, and
 - Appropriate key performance indicators (KPIs).
2. That it is critical to have a validated decision by Nations on the next steps for Shared Services and how to proceed in the implementation of a Shared Services Operation. This decision should clearly state the expectations of the Nations in terms of future deliverables and milestones, whether to pursue a decentralised Shared Services Operation by the functional areas proposed or a centralised operation in a single location. The criteria and supporting

documentation to support such options must be part of the Detailed Design being developed by the OSS.

Financial Service (FinS) Project: Actions Needed to Apply Lessons Learned

4.14 In the special report to Council on the Financial Service (FinS) Project: Actions Needed to Apply Lessons Learned, the Board's objectives were to assess (1) Bi-Strategic Command Automated Information Services Financial Service (FinS) implementation schedule and cost, (2) the extent to which the system, as implemented, meets its intended goals and user needs and (3) project planning and execution factors that affected implementation progress.

4.15 FinS is a commercially-based financial management system, customized for NATO. It functions at nearly all planned Allied Command Operations (ACO) and International Military Staff (IMS) sites. The project was managed by NCIA on behalf of ACO and the IMS. Full implementation took approximately 50 months longer than the 18 months initially estimated. In addition, the Nations authorized approximately EUR 2 million in further expenditures as a result of the delay and scope changes over time. The FinS software as implemented provides users the most needed functionality. However, in the Board's opinion the project has not demonstrated the capability for full IPSAS compliance nor cost savings, which were both key project goals. In addition, the Board found support weaknesses.

4.16 The Board identified 2 main sets of factors that contributed to most of the delay in project completion compared to initial estimates:

- First, NCIA's plans did not include the appropriate governance structure, project management resources and realistic schedule estimate.
- Second, insufficient scope definition and known resource shortfalls hindered timely project completion after implementation had begun.

4.17 In the Board's opinion, without careful, upfront planning and better pre-decisional analysis, future similar efforts will be more likely to experience delays, cost increases, and challenges meeting user needs. Accordingly, the Board made nine recommendations.

CHAPTER 5

USE OF OUR HUMAN AND FINANCIAL RESOURCES AND ANNUAL PERFORMANCE

OUR HUMAN RESOURCES AND THEIR USE

5.1 The authorised establishment of the Board in 2013 was twenty-two auditor posts, including one Principal Auditor, two Senior Auditors and 19 auditors. The staff of the Board is diverse, multi-national, representative of the nations and includes individuals seconded from member state SAIs, former employees of SAIs, and individuals recruited from the private sector. The Board's staff includes chartered accountants, information systems auditors, and performance audit specialists. 75% of the Board's auditor positions are posts for which rotation is desirable and this rotation ensures that new staff, with new ideas and capabilities, comes into the organisation.

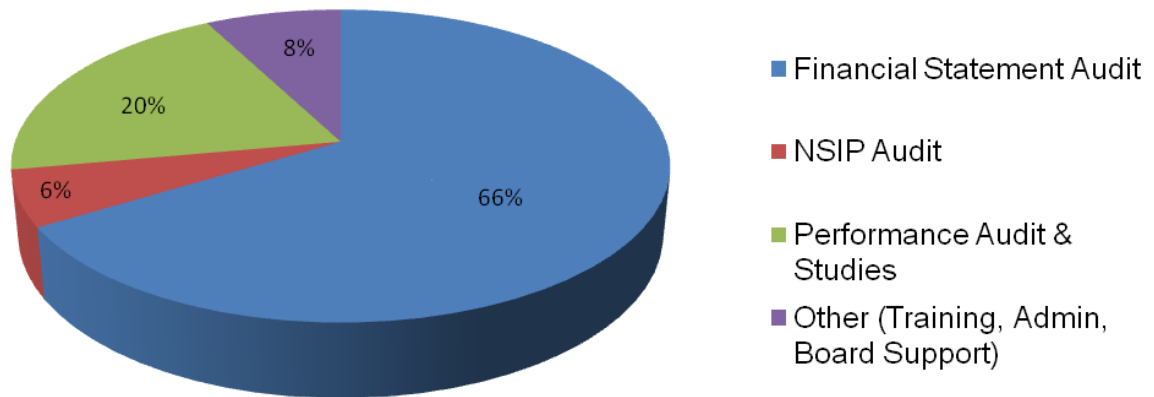
5.2 The Board Members and auditors came from thirteen different member nations. At the end of 2013 there were five vacant auditor posts (26% of the Board's audit posts), with two new auditors joining the Board in January 2014. During 2013, the Board had an average auditor vacancy rate of approximately 3 staff years (16%). Also, during 2013 four auditors left the Board, a 21% rotation rate.

5.3 The Board also has 1 Administrative Officer and 5 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.

5.4 In accordance with the auditing standards of INTOSAI and IFAC, the Board ensures that its audit and administrative staff receive adequate on-the-job training. The Board plans for an average of one to two weeks training for each auditor, which includes group and individual training.

5.5 Chart 5.1 below shows the use of the Board's audit resources in 2013 as a percentage of the available number of staff days. Compared with 2012, the Board significantly increased the amount of resources devoted to performance audits from 11% in 2012 to 20% in 2013. As a percentage of days assigned to audit work, performance audit represented 22% of the Board's resources. The Board is on target to have 25% of its available staff days for audit be used for performance audit. Resources for NSIP decreased to 6% in 2013 compared to 9% in 2012. The audit resources for financial statement audits increased from 63% in 2012 to 66% in 2013. This is mainly due to the increase in programming interim audits in the second half of the year.

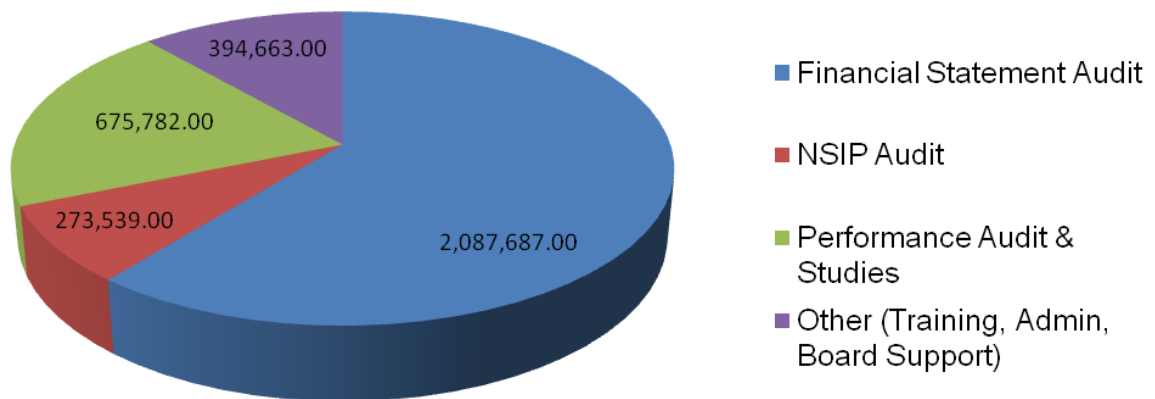
Chart 5.1: 2013 Allocation of Staff Resources



OUR FINANCIAL RESOURCES AND THEIR USE

5.6 Chart 5.2 below shows the direct cost (audit staff salary and travel costs) of the audits and other Board activities in 2013 in EUR. The total direct cost of the audit was EUR 3.4 million.

Chart 5.2: 2013 Direct Cost of the Audit in EUR



OUR ANNUAL PERFORMANCE

2013 ANNUAL PERFORMANCE PLAN

5.7 The Strategic Plan for 2010-2014 provides information on the Board's vision, mission statement, and three core values: Independence, integrity and professionalism. It 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:

- Goal 1: Strengthen accountability and corporate governance within NATO.
- Goal 2: Enhance management and ensure accountability in the NSIP.
- Goal 3: Contribute to efficient, effective, and economical operations and activities in NATO.
- Goal 4: Develop the Board as an innovative and proactive audit organisation.

5.8 The Board's Annual Performance Plan for 2013 is based upon the goals and objectives identified in the 2010-2014 Strategic Plan. It includes key performance indicators and targets for the various objectives that were to be achieved during 2013.

PERFORMANCE RELATED TO GOAL 1

5.9 The Board's objectives related to Goal 1 were to continue to implement the Risk-Based Audit Methodology, improve audit efficiency and effectiveness, contribute to the development of a sound and consistent financial reporting environment, and enhance relationships with key stakeholders. The associated performance measures and targets used to evaluate the achievement of the objectives are shown in the table below.

Objective	Key Performance Indicator	Target	Actual
<i>Develop Risk-Based Audit Methodology</i>	Implement the Project Management Plan for the Risk Based Audit Approach in 4 entities by end 2013.	100%	100%
<i>Improve audit efficiency and effectiveness</i>	Percentage of observations and recommendations settled/closed within a 3-year period of the report date.	80%	87%
	Percentage of audits completed by scheduled milestones for: a) Planning (including review) b) Fieldwork (including review) c) Reporting (including review)	90%	50%
<i>Contribute to the development of a sound and consistent financial reporting environment</i>	Attend key meetings of the AHWG of Financial Controllers and IPSAS Working Group.	100%	100%
<i>Enhance relationships with key stakeholders</i>	Attend key meetings of NATO resource committees (RPPB, BC, IC) and agency Boards of Directors.	100%	100%

5.10 The first performance measure was met. The Risk Based Audit Approach has been implemented in ACO, ACT, NAMEADSMA, NCIA, NSPA, and NETMA/NAMMO/NEFMO. The second performance measure was met. Of the 123 observations raised in reports issued by the Board in 2010, 107 were settled within a 3-year period of the report date (87%).

5.11 The third performance measure was not met. Only about 50% of the audits of 2012 financial statements were approved by the Board within the reporting milestones. Overall, the average deviation between the planned reporting milestone and the actual reporting date for all audits was less than a one month's delay. The timely completion of audits was delayed by both internal and external factors, including structural bottlenecks, lengthy clearance procedures, restatements and the actual of financial statements and/or other auditee delays. In 2013, as part of the development of a business case to identify and analyse options for strengthening the audit function at NATO, the Council agreed that, for the audit of financial statements for periods beginning on 1 January 2014, the Board should deliver its audit reports within 6 months of the financial statements being issued. As a result, this will be a key performance indicator for the Board's financial statement audits beginning in 2015, when the Board will audit the 2014 financial statements. The Board is currently taking measures to improve the timeliness of its audit reporting and expects to see improvements in this area when reporting on the results of its audit of the 2013 financial statements.

5.12 The fourth performance measure was achieved as the Board attended all key meetings of the AHWG of Financial Controllers and IPSAS Working Group. The fifth performance measure was also achieved as the Board attended all key meetings of the NATO resource committees and agency Boards of Directors or Agency Supervisory Boards.

PERFORMANCE RELATED TO GOAL 2

5.13 The Board's objectives related to Goal 2 were to improve NSIP management and improve NSIP audit efficiency and effectiveness. The associated performance measures and targets used to evaluate the achievement of the objectives are shown in the table below.

Objective	Key Performance Indicator	Target	Actual
<i>Improve NSIP management</i>	Implement reviews of NSIP management issues or outputs delivered.	1 review per year	2
<i>Improve audit efficiency and effectiveness</i>	Programme audits within 6 months of national requests.	100%	100%
	Increase the ratio of audited and certified amounts to resources used (time spent).	EUR 400 million per staff-year	EUR 590 million
	Percentage of NSIP Letters of Observations settled/closed within a 3-year period.	80%	65%

5.14 The first performance measure was achieved. The Board issued two reviews related to NSIP management issues: the *Special Report to Council on the FinS Project* (IBA-AR(2013)22 and a letter on *Review of Deleted NSIP Projects* (IBA-I(2013)107).

