	<b>NATO</b>	NORTH ATLANTIC COUNCIL
	<b>OTAN</b>	CONSEIL DE L'ATLANTIQUE NORD

**NATO UNCLASSIFIED**  
Releasable to North Macedonia

30 April 2020

**DOCUMENT**  
C-M(2020)0004-AS1 (INV)

## **IBAN ANNUAL ACTIVITY REPORT 2018 - 2017**

### **ACTION SHEET**

On 29 April 2020, under the silence procedure, the Council noted the IBAN Annual Activity Report for 2018 and 2017 attached to C-M(2020)0004 (INV), agreed the conclusions of the RPPB report, and agreed to the public disclosure of the report and the IBAN Annual Activity Report for 2018 and 2017.

(Signed) Jens Stoltenberg  
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2020)0004 (INV)

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18 March 2020

**DOCUMENT**  
C-M(2020)0004 (INV)  
**Silence Procedure ends:**  
**29 Apr 2020 17:30**

## **IBAN ANNUAL ACTIVITY REPORT 2018 - 2017**

### **Note by the Secretary General**

1. I attach the Resource Policy and Planning Board (RPPB) report on the International Board of Auditors for NATO (IBAN) Annual Activity Report for 2018 and 2017 (see Annex 1). I also attach the IBAN Annual Activity Report for 2018 and 2017 (see Enclosure 1).
2. I do not believe this issue requires further discussion. Therefore, **unless I hear to the contrary by 17:30 hours on Wednesday, 29 April 2020**, I shall assume the Council noted the IBAN Annual Activity Report for 2018 and 2017, agreed the conclusions of the RPPB report, and agreed to the public disclosure of this report and the IBAN Annual Activity Report for 2018 and 2017.

(Signed) Jens Stoltenberg

Annex 1: RPPB report  
Enclosure 1: IBAN audit + financial statements

1 Annex  
1 Enclosure

Original: English

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## **IBAN ANNUAL ACTIVITY REPORT 2018 - 2017**

### **Report by the Resource Planning and Policy Board (RPPB)**

#### **References:**

- A. IBA-M(2019)0001-REV1
- B. C-M(2007)0009 and PO(2015)0052

## **INTRODUCTION**

1. The International Board of Auditors for NATO (IBAN) report provides an overview of all IBAN audit activities undertaken in 2017 and 2018. Additionally, the IBAN report contains information on the management of IBAN's resources, IBAN's performance, and other developments within IBAN as an audit organization.

2. This report contains the RPPB's observations concerning the IBAN's Annual Activities Report 2018-2017 with particular focus on any overarching issues the RPPB believes deserve further attention.<sup>1</sup> Note the RPPB provides its own separate report on each individual IBAN audit report to Council.

## **DISCUSSION**

### *Key IBAN Activities and Usage of Resources*

3. The IBAN executed its mandate by conducting annual financial statement audits of NATO bodies<sup>2</sup>; delivering Certificates of Final Financial Acceptance (COFFAs) on NATO Security Investment Programme (NSIP) projects; and carrying out performance audits of selected NATO bodies, operations or programmes.

4. In 2018 the IBAN issued a total of 42 auditor's opinions on financial statements, of which 29 related to NATO bodies for the 2015, 2016 and 2017 fiscal years. In 2018 the IBAN issued two performance audits<sup>3</sup> and 113 COFFAs, certifying over EUR 287 million worth of NSIP expenditures.

5. In 2017 the IBAN issued a total of 30 auditor's opinions on financial statements in total, 26 related to NATO bodies for the 2015 and 2016 fiscal years. In 2017 the IBAN issued

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<sup>1</sup> NFR Article 16, FRPXVI (1), the roles and responsibilities of Audit Advisory Panels are distinct and separate from those performed at the governance level by audit committees such as the RPPB which continues to serve as the de facto audit committee advising the North Atlantic Council on audit issues.

<sup>2</sup> The IBAN also performs financial statement audits of non-NATO multi-nationally funded or sponsored bodies with close cooperative links to NATO.

<sup>3</sup> On the need for NATO to take actions to prevent, detect and respond to fraud and corruption; and the NATO Evaluation System.

three performance audits<sup>4</sup> and 618 COFFAs, certifying EUR 1.2 billion worth of NSIP expenditures.

6. In 2018, 85% of IBAN staff days were expended on audits, the remaining 15% were expended on staff training and administrative activities, which includes supporting the Board. Of the audit days, financial statement audit activities made up 60% of the total and performance audit activities represented 35%, exceeding the target of 25%. The remaining 5% of activity was attributed to NSIP activities which was a reduction on prior years. The total direct cost of audit (staff salary and travel costs) was EUR 3.2M in 2018 for audit scope covering over EUR 10 billion.

#### *Financial Statements audits*

7. The Board notes that compared to prior years, NATO Bodies have made significant progress on timeliness of reporting and improvements in financial reporting, which led to improved IBAN audit opinions and a decrease in the quantity and severity of IBAN observations. Of the 48 audits opinions issued for the 24 NATO Bodies and Reporting Entities in 2018, 33 were unqualified compared to 23 the year before and this represents an improvement of 21%. No disclaimers were received for 2017 versus 2 for 2016. The improvements are a result of organisation-wide efforts throughout the NATO Bodies, led primarily by the Financial Controllers.

8. The improvement in audit opinions was more significant in audit opinions on financial statements. Audit opinions on compliance have also improved, but two compliance opinions regressed from 2016, due to non-compliance with NATO Civilian Personnel Regulations with weaknesses in controls over leave and the late submission of financial statements.

9. The Board notes that the revised NATO Financial Regulations (NFRs)<sup>5</sup> and Financial Rules and Procedures (FRPs)<sup>6</sup> have put increased attention on systems of internal control, tighter control on the use of budgetary credits and stricter adherence to financial reporting deadlines. However, one of the risks to the achievement of the desired improvements is the lack of consistent implementation approaches throughout NATO. The Board notes the IBAN view that there is still much that can be done to improve consistency, which in turn should lead to gains in efficiency and effectiveness. The Board will continue to keep the effectiveness of the financial regulatory framework under review and assess the need for further improvements, including the upcoming review of the NFR and FRPs in 2020.

10. NATO's financial management and reporting in 2017 was a year of positive progress. Improvements, primarily in the Financial Controller's area of responsibility, have

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<sup>4</sup> On the assessment of outcomes and benefits of NSIP Projects; the need to revise the NATO-wide framework on Morale and Welfare Activities; and the NATO budget preparation and approval processes.

<sup>5</sup> C-M(2015)0025

<sup>6</sup> SG(2015)0130

been implemented to meet the deadlines. These changes have led to 23 of 24 NATO financial statements and corresponding IBAN audit reports noted or approved by the NAC before 31 December 2018<sup>7</sup>. The 24<sup>th</sup> IBAN audit report was noted or approved by the NAC in February 2019.

*NATO Security Investment Programme (NSIP)*

11. The need for timely close-out of NSIP projects has been a recurrent concern to the IBAN and the Board and has therefore been the subject of specific taskings to reduce the backlog of unaudited expenditures and ensure prompt submissions of accounts for audit. 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. The Board is due to receive an update from the Investment Committee with particular emphasis on the close-out of projects that were completed by mid-2014<sup>8</sup>. At 31 December 2018, a total of 53 projects amounting to EUR 489 million still remain to be closed.

12. The IBAN conducted all NSIP certification work requested by nations and this amounted to 5% of total IBAN audit days. The Board expresses concern with fewer national requests for audit compared to prior years and fully shares the IBAN's concern with regard to the backlog of unaudited expenditures and the need to ensure more prompt host nation submissions of accounts for audit.

*Performance audits*

13. IBAN conducted 5 pertinent performance audits in 2017 and 2018, on which the Board has submitted its own reports to Council with conclusions and recommendations., and the use of IBAN staff resources on performance audits in 2017 and 2018 (28% and 35% respectively against the yearly target of 25% set in PO(2013)0253)].

14. The Board recognises that IBAN has the right to set audit objectives and priorities, and decide how its resources should be allocated. The Board welcomes the extra focus on the conduct of performance audits and in particular the willingness of the IBAN to consider inputs from stakeholders when selecting focus areas. On the other hand, the RPPB underlines that this additional focus should not be to the detriment of the two other important IBAN functions, the audit of financial statements of the NATO bodies and the NSIP audits.

*Public disclosure*

15. All 2015, 2016 and 2017 IBAN financial statement audit reports of NATO Bodies have been publicly released on NATO's website. 3 of the 5 performance audit reports have been published on the NATO website. 2 reports have not been published due to containing sensitive commercial or restricted information. Disclosure of audit reports is a significant

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<sup>7</sup> All outstanding 2015 and 2016 financial statements and corresponding IBAN audit reports were noted by the NAC during 2018.

<sup>8</sup> Refer to C-M(2014)0052 and C-M(2017)0030.

step forward towards better accountability and improved transparency and an opportunity to underline NATO's commitment to good financial governance and transparency.<sup>9</sup> Therefore, the IBAN Annual Activity Report 2018-2017 should be made available to the public along with the present report.

## **CONCLUSIONS**

16. Significant progress has been demonstrated by the NATO Bodies in 2017, particularly on the financial statement opinions: unqualified opinions increased to 69% for 2017 versus 48% for 2016; and no disclaimers of opinion were received for 2017 versus 2 in 2016. However, the RPPB recognises that many issues remain outstanding and emphasises the need to continue the momentum to improve NATO's financial management and compliance;

17. The revised NFRs and FRPs are important in terms of NATO's financial management and reporting. One of the risks impeding the achievement of the desired improvements is the lack of consistent implementation approaches throughout NATO. The Board will continue to keep the effectiveness of the financial regulatory framework under review and assess the need for further improvements;

18. There have been improvements in timeliness of financial reporting and the Board reiterates the importance of timely financial reporting as it is a cornerstone of financial transparency and accountability to NATO's external stakeholders;

19. With regard to the closure of NSIP projects, the Board fully shares the IBAN's concern with regard to the backlog of unaudited expenditures and the need to ensure more prompt host nation submissions of accounts for audit. The Board notes that it is due to receive an update from the Investment Committee with particular emphasis on the close-out of projects that were completed by mid-2014;

20. 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 Board welcomes the number of pertinent performance audits however underlines that this additional focus should not be to the detriment of the two other important IBAN functions, the audit of financial statements of the NATO bodies and the NSIP audits;

21. The continued increase in the rate of public disclosure of audit reports contributes to better accountability and improved transparency, and underlines NATO's commitment to good financial governance and transparency;

22. In accordance with C-M(2007)0009 and PO(2015)0052, the IBAN Annual Activity Report 2018-2017 should be made available to the public along with the present report.

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<sup>9</sup> PO(2015)0052

**RECOMMENDATIONS**

23. The Board recommends that Council:
- 23.1. note the IBAN report IBA-M(2019)0001-REV1 along with the present report;
- 23.2. agree the conclusions of the Resource Policy and Planning Board as outlined in paragraphs 16-22; and
- 23.3. agree that the IBAN Annual Activity Report 2018-2017 (IBA-M(2019)0001-REV1) should be made available to the public along with the present report, as per C-M(2007)0009 and PO(2015)0052.

