

	NATO	NORTH ATLANTIC COUNCIL
	OTAN	CONSEIL DE L'ATLANTIQUE NORD

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16 December 2016

DOCUMENT
C-M(2016)0073-AS1 (INV)

IBAN 2015 ANNUAL ACTIVITIES REPORT

ACTION SHEET

On 16 December 2016, under the silence procedure, the Council noted the 2015 IBAN Annual Activities Report attached to C-M(2016)0073 (INV) and agreed the recommendations contained in the RPPB report.

(Signed) Rose E. Gottemoeller
Deputy Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2016)0073 (INV).

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12 December 2016

DOCUMENT
C-M(2016)0073 (INV)
Silence procedure ends:
16 Dec 2016 12:00

IBAN 2015 ANNUAL ACTIVITIES REPORT

1. I attach the International Board of Auditors for NATO (IBAN) Annual Activities Report for 2015. The IBAN has prepared the Annual Activities Report in accordance with Article 17 of their Charter, which states "The Board shall prepare each year [...] a detailed report on the activities of the Board."
2. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB), which has provided its report 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 12:00 hours on Friday, 16 December 2016**, I shall assume that the Council has noted the 2015 IBAN Annual Activities Report, and agreed the recommendations contained in the RPPB report.

(Signed) Rose E. Gottemoeller

1 Annex
1 Enclosure

Original: English



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2015 IBAN ANNUAL ACTIVITIES REPORT
Report by the Resource Planning and Policy Board

References:

- a) IBA-M(2016)01
- b) C-M(2007)0009 and PO(2015)0052

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 2015.

2. In preparing this report, the RPPB has noted the comments of the Supreme Audit Institutions (SAIs) of the NATO member nations on the IBAN Annual Activities report 2015. These comments include matters such as the creation of a consolidated financial statement of all common funded NATO bodies; public disclosure; performance audits; 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, including follow-up of the implementation of IBAN recommendations and proposals to reduce future audit qualifications.

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 2015, and its performance against its annual performance plan.

Public disclosure

4. The IBAN is concerned by what it considers the continued 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 2015, the IBAN audited more than 10 B€ of expenditures and issued 37 financial audit reports comprising 51 Auditor's Opinions on financial statements and on compliance, of which 33 were unqualified opinions (65 %). The IBAN issued 18 (35 %) qualified, adverse, or disclaimer of audit opinions on financial statements or on the compliance. This is a higher percentage of qualified opinions than last year (up from 26 %). The IBAN provide a summary in their report of significant qualified financial audit opinions in 2015, including the reasons for the qualifications.

6. Among other issues, NATO continues to struggle with reporting properly for Property, Plant, and Equipment (PP&E) and intangible asset management and reporting¹; lack of consistency of financial reporting; and still has some areas with weak internal controls, including risk management, and internal audit. Regarding the audit observations, the majority continued to be related to the application of the NATO Accounting Framework (adapted IPSAS²) and in particular PP&E.

7. The IBAN strongly supports that NATO work towards the goal of preparing and publishing a consolidated set of NATO financial statements for common-funded NATO bodies with the aim to better promote overall transparency and accountability of NATO.

NSIP audits

8. Regarding NSIP audits in 2015, the IBAN issued a total of 258 Certificates of Final Financial Acceptance (COFFAs) amounting to 1.3 B€ certified. 33 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.

9. A total of 3.7 M€ was recovered to the NSIP as a result of audit observations.

Performance audits and Special reports

10. The IBAN issued three performance audits reports to Council in 2015: (1) the NATO Science for Peace & Security Programme; (2) the need to reform NSIP governance; and (3) the need for action to ensure the NCI Agency's Transition Programme improves agency performance.³ The IBAN provide a summary in their report of the 2015 performance audits.

11. In 2015, the IBAN used 30 % of its staff resources on performance audits, compared to 27 % in 2014.

COMMENTS BY THE RESOURCE POLICY AND PLANNING BOARD (RPPB)

Financial Statement Audits

12. The RPPB is very concerned with the high number of qualified audit opinions (35 %) in 2015. The Board notes that of the 18 qualified audit opinions issued by the IBAN, 9 were for NATO bodies and the other 9 were for non-NATO bodies.⁴ Among other issues

¹ International Public Sector Accounting Standards (IPSAS) – 17 and 31

² International Public Sector Accounting Standards (IPSAS)

³ In addition, the IBAN began, but did not complete within 2015, performance audits on (1) the need to improve the effectiveness of the lessons learned from NATO exercises, (2) actions needed to improve NATO's Capability Package process, and (3) Business Continuity Planning in NATO.

⁴ NATO bodies: Allied Command Operations (ACO) for the year 2014; International Staff (IS) for the year 2014; NATO Helicopter for the 1990s Design and Development, Production and Logistics Management Organisation (NAHEMO) for the year 2014; NATO Airborne Early Warning and Control Programme Management Organisation (NAPMO) for the year 2014; NATO Communications & Information Organisation (NCIO) for the year 2014; NATO Staff Centre for the financial years 2013 and 2014; NATO Support Organisation (NSPO) for the year 2014; NATO Science and Technology Organisation (STO) for the year 2013.

leading to qualifications, NATO continues to struggle with reporting properly for Property, Plant, and Equipment (PP&E) and still has some areas with weak internal controls.

13. Weaknesses in PP&E and intangible asset management and reporting remains a source of significant audit qualifications in 2015 and has been so for several years. The three largest NATO bodies (ACO, NCIO and NSPO) received audit qualifications related to this issue. Such audit qualifications continued despite the adoption of the NATO Accounting Framework.⁵ In its reporting to Council, the RPPB has consistently conveyed concern regarding the number of audit observations related to 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 adapted IPSAS was expected to lead to fewer qualifications on financial statements. In this regard, the RPPB invites NATO bodies to proactively communicate their experiences with implementation of the NATO Accounting Framework, including suggestions for any potential constructive amendments, and also to provide information on what is being done to reduce the number of qualifications and to demonstrate the impact of the measures undertaken.

14. The RPPB will continue to keep the effectiveness of the financial regulatory framework under review and assess the need for further improvements. The RPPB continues to believe that the NATO Accounting Framework meets the overall accounting requirements of the Alliance, but application issues have proved tougher than expected. The accounting problems with PP&E and the time and effort needed to resolve them have mostly been related to the on-going procedural issues associated with third party procurement and inventory management involving multiple commands, agencies and multiple inventory systems. Measures are being taken by the respective NATO entities to address the shortfalls in accounting and logistics information systems to support more effective and efficient management processes and financial reporting of PP&E. The RPPB notes that, as a contribution to address these issues and ensure a coherent approach is taken across NATO, the Head of Financial Reporting Policy (HFRP) is currently developing an accounting policy for PP&E, coordinated with the Financial Controller community, which will be submitted to the RPPB by the end of 2016.

15. The late issuance of financial statements continues to be an area of concern. Regarding the 2015 financial statements, the RPPB notes with concern that a number of statements were not issued⁶ as per the timeline in the new NATO Financial Regulations (NFRs) agreed in 2015.⁷ The revised NRFs include several changes that directly impact the work of the 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.

⁵ C-M(2013)0006, C-M(2013)0039 and C-M(2016)0023

⁶ IBA-C(2016)16 and PO(2016)0542

⁷ C-M(2015)0025

The RPPB underlines that this will require all stakeholders to take their part of responsibility and ensure that timelines are met.

Consolidated Financial Statement

16. The RPPB notes the IBAN view that it is time to consolidate the financial statements of common funded NATO bodies. In the IBAN view, consolidated NATO financial statements would present an overall picture of NATO's financial position, performance, cash flows and budgets and as such improve NATO's transparency.

17. The RPPB notes the IBAN view on this issue and wishes in this regard to analyse all relevant policy and practical aspects before considering the possible adoption of NATO consolidated financial statements. Therefore, the Head of Financial Reporting Policy (HFRP) is invited to provide a preliminary options analysis to the Board in the first half of 2017. This analysis should include an overview of the potential advantages, limitations, feasibility, cost and savings as well as implications on governance and accountability.

NATO Security Investment Programme (NSIP)

18. The Board notes that the IBAN NSIP audits have released 3.7 M€ back into the programme.

19. The RPPB is pleased to note that, in 2015, the closure of NSIP projects reached its highest level since 2010 with 1.2 B€ certified⁸; also recalling the Council tasking on this matter to close out, by 30 June 2016, projects that were physically complete by mid-2014. The RPPB continues to follow this issue closely and notes in this regard the ongoing actions undertaken by the Investment Committee and progress made towards the timely close out of completed NSIP projects during 2015. The Board considers that, overall, progress has been made in the close-out of completed projects. While not having met the 2014 target, 82% of the originally estimated backlog of completed projects in number and 50% in financial terms are now closed or are expected to be closed out by early 2017.⁹ For the remaining backlog, a clear action plan is in place and the progress is being monitored by the IC on a quarterly basis. The Investment Committee will report to the RPPB in early 2017 about the progress of the close-out. 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.

Performance audits

20. The RPPB is pleased to note both the number of pertinent performance audits and the use of IBAN staff resources on performance audits in 2015 (30 % against the yearly target of 25 % set in PO(2013)0253), including the welcome use of assistance from other SAls. Notwithstanding, the RPPB expects the IBAN to prioritise its own staff resources to ensure it sustains, as a minimum, the 25 % level of effort in future years, even without provision of Voluntary National Contributions (VNCs).