5.15 The second performance measure was met. All requests for audits were programmed within 6 months. The third performance measure was also achieved as the Board certified EUR 590 million per staff year in 2013.

5.16 The fourth performance measure was not met as only 65% (13 of 20) of NSIP Letters of Observations that were issued in 2010 were settled or closed within a 3-year period.

PERFORMANCE RELATED TO GOAL 3

5.17 The Board's objectives related to Goal 3 were evaluation of the achievement of objectives by a specific NATO body, operation or project and recommendations for optimising of the use of material and financial resources while delivering outputs at required quality. The associated performance measures and targets used to evaluate the achievement of the objectives are shown in the table below.

Objective	Key Performance Indicator	Target	Actual
<i>Evaluation of the achievement of objectives by a specific NATO body, operation or project.</i>	Implement revised performance audit guidance and TeamMate structure in 2013.	100%	100%
	Get assistance from at least four SAs for 2013 performance audits and special reports.	100%	0%
<i>Recommendations for optimising of the use of material and financial resources while delivering outputs at required quality</i>	Issue at least two performance audits per year with recommendations to improve efficiency, effectiveness, and/or economy.	100%	100%
	Increase staff resources devoted to performance audit to at least 20%.	100%	100%

5.18 The first performance measure was achieved. The second performance measure related to assistance from SAs was not achieved in 2013. The third performance measure was achieved. The Board issued three performance audits in 2013.

5.19 The fourth performance measure was also achieved. In 2013, 22% of the staff days assigned directly to audit work was for performance audit related tasks.

PERFORMANCE RELATED TO GOAL 4

5.20 The Board's objectives related to Goal 4 were to have the Board as a work place that facilitates continuing professional development of its personnel and the sharing of corporate knowledge, the Board is an audit organization that translates internal efficiency and effectiveness into strengthened accountability and governance as well as enhanced performance of NATO, auditor performance review and development

system as a tool of continuous assessment of auditors' performance and their individual development, and improved visibility of the Board. The associated performance measures and targets used to evaluate the achievement of the objectives are shown in the table below.

Objective	Key Performance Indicator	Target	Actual
<i>The Board as a working-place that facilitates continuing professional development of its personnel and the sharing of corporate knowledge</i>	Provide a minimum of 5 days (40 hours) continuing professional education per year to all auditors.	100%	100%
	Conduct a survey of staff satisfaction in 2013.	100%	0%
<i>The Board is an audit organization that translates internal efficiency and effectiveness into strengthened accountability and governance as well as enhanced performance of NATO</i>	Implement new TeamMate structure and supporting documentation in 2013.	100%	100%
<i>Performance review and development system as a tool of continuous assessment of auditors' performance and their individual development</i>	The Board's management to complete all annual Performance Review and Development tasks related to staff.	Yes/No	No
<i>Improved visibility of the Board</i>	Prepare press releases on selected Board audit reports with Council approval.	100%	0%

5.21 The first performance measure on staff training was achieved. The second performance measure was not achieved; the staff survey has been postponed. The Board will carry out a survey after the recommendations from the Business Case on Strengthening the External Audit Function at NATO have been implemented.

5.22 The third performance measure was achieved. The new TeamMate structure for financial statement audits was implemented in 2013. The fourth performance measure was not fully achieved. The Performance Review and Development tasks were not always completed on-time. The fifth performance measure was not achieved as Council agreed that the Board's reports will be published on a case by case basis on the Board's website only as from January 2014 on the audits of the 2013 financial accounts of NATO bodies.

2014 ANNUAL PERFORMANCE PLAN

5.23 The Board's Annual Performance Plan for 2014 is included in this report at Annex B.

Approved by the Board on 14 April 2014

Chairman	(signed) Dr. Charilaos Charisis	(Greece)
Board Member	(signed) Kirsten Astrup	(Norway)
Board Member	(signed) Marcus Popplewell	(United Kingdom)
Board Member	(signed) Marius Winters	(Netherlands)
Board Member	(signed) Salih Tanrikulu	(Turkey)
Board Member	(signed) Jan Vylita	(Czech Republic)

LIST OF REPORTS AND SUMMARY OF FINDINGS

RESULTING FROM FINANCIAL STATEMENT AND PERFORMANCE AUDITS

LIST OF REPORTS RESULTING FROM AGENCY AUDITS			
Subject		Budget year(s)	Reference of document and date
MILITARY COMMANDS			
1.	ACT Group	2012	IBA-AR(2013)21, dated 11.09.2013 C-M(2014)0023
2.	Intelligence Fusion Centre (IFC UK)	2010-2011	IBA-AR(2013)04, dated 13.12.2013
3.	Multinational CIMIC Group (MNCG)	2009-2011	IBA-AR(2012)37, dated 25.01.2013
4.	NATO Rapid Deployable Corps SPAIN (NRDC-SP)	2009-2011	IBA-AR(2012)40, dated 18.03.2013
5.	NATO Rapid Deployable Corps TURKEY (NRDC-TU)	2010-2011	IBA-AR(2012)46, dated 22.02.2013
NATO PRODUCTION AND LOGISTICS SUPPORT AGENCIES			
6.	CEPMO	2011	IBA-AR(2013)08, dated 31.05.2013 C-M(2013)0045
7.	NACMO	2011	IBA-AR(2013)14, dated 31.05.2013 C-M(2013)0044
8.	NAGSMO	2011	IBA-AR(2013)19, dated 19.07.2013 C-M(2013)0060
9.	NAGSMO	2012	IBA-AR(2013)37, dated 29.11.2013 C-M(2014)0019
10.	NAHEMO	2011	IBA-AR(2013)15, dated 28.06.2013
11.	NAMEADSMO	2012	IBA-AR(2013)16, dated 31.05.2013 C-M(2013)0043
12.	NAMO	2011	IBA-AR(2012)38, dated 31.01.2013
13.	NAPMO	2011	IBA-AR(2012)41, dated 22.02.2013 C-M(2013)0061
14.	NBA	2011	IBA-AR(2013)13, dated 26.04.2013 C-M(2013)0029
15.	NCIO	2012	IBA-AR(2013)23, dated 12.11.2013
16.	NCSA	2011	IBA-AR(2012)23, dated 25.01.2013 C-M(2014)0002
17.	NETMA, NAMMO & NEFMO	2012	IBA-AR(2013)35, dated 29.11.2013 C-M(2014)0017
18.	NSPO	2012	IBA-AR(2013)27, dated 09.12.2013
CIVIL-MILITARY AGENCIES AND OTHER ORGANISATIONS			
19.	AFNORTH International School	2012	IBA-AR(2012)36, dated 28.06.2013
20.	FORACS	2011	IBA-AR(2013)02, dated 22.02.2013 C-M(2013)0027
21.	FORACS	2012	IBA-AR(2013)38, dated 13.12.2013
22.	International Military Staff (IMS)	2012	IBA-AR(2013)33, dated 19.11.2013 C-M(2014)0003

LIST OF REPORTS RESULTING FROM AGENCY AUDITS			
Subject		Budget year(s)	Reference of document and date
23.	International Staff (IS)	2011	IBA-AR(2012)39, dated 22.02.2013 C-M(2014)0001
24.	International Staff (IS)	2012	IBA-AR(2013)24, dated 25.10.2013
25.	MSIAC	2011	IBA-AR(2012)42, dated 25.01.2013 C-M(2013)0019
26.	MSIAC	2012	IBA-AR(2013)36, dated 09.12.2013
27.	NAMFI	2012	IBA-AR(2013)28, dated 29.11.2013
28.	NATO Defence College (NDC)	2012	IBA-AR(2013)18, dated 28.06.2013 C-M(2013)0042
29.	NATO Defined Benefit Pension Scheme (NATO DBPS)	2010-2011	IBA-AR(2013)12, dated 19.07.2013 C-M(2014)0021
30.	NATO Defined Contribution Pension Scheme (NATO DCPS)	2011	IBA-AR(2013)10, dated 31.05.2013 C-M(2013)0046
31.	NATO Parliamentary Assembly (NATO P.A.)	2012	IBA-AR(2013)11, dated 25.03.2013
32.	NATO Provident Fund	2011	IBA-AR(2013)07, dated 26.04.2013 C-M(2013)0034
33.	NATO Provident Fund	2012	IBA-AR(2013)41, dated 13.12.2013 C-M(2014)0018
34.	NATO Staff Centre	2011	IBA-AR(2013)05, dated 26.04.2013
35.	New NATO HQ	2011	IBA-AR(2013)09, dated 26.04.2013 C-M(2013)0040
36.	Representation Allowances	2012	IBA-AR(2013)17, dated 31.05.2013
37.	Retired Medical Claims Fund (RMCF)	2010-2011	IBA-AR(2013)06, dated 28.06.2013 C-M(2013)0059
38.	Retired Medical Claims Fund (RMCF)	2012	IBA-AR(2013)25, dated 13.12.2013
39.	RTA	2011	IBA-AR(2013)01, dated 30.01.2013 C-M(2013)0033
PERFORMANCE AUDITS & SPECIAL STUDIES			
40.	Special Report to Council on Temporary Personnel in the International Staff (I.S.) and the NATO Staff Centre		IBA-AR(2013)03, dated 22.02.2013 C-M(2013)0052
41.	Special Report to Council on the Critical Success Factors for the Office of the Shared Services		IBA-AR(2013)20, dated 08.07.2013 C-M(2013)0064
42.	Special Report to Council on the Financial Service (FinS) Project: Actions Needed to Apply Lessons Learned		IBA-AR(2013)22, dated 09.10.2013

INTRODUCTION

The Board's financial statement audits are performed to achieve reasonable assurance that (1) the financial statements fairly present an entity's financial positions at year end and their financial performances and cash flows for the year ended are in accordance with the relevant financial rules and regulations and (2) that the statements of budget execution and the underlying transactions are in compliance with budgetary authorisations and applicable regulations.

After each financial statement audit, the Board issues an opinion on the financial statements and on compliance. 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.

RESULTS OF AUDITS RELATING TO MILITARY COMMANDS

1. ALLIED COMMAND TRANSFORMATION (ACT) GROUP 2012

Introduction

This report covers the audit of the 2012 financial statements of the Allied Command Transformation (ACT). The total expenditure in 2012 amounted to approximately EUR 134 million, compared with approximately EUR 149 million in 2011.

Audit Highlights

Opinion on the Financial Statements

The Board issued a qualified opinion on the ACT Financial Statements for the year ended 31 December 2012. There were two qualifications: the first related to material misstatements arising from consolidating the Centre for Maritime Research & Experimentation (CMRE) Charter and Supplementary Work Programme (SWP) activities into the 2012 Financial Statements of ACT. A further qualification relates to non-recognition of Property, Plant & Equipment (PP&E) in the ACT Financial Statements for 2012 as required by IPSAS 17.

Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2012 financial statements are, in all material respects, in compliance with authorities which govern them.

The Board made observations and recommended improvements in the following areas:

- The transferring of Centre for Maritime Research & Experimentation (CMRE) to the Science & Technology Organisation (STO);
- Property, Plant & Equipment (PP&E) and Intangible Assets;
- Long Outstanding Receivables from nations in ACT HQ;
- Weaknesses in the process of identifying accrued expenses – Joint Warfare Centre (JWC) and ACT HQ;
- Weaknesses in the procurement process – JWC and ACT HQ.

The Board also issued a Management Letter to the Supreme Allied Commander Transformation (SACT), with less significant or material observations.