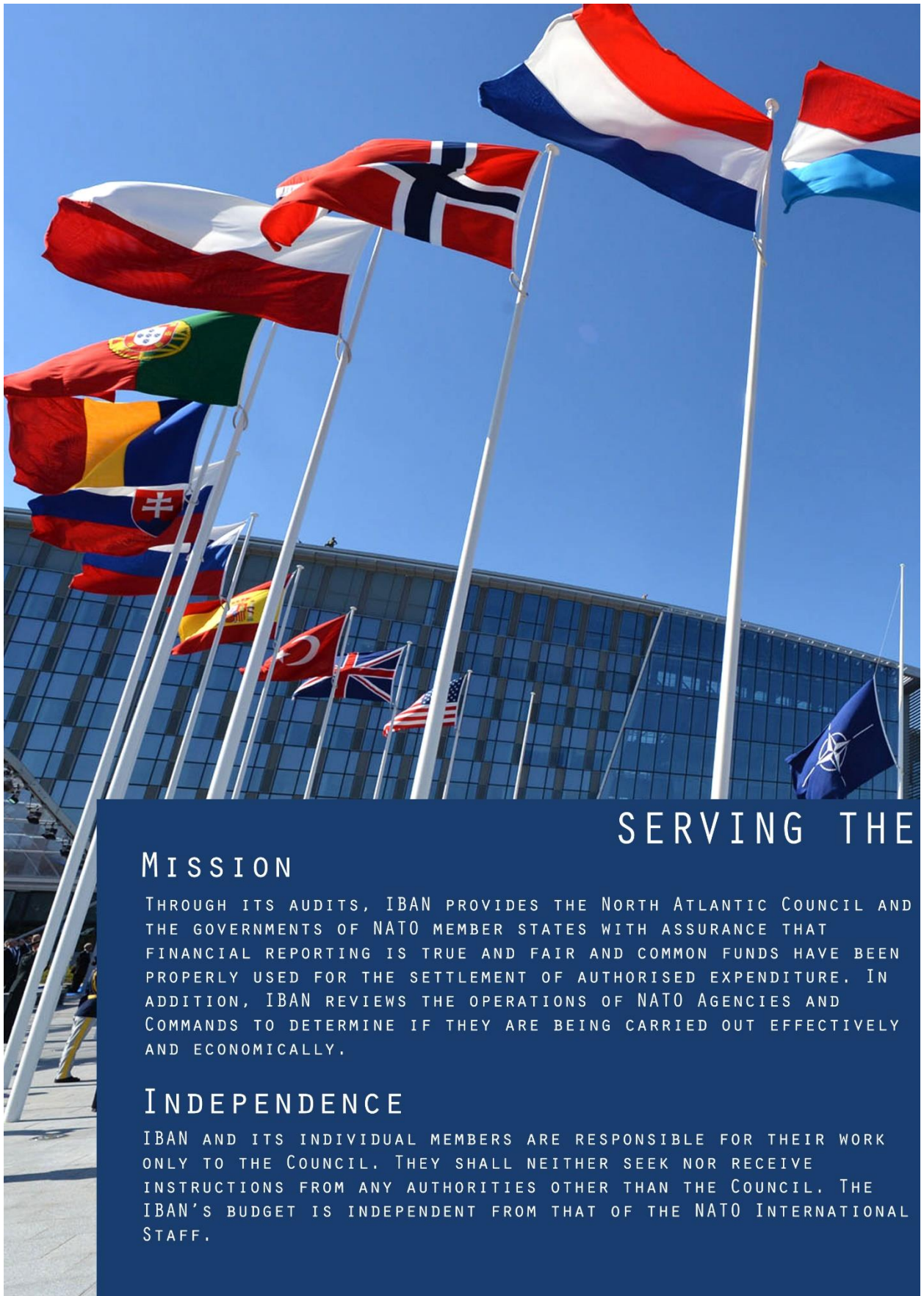


INTERNATIONAL  
BOARD OF AUDITORS  
FOR NATO

COLLEGE INTERNATIONAL  
DES AUDITEURS EXTERNES  
DE L'OTAN

ANNUAL ACTIVITY REPORT 2018-2017  
RAPPORT ANNUEL D'ACTIVITE 2018-2017





## SERVING THE

### MISSION

THROUGH ITS AUDITS, 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, IBAN REVIEWS THE OPERATIONS OF NATO AGENCIES AND COMMANDS TO DETERMINE IF THEY ARE BEING CARRIED OUT EFFECTIVELY AND ECONOMICALLY.

### INDEPENDENCE

IBAN AND ITS INDIVIDUAL MEMBERS ARE RESPONSIBLE FOR THEIR WORK ONLY TO THE COUNCIL. THEY SHALL NEITHER SEEK NOR RECEIVE INSTRUCTIONS FROM ANY AUTHORITIES OTHER THAN THE COUNCIL. THE IBAN'S BUDGET IS INDEPENDENT FROM THAT OF THE NATO INTERNATIONAL STAFF.



# NATIONS

## INTEGRITY

IBAN CONDUCTS ITS WORK IN A FAIR, OBJECTIVE, BALANCED, UNBIASED AND NON-POLITICAL MANNER, USING ALL RELEVANT EVIDENCE IN ITS ANALYSIS AND FORMULATIONS OF AUDIT OPINIONS.

## PROFESSIONALISM

IBAN'S AUDIT WORK IS PLANNED, EXECUTED AND REPORTED IN ACCORDANCE WITH THE AUDITING PRINCIPLES AND GUIDELINES OF THE INTERNATIONAL ORGANISATION OF SUPREME AUDIT INSTITUTIONS, COMPLEMENTED BY THE AUDIT STANDARDS OF THE INTERNATIONAL FEDERATION OF ACCOUNTANTS FOR FINANCIAL AUDITS. BOARD MEMBERS AND AUDITORS HAVE THE NECESSARY COMPETENCIES AND QUALIFICATIONS TO PERFORM THEIR WORK.

## FOREWORD BY THE CHAIRMAN

Our role as NATO's independent external auditor is to provide governing bodies, institutional stakeholders, at both NATO and national level, and the public with professional, independent, and objective reports on the raising and spending of funds collected by the organization and by which taxpayers of allied Nations contribute to resourcing the efficient conduct of the missions and the effective achievement of the objectives of the Alliance.

Under its Nations-approved Charter, the International Board of Auditors for NATO (IBAN) is responsible for financial and performance audits of all NATO bodies, some non-NATO multi-nationally funded entities, and for certifying that expenditures incurred for the delivery of the NATO Security and Investment Programme (NSIP) are carried out in compliance with the regulations in force and authorisations granted. In doing so, IBAN contributes to promoting transparency and accountability, pillars of a sound and democratic management, in the direction taken by the Heads of Member States at the Wales Summit in 2014.

For some years now, IBAN has continuously cared for and engaged into reviewing and improving its working practices and the efficient and effective discharge of its duties to Nations, while also developing a confident and productive relationship with NATO's stakeholders and governing bodies. It is in this spirit that we initiated deep and long-term studies in 2018 on the performance of our mandate for the NSIP and, with regards to financial management and financial auditing, on the current financial reporting and accountability framework. Those studies will feed into NATO's own review of its financial rules and financial management. Taken together, the intention remains to provide a meaningful contribution towards establishing an optimal accountability environment for the benefit of those who contribute either to resourcing the Alliance or to making decisions within NATO.

In 2017 and 2018 IBAN delivered as many performance audit reports (5 in total) as its staff resources allowed given the high priority of such audits. Considering the relative importance of financial and performance auditing, the IBAN will strive in the future to adapt the respective capabilities, namely in terms of staffing, to the needs and concerns of the Nations.

There is no accountability without an independent system that holds those accountable for their obligation to achieve goals, comply with rules, or performing in delivering what their constituents expect from them.

Going forward, IBAN will resolutely continue to serve the Nations in this regard.

Hervé-Adrien Metzger  
Chairman  
International Board of Auditors for NATO



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CHAPTER 1  
OUR MANDATE & ROLE AS  
NATO'S EXTERNAL AUDITORS

## **CHAPTER 1**

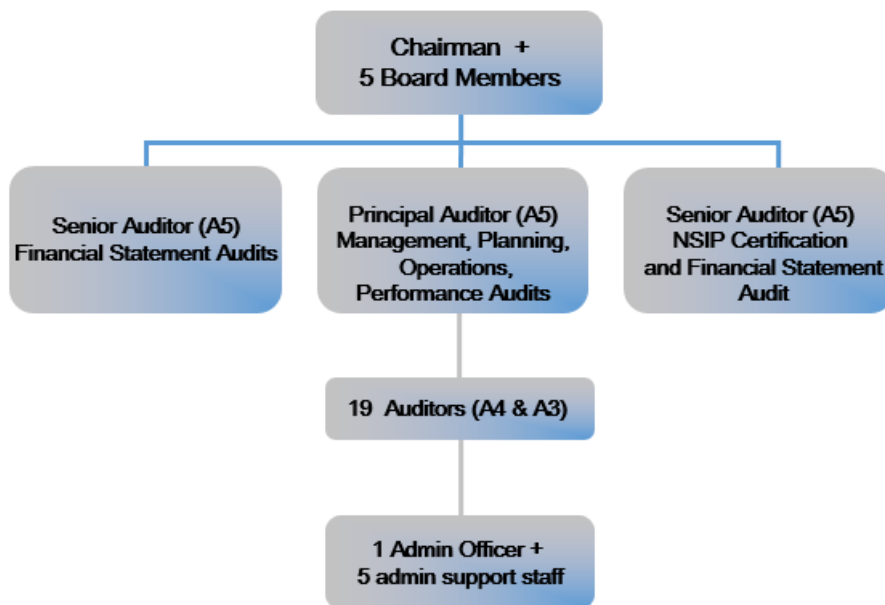
### **OUR MANDATE AND ROLE AS THE EXTERNAL AUDITOR FOR NATO**

1.1 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. Our primary mandate is to provide independent assurance and advice to the Council and the Governments of member states that:

- the financial statements of the NATO bodies present fairly their financial position, financial performance, and cash flows, and that the funds have been properly used for the settlement of authorised expenditure and are in compliance with the regulations in force;
- the activities of the NATO bodies were carried out with efficiency, effectiveness and economy; and
- the expenditures incurred by member states (Host Nations) or NATO bodies in respect of the NATO Security and Investment Programme (NSIP) were carried out in compliance with the regulations in force.

1.2 IBAN is composed of six independent Board Members appointed by the Council from among candidates nominated by the member countries. The IBAN and its individual members are responsible for their work only to the Council. Board Members serve for a non-renewable four year term and are fully paid for by their respective national administrations. During 2017 and 2018, the nations of Canada, Denmark, France, Germany, Greece, the Netherlands, Spain, and Turkey were represented by Board Members at IBAN. The Board Members are supported by an audit and administrative staff that are paid for by NATO common funding. The IBAN's organisation is shown below in Figure 1.





1.3 IBAN's independent Board Members provide that all NATO member states, regardless of size, can be represented in NATO's external audit structure. This results in collective ownership of, and collective responsibility for, NATO's external audit function. Since IBAN's establishment, 18 NATO nations were represented at Board Member level.

1.4 IBAN is responsible only to the Council, but we engage with and work closely with many other subordinate governing bodies. NATO committees include the Resource Policy and Planning Board (RPPB), Budget Committee (BC), and Investment Committee (IC). In addition, we aim to present our financial statements reports and performance audit reports to the relevant governing body, either one of the committees above or, in the case of NATO agencies and some non-NATO bodies, to the relevant Agency Supervisory Board, Board of Directors, or Steering Committee.