⁸ In 2015, 258 projects were closed, including 44 projects from the Slice-programme.

⁹ AC/4-N(2016)0020-FINAL

21. Performance audits reflect the importance Nations place on evaluating the economy, efficiency and effectiveness of the activities and operations of NATO bodies. In this regard, the RPPB, while underscoring the IBAN's independence, nonetheless encourages the IBAN to continue to work closely with all relevant stakeholders, including the RPPB, in regard to performance audit topic selection.

Public disclosure

22. The RPPB notes the IBAN concern on the rate of public disclosure of audit reports; recalling nonetheless that the rate of public disclosure increased significantly during the year 2015 and also that the disclosure procedure in the RPPB ensures that all stakeholders have an opportunity to voice any concern ahead of the disclosure recommendation to Council. The Director of the NATO Office of Resources in his role as Head of Financial Reporting Policy encouraged all NATO entities to include, as of the 2014 financial year, any concerns they might have on public disclosure in the cover note to their financial statements. As a result of this initiative, the rate of public disclosure increased significantly during the year 2015. Notwithstanding, seven audit reports from the years 2013 and 2014 have still not been disclosed; pending entities providing redacted financial statements which could be publicly disclosed. The entities in question are proceeding with this work in cooperation with the IBAN. 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.¹⁰ 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

23. The Resource Policy and Planning Board concludes that:

- a) 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. The RPPB continues to believe that the NATO Accounting Framework meets the overall accounting requirements of the Alliance, but application issues have proved tougher than expected. NATO bodies should proactively communicate their experiences with implementation of the NATO Accounting Framework, including suggestions for any potential constructive amendments, and also to provide information on what is being done to reduce the number of qualifications and to demonstrate the impact of the measures undertaken. In this regard, the RPPB also recalls the improvements introduced in the new NATO Financial Regulations¹¹ such as the establishment of audit advisory panels, stronger accountability and stronger arrangements for internal audit. The RPPB will continue

¹⁰ PO(2015)0052

¹¹ C-M(2015)0025

to keep the effectiveness of the financial regulatory framework under review and assess the need for further improvements;

- b) The RPPB notes the IBAN view regarding consolidating the financial statements of common funded NATO bodies and wishes in this regard to analyse all relevant policy and practical aspects before considering the possible adoption of NATO consolidated financial statements. Therefore, the Head of Financial Reporting Policy (HFRP) is invited to provide a preliminary options analysis to the Board in the first half of 2017. This analysis should include an overview of the potential advantages, limitations, feasibility, cost and savings as well as implications on governance and accountability;
- c) With regard to the rate of issuance of financial statements, the RPPB stresses the importance of all NATO bodies respecting the timelines set in the NATO Financial Regulations and ensuring the timely issuance of financial statements;
- d) With regard to the NSIP, the RPPB is pleased to note that, in 2015, the closure of NSIP projects reached its highest level since 2010 with 1.2 B€ certified¹²; also recalling the Council tasking on this matter to close out, by 30 June 2016, projects that were physically complete by mid-2014. The RPPB continues to follow this issue closely and notes in this regard the ongoing actions undertaken by the Investment Committee and progress made towards the timely close out of completed NSIP projects during 2015. The Board considers that, overall, progress has been made in the close-out of completed projects. While not having met the 2014 target, 82% of the originally estimated backlog of completed projects in number and 50% in financial terms are now closed or are expected to be closed out by early 2017.¹³ For the remaining backlog, a clear action plan is in place and the progress is being monitored by the IC on a quarterly basis. The Investment Committee will report to the RPPB in early 2017 about the progress of the close-out. 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; and encourages Host Nations to further strengthen their efforts to close-out projects;
- e) The allocation of 30 % of IBAN staff resources to performance audits in 2015 is very positive; while fully respecting other audit requirements. In this regard, the RPPB, while underscoring the IBAN's independence, nonetheless encourages the IBAN to continue to work closely with all relevant stakeholders, including the RPPB, 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) With regard to the IBAN concern on the rate of public disclosure of audit reports; the RPPB recalls that the rate of public disclosure increased significantly during the year 2015 and also that the disclosure procedure in the RPPB ensures that all

¹² In 2015, 258 projects were closed, including 44 projects from the Slice-programme.

¹³ AC/4-N(2016)0020-FINAL

stakeholders have an opportunity to voice any concern ahead of the disclosure recommendation to Council. Notwithstanding, seven audit reports from the years 2013 and 2014 have still not been disclosed; pending entities providing redacted financial statements which could be publicly disclosed. The entities in question are proceeding with this work in cooperation with the IBAN. 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;

- g) 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 2015 should be made available to the public along with the present report.

RPPB RECOMMENDATIONS

24. The Resource Policy and Planning Board recommends that Council:

- a) note the IBAN report IBA-M(2016)01 along with the present report;
- b) endorse the conclusions of the Resource Policy and Planning Board as outlined in paragraph 23;
- c) agree that the IBAN 2015 Annual Activities report (IBA-M(2016)01) should be made available to the public along with the present report, as per C-M(2007)0009 and PO(2015)0052.

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DOCUMENT
IBA-M(2016)01

29 April 2016

INTERNATIONAL BOARD OF AUDITORS FOR NATO

ANNUAL ACTIVITIES REPORT

2015



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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.

IBAN on the World Wide Web:

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

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Foreword by the Chairman

One of NATO's priorities is to become a more accountable and transparent organisation in order to improve its overall efficiency, effectiveness, and the quality of its governance. The International Board of Auditors for NATO (IBAN) is an independent six-member external audit body reporting to the North Atlantic Council (Council) and contributes to promoting transparency and accountability within NATO. 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 2015, the IBAN issued 37 financial audit reports comprising 51 Auditor's Opinions on the financial statements and on compliance, of which 33 were unqualified opinions. IBAN issued 18 (35%) qualified, adverse, or disclaimer of audit opinion on the financial statements or on compliance. All audits of 2014 financial statements were completed within our deadlines. This is in comparison to 2014, when the Board issued 35 Auditor's Opinions, of which 26 were unqualified audit opinions and 9 (26%) audit opinions were qualified, adverse, or disclaimer of audit. Among other issues, NATO continues to struggle with reporting properly for Property, Plant, and Equipment (PP&E) and still has some areas with weak internal controls.

Regarding NSIP, the IBAN issued a total of 258 Certificates of Final Financial Acceptance (COFFAs) amounting to EUR 1.3 billion certified. This resulted in more than EUR 3.7 million of NSIP funds being recovered to the programme.

IBAN is continuing to expand its performance audit capacity to review the efficiency, effectiveness, and economy of NATO activities. In 2015, 30% of IBAN's resources were used for performance audit in 2015. This increase was made partially possible by the Voluntary National Contributions received from two Supreme Audit Institutions. The IBAN issued three performance audit reports to Council in 2015. These reports to Council were on (1) the NATO Science for Peace & Security Programme, (2) the need to reform NSIP governance, and (3) the need for action to ensure the NCI Agency's Transition Programme improves agency performance. These reports were well appreciated by Council and have generated many requests for further performance audit work.

The IBAN continues to evolve its internal organisation and business processes as it finalises the implementation of the recommendations from the Business Case on strengthening the external audit function in NATO. IBAN's audit staff is a diverse group of individuals from 14 NATO member states who are skilled in a variety of audit disciplines and includes chartered accountants, information systems auditors, and performance audit specialists. Through the annual performance plan the IBAN aims to continue to develop itself as an innovative and proactive audit body.

The IBAN continues to advocate for greater transparency in NATO, and there are now 17 NATO financial statements available from 2013 and 15 for 2014 publically available as of the publication of this report. While significant improvements have been made in the past years, the IBAN believes that now is the time to consolidate the financial statements of

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common-funded NATO bodies. Consolidated NATO financial statements would present an overall picture of NATO's financial position, performance, cash flows and budgets. Such statements would allow readers of the financial statements, including Member States, NATO governing bodies and the public, to have a single document that will allow them to more clearly understand the total amount of common funding NATO receives and how this funding is used.

Lyn Sachs
Chairman
International Board of Auditors for NATO

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**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 2015 there were Board Members from the Czech Republic (until February), the United Kingdom (until August), Turkey (until October), Greece, Canada, the Netherlands, Germany (as from August), Denmark (as from September), and France (as from September).

1.3 Our 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, effectiveness, and economically.

1.4 We conduct 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, we audit some non-NATO multi-nationally funded entities with cooperative links to NATO. Our audit scope in 2015 covered more than EUR 11.4 billion, of which EUR 10.1 billion related to financial statements audits and approximately EUR 1.3 billion related to NSIP.

TRANSPARENCY IN NATO

1.5 There has been significant movement in the push towards more transparency of NATO. In June of 2012, a decision was taken that, by default, all audited unclassified financial statements of NATO bodies, effective for the 2013 fiscal year, along with the related IBAN audit reports, would be made public. NATO bodies must obtain a decision from the Council, based upon a recommendation from the Resource Policy and Planning Board (RPPB), to be exempt from this procedure. There was some confusion within NATO over the implementation of this decision, which resulted in extended discussions regarding 2013 financial statements that had not been originally prepared with publication in mind.

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1.6 As of the date of publication of this report, financial statements are being prepared by NATO bodies with the assumption that they will be made public – and posted on a regular basis, as soon as they are approved by Council. There are 17 financial statements available from 2013 and 15 for 2014 as of the publication of this report.