2. INTELLIGENCE FUSION CENTRE (IFC UK) 2010-2011

Introduction

The Intelligence Fusion Centre (IFC) was established in 2006 at Royal Air Force (RAF) Molesworth in the United Kingdom. In 2012 the Intelligence Fusion Centre was renamed the NATO Intelligence Fusion Centre (NIFC). The mission of the NIFC is to provide Supreme Allied Commander Europe (SACEUR) with timely, effective, full-spectrum, network-enabled intelligence in support of the planning and execution of operations. The budgets for the years 2010 and 2011 were Great Britain Pounds (GBP) 1,510,183 and GBP 1,814,459 respectively. Expenditure for 2010 and 2011 was GBP 1,218 thousand, and GBP 1,653 thousand respectively.

Audit Highlights

Opinion on the Financial Statements

The Board issued an unqualified opinion on the restated financial statements of the NIFC for the years ended 31 December 2010 and 31 December 2011.

Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the restated 2010 and 2011 comparative financial statements are, in all material respects, in compliance with authorities which govern them.

The Board raised the following key observations relating to the financial statements 2010 and 2011:

- In future years, management need to ensure expenditure is matched to the appropriate accounting period to which it relates;
- The failure to present the financial statements including Property, Plant and Equipment;
- The 2011 non-operating performance statement has misclassified entries for revenue and expenditure although the net result is accurate.

3. MULTINATIONAL CIMIC GROUP (MNCG) 2009-2011

Introduction

The Multinational Civil-Military Cooperation Group Headquarters (MNCG) was activated as an International Military Headquarter under NATO command and granted international military status in June 2005 by the decision of the North Atlantic Council in PO(2005)34. The MNCG provides the Participating Nations with an essential military capacity, to improve day-to-day multinational cooperation and training, to achieve mutual reinforcement of civil-military cooperation qualities and capabilities of the participants, to optimise operational efficiency and to limit costs.

Audit Highlights

Opinion on the Financial Statements

The Board issued an unqualified opinion on the MNCG's Financial Statements for the years ended 31 December 2009, 2010 and 2011.

Opinion on Compliance

The Board issued a qualified opinion on whether the activities, financial transactions and information reflected in the 2009 and 2010 financial statements are, in all material respects, in compliance with authorities which govern them due to irregularities found at commitments and irregular procurements.

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2011 financial statements are, in all material respects, in compliance with authorities which govern them.

The Board made six observations related to:

- Accounting framework;
- Incomplete Budget Execution Statements for 2009 and 2010;
- Irregularities at commitments in 2009 and 2010;
- Irregular procurement;

- Accounts of the Supplementary Budget for the name change of the entity reported twice in the Financial Statements of 2009; and
- Use of representation, hospitality and morale and welfare funds.

4. NATO RAPID DEPLOYABLE CORPS SPAIN (NRDC-SP) 2009-2011

Introduction

The HQ NATO Rapid Deployable Corps – Spain (HQ NRDC-SP) located in Valencia, is an International Military Headquarters established in 2002 with North Atlantic Council decision PO(2002)140. The mission of the HQ NRDC-SP is the maintenance of a capability to deploy in support of North Atlantic Council (NAC) approved operations. The approved budgets of the HQ NRDC-SP for financial years 2009, 2010 and 2011 were EUR 1,510,100 EUR 1,758,050 and EUR 1,366,100, respectively. The corresponding expenditures were EUR 771,229.67, EUR 1,024,038.35 and EUR 628,579, respectively.

Audit Highlights

Opinion on the Financial Statements

The Board issued an unqualified opinion on HQ NRDC-SP's Financial Statements for the years ended 2009, 2010 and 2011.

Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2009, 2010 and 2011 financial statements are, in all material respects, in compliance with authorities which govern them.

The Board made eight observations related to:

- Incomplete presentation of the financial statements in 2009 and 2010.
- Split of procurement of the same type of goods and services into several contracts.
- Payments made before the invoices have been issued.
- Deviation from the normal bidding process in procurement not fully justified.
- Detailed examination of all possible alternatives prior to entering in sole contractor agreements.
- Incomplete implementation of the NRDC-Spain Automated Financial System.
- Exhaustive examination of the most favourable and secure options for each deposit.
- Non-existence of an independent internal audit function in the entity structure.

5. NATO RAPID DEPLOYABLE CORPS TURKEY (NRDC-T) 2010-2011

Introduction

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

The approved shared budget of HQ NRDC-T for financial years 2010 and 2011 in total was EUR 3.6 million, while expenditure against the budget for the same financial years amounted to EUR 3.1 million.

Audit Highlights

Opinion on the Financial Statements

The Board issued an unqualified opinion on the NRDC-T's Financial Statements for the years ended 31 December 2010 and 2011.

Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2010 and 2011 financial statements are, in all material respects, in compliance with authorities which govern them.

The Board made two observations related to:

- Improvements needed to bidding and contracting process;
- Presentation of the financial statements.

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

6. CENTRAL EUROPE PIPELINE MANAGEMENT AGENCY (CEPMA) 2011

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). As of 1 July 2012, the CEPMO became the CEPS Programme under the NATO Support Organisation (NSPO). This audit covers the last full year of CEPMO as a separate entity. Total CEPMO revenues for 2011 amounted to EUR 129 million, about 80 per cent of which were operational fees.

Audit Highlights

Opinion on the Financial Statements

The Board issued a qualified opinion on the 2011 CEPMO financial statements. CEPMO has not recognised the Property, Plant and Equipment (PP&E) associated with the CEPS pipeline network, as required by IPSAS 17. This represents a material omission of PP&E from the financial statements.

Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2011 financial statements are, in all material respects, in compliance with authorities which govern them.

The Board made three observations related to:

- Weaknesses in Accounting for PP&E;
- DPO - Segregation of National and CEPS Assets and Liabilities;
- DPO - Lack of reconciliation between the trial balance and financial statement.

7. NATO AIR COMMAND AND CONTROL SYSTEM MANAGEMENT AGENCY (NACMA) 2011

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 was created in 1981. On 7 January 1991, Council created the NATO ACCS Management Agency (NACMA) to support the programme. NACMA was 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 reported to a Board of Directors representing the nations.

Effective 01 July 2012, NACMA is part of the newly established NATO Communications and Information Agency (NCIA) along with the NATO CIS Services Agency (NCSA) and the NATO Consultation, Command and Control Agency (NC3A). The financial statements of NACMA include the Administrative and the Operational Budgets items together. The NACMA 2011 total expenditure based on the accruals basis under IPSAS was EUR 139 million.

Audit Highlights

Opinion on the Financial Statements

The Board issued an unqualified audit opinion on the financial statements of NACMA for the financial year ended 31 December 2011.

Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2011 financial statements are, in all material respects, in compliance with the authorities which govern them.

The Board made one observation related to:

- Inconsistency across NATO bodies accounting for Property, Plant and Equipment (PP&E).

A separate management letter was sent to the NCIA management. This letter contained an issue related to a delay in closing unused committed credits.

8. NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT AGENCY (NAGSMA) 2011

Introduction

The NATO Alliance Ground Surveillance Management Organisation (NAGSMO) was created within NATO for the acquisition of the Alliance Ground Surveillance (AGS) Core System. In September 2009, the NATO Alliance Ground Surveillance Management Agency (NAGSMA) was established after all 15 participating Nations signed the AGS Programme Memorandum of Understanding (PMOU). NAGSMA is responsible for the procurement of the NATO AGS core capability.

Audit Highlights

Opinion on the Financial Statements

The Board issued an unqualified opinion on the NAGSMA Financial Statements for the year ended 31 December 2011.

Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2011 financial statements are, in all material respects, in compliance with authorities which govern them.

The Board had no observations or recommendations related to the 2011 financial statements.

9. NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT AGENCY (NAGSMA) 2012

Introduction

The NATO Alliance Ground Surveillance Management Organisation (NAGSMO) was created within NATO for the acquisition of the Alliance Ground Surveillance (AGS) Core System. In September 2009, the NATO Alliance Ground Surveillance Management Agency (NAGSMA) was established after all 15 participating Nations signed the AGS Programme Memorandum of Understanding (PMOU). NAGSMA is responsible for the procurement of the NATO AGS core capability.

Audit Highlights

Opinion on the Financial Statements

The Board issued an unqualified opinion on the NAGSMA Financial Statements for the year ended 31 December 2012.

Opinion on Compliance

The Board issued an unqualified opinion on whether the financial transactions and information reflected in the 2012 financial statements are, in all material respects, in compliance with the NATO Financial Regulations (NFRs) and the NATO Civilian Personnel Regulations (CPRs).

The Board made one observation related to the need to disclose in the financial statements the activities NAGSMA performed as an agent on behalf of Nations, and additional information to assist users in assessing the performance of the entity.

10. NATO HELICOPTER FOR THE 1990s (NH90) DESIGN AND DEVELOPMENT, PRODUCTION AND LOGISTICS MANAGEMENT ORGANISATION (NAHEMO) 2011

Introduction

The objective of the NATO Helicopter for the 1990s (NH90) programme is to design, develop, produce and support a new transport and naval helicopter. The NATO Helicopter for the 1990s Design and Development, Production and Logistics Management Organisation (NAHEMO) and its executing agency (NAHEMA) are located in Aix-en-Provence in France. The agency became operational in 1992.

Audit Highlights

Opinion on the Financial Statements

The Board issued an unqualified opinion on the restated NAHEMO Financial Statements for the year ended 31 December 2011.

Opinion on Compliance

The Board issued an unqualified opinion on whether the financial transactions and information reflected in the restated 2011 financial statements are, in all material respects, in compliance with the NATO Financial and Civilian Personnel Regulations which govern them.

Audit Highlights

The Board also made five observations that resulted in the following recommendations:

- The Board recommends that NAHEMO inform Council on the status of the intention of Portugal to withdraw from the programme, including an assessment of the possible and probable costs of such a withdrawal. Furthermore, NAHEMA should ensure that, in future, there is full consideration of and compliance with the requirements of IPSAS 14, *Events after the Reporting Date*.
- The Board recommends that NAHEMA only call for funds when funding requirements cannot be covered by existing cash holdings of respective member nations.
- The Board recommends that as the amounts of unpaid calls have been outstanding for many years NAHEMA should, as a matter of priority, investigate the circumstances behind these receivables and decide whether to adjust or reject the calls behind them.
- The Board recommends that only budgetary credits supported by a legal liability be carried forward in order to comply with NAHEMO's Financial Rules and Regulations related to the carry forward of its Administrative Budget commitments.

- The Board recommends that, in line with the new accounting policy to consider NAHEMO/NAHEMA to be agents, NAHEMA disclose detailed additional information on the core activities of the programme, including, for example, the cumulative and current year amounts of contractual commitments with industry, payments made to industry, and helicopter deliveries made to nations. This can be done through an attached note or annex to its financial statements.

11. NATO MEDIUM EXTENDED AIR DEFENSE SYSTEM MANAGEMENT ORGANIZATION (NAMEADSMO) 2012

Introduction

The aim of the NATO Medium Extended Air Defense System Management Organization (NAMEADSMO) is to provide direction, co-ordination and execution of the MEADS Program. The 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. In 2012, NAMEADSMO's expenditures totalled U.S. Dollars (USD) 444 million, consisting of USD 11 million from the Administrative Budget and USD 433 million from the Operational Budget.

Audit Highlights

Opinion on the Financial Statements

The Board issued an unqualified opinion on the 2012 financial statements of NAMEADSMO.

