	NATO	NORTH ATLANTIC COUNCIL
	OTAN	CONSEIL DE L'ATLANTIQUE NORD

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24 November 2015

DOCUMENT
C-M(2015)0077-AS1

IBAN 2014 ANNUAL ACTIVITIES REPORT

ACTION SHEET

On 23 November 2015, under the silence procedure, the Council noted the 2014 IBAN Annual Activities Report, and agreed the recommendations contained in the RPPB report.

(Signed) Alexander Vershbow
Deputy Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2015)0077.

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18 November 2015

DOCUMENT
C-M(2015)0077
Silence Procedure ends:
23 Nov 2015 18:00

IBAN 2014 ANNUAL ACTIVITIES REPORT

Note by the Deputy Secretary General

1. I attach the International Board of Auditors for NATO (IBAN) Annual Activities Report for 2014. The IBAN has prepared the Annual Activities Report in accordance with Article 14 of the their Charter, which states "The Board shall prepare each year [...] a detailed report on the activities of the Board during the year, and on progress made in processing its reports."
2. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB), which has provided its report, agreed on 25 September 2015, with comments and recommendations on the IBAN report (see Annex).
3. I consider that no further discussion regarding this report is required. Consequently, **unless I hear to the contrary by 18:00 hours on Monday, 23 November 2015**, I shall assume that the Council has noted the 2014 IBAN Annual Activities Report, and agreed the recommendations contained in the RPPB report.

(Signed) Alexander Vershbow

1 annex
1 enclosure

Original: English

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IBAN ANNUAL ACTIVITIES REPORT 2014

Report by the Resource Policy and Planning Board (RPPB)

References:

- a) IBA-M(2015)01
- b) C-M(2007)0009

INTRODUCTION

1. The present report by the Resource Policy and Planning Board (RPPB) contains the RPPB's observations and recommendations concerning the International Board of Auditors for NATO (IBAN) Annual Activities Report for 2014.

2. In preparing this report, the RPPB has taken into account the comments of the Supreme Audit Institutions (SAIs) of the NATO member nations on the IBAN Annual Activities report 2014. These comments include matters such as the importance attached to the peer review of the IBAN undertaken in 2014; public disclosure; performance audits; the lack of internal audit in NATO bodies; and the use of the IBAN Annual Activities report to highlight more systemic issues and reasons behind the high number of qualified or disclaimer of audit opinions within NATO.

IBAN REPORT SUMMARY

3. The IBAN provides in its annual report detailed information on the expenditure audited, the allocation of its human resources, the direct cost of audits in 2014, and its performance against its annual performance plan.

Public disclosure

4. The IBAN is concerned by the slow rate of public disclosure of 2014 IBAN reports and recalls in this regard NATO's stated aim of increased transparency and accountability of the Organisation.

Financial audits

5. During 2014, the IBAN audited more than 9 billion of expenditures and issued 33 financial audit reports comprising 35 Auditor's Opinions on financial statements and on compliance, of which 26 were unqualified opinions (74 %). The IBAN issued 9 (26%) qualified, adverse, or disclaimer of audit opinions on financial statements or on the compliance of 10 different NATO entities. This is the same percentage of qualified and unqualified opinions as last year. The IBAN provide a summary in their report of significant qualified financial audit opinions in 2014, including the reasons for the qualifications.

6. The qualified opinions were linked to such issues as Inventory/Property, Plant & Equipment (PP&E)/Intangible Assets (IPSAS¹ 12, 17 and 31); overall weak control

¹ International Public Sector Accounting Standards (IPSAS)

environment; and implementation of NATO Agencies reform. Regarding the audit observations, 40 % were related to the application of the NATO Accounting Framework.

NSIP audits

7. Regarding NSIP audits in 2014, the IBAN issued a total of 405 Certificates of Final Financial Acceptance (COFFAs) amounting to 865 million Euro certified. 249 projects were closed under the Accelerated procedures, under which the reported expenditure is converted to a lump sum and is therefore not subject to audit by the IBAN.

8. A total of 1.7 million Euro was recovered to the programme as a result of audit observations.

Performance audits and Special reports

9. The IBAN issued four performance audits Special reports to Council in 2014: (1) the effectiveness of the Peacetime Establishment review process in the NATO Command Structure and the NATO Communications and Information Agency, (2) the progress of the transition to the new NATO headquarters, (3) steps needed to improve ACO and NSPA management of contractor support to operations, and (4) the thematic audit² of cash holdings in NATO. In 2014, the IBAN used 27 % of its staff resources on performance audits, compared to 20 % in 2013. The IBAN provide a summary in their report of the 2014 performance audits.

Strengthening of the External Audit Function in NATO

10. In May 2013 the Council issued a decision concerning the Strengthening of the External Audit function at NATO. The IBAN has taken significant steps in 2013 and 2014 to implement this decision:

- New IBAN Charter approved by Council;
- Improved timeliness of audit reports by delivering most of them within the six month deadline set by Council;
- Restructured, more user friendly audit reports;
- Strengthening IBAN's cooperation with other Supreme Audit Institutions (SAIs);
- Begun creation of a more pyramidal organisational structure by downgrading ten A4 auditor posts to A3 by 2018;
- Assigned 25% of its audit resources to performance audit in 2014;
- Shared its annual performance plan with all NATO member state 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
- Passed its first peer review successfully.

² As from 2013, the IBAN introduced the concept of thematic audit topics. These audits address NATO-wide economy, efficiency, and compliance issues.

KEY ISSUES ADDRESSED BY THE IBAN***Strengthening of the External Audit Function in NATO***

11. The RPPB notes and supports the significant steps undertaken by the IBAN in 2013 and 2014 to implement the May 2013 Council decision to strengthen NATO's external audit function. In this regard, the RPPB also notes the new IBAN Strategic Plan for the period 2015-2019 and that the IBAN is refocusing its approach to enhance its audit potential.

12. The RPPB is pleased to note the development of cooperative arrangements with SAIs in 2014 and in this regard also the signing of a Memorandum of Understanding between IBAN and the Turkish Court of Accounts. Such arrangements were one of the Council agreed measures to strengthen IBAN. The Board notes with interest that in 2014 three SAIs provided assistance with performance audits.

Peer review

13. The RPPB notes that a peer review of the IBAN was successfully undertaken in 2014. The peer review of the IBAN financial statement audit methods and practices, undertaken by the Court of Auditors of Spain and the Supreme Audit Office of Poland, found that the IBAN system of financial audit, including its quality control, has been suitably designed and employed to provide NATO with reasonable assurance that NATO financial reporting is, in all material respects, in conformity with applicable professional standards and NATO internal financial regulations. The IBAN received a peer review rating of pass³. The RPPB is pleased to note the results of the peer review and also that the review, once noted by Council, will be made publicly available on the IBAN website.

Financial Statement Audits

14. The RPPB remains concerned with the high number of qualified (26 %) and also modified audit opinions. These demonstrate that the quality of financial reporting and control, as well as internal auditing within NATO needs to be improved. In this regard, the RPPB recalls the improvements introduced in the new NATO Financial Regulations⁴ such as the establishment of audit advisory panels, stronger accountability and stronger arrangements for internal audit.

15. The RPPB will continue to provide Council with a report on all qualified IBAN audit reports which fall under its remit and continue to monitor the observations and corrective actions taken.

16. The RPPB continues to invite the IBAN to provide more information in their Annual Activities report regarding what is being done by NATO bodies to reduce the number of qualifications and to demonstrate the impact of the measures they undertake.

17. In reference to the late issuance of financial statements, a key issue raised in several recent IBAN Annual Activities reports, the RPPB is pleased to note the significant progress made in 2014. The RPPB also notes the work undertaken by the IBAN in 2014 to ensure that they delivered audit reports within six months after the financial statements were issued.

³ Possible report ratings: pass, pass with deficiencies, and fail.

⁴ C-M(2015)0025

NSIP Annual report for 2014

18. The report on the IBAN 2014 NSIP audit is incorporated into the 2014 IBAN Annual Activities report.

19. The RPPB welcomes the increased number of NSIP projects closed in 2014, including under the accelerated procedures, while remaining concerned with the close-out rate of completed projects.⁵ In this regard, the Board recalls its invitation to the Investment Committee (IC) to ensure the close-out by mid-2016 of projects that were physically complete by mid-2014 and its directions on the timely close-out of NSIP projects to both Host Nations and the IC, agreed as part of the deliberations on the IBAN 2012 audit of the NSIP and reiterated in the Board's report to the Council on the recent performance audit of the NSIP.⁶ The technical and financial close-out of NSIP projects is a key element to ensuring proper transparency and accountability on the use of NATO common funds. Host Nations are expected to adhere to agreed procedures and the Board is looking forward to receiving the IC assessment on a range of possible measures to enforce better Host Nation compliance by October 2015.

Performance audits

20. The RPPB is pleased to note both the increase in the number of performance audits and the use of IBAN staff resources on performance audit, including the use of assistance from other SAIs. This reflects the importance Nations place on evaluating the economy, efficiency and effectiveness of the activities and operations of NATO bodies. In this regard, the RPPB encourages the IBAN to continue to work closely with stakeholders such as the RPPB and the SAIs in regard to performance audit topic selection.

21. In 2014, the IBAN issued one thematic audit on cash holdings in NATO. The RPPB welcomes this type of report and sees them as important elements to ensure better decision making on financial and management issues in NATO.

International Public Sector Accounting Standards (IPSAS) in NATO and NATO Financial Regulations (NFRs)

22. The IBAN has reported on numerous occasions the difficulty NATO bodies have experienced to implement IPSAS. As a result of these difficulties, in 2013 the Council approved the RPPB's proposal for a NATO specific adapted IPSAS accounting framework.⁷

23. The RPPB notes with concern the number of 2014 audit observations related to the application of the NATO Accounting Framework, which demonstrates that, despite the adaptations to IPSAS by NATO in the NATO Accounting Framework, NATO bodies still struggle with the implementation of IPSAS. This is of concern since the modified IPSAS was expected to lead to fewer qualifications on financial statements.

24. In 2015, the NATO member states agreed the revised NATO Financial Regulations (NFRs).⁸ The revised NFRs include several changes that will directly impact the work of the

⁵ In 2014, 405 projects were closed, including 59 projects from the Slice-programme.

⁶ C-M(2014)0052; C-M(2015)0043

⁷ C-M(2013)0006 and C-M(2013)0039

⁸ C-M(2015)0025

IBAN. In particular, the new NFRs require NATO Bodies to issue financial statements no later than 31 March of the following year, instead of the former deadline of 30 April. In addition, the new NFRs require the IBAN audit report, to be issued by 31 August and then be noted or approved by Council no later than 31 December of the same year. This will require all stakeholders to take their part of responsibility and ensure that timelines are met.

Public disclosure

25. The RPPB notes the IBAN's concern regarding the rate of public disclosure of the IBAN reports. The current disclosure procedure in the RPPB ensures that all stakeholders have an opportunity to voice any concern ahead of the disclosure recommendation to Council. To speed up this process, the Director of the NATO Office of Resources in his role as Head of Financial Reporting Policy has encouraged all NATO entities to include, as of the 2014 financial year, any concerns they may have on public disclosure in the cover note to their financial statements. In light of this initiative, the rate of public disclosure is expected to increase as of the 2014 financial audits.

26. Disclosure of audit reports is a significant step forward towards better accountability and improved transparency and an opportunity to underline NATO's commitment to good financial governance and transparency.⁹ The RPPB places a high value on IBAN reports and considers them an important tool to enhance the transparency and accountability of NATO as regards the use of public funds provided by nations.