1.7 In regards to our recent performance audit reports, all have been approved for disclosure by the Council and 6 can be found on our website. In addition, the NATO website discloses the NATO Accounting Framework, the NATO Financial Regulations, and executive summaries of the Military and Civilian budgets. We believe this is a good beginning to make NATO more transparent, but more could be done in the future.

1.8 Specifically, transparency is not just the random disclosure of information without context. Currently, a coherent financial picture of all of NATO does not exist. The individual NATO bodies all have their own financial statements. For example, there are separate statements for the various common-funded NATO bodies. These financial statements are not prepared consistently, and assets disclosed in notes are not done so in a uniform fashion. These individual statements have value, but would be more relevant if they are subsequently consolidated.

1.9 In our opinion the consolidation of the financial statements of common-funded NATO bodies is an essential next step to improve NATO's transparency. This does not mean operational merging, this means consolidating the numbers – creating a financial picture.

1.10 Consolidated NATO financial statements would present an overall picture of NATO's financial position, performance, cash flows and budgets. Such statements would allow readers of the financial statements, including Member States, NATO governing bodies and the public, to have a single document that will allow them to more clearly understand the total amount of funding NATO receives and how this funding is used.

OUR ANNUAL MEETING WITH THE NATIONAL AUDIT BODIES

1.11 Each year we meet 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.

1.12 The 25th CNAB meeting to discuss the 2014 Annual Activities Report took place on 12 May 2015 under the chairmanship of the German Bundesrechnungshof. Topics raised by the CNAB representatives during the meeting included the following:

- 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),
- Wanted a faster and more streamlined process to get IBAN reports made publicly available. The process to publish reports should be made more transparent, with clear milestones for those responsible for publishing the reports, such as the RPPB and the Council.

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- Were concerned that one NATO body had classified their financial information which inhibits greater transparency and accountability of NATO,
- Reiterated their position from last year that NATO should create an independent and expert audit committee to review our reports. SAls noted that the revised NATO Financial Regulations had a strict timeline for action by Council on IBAN reports and an audit committee could aid them in this task.
- Encouraged IBAN to provide more information or highlight those NATO bodies that have multi-year qualifications. SAls would also like more information, such as the financial amounts related to the modified opinions, to provide the context of the qualifications,
- Raised the recurrent issue of the slow process of the finalization of NSIP projects and the need for action by NATO,
- Appreciated the increase in resources allocated to performance audit and the increased number of performance audits. Several SAls expressed their approval of the IBAN process to select the right topics for performance audit and discussing the topics with the RPPB,
- Reiterated their call for IBAN to perform follow up work on the recommendations from previous performance audits as this would also have a positive effect on improving the impact of our reports, and
- Noted that IBAN's visibility had increased significantly in the last few years in a positive manner but some SAls felt there was greater scope for IBAN to be more assertive in its reporting, being clear where responses or progress of implementation is unacceptable.

1.13 In general, we have addressed those points raised by the CNAB where appropriate.

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CHAPTER 2

OUR FINANCIAL STATEMENT AUDITS

BACKGROUND

2.1 Each year we audit the financial statements of NATO bodies and retirement benefit plans. In addition, we also audit 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 2015, our audit scope for financial statement audits amounted to more than EUR 10 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. We conduct our 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 our 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.

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ALLOCATION OF RESOURCES

2.6 We are 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 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 audit staff days in 2014 to 63% in 2015 (2,263 days of 3,606 audit staff days total). Of this amount, 94% (2,127 days) was used for the audit of NATO bodies and 6% (136 days) was used for the audit of non-NATO bodies.

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, its organisational complexity, our evaluation of internal control systems and business processes, 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.

IMPROVED TIMELINESS OF REPORTING

2.8 We improved the timeliness of the issuance of our financial audit reports in 2015. All of our financial audit reports, which include compliance opinions, were issued to the Council during the year.

2.9 During 2015, we revised the financial audit cycle. The cycle now runs from 1 September to 31 August of the following year, and includes more resources allocated to interim audit. It is consistent with the revised NFRs, which, beginning in 2016, require all of our financial audit reports to be issued to the Council by 31 August of the year following the end of the financial year. As of the publication of this report, all financial audits of 2016 financial statements are scheduled to meet this new deadline. However, this deadline may be at risk as some NATO bodies have not complied with the revised NFR deadlines regarding issuance of the financial statements. These delays may impact our scheduled work.

CONTRIBUTIONS TO PERFORMANCE AUDIT

2.10 Our financial audit involves a significant amount of work even in cases where unqualified audit opinions are the result of the audit. We believe that NATO bodies receive value from undergoing a thorough financial audit. In addition, our 2015 financial audits resulted in more than 60 audit observations in our audit reports and numerous other observations that were included in management letters.

2.11 Importantly, our financial audit work also makes significant contributions to our performance audits, particularly in the identification of subjects for performance audit. For example, financial audit contributed to the identification of the following performance audit topics issued in prior years:

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- Weaknesses in the management of the International Security Assistance Force (ISAF) fuel contract,
- Steps needed to improve Allied Command Operations (ACO) and NATO Support Organisation (NSPO) management of contractor support to operations,
- Need for action to ensure NATO Communications & Information Organisation's (NCIO) Transition Programme improves Agency performance,
- Need to improve the effectiveness of the lessons learned process for NATO Exercises,
- Weaknesses of IPSAS implementation in NATO,
- Weaknesses in the use of temporary personnel in the International Staff (IS) and NATO Staff Centre,
- Excessive cash holdings held by NATO bodies, and
- Review of NATO's internal audit functions.

2.12 These contributions are important and real. This is best demonstrated by the work on weaknesses in the management of the ISAF fuel contract, which identified the risk of significant overcharging by an outsourced contractor. In respect to this issue, NATO publicly stated in September 2015 that:

"The issue continues to be addressed by NATO through follow-on reviews and investigations into the matter by Allied Command Operations. Part of unduly paid costs have already been recovered. The recovery process continues. This however remains a complex and lengthy process, whose specific details cannot be revealed until its completion."

SIGNIFICANT FINANCIAL AUDIT RELATED ISSUES

2.13 Based on our experience, we have identified three serious financial audit related issues facing NATO. These are (1) a lack of consistency of financial reporting, (2) weaknesses in Property, Plant, and Equipment (PP&E) and intangible asset management and reporting, and (3) the revised NFRs increased focus on internal control, including risk management, and internal audit.

2.14 Regarding the lack of consistency of financial reporting, NATO Member States have not come to consensus on the idea of creating a centralised authority within NATO to enforce the consistency of financial reporting across NATO. As a result, over 10 years after the introduction of IPSAS within NATO there remain many inconsistencies in the financial statement reporting between the various NATO bodies.

2.15 We issued a special report to Council in 2011 which recommended creating such a centralised authority. In response, the role of Head of Financial Reporting Policy (HFRP) was created and assigned to the Director of the NATO Office of Resources (NOR). While this role has been taken seriously by the Director NOR, and the promotion of financial transparency and accountability has improved in NATO as a result, the role was unfortunately not given the authority that we recommended to enforce NATO bodies to adopt consistent accounting policies and to present consistent financial statements. We continue to support such a role with more enforcement authority as we believe this is

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likely to be the only way that NATO will be able to achieve fully consistent financial reporting across NATO.

2.16 In addition, we also strongly support that NATO work towards the goal of preparing and publishing a consolidated set of NATO financial statements for common-funded NATO bodies. Financial statements that are consolidated at the NATO level would present an overall picture of NATO's financial position, performance, cash flows and budgets. Such statements would allow readers of the financial statements, including Member States, NATO governing bodies and the public, to have a single document that will allow them to more clearly understand the total amount of funding NATO receives from Member States and how NATO is using that funding to accomplish its mission. We remain convinced that this would better promote overall transparency and accountability of NATO.

2.17 Weaknesses in PP&E and intangible asset management and reporting remains a source of significant audit qualifications in 2015 and has been so for several years. The three largest NATO bodies (ACO, NCIO and NSPO) received audit qualifications related to this issue. Such audit qualifications continued despite the adoption of the NATO Accounting Framework in 2013, which allowed that only such assets purchased after 1 January 2013 needed to be capitalised as assets. A contributing factor in the ACO and NCIO audit qualifications was weaknesses in asset reporting amongst these three NATO bodies. The NSPO audit qualification in this area was due to the incomplete reporting of the CEPS pipeline programme balances and activities in the NSPO financial statements. While some improvements have been noted, there are still significant issues remaining in respect to the complete identification and tracking of such assets in NATO's most significant bodies.

2.18 All audit qualifications, whether it be on the financial statements or on compliance with applicable rules and regulations, are the result of a material weaknesses in internal control. As 33% of our audit reports issued in 2015 on NATO bodies resulted in modified audit opinions, this indicates that there are still a significant number of material internal control weaknesses within NATO.

2.19 The revised NFRs, which became effective as from May 2015, are much more explicit in terms of specific expectations relating to internal controls, including risk management and internal audit. The results in respect to what has been achieved in these areas in 2015 will only be reported in 2016 through the issuance of reports on the audits of the 2015 financial statements. In addition, the NATO Financial Rules and Procedures (FRPs), which provide specific instructions on implementing the NFRs were not approved until February 2016 (although we had formally recommended the NFRs and FRPs be effective from the same date) and we anticipate that there will be challenges in the following areas:

- The identification and application of a specific, consistent and fully documented internal control framework across NATO,
- Complete and detailed documentation of all internal control processes and procedures used throughout each NATO body,

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- Complete and detailed documentation of each NATO body's risk management processes and procedures, and
- Ability of Internal audit to demonstrate that they have fully evaluated the effectiveness and efficiency of operations and internal controls throughout each NATO body.