Opinion on Compliance

The Board issued an unqualified opinion on whether, in all material respects, the financial transactions and information reflected in the financial statements are in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

The Board had no observations or recommendations related to the 2012 financial statements.

12. NATO AIRLIFT MANAGEMENT ORGANISATION (NAMO) 2011

Introduction

On 29 September 2008 the NATO Airlift Management Organisation (NAMO) and its NATO Airlift Management Agency (NAMA) 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. Effective 01 July 2012, NAMO became part of the newly established NATO Support Organisation (NSPO) along with the NATO Maintenance and Supply Organisation (NAMSO) and the Central European Pipeline Management Organisation (CEPMO).

Audit Highlights

Opinion on the Financial Statements

The Board issued a qualified opinion on the NAMO restated Financial Statements for the year ended 31 December 2011 due to a scope limitation on the Foreign Military Sales (FMS) expenditure and through FMS purchased Property, Plant and Equipment, Inventory and Services.

The Board was not able to confirm that the FMS purchased Property, Plant and Equipment, inventory and services in the NAMO 2011 restated financial statements accurately represent services performed and goods delivered by the US contractor.

Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2011 restated financial statements are, in all material respects, in compliance with authorities which govern them.

The Board made the following audit observations:

- Audit scope limitation concerning procurement of goods and services under the United States Government FMS programme;
- Material Misstatement of Operations Expenses in Originally Presented Financial Statements;
- Commitments carried forward are overstated and lapses are understated;
- Advances recorded as expense in the Budget Execution Statement;
- Budget Execution Statement opening balances of commitments carried forward did not reconcile to the closing balances from the 2010 Budget Execution Statement.

13. NATO AIRBORNE EARLY WARNING AND CONTROL PROGRAMME MANAGEMENT AGENCY (NAPMA) 2011

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 total NAPMA expenditure - including additions to the modernisation assets - in 2011, amounted to US Dollars 71 million.

Audit Highlights

Opinion on the restated Financial Statements

The Board issued a qualified opinion on the restated financial statements due to the Work in Progress being materially understated. Firstly, the value of Work in Progress disclosed on NAPMA's Financial Statements is materially understated due to the absence of a value related to the LAIRCM asset in progress. While a significant part of the LAIRCM asset was delivered in 2011, the undelivered remainder represents a material portion of Work in Progress which should still appear on NAPMA's Restated Financial Statements as at 31 December, 2011. Due to a scope limitation, the correct figure is unknown.

Secondly, the Board was not able to satisfy itself on the value of the Follow-on Upgrade Programme asset in progress as at 31 December 2011. The Board found evidence that the asset in progress is materially understated, however due to a scope limitation, the correct figure is unknown. In accordance with the NAPMO Charter, the Board does not have access to the indirect contracting processes that are used by the US Government to transform invoices received from the US contractors into the US Government billing statements that are then sent to NAPMA. As a result, the Board is not in a position to assess that this process is either reliable or results in billings that accurately represent work performed by US contractors.

Opinion on Compliance

The Board issued an unqualified opinion on whether the financial transactions and information reflected in the 2011 NAPMA restated financial statements are, in all material respects, in compliance with the authorities that govern them.

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

- Continue its efforts to provide the Board with sufficient evidence to support the value of all work undertaken by U.S. contractors; and

- Continue to investigate and correct the immaterial inconsistencies in the budget execution statement. The agency should also ensure that it fixes any residual reporting and data processing problems in SAP with a view to producing a timely and accurate 2012 Budget Execution Statement.

The Board sent a separate letter to NAPMA's management concerning improvements needed in the process to identify related parties relationships and transactions.

14. NATO BATTLEFIELD INFORMATION COLLECTION AND EXPLOITATION SYSTEMS AGENCY (NBA) 2011

Introduction

The objective of the NATO Battlefield Information Collection and Exploitation Systems Agency (NBA) is to enable cooperative sharing and exchange of information and intelligence between and among the participants, NATO and other nations and organisations. Budget authorisations for the year 2011 (including brought forward) amounted to EUR 4 million while administrative budget expenses amounted to EUR 3.8 million. The payments for operational enhancement projects were EUR 1.1 million in 2011; the authorisations as of 31 December 2011 were EUR 1 million.

Audit Highlights

Opinion on the Financial Statements

The Board issued an unqualified opinion on the restated NATO BICES Agency's Financial Statements for the year ended 31 December 2011.

Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2011 restated financial statements are, in all material respects, in compliance with authorities which govern them.

The Board made observations related to:

- Correction of the cash flow statement. Adjustment to cash flow from operating activities due to depreciation expenses was restated to EUR 472,594 from EUR 266,053, which also now reconciles to the Statement of PP&E; and
- Absence of internal audit activity in 2011. In 2011 no internal audit reports were issued in respect of NBA.

A separate Management Letter was sent to BICES Executive Group's Management. This letter contained issues requiring management's attention.

15. NATO COMMUNICATIONS & INFORMATION ORGANISATION (NCIO) 2012

Introduction

This report covers the audit of the NATO Communications & Information Organisation (NCIO) Financial Statements for the year ended 31 December 2012. In accordance with the North Atlantic Council approved financial continuity measures at C-M(2012)0057-AS1, the NCIO's Financial Statements were not consolidated as required by its Charter, but separate 2012 financial statements were published for each of the legacy entities (NC3A, NCSA, and NACMA) at the end of April 2013. The total NCIO financial activities including Operating and General and Administrative costs amounted to EUR 750 million. The NCIA Capability Delivery (CD) (former NC3A) reported for 2012 an accumulated surplus of EUR 18.5 million (EUR 9.9 million in 2011). The NCIA Service Delivery (SD) (former NCSA) and the NCIA AirC2 (former NACMA) did not report any accumulated surplus or deficit for 2012.

Audit Highlights

Opinion on the financial statements of NCIO

In line with financial continuity measures approved by Council for the 2012 financial year, NCIA presented for audit separate 'segment' financial statements. However, the Board was not able to issue an opinion on these 'segment' financial statements as of and for the period ended 31 December 2012 because the sum of these statements does not reflect the financial position, performance and cash flows of the NCIO since its inception on 1 July 2012. They are based on different accounting policies and are for the full year 2012.

Despite not being able to express an opinion on the NCIO Financial Statements, though, the Board has undertaken considerable work regarding the figures presented by legacy agencies in the separate 'segment' financial statements that were issued. This is in line with the temporary financial continuity measures approved by the Council.

Opinion on Compliance

The Board issued an unqualified opinion on whether, in all material respects, the financial transactions and information contained within the segment financial statements are in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

The Board made observations and recommended improvements in the following areas:

- 2012 Financial Reporting;
- Transfer of ownership of CIS equipment and inventory from ACO to NCIO;
- Internal audit function;
- Temporary Staff Management is not in compliance with the CPRs;
- Costs incurred due to a late notification letter being sent to a former NC3A employee;

- Property, Plant & Equipment (PP&E) and Intangible Assets;
- Assets written-off reported in the NCIO Financial Statements.

The Board also issued a management letter to the NCIA, related to issues found during the audit requiring management attention.

16. NATO CIS SERVICES AGENCY (NCSA) 2011

Introduction

The NATO CIS Services Agency (NCSA) role is to accept C3 capabilities, system and service provision and provide end-to-end information processing and exchange services. Effective 01 July 2012, NCSA is part of the new established NATO Communications and Information Agency (NCIA) along with the NATO Consultation, Command and Control Agency (NC3A) and the NATO Air Command and Control System Management Agency (NACMA).

Audit Highlights

Opinion on the Financial Statements

The Board issued a qualified opinion on the NCSA Financial Statements for the year ended 31 December 2011. The qualification relates to non-reporting of Property, Plant and Equipment and therefore non-compliance with IPSAS 17.

Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2011 financial statements are, in all material respects, in compliance with authorities which govern them.

The Board made observations and recommended improvements in the following areas:

- Non-Compliance with IPSAS 17, Property Plant and Equipment. NCSA did not report in its financial statements any property, plant and equipment in compliance with IPSAS 17;
- Financial reporting considerations for the NCIA. The Board believes that it is important that the NCIA present their plan of how and when to achieve consolidated financial statements. The management of the NATO Communications and Information Agency should assess in advance of the publication of the 2012 financial statements, if the NCIA is acting as a principal or agent for each of its activities with a view to determining whether such activities should be reported as revenue and expenses;
- Accuracy of year-end accruals relates to the fact that NCSA understated in the Statement of Financial Position its Assets and Liabilities and in the Budget Execution Statement the carry forward balance was overstated;
- Carry forward funds from 2010 used for goods and services with a service

delivery period in 2011. Purchases made by the agency require a Purchase Order to be established in the year of the service period and the expenses to be charged against that current year budget. A carry forward of funds from 2010 used for goods and services with a service delivery period in 2011 is not in accordance with the provisions of the NATO Financial Regulations (NFR) of a financial year period;

- Presentation of the financial statements relates to the fact that the NCSA 2011 financial statements contained a transcript error between Table J-1 (Reconciliation Budget/Actuals/Net Cash Flows and the Budget Execution Statements (Table 5-1, 5-2 and 5-3) of EUR 2,126,751. This difference represents the 2009 budget execution at 25/28 Nations that mistakenly was not included in the Table J-1; and
- Contract not co-signed by the Financial Controller in compliance with the provisions of Article XX.d of the FRP according to which the contracts shall be co-signed by the Financial Controller or his designated representative, whenever their total value, original or as modified by subsequent changes, exceeds the value of twice level B of the Financial Limits of Discretionary Powers (EFL), and be worded to specify that their validity is conditional on this dual signature.

17. NETMA, NAMMO & NEFMO 2012

Introduction

The NATO European Fighter Aircraft Development, Production and Logistics Management Organisation (NEFMO) and the NATO Multi Role Combat Aircraft Development, Production and In-Service Support Management Organisation (NAMMO), the organisations for the Tornado and Eurofighter 2000 (EF 2000) programmes, are subsidiary bodies of NATO. The total budgetary expenditure in 2012 amounted to EUR 5.25 billion.

Audit Highlights

Opinion on the Financial Statements

The Board issued a qualified opinion on the NEFMO Financial Statements for the year ended 31 December 2012 due to a scope limitation on the value and completeness of Property, Plant and Equipment for NEFMO. This was because the Board was unable to obtain sufficient appropriate audit evidence in these areas.

The Board issued an unqualified opinion on the financial statements of NETMA and the restated financial statements of NAMMO for the financial year ended 31 December 2012.

Opinion on Compliance

The Board issued an unqualified opinion on whether the financial transactions and information reflected in the 2012 financial statements of NEFMO, NAMMO and NETMA are, in all material respects, in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

The Board made one observation leading to a recommendation that NEFMO should:

- Determine the impact of the recent Council decision to approve an adapted IPSAS framework for NATO on their PP&E valuation.

18. NATO SUPPORT ORGANISATION (NSPO) 2012

Introduction

The NATO Support Organisation (NSPO) was created on 1 July 2012 with the merger of the NATO Maintenance and Supply Organisation (NAMSO), the NATO Airlift Management Organisation (NAMO), and the Central European Pipeline Management Organisation (CEPMO). The NSPO is made up of the former executing agencies of NAMSO, NAMO and CEPMO, plus various Support Partnerships and the Agency Supervisory Board Chairman's Office.

Audit Highlights

Opinion on the Financial Statements of NSPO

In line with financial continuity measures approved by Council for the 2012 financial year, NSPO presented for audit separate 'segment' financial statements. However, the Board was not able to issue an opinion on these 'segment' financial statements as of and for the period ended 31 December 2012 because the sum of these statements does not reflect the financial position, performance and cash flows of the NSPO since its inception on 1 July 2012. They are based on different accounting policies and are for the full year 2012.