RPPB CONCLUSIONS

27. The Resource Policy and Planning Board concludes that:

- a) The RPPB notes and supports the significant steps undertaken by the IBAN in 2013 and 2014 to implement the May 2013 Council decision to strengthen NATO's external audit function;
- b) The high number of qualified audit opinions given by the IBAN demonstrates that, despite the International Public Sector Accounting Standards (IPSAS) adapted NATO Accounting Framework, NATO bodies still struggle with the implementation of IPSAS and that the quality of financial reporting and control within NATO needs to be significantly improved. In this regard, the RPPB recalls the improvements introduced in the new NATO Financial Regulations¹⁰ such as the establishment of audit advisory panels, stronger accountability and stronger arrangements for internal audit. The IBAN should provide more information in their Annual Activities report regarding what is being done to reduce the number of qualifications and to demonstrate the impact of the measures undertaken;
- c) The RPPB notes the significant progress made regarding the rate of issuance of financial statements, and stresses the importance of all NATO bodies respecting the timelines set in the NATO Financial Regulations and ensuring the timely issuance of financial statements;

⁹ PO(2015)0052 and C-M(2012)0041

¹⁰ C-M(2015)0025

- d) With regard to the NSIP, the RPPB reiterates the need for timely technical and financial close-out of NSIP projects as a key element to ensure full transparency and accountability on the use of NATO common funds; and encourages Host Nations to further strengthen their efforts to close-out projects;
- e) The allocation of 27 % of IBAN staff resources to performance audits in 2014 is very positive; while fully respecting other audit requirements. The IBAN should also be invited to continue to work closely with stakeholders such as the RPPB and the Supreme Audit Institutions (SAIs) in regard to performance audit topic selection. Performance audits reflect the importance Nations place on evaluating the economy, efficiency and effectiveness of the activities and operations of NATO bodies; and as such the RPPB will continue to deal with IBAN performance audits as a matter of priority;
- f) The RPPB notes that a peer review of the IBAN financial statement audit methods and practices was successfully undertaken in 2014. The RPPB is pleased to note the positive results of the peer review and also that the review, once noted by Council, will be made publicly available on the IBAN website;
- g) The RPPB notes the IBAN concern on the rate of public disclosure of audit reports issued in 2014 and further that procedures are being put in place to ensure that the rate is increased as of the 2014 financial year audits;
- h) In accordance with the Council decision of October 2007 (reference (b)) that the IBAN Annual Activities Reports would be released to the public, as well as PO(2015)0052, the RPPB concludes that the IBAN Annual Activities Report for the year 2014 should be made available to the public.

RPPB RECOMMENDATIONS

28. The Resource Policy and Planning Board recommends that Council:
- (a) note the IBAN report IBA-M(2015)01 along with the present report;
 - (b) endorse the conclusions of the Resource Policy and Planning Board as outlined in paragraph 27;
 - (c) agree that the IBAN 2014 Annual Activities report (IBA-M(2015)01) should be made available to the public, as per C-M(2007)0009.

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DOCUMENT
IBA-M(2015)01

30 April 2015

INTERNATIONAL BOARD OF AUDITORS FOR NATO

ANNUAL ACTIVITIES REPORT

FOR 2014



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SERVING THE NATIONS



- MISSION -

Through its audits, the IBAN 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 IBAN reviews the operations of NATO Agencies and Commands to determine if they are being carried out effectively, efficiently and economically.

- INDEPENDENCE -

The IBAN 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 IBAN's budget is independent from that of the NATO International Staff.

- INTEGRITY -

The IBAN 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 IBAN'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 (IBAN) is an independent six-member external audit body reporting to the North Atlantic Council (Council). The IBAN acts in accordance with its Charter, which was approved by the Council. The IBAN is responsible for financial and performance audits of all NATO bodies, the NATO Security and Investment Programme (NSIP), and certain non-NATO multi-nationally funded bodies.

In May 2013 Council issued a decision concerning the Strengthening of the External Audit Function at NATO. This decision included a number of changes for IBAN to undertake in order to better serve the nations. All of these tasks have been accomplished by the IBAN within the deadlines that have been set.

These improvements included:

- Revision of the IBAN Charter, which has been approved by the IBAN (approval by Council is pending).
- A new strategic plan for 2015-2019, which has been published by IBAN.
- An increase of resources allocated to performance audit at least 25%, which has been accomplished.
- Income from IBAN audits on non-NATO multinationals can be used for acquiring extra resources for performance audit after modalities developed with IS and after Budget Committee case-by-case approval.
- Reorganisation of the audit staff by introducing 10 A3 posts by 2018. So far 4 posts (two every year) have been downgraded to A3 from A4.
- Strengthening IBAN's cooperation with other Supreme Audit Institutions (SAIs) [NL, TU, UK and EU SAIs].
- Simplifying IBAN's reporting process by restructured audit reports, in order to become user friendly, and introducing a shorter contradictory process.
- Improved timeliness of audit reports by delivering most of them within the six month deadline set by Council.
- IBAN worked towards the improvement of transparency and accountability at NATO (i. audited financial statements are now attached to the audit report, ii. IBAN decided in favour of publication of all its reports, given the case-by-case approval of Council, iii. a more active webpage is in operation, including publicly available reports).
- IBAN passed its first Peer Review successfully.

In 2014, the IBAN was subject to a peer review of its financial statement audit methods and practices conducted by the SAIs of Poland and Spain. The peer review found that the IBAN's system of financial audit, including its quality control, has been suitably designed and used to provide NATO with reasonable assurance that NATO financial reporting is, in all material respects, in conformity with applicable professional standards and NATO internal financial regulations.

In June 2012 the Council agreed that, as from the 2013 financial reporting year (2014 calendar year), all unclassified IBAN performance audit and financial statements audit reports of NATO bodies, with any related financial statements, could be disclosed to the public. However, publication of IBAN reports in 2014 has been slow. Of the 23 audit reports issued by the IBAN in 2014 on NATO bodies and eligible for publication (i.e. excluding non NATO bodies and prior to 2013 financial year reports), only 5 have been disclosed to the public so far.

The IBAN updated its Strategic Plan for the period 2015-19. The new Strategic Plan is heavily influenced by the outcome of the IBAN Business Case with the purpose of strengthening the external audit function at NATO. IBAN is refocusing its approach to enhance its audit potential. Amongst other initiatives, IBAN is conducting more interim audits based on improved risk-based audit methodology and is expanding its performance audit capabilities, whilst focusing on the structure and efficient management of its human resources.

As a final word, the IBAN realises the demanding era we are going through and the nations' need for high quality and reliable information concerning taxpayer's money. In that regard, the IBAN strongly commits itself to the need for continuous improvement, and believes that improvement means change. Under that framework the IBAN continues to review and revise its audit methods in order to provide NATO the best audit service possible. In addition, IBAN seeks to be proactive in improving the transparency and accountability of the organisation on behalf of the member states and their taxpayers.

A handwritten signature in blue ink, appearing to read 'Charilaos Charisis', with a stylized flourish at the end.

Dr Charilaos Charisis
Chairman
International Board of Auditors for NATO (IBAN)

IBAN Board 2014



From left to right: Mrs Lyn Sachs (CA), Mr M. J. Winters (NL), Dr C. Charisis (GR)
Mr J. Vylita (CZ), Mr M. J. Popplewell (UK), Mr T. Tanrikulu (TU)

IBAN on the World Wide Web:

http://www.nato.int/cps/en/natohq/topics_55937.htm

TABLE OF CONTENTS

Page No

SERVING THE NATIONS

FOREWORD BY THE CHAIRMAN

CHAPTER 1	ABOUT THE IBAN.....	1
	Our Mandate and Role	1
	Peer Review of IBAN.....	1
	MOU Regarding Cooperation with Turkish Court of Accounts	2
	Implementation of Publication of IBAN Reports	2
	IBAN Strategic Plan 2015-2019	3
	Our Annual Meeting with the National Audit Bodies	4
 CHAPTER 2	 OUR FINANCIAL STATEMENT AUDITS	 6
	Background	6
	Audit Methodology and Conduct of Audits	6
	Allocation of Resources.....	7
	NATO Accounting Framework and NFR Revision.....	7
	Summary of Financial Statement Audit Work in 2014	8
	Summary of Significant Audit Opinions	9
 CHAPTER 3	 OUR NATO SECURITY INVESTMENT PROGRAMME AUDITS....	 12
	Background	12
	The NSIP Audit Procedure	12
	2014 NSIP Project Audit Activity	12
	The Certificates of Final Financial Acceptance	13
	Audit Observations and Resulting Financial Adjustments	13
	Close-Out of Completed and Ongoing NSIP Projects	14
 CHAPTER 4	 OUR PERFORMANCE AUDITS AND STUDIES.....	 15
	Background	15
	Allocation of Resources.....	15
	Performance Audit Planning.....	15
	Summary of Performance Audit Reports Issued in 2014.....	16
	Performance Audits Initiated in 2014	19

TABLE OF CONTENTS

Page No

CHAPTER 5	USE OF OUR HUMAN AND FINANCIAL RESOURCES AND ANNUAL PERFORMANCE	21
	Our Human Resources and Their Use	21
	Our Financial Resources and Their Use	23
	2014 Annual Performance Plan	23
	Performance Related To Goal 1	24
	Performance Related To Goal 2	25
	Performance Related To Goal 3	25
	Performance Related To Goal 4	26
	2015 Annual Performance Plan	27

TABLES AND CHARTS

Table 2.1:	Auditor's Opinions	8
Chart 3.1:	2014 NSIP Project Audit Activities	13
Chart 5.1:	2014 Allocation of Staff Resources	22
Chart 5.2:	2014 Allocation of Audit Only Days	22
Chart 5.3:	2014 Direct Cost of the Audit	23

ANNEXES

- A. List of issued reports.
- B. Financial Statement Audit Universe.
- C. NSIP Expenditure by Nations and Agencies.
- D. NSIP Slice Programme: Number and Value of Projects.
- E. Annual Performance Plan 2015.
- F. List of Abbreviations.
- G. IBAN Photo Session.

CHAPTER 1

ABOUT THE IBAN

OUR MANDATE AND ROLE

1.1 The Annual Activity Report to the Council is prepared each year in accordance with Article 17 of the Charter of the International Board of Auditors for NATO (IBAN), which states that *"the Board shall prepare each year: ... a detailed report on the activities of the Board."*

1.2 The IBAN is the independent, external audit body of NATO. The forerunners of IBAN were chartered in 1953 by the Council and consisted of two separate audit boards: one responsible for the audit of NATO financial accounts and one for the audit of NATO investment programme funds. The two boards were merged in 1967 to become the IBAN. The IBAN is composed of six Board Members appointed by the Council from among candidates nominated by the member countries. The Board Members serve for a non-renewable four year term and are Voluntary National Contributions fully paid for by their respective national administrations. During 2014 there were Board Members from Norway (until August), Greece, the United Kingdom, The Netherlands, Turkey, the Czech Republic, and Canada (as from September).

1.3 The IBAN's primary function is to provide assurance to the Council and the Governments of member states that funds have been properly used for authorised expenditure by NATO bodies and/or programmes. The IBAN's mandate also extends to verifying that the activities and/or operations of NATO bodies have been carried out in compliance with rules and regulations and also with efficiency and effectiveness.

1.4 The IBAN conducts financial audits of agencies, military commands, benefit plans, and the NATO Security and Investment Programme (NSIP). The IBAN also carries out performance audits of selected NATO bodies, operations, or programmes. In addition, the IBAN audits some non-NATO multi-nationally funded entities with cooperative links to NATO. The IBAN's audit scope in 2014 covered more than EUR 10 billion, of which EUR 9.4 billion related to financial statements audits and approximately EUR 0.8 billion related to NSIP audits.

PEER REVIEW OF IBAN

1.5 One of the recommendations from the Business Case on the review to strengthen external auditing in NATO was the implementation of a peer review of the IBAN. In 2014, the IBAN was subject to a peer review of its financial statement audit methods and practices conducted by the SAls of Poland and Spain. The peer review covered the following areas of the IBAN's financial statement work:

- financial audit planning, conduct and reporting,
- audit quality control,
- audit resource potential, and
- audit administrative software.