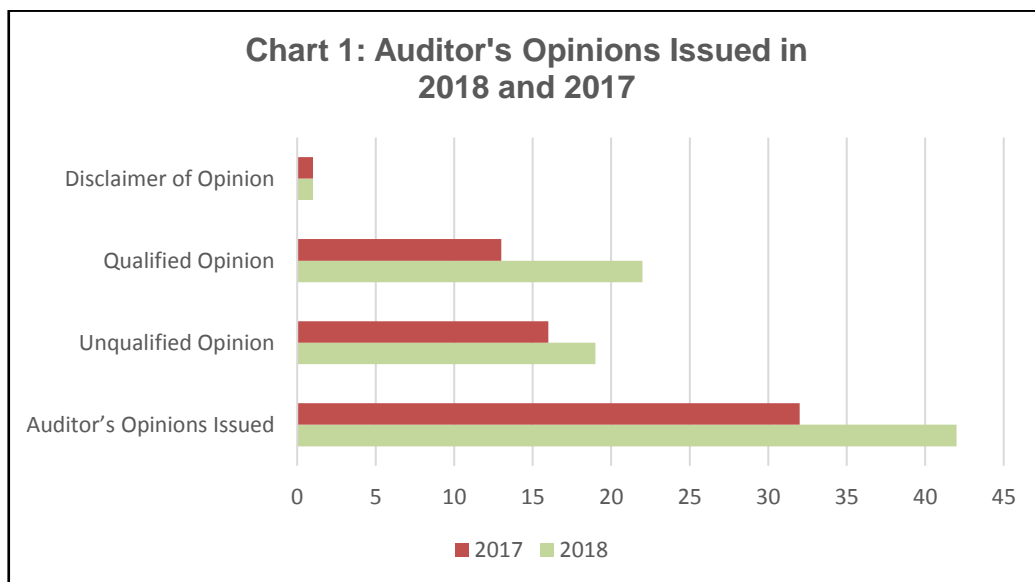
CHAPTER 2  
OUR KEY ACTIVITIES &  
USAGE OF RESOURCES

## CHAPTER 2

### OUR KEY ACTIVITIES AND USAGE OF RESOURCES

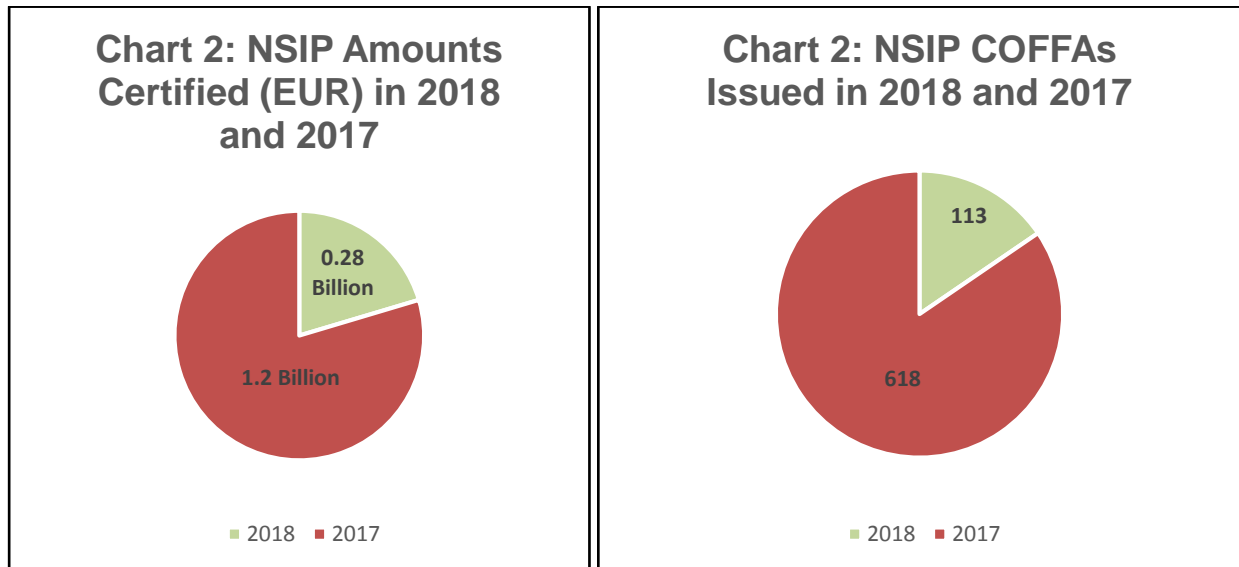
2.1 To execute our mandate, we conduct 24 annual financial statement audits of NATO agencies, military commands, project offices, and benefit plans. In addition, IBAN carries out performance audits of selected NATO bodies, operations, or programmes. We also deliver Certificates of Final Financial Acceptance (COFFAs) on NSIP projects. Lastly, we also perform financial statement audits of some non-NATO multi-nationally funded or sponsored bodies with close cooperative links to NATO, usually on a cost reimbursable basis. In 2018, our total audit scope covered more than EUR 10.5 billion of expenditures for financial statements and the NSIP.

2.2 In 2018 we issued 29 auditor's opinions on financial statements of NATO bodies and 13 auditor's opinions on non-NATO bodies. The total number of opinions issued in 2018 compared to 2017, and their type, is shown in Chart 1 below.

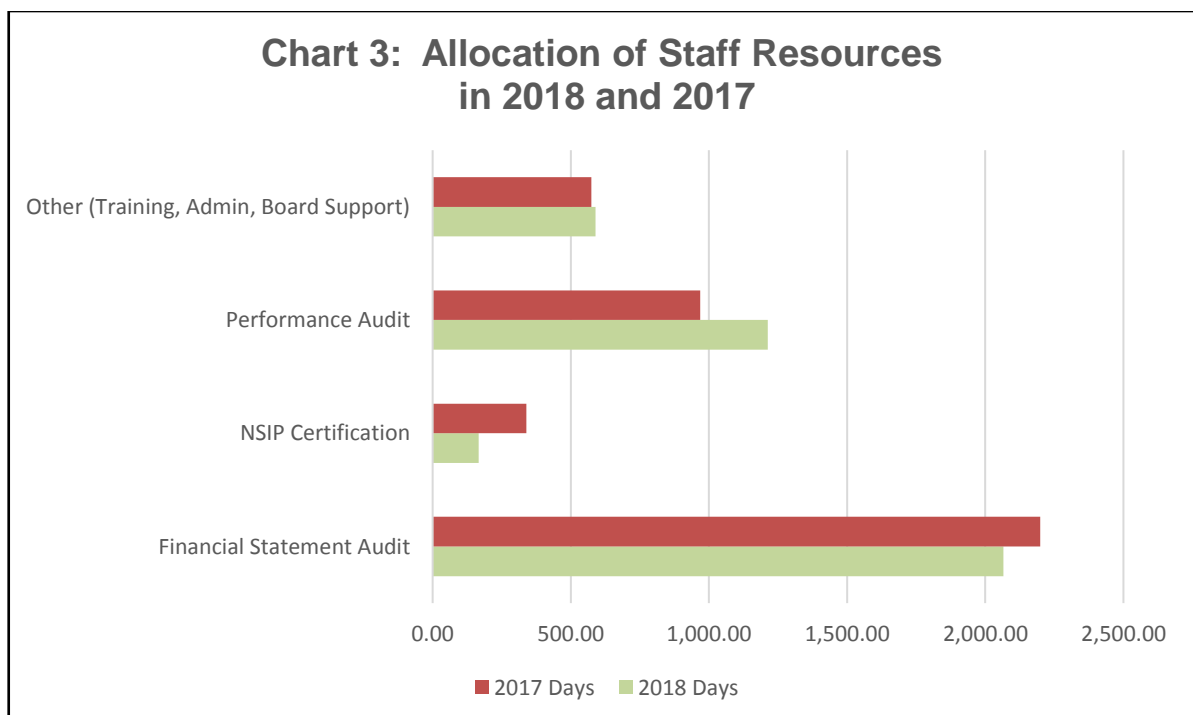


2.3 It is our aim to carry out at least one substantial performance audit per year, complemented by a number of smaller studies. In 2018 we issued two performance audits to Council on (1) the need for NATO to take actions to prevent, detect and respond to fraud and corruption and (2) NATO Evaluation System. In 2017 we issued three performance audit reports to Council which were on (1) the assessment of outcomes and benefits of NSIP Projects, (2) the need to revise the NATO-wide framework on Morale and Welfare Activities (MWA), and (3) the NATO budget preparation and approval processes.

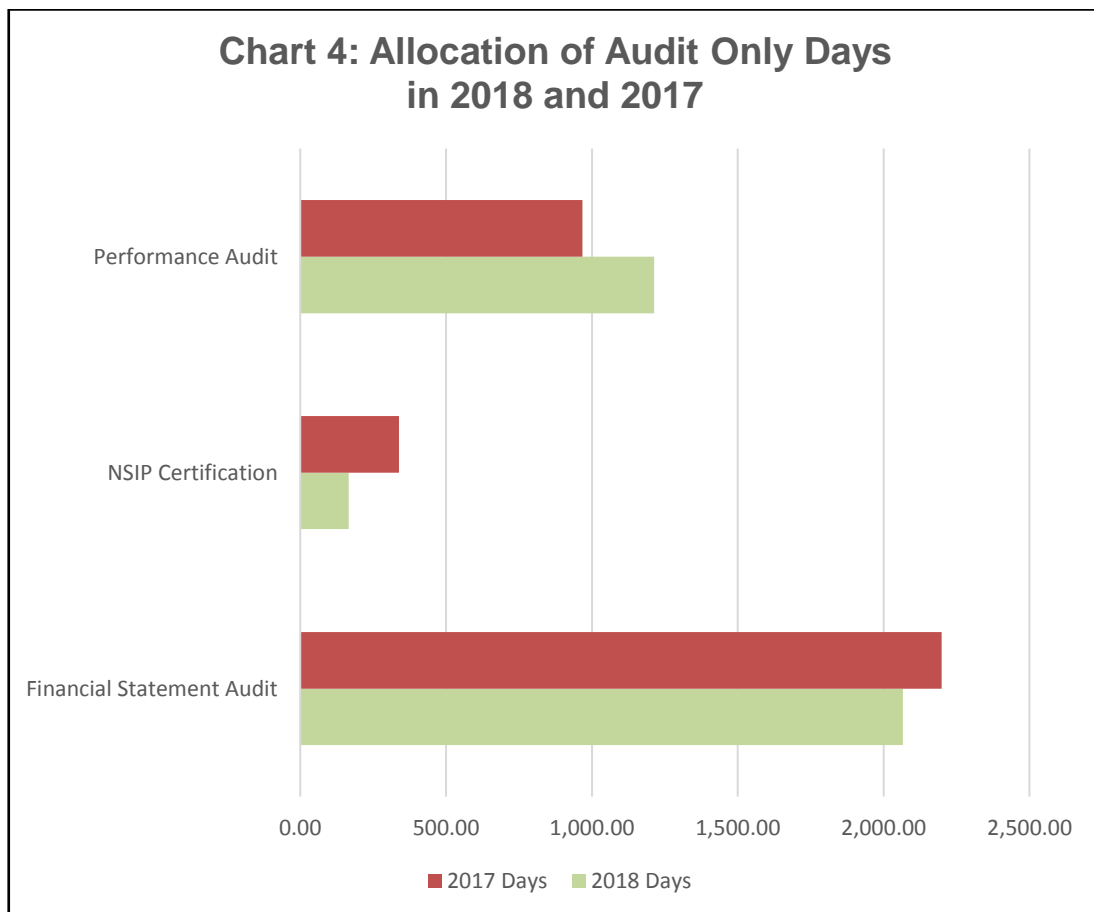
2.4 In 2018 we certified over EUR 287 million worth of NSIP expenditures. The amount certified in 2018 compared to 2017, and the number of COFFAs issued, is shown in Chart 2 below.