Despite not being able to express an opinion on financial statements, though, the Board has undertaken considerable work regarding the figures presented by legacy agencies in the separate 'segment' financial statements that were issued. This is in line with the temporary financial continuity measures approved by the Council.

Opinion on Compliance

The Board issued an unqualified opinion on whether, in all material respects, the financial transactions and information contained within the segment financial statements are in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Costs charged to Budget Committee (BC) funded programmes

The Board issued an unqualified opinion on the NAMSA/NSPO Log Ops administrative costs charged to BC funded programmes for 2012.

The Board made observations and recommended improvements in the following areas:

- 2012 Financial Reporting;
- Internal Audit at contractors/depots holding NSPO Inventories;
- Inventory held at Contractors and National Depots;
- Inclusion of non-Budgetary items in NSPO Log-Ops Budget Execution Statement;
- Procurement of Goods and Services via the US FMS Programme;
- Overtime paid to A-grade staff members;
- Trial Balance 2012 and 2011;
- NAM Programme weaknesses in procedures for statement preparation and review; and
- Significant cash holdings held by the NAM Programme.

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

19. AFNORTH INTERNATIONAL SCHOOL 2012

Introduction

The Allied Forces North Europe (AFNORTH) International School in Brunssum the Netherlands provides the educational service for the children of entitled staff working in the NATO community. The approved common funded budget for 2011 - 2012 was EUR 4.8 million (including contingency and capital reserves).

Opinion on the Financial Statements

The Board issued an unqualified opinion on the AFNORTH International School's restated financial statements for the year ended 31 July 2012.

Opinion on Compliance

The Board issued an unqualified 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.

The Board made one observation related to the Reconciliation gap for the cash flow statement.

20. NATO NAVAL FORCES SENSORS & WEAPON ACCURACY CHECK SITES (FORACS) 2011

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. Budget authorisations for the year 2011 (including brought forward) amounted to EUR 1.1 million while budget expenses amounted to EUR 0.9 million.

Audit Highlights

Opinion on the Financial Statements

The Board issued an unqualified opinion on the NFO's Financial Statements for the year ended 31 December 2011.

Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2011 financial statements are, in all material respects, in compliance with authorities which govern them.

The Board made observations related to:

- Delay in producing the 2011 financial statement;
- Inaccuracy and inconsistency of the financial statements and incompleteness of the notes.

21. NATO NAVAL FORCES SENSORS & WEAPON ACCURACY CHECK SITES (FORACS) 2012

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. Budget authorisations for the year 2012 (including brought forward) amounted to EUR 1.1 million while budget expenses amounted to EUR 0.8 million.

Audit Highlights

Opinion on the Financial Statements

The Board issued an unqualified opinion on the NFO's Financial Statements for the year ended 31 December 2012.

Opinion on Compliance

The Board issued an unqualified opinion on whether the financial transactions and information reflected in the 2012 financial statements are, in all material respects, in compliance with the NATO Financial and Civilian Personnel Regulations.

The Board made one observation related to the inaccuracy of year-end accruals.

22. INTERNATIONAL MILITARY STAFF (IMS) 2012

Introduction

The International Military Staff (IMS) is the executive body of the Military Committee (MC), NATO's senior military authority. The IMS is tasked with ensuring that the policies and decisions of the MC are implemented. The IMS also prepares plans,

initiates studies and recommends policy on matters of a military nature. The component parts of the IMS Financial Statements are the NATO Standardisation Agency (NSA), the Partnership for Peace (PfP) Work Programme, the Mediterranean Dialogue (MD), the Istanbul Cooperation Initiative (ICI), and the Other Military Cooperation (OMC). The total authorisations of the IMS, NSA, PfP, MD, ICI and OMC for the year ended 31 December 2012 were EUR 26.9 million.

Audit Highlights

Opinion on the Financial Statements

The Board issued an unqualified opinion on the IMS, NSA, PfP, MD, ICI and OMC Financial Statements for the year ended 31 December 2012.

Opinion on Compliance

The Board issued an unqualified opinion on whether the financial transactions and information reflected in the 2012 financial statements are, in all material respects, in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

While the Board had no observations to be included in the audit report, the Board issued a Management Letter to the Financial Controller and the Director General of the IMS with observations relating to improvements that could be made in the preparation and reviewing of the financial statements.

23. INTERNATIONAL STAFF (IS) 2011

Introduction

The NATO International Staff (IS) supports the work of the North Atlantic Council (NAC) and its committees. The total budgetary authorisations for 2011 amounted to EUR 229 million, including EUR 189 million of new credits authorised for 2011.

Audit Highlights

Opinion on the Financial Statements

The Board was not able to express an opinion on the IS Financial Statements for the year ended 31 December 2011.

The Board was not able to confirm that expenses in the Statement of Financial Performance and the related payables and unearned revenue 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 2011 IS Financial Statements (disclaimer of opinion).

Opinion on Compliance

In our opinion, in all material respects the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them. In addition, we were able to confirm that the cash balances were, in all material respects, fairly presented.

As a result of the audit of the 2011 financial statements, the Board made three observations concerning:

- The continued non compliance with IPSAS as a result of the limitations of the current IS accounting system with the result that the Board's position remains as for the audit of the 2008, 2009 and 2010 financial statements;
- Accounting for Property, Plant and Equipment (PP&E);
- Staff Centre activities, Moral and Welfare (MWA) not consolidated in the IS's Financial Statements.

Management Letter

The Board also issued a Management Letter to the Financial Controller of the IS with observations on matters requiring management attention.

24. INTERNATIONAL STAFF (IS) 2012

Introduction

The NATO International Staff (IS) supports the work of the North Atlantic Council (NAC) and its committees. The total budgetary authorisations for 2012 amounted to EUR 233 million, including EUR 193 million of new credits authorised for 2012.

Audit Highlights

Opinion on the Financial Statements

The Board was not able to express an opinion on the IS Financial Statements for the year ended 31 December 2012.

The Board was not able to confirm that expenses in the Statement of Financial Performance and the related payables and unearned revenue 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 2012 IS Financial Statements (disclaimer of opinion).

Opinion on Compliance

The Board issued an unqualified opinion on whether the financial transactions and information reflected in the 2012 financial statements are, in all material respects, in compliance with the NATO Financial and Civilian Personnel Regulations.

As a result of the audit of the 2012 financial statements, the Board made eight observations concerning:

- The continued non compliance with International Public Sector Accounting Standards (IPSAS) as a result of the limitations of the current IS accounting system with the result that the Board's position remains as for the audits of the 2008-2011 financial statements;
- The non-recognition of Property, Plant & Equipment (PP&E) and Intangible Assets in the financial statements;
- The collection of concession revenue from commercial shops in HQ building and the contract management hereof;
- The need to improve the settlement of monthly advances to NATO Liaison Offices;
- The surplus generated on the sale of petrol to staff members;
- A best bid, which was not the lowest, was accepted based on best value methodology but was not forwarded to BC for approval as required by FRPs Article XX;
- Transfers made after the revised budget not authorised by the Financial Controller;
- Non-compliance with the Civilian Personnel Regulations (CPRs) – Shift work and overtime compensation.

Management Letter

The Board also issued a Management Letter to the Financial Controller of the IS with observations on matters requiring management attention.

25. MUNITIONS SAFETY INFORMATION ANALYSIS CENTRE (MSIAC) 2011

Introduction

The Munitions Safety Information Analysis Centre (MSIAC) provides a focal point within NATO to assist national and NATO Munitions development and logistics programmes in efficiently and expeditiously addressing the problems associated with achieving Munitions Safety. Budget authorisations for the year 2011 (including brought forward) amounted to EUR 1.7 million while budget expenses amounted to EUR 1.5 million.

Audit Highlights

Opinion on the Financial Statements

The Board issued an unqualified opinion on the MSIAC's Financial Statements for the year ended 31 December 2011.

Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2011 financial statements are, in all material respects, in compliance with authorities which govern them.

The Board made observations related to:

- Delay in producing the 2011 financial statements;
- Inaccuracy of year-end accruals;
- Inconsistent note on outstanding contributions.

26. MUNITIONS SAFETY INFORMATION ANALYSIS CENTRE (MSIAC) 2012

Introduction

The Munitions Safety Information Analysis Centre (MSIAC) provides a focal point within NATO to assist national and NATO Munitions development and logistics programmes in efficiently and expeditiously addressing the problems associated with achieving Munitions Safety. Budget authorisations for the year 2012 (including brought forward) amounted to EUR 1.8 million while budget expenses amounted to EUR 1.4 million.

Audit Highlights

Opinion on the Financial Statements

The Board issued an unqualified opinion on the MSIAC Financial Statements for the year ended 31 December 2012.

Opinion on Compliance

The Board issued an unqualified opinion on whether the financial transactions and information reflected in the 2012 financial statements are, in all material respects, in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations which govern them.

The Board made one observation related to the contract with the supplier signed after receipt of service delivery.

27. NATO MISSILE FIRING INSTALLATION (NAMFI) 2012

Introduction

The NATO Missile Firing Installation (NAMFI) facilitates the practice firing, by visiting military units, of missile weapon systems such as HAWK and Patriot. The NAMFI budgetary expenditure for 2012 amounted to EUR 9.9 million.

Audit Highlights

Opinion on the Financial Statements

The Board issued an unqualified opinion on the NAMFI Financial Statements for the year ended 31 December 2012.

Opinion on Compliance

The Board issued an unqualified opinion on whether the financial transactions and information reflected in the 2012 financial statements are, in all material respects, in compliance with authorities which govern them.

The Board had no observations related to the financial statements.

28. NATO DEFENCE COLLEGE (NDC) 2012

Introduction

The mission of the NATO Defence College (NDC) is “to contribute to the effectiveness and cohesion of the Alliance by developing its role as a major centre of education, study and research on transatlantic security issues”. The total budgetary authorisations for the NDC for the year ended 31 December 2012 were EUR 8.895 million.

Audit Highlights

Opinion on the Financial Statements

The Board issued an unqualified opinion on the NDC Financial Statements for the year ended 31 December 2012.

Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2012 financial statements are, in all material respects, in compliance with authorities which govern them.

The Board made one observation related to Untaken Leave.

29. NATO DEFINED BENEFIT PENSION SCHEME (NATO DBPS) 2010-2011

Introduction

The NATO Pension Scheme applies to all staff recruited between 1 July 1974 and 30 June 2005. The Pension Scheme is an “unfunded, defined benefit plan”. Benefits are paid as a proportion of the final salary. The benefits of the Pension Scheme are paid from annual budgets mainly financed by the nations. Total payments made under the Pension Scheme for 2011 amounted to EUR 118 million.

Audit Highlights

Opinion on the Financial Statements

The Board issued an unqualified opinion on the Pension Scheme Financial Statements for the years ended 31 December 2010 and 31 December 2011.

Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2010 and 2011 financial statements are, in all material respects, in compliance with authorities which govern them.

The Board had no observations related to the financial statements.

30. NATO DEFINED CONTRIBUTION PENSION SCHEME (NATO DCPS) 2011

Introduction

The NATO Defined Contribution Pension Scheme (DCPS) applies to all staff recruited on or after 1 July 2005. It is a money purchase pension scheme with the contribution from staff and NATO. The value of the NATO DCPS's assets at 31 December 2011 was EUR 109.8 million. The DCPS had 2,576 members by the end of 2011.

Audit Highlights

Opinion on the Financial Statements

The Board issued an unqualified opinion on the DCPS's Financial Statements for the year ended 31 December 2011.

Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2011 financial statements are, in all material respects, in compliance with authorities which govern them.

The Board had no observations relating to the 2011 financial statements.

31. NATO PARLIAMENTARY ASSEMBLY (NATO P.A.) 2012

Introduction

Since 1955, the NATO Parliamentary Assembly (NATO PA) 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.

Audit Highlights

Opinion on the Financial Statements

The Board issued an unqualified opinion on the NATO PA Financial Statements and the NATO PA Provident Fund for the year ended 31 December 2012.

Opinion on Compliance

The Board issued an unqualified 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.

The Board had no observations related to the 2012 financial statements.

32. NATO PROVIDENT FUND 2011

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 2011 was EUR 26 million. As at that date, there were 59 members contributing to the Fund.

Audit Highlights

Opinion on the Financial Statements

The Board issued an unqualified opinion on the NATO Provident Fund's Financial Statements for the year ended 31 December 2011.

Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2011 financial statements are, in all material respects, in compliance with authorities which govern them.

The Board had no observations relating to the 2011 financial statements.

The Board issued a Management Letter to the Financial Controller of the IS with one observation requiring management attention.

33. NATO PROVIDENT FUND 2012

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 2012 was EUR 14.6 million. As at that date, there were 30 members contributing to the Fund.

Audit Highlights

Opinion on the Financial Statements

The Board issued an unqualified opinion on the NATO Provident Fund's Financial Statements for the year ended 31 December 2012.

Opinion on Compliance

The Board issued an unqualified opinion on whether the financial transactions and information reflected in the 2012 financial statements are, in all material respects, in compliance with the NATO Financial and Civilian Personnel Regulations.

The Board had no observations related to the 2012 financial statements.

34. NATO STAFF CENTRE 2011

Introduction

The Staff Centre was created by Council in 1970. It is composed of the Sports Centre (CP), the Restaurant (CR) and the Shops and Medical Centre (CSA). Staff Centre operations and activities are funded from membership fees, sports and social subscriptions, from trading and commercial activities and from indirect support from the Civil Budget. The revenue of the Staff Centre for 2011 (Sports Centre, Restaurant, Shops and Medical Centre) was about EUR 4.4 million.

Audit Highlights

Opinion on the Financial Statements

The Board was not able to express an opinion on the financial statements of the Staff Centre for the year ended 31 December 2011.

The Staff Centre did not prepare and present financial statements in accordance with IPSAS which is the NATO financial reporting framework. The 2011 financial statements of the Staff Centre did not disclose under which financial reporting framework the financial statements were prepared and the Board was not able to confirm that the financial statements were presented in accordance with IPSAS.

Because of the significance of the matters discussed in the preceding paragraph, the Board was not able to express an opinion on the financial statements of the Staff Centre for the year ended 31 December 2011 (disclaimer of opinion).

Opinion on Compliance

The Board was not able to express an opinion on compliance.

The Board found that in the area of procurement, the Staff Centre did not comply with the NFRs because of a lack of clarity on which regulations govern the Staff Centre. The Board was not able to confirm that all activities and financial transactions were in compliance with the authorities which govern them.

Because of the significance of the matters discussed in the preceding paragraph, the Board was not able to express an opinion on whether the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them (disclaimer of opinion).

In the Board's view, there is a lack of clarity about which rules and regulations are governing the Staff Centre, as the current mandate given by Council in C-M(70)62 does not specify the governing regulations and applicable financial reporting framework. As a result, the Staff Centre is not following the NFRs and the Staff Centre does not prepare financial statements in accordance with IPSAS.

The Board found material misstatements in the accounts of the Staff Centre. The extent of the errors identified reveals significant weaknesses in the processes of financial statement preparation and management oversight and review. The Staff Centre management, in coordination with the IS, should review current processes in order to ensure a reliable financial reporting process that produces fair and accurate financial statements.

The Board made five observations concerning:

- Lack of clear Governance, Rules and Regulations for the Staff Centre;
- Material misstatements of the opening balance as at 1 January 2011;
- Misstatements and other issues impacting the 2011 financial statements;
- Non-Compliance with the Civilian Personnel Regulations (CPRs);
- Weaknesses in the Internal Controls and Accounting Policies.

35. NEW NATO HQ 2011

Introduction

The construction of the new NATO Headquarters is funded from national contributions based on a specific cost-share agreement among the NATO nations. Budget authorisations for 2011, which is the thirteenth operational year of the project, total EUR 106.8 million, of which EUR 72 million relates to the 2011 budget and EUR 34.8 million

relates to credits brought-forward from prior year budgets.

Audit Highlights

Opinion on the Financial Statements

The Board issued an unqualified opinion on the New NATO Headquarters' Financial Statements for the year ended 31 December 2011.

Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2011 financial statements are, in all material respects, in compliance with authorities which govern them.

The Board made observations related to:

- Lack of separate disclosure on the use of contingency funds;
- Lack of disclosure of contingent liabilities;
- Miscalculation of "Advance to PMT" recorded in current assets;
- Understatement of fixed assets in progress.

The Board also sent a separate management letter to the Secretary General on observations requiring management attention.

36. REPRESENTATION ALLOWANCES 2012

Introduction

The International Board of Auditors for NATO (Board) audited the Representation Allowance expenditures of senior NATO officials for the year ended 31 December 2012.

Audit Highlights

The Board found improvements compared to the past years in terms of compliance with most guidelines related to Representation Allowance.

In general, the Representation Allowance expenditures for 2012 were reported by the recipients in compliance with the Permanent Representatives' accountability requirements. The total of the allowances paid in 2012 by NATO for representational purposes (not including the Secretary General and the Deputy Secretary General) amounted to EUR 229,241 (an increase of approximately EUR 3,000 compared to 2011).

37. RETIRED MEDICAL CLAIMS FUND (RMCF) 2010-2011

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 and 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. At the end of 2011 the fund manager held EUR 169.0 million on behalf of NATO.

Audit Highlights

Opinion on the Financial Statements

The Board issued an unqualified opinion on the RMCF's Financial Statements for the years ended 31 December 2010 and 31 December 2011.

Opinion on Compliance

The Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2010 and 2011 financial statements are, in all material respects, in compliance with authorities which govern them.

The Board made three observations on the RMCF's 2010 and 2011 Financial Statements concerning:

- RMCF Net Assets Inadequate to Fund Promised Future Benefits;
- Late publication of the financial statements;
- Weak internal controls on contribution receipts.

The Board highlights that the financial statements disclose that, as of 31 December 2011, the RMCF Net Assets to fund benefits are only EUR 171.7 million while the actuarial present value of promised benefits were estimated at EUR 909.8 million. This represents a very significant shortfall for a fund that was intended "as a reserve to ensure that sufficient funds are available to enable NATO to meet its obligations."

38. RETIRED MEDICAL CLAIMS FUND (RMCF) 2012

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 and 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. At the end of 2012, the fund manager held EUR 203.8 million on behalf of NATO.

Audit Highlights

Opinion on the Financial Statements

The Board issued an unqualified opinion on the restated RMCF's Financial Statements for the year ended 31 December 2012.

Opinion on Compliance

The Board issued an unqualified opinion on whether the financial transactions and information reflected in the restated 2012 financial statements are, in all material respects, in compliance with the NATO Financial and Civilian Personnel Regulations.

The Board made three observations on the RMCF's 2012 Financial Statements concerning:

- RMCF Net Assets Inadequate to Fund Promised Future Benefits;
- Restatement due to material misstatement relating to narrative disclosure in the form of an omission of the actuarial obligations on the post-employment medical care as at 31 December 2012;
- Improvement in the notes to the 2012 RMCF Financial Statements.

In respect to the first observation, the Board drew attention to the 2012 financial statements, which presented Net Assets to fund benefits amounting to EUR 204 million while, as per the latest actuarial report available dated 30 April 2013, as disclosed in the restated Note 3 to the financial statements, the 2012 actuarial present value of promised benefits was estimated at EUR 1,239 million, of which EUR 58 million shall be allocated to the eligible former staff between the ages of 55 and 65 (referred to as "bridgers") that are insured under the term of "bridging-cover", and are not funded through the RMCF. This represents a very significant shortfall for a fund that was intended "as a reserve to ensure that sufficient funds are available to enable NATO to meet its obligations."

39. RESEARCH & TECHNOLOGY AGENCY (RTA) 2011

Introduction

The NATO Research & Technology Organisation (RTO) is a NATO subsidiary body created within the framework of the North Atlantic Treaty. The supporting agency of the RTO is the Research and Technology Agency (RTA). Its mission is to conduct and promote co-operative research and information exchange, to support the development of national defence research and technology, to maintain a technology lead, and to advise NATO decision-makers. The total RTA expenditure for 2011 was EUR 5.253 million (EUR 5.391 million in 2010).

The consolidation and rationalisation of NATO Agencies has impacted on the RTA in 2012. This will be the last year of audit for RTA before the creation of the NATO Science & Technology Organisation (STO).

Audit Highlights

Opinion on the Financial Statements

The Board issued an unqualified opinion on the RTA Financial Statements for the year ended 31 December 2011.

Opinion on Compliance

The Board issued an unqualified 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.

The Board made one observation related to:

- The lack of consistency across all NATO entities concerning Property, Plant and Equipment (PP&E) accounting.

PERFORMANCE AUDITS AND SPECIAL STUDIES

40. SPECIAL REPORT TO COUNCIL ON TEMPORARY PERSONNEL IN THE INTERNATIONAL STAFF (IS) AND THE NATO STAFF CENTRE

Introduction

In this special report, the Board addresses the potential risks, financial risks as well as the risk to NATO's reputation, associated with the current status of temporary personnel within the IS and the Staff Centre. The Board has not assessed the procedures for the recruitment of temporary personnel in the IS and the Staff Centre, nor has it addressed the issue of extending temporary personnel contracts for several periods. The Board understands that the IS has taken steps to address this issue internally and also that the issue is being dealt with in the Appeals Board. Also, the Board's findings impact other NATO bodies, but the Board has not directly addressed this in this report.

Audit Highlights

The IS and the Staff Centre employed a combined 197 temporary personnel during 2011. Temporary personnel are recruited in accordance with the CPRs Chapter XVII. They are typically given a contract of a 3 or 6-month duration which can be extended for further periods.

While the Board recognises that the Council has the final authority over the CPR's and their interpretation, the Board had three key findings relating to the employment of temporary personnel:

- The implementation of a social benefit package to temporary personnel in the IS and the Staff Centre was not, in the Board's opinion, carried out in accordance with the CPRs. The CPRs state that "*the benefits of the social security scheme of the host nation will apply as appropriate*" and "*employee's contribution to the social security scheme will be deducted from the emoluments*". However, no participation in the Host Nation's social security scheme took place and, thus, no contributions were deducted from the emoluments or made hereto.
- Rather, from 2009, EM implemented their own social insurance package for temporary personnel, separate from the Host Nation's social security scheme. The Board found that no consultation or agreement with the Host Nation was made before implementation in order to come to an agreement with it as to what is 'appropriate'. The Board believes it should have done so.
- The current arrangement of paying an additional 12% to the temporary personnel to cover potential pension contributions, based on the Board's opinion, has no regulatory basis in the CPRs.

In the Board's opinion, there is a potential risk of employee tax fraud due to the fact that deductions for taxes (and for social security contributions) are not made to the Host Nation nor is a communication of taxable salaries paid sent to Host nation. This, although no specific obligations for NATO are established in the CPRs, in turn, creates

a reputational risk for NATO. Also, the Board believes that there is a financial risk of claims from the Host Nation for the missing employer's and employee's contributions as well as a risk of claims from former temporary personnel who are not able to collect benefits from the Host Nation's social security scheme.