1.6 The peer review was conducted in accordance with INTOSAI guidelines, specifically ISSAI 5600 on Peer Reviews. The peer review found that the IBAN's system of financial audit, including its quality control, has been suitably designed and employed to provide NATO with reasonable assurance that NATO financial reporting is, in all material respects, in conformity with applicable professional standards and NATO internal financial regulations. The IBAN received a peer review rating of pass (Possible report ratings are as follows: pass, pass with deficiencies, and fail).

1.7 The peer review team made ten recommendations related to improving IBAN financial statement audits. The IBAN prepared a management action plan to implement all of the recommendations. Of the ten recommendations, six have already been implemented and the remaining four are in the process of being implemented. The IBAN greatly appreciated the professional cooperation and contribution by the Polish and Spanish SAs to improve IBAN's working methods. Once noted by the Council, the peer review report will be made publicly available on the IBAN's website.

MEMORANDUM OF UNDERSTANDING REGARDING COOPERATION WITH TURKISH COURT OF ACCOUNTS

1.8 In 2013, the Council decided on several measures to strengthen IBAN, including strongly encouraging IBAN to explore the development of co-operative arrangements with SAs, in particular the request for voluntary national contributions to assist the IBAN in its work. The IBAN and the Turkish Court of Accounts signed such a Memorandum of Understanding (MOU) in Ankara on 23 October 2014. The MOU provides for cooperation between the two audit bodies in the following areas;

- Exchange of experience, knowledge and information in order to improve audit methodologies and techniques to achieve highest quality performance of public audit;
- Sharing of expertise and experts including Voluntary National Contributions;
- Organising of joint seminars, conferences and meetings; and
- Facilitate professional training, capacity building and cooperative audit initiatives.

IMPLEMENTATION OF PUBLICATION OF IBAN REPORTS

1.9 In June 2012 the Council agreed that, as from the 2013 financial reporting year (2014 calendar year), all unclassified IBAN performance audit and financial statements audit reports of NATO bodies, with any related financial statements, could be disclosed to the public. The final decision to disclose or not disclose specific reports is subject to a case by case agreement by the Council based upon the recommendation of the Resource Policy and Planning Board (RPPB). Progress in the publication of IBAN reports in 2014 has been slow.

1.10 The process of report publication is complicated and lengthy. Once the IBAN formally issues its report to Council, the reports are referred to the RPPB which discusses them and produces their own report to Council summarising the IBAN report and providing recommendations to Council on the IBAN's audit recommendations and

public disclosure. Of the 23 performance audit and financial statements audit reports issued by the IBAN in 2014 and eligible to be published, only eight (35%) had been noted by Council by the end of 2014 (see Annex A).

1.11 As of 30 April 2015, only one performance audit report and five financial statements audit reports have been made available to the public on the IBAN's website. Of the 23 audit reports issued by the IBAN in 2014 on NATO bodies and eligible for publication, only five (22%) have been disclosed to the public. The IBAN is actively working with the RPPB to find a way forward to speed up the report publication process. However, the slow rate of implementation is a serious concern for the IBAN and contradicts NATO's stated aim to improve the transparency and accountability of the organisation.

1.12 Of concern to the IBAN are the recent actions of the NATO Battlefield Information Collection & Exploitation Systems Group Executive (BICES) which, in response to the Council decision to publish unclassified financial statements, retroactively classified their financial statements. In addition, BICES requested that all financial information related to the agency be excluded from any IBAN report subject to public disclosure. The IBAN notes that it has reported on BICES financial information in its Annual Activity Report since 2005 (the first to be publically disclosed by Council), with the express permission each year from the agency to include this financial information.

IBAN STRATEGIC PLAN 2015-2019

1.13 With the end of the period of validity for the IBAN's Strategic Plan 2010-14, the plan was updated and elaborated for 2015-19. The new Strategic Plan is heavily influenced by the outcome of the IBAN Business Case with the purpose of strengthening the external audit function at NATO. The IBAN is currently implementing all of the review's recommendations as approved by the Council on 29 May 2013, and those recommendations are reflected in IBAN's future oriented strategies.

1.14 IBAN is focusing its approach to enhance its audit potential. Amongst other initiatives, IBAN is conducting more interim audits based on improved risk-based audit methodology and is expanding its performance audit capabilities, while enhancing the structure and efficient management of its human resources.

1.15 In the realm of financial management, NATO bodies are in the process of implementing revised Financial Regulations including an adapted financial reporting framework based on International Public Sector Accounting Standards (IPSAS). In this strategic plan period IBAN will need to focus on the consistent application of the adapted framework in different NATO entities.

1.16 The Strategic Plan includes IBAN's vision, a mission statement, and three core values: Independence; Integrity; and Professionalism, as the principles by which IBAN performs its work. The plan includes four strategic goals; each goal with specific objectives and strategies to achieve them.

1.17 The four strategic goals are the following:

- 1) Contribute to the strengthening of accountability and corporate governance within NATO.
- 2) Contribute to the improvement of the NSIP management and provide NSIP accountability.
- 3) Contribute to the improvement of the effectiveness and efficiency of NATO activities.
- 4) Develop IBAN as an innovative and proactive audit organisation.

1.18 In support of the four strategic goals, under which IBAN broadly organizes its work, IBAN has identified the following strategic priorities:

- Use efficiencies and improvements achieved in financial and NSIP audits to increase performance audit efforts from a minimum of 25 percent of staff resources,
- Improve quality, user friendliness and timeliness of financial audit reports,
- Assess implementation of the adapted IPSAS framework NATO-wide,
- Evaluate the outcome of the IBAN peer review and apply recommendations as applicable, and
- Enhance relationships with key stakeholders to most effectively meet the Nations' needs.

1.19 The successful implementation of the goals, objectives, and strategies in this strategic plan will have an associated resource cost. The IBAN has evaluated the current and near term available resources and is confident that they are sufficient and adequate for the IBAN to execute its audit mandate. The allocation of specific financial and human resources to audits is carried out in the IBAN's annual planning process. Resources are assigned to audits based upon a risk analysis and the need to prioritise audits to meet mandatory reporting milestones.

1.20 However, the current Zero Nominal Growth budget policy of NATO poses a potential risk to the continued ability of IBAN to fully execute its audit mandate. With annual budgets not adjusted for inflation, the purchasing power of IBAN's budget decreases each year. In addition, changes to the mandatory reporting milestones for financial statement audits will place greater pressure on the IBAN's available staff resources to deliver more audits within shorter timeframes. However, the IBAN has strategies in place to effectively manage and mitigate these risks.

OUR ANNUAL MEETING WITH THE NATIONAL AUDIT BODIES

1.21 Each year the IBAN meets with the Competent National Audit Bodies (CNABs), which are usually represented by the Supreme Audit Institutions (SAIs). During this meeting the CNABs have the opportunity to discuss this Annual Activity Report and have an exchange of views on a variety of auditing topics with the IBAN.

1.22 The 24th CNAB meeting to discuss the 2013 Annual Activities Report took place on 13 May 2014 under the chairmanship of the State Audit Office of Estonia.

Topics raised by the CNAB representatives during the meeting included the following:

- Reinforced the importance that they attached to the peer review which IBAN committed to implementing in 2014,
- Strongly reiterated their position that all IBAN reports should be made publicly available in accordance with the standards of the International Organisation of Supreme Audit Institutions (INTOSAI),
- Stated that the Council should give the reasons why any specific IBAN reports are not made public,
- Use the Annual Activity Report to highlight more systemic issues and reasons behind the high number of qualified or disclaimer of audit opinions within NATO,
- Noted the recurrent issue of the slow process of the finalisation of NSIP projects,
- Expressed their approval of the IBAN topic selection process for performance audit and look forward to an enhanced impact when the results are published. Noted that an audit committee, if it existed, could ensure that recommendations from IBAN performance audit reports could be implemented NATO-wide, if applicable, and
- Raised the issue of the lack of effective internal audit in the majority of NATO bodies as a serious concern. The SAs encouraged NATO to address this serious, fundamental organisational weakness.

1.23 In general, the IBAN has addressed those points raised by the CNAB representatives that it has control over.

CHAPTER 2**OUR FINANCIAL STATEMENT AUDITS****BACKGROUND**

2.1 Each year the IBAN audits the financial statements of NATO bodies and retirement benefit plans. In addition, the IBAN also audits non-NATO multi-nationally funded or sponsored bodies in which NATO has a particular interest, such as Centres of Excellence and the NATO Parliamentary Assembly. In 2014, the IBAN's audit scope in its financial statement audits amounted to more than EUR 9 billion.

2.2 NATO bodies have a varying degree of autonomy in managing their operations. All NATO bodies are subject to the NATO Accounting Framework and 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 some of the non-NATO multi-national bodies via an explicit provision in their memoranda of understanding, however many have their own accounting principles and standards.

2.3 Although some NATO bodies consolidate financial information at varying levels, there is no consolidated 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. It also makes it difficult to provide a picture of NATO-wide financial operations and activities.

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 the NATO Accounting Framework (an adapted version of International Public Sector Accounting Standards - IPSAS) or other applicable financial reporting framework for non-NATO bodies; and that the underlying transactions are in compliance with budgetary authorisations and relevant regulations. The IBAN conducts 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 IBAN'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. All NATO bodies are audited every year. Non-NATO bodies are usually audited on a rotational basis, but some, such as the NATO Parliamentary Assembly and the NATO Missile Firing Installation, are audited each year.

ALLOCATION OF RESOURCES

2.6 The IBAN is responsible for the audit of over 40 different NATO bodies, retirement benefit plans, and non-NATO multi-nationally funded bodies (see Annex B for the IBAN financial statements audit universe). Amounts audited per entity range from less than EUR 0.5 million to over EUR 2 billion. Resources allocated to financial statement audits decreased from 66% of the IBAN's total available staff days in 2013 to 58% in 2014 (2,087 days of 3,621 days total). Of this amount, 93% (1,940 days) was used for the audit of NATO bodies and 7% (147 days) was used for the audit of non-NATO bodies. The overall annual decrease was primarily the result of the IBAN's increase in resources devoted to performance audit.

2.7 Financial statements audits are resourced on the basis of a detailed 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 entities' activities.

NATO ACCOUNTING FRAMEWORK AND NFR REVISION

2.8 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. However, NATO bodies experienced difficulty to implement IPSAS completely, in particular related to tangible and intangible assets. In general, only a few NATO bodies were able to successfully and fully implement IPSAS.

2.9 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 new NATO Accounting Framework was applicable as of the 2013 financial year financial statements.

2.10 In 2014 the NATO member states agreed to revise the NFR. The current NFR were approved by the Council in 1981 and had not been significantly amended since. There were several reasons why the revision was necessary. Organisational changes to the NATO Command Structure and Agency Reform, as well as Committee Reform, meant that the existing NFR contain numerous references to NATO bodies that needed to be updated. In addition, the NFR pre-date the adoption of IPSAS and the NATO Accounting Framework and needed to be updated to reflect modern accounting practices. The NFR revision was undertaken by the Budget Committee supported by the NATO Office of Resources. In accordance with the current NFR, the IBAN was invited to provide its comments on the draft revised NFR to the Budget Committee.

2.11 The revised NFR include several changes that will have direct impact on the work of the IBAN. In particular, the new NFR require NATO bodies to issue financial statements no later than 31 March, instead of the current deadline of 30 April. In addition, the new NFR require the IBAN audit report, together with the audited financial statements, to be issued by 31 August and then be noted or approved by Council no later than 31 December of the same year.

2.12 The new NFR require NATO bodies to undertake internal audit activities and the IBAN supports this change as the lack of sufficient internal audit in NATO has been reported on by IBAN for many years. There is also a provision for the creation of audit advisory panels in NATO bodies, a significant step forward for governance and accountability.