SUMMARY OF FINANCIAL STATEMENT AUDIT WORK IN 2015

2.20 Our 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.

2.21 After each financial statement audit, we issue an opinion on the financial statements and on compliance. The opinions can be unqualified, qualified, disclaimer, or adverse:

- The phrase "the Board issued an unqualified opinion" is used whenever we issue 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 we were 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 we 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 we conclude that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

2.22 In 2015 we issued 37 financial audit reports comprising 51 Auditors' Opinions on the financial statements and on compliance. 27 of the audit opinions were for NATO bodies and 24 were for non-NATO bodies. Table 2.1 below shows the auditors opinions issued in 2015 compared to 2014.

Table 2.1: Auditor's Opinions		
	2015	2014
Auditor's Opinions Issued	51	35
Unqualified Opinion	33	26
Qualified Opinion	17	7
Disclaimer of Opinion	1	2

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2.23 Reasons for the 18 qualified or disclaimer of audit opinions issued in 2015 on financial statements included the following observations and issues:

- Overall weak controls environment,
- PP&E/Intangible Assets,
- Incorrect accounting treatments,
- Lack of sufficient audit evidence related to certain transactions, and
- Accruals

Some bodies had multiple observations resulting in a modified opinion. Of the 18 modified opinions we issued, 9 were for NATO bodies and 9 were for non-NATO bodies. As a percentage of the 27 audit opinions given for NATO bodies only, 33% were qualified or disclaimed. In addition, one NATO body needed to restate its financial statements as a result of our audit.

2.24 The 2015 financial statement audit reports included more than 60 observations on a range of issues or errors which can affect the audit opinion if they are material. In addition, a further number of observations were communicated to NATO and non-NATO bodies in Management Letters. Reported 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. The majority of observations for NATO bodies continued to be related to the application of the NATO Accounting Framework (adapted IPSAS) and in particular PP&E. Other observations were related to the lack of internal audit, weak internal controls, delays in issuing the financial statements, and general accounting errors. Each year we follow-up on the status of all observations raised in prior years' audit reports.

SUMMARY OF SIGNIFICANT AUDIT OPINIONS

2.25 The following is a summary of the modified audit opinions issued in 2015 on NATO bodies (those related to non-NATO bodies are not provided):

- Allied Command Operations (ACO): We issued a qualified opinion on the ACO consolidated financial statements for the year ended 31 December 2014. The qualification was for three reasons: We did not obtain sufficient evidence that all PP&E and intangible assets acquired in 2014 were properly recorded, we were unable to provide audit assurance in respect to the 2013 comparative PP&E and intangible asset information presented in the 2014 financial statements, and the we were unable to assess whether certain disclosures related to PP&E acquired prior to 2014 included true and fair information. In addition, we issued a qualification on the basis of non-compliance with applicable rules and regulations related to the establishment of comprehensive accounting records of all property acquired by ACO.
- International Staff (IS): We issued a qualified opinion on the restated financial statements for the year ended 31 December 2014. The qualification was based on two observations: The IS did not systematically identify accrued expenses at

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year-end and the Cash Flow Statement did not disclose cash flows from investing activities.

- NATO Helicopter for the 1990s Design and Development, Production and Logistics Management Organisation (NAHEMO): We issued a qualified opinion on the NAHEMO Financial Statements for the year ended 31 December 2014. We found that Receivables were overstated by a material amount, invoices of a material amount received from industry were not properly presented in the Financial Statements, and there were significant weaknesses related to internal control. In addition, we issued a qualification on the basis of non-compliance with applicable rules and regulations related to internal controls over financial reporting.
- NATO Airborne Early Warning and Control Programme Management Organisation (NAPMO): We issued a qualified opinion on the NAPMO Restated Financial Statements for the year ended 31 December 2014. We were unable to obtain sufficient and appropriate audit evidence related to transactions and expenditures contracted through a third party.
- NATO Communications & Information Organisation (NCIO): We issued a qualified opinion on the NCIO Financial Statements for the year ended 2014. 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 or disclosure by NCIO and we could not provide audit assurance in regard to the calculation of revenue related to CIS service level agreements. In addition, we issued a qualified opinion on compliance because we 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 applicable regulations.
- NATO Staff Centre: We issued a disclaimer of opinion on the NATO Staff Centre Financial Statements for the year ended 31 December 2013. We were 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 and the Cash Flow statement was misstated and not prepared in accordance with the NATO Accounting Framework. We also had observations related on non-compliance with procurement and were therefore not able to express an opinion on compliance.
- NATO Staff Centre: We issued a qualified opinion on the NATO Staff Centre Financial Statements for the year ended 31 December 2014. We were unable to provide audit assurance in respect to the 2013 comparative information in the 2014 financial statements. In addition, we issued a qualification on the basis of non-compliance with applicable rules and regulations related to the procurement of goods and services.

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- NATO Support Organisation (NSPO): We issued a qualified opinion on the NSPO Financial Statements for the year ended 31 December 2014. The reasons for the qualification included the following: Incomplete reporting of revenue, expenses, assets liabilities and cash flows of the Central Europe Pipeline System Programme, material weaknesses in internal control over financial reporting of the NATO Airlift Management Programme, insufficient audit evidence related to specific opening and closing balances of the NATO Airlift Management Programme, and the inability to accrue certain expenses from a third party supplier. In addition, we issued a qualification on the basis of non-compliance with applicable rules and regulations related to the establishment of a system of internal control.
- NATO Science and Technology Organisation (STO): We issued a qualified opinion on the Financial Statements of the STO for the year ended 2013. The reasons for the qualification included the following: The 2013 financial statements did not include a material amount of revenue and expenses, the Cash Flow statement was materially misstated, the opening balance of Net Assets/Equity was overstated and the surplus for the period was understated.

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CHAPTER 3

OUR NATO SECURITY INVESTMENT PROGRAMME CERTIFICATION

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. Our 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 CERTIFICATON PROCEDURE

3.2 When a project is presented for review, 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. Our 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, we issue a Letter of Observations to the Host Nation specifying the corrective actions required for the issuance of a COFFA.

2015 NSIP PROJECT CERTIFICATION ACTIVITY

3.4 In 2015 we used the equivalent of 1.2 staff years, or 7% of the available staff resources, on the certification of NSIP projects. Chart 3.1 below shows our NSIP activity for 2015 in comparison to 2014.

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Chart 3.1: 2015 NSIP PROJECT ACTIVITY			
	2015	2014	% Change
Amount certified by COFFA	1,319 MEUR	865 MEUR	+ 52 %
Number of COFFAs Issued	258	405	- 36 %
Number of Letters of Observation	27	30	- 10 %
Funds returned to NSIP as a result of audit observations	3.68 MEUR	1.7 MEUR	+ 116 %
Staff-years used	1.2	1.2	0%

3.5 Despite the relatively low amount of resources used for NSIP project certification, the 2015 results exceeded expectations. Our work resulted in a significant amount, more than EUR 3.7 million, of NSIP funds being recovered to the programme. This amount represents about 104% of our entire budget for 2015.

THE CERTIFICATES OF FINAL FINANCIAL ACCEPTANCE

3.6 The 258 COFFAs issued in 2015, amounting to EUR 1.3 billion, represent about 16% of the entire population of open NSIP projects (expenditure of EUR 8.2 billion reported as at December 2015). As in previous years, the amount certified in 2015 continued to exceed the amount spent in that year by the Host Nations. As a consequence, the total amount we certified increased from 75% to 77% of the total cumulative NSIP expenditure (see Annex C).

3.7 Out of the 258 COFFA's issued, 33 of them were issued 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 our review.

OBSERVATIONS AND RESULTING FINANCIAL ADJUSTMENTS

3.8 Observations from our NSIP work are related to the accuracy of the audited cost statements. When IBAN and the Host Nation cannot reach agreement on the observation during the mission, this is mentioned in the Letter of Observation. The Host Nation needs to reply to the observation 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.).

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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, observations are settled during the 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 2015, the agreed observations and corresponding financial adjustments amounted to EUR 8.43 million in favour of the Programme, and to EUR 4.75 million in favour of the Host Nations, leaving a net return of EUR 3.68 million to the NSIP.

CLOSE-OUT OF COMPLETED AND ONGOING NSIP PROJECTS

3.12 As part of its deliberations on our report on 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 more than 2,000 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 NSIP Slice Programme projects (those programmed before 1994), an overview of the evolution between December 2014 and December 2015 is provided at Annex D. At the end of December 2015, a total of 107 projects amounting to EUR 1.2 billion remained to be closed.

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CHAPTER 4

OUR PERFORMANCE AUDITS

BACKGROUND

4.1 We conduct performance audits of selected NATO bodies, operations and/or programmes. We also provide advice to NATO committees and agencies.

4.2 We are committed to carry out at least one substantial performance audit per year, complemented by a number of smaller studies. In 2015 we issued three performance audit reports to Council. These reports to Council were on (1) the NATO Science for Peace & Security Programme (2) the need to reform NSIP governance, and (3) the need for action to ensure the NCI Agency's Transition Programme improves agency performance. In addition, we began, but did not complete within 2015, performance audits on (1) the need to improve the effectiveness of the lessons learned from NATO exercises, (2) actions needed to improve NATO's Capability Package process, and (3) Business Continuity Planning in NATO.