2.5 Chart 3 below shows the use of our audit staff resources in 2018 and 2017 with the number of days (and the percentage it represents of the total) expended on each type of activity. In 2018 we used a total of 4,034 auditor staff days. Of these, 3445 (85%) were expended on audits. The remaining 589 days (15%) were expended on staff training, administrative activities, and supporting the work of the Board itself.

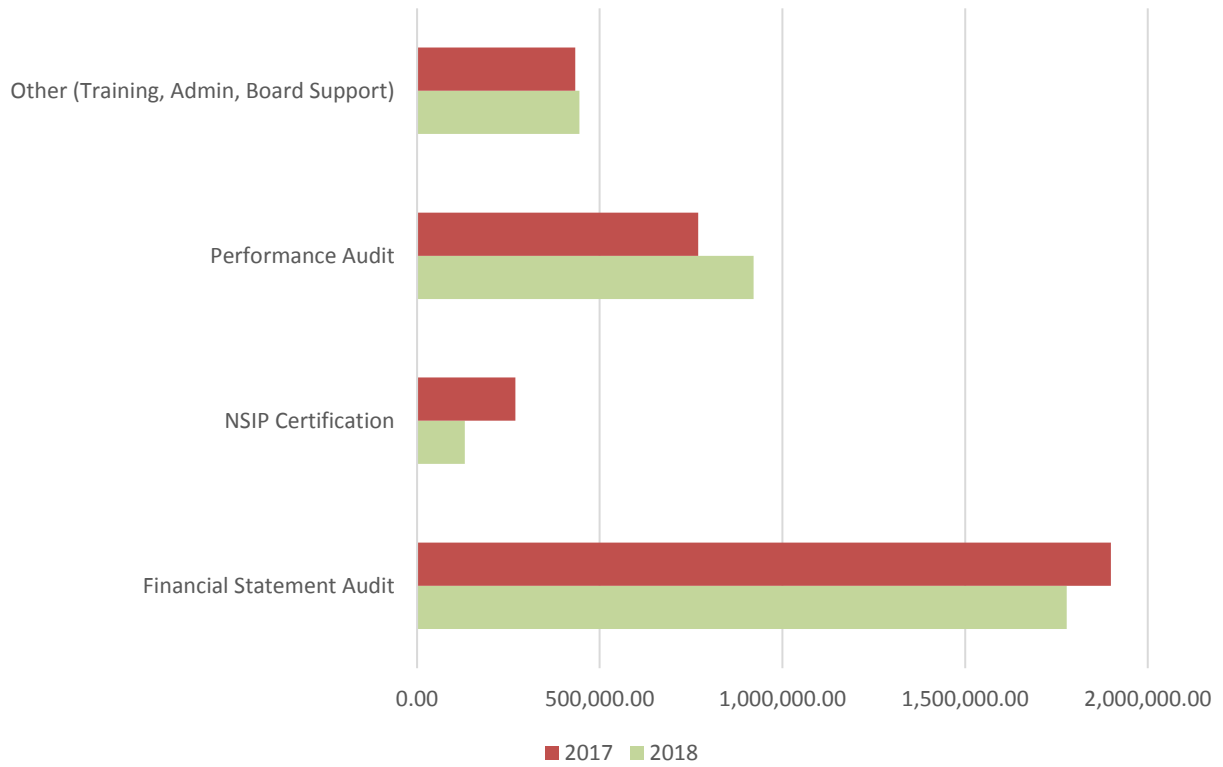


2.6 Chart 4 below shows the allocation of staff days used only for financial statements, NSIP and performance audit work in 2018 and 2017. As a percentage of staff days assigned to audit work, performance audit represented 35% of the IBAN's audit only days, which exceeded our target of 25%. The audit resources for financial statement audits in terms of audit only days was 60% in 2018. Resources in terms of audit only days for NSIP in 2018 dropped to 5% which was the result of fewer national requests for audit, lower value projects certified, and fewer projects authorised for conversion to lump sum. This resulted in fewer COFFAs being issued in 2018 compared to 2017, but the IBAN conducted all NSIP certification work requested by nations.



2.7 The direct cost (audit staff salary and travel costs) of the audits and other IBAN activities for 2018 and 2017 is shown in Chart 5 below in EUR. The total direct cost of the audit was EUR 3.2 million in 2018.

**Chart 5: Direct Cost of the Audit in Euro for 2018 and 2017**







CHAPTER 3  
OUR CONTRIBUTION TO THE  
STRENGTHENING OF ACCOUNTABILITY &  
CORPORATE GOVERNANCE WITHIN NATO

## CHAPTER 3

### ***OUR CONTRIBUTION TO THE STRENGTHENING OF ACCOUNTABILITY AND CORPORATE GOVERNANCE WITHIN NATO***

3.1 The IBAN contributes to the strengthening of accountability and corporate governance within NATO through our financial and performance audits. While financial audits are generally performed on an annual or multi-annual basis, specific reviews are performed on more of an ad-hoc basis. Through its performance audits IBAN also contributes to accountability and transparency at NATO. We perform our financial, compliance and performance audit mandate in accordance with International Organisation of Supreme Audit Institutions (INTOSAI) standards.

3.2 We aim to achieve this by the following:

- Provide independent assurance that the financial statements present fairly the financial position and financial performance of the entity and that the funds have been properly used in compliance with the regulations in force.
- Contribute to the development of a sound and consistent financial reporting environment, and
- Enhance relationships with our key stakeholders.

3.3 Each year we audit the financial statements of 24 annual financial statement audits of NATO agencies, military commands, project offices, and benefit plans. In addition, we also audit some 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 2018, our audit scope for financial statement audits amounted to more than EUR 10 billion.

3.4 NATO bodies have a varying degree of autonomy in managing their operations. All NATO bodies are subject to the NATO Accounting Framework (NAF) and the NATO Financial Regulations (NFRs) that are approved by the Council and that provide a high level financial and budgetary framework. These NFRs 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.

3.5 Financial transparency and accountability is an important topic at NATO. At the Wales Summit in September 2014, the North Atlantic Council agreed to further work in a number of areas including reforming governance and transparency and accountability, especially in the management of NATO's financial resources. In the spirit of transparency, NATO publishes the civilian and military budget totals, as well as the NATO Security Investment Programme (NSIP) annual ceiling. NATO also publishes all unclassified financial statements of NATO Bodies, including the IBAN audit opinion, and audit



observations and recommendations. A decision was also made to make financial statements unclassified wherever feasible.

3.6 While acknowledging that significant improvements had been made in the past years, a considerable simplification of NATO's Financial Reporting and Accountability Framework (FRAF) is possible, while improving the quality of financial information in support of decision-making. Moreover, accountability and transparency to external stakeholders can be significantly improved at the same time.

## **ALLOCATION OF RESOURCES**

3.7 Amounts audited per entity range from less than EUR 0.5 million to over EUR 2.5 billion. We have 13 of our 19 auditor posts dedicated to financial statement audits and resources allocated to financial statement audits in 2018 and 2017 represented 60% and 63% respectively of the total number of our available staff audit days.

## **AUDIT METHODOLOGY AND CONDUCT OF AUDITS**

3.8 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 agencies, military commands, project offices, benefit plans, and the results of their operations, in accordance with the NAF (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 INTOSAI, complemented, as and when required, by the International Standards on Auditing issued by the International Federation of Accountants (IFAC). 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.

3.9 Audits are conducted on the auditee site by auditors, under the supervision of our Senior Auditors and Board Members. All NATO bodies are audited every year. Non-NATO bodies are usually audited on a rotational basis strictly by request, but some, such as the NATO Parliamentary Assembly and the NATO Missile Firing Installation, are audited each year.

## **FINANCIAL STATEMENT AUDIT WORK IN 2018**

3.10 In 2018 we issued 37 financial audit reports on NATO and non-NATO bodies comprising 42 Auditors' Opinions on the financial statements and on compliance. These audit reports covered financial years 2015, 2016, and 2017. 29 of the audit opinions were for NATO financial statements and 13 were for non-NATO bodies. Of the opinions given, 19 were unqualified, 22 were qualified, and 1 was a disclaimer of opinion.

3.11 Of the 23 modified opinions we issued, 15 were for NATO bodies, project offices, or benefit plans (see Annex A). As a percentage of the audit opinions given for NATO financial statements only, 52% were qualified or disclaimed. The financial statement audit reports issued in 2018 included observations on a range of issues or errors which can affect the audit opinion if they are material. In addition, other observations were communicated to NATO and non-NATO bodies in Management Letters. Each year we follow-up on the status of all observations raised in prior years' audit reports.

## **REVISION OF INDEPENDENT AUDITOR'S REPORT**

3.12 In late 2018 IBAN revised its Independent Auditor's Report template, which will be used for the 2018 financial year and onwards. Firstly, the Auditor's Report on the Financial Statements was amended in line with the revised international auditing standards on forming an opinion and reporting on financial statements. This revision requires us to provide more information in the report, particularly on our code of ethics and the aspect of going concern. Secondly, the Auditor's Report on Compliance was amended in line with our Charter, which requires us to conduct our audits in accordance with INTOSAI standards.

3.13 Accordingly, IBAN will provide independent assurance and report annually to the North Atlantic Council about whether funds have been properly used for the settlement of authorised expenditure (propriety) and are in compliance with the regulations in force (regularity). Propriety relates to the observance of the general principles governing sound financial management and the conduct of public officials. Regularity concerns the adherence to formal criteria such as relevant regulations, rules and procedures. In accordance with INTOSAI standards, compliance auditing can either be transactions-based or based on specific subject-matter areas presenting a compliance risk.

## **STUDY ON THE NATO GENERAL PURPOSE FINANCIAL REPORTING AND ACCOUNTABILITY FRAMEWORK (FRAF)**

3.14 IBAN decided to conduct a study on the NATO general purpose Financial Reporting and Accountability Framework (FRAF). As the independent external eye and professional expert in financial matters of concern to NATO, IBAN believes it is time to open a discussion with our stakeholders on the effectiveness and efficiency of the current NATO FRAF. The main purpose of this study is to make observations and report on the purpose and suitability of the current FRAF.

3.15 It is of the utmost importance for NATO to be transparent and accountable, both to Nations and to NATO's external stakeholders. Financial Reporting does not serve an end in itself. As a basic principle, financial reports are designed to serve specific user needs for either decision-making or accountability purposes, or both. NATO should therefore strive towards having an effective (and efficient) FRAF. Based on the results of this study, IBAN may submit a Special Report to Council on this matter.