SUMMARY OF FINANCIAL STATEMENT AUDIT WORK IN 2014

2.13 The IBAN'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.

2.14 After each financial statement audit, the IBAN issues an opinion on the financial statements and on compliance. The phrase "the Board issued an "unqualified" opinion" is used whenever the IBAN 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 IBAN 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 IBAN 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 IBAN concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

2.15 In 2014 the IBAN issued 33 financial audit reports comprising 35 Auditors' Opinions on the financial statements and on compliance. Table 2.1 below shows the auditors opinions issued in 2014 compared to 2013. The IBAN issued fewer Auditors' Opinions in 2014 than 2013 partly due to the effects of NATO agencies reform which merged several NATO bodies into fewer organisations.

Table 2.1: Auditor's Opinions		
	2014	2013
Auditor's Opinions Issued	35	47
Unqualified Opinion	26	35
Qualified Opinion	7	8
Disclaimer of Opinion	2	4

2.16 Reasons for the nine qualified or disclaimer of audit opinions on issued by IBAN in 2014 on financial statements included the following observations and issues:

- implementation of NATO agencies reform,
- overall weak controls environment,
- Inventory/PP&E/Intangible Assets (IPSAS 12, 17 and 31),
- incorrect accounting treatment,
- comparability of prior year balances, and
- audit scope limitations.

Some bodies had multiple observations resulting in a modified opinion. All 9 of the modified opinions given by the IBAN were for NATO bodies, none were for non-NATO bodies. As a percentage of the 28 audit opinions given for NATO bodies, 32% were qualified or disclaimed by the IBAN. In addition, three NATO bodies needed to restate their financial statements as a result of the IBAN's audit. Further, the IBAN issued 3 qualifications and one disclaimer of opinion on compliance.

2.17 The IBAN's 2014 financial statement audit reports included 84 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, non-compliance with the NATO Accounting Framework, internal controls, non-compliance with NATO rules and regulations, late issuance of the financial statements, and accounting errors. Of the most numerous type of observation, 34 (40% of the total) were related to the application of the NATO Accounting Framework (adapted IPSAS). This demonstrates that, despite the adaptations to IPSAS by NATO in the NATO Accounting Framework, NATO bodies still struggle with the implementation of IPSAS. Six observations (7%) were for general accounting errors in the financial statements. Three observations (4%) related to the non-compliance of NATO bodies with new regulations concerning representation allowances. Other observations were for single, non-pervasive, issues. Each year the IBAN follows-up on the status of observations raised in prior years' audit reports.

SUMMARY OF SIGNIFICANT AUDIT OPINIONS

2.18 The following is a summary of the modified audit opinions issued by the IBAN in 2014 on NATO bodies:

- Allied Command Operations (ACO): The IBAN issued a qualified opinion on the ACO consolidated financial statements for the year ended 31 December 2012. The qualification was for three reasons: ACO did not recognise all inventories in its 2012 financial statements, ACO did not recognise PP&E in its 2012 financial statements, and ACO did not consolidate the Morale and Welfare Activities in its financial statements. In addition, the IBAN issued a qualification on the basis of non-compliance with applicable rules and regulations related to a fuel contract in Afghanistan.
- Allied Command Operations (ACO): The IBAN issued a qualified opinion on the ACO consolidated financial statements for the year ended 31 December 2013.

The qualification was because PP&E and inventory were materially misstated and not complete. In addition, the IBAN issued a qualified opinion on compliance related to the lack of evidence regarding comprehensive accounting records of all property acquired by ACO had been established and maintained in accordance with the NFR.

- International Staff (IS): The IBAN issued a qualified opinion on the restated financial statements for the year ended 31 December 2013. The qualification was based on three observations: The restated financial statements were not fully accrual based, the Cash Flow from investing activities was not disclosed in the Cash Flow Statement, and there was no restatement of comparative 2012 figures.
- NATO Airborne Early Warning and Control Programme Management Organisation (NAPMO): The IBAN issued a qualified opinion on the NAPMO Restated Financial Statements for the year ended 31 December 2012. The IBAN was unable to obtain sufficient and appropriate audit evidence related to expenditure procured through a third party. The reporting from the third party could not always be reconciled to the specific delivery of goods and services. As a result, the IBAN was not able to provide audit assurance on expenditures capitalised in the Modernisation Asset in Progress account in the Statement of Financial Position, some expenditure disclosed as being delivered in a note of the financial statements, and expenditures reported as Project Expenses in the Statement of Financial Performance.
- NATO Airborne Early Warning and Control Programme Management Organisation (NAPMO): The IBAN issued a qualified opinion on the NAPMO Restated Financial Statements for the year ended 31 December 2013. The IBAN was unable to obtain sufficient and appropriate audit evidence related to transactions and expenditures contracted through a third party.
- NATO Communications & Information Organisation (NCIO): The IBAN issued a qualified opinion on the NCIO Restated Financial Statements for the year ended 2013. The reasons for the qualification were the following: PP&E and intangible assets under NCIO's control were not physically identified or assessed for capitalisation by NCIO and the IBAN was not able to provide audit assurance on the restated Financial Statements in respect to the 2012 comparative information due to NATO agencies reform. In addition, the IBAN issued a qualified opinion on compliance because the IBAN could not obtain enough evidence that related to the lack of evidence regarding comprehensive accounting records of all property acquired by NCIO had been established and maintained in accordance with the NFR.
- NATO Staff Centre: The IBAN issued a disclaimer of opinion on the NATO Staff Centre Financial Statements for the year ended 31 December 2012. The IBAN was not able to express an opinion on the financial statements for the year ended 31 December 2012. The Staff Centre prepared incomplete and unapproved financial statements. The IBAN also had observations on weak

management of contracts with concessionaires. Further, the IBAN raised several observations on non-compliance with regulations and irregularities related to procurement and were therefore not able to express an opinion on compliance.

- NATO Support Organisation (NSPO): The IBAN issued a qualified opinion on the NSPO Financial Statements for the year ended 31 December 2013. The reasons for the qualification were the following: Incomplete reporting of revenue, expenses, assets liabilities and cash flows of the Central Europe Pipeline System Programme, services received by the NATO Airlift Management Programme from a third party supplier were not accrual based, the “Amount to be (Returned to) / Reimbursed by Nations” was not fairly presented in the Statement of Financial Performance, and the IBAN could not give audit assurance in respect to the 2012 comparative information included in the 2013 NSPO Financial Statements due to the impact of NATO agencies reform.
- NATO Science and Technology Organisation (STO): The IBAN was not able to express an opinion on the Financial Statements of the STO for the year ended 2012. The Consolidated STO Financial Statements were not prepared as required by its Charter. Rather, separate financial statements covering the full year 2012 were published for the Collaboration Support Office executive body and 6 months financial statements for the Office of the Chief Scientist, whilst the Centre for Maritime Research and Experimentation financial information was consolidated into ACT’s 2012 Financial Statements. This course of action was followed by the STO due to practical challenges outside the STO’s control as well as being in line with the continuity measures adopted by Council for the NCIO and NSPO due to NATO agencies reform, also created on 1 July 2012.

CHAPTER 3**OUR NATO SECURITY INVESTMENT PROGRAMME AUDITS****BACKGROUND**

3.1 NATO established the Infrastructure Programme in 1951 to provide common funded capabilities to that exceed the military requirements of individual member states. The nations share the cost of the Programme based on agreed percentages. 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) and individual projects are implemented by the “Host Nation” (which can be a member state or NATO body) which responsible for the planning and execution of the project. The IBAN’s mandate in regard to the NSIP is to provide assurance that expenditure incurred by Host Nations has been carried out in compliance with the regulations in force.

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 IBAN’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 IBAN issues a Letter of Observations to the Host Nation specifying the corrective actions required for the issuance of a COFFA.

2014 NSIP PROJECT AUDIT ACTIVITY

3.4 In 2014 the IBAN spent the equivalent of 1.2 staff years, or 8% of the available staff resources, on the audit of NSIP projects. Chart 3.1, below, shows the IBAN’s NSIP audit activity for 2014 in comparison to 2013.

Chart 3.1: 2014 NSIP PROJECT AUDIT ACTIVITY			
	2014	2013	% Change
Amount certified (COFFAs)	865 MEUR	885 MEUR	- 2 %
Number of COFFAs Issued	405	289	+ 40 %
Number of Letters of Observation	30	37	- 19 %
Funds returned to NSIP as a result of audit observations	1.7 MEUR	3.9 MEUR	- 57 %
Staff-years used	1.2	1.5	- 20 %

3.5 Despite the decreasing resources needed for NSIP project audit, the 2014 results remained encouraging. Even with a significant decrease in the amount recovered to the programme as a result of audit observations, the recovered amount of EUR 1.7 million represents about 55% of the IBAN's entire budget for 2014.

THE CERTIFICATES OF FINAL FINANCIAL ACCEPTANCE

3.6 The 405 projects closed by a COFFA in 2014, amounting to EUR 865 million, represent about 10% of the entire population of open NSIP projects (about 3,000 projects with EUR 8.36 billion of expenditure reported, as at December 2014). As in previous years, the amount certified by the IBAN in 2014 continued to exceed the amount spent in that year by the Host Nations. As a consequence, the total amount certified by the Board increased from 73% to 75% of the total cumulative NSIP expenditure (see Annex C).

3.7 Out of the 405 COFFA's issued, 249 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 IBAN.

AUDIT OBSERVATIONS AND RESULTING FINANCIAL ADJUSTMENTS

3.8 Audit observations are related to 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 detailed 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, either in favour of the NSIP accounts or 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 2014, the agreed audit observations and corresponding financial adjustments amounted to EUR 3.3 million in favour of the Programme, and to EUR 1.6 million in favour of the Host Nations, leaving a net return of EUR 1.7 million to the NSIP.

CLOSE-OUT OF COMPLETED AND ONGOING NSIP PROJECTS

3.12 As part of its deliberations on the IBAN Report on the audit of the NSIP for 2012, the Resource Policy and Planning Board (RPPB) made a number of distinct recommendations to Council relating to the timely closure of completed and ongoing NSIP projects. These recommendations were agreed by Council and were the following:

- The Investment Committee was invited to ensure that the various stakeholders in the Joint Final Acceptance and Inspection process (JFAI) meet their responsibilities in line with JFAI procedures;
- The Investment Committee was invited to work with stakeholders to develop a plan with the objective of closing out the existing projects in the amount of EUR 5 billion by June 2016, including by making maximum use of existing procedures;
- With regard to newly completed projects, the Investment Committee was invited to ensure that projects are submitted by Host Nations for JFAI and audit within set timelines, and that projects are closed within six months following the formal acceptance of the related JFAI; and
- The Investment Committee was invited to provide progress reports to the RPPB on a semi-annual basis.

3.13 Concerning the close-out of the Slice Programme projects (programmed before 1994), an overview of the evolution between April and December 2014 is provided at Annex C and D. At the end of December 2014, a total of 151 projects amounting to EUR 1.7 billion remained to be closed.

CHAPTER 4**OUR PERFORMANCE AUDITS AND STUDIES****BACKGROUND**

4.1 The IBAN conducts performance audits of selected NATO bodies, operations and/or programmes. The IBAN 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 IBAN is committed to carry out at least one substantial performance audit per year, complemented by a number of smaller studies. In 2014 the IBAN issued four performance audit special reports to Council. These special reports to Council were on (1) the effectiveness of the Peacetime Establishment review process in the NATO command structure and the NATO Communications and Information Agency (2) the progress of the transition to the new NATO headquarters, (3) steps needed to improve ACO and NSPA management of contractor support to operations, and (4) the thematic audit of cash holdings in NATO. In addition, the IBAN began, but did not complete within 2014, performance audits on (1) NATO's Science for Peace and Security Programme, (2) the need to reform governance of the NSIP, and (3) a thematic audit on the use of consultants and contractors in NATO.