ALLOCATION OF RESOURCES

4.3 In 2015 performance audit activities accounted for 30% of the total number of staff audit days available to the IBAN, including Voluntary National Contribution staff. This exceeded the target set by Council to have 25% of the total number of staff audit days used for performance audit. In 2015 we assigned five auditors full time to performance audit.

4.4 In 2015 we received assistance from three SAIs with performance auditing. The Office of the Auditor General of Canada provided report editing assistance on two of our audit reports. The Norwegian Audit Office and the Turkish Court of Accounts both provided senior performance auditors to us as a Voluntary National Contribution (VNC). The VNCs each worked with IBAN for approximately six months from autumn 2015 into spring 2016.

PERFORMANCE AUDIT PLANNING

4.5 Performance audit planning is the responsibility of the IBAN's Performance Audit Working Group. This working group, under the leadership of a Board Member, comprised the Principal Auditor and five full-time performance 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;

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- 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 The Working Group developed a comprehensive Performance Audit Programme for 2016-17 which prioritised our performance audit work for the next two years and identified the resources needed for performance audit. The plan is designed to help us 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, all audit staff, and interviews with senior NATO managers and NATO resource committee Chairpersons and members.

SUMMARY OF PERFORMANCE AUDIT REPORTS ISSUED IN 2015

Special Report to Council on the Science for Peace and Security Programme

4.7 In this special report we assessed whether the Science for Peace and Security's (SPS) programme of work supports NATO's strategic goals and objectives and that the programme is achieving its intended outcomes.

4.8 We found the mandate of the SPS Programme to be consistent with the Strategic Concept for the Defence and Security of the Members of the North Atlantic Treaty Organisation adopted in Lisbon in November 2010. In addition, we found that SPS is meeting its objectives and several NATO objectives are also found in specific SPS deliverables.

4.9 We found that the SPS Programme has a documented procedure for screening applications. We also found that the SPS Programme office follows this process and has a well-documented audit trail from receipt of an application through review, recommendation, approval and project implementation and assessment.

4.10 We found the SPS programme of work is effectively screened and the project management process is rigorous and includes effective control mechanisms. However, these control mechanisms impact both the efficiency of project delivery and the effectiveness of the overall programme as they have tended to slow down the programme delivery and project lifecycle timelines. We noted that the extensive nature of the controls imposed on even the lowest value projects are the same as those placed upon the largest projects.

4.11 We made three recommendations:

- 1) The Nations consider balancing risk and materiality by reducing the level of scrutiny afforded to even the smallest SPS projects in the interest of efficiency and effectiveness.

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- 2) That Nations consider adequate, proportional and fair representation of Allied experts and scientific disciplines on the Independent Scientific Evaluation Group in accordance with New SPS Structure and nomination documents.
- 3) The SPS Programme formalize a process for systematically analysing the results of SPS project evaluations against SPS Programme and Partnership objectives to use this feedback as the basis for planning future projects.

Special Report to Council on the need to reform NATO Security Investment Programme governance

4.12 The report assessed how far NSIP governance enables NATO oversight bodies to monitor projects well and in good time, and NATO implementation bodies to complete them within agreed costs, scope and schedule. We focused on the project authorisation, implementation, and closure phases.

4.13 Several previous studies show that Host Nations struggle to give accurate and feasible estimates of cost, scope and schedule, particularly for communication and information systems projects. Also, for projects reviewed by us the NOR did not fully assess and report whether milestone dates were realistic before the Investment Committee agreed them. This reduced assurance to the Nations that the projects could be completed as authorised. We also found little evidence that the NOR identified and assessed the risk of frequent scope changes. Further, the military community has not yet given project-level implementation advice expected by the resource community.

4.14 The NSIP defines procedures for documenting project planning, identifying problems, finding solutions and reviewing performance. Since 2012, the Nations took steps to better implement these procedures and defined new ones. However, Host Nations and the resource community still do not give, collect, assess and act on implementation data well enough. In addition, the Strategic Commands' reporting on the impact of delays is incomplete and tends not to link project-level delays to capability delivery. Further, for projects reviewed by us the Investment Committee did not consider impacts prior to lengthening project schedules. As a result, the NSIP has poor schedule control. Contributing factors include weaknesses in governance and oversight, including accountability and enforcement.

4.15 To close completed projects, Host Nations must give timely requests for inspection and audit. Since 2010, NATO has been unable to reduce the large number of uninspected and unaudited projects. In September 2014 the Nations agreed a plan to close all completed projects by June 2016. Based on the number of projects submitted to us for review, the Nations will not meet commitments unless they greatly increase the rate at which they submit projects for inspection and audit. In addition, we found no comprehensive reporting by NATO users or the NOR to track completed projects. This hinders accountability and visibility over NSIP-funded assets.

4.16 Since 2012, the Nations took steps to improve visibility of the problems. However, the IBAN did not find measurable improvements in performance. Fundamental challenges in accountability and enforcement remain. In our opinion, a governance model that makes

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the 28 Nations directly responsible for day-to-day oversight of project implementation may not be fit for the purpose of delivering capabilities effectively and on time.

4.17 We recommended that governance reform, beginning with an examination by independent external experts, is needed to ensure the long term viability of the NSIP. These external experts should address, at a minimum:

- ensuring accountability for delivering project results is strengthened and clearly defined,
- developing a governance model that enables effective direction and enforcement,
- encouraging performance, with particular emphasis on the NATO Agencies, and
- making structures and processes for capability delivery more efficient and cohesive.

Until the Nations decide whether to change NSIP governance, we identified a number of short term actions that can improve the current situation:

- the NOR enhance its advice so the Investment Committee can more frequently approve projects with realistic cost, scope and schedule estimates,
- the resource and military communities synchronise implementation guidance,
- the NOR more comprehensively track completed projects and
- the resource and military communities enhance reporting to and involvement of Council.

Special Report to Council on the Need for Action to Ensure the NCI Agency's Transition Programme Improves Agency Performance

4.18 The NCI Agency began a Transition Programme (the Programme) in 2012. The Programme includes projects designed to improve capability and service delivery by addressing recognised shortfalls, such as a lack of documented business processes, inconsistent programme, project and portfolio management, and multiple financial and project management systems with limited capabilities. We assessed the planning, management and governance of 6 projects and the overarching Programme with the objectives of improving the performance of the Agency and transforming it into a service-based organisation.

4.19 The NCI Agency included in its projects descriptions of performance shortfalls, objectives for improvement, benefits and products. However, additional work will be needed in two main areas to fully realise the projects' benefits. First, the Agency did not sufficiently plan to incorporate project products into its daily business. Second, the individual projects do not include all the elements needed to fully realise these benefits.

4.20 The projects we reviewed are delayed by an average of 17 months. The need to perform additional work will delay full benefits achievement even more. Without the results of essential technology projects and functioning business processes in place, the NCI Agency will face serious difficulties improving its performance.

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4.21 The NCI Agency did not effectively implement the Programme as planned. It adhered to important project management principles, but did not mitigate risks that cross project boundaries, sequence project work or sufficiently prioritise activities. NCI Agency management did not explicitly direct a rebalancing of effort, as required by internal guidance, when it became clear that competing demands could not all be fully met at the same time. As a result, priority Programme tasks, including process design, remained unperformed.

4.22 The information the NCI Agency reports to its governing bodies was insufficient for decision-making. For example, it did not deliver promised monitoring tools and results, nor did it provide complete assessments of known challenges and transparent cost reporting. At the same time, neither body with responsibility for external governance of the Programme (the Agency Supervisory Board and the Investment Committee) took steps to enforce NCI Agency commitments or provide direction and guidance in line with their remits. The resulting gap in Programme oversight limited the timely implementation of corrective actions.

4.23 We made three recommendations:

- 1) To make meaningful improvements in organisational performance, the NCI Agency should reassess current Programme planning. In this planning the specific steps, additional scope and realistic time frames (to include milestones and targets) for achieving the full benefits of all Programme projects should be stressed.
- 2) To better implement the Programme in accordance with best practices in change management the NCI Agency should take a more strategic and holistic approach to managing risk, dependencies, resources and benefits achievement. Steps to ensure critical business process and technology enabler work progresses at the best possible speed should be prioritised.
- 3) To improve decision-making and accountability the NCI Agency should make its Programme reporting more complete, balanced and transparent. In addition, Agency governing bodies should take a more active oversight role by agreeing clear roles and responsibilities, enforcing regular, consistent reporting requirements and providing direction and guidance when needed.

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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, our internal organisation has continued to evolve in 2015. While the total number of our authorised posts remained the same as in prior years, with twenty-two auditor posts in total, the composition of the posts changed with the downgrading of two additional A4 posts to A3. The audit staff comprised one A5 grade Principal Auditor, two A5 grade Senior Auditors, fifteen A4 grade auditors, and four A3 grade auditors. We are required to downgrade a further six A4 grade posts to A3 posts through the end of 2018. We also have 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 Our 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. Approximately 60% of the 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 our 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 fourteen different member states, which represents half the membership of NATO. At the end of 2015 there were two vacant auditor posts (11% of the IBAN's A4/A3 audit posts). During 2015, we had an average A4/A3 auditor vacancy rate of approximately 2 staff years (22%). Three auditors left during 2015 resulting in a turnover rate of 16%.