## **WEAKNESSES IN RISK MANAGEMENT AND INTERNAL CONTROL**

3.16 The requirements of the NFRs related to risk management and internal control cover all parts of NATO's operations, which goes well beyond financial and budgetary matters. However, NFRs mainly cover financial and budgetary matters. This inconsistency between the scope of the risk management and internal control requirements and the financial and budgetary nature of the NFRs, makes it unclear as to who in practice is responsible and accountable for their implementation. In our view, the NFR requirements related to internal control and risk management should be limited to only financial and budgetary matters. Additional requirements related to risk management and internal control over other areas such as operations could therefore be included in a separate set of guidelines.

## **IMPLEMENTATION OF REVISED NFRs AND FINANCIAL RULES AND PROCEDURES (FRPs)**

3.17 In terms of NATO's financial management and reporting 2017 was a year of progress. The revised NFRs and FRPs<sup>1</sup> instilled a greater focus on systems of internal control, tighter control on the use of budgetary credits and stricter financial reporting deadlines. While some progress has been made, it is not clear if the objective of significant improvement in financial management and reporting will be achieved.

3.18 In 2017, the BC started a thorough review and lesson learned exercise to assess the effectiveness of the NFRs and FRPs in improving the financial governance of NATO common funded entities. Several NATO Agencies only developed and approved their FRPs in 2017 and thus the lessons learned process will continue.

3.19 One of the risks impeding the achievement of the desired improvements is the lack of consistent implementation approaches throughout NATO. We have seen some progress in terms of improving consistency, such as the efforts to come to a basic and common layout for the primary financial statements and the development of NATO detailed accounting policies. However, on the whole, there is still much that can be done to improve consistency, which in turn, should lead to gains in efficiency and effectiveness that can result in reductions in resource requirements.

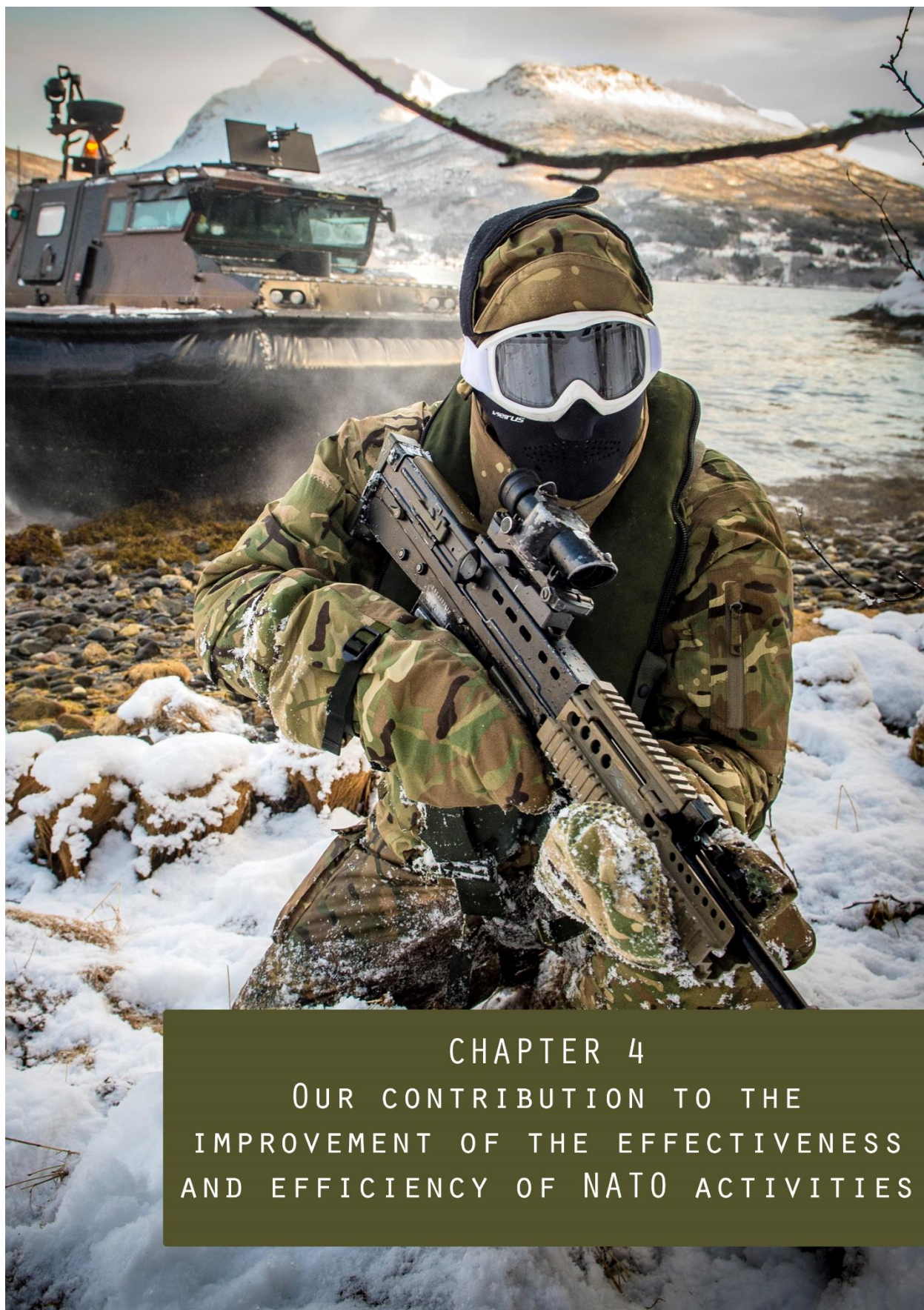
## **WEAKNESSES RELATED TO PROPERTY, PLANT & EQUIPMENT (PP&E), INTANGIBLE ASSETS AND INVENTORY**

3.20 While improvements are being observed, a number of large NATO bodies, continue to have problems accurately tracking and/or reporting such assets. In our view, causes of such problems include:

<sup>1</sup> The revised NFRs were approved in 2015, while the more detailed FRPs were approved in 2016.

- A weak history and culture of reporting such assets in NATO.
- Involvement of multiple NATO bodies in procurement, storage and use of the assets.
- The use of different accounting systems throughout NATO.
- Different sources of funding (e.g. NSIP, military budget) with different processes.
- The difficult nature of military operations (e.g. urgency and high rotation of personnel).

3.21 Detailed NATO accounting policies for PP&E, Intangible Assets and Inventory were developed and approved by Council in 2017. This is an important element in ensuring a comprehensive and consistent accounting treatment of assets in the Financial Statements of all NATO entities.



CHAPTER 4

OUR CONTRIBUTION TO THE  
IMPROVEMENT OF THE EFFECTIVENESS  
AND EFFICIENCY OF NATO ACTIVITIES



## **CHAPTER 4**

### ***OUR CONTRIBUTION TO THE IMPROVEMENT OF THE EFFECTIVENESS AND EFFICIENCY OF NATO ACTIVITIES***

4.1 The IBAN's audit mandate includes performance auditing of the activities of NATO bodies, operations, programmes and projects. IBAN provides independent analysis and recommendations to the Council on the effectiveness, efficiency and economy of specific NATO bodies, operations, programmes and projects. Our strategy is to increase the number of performance audits performed, focussing on the identification of opportunities for cost savings and more effective operations and activities by NATO.

4.2 To achieve this, we aim to conduct performance audits that meet the following criteria:

- Select audit topics of common interest to Council and the Nations,
- Perform audits that contribute to accountability and transparency within NATO, and
- Where possible, conduct cross-cutting audits that contribute to recommendations to be applied NATO-wide.

4.3 It is our aim to carry out at least one substantial performance audit per year, complemented by a number of smaller studies. In 2018 and 2017 we issued five performance audit reports to Council. These reports were on (1) the need for NATO to take actions to prevent, detect and respond to fraud and corruption, (2) NATO Evaluation System, (3) the assessment of outcomes and benefits of NSIP Projects, (4) the need to revise the NATO-wide framework on Morale and Welfare Activities (MWA), and (5) the NATO budget preparation and approval processes. In addition, we started working on the following audits in 2018 that will be completed in 2019: 1) the NCIA Time Accounting System, 2) Cyberdefense in NATO, and 3) Management and Oversight of Trust Funds in NATO.

### **ALLOCATION OF RESOURCES**

4.4 In 2018 and 2017 performance audit activities accounted for 35% and 28% respectively of the total number of staff audit days available to the IBAN. This exceeded the target set by Council to have 25% of the total number of staff audit days used for performance audit. Further, in 2016 we assigned six auditor posts to be full time for performance audit and all six posts were filled at the end of 2017.

### **PERFORMANCE AUDIT PLANNING**

4.5 Performance audit planning is prepared by the IBAN's Performance Audit Working Group, comprised of Board Members, the Principal Auditor and 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:

- Risk assessment of NATO bodies, programmes, and operations;
- Topic monitoring, including evaluating potential topics and assisting colleagues in preparing Performance Audit Proposals;
- Review Performance Audit Proposals and prepare recommendations to the IBAN;
- Support the IBAN by engaging with external stakeholders on performance audit related issues;
- Propose new guidance and methodology, and
- Prepare and share with the RPPB the IBAN's annual Performance Audit Programme in order to receive their feedback on our planning of performance audit topics.

4.6 Each year the Working Group develops a comprehensive Performance Audit Programme which prioritises our performance audit work for the next two years and identifies the resources needed for performance audit. The plan is designed to help us become more transparent in communicating how and what we choose to audit to external stakeholders in NATO. The programme includes 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.

## **PERFORMANCE AUDIT REPORTS ISSUED IN 2018 and 2017**

### ***Performance Audit Report to Council on the need for NATO to take actions to prevent, detect and respond to fraud and corruption***

4.7 In this report we assessed the extent to which NATO effectively promotes the prevention, detection and respond to fraud and corruption in NATO Bodies and Alliance operations and missions. In addition, we reviewed the extent to which NATO follows international good practices to prevent, detect and respond to fraud and corruption.

4.8 Our audit found that NATO faces financial, operational and reputational risks in all areas of its activities, including operations and missions. NATO lacks a comprehensive (NATO-wide) anti-fraud/anti-corruption strategy and there is no clear and consistent guidance on how to prevent, detect and respond to fraud and corruption. We also found that NATO had no formal mechanisms in place, and no central repository, to report and document cases of fraud and corruption. In addition there is a lack of training on ethics and the code of conduct limits NATO's capacity to institutionalise a culture of integrity.

### ***Performance Audit Report to Council on the NATO evaluation system***

4.9 In this audit we assessed the degree to which NATO efficiently, economically, and effectively managed the evaluation system of NATO declared forces. This report is classified and the audit findings cannot be presented in this report.

### ***Performance Audit Report to Council on the assessment of outcomes and benefits of NSIP Projects***

4.10 This was our third and currently final scheduled report on the NSIP. The trio of reports covers all aspects of the NSIP from requirements setting, implementation, to an assessment of the outcomes of the programme. In this report we assessed the outcomes and benefits of NSIP projects and found that NATO has not established procedures and defined an accountable party to identify, assess or report on outcomes and benefits of completed NSIP projects. In addition, stakeholders do not consistently identify and address lessons from completed NSIP projects.