ALLOCATION OF RESOURCES

4.3 In 2014 performance audit activities accounted for 27% of the total number of staff audit days available to the IBAN. This exceeded the target to have 25% of the total number of staff audit days used for performance audit. In 2014 the IBAN assigned three auditors full time and two auditors part time to performance audit in 2014. For 2015, the IBAN has five staff assigned full time to performance audit.

4.4 In 2014 the IBAN received assistance from three SAIs with performance auditing. The Netherlands Court of Audit provided a presentation to IBAN on communicating the results of performance audits to stakeholders. The UK National Audit Office provided IBAN with report editing assistance on an IBAN audit report. The Turkish Court of Accounts provided a senior performance auditor to IBAN as a Voluntary National Contribution. This was the first such contribution at the working level that the IBAN has ever received. The Turkish Voluntary National Contribution worked with IBAN for three months and made a significant contribution to our audit of NATO's Science for Peace and Security Programme. In addition, he prepared a detailed "Evaluation Report on Performance Audit Reports of IBAN" which contained recommendations to improve the IBAN's performance audit report message writing process.

PERFORMANCE AUDIT PLANNING

4.5 Since 2012, the performance audit planning is the responsibility of the Performance Audit Working Group. This working group, under the leadership of two

Board Members, comprised the Principal Auditor and six auditors. The Working Group's role is to assist the IBAN by preparing material for decision and performing an advisory role within the IBAN 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 IBAN;
- Support the IBAN by engaging with external stakeholders on performance audit related issues;
- Propose new guidance and methodology, and
- Prepare and present the annual Performance Audit Programme on a two year rolling basis.

4.6 As in prior years, the Working Group presented a comprehensive Performance Audit Programme for 2015-16 which prioritised the IBAN's performance audit work for the next two years and identified the resources needed for performance audit. The plan is designed to help the IBAN 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.

4.7 The IBAN continued to implement the thematic audit concept in 2014. These audits address NATO-wide economy, efficiency, and compliance issues. The first thematic audit, implemented in 2013, reviewed the topic of cash management in NATO. The topic for the 2014 thematic audit was a NATO-wide review of the use of contractors and consultants and the report was issued in the first semester of 2015. The 2015 thematic audit topic is a review of NATO-wide Morale and Welfare Activities. This was a topic identified as a potential issue by the IBAN's financial statement audit work.

SUMMARY OF PERFORMANCE AUDIT REPORTS ISSUED IN 2014

The Effectiveness of the Peacetime Establishment Review Process in the NATO Command Structure and the NATO Communications and Information Agency

4.8 In this special report the IBAN assessed the effectiveness of the process to develop the Peacetime Establishment and if the outcome of the process met its objectives. The IBAN made eight recommendations to improve this process. This audit report is classified and the findings cannot be presented in this report.

The Progress of the Transition to the New NATO Headquarters

4.9 This special report assessed (1) the extent to which the Transition Board is meeting its mandate with regard to the Transition Management Plan and (2) the governance structure of the Transition Board and Transition Office activities. The audit

was conducted as a follow-up to the IBAN's performance audit survey on the new headquarters project released to Nations on 30 November 2012.

4.10 The IBAN found that the Transition Office is not able to provide Nations with complete and up-to-date estimates of the total costs required for transition. Though the Board is encouraged by the progress in estimating, screening and updating the costs of Operations and Maintenance (O&M), dual operations and relocation for the new NATO headquarters, it remains concerned that the O&M plans and estimates are delayed and no sourcing strategy has been decided.

4.11 The IBAN also found that plans for transition management have progressed since our last audit review on the new headquarters project. However, plans have not yet been fully developed, nor have they been fully agreed by management and/or key decision-making bodies. This limits the ability to mitigate the risks of delays or budget increases.

4.12 The IBAN made three recommendations:

- 1) The IBAN recommended renewed focus on more complete and updated O&M and detailed Transition Programme budget estimates. In particular, Nations should seek to prioritize a management decision on the subject of the future O&M plans, sourcing strategy and obtain justified information and communication technology O&M estimates.
- 2) The IBAN recommended the Transition Board ensure proper stewardship and robust governance through regular meetings and thorough scrutiny of plans and progress of transition activities to achieve an effective and transparent new headquarters transition. In addition, the Transition Board should report directly to the Deputy Permanent Representatives Committee and, when appropriate, to Council.
- 3) The IBAN recommended that the plans and priorities for transition should be in accordance with generally recognised project management principles.

Steps Needed to Improve ACO and NSPA Management of Contractor Support to Operations

4.13 This report assessed (1) the extent of ACO and NSPA contractor support to operations in Afghanistan and (2) the extent to which ACO and NSPA effectively and efficiently procured and managed this support.

4.14 The IBAN found that ACO contracting can be operationally responsive, and the IBAN did not see evidence that operational needs were not met. However, an insufficient number of experienced contracting staff limits ACO's ability to effectively manage and oversee complex contracts. However, the IBAN also found a considerable number of weaknesses, including overpayments, for which the Board is making specific recommendations. In the IBAN's opinion, ACO-managed support should be considered appropriate for relatively simple requirements, such as ordering supplies to support

psychological operations, or for those services that do not entail complex management and oversight activities. In addition, the IBAN sees value in continued command structure management of transportation contracts.

4.15 In the IBAN's opinion, NSPA provides effective solutions to manage contractor support to operations requiring complex contract management and oversight, such as catering and Air Port of Debarkation services. In addition to delivering the needed services, NSPA demonstrated effective contract management and assurance that the contractors adhere to the terms and conditions of their contracts. In addition, NSPA achieves better procurement outcomes and economies of scale, which to some extent balances NSPA's administrative costs, especially for large-scale procurements. As such, in the IBAN's opinion NSPA should be the preferred provider for delivering complex integrated commercial support solutions for deployed operations.

4.16 Experience in Afghanistan has shown that in some cases ACO has faced challenges being an intelligent customer. In particular, ACO has relied on NSPA to define some needs, particularly those related to assurance and supporting management information, with cost implications. In addition, ACO has not fully linked its approval of NSPA manpower to requirements. The approval of NSPA as Contract Integrator and ACO's preference for the Agency to manage complex procurements will likely enhance NSPA's role in planning and providing support to NATO exercises and future operations. ACO's logistics and financial communities, among others, have the collective responsibility to determine the right balance among various risks. As the IBAN recommends, this needs to occur through more active definition of the full range of requirements, clearer direction to NSPA, and better monitoring of the results. It also entails taking better advantage of existing governance mechanisms to link resources with requirements.

4.17 The examples reviewed by the IBAN illustrate relative strengths and weaknesses associated with the ACO and NSPA contractor support to operations management models. In the IBAN's opinion, ACO-managed contractor support to operations is most appropriate for procurement activities that do not require complex management and oversight. While NSPA provides good solutions for complex contractor support to operations, it requires an intelligent customer to effectively balance cost and risk. This need will remain as long as the Nations continue to prioritize force generation and keep NSPA as a customer-funded entity.

4.18 The IBAN made 12 recommendations in the report. Some recommendations related to specific contracts reviewed by the IBAN during the audit while others addressed improvements to the methods and practices related to the provision of contractor support for operations by ACO and NSPA.

The Thematic Audit of Cash Holdings in NATO

4.19 This was the first thematic audit to be implemented by IBAN. The IBAN conducted the audit work for this thematic audit with the objective to determine and assess the following: (1) Whether the level of cash holdings in NATO bodies are in compliance with applicable NATO Financial Regulations (NFRs), Financial Rules and

Procedures (FRPs), and the reasons for excess cash holdings if present; (2) How NATO bodies monitor cash flow and plan their future cash requirements; and (3) How cash holdings are managed by NATO bodies.

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

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

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

4.22 The IBAN made three recommendations related to cash holdings:

- 1) In relation to multi-year programme contracts driven by milestone payment plans, the IBAN recommended that NATO joint funded bodies and their member nations adjust the calls for contribution to accurately reflect the cash requirements of the NATO body. The IBAN recommends that any such adjustments take into account the actual expenditures and delays in the programmes.
- 2) To enhance transparency, the IBAN also recommended that Council direct all non-common funded NATO bodies to report the actual cash contributions and voluntary advances made by each nation in the notes to the financial statements, as some bodies already do. In addition, Council should direct all NATO bodies to report in the financial statements the reasons why average cash holdings exceeded average expenditures as required by the regulations.
- 3) The IBAN recommended that Council direct the Budget Committee to decide how best to determine and manage the desired level of cash holdings by NATO bodies within the context of the revision of the regulations.

PERFORMANCE AUDITS INITIATED IN 2014

4.23 Some of the performance audits initiated by the IBAN in 2014 were not completed within the calendar year. Three audits begun in 2014 were finalised and the reports issued in early 2015. These were performance audits on (1) NATO's Science for Peace and Security Programme, (2) the need to reform governance of the NSIP, and

(3) a thematic audit on the use of consultants and contractors in NATO.

4.24 The audit on NATO's Science for Peace and Security Programme was to determine if the Science for Peace and Security Programme is meeting its objectives and they are in line with NATO objectives and if overall programme management is effective. The IBAN found that the Science for Peace and Security Programme objectives reflect NATO's overall goals and objectives and the programme is effectively managed. The IBAN made three recommendations to improve the efficiency and effectiveness of the programme.

4.25 The IBAN evaluated how far the NSIP governance enables NATO oversight bodies to monitor projects well and in good time, and if it enables implementing NATO bodies to complete projects with agreed costs, scope and schedule. The IBAN found the following:

- That the NATO project authorisation process gives poor assurance and weak timeline control,
- NATO does not effectively monitor, evaluate, and control NSIP project implementation,
- NATO does not effectively close and record completed NSIP projects.

4.26 The IBAN concluded by recommending that an external review by independent experts, coming from national administrations, of NSIP governance structures and procedures is needed to ensure the long term viability of the programme. The IBAN also made recommendations to improve the NSIP in the short term.

4.27 The objective of the thematic audit on the use of consultants and contractors in NATO is to provide a descriptive report assessing NATO's dependence on external resources to perform core functions and to measure the costs of these external resources. The audit covered the activities of 11 NATO bodies.

CHAPTER 5

USE OF OUR HUMAN AND FINANCIAL RESOURCES AND ANNUAL PERFORMANCE

OUR HUMAN RESOURCES AND THEIR USE

5.1 With the implementation of the recommendations from the Business Case on strengthening the external audit function in NATO, the IBAN's internal organisation changed in 2014. While the IBAN's total number of authorised posts remained the same as in 2013, with twenty-two auditor posts, the composition of the posts changed with the downgrading of two A4 posts to A3. The audit staff comprised one A5 grade Principal Auditor, two A5 grade Senior Auditors, seventeen A4 grade auditors, and two A3 grade auditors. The IBAN will downgrade a further eight A4 grade posts to A3 posts through 2018 to create a more pyramidal organisational structure. The IBAN also has one Administrative Officer and five Administrative Support Staff who perform a wide range of functions in support of the agency, NSIP, and performance audits and general administration of the IBAN.

5.2 The IBAN's staff is a diverse group of individuals skilled in a variety of audit disciplines and includes chartered accountants, information systems auditors, and performance audit specialists. Almost 70% of IBAN's auditors are seconded from member state SAIs or are former employees of SAIs. The remainder include individuals recruited from other national audit bodies and the private sector. By Council decision, 75% of the IBAN's auditor positions are posts for which rotation is desirable. As a result, auditors are usually employed for a maximum of six years. This policy of rotation ensures that the IBAN does not remain a static organisation and that audit practices and methodology can be refreshed with the influx of new staff.