5.4 Our 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, we plan 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.

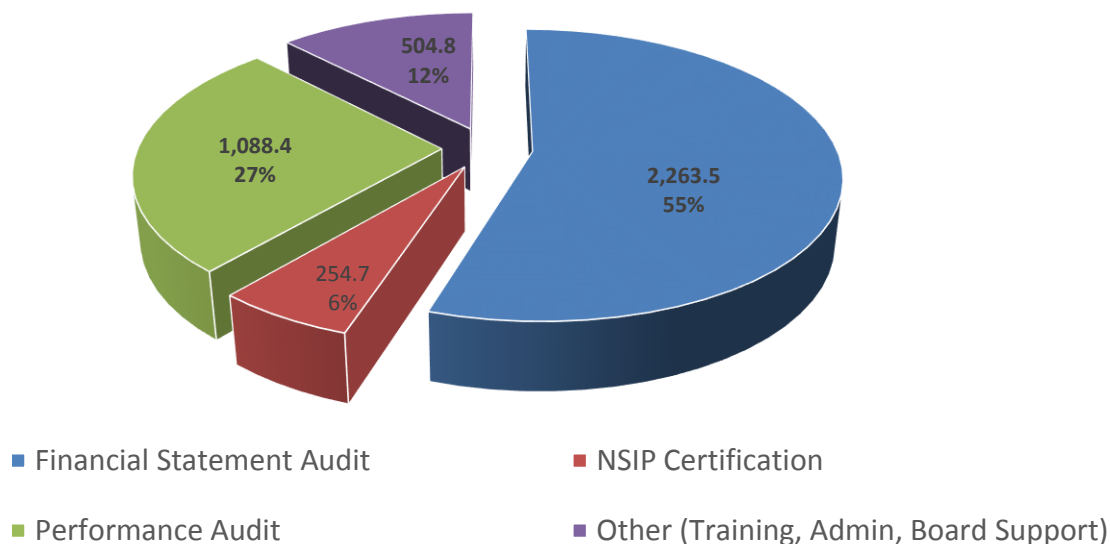
5.5 Chart 5.1 below shows the use of our audit staff resources in 2015 with the number of days (and the percentage it represents of the total) expended on each type of activity. In 2015 we used a total of 4,111 auditor staff days, including Voluntary National Contributions. Of these, 3,606 (88%) were expended on audits. The remaining 504 days (12%) were expended on training, administrative activities, and supporting the work of the Board itself. Compared with 2014, we increased the amount of resources devoted to performance audits from 23% in 2014 to 26% in 2015. As a percentage of staff days assigned to audit work, performance audit represented 30% of the IBAN's resources

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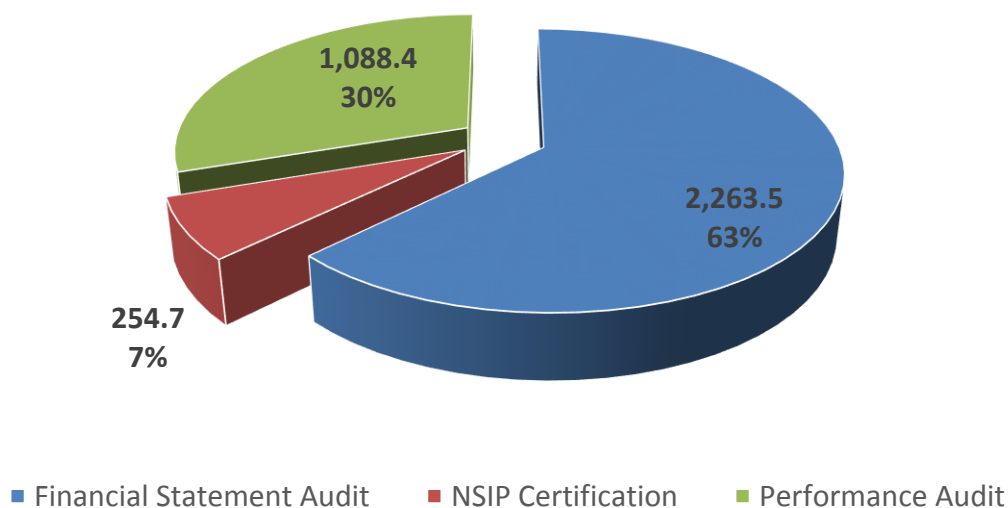
which exceeded the target of 25%. Resources for NSIP in 2015 remained consistent with 2014 at 7%. The audit resources for financial statement audits increased from 58% in 2014 to 62% in 2015.

Chart 5.1: 2015 Allocation of Staff Resources



5.6 Chart 5.2 below shows the allocation of staff days used only for financial statements, NSIP and performance audit in 2015. The significant increase in resources for performance audit was made possible by the generous contribution of Voluntary National Contributions from the Norwegian Audit Office and the Turkish Court of Accounts.

Chart 5.2: 2015 Allocation of Audit Only Days



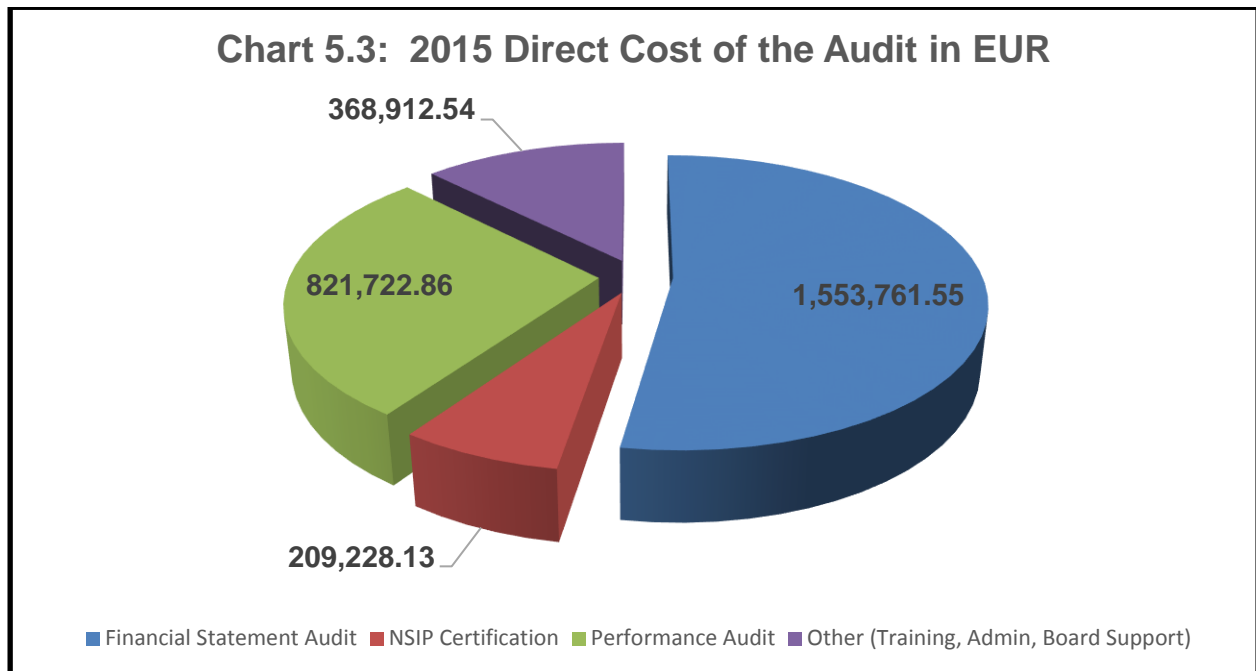
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OUR FINANCIAL RESOURCES AND THEIR USE

5.7 Chart 5.3 below shows the direct cost (audit staff salary and travel costs) of the audits and other IBAN activities in 2015 in EUR. The total direct cost of the audit was EUR 2.9 million.



OUR ANNUAL PERFORMANCE

2015 ANNUAL PERFORMANCE PLAN

5.8 The Strategic Plan for 2015-2019 provides information on our vision, mission statement, and three core values: Independence, integrity and professionalism. It details our four strategic goals related to its work, with specific objectives and strategies to achieve them. These strategic goals are the following:

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

5.9 Our 2015 Annual Performance Plan is derived from the goals and objectives in the 2015-2019 Strategic Plan. The Annual Performance Plan includes specific key performance indicators and targets for the various objectives for 2015 to measure our performance.

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PERFORMANCE RELATED TO GOAL 1

5.10 Our objectives related to Goal 1 were to provide independent assurance that the financial statements present fairly the financial position and performance of the entity, contribute to the development of a sound and consistent financial reporting environment, and enhance relationships with key stakeholders. The associated performance measure and target used to evaluate the achievement of the objectives in 2015 is shown below.

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

5.11 The performance measure was met as we completed all audits of NATO bodies for which we are the responsible auditor.

PERFORMANCE RELATED TO GOAL 2

5.12 Our objectives related to Goal 2 were to contribute to the improvement of NSIP management, provide assurance of NSIP accountability, and improve our efficiency and effectiveness. The associated performance measures and targets used to evaluate the achievement of the objectives in 2015 are shown in the table below.