4.11 Since we found little information on project outcomes and benefits from formalised NSIP-related reporting, we performed in-depth case studies of 7 sets of NSIP deliverables. Across these deliverables, we found varying levels of success in achieving project objectives or producing benefits to the Alliance. However, we found significant challenges that limited the use of NSIP deliverables as a military capability. These limitations potentially affect the achievement of project outcomes and benefits. Additionally, we found that some deliverables produced negative consequences, such as increased costs.

### ***Performance Audit Report to Council on the need to revise the NATO-wide framework on Morale and Welfare Activities (MWA)***

4.12 In this report we assessed whether relevant MWA policies, procedures and governance arrangements are in place NATO-wide, contributing to a reduction of financial and reputational risks. Our audit found that due to changes to NATO's organisational structure and the adoption of new accounting policies and directives, there is a need to revise the current MWA framework established in 1997. The audit showed that there are inconsistencies in the funding of different MWA programmes as criteria on the use of common funds and non-appropriated funds are unclear. When examined collectively, these practices are diverse and create inequitable situations.

4.13 NATO MWA face various kinds of financial and reputational risks in providing commercial services. Incidents of fraud, bankruptcy and legal liability issues have occurred in the past without proper management and/or governance. As a whole, NATO does not have common accounting principles or common reporting structures that could inform NATO committees and nations on how MWA are managed. The lack of clear and common requirements result in the lack of comparability and consistent information on activities, sources of funding, and staff resources required to support MWA operations.

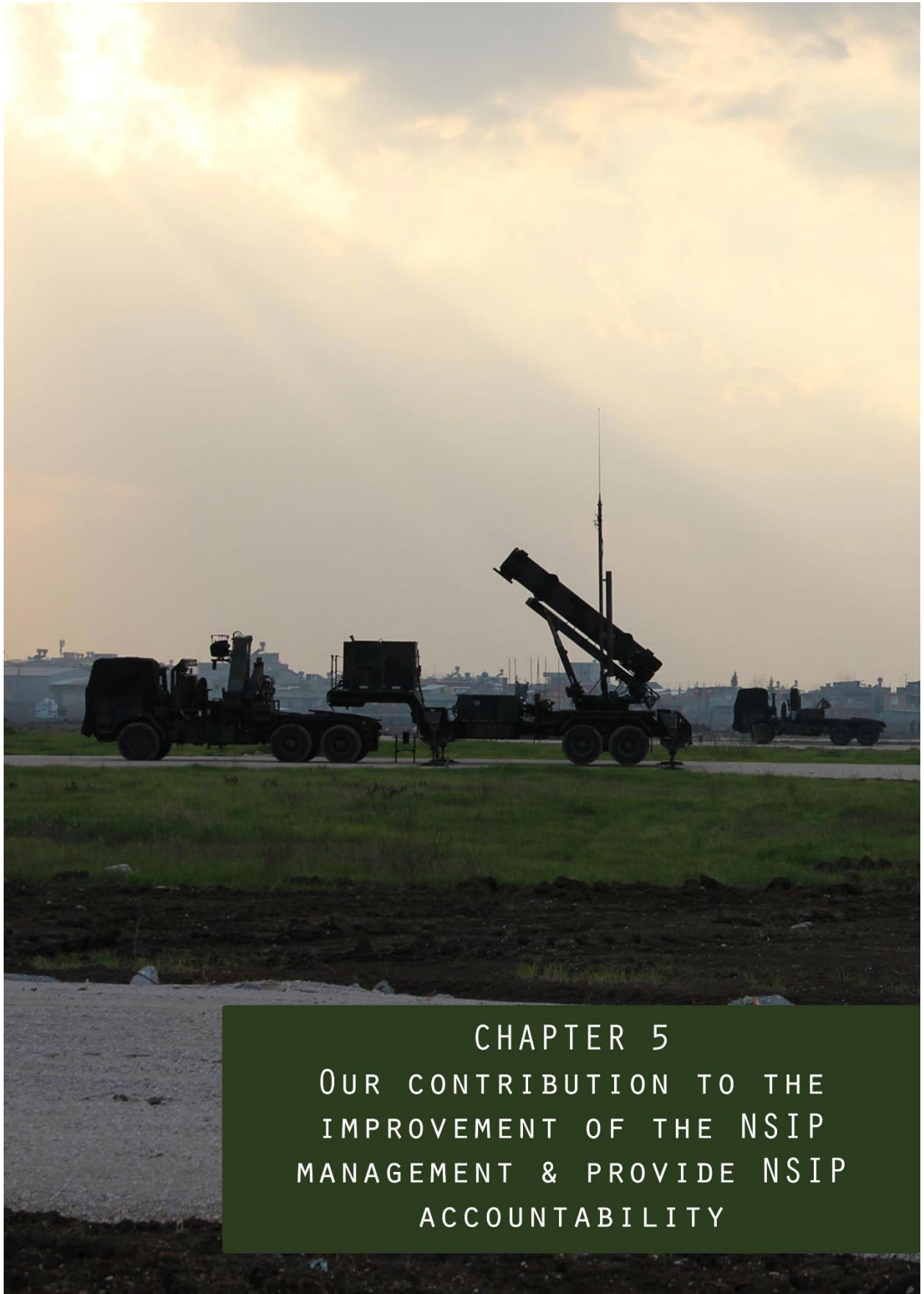
### ***Performance Audit Report to Council on the NATO budget preparation and approval processes***

4.14 In this audit we assessed the NATO budget preparation and approval process. We determined that NATO's budget preparation and approval process could be more efficient. Budgetary governance and administration is complex and involves many



stakeholders and products. The timing of the agreement on budget ceilings does not effectively inform the budget production. Also, the budget preparation and approval process lacks effectiveness, is slow moving, and could be more flexible. It does not allow for taking optimal proactive budgetary decisions or enable cross cutting prioritisation and decision making based on available resources, expected achievements, or results.

4.15 Further, we identified differences between standard budgetary principles and the current situation at NATO. If NATO works towards better budget practices, the Alliance could benefit from not only a more efficient and effective process, but a process that is characterised by more accountability and transparency.



CHAPTER 5  
OUR CONTRIBUTION TO THE  
IMPROVEMENT OF THE NSIP  
MANAGEMENT & PROVIDE NSIP  
ACCOUNTABILITY

## **CHAPTER 5**

### ***OUR CONTRIBUTION TO THE IMPROVEMENT OF THE NSIP MANAGEMENT AND PROVIDE NSIP ACCOUNTABILITY***

5.1 The IBAN provides independent assurance that the expenditure incurred by member countries and by NATO entities for the implementation of the NSIP is compliant with the Investment Committee authorizations and decisions. The IBAN also, through its performance audits, analyses and evaluates the economy, efficiency and effectiveness of the programme's management and procedures. Through our NSIP certification we aim to achieve the following:

- Contribute to the improvement of NSIP management,
- Provide assurance of NSIP accountability, and
- Improve the efficiency and effectiveness of our NSIP certification work.

5.2 NATO established the Infrastructure Programme in 1951 to provide common funded capabilities that exceed the military requirements of individual member states. The nations share the cost of the Programme based on agreed percentages. The Council made major changes to the Programme in 1994 and renamed it the NSIP. The Programme is overseen by the IC and individual projects are implemented by the "Host Nation" (a member state or NATO body) which is responsible for the planning and execution of the project.

#### **THE COMMON FUNDED CAPABILITY DELIVERY GOVERNANCE MODEL**

5.3 In June 2018, Council agreed on a new governance model for common funded capability delivery based on a tasking from the Warsaw Summit. The model is expected to improve governance aspects of common funded capability delivery and addresses the shortfalls identified by the IBAN in our three performance audits of the NSIP. It is expected that the new model will accelerate delivery of common funded capabilities and ensure clear roles and responsibilities and increased accountability. The new model will be applied to all new common-funded capabilities and programmes and existing projects will adapt on a case-by-case basis. The RPPB was tasked to take the necessary steps to implement the model and IBAN will follow the implementation of the new governance model. Also, the IBAN has taken the opportunity to review our internal procedures for our audits of NSIP projects with the purpose of enhancing and streamlining these and increase the added value of our NSIP work.

#### **THE NSIP PROJECT CERTIFICATION PROCEDURE**

5.4 When a project is presented for certification, the Host Nation prepares a cost statement, reflecting all costs incurred for the project implementation, and calculates the amount it deems eligible for NATO funding. The IBAN then determines if the cost

statement is complete, correct, and complies with the terms of the approved project scope and fund authorisations. The outcome of this process is either a 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;
- The amount of expenditure found eligible for NATO funding remained within the limits of the funds authorised;
- There are no observations, or any observation raised was agreed by the Host Nation during the fieldwork.

5.5 In the case that one or more of the above criteria is not met, we IBAN issue a Letter of Observations to the Host Nation specifying the corrective actions required for the issuance of a COFFA.

## **NSIP PROJECT CERTIFICATION ACTIVITY in 2018**

5.6 In 2018 the IBAN used the equivalent of 0.80 staff years, or 4.8% of the available staff resources, on the certification of NSIP projects compared to 1.80 staff years in 2017. Table 1 below shows the IBAN's NSIP certification activity for 2018 in comparison to 2017. In 2018, we issued 2 lump sum COFFAs as part of the Action Plan for the close-out of completed projects programmed before 2011 and thus these were not subject to review by IBAN. This was compared to 480 lump sum COFFAs issued in 2017.

<b>Table 1: NSIP PROJECT CERTIFICATION ACTIVITY 2018 AND 2017</b>		
	<b>2018</b>	<b>2017</b>
Amount certified (COFFAs)	287 MEUR	1,121 MEUR
Number of COFFAs issued	113	618
Number of Letters of Observation	8	8

5.7 IBAN certified a lower amount and issued fewer COFFAs in 2018 compared to 2017 as a result of fewer national requests for audit, lower value projects certified, and fewer projects authorised for conversion to lump sum. However, as in prior years, the IBAN conducted all NSIP certification work requested by nations and NATO agencies.

## **THE CERTIFICATES OF FINAL FINANCIAL ACCEPTANCE**

5.8 In 2018 and 2017 IBAN issued 731 COFFAs amount to EUR 1.4 billion, which represents about 14% of the entire population of open NSIP projects (expenditure of EUR 8.8 billion reported as at December 2017). The total amount certified by IBAN amounts to more than 80% of the total cumulative NSIP expenditure (see Annex B).

## **OBSERVATIONS AND RESULTING FINANCIAL ADJUSTMENTS**

5.9 Our NSIP certification often results in observations on the accuracy of the reviewed cost statements, which require financial adjustments to the project's cost, either in favour of the NSIP accounts or in favour of the Host Nations. These adjustments are recorded at the moment they are agreed with the Host Nation. In most cases, observations are settled during the certification fieldwork, but in some cases agreement can only be reached with a Letter of Observations to the Host Nation requiring a detailed reply.

## **CLOSE-OUT OF COMPLETED AND ONGOING NSIP PROJECTS**

5.10 In order to close out older completed and ongoing NSIP projects the RPPB made a number of recommendations to Council. An overview of the evolution between December 2017 and December 2018 of the close-out of NSIP projects programmed before 1994 is provided at Annex C. At 31 December 2018, a total of 53 projects amounting to EUR 489 million still remain to be closed.