The Board's findings impact other NATO bodies as well, and therefore the issue of not contributing to the Host Nation's social security scheme is a NATO-wide concern.

The Board made four recommendations related to the employment of temporary Personnel:

- The IS should agree with the Host Nation the extent to which temporary personnel should participate in the Host Nation's social security scheme;
- The IS should consider strengthening cooperation with the Host Nation for tax compliance purposes considering the potential reputational risks involved;
- The Staff Centre, in coordination with the IS, should find an appropriate form of employment of staff in the Staff Centre that covers the specific needs of the Centre and its activities; and
- Council should ensure the issue is addressed NATO-wide.

41. SPECIAL REPORT TO COUNCIL ON THE CRITICAL SUCCESS FACTORS FOR THE OFFICE OF THE SHARED SERVICES

Introduction

In accordance with Article 17 of its Charter, the International Board of Auditors (Board) is providing this special report to the North Atlantic Council (Council) with the objectives of assessing (1) the current status of the detailed design of the Office of Shared Services (OSS) and (2) the extent to which the implementation planning for the OSS incorporates critical success factors and best practices.

Audit Highlights

Shared Services progress and risks

The initial decision to pursue Shared Services at NATO was taken in June 2010. After a substantial delay, the Executive Management Division was given the go-ahead to establish the Office of Shared Services (OSS) in the spring of 2012. A Head of the Office of Shared Services was recruited and brought on board in June 2012. Since then, work has been done to establish a roadmap and assessing the "as is" status of organisations in scope, specifically in the areas of Finance and Accounting, Human Resources, and General Procurement. However, the OSS has been dependent on a fluctuating team of part time help to include 1 Voluntary National Contribution, rotating Subject Matter Experts, and a small number of temporary hires.

The Board found that limited project documentation is available to assess the progress of the detailed design for finance and accounting in particular or the Shared Services

Operation overall. Without an adequately resourced core team to deliver this challenging business transformation program, the Board cautions that the project is at risk of not meeting the Nation's expectations. The Board notes that the recommendation in its 2012 report to complete the overall Business Case has not been implemented.

Critical factors necessary to make Shared Services a success

In order to mitigate the key risks and realise the potential savings, efficiencies and an effective implementation of Shared Services, the Board identified and developed a number of critical success factors to help ensure that NATO fully benefits from the overall NATO Agencies Reform initiative.

The Board made two recommendations, including five broad Critical Success Factors:

1. Together with the Detailed Design under development by the OSS, an updated and completed overall Business Case should be presented with clearly stated assumptions, an updated estimate of expected savings with supporting documentation based on a validated "as is" financial baseline, and investment costs (loss of job indemnity, IT infrastructure, and other less visible start-up costs). This overall Business Case, along with a proposed Operating Model and Migration Strategy should go to the Nations for approval. This comprehensive proposal should address the following critical success factors:
 - Agreement on the appropriate governance structure for Shared Services;
 - A clear work plan incorporating project management best practices;
 - A set of options for Nations to choose from prior to implementation;
 - A harmonisation tool; and
 - Appropriate key performance indicators (KPIs).
2. That it is critical to have a validated decision by Nations on the next steps for Shared Services and how to proceed in the implementation of a Shared Services Operation. This decision should clearly state the expectations of the Nations in terms of future deliverables and milestones, whether to pursue a decentralised Shared Services Operation by the functional areas proposed or a centralised operation in a single location. The criteria and supporting documentation to support such options must be part of the Detailed Design being developed by the OSS.

42. SPECIAL REPORT TO COUNCIL THE FINANCIAL SERVICE (FINS) PROJECT: ACTIONS NEEDED TO APPLY LESSONS LEARNED

Introduction

In accordance with Article 17 of its Charter, the International Board of Auditors (Board) is providing this special report to the North Atlantic Council (Council) with the objectives of assessing (1) Bi-Strategic Command Automated Information Services Financial Service (FinS) implementation schedule and cost, (2) the extent to which the system, as implemented, meets its intended goals and user needs and (3) project planning and execution factors that affected implementation progress.

Audit Highlights

FinS is a commercially-based financial management system, customized for NATO. It functions at nearly all planned Allied Command Operations (ACO) and International Military Staff (IMS) sites. However, full implementation will take approximately 50 months longer than the 18 months initially estimated. In addition, the Nations authorized approximately EUR 2 million in further expenditures as a result of the delay and scope changes over time.

FinS software as implemented provides users the most needed functionality. However, in the Board's opinion the project has not demonstrated the capability for full International Public Sector Accounting Standards (IPSAS) compliance nor cost savings, which were both key project goals. In addition, the Board found support weaknesses.

The Board identified 2 main sets of factors that contributed to most of the delay in project completion compared to initial estimates:

- First, NCIA's plans did not include the appropriate governance structure, project management resources and realistic schedule estimate. In particular, the project lacked authoritative senior leadership and sufficient dedicated staff. In addition, the agency did not sufficiently plan for the time needed to screen and approve multiple requests for authorization. These weaknesses contributed to approximately 44 percent of the difference between the original and actual project schedules, including delays initiating a key project phase.
- Second, insufficient scope definition and known resource shortfalls hindered timely project completion after implementation had begun. For example, despite the high risk level associated with the International Security Assistance Force's (ISAF) longstanding use of a spreadsheet to manage its finances, implementation of FinS at ISAF was not within the initial project scope. In addition, the initial FinS software configuration did not fully consider differences in how ACO conducts its business compared to other locations where the system was already installed. Implementing the necessary change requests made the project more complex, expensive, and time-consuming. Further, the project suffered from a lack of resource planning necessary to ensure that all NATO stakeholders could meet project commitments and provide project

assurance. Together, these factors contributed approximately 43 percent of the overall project delay.

In the Board's opinion, without careful, upfront planning and better pre-decisional analysis, future similar efforts will be more likely to experience delays, cost increases, and challenges meeting user needs. Accordingly, the Board makes the following recommendations.

- NCIA, ACO, and IMS should conclude service level agreements to address technical support weaknesses found by the Board and improve the level of service received by system customers (specific to FinS).
- NCIA should propose and the Nations approve an appropriate governance structure, to include a Project Board led by an Executive with a sufficient level of authority and availability.
- NCIA should set clear and realistic expectations for costs and time frames by improving the methodology for determining administrative expenditures and project schedule.
- NCIA should present and the Nations consider the full range of benefits and risks associated with the selected implementation approach prior to project authorization.
- CIS project customers should consolidate requirements and formalize the impact of business process changes on proposed software configurations prior to project implementation.
- ACO and NCIA should determine a way forward for funding FinS implementation at the E3A component (specific to FinS).
- NCIA and project customers should work together to better identify in authorization documentation the full scope of all stakeholder activities, and clearly present any gaps to be resourced or risk managed.
- NCIA should take the necessary steps to improve its use of impact statements to inform the Nations of the relative criticality of specific project elements.
- NCIA and system customers should communicate to the Nations the steps being taken to implement the Board's recommendations contained in this report.

INTERNATIONAL BOARD OF AUDITORS FOR NATO (IBAN)

ANNUAL PERFORMANCE PLAN 2014

INTRODUCTION

The International Board of Auditors for NATO (IBAN) is the independent external auditor of NATO. Its primary function is to enable the North Atlantic Council and the governments of member countries to satisfy themselves that common funds have been properly used for the settlement of authorised expenditures. The IBAN carries out financial, compliance, and performance audits in the various NATO bodies and certifies the expenditure related to the NATO Security Investment Programme (NSIP). The IBAN's vision is to be the respected voice of accountability and performance evaluation within NATO. The core values of the IBAN are *Independence, Integrity* and *Professionalism*.

This annual performance plan for 2014 is based upon the goals and objectives identified in the 2010-2014 strategic plan and establishes which objectives and strategies will have priority during 2014. It includes key performance indicators and targets for the various objectives to be achieved during 2014.

GOAL 1: STRENGTHEN ACCOUNTABILITY AND CORPORATE GOVERNANCE WITHIN NATO

The IBAN contributes to the strengthening of accountability and corporate governance within NATO in a number of ways, including through its financial audits and specific reviews of matters closely related to accountability and corporate governance, such as internal control. While financial audits are generally performed on an annual or multi-annual basis, specific reviews are performed on more of an ad-hoc basis as necessary.

Objectives and Performance Measures

The IBAN's objectives related to Goal 1 are shown below.

Objective 1: Develop Risk-Based Audit Methodology

Strategy 1.1 – Ensure that the improvements made to the risk-based audit methodology are clearly defined and documented to ensure consistent application.

Strategy 1.2 – Establish and follow an implementation schedule for the roll-out of the improved risk-based audit methodology.

Strategy 1.3 – Periodically re-assess the application of the improved risk-based audit methodology in order to closely monitor its effectiveness.

Objective 2: Improve audit efficiency and effectiveness

Strategy 2.1 – Implement the improved risk-based audit methodology (see above).

Strategy 2.2 – Increase cooperation with NATO internal auditors.

Strategy 2.3 – Develop practical steps in order to improve the timeliness and content of our audit reports.

Strategy 2.4 – Develop more efficient processes for the audits of small entities and employee benefit plans.

Strategy 2.5 – Introduce a step-by-step peer review program.

Objective 3: Contribute to the development of a sound and consistent financial reporting environment

Strategy 3.1 – Promote further consistency in the application of accounting standards and the presentation of financial statements.

Strategy 3.2 – Perform more thorough assessments of the internal control environments and provide more comprehensive feedback on their operation.

Strategy 3.3 – Be proactive in the implementation of Property, Plant and Equipment accounting standards.

Objective 4: Enhance relationships with key stakeholders

Strategy 4.1 – Offer/provide more advice on subject matter expertise to the various stakeholders (NFRs, IPSAS, good governance in the public sector, etc.).

Strategy 4.2 – Seek more thorough understanding of stakeholders' needs/expectations.

Strategy 4.3 – Explain and promote interim audit as part of the risk-based audit methodology.

The associated performance measures and targets to be used to evaluate the achievement of the objectives are shown in the table below.

Objective	Key Performance Indicator	Target
<i>Improve audit efficiency and effectiveness</i>	Percentage of observations and recommendations satisfactorily closed within a 3-year period of the report date.	80%
	Percentage of audits completed by scheduled milestones for: a) Planning (including review) b) Fieldwork (including review) c) Reporting (including review)	90%
<i>Improve audit efficiency and effectiveness</i>	Deliver audit reports within 6 months of issuance of financial statements.	100%
<i>Contribute to the development of a sound and consistent financial reporting environment</i>	Attend key meetings of the AHWG of Financial Controllers and IPSAS Working Group.	100%
<i>Enhance relationships with key stakeholders</i>	Attend key meetings of NATO resource committees (RPPB, BC, IC) and Agency Supervisory Boards/Boards of Directors.	100%

GOAL 2: ENHANCE MANAGEMENT AND ENSURE ACCOUNTABILITY OF THE NATO SECURITY INVESTMENT PROGRAMME (NSIP)

The NATO Security Investment Programme provides the common funding for the acquisition of capabilities that are required by the NATO Strategic Commanders to complete their missions. The funding is made available to NATO Nations, Agencies and Commands, all acting as procurement agent for the acquisition of these capabilities. The NSIP is managed by the Infrastructure Committee.

Objectives and Performance Measures

The IBAN's objectives related to Goal 2 are shown below.

Objective 1: Improve NSIP management

Strategy 1.1 – Implement performance audits/studies/reviews on the efficiency and effectiveness of NSIP management processes, and on the economy, efficiency and effectiveness of delivering significant specific NSIP outputs.