<i>Key Performance Indicator</i>	<i>Target</i>	<i>Actual</i>
Amount of staff years used on NSIP certification	At least 1.5	1.2
Amount reviewed and certified per staff year	600 €M	1,319 €M

5.13 The first performance measure was not met as we used 1.2 staff years for NSIP. Despite this, the second performance measure was exceeded as we certified over 1.3 Euro billion of NSIP funds in 2015.

PERFORMANCE RELATED TO GOAL 3

5.14 Our objectives related to Goal 3 were to evaluate the effectiveness, efficiency and economy of specific NATO bodies, operations, programmes and projects, complete audits with the greatest potential for impact, and develop and strengthen our performance audit capability. The associated performance measures and targets used to evaluate the implementation of the objectives are shown in the table below.

<i>Key Performance Indicator</i>	<i>Target</i>	<i>Actual</i>
Number of performance audit reports issued in 1 year	4	3
% of resources dedicated to Performance Audit	25%	30%

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<i>Key Performance Indicator</i>	<i>Target</i>	<i>Actual</i>
Consult with key stakeholders on annual Performance Audit plan in order to identify audits with the greatest potential for impact	Annually	Achieved

5.15 The first performance measure was not fully achieved as we only issued three performance audit reports in 2015. We were unable to meet the target as some of our performance audits utilised more resources than originally planned due to the complexity of the audit topic. The second performance measure was exceeded as we used 30% of the available resources to performance audit. The third performance measure was achieved as our performance audit planning process included consultation with key stakeholders.

PERFORMANCE RELATED TO GOAL 4

5.16 Our objectives related to Goal 4 were to further promote IBANs professional development and sharing of corporate knowledge, increase financial audit efficiency and effectiveness in order to improve the timeliness and content of our financial audit reports, implement Council decisions of May 2013 on the IBAN Business Case, and improve our visibility. The performance measures and targets used to evaluate the achievement of the objectives are shown in the table below.

<i>Key Performance Indicator</i>	<i>Target</i>	<i>Actual</i>
Provide continuing professional education to all IBAN auditors (including the 7 hours of report writing)	Minimum of 40 hours per year	Partially Achieved
% of recommendations from peer review addressed	100%	100%
% of financial audit reports on NATO bodies issued within 6 months of issuance of financial statements (or within deadlines set by Council)	100%	100%
% of financial audits of NATO bodies that have interim work being completed – either controls review, or preliminary substantive testing	50%	46%
% of all recommendations and observations settled within two follow-up audits	80%	85%
Enhance cooperation with national SAIs, such as auditor contributions and other activities	3 per year	3

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5.17 The first performance measure on staff training was partially achieved. While our staff received 40 hours of training in 2015, the 7 hours of report writing training was delivered in January 2016. The second performance measure was also achieved as all recommendations from the peer review have been addressed in an action plan.

5.18 The third performance measure was also achieved. The fourth performance measure was not fully achieved, we were able to perform interim audit work in 46% of our audits of NATO bodies. The target was set high for the first year of implementation and we focused on high risk, high priority audits for interim audit work. For 2016, we have scheduled interim audit in 58% of our audits of NATO bodies. In addition, some smaller NATO bodies/programmes may not require interim audit activity. The fifth performance measure relating to the settlement of report observations was exceeded as 104 of 122 observations were settled within two years of the audit. The last performance measure was achieved as we received Voluntary National Contributions from two SAs and report editing assistance from one other.

2016 ANNUAL PERFORMANCE PLAN

5.19 Our Annual Performance Plan for 2016 is included in this report at Annex E.

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Approved by the Board on 29 April 2016

Chairman	Lyn Sachs	(Canada)
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Board Member	Klaus Getzke	(Germany)
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Board Member	Henrik Berg Rasmussen	(Denmark)
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Board Member	Hervé-Adrien Metzger	(France)
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Board Member	Haci Ömer Köse	(Turkey)
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Board Member	Georgia Kontogeorga	(Greece)
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ANNEX A
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**LIST OF REPORTS ISSUED IN 2015
RESULTING FROM FINANCIAL STATEMENT AND PERFORMANCE AUDITS**

LIST OF IBAN FINANCIAL STATEMENT AUDIT REPORTS ISSUED IN 2015						
Subject and Financial Year		IBAN Report Number	IBAN Issue Date	RPPB Report Date	NAC Approval Date	Available to Public Yes/No/Pending
<i>NATO Military Commands</i>						
1.	Allied Command Operations (ACO) 2014	IBA-AR(2015)19	25.09.2015	14.12.2015	18.01.2016	YES
2.	Allied Command Transformation (ACT) 2014	IBA-AR(2015)15	27.07.2015	10.12.2015	01.02.2016	YES
<i>NATO Agencies, Civil-Military Bodies, Special Projects, and Pension Schemes</i>						
3.	NATO Naval Forces Sensors And Weapon Accuracy Check Sites (FORACS) 2014	IBA-AR(2015)18	03.09.2015	25.09.2015	24.11.2015	YES
4.	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) 2014	IBA-AR(2015)14	29.05.2015	03.12.2015	13.01.2016	YES
5.	International Staff 2014	IBA-AR(2015)34	18.12.2015			PENDING
6.	Munitions Safety Information Analysis Centre (MSIAC) 2014	IBA-AR(2015)38	18.12.2015	20.01.2016	09.02.2016	YES
7.	NATO Alliance Ground Surveillance Management Organisation (NAGSMO) 2014	IBA-AR(2015)33	30.11.2015	10.12.2015	01.02.2016	YES
8.	NATO Alliance Ground Surveillance Management Organisation (NAGSMO) 2013	IBA-AR(2015)01	02.03.2015	14.04.2015	27.05.2015	YES

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**ANNEX A
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LIST OF IBAN FINANCIAL STATEMENT AUDIT REPORTS ISSUED IN 2015						
	Subject and Financial Year	IBAN Report Number	IBAN Issue Date	RPPB Report Date	NAC Approval Date	Available to Public Yes/No/ Pending
9.	NATO Airborne Early Warning and Control Programme Management Agency (NAPMA) 2014	IBA-AR(2015)22	25.09.2015			PENDING
10.	NATO BICES Group Executive (BGX) 2014	IBA-AR(2015)31	09.11.2015	27.11.2015	14.12.2015	WITHHELD (NATO RESTRICTED)
11.	NATO BICES Group Executive (BGX) 2013	IBA-AR(2015)03	02.03.2015	23.06.2015	10.08.2015	WITHHELD (NATO RESTRICTED)
12.	NATO Communications & Information Organisation (NCIO) 2014	IBA-AR(2015)20	25.09.2015	20.01.2016	03.02.2016	YES
13.	NATO Coordinated Pension Scheme 2014	IBA-AR(2015)25	30.10.2015	27.11.2015	14.12.2015	YES
14.	NATO Defense College (NDC) 2014	IBA-AR(2015)13	30.04.2015	08.12.2015	01.02.2016	YES
15.	NATO Defined Contribution Pension Scheme (DCPS) 2014	IBA-AR(2015)16	04.09.2015	25.09.2015	25.11.2015	YES
16.	NATO Helicopter Management Organization (NAHEMO) 2014	IBA-AR(2015)29	04.11.2015	29.04.2016		PENDING
17.	NATO Medium Extended Air Defense System Management Organization (NAMEADSMO) 2014	IBA-AR(2015)12	29.05.2015	25.09.2015	24.11.2015	YES
18.	NATO Multi-Role Combat Aircraft Development Production And In-Service Support Management Organisation (NAMMO) 2014	IBA-AR(2015)26	30.10.2015	11.03.2016	25.04.2016	YES

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LIST OF IBAN FINANCIAL STATEMENT AUDIT REPORTS ISSUED IN 2015						
	Subject and Financial Year	IBAN Report Number	IBAN Issue Date	RPPB Report Date	NAC Approval Date	Available to Public Yes/No/Pending
19.	NATO European Fighter Aircraft Development, Production And Logistic Management Organisation (NEFMO) 2014	IBA-AR(2015)28	30.10.2015			PENDING
20.	NATO EF 2000 and Tornado Development, Production and Logistics Management Agency (Admin) (NETMA) 2014	IBA-AR(2015)27	30.10.2015	27.11.2015	11.12.2015	YES
21.	NATO Provident Fund 2014	IBA-AR(2015)17	24.07.2015	25.09.2015	25.11.2015	YES
22.	NATO Staff Centre 2014	IBA-AR(2015)32	18.12.2015			PENDING
23.	NATO Staff Centre 2013	IBA-AR(2015)02	02.03.2015	20.05.2015		PENDING
24.	NATO Support Organisation (NSPO) 2014	IBA-AR(2015)23	23.10.2015			PENDING
25.	New NATO HQ 2014	IBA-AR(2015)35	30.11.2015			PENDING
26.	New NATO HQ 2013	IBA-AR(2015)04	02.03.2015			PENDING
27.	Retired Medical Claims Fund (RMCF) 2014	IBA-AR(2015)24	30.10.2015	27.11.2015	16.12.2015	YES
28.	Science and Technology Organisation (STO) 2014	IBA-AR(2015)36	30.11.2015	21.12.2015	04.02.2016	YES
29.	Science and Technology Organisation (STO) 2013	IBA-AR(2015)10	08.05.2015	18.09.2015	01.10.2015	YES
Non-NATO Multi-Nationally Funded or Sponsored Bodies						
30.	AFNORTH International School 2014	IBA-AR(2014)30	30.01.2015	N/A	N/A	N/A
31.	NATO Missile Firing Installation (NAMFI) 2014	IBA-AR(2015)37	27.11.2015	N/A	N/A	N/A