CHAPTER 6  
DEVELOPING IBAN AS AN  
INNOVATIVE & PROACTIVE  
AUDIT ORGANISATION

## **CHAPTER 6**

### ***DEVELOPING IBAN AS AN INNOVATIVE AND PROACTIVE AUDIT ORGANISATION***

6.1 IBAN's ambition is to be an organisation that is conscious and forward-looking, 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. IBAN aims to achieve this by the following:

- 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, and
- Improve visibility of IBAN within NATO and with our external stakeholders.

#### **OUR STAFF**

6.2 At the end of 2018 we finalised the implementation of the 2012 recommendations to strengthen the external audit function in NATO which related to our staff structure. 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 four A4 grade posts to A3 in 2018 and 2017. This resulted in an end state audit staff establishment of one A5 grade Principal Auditor, two A5 grade Senior Auditors, nine A4, and ten A3 grade posts. In addition, we have one Administrative Officer and five Administrative Staff who provide support to our audit teams as well as the general administration of IBAN.

6.3 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. More than 65% of the audit staff are seconded from member state SAs or are former employees of SAs. The remainder include individuals recruited from other national audit bodies or 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.

6.4 In 2016 the IBAN decided to allocate six auditor posts full time to performance audit. By the end of 2017 we successfully on boarded three new performance audit staff, resulting in a performance audit team of three A4 and three A3 performance auditors. This commitment to performance audit means that 32% (6 of 19) of our A4/A3 auditor posts are dedicated exclusively to performance audit.

6.5 The IBAN strives to provide our staff with relevant and sufficient professional training in accordance with the auditing standards of INTOSAI and IFAC. We plan for each auditor to receive 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.

## **CONFERENCE ON EXTERNAL AUDIT, PERFORMANCE AND RISK MANAGEMENT IN INTERNATIONAL ORGANISATIONS**

6.6 To improve IBAN's visibility within NATO and with external stakeholders, we partnered with the Master2 Audit, Control and Public Management (ACMP) of the Université Paris 1 – Panthéon Sorbonne to jointly present a conference on "*External audit, performance and risk management in International Organisations*." The daylong event, held in October 2017, was hosted by the French Cour des comptes and included guest speakers from the NATO International Staff, the NATO Support and Procurement Organization, the Advisory Oversight Committee of the World Intellectual Property Organization (WIPO), the Inspector General of the UN Food and Agriculture Organization, the Contrôleur Général des Armées (France), the European Court of Auditors, the Cour des comptes (France), Non-Governmental Organisations, and representatives of the press. There were more than 150 attendees from NATO bodies, national Supreme Audit Institutions (SAIs), other national bodies, Non-Governmental Organisations, university staff and students, and the press.

## **OUR ANNUAL MEETING WITH THE NATIONAL AUDIT BODIES**

6.7 Each year we meet with the Competent National Audit Bodies (CNABs), which are, in majority, represented by the nation's SAIs. During this meeting the CNABs have the opportunity to discuss the Annual Activity Report and have an exchange of views on a variety of auditing topics with the IBAN.

6.8 The CNAB meeting to discuss the 2016 Annual Activities Report took place on 09 May 2017 under the chairmanship of the State Audit Office of the Republic of Latvia. Conclusions of the CNAB representatives during the meeting included the following:

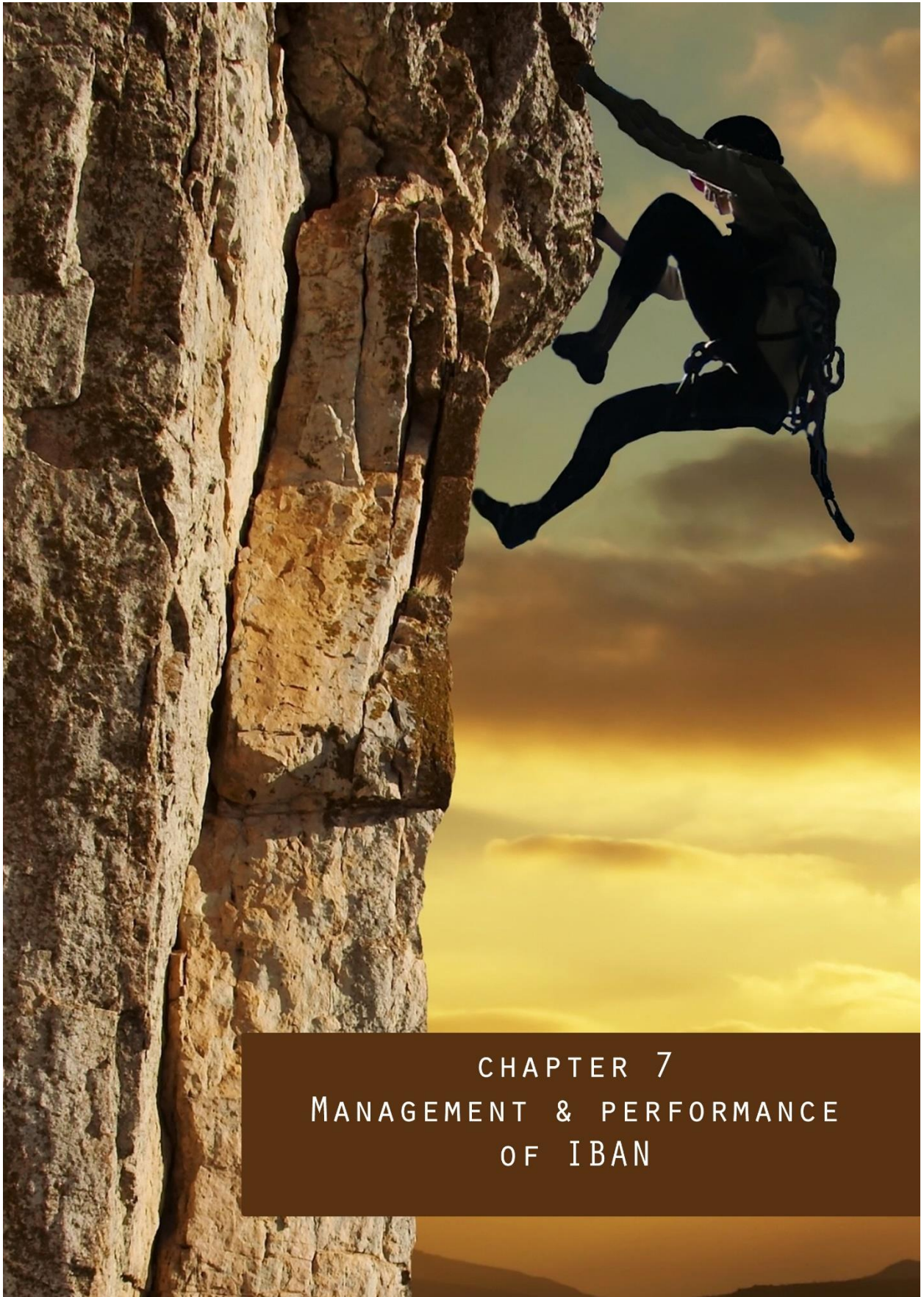
- They once again reiterated the value in the establishment of an audit committee,
- The SAIs remained concerned about IBAN's observations on PP&E and expected to see improvement by NATO bodies in this area,
- Again raised the issue of the need for consolidated financial statements at the NATO level. The SAIs noted that this effort should focus principally on the common funded NATO bodies.
- Noted that there is not a standardized internal control framework in NATO. They stated that there should be a single standard approach with the same principles for all NATO bodies. Good practice would be for NATO to adopt either the INTOSAI or COSO internal control framework.
- Supported IBAN's recommendations that further adaptations to the NATO



Accounting Framework (NAF) should be avoided. In addition, unified accounting policies need to be developed in line with International Public Sector Accounting Standards (IPSAS) to ensure that the NAF is consistently applied NATO-wide. The SAls recommended that IBAN be more assertive in advocating this.

- SAls were pleased to note that the publication of IBAN's reports is a success for NATO. They hoped that the trend will continue and that the reports are approved and published more quickly.

6.9 Because of the move to the New NATO HQ in March 2018 we were unable to meet with the CNABs in 2018. The IBAN is currently reviewing the CNAB arrangements and seeking the opinions of the SAls via a questionnaire to make the annual CNAB meeting more relevant to all parties.



CHAPTER 7  
MANAGEMENT & PERFORMANCE  
OF IBAN

## CHAPTER 7

### MANAGEMENT AND PERFORMANCE OF IBAN

#### OUR ANNUAL PERFORMANCE

7.1 The Strategic Plan for 2017-2021 provides information on IBAN's 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.

7.2 Our 2018 Annual Performance Plan is derived from the goals and objectives in the 2017-2021 Strategic Plan. The Annual Performance Plan includes specific key performance indicators and targets for the various objectives for 2018 to measure our performance.

#### PERFORMANCE RELATED TO GOAL 1

7.3 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 2018 is shown below.

<b><i>Key Performance Indicator</i></b>	<b><i>Target</i></b>	<b><i>Actual</i></b>
% of audit opinions on NATO bodies given by 31 August on financial statements received by 31 March.	100%	100%
Issue an annual wrap-up report to the Council on the NATO financial reporting environment.	Y/N	N
% of financial statement audit recommendations agreed/endorsed by governing bodies.	100%	90%

7.4 The first performance measure was met as we issued all audit opinions by 31 August 2018 on NATO bodies from whom we received their financial statements by 31 March 2018. The second performance measure was not achieved as we were unable to issue an annual wrap-up report to Council in 2018. This work strand has been replaced by the study on the NATO general purpose financial reporting and accountability framework discussed in Chapter 3 of this report. The third performance measure was not achieved as 90% of our financial audit recommendations were agreed or endorsed by governing bodies.

## PERFORMANCE RELATED TO GOAL 2

7.5 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 2018 are shown in the table below.

<b><i>Key Performance Indicator</i></b>	<b><i>Target</i></b>	<b><i>Actual</i></b>
% of COFFA's issued within 6 months of an audit request by Host Nations.	80%	100%

7.6 The performance measure was met and exceeded for 2018.

## PERFORMANCE RELATED TO GOAL 3

7.7 Our objectives related to Goal 3 were to audit subjects of common interest to the Council and the Nations, perform audits that contribute to accountability and transparency within NATO, and perform cross-cutting audits that contribute to recommendations to be applied NATO – wide. The associated performance measures and targets used to evaluate the implementation of the objectives are shown in the table below.

<b><i>Key Performance Indicator</i></b>	<b><i>Target</i></b>	<b><i>Actual</i></b>
% of performance audit recommendations agreed/endorsed by governing bodies.	100%	Not available
% of audit staff resources assigned to performance audit.	25%	35%
Perform follow-up on prior performance audit reports.	Y/N	N

7.8 The first performance measure has not been assessed yet as not all of our performance audit reports have been reviewed by governing bodies. The second performance measure was exceeded for the fifth year in a row as we used 35% of our available audit only staff days for performance audit. The third performance measure was not achieved as IBAN decided not to devote resources to perform a follow-up on prior performance audit reports. As in previous years we prioritised the allocation of

resources to perform audits on new topics and issues of interest to the nations. To be able to plan and effectively conduct such follow-up audits requires additional performance audit staff.

#### **PERFORMANCE RELATED TO GOAL 4**

7.9 Our objectives related to Goal 4 were to further promote IBAN's 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, and improve our visibility. The performance measures and targets used to evaluate the achievement of the objectives are shown in the table below.