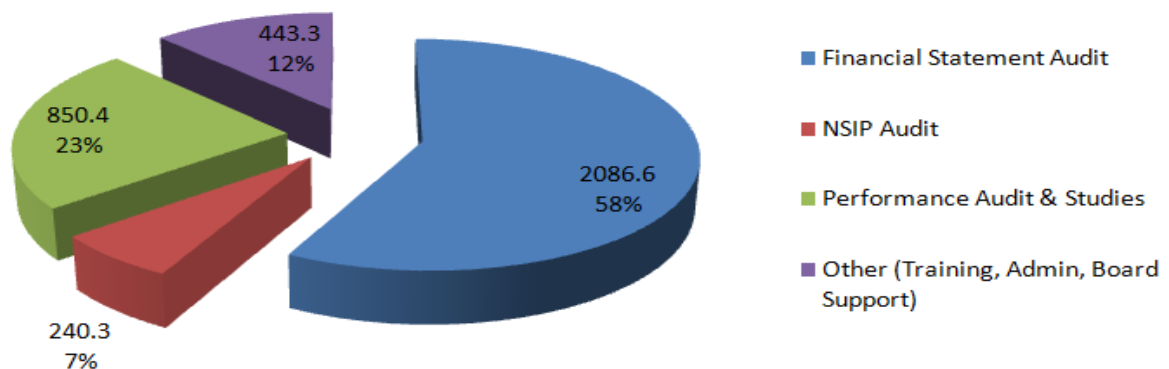
5.3 The Board Members and auditors came from fifteen different member states, more than half the membership of NATO is represented in IBAN. At the end of 2014 there were four vacant auditor posts (21% of the IBAN's A4/A3 audit posts). During 2014, the IBAN had an average A4/A3 auditor vacancy rate of approximately 4.1 staff years (22%). Also, four auditors left the IBAN during 2014, representing a 21% turnover rate among the A4/A3 grade audit staff. The high rate of vacancy turnover is directly linked to the Council decision on rotation of audit staff.

5.4 The IBAN's objective is to ensure that all staff receives an adequate amount of relevant annual training in accordance with the auditing standards of INTOSAI and IFAC. In general, the IBAN plans that each auditor should have one to two weeks of training per year. This training can be group training on specific audit topics and individual training within NATO or with external bodies on topics related to audit or personal development.

5.5 Chart 5.1 below shows the use of the IBAN's audit staff resources in 2014 with the number of days (and the percentage it represents of the total) expended on each type of activity. In 2014 the IBAN used a total of 3,620 auditor staff days. Of these, 3,177 (88%) were expended on audits. The remaining 443 days (12%) were expended

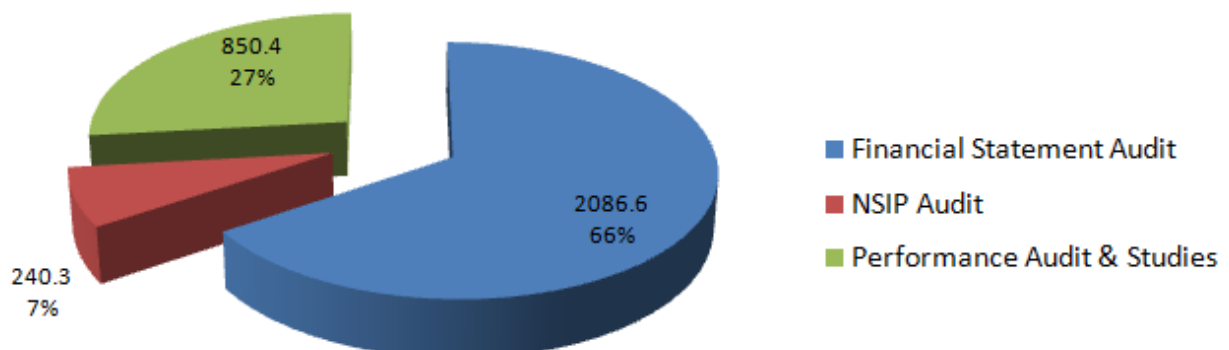
on training, administrative activities, and supporting the work of the Board itself. Compared with 2013, the IBAN increased the amount of resources devoted to performance audits from 20% in 2013 to 23% in 2014. As a percentage of staff days assigned to audit work, performance audit represented 27% of the IBAN's resources which exceeded the target of 25%. Resources for NSIP increased to 7% in 2014 compared to 6% in 2013. The audit resources for financial statement audits decreased from 66% in 2013 to 58% in 2014.

Chart 5.1: 2014 Allocation of Staff Resources



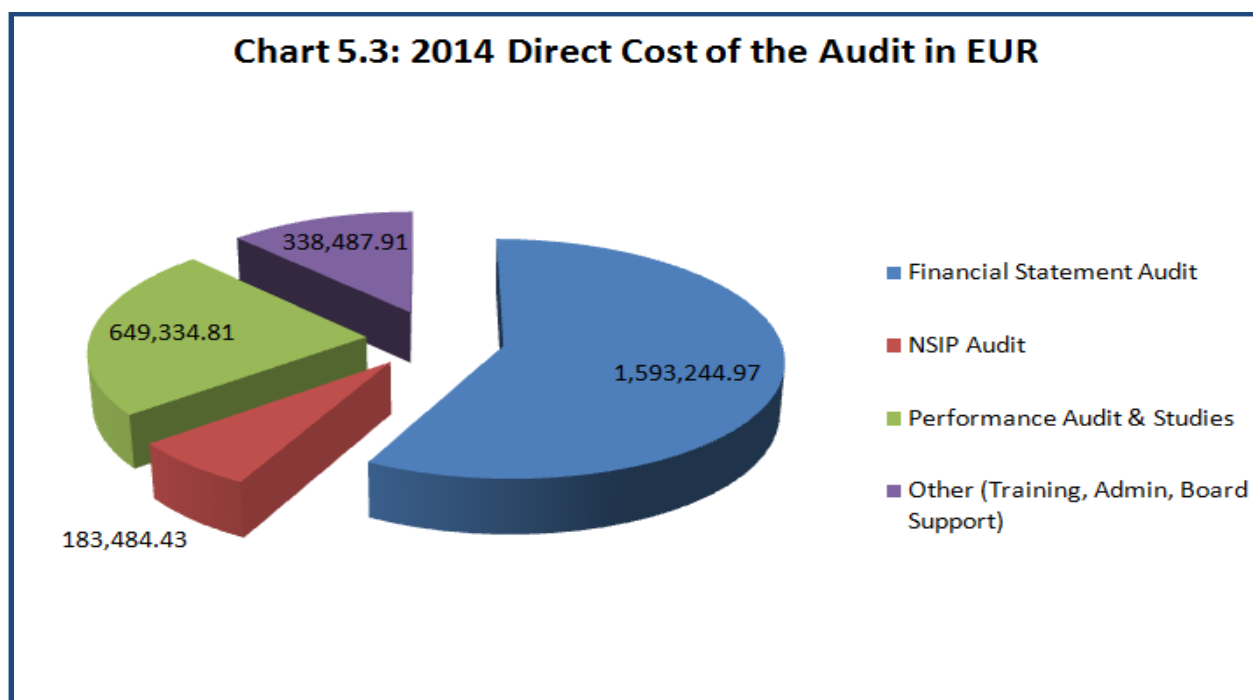
5.6 Chart 5.2 below shows the allocation of IBAN staff days used only for financial statements, NSIP and performance audit in 2014.

Chart 5.2: 2014 Allocation of Audit Only Days



OUR FINANCIAL RESOURCES AND THEIR USE

5.7 Chart 5.3 below shows the direct cost (audit staff salary and travel costs) of the audits and other IBAN activities in 2014 in EUR. The total direct cost of the audit was EUR 2.7 million.



OUR ANNUAL PERFORMANCE

2014 ANNUAL PERFORMANCE PLAN

5.8 The Strategic Plan for 2010-2014 provided information on the IBAN's vision, mission statement, and three core values: Independence, integrity and professionalism. It details the IBAN's four strategic goals related to its work, with specific objectives and strategies to achieve them. These strategic goals were 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 IBAN as an innovative and proactive audit organisation.

5.9 The IBAN's 2014 Annual Performance Plan is derived from the goals and objectives in the 2010-2014 Strategic Plan. The Annual Performance Plan includes specific key performance indicators and targets for the various objectives for 2014 to measure the IBAN's performance. As noted elsewhere in this report, the IBAN has approved its new Strategic Plan for 2015-2019.

PERFORMANCE RELATED TO GOAL 1

5.10 The IBAN's objectives related to Goal 1 were to 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 in 2014 are shown below.

Objective	Key Performance Indicator	Target	Actual
<i>Improve audit efficiency and effectiveness</i>	Percentage of observations and recommendations satisfactorily closed within a 3 year period of the report date.	80%	93%
	Percentage of audits completed by scheduled milestones for: a) Planning (including review) b) Fieldwork (including review) c) Reporting (including review)	90%	75%
<i>Improve audit efficiency and effectiveness</i>	Deliver audit reports of the 2013 financial statements of NATO bodies within 6 months of issuance of financial statements.	100%	63%
<i>Contribute to the development of a sound and consistent financial reporting environment</i>	Attend key meetings of the Ad Hoc Working Group 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 Supervisory Boards/Boards of Directors.	100%	100%

5.11 The first performance measure was met and exceeded. Of the 107 observations raised in reports issued by the IBAN in 2011, 99 were settled within a 3-year period of the report date (93%).

5.12 The second performance measure was not fully met. The average deviation between the planned reporting milestone and the actual reporting date for all audits was less than a two month's delay. The IBAN's ability to complete audits by scheduled milestones was affected by both internal and external factors, such as schedule changes, lengthy clearance procedures, and/or other auditee delays. The third performance measure was not fully met. For the 2013 financial year, the IBAN issued 15 (63%) of 24 reports within 6 months of the issuance or restatement of financial statements of NATO bodies. A further 7 (29%) of the audit reports were issued within 9 months and 2 (8%) were issued more than 10 months after the issuance of financial statements.

5.13 The fourth and fifth performance measures were achieved as the IBAN attended all key meetings of our external stakeholders.

PERFORMANCE RELATED TO GOAL 2

5.14 The IBAN'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 in 2014 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	1
<i>Improve audit efficiency and effectiveness</i>	Conduct audits within 6 months of national requests.	100%	100%
	Increase the ratio of audited and certified amounts to resources used (time spent).	400 MEUR per staff-year	720 MEUR per staff-year
	Percentage of NSIP Letters of Observations settled/closed within a 3-year period.	80%	79%

5.15 The first performance measure was met as the IBAN conducted a performance audit on the need to reform NSIP governance. The final report was issued in March 2015.

5.16 The second performance measure was met. All requests for audits were programmed within 6 months. The third performance measure was met and exceeded as the IBAN certified EUR 720 million per staff year used in 2014.

5.17 The fourth performance measure was essentially met. Out of 38 Letters of Observation issued in 2012, 30 were successfully closed by the end of 2014 (79%). Some projects are ongoing and the letters of observation cannot be settled until the project is fully closed.

PERFORMANCE RELATED TO GOAL 3

5.18 The IBAN'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 implementation 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>	Issue at least four performance audit products per year.	100%	100%
	Get assistance from at least four SAIs for 2014 performance audits and special reports.	100%	75%

<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%	100%
	Percentage of observations and recommendations satisfactorily closed within a 3-year period of the report date.	80%	Unknown
	Increase staff resources devoted to performance audit to at least 25% of total audit time available.	25%	27%

5.19 The first performance measure was achieved as the IBAN issued four performance audit reports. The second performance measure related to assistance from four SAIs was not fully achieved in 2014. However, the IBAN received assistance from the SAIs of the Netherlands, Turkey, and United Kingdom on performance related topics. The third performance measure was achieved.

5.20 The fourth performance measure was not achieved. The IBAN was unable to follow-up on prior years audit reports from 2011 as resources were devoted to conducting new reviews. However, in 2014 the IBAN did follow-up a 2012 report on the transition to the new NATO headquarters. The final performance measure was met and exceeded. In 2014, 27% of the staff days assigned directly to audit work was for performance audit related tasks.