Strategy 1.2 – Formulate independent advice to the Infrastructure Committee on policy initiatives and NSIP management.

Objective 2: Provide assurance of NSIP accountability

Strategy 2.1 – Provide assurance on NATO Bodies' annual financial reporting concerning their NSIP funding.

Strategy 2.2 – Provide certificates of projects' final financial acceptance.

Strategy 2.3 – Contribute to the accelerated closure of the Slice Programme through tailored NSIP mission policy (Nations).

Strategy 2.4 – Encourage the finalisation of partially audited and/or inspected projects (Nations).

Strategy 2.5 – Actively monitor the auditable projects (Nations).

Strategy 2.6 – Examine the application of the Board's axing authority.

Strategy 2.7 – Reconsider the role of IBAN in the provision of assurance for the NSIP accountability.

Objective 3: Improve audit efficiency and effectiveness

Strategy 3.1 – Assign responsibility for specific NSIP Nations and NATO Bodies to Board Members and staff.

Strategy 3.2 – Document national NSIP implementation framework (Organisation, legislation, procedures).

Strategy 3.3 – Consolidate Board NSIP audit policies into a single policy document.

Strategy 3.4 – Consolidate the administrative procedures, instructions and working documents into an updated NSIP Audit Manual.

The associated performance measures and targets to be used to evaluate the achievement of the objectives are shown in the table below.

Objective	Key Performance Indicator	Target
<i>Improve NSIP management</i>	Implement reviews of NSIP management issues or outputs delivered.	1 review per year
<i>Improve audit efficiency and effectiveness</i>	Conduct audits within 6 months of national requests.	100%
	Increase the ratio of audited and certified amounts to resources used (time spent).	EUR 400 million per staff-year
	Percentage of NSIP Letters of Observations settled/closed within a 3-year period.	80%

GOAL 3: CONTRIBUTE TO EFFICIENT, EFFECTIVE AND ECONOMICAL OPERATIONS AND ACTIVITIES IN NATO

The IBAN audit mandate in its Charter includes performance auditing of the operations of NATO bodies. Such audits may cover activities of a specific NATO body or a specific NATO programme or a crosscutting function, programme, or operation, involving several NATO bodies.

IBAN will carry out its performance audit mandate with a view to provide independent analysis and evaluation to the Council on the achievement of NATO objectives and make recommendations that lead directly to process and service improvements and, whenever possible, to optimise value for money while delivering required outputs.

Objectives and Performance Measures

The IBAN's objectives related to Goal 3 are shown below.

Objective 1: Evaluation of the achievement of objectives by a specific NATO body, operation or project

Strategy 1.1 – Attracting SAs interest in performance auditing done by IBAN and seeking their assistance in specific training, and short-term voluntary staff contributions for specific audits.

Strategy 1.2 – Enhancing IBAN Performance Audit Handbook, being guided by INTOSAI standards and drawing on existing IBAN manual as well as handbooks of national audit institutions.

Strategy 1.3 – Assigning a specialist on performance audit methodology to assist in the audit design and preparation.

Strategy 1.4 – Developing methods of evidence collection as well as statistical and other forms of analysis by way of external training and recommended learning.

Objective 2: Recommendations for optimising of the use of material and financial resources while delivering outputs at required quality

Strategy 2.1 – Hiring external consultants and/or specialists to obtain additional competence commensurate with the nature, scope and complexities of the audit task.

Strategy 2.2 – Increasing staff resources assigned for performance auditing to 20% by the end of the period covered by this Strategic Plan.

Objective 3: Focus on priority issues along with the balanced use of internal capabilities

Strategy 3.1 – Enhancing relationship with stakeholders and clients by early notification of IBAN intentions, non-binding consultation of audit areas/topics and informing on audit progress.

Strategy 3.2 – Drawing on risk-based financial audit approach and client risk management process to identify potential areas/topics for performance audit.

The associated performance measures and targets to be used to evaluate the achievement of the objectives are shown in the table below.

Objective	Key Performance Indicator	Target
<i>Evaluation of the achievement of objectives by a specific NATO body, operation or project.</i>	Issue at least four performance audit products per year.	100%
	Get assistance from at least four SAs for 2014 performance audits and special reports.	100%
<i>Recommendations for optimising of the use of material and financial resources while delivering outputs at required quality</i>	All performance audit products to include recommendations to improve efficiency, effectiveness, and/or economy.	100%
	Percentage of observations and recommendations satisfactorily closed within a 3-year period of the report date.	80%
	Increase staff resources devoted to performance audit to at least 25% of total audit time available.	100%

GOAL 4: DEVELOP IBAN AS AN INNOVATIVE AND PROACTIVE AUDIT ORGANIZATION

Goals 1 to 3 signify IBAN's level of ambition to become a creative organization, i.e. one that is conscious and forward-looking to developments and changes in its operational environment, is driven by internal development to be ready to meet emerging challenges, and aspires to contribute to improvements and reforms in NATO as a whole.

The IBAN is aware of changes in its strategic and operational environment, which are driven by new security challenges faced by the Alliance. Those challenges bring an increased demand for efficiency and effectiveness of operations of NATO bodies in conditions of limited resources. The IBAN needs to be innovative and proactive to fulfil its unique and important role in evaluating operations and activities of all organisations NATO-wide and holding them accountable to their governing bodies.

Objectives and Performance Measures

The IBAN's objectives related to Goal 4 are shown below.

Objective 1: IBAN as a working-place that facilitates continuing professional development of its personnel and the sharing of corporate knowledge

Strategy 1.1 – Providing opportunities to acquire knowledge on new audit ideas, best practices, and development of professional standards as well as knowledge on NATO current issues and ways of its operation.

Strategy 1.2 – Organising the sharing of experience acquired by auditors during their work and bearing relevance for their further audit activity.

Strategy 1.3 – Providing continuing professional education for the auditor staff and facilitate individual learning. Ensure that newly acquired information is shared among audit staff.

Objective 2: IBAN is an audit organisation that translates internal efficiency and effectiveness into strengthened accountability and governance as well as enhanced performance of NATO

Strategy 2.1 – Drawing on risk-based audit approach in financial auditing and continuously improve audit methodology.

Strategy 2.2 – Making use of increased performance audit work in NATO Security Investment Programme to achieve better accountability and management of NSIP.

Strategy 2.3 – Making use of an overall enhanced performance audit capability to achieve increased efficiency and effectiveness in NATO staff bodies, NPLOs and military commands.

Objective 3: Performance review and development system as a tool of continuous assessment of auditors' performance and their individual development

Strategy 3.1 – Monitoring of and providing feedback on auditors' performance on a continuous basis and assessing auditors' performance upon completion of their assignments.

Strategy 3.2 – Providing annual evaluations based on thorough assessment of the auditors' performance during the year and translating these into individual objectives for the following year.

Objective 4: Improved visibility of IBAN

Strategy 4.1 – Regularly attending the Council and committees meetings on matters of importance to the Board.

Strategy 4.2 – Liaising with committee chairpersons to offer IBAN's expertise and assistance.

Strategy 4.3 – Providing information on essential audit activities on the IBAN website.

Strategy 4.4 – Seeking the Council's agreement on publicising IBAN's selected individual audit reports.

Strategy 4.5 – Maintaining continued professional contacts with supreme audit institutions of NATO nations and with international audit organisations.

The associated performance measures and targets to be used to evaluate the achievement of the objectives are shown in the table below.

Objective	Key Performance Indicator	Target
<i>IBAN as a working-place that facilitates continuing professional development of its personnel and the sharing of corporate knowledge</i>	Provide a minimum of 5 days (40 hours) continuing professional education per year to all IBAN auditors.	100%
	75% of IBAN auditors should be seconded staff or former staff from Supreme Audit Institutions.	100%
<i>Improved visibility of IBAN</i>	Prepare press releases on selected IBAN audit reports with Council approval.	100%
	Present reports to RPPB and Agency Supervisory Boards/Boards of Directors	90%

LIST OF ABBREVIATIONS

ACCS	Air Command and Control System
ACT	Allied Command Transformation
AGS	Alliance Ground Surveillance
ASB	Agency Supervisory Board
Board/IBAN	International Board of Auditors for NATO
CEPMA	Central Europe Pipeline Management Agency
CEPMO	Central Europe Pipeline Management Organisation
CEPS	Central European Pipeline System
CMRE	Centre of Maritime Research & Experimentation
Council	North Atlantic Council
CPR	Civilian Personnel Regulations
DCPS	NATO Defined Contribution Pension Scheme
EFL	Financial Limits of Discretionary Powers
EUR	Euro
FinS	Financial Service
FMS	Foreign Military Sales
FOC	Full Operational Capability
FORACS	NATO Naval Forces Sensors and Weapon Accuracy Check Sites
GBP	Great Britain Pound
IMS	International Military Staff
IPSAS	International Public Sector Accounting Standards
IS	International Staff
IS FC	International Staff Financial Controller
JWC	Joint Warfare Centre
LAIRCM	Large Aircraft Infrared Counter Measure Projects
MC	Military Committee
MEADS	Medium Extended Air Defence System
MMR	Minimum Military Requirement
MNCG	Multinational Civil-Military Cooperation Group
MOU	Memorandum of Understanding
MSIAC	Munitions Safety Information Analysis Centre
MWA	Morale and Welfare Activities
NAC	North Atlantic Council
NACMA	NATO ACCS Management Agency
NACMO	NATO ACCS Management Organisation
NAEW&C	NATO Airborne Early Warning and Control
NAGSMA	NATO Alliance Ground Surveillance Management Agency
NAGSMO	NATO Alliance Ground Surveillance Management Organisation
NAHEMA	NATO Helicopter for the 1990s Design and Development, Production and Logistics Management Agency
NAHEMO	NATO Helicopter for the 1990s Design and Development, Production and Logistics Management Organisation
NAMA	NATO Airlift Management Agency
NAMO	NATO Airlift Management Organisation
NAMEADSMA	NATO Medium Extended Air Defence System Management Agency

NAMEADMSO	NATO Medium Extended Air Defence System Management Organisation
NAMSA	NATO Maintenance and Supply Organisation
NAPMA	NATO AEW&C Programme Management Agency
NAPMO	NATO Airborne Early Warning and Control Programme Management Organisation
NATO P.A.	NATO Parliamentary Assembly
NBA	NATO BICES Agency
NBO	NATO Battlefield Information Collection and Exploitation Systems Organisation
NCIA	NATO Communications and Information Agency
NC3A	NATO Consultation, Command and Control Agency
NCS	NATO Command Structure
NCSA	NATO CIS Services Agency
NDC	NATO Defence College
NFO	NATO FORACS Office
NFR	NATO Financial Regulations
NH90	NATO Helicopter for the 1990s
NIFC	NATO Intelligence Fusion Centre
NSIP	NATO Security Investment Programme
NSPA	NATO Support Agency
NSPO	NATO Support Organisation
NRDC	NATO Rapid Deployable Corps
OSS	Office of Shared Services
PE	Peacetime Establishment
PEA	PE Authorities
PP&E	Property, Plant and Equipment
RMCF	Retirees Medical Claims Fund
RPPB	Resource Policy and Planning Board
RTA	Research and Technology Agency
RTO	NATO Research & Technology Organisation
SACT	Supreme Allied Commander Transformation
SAP	Enterprise Resource Planning Software Package
SC	Strategic Commander
SHAPE	Supreme Headquarters Allied Powers Europe
STO	Science & Technology Organisation
SWP	Supplementary Work Programme
US	United States of America
USD	United States of America Dollar