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LIST OF IBAN FINANCIAL STATEMENT AUDIT REPORTS ISSUED IN 2015						
	Subject and Financial Year	IBAN Report Number	IBAN Issue Date	RPPB Report Date	NAC Approval Date	Available to Public Yes/No/Pending
32.	NATO Parliamentary Assembly (NPA) 2014	IBA-AR(2015)08	17.03.2015	N/A	N/A	YES
33.	Military Engineering Centre of Excellence (MILENG COE) 2009-2013	IBA-AR(2015)11	30.04.2015	N/A	N/A	N/A
34.	NATO Rapid Deployable Corps Germany/The Netherlands (NRDC-GE/NL) 2009-2013	IBA-AR(2015)05	27.03.2015	N/A	N/A	N/A
35.	NATO Rapid Deployable Corps Greece (NRDC-GR) 2010-2014	IBA-AR(2015)09	30.04.2015	N/A	N/A	YES
36.	Allied Rapid Reaction Corps (ARRC) 2010-2014	IBA-AR(2015)30	30.10.2015	N/A	N/A	N/A
37.	SHAPE International School 2013	IBA-AR(2015)07	30.03.2015	N/A	N/A	N/A
Performance Audit Reports						
38.	Special Report to Council on the Science for Peace & Security Programme	IBA-AR(2014)36	30.01.2015	30.03.2015	04.05.2015	YES
39.	Special Report to Council on the Need to Reform NSIP Governance	IBA-AR(2014)35	05.03.2015	30.04.2015	12.06.2015	YES
40.	Special Report to Council on the Need for Action to Ensure the NCI Agency's Transition Programme Improves Agency Performance	IBA-AR(2015)21	13.11.2015			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. Some non-NATO bodies have agreed to make the audit reports available to the public.

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ANNEX B
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FINANCIAL STATEMENT AUDIT UNIVERSE

IBAN Financial Statement Audit Universe	2014 Expenditure¹
<i>NATO Common Funded Bodies or Activities</i>	
Allied Command Operations Group	1,238.1
Allied Command Transformation Group	133.0
International Military Staff Group	24.2
International Staff NATO HQ	186.6
International Staff New NATO Headquarters Building Project	Non-disclosed ²
International Staff Headquarters Staff Centre	5.2
NATO Coordinated Pension Scheme (Defined Benefit)	135.0
NATO Defence College	9.3
NATO Defined Contribution Pension Scheme	15.6
NATO Provident Fund	0.0
NATO Retiree's Medical Claim Fund	16.6
Science and Technology Organisation	32.5
<i>Sub-total</i>	<i>1,789.1</i>
<i>NATO Joint/Multi-Nationally Funded Bodies</i>	
Munitions Safety Information Analysis Centre	1.4
NATO AEW&C Programme Management Organisation	68.0
NATO Alliance Ground Surveillance Management Agency	375.5
NATO Battlefield Information Collection & Exploitation Systems Group Executive	Non-disclosed ²
NATO Communications and Information Agency	681.0
NATO Eurofighter 2000 and Tornado Development Production and Logistics Management Agency	43.7
NATO European Fighter Aircraft Development, Production and Logistics Management Organisation	3,250.0
NATO Multi-Role Combat Aircraft Development and In-Service Support Management Organisation	409.0
NATO Helicopter Design and Development Production and Logistics Management Organisation	1,321.4
NATO Medium Extended Air Defence System Design and Development, Production and Logistics Management Organisation	231.4
NATO Naval Forces Sensor and Weapons Accuracy Check Sites Office	0.9
NATO Support Agency	1,968.6
<i>Sub-total</i>	<i>8,350.9</i>
<i>Non-NATO Multi-Nationally Funded or Sponsored Bodies³</i>	
AFNORTH International School	4.1
Allied Rapid Reaction Corps	2.8
Centre of Excellence-Defence against Terrorism	Not available
Centre of Excellence for Military Medicine	Not available
Cooperative Cyber Defence Centre of Excellence	Not available
Headquarters Rapid Reaction Corps France	Not available
Intelligence Fusion Centre	Not available
Joint Airpower Competence Centre	0.2
Joint Chemical Biological Radiological and Nuclear Defence Centre of Excellence	Not available
Military Engineering Centre of Excellence	Not available
Multinational CIMIC Group	0.6
NATO Missile Firing Installation	7.6
NATO Parliamentary Assembly	3.7
NATO Rapid Deployable Corps – GREECE	1.1

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NATO Rapid Deployable Corps – GERMANY/NETHERLANDS	Not available
NATO Rapid Deployable Corps – ITALY	2.6
NATO Rapid Deployable Corps – SPAIN	0.8
NATO Rapid Deployable Corps – TURKEY	1.0
NATO Special Operations Coordination Centre	Not available
SHAPE International School	3.2
<i>Sub-total</i>	27.7
<i>Grand total</i>	10,167.7

¹ All amounts in Millions of EURO (MEUR).

² The New NATO Headquarters and the NATO Battlefield Information Collection & Exploitation Systems Group Executive financial information is classified.

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, 2014 Financial Statements have not yet been submitted to the IBAN. Statements are often only 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.

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**ANNEX C
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NSIP EXPENDITURE BY NATIONS AND AGENCIES AS AT END 2015

	MEUR Expenditure Reported (1)	MEUR Expenditure Certified (2)	MEUR Expenditure Certified %
Canada	80	80	100
Luxembourg	59	59	100
Portugal	579	564	97
France	1,013	961	95
United Kingdom	2,535	2,396	95
Estonia	31	29	94
Denmark	729	669	92
USA	1,358	1,243	92
Netherlands	929	850	91
Germany	5,867	5,271	90
Norway	2,168	1,887	87
Turkey	4,549	3,936	87
Lithuania	43	35	81
Belgium	817	653	80
Italy	2,309	1,693	73
Greece	1,869	1,269	68
Poland	400	200	50
Spain	230	111	48
Czech Republic	127	56	44
Hungary	141	61	43
Bulgaria	45	12	27
Latvia	32	0	0
Slovakia	35	0	0
Slovenia	33	0	0
Romania	34	0	0
Croatia	2	0	0
Iceland	3	0	0
SUBTOTAL NATIONS	26,018	22,034	85
NADGEMO	33	33	100
SHAPE	977	804	82
NCIA	5,522	2,888	52
NSPA	1,100	300	27
ACT	14	2	14
SUBTOTAL AGENCIES/COMMANDS (3)	7,646	4,027	53
TOTAL	33,664	26,061	77

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.

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ANNEX D
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NSIP SLICE PROGRAMME: NUMBER AND VALUE OF PROJECTS

Evolution December 2014 – December 2015

NATION/ AGENCY	OPEN PROJECTS DECEMBER 2014 (EUR)		OPEN PROJECTS DECEMBER 2015 (EUR)		DIFFERENCE (number of projects)	% DIFFERENCE (value)
	N°	Value	N°	Value		
Belgium	8	65,001,318	5	57,683,975	-3	- 11%
Denmark	2	16,732,111	1	16,724,522	-1	=
Germany	6	53,527,951	4	43,557,483	-2	- 19 %
Greece	35	397,229,944	30	352,588,841	-5	- 11 %
Italy	37	315,296,504	26	237,119,351	-11	-25 %
Norway	7	214,050,891	6	211,780,968	-1	- 1%
Portugal	2	203,793,123	0	0	-2	-100%
Turkey	31	349,173,100	23	225,511,051	-8	- 35 %
UK	12	71,355,220	10	58,975,455	-2	- 17 %
USA	2	10,368,000	2	10,368,000	0	0
NCIA	9	27,614,821	0	0	-9	- 100%
TOTALS	151	1,724,142,983	107	1,214,309,646	-44	- 30%

Source: IBAN data.

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ANNEX E
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**International Board of Auditors for NATO (IBAN)
Annual Performance Plan 2016**

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 2016 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 2016.

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.

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<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 our 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 certification	At least 1.5
Amount reviewed 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.

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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.

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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	Minimum of 40 hours per year
% of financial audit reports on NATO bodies issued 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

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LIST OF ABBREVIATIONS

ACO	Allied Command Operations
ACT	Allied Command Transformation
BC	Budget Committee
Board/IBAN	International Board of Auditors for NATO
BGX	NATO BICES Group Executive
CNAB	Competent National Audit Bodies
COFFA	Certificate of Final Financial Acceptance
Council	North Atlantic Council
CPR	Civilian Personnel Regulations
DCPS	NATO Defined Contribution Pension Scheme
EUR	Euro
FRP	Financial Rules and Procedures
FORACS	NATO Naval Forces Sensors and Weapon Accuracy Check Sites
HQ JFC	Headquarters Joint Force Command
IC	Investment Committee
IFAC	International Federation of Accountants
IMS	International Military Staff
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
IS	International Staff
ISAF	International Security Assistance Force
JFAI	Joint Formal Acceptance Inspection
MC	Military Committee
MEADS	Medium Extended Air Defence System
MSIAC	Munitions Safety Information Analysis Centre
NAC	North Atlantic Council
NAEW&C	NATO Airborne Early Warning and Control
NAF	NATO Accounting Framework
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
NOR	NATO Office of Resources
NPA	NATO Parliamentary Assembly
NCIA	NATO Communications and Information (NCI) Agency

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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
VNC	Voluntary National Contribution

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