PERFORMANCE RELATED TO GOAL 4

5.21 The IBAN's objectives related to Goal 4 were to have the IBAN as a work place that facilitates continuing professional development of its personnel and the sharing of corporate knowledge and improved visibility of the IBAN. The 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>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%	100%
	75% (16 of 22) of IBAN auditors should be seconded staff or former staff from Supreme Audit Institutions.	75%	68%
<i>Improved visibility of IBAN</i>	Prepare press releases on selected IBAN audit reports with Council approval.	100%	100%
	Present reports to RPPB and Agency Supervisory Boards/Boards of Directors.	90%	100%

5.22 The first performance measure on staff training was achieved. The second performance measure was not achieved as 68% (15 of 22) of IBAN staff were seconded from or former staff members of SAIs. However, an additional three staff are from other national (such as Ministry of Defence) or international audit bodies.

5.23 The third performance measure was achieved. Press releases were prepared for all IBAN reports that were made available to the public in 2014. The fourth performance measure was exceeded as the IBAN presented all reports to the RPPB and Agency Supervisory Boards or Boards of Directors when asked to do so. Some financial statement audit reports, which had unqualified opinions and no audit observations, were determined to not require an IBAN presentation.

2015 ANNUAL PERFORMANCE PLAN

5.24 The IBAN's Annual Performance Plan for 2015 is included in this report at Annex E. The IBAN significantly reduced the number of key performance indicators for 2015. The Annual Performance Plan for 2015 also reflects the introduction of the IBAN's Strategic Plan for 2015-19.

Approved by the Board on 30 April 2015



Chairman

A handwritten signature in blue ink, appearing to read 'Charilaos Charisis', with a large, stylized flourish at the end.

Dr. Charilaos Charisis (Greece)



Board Member

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Marcus J. Popplewell (United Kingdom)



Board Member

A handwritten signature in blue ink, appearing to read 'Marius J. Winters', written in a cursive style.

Marius J. Winters (The Netherlands)



Board Member

A handwritten signature in blue ink, appearing to be 'STK' with a long horizontal stroke.

Salih Tanrikulu

(Turkey)



Board Member

A handwritten signature in blue ink, appearing to be 'Lyn Sachs' in a cursive style.

Lyn Sachs

(Canada)

**LIST OF REPORTS ISSUED IN 2014
RESULTING FROM FINANCIAL STATEMENT AND PERFORMANCE AUDITS**

LIST OF IBAN FINANCIAL STATEMENT AUDIT REPORTS ISSUED IN 2014						
Subject and Financial Year		IBAN Report Number	IBAN Issue Date	RPPB/BC Report Date	NAC Approval Date	Available to Public Yes/No/Pending
<i>NATO Military Commands</i>						
1.	Allied Command Operations (ACO) 2012	IBA-AR(2013)32	30.04.2014	27.01.2015	20.02.2015	NA
2.	Allied Command Operations (ACO) 2013	IBA-AR(2014)20	19.12.2014			NO
3.	Allied Command Transformation (ACT) 2013	IBA-AR(2014)16	22.07.2014	10.02.2015	16.04.2015	YES
<i>NATO Agencies, Civil-Military Bodies, Special Projects, and Pension Schemes</i>						
4.	NATO Naval Forces Sensors And Weapon Accuracy Check Sites (FORACS) 2013	IBA-AR(2014)23	22.12.2014			NO
5.	International Military Staff (IMS), NATO Standardisation Agency (NSA) (including Partnership for Peace (PfP), Mediterranean Dialogue (MD) Istanbul Cooperation Initiative (ICI) and Other Military Cooperation (OMC) 2013	IBA-AR(2014)15	23.07.2014			NO
6.	International Staff 2013	IBA-AR(2014)19	31.10.2014			NO
7.	Munitions Safety Information Analysis Centre (MSIAC) 2013	IBA-AR(2014)25	19.12.2014			NO
8.	NATO Airborne Early Warning and Control Programme Management Agency (NAPMA) 2012	IBA-AR(2013)39	01.04.2014	06.11.2014	20.02.2015	NA

NATO UNCLASSIFIED

ANNEX A
IBA-M(2015)01

LIST OF IBAN FINANCIAL STATEMENT AUDIT REPORTS ISSUED IN 2014						
Subject and Financial Year		IBAN Report Number	IBAN Issue Date	RPPB/BC Report Date	NAC Approval Date	Available to Public Yes/No/Pending
9.	NATO Airborne Early Warning and Control Programme Management Agency (NAPMA) 2013	IBA-AR(2014)28	22.12.2014	09.03.2015		Pending
10.	NATO BICES Group Executive 2012	IBA-AR(2014)03	01.04.2014	10.04.2014	26.05.2014	NA
11.	NATO Communications & Information Organisation (NCIO) 2013	IBA-AR(2014)22	31.10.2014	11.02.2015		Pending
12.	NATO Coordinated Pension Scheme 2012	IBA-AR(2014)02	13.03.2014		28.03.2014	NA
13.	NATO Coordinated Pension Scheme 2013	IBA-AR(2014)27	19.12.2014			Pending
14.	NATO Defence College (NDC) 2013	IBA-AR(2014)12	28.03.2014	03.06.2014	14.07.2014	YES
15.	NATO Defined Contribution Pension Scheme (DCPS) 2012	IBA-AR(2014)07	28.03.2014	10.04.2014	26.05.2014	NA
16.	NATO Defined Contribution Pension Scheme (DCPS) 2013	IBA-AR(2014)06	15.04.2014	24.06.2014	03.09.2014	YES
17.	NATO Helicopter Management Organization (NAHEMO) 2012	IBA-AR(2013)30	15.04.2014		04.06.2014	NA
18.	NATO Helicopter Management Organization (NAHEMO) 2013	IBA-AR(2014)31	19.12.2014			Pending
19.	NATO Medium Extended Air Defense System Management Organization (NAMEADSMA) 2013	IBA-AR(2014)14	30.05.2014	11.02.2015	16.03.2015	YES

NATO UNCLASSIFIED

LIST OF IBAN FINANCIAL STATEMENT AUDIT REPORTS ISSUED IN 2014						
Subject and Financial Year		IBAN Report Number	IBAN Issue Date	RPPB/BC Report Date	NAC Approval Date	Available to Public Yes/No/Pending
20.	NATO Multi-Role Combat Aircraft Development Production And In-Service Support Management Organisation (NAMMO) 2013	IBA-AR(2014)33	19.12.2014			Pending
21.	NATO European Fighter Aircraft Development, Production And Logistic Management Organisation (NEFMO) 2013	IBA-AR(2014)34	19.12.2014			Pending
22.	NATO EF 2000 and Tornado Development, Production and Logistics Management Agency (NETMA) (Admin) 2013	IBA-AR(2014)26	19.12.2014			Pending
23.	NATO Provident Fund 2013	IBA-AR(2014)08	15.04.2014	24.06.2014	28.08.2014	YES
24.	NATO Staff Centre 2012	IBA-AR(2014)01	28.03.2014			NA
25.	NATO Support Organisation (NSPO) 2013	IBA-AR(2014)21	03.12.2014	18.03.2015		Pending
26.	New NATO HQ 2012	IBA-AR(2014)05	30.04.2014	08.05.2014	19.06.2014	NA
27.	Retired Medical Claims Fund (RMCF) 2013	IBA-AR(2014)13	27.06.2014	10.03.2015	25.03.2015	YES
28.	Science and Technology Organisation (STO) 2012	IBA-AR(2013)34	03.03.2014	30.01.2015	26.02.2015	NA
Non-NATO Multi-Nationally Funded or Sponsored Bodies						
29.	AFNORTH International School 2013	IBA-AR(2014)04	16.04.2014	NA	NA	NA

LIST OF IBAN FINANCIAL STATEMENT AUDIT REPORTS ISSUED IN 2014						
Subject and Financial Year		IBAN Report Number	IBAN Issue Date	RPPB/BC Report Date	NAC Approval Date	Available to Public Yes/No/Pending
30.	Combined Air Operations Centres (CAOC) Finderup Closure 2011-2013	IBA-AR(2014)10	28.03.2014	NA	NA	NA
31.	NATO Missile Firing Installation (NAMFI) 2013	IBA-AR(2014)24	28.11.2014	NA	NA	NA
32.	NATO Parliamentary Assembly (NPA) 2013	IBA-AR(2014)09	13.03.2014	NA	NA	NA
33.	SHAPE International School 2012	IBA-AR(2013)29	18.07.2014	NA	NA	NA
Performance Audit Reports						
34.	Special Report to Council on the Effectiveness of The Peacetime Establishment Review Process in the NATO Command Structure and the NATO Communications and Information Agency	IBA-AR(2013)31	28.03.2014	12.03.2015	30.03.2015	NA
35.	Special Report to Council on the progress of the transition to the New NATO Headquarters	IBA-AR(2014)18	29.09.2014			Pending
36.	Special Report to Council on the Steps Needed to Improve ACO and NSPA Management of Contractor Support to Operations	IBA-AR(2014)11	13.06.2014			Pending
37.	Special Report to Council on the Thematic Audit of Cash Holdings in NATO	IBA-AR(2014)17	01.12.2014			Pending

NA = Not Applicable. Publication of IBAN reports is only applicable to NATO bodies and only as from the audits of the 2013 financial year.

FINANCIAL STATEMENT AUDIT UNIVERSE

IBAN Financial Statement Audit Universe	2013 Expenditure ¹
<i>NATO Common Funded Bodies or Activities</i>	
Allied Command Operations Group	1,201.8
Allied Command Transformation Group	133.0
International Military Staff Group	24.0
International Staff NATO HQ	187.7
International Staff New NATO Headquarters Building Project	148.3
International Staff Headquarters Staff Centre	5.1
NATO Coordinated Pension Scheme (Defined Benefit)	129.0
NATO Defence College	9.9
NATO Defined Contribution Pension Scheme	12.2
NATO Provident Fund	1.5
NATO Retiree's Medical Claim Fund	14.8
Science and Technology Organisation	29.6
<i>Sub-total</i>	<i>1,896.9</i>
<i>NATO Joint/Multi-Nationally Funded Bodies</i>	
Munitions Safety Information Analysis Centre	1.4
NATO AEW&C Programme Management Organisation	100.0
NATO Alliance Ground Surveillance Management Agency	241.6
NATO Battlefield Information Collection & Exploitation Systems Group Executive	Non-disclosed ²
NATO Communications and Information Agency	674.0
NATO Eurofighter 2000 and Tornado Development Production and Logistics Management Agency	44.5
NATO European Fighter Aircraft Development, Production and Logistics Management Organisation	2,670.0
NATO Multi-Role Combat Aircraft Development and In-Service Support Management Organisation	405.9
NATO Helicopter Design and Development Production and Logistics Management Organisation	811.1
NATO Medium Extended Air Defence System Design and Development, Production and Logistics Management Organisation	404.0
NATO Naval Forces Sensor and Weapons Accuracy Check Sites	0.9
NATO Support Agency	2,129.9
<i>Sub-total</i>	<i>7,483.3</i>
<i>Non-NATO Multi-Nationally Funded or Sponsored Bodies³</i>	
AFNORTH International School	3.5
Allied Rapid Reaction Corps	2.1
Centre of Excellence-Defence against Terrorism	Not available
Centre of Excellence for Military Medicine	Not available
Combined Air Operation Centres	1.9
Cooperative Cyber Defence Centre of Excellence	Not available
Headquarters Rapid Reaction Corps France	Not available
Intelligence Fusion Centre	Not available
Joint Airpower Competence Centre	0.5
Joint Chemical Biological Radiological and Nuclear Defence Centre of Excellence	0.4
Military Engineering Centre of Excellence	0.4
Multinational CIMIC Group	Not available
NATO Missile Firing Installation	7.8

NATO Parliamentary Assembly	3.8
NATO Rapid Deployable Corps – GREECE	1.1
NATO Rapid Deployable Corps – GERMANY/NETHERLANDS	0.7
NATO Rapid Deployable Corps – ITALY	0.8
NATO Rapid Deployable Corps – SPAIN	0.6
NATO Rapid Deployable Corps – TURKEY	0.8
NATO Special Operations Coordination Centre	Not available
SHAPE International School	2.5
Sub-total	26.9
Grand total	9,407.1

¹ All amounts in Millions of EURO (MEUR).

² The NATO Battlefield Information Collection & Exploitation Systems Group Executive classified all of their financial information.

³ IBAN audits non-NATO multi-nationally funded or sponsored bodies on a full cost reimbursable basis. These bodies are not a part of NATO and do not share the organisation's legal status, but may have a close relationship with the organisation. They have their own governance structures and are not subject to governance by the North Atlantic Council. In some instances, 2013 Financial Statements have not yet been submitted to the IBAN. Statements are submitted when an audit is planned. By Council decision, the IBAN does not charge for the audits of the AFNORTH School, SHAPE School, NATO Missile Firing Installation, and the NATO Parliamentary Assembly.

NSIP EXPENDITURE BY NATIONS AND AGENCIES

	MEUR Expenditure Reported (1)	MEUR Expenditure Certified (2)	MEUR Expenditure Certified %
Canada	80	80	100
Luxembourg	59	59	100
Estonia	29	29	100
France	1,012	962	95
United Kingdom	2,524	2,385	94
Denmark	728	669	92
Netherlands	920	839	91
USA	1,338	1,217	91
Germany	5,829	5,251	90
Norway	2,163	1,824	84
Turkey	4,528	3,810	84
Lithuania	42	35	83
Belgium	810	629	78
Italy	2,293	1,615	70
Greece	1,861	1,224	66
Portugal	571	347	61
Czech Republic	124	56	45
Spain	224	88	39
Bulgaria	38	12	32
Hungary	137	24	18
Poland	359	65	18
Latvia	31	0	0
Slovakia	32	0	0
Slovenia	25	0	0
Romania	13	0	0
Croatia	1	0	0
Iceland	1	0	0
SUBTOTAL NATIONS	25,772	21,220	82
NADGEMO	33	33	100
SHAPE	979	804	82
NCIA	5,226	2,383	46
NSPA	1,045	300	30
ACT	14	2	7
SUBTOTAL AGENCIES/COMMANDS (3)	7,297	3,522	48
TOTAL	33,069	24,742	75

NSIP Expenditure reported by Nations and Agencies and certified by the IBAN
(Cumulative up to 31 December 2014 in Millions of EUR)

(1) Source : AC/4(PP)D/27405, Appendix 1, Annex 1 and AC/4(PP)N(2015)0013.

(2) Expenditure covered by a Certificate of Final Financial Acceptance (COFFA).

(3) NATO Agencies and Commands NSIP expenditure is included in their audited Annual Financial Statements.

NSIP SLICE PROGRAMME: NUMBER AND VALUE OF PROJECTS

Evolution April 2014 – December 2014

NATION/ AGENCY	PROJECTS APRIL 2014 (EUR)		PROJECTS DECEMBER 2014 (EUR)		DIFFERENCE (number of projects)	% DIFFERENCE (value)
	N°	Value	N°	Value		
Belgium	10	76,627,140	8	65,001,318	-2	-15%
Denmark	3	20,548,772	2	16,732,111	-1	-19%
Germany	8	70,607,708	6	53,527,951	-2	-24%
Greece	38	409,965,102	35	397,229,944	-3	-3%
Italy	46	333,624,055	37	315,296,504	-9	-6%
Norway	9	216,002,009	7	214,050,891	-2	-1%
Portugal	2	203,793,123	2	203,793,123	+/-0	+/-0
Turkey	40	386,989,758	31	349,173,100	-9	-10%
UK	28	86,971,508	12	71,355,220	-16	-18%
USA	9	328,965,108	2	10,368,000	-7	-97%
NCIA	9	27,614,821	9	27,614,821	+/-0	+/-0
TOTALS	202	2,161,709,104	151	1,724,142,983	-51	-20%

Source: IBAN data.

**International Board of Auditors for NATO (IBAN)
Annual Performance Plan 2015****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 2015 is based upon the goals and objectives identified in the 2015-2019 Strategic Plan. It includes key performance indicators and targets for the various objectives to be achieved during 2015.

GOAL 1: CONTRIBUTE TO THE STRENGTHENING OF ACCOUNTABILITY AND CORPORATE GOVERNANCE IN 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.

IBAN aims to carry out its financial audit mandate in accordance with INTOSAI standards.

Objectives and Performance Measures

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

Objective 1: Provide independent assurance that the financial statements present fairly the financial position and performance of the entity and that the funds have been properly used in compliance with the regulations in force.

Objective 2: Contribute to the development of a sound and consistent financial reporting environment.

Objective 3: Enhance relationships with key stakeholders.

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

<i>Key Performance Indicator</i>	<i>Target</i>
% of audits completed on NATO bodies for which IBAN is the responsible auditor	100%

GOAL 2: CONTRIBUTE TO THE IMPROVEMENT OF THE NSIP MANAGEMENT AND PROVIDE NSIP ACCOUNTABILITY

The IBAN provides independent assurance that the expenditure incurred by member countries and by NATO entities for the implementation of the NATO Security Investment Programme is compliant with the Investment Committee authorizations and decisions. The IBAN also analyses and evaluates the economy, efficiency and effectiveness of programme management, procedures, and specific outputs.

Objectives and Performance Measures

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

Objective 1: Contribute to the improvement of NSIP management.

Objective 2: Provide assurance of NSIP accountability.

Objective 3: Improve audit efficiency and effectiveness.

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

<i>Key Performance Indicator</i>	<i>Target</i>
Amount of staff years used on NSIP audits	At least 1.5
Amount audited and certified per staff year	600€M

GOAL 3: CONTRIBUTE TO THE IMPROVEMENT OF THE EFFECTIVENESS AND EFFICIENCY OF NATO ACTIVITIES

The IBAN's Charter audit mandate includes performance auditing of the activities of NATO bodies, operations, programmes and projects.

As IBAN understands that a major challenge for NATO's future is to enhance effectiveness and efficiency of its activities, IBAN refocuses its strategy towards higher percentage of proactive performance audits, focused on identification of opportunities for cost savings and effective operations and activities of NATO.

IBAN provides independent analysis and evaluation to the Council on the effectiveness, efficiency and economy of specific NATO bodies, operations, programmes and projects. IBAN makes forward looking recommendations aimed at process and service improvements and, when possible, optimizing value for money while delivering required outputs.

IBAN aims to carry out its performance audit mandate in accordance with INTOSAI standards.

Objectives and Performance Measures

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

Objective 1: Evaluate the effectiveness, efficiency and economy of specific NATO bodies, operations, programmes and projects.

Objective 2: Complete audits with the greatest potential for impact.

Objective 3: Develop and strengthen IBAN performance audit capability.

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

<i>Key Performance Indicator</i>	<i>Target</i>
Number of performance audit reports issued in 1 year	4
% of resources dedicated to Performance Audit	25%
Consult with key stakeholders on annual Performance Audit plan in order to identify audits with the greatest potential for impact	Annually

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

Goals 1 to 3 signify IBAN's level of ambition to become an organization 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.

Objectives and Performance Measures

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

Objective 1: Further promote IBANs professional development and sharing of corporate knowledge.

Objective 2: Increase financial audit efficiency and effectiveness in order to improve the timeliness and content of our financial audit reports.

Objective 3: Implement Council decisions of May 2013 on IBAN Business Case.

Objective 4: Improve visibility of IBAN.

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

<i>Key Performance Indicator</i>	<i>Target</i>
Provide continuing professional education to all IBAN auditors (including the 7 hours of report writing)	Minimum of 40 hours per year
% of recommendations from peer review addressed	100%
% of financial audit reports on NATO bodies issued within 6 months of issuance of financial statements (or within deadlines set by Council)	100%
% of financial audits of NATO bodies that have interim work being completed – either controls review, or preliminary substantive testing	50%
% of all recommendations and observations settled within two follow-up audits	80%
Enhance cooperation with national SAIs, such as auditor contributions and other activities	3 per year

LIST OF ABBREVIATIONS

ACCS	Air Command and Control System
ACO	Allied Command Operations
ACT	Allied Command Transformation
BC	Budget Committee
Board/IBAN	International Board of Auditors for NATO
BGX	NATO BICES Group Executive
CAOC	Combined Air Operations Centres
CMRE	Centre of Maritime Research & Experimentation
COFFA	Certificate of Final Financial Acceptance
Council	North Atlantic Council
CPR	Civilian Personnel Regulations
DCPS	NATO Defined Contribution Pension Scheme
EFL	Financial Limits of Discretionary Powers
EUR	Euro
FMS	Foreign Military Sales
FORACS	NATO Naval Forces Sensors and Weapon Accuracy Check Sites
HQ JFC	Headquarters Joint Force Command
IC	Investment Committee
IMS	International Military Staff
IPSAS	International Public Sector Accounting Standards
IS	International Staff
ISAF	International Security Assistance Force
JFAI	Joint Formal Acceptance Inspection
JWC	Joint Warfare Centre
LAIRCM	Large Aircraft Infrared Counter Measure Projects
MC	Military Committee
MEADS	Medium Extended Air Defence System
MOU	Memorandum of Understanding
MSIAC	Munitions Safety Information Analysis Centre
MWA	Morale and Welfare Activities
NAC	North Atlantic Council
NAEW&C	NATO Airborne Early Warning and Control
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
NAMEADSMA	NATO Medium Extended Air Defence System Management Agency
NAMEADMSO	NATO Medium Extended Air Defence System Management Organisation
NAMFI	NATO Missile Firing Installation
NAMMO	NATO Multi-role Combat Aircraft Development Production and In- Service Support Management Organisation
NAPMA	NATO AEW&C Programme Management Agency

NAPMO	NATO Airborne Early Warning and Control Programme Management Organisation
NPA	NATO Parliamentary Assembly
NCIA	NATO Communications and Information Agency
NCIO	NATO Communications and Information Organisation
NDC	NATO Defence College
NEFMO	NATO European Fighter Aircraft Development, Production and Logistics Management Organisation
NETMA	NATO EF 2000 and Tornado Development, Production and Logistics Management Agency
NFO	NATO FORACS Office
NFR	NATO Financial Regulations
NSIP	NATO Security Investment Programme
NSPA	NATO Support Agency
NSPO	NATO Support Organisation
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
SAI	Supreme Audit Institution
SHAPE	Supreme Headquarters Allied Powers Europe
SIS	SHAPE International School
SPO	System Project Office
STO	Science & Technology Organisation
US	United States of America
USD	United States of America Dollar

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ANNEX G
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IBAN PHOTO SESSION

**Meeting with Secretary General
Mr Jens Stoltenberg
16 January 2015**



**Meeting with Secretary General
Mr Anders Fogh Rasmussen
3 July 2014**



NATO UNCLASSIFIED
G-1

**Supreme Audit Office of Poland and IBAN
Signing of the MOU for the Peer Review
28 August 2014**



**Court of Auditors of the Kingdom of Spain and IBAN
Signing of the MOU for the Peer Review
16 September 2014**



**IBAN Peer Review Report submission ceremony
16 December 2014**



**Working meeting between Netherlands Court of Audit and IBAN
13 October 2014**



**Group photo – Meeting of Competent National Audit Bodies
13 May 2014**



**Signing of MOU Regarding IBAN Cooperation with Turkish Court of Accounts
23 October 2014**



**Cooperation with European Court of Auditors
Executive seminar presented by European Court of Auditors
13 March 2015**