<b><i>Key Performance Indicator</i></b>	<b><i>Target</i></b>	<b><i>Actual</i></b>
Provide independent analysis and opinion to NATO governing bodies on financial and performance issues.	Y/N	Y
Publish articles on the IBAN internet website on IBAN activities or subjects of interest.	2	0
# of public events (courses, lectures, presentations) with clients and stakeholders.	2	0

7.10 The first performance measure was achieved. The second performance measure was not achieved as we were unable to publish articles on the IBAN internet website. This was primarily due to the lack of administrative staff resources as two of our six administrative staff posts were vacant. We also did not achieve the third performance measure in 2018, but have planned a joint workshop with the European Court of Auditors to be held in May of 2019.

7.11 Our 2019 Annual Action and Performance Plan is included in this report at Annex D.

#### **USE OF INCOME FROM AUDITS OF NON-NATO BODIES**

7.12 Non-NATO multi-nationally funded and/or sponsored bodies are organisations that share a close relationship with NATO, but are not part of the organisation. Currently, there are more than 40 such bodies. They have their own governance and oversight structures and are not subject to governance by Council. If Council agrees, IBAN may be appointed as the external auditor of such a body. Most audits of these bodies by IBAN are done on a rotating basis every 3-4 years and subject to the availability of IBAN staff resources. Normally, IBAN audits a maximum of three such bodies each year.

7.13 By decision of the Council, IBAN audits of non-NATO multi-nationally funded and/or sponsored entities are to be done on a full cost reimbursable basis. However,

Council decided that the audits of the AFNORTH School, SHAPE School, NATO Missile Firing Installation, and the NATO Parliamentary Assembly would be done at no charge and these audits are programmed and conducted every year in addition to any other audits of non-NATO bodies.

7.14 The costs to be reimbursed include staff hours expended on the audit by IBAN staff and travel and Per Diem costs of IBAN auditors and Board Members. The Head of Budget Planning and Analysis of the International Staff determines the hourly charge out rate for IBAN audit services each year. This charge is a full cost reimbursement rate and includes salaries, pension contributions, administrative support costs, and common operating costs.

7.15 As a result of the 2012 Business Case on Strengthening the External Audit Function in NATO the Council decided that revenue generated from the audits of these bodies is to be re-allocated to the IBAN to support more performance audit work. Income from the audits of these bodies is considered as revenue generated through customer funding and the NFR provisions regarding carry forwards do not apply. The revenue generated is held in a separate NATO account and does not lapse at year end. Potential use of this income for performance audit could include, but is not limited to:

- Cost of travel related to performance audits.
- Reimbursement of costs of national experts from member state Supreme Audit Institutions to assist on performance audits.
- Engagement of consultant or contractor experts in support of performance audit.

7.16 Table 2 below shows the opening balance of funds in Euro from the audits of non-NATO bodies, the amount earned in 2018 and 2017, the amount spent by IBAN, and the closing balance for the year.

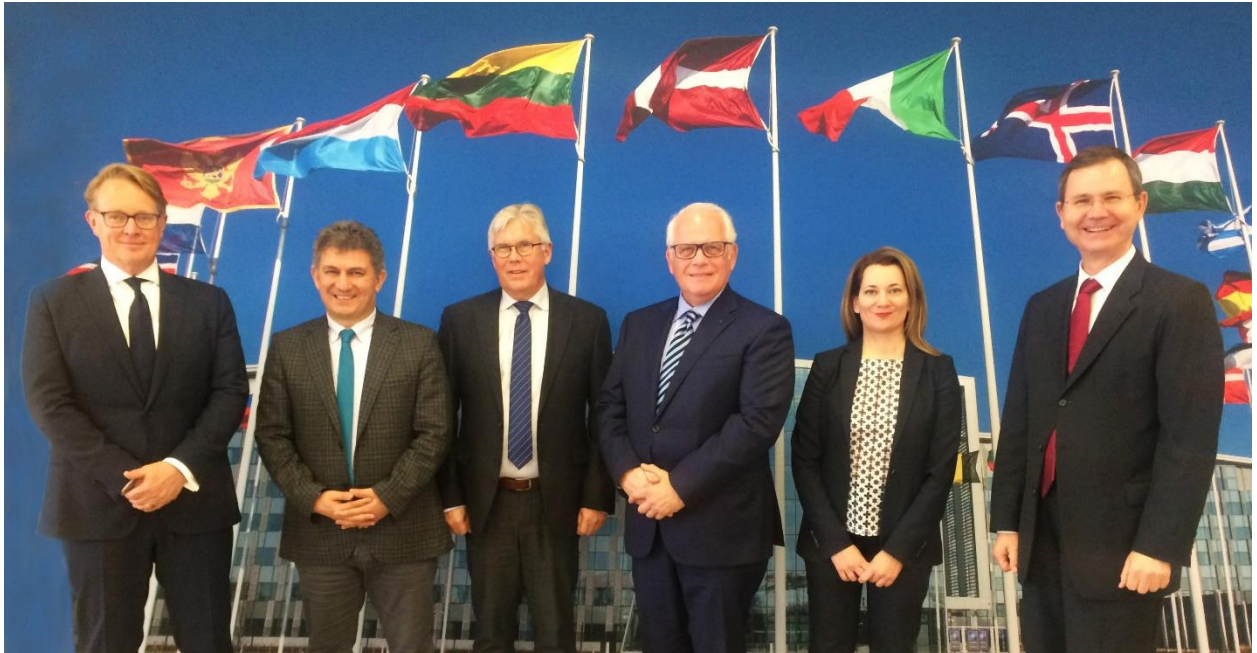
<b>Table 2: Funds from audits of Non-NATO bodies in Euro</b>		
	<b>2018</b>	<b>2017</b>
<b>Starting balance</b>	84,394.38	86,652.87
<b>Income</b>	43,960.53	16,777.85
<b>Spent</b>	40,709.76	19,036.34
<b>Ending balance</b>	87,645.15	84,394.38

Source: Office of Financial Control, International Staff.

7.17 IBAN used approximately EUR 40 thousand in 2018 and EUR 19 thousand in 2017 to support our performance audit work in those years. These funds were specifically used to pay for expenses related to performance audits.



*Approved by the Board on 16 April 2019*



IBAN Board Members (from left to right): Hans Leijtens (NL), Azmi Es (TU), Henrik Rasmussen (DK), Hervé-Adrien Metzger (FR), Chairman, Georgia Kontogeorga (GR), and Jose-Maria Cordero (SP).

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## *ANNEXES*

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**LIST OF REPORTS ISSUED IN 2018 and 2017  
RESULTING FROM FINANCIAL STATEMENT AND PERFORMANCE AUDITS**

<b>LIST OF IBAN FINANCIAL STATEMENT AUDIT REPORTS ISSUED IN 2017 &amp; 2018</b>						
<b>Subject and Financial Year</b>		<b>IBAN Report Number</b>	<b>Audit Opinion</b>	<b>IBAN Issue Date</b>	<b>NAC Approval Date</b>	<b>Available to Public Yes/No/ Pending/NA</b>
<b><i>NATO Military Commands</i></b>						
1.	Allied Command Operations (ACO) 2016	<a href="#">IBA-AR(2017)08</a>	Q (FS,C)	24.08.2017	22.11.2017	YES
2.	Allied Command Operations (ACO) 2017	<a href="#">IBA-AR(2018)0009</a>	Q (FS,C)	29.08.2018	10.12.2018	YES
3.	Allied Command Transformation (ACT) 2016	<a href="#">IBA-AR(2017)06</a>	U	30.06.2017	03.01.2018	YES
4.	Allied Command Transformation (ACT) 2017	<a href="#">IBA-AR(2018)0007</a>	U	29.06.2018	23.11.2018	YES
<b><i>NATO Agencies, Civil-Military Bodies, Special Projects, and Pension Schemes</i></b>						
5.	BICES Group Executive (BGX) 2016	IBA-AR(2017)26	U	25.08.2017	22.11.2017	NO (NATO RESTRICTED)
6.	BICES Group Executive (BGX) 2017	IBA-AR(2018)0025	U	29.08.2018	23.11.2018	NO (NATO RESTRICTED)
7.	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) 2016	<a href="#">IBA-AR(2017)09</a>	U	24.08.2017	03.01.2018	YES
8.	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) 2017	<a href="#">IBA-AR(2018)0005</a>	U	29.05.2018	23.11.2018	YES
9.	International Staff 2015	<a href="#">IBA-AR(2017)04</a>	D (FS, C)	03.05.2017	31.10.2017	YES
10.	International Staff 2016	<a href="#">IBA-AR(2017)40</a>	D (FS, C)	26.01.2018	21.12.2018	YES
11.	International Staff 2017	<a href="#">IBA-AR(2018)0028</a>	Q (FS, C)	27.08.2018	21.12.2018	YES
12.	Munitions Safety Information Analysis Centre (MSIAC) 2015	<a href="#">IBA-AR(2018)0001</a>	Q (FS, C)	29.05.2018	21.12.2018	YES
13.	Munitions Safety Information Analysis Centre (MSIAC) 2016	<a href="#">IBA-AR(2018)0002</a>	Q (FS, C)	29.05.2018	21.12.2018	YES
14.	Munitions Safety Information Analysis Centre (MSIAC) 2017	<a href="#">IBA-AR(2018)0030</a>	Q (C)	26.10.2018	21.12.2018	YES

**LIST OF IBAN FINANCIAL STATEMENT AUDIT REPORTS ISSUED IN 2017 & 2018**

<b>Subject and Financial Year</b>		<b>IBAN Report Number</b>	<b>Audit Opinion</b>	<b>IBAN Issue Date</b>	<b>NAC Approval Date</b>	<b>Available to Public Yes/No/ Pending/NA</b>
15.	NATO Alliance Ground Surveillance Management Organisation (NAGSMO) 2016	<a href="#">IBA-AR(2017)20</a>	U	24.08.2017	10.11.2017	YES
16.	NATO Alliance Ground Surveillance Management Organisation (NAGSMO) 2017	<a href="#">IBA-AR(2018)0036</a>	Q (C)	14.12.2018	04.02.2019	YES
17.	NATO Helicopter Management Organisation (NAHEMO) 2016	<a href="#">IBA-AR(2017)29</a>	Q (FS, C)	25.08.2017	08.01.2018	YES
18.	NATO Helicopter Management Organisation (NAHEMO) 2017	<a href="#">IBA-AR(2018)0023</a>	Q (FS, C)	29.08.2018	21.12.2018	YES
19.	NATO Medium Extended Air Defense System Management Organisation (NAMEADSMO) CLOSURE JANUARY-JUNE 2016	<a href="#">IBA-AR(2017)18</a>	U	24.08.2017	10.11.2017	YES
20.	NATO Medium Extended Air Defense System Management Organisation (NAMEADSMO) CLOSURE JULY-DECEMBER 2016	<a href="#">IBA-AR(2017)19</a>	U	24.08.2017	10.11.2017	YES
21.	NATO Medium Extended Air Defense System Management Organisation (NAMEADSMO) In Liquidation 2017	<a href="#">IBA-AR(2018)0012</a>	U	13.07.2018	23.11.2018	YES
22.	NATO Multi-Role Combat Aircraft Development Production And In-Service Support Management Organisation (NAMMO) 2016	<a href="#">IBA-AR(2017)14</a>	U	29.08.2017	10.11.2017	YES
23.	NATO Multi-Role Combat Aircraft Development Production And In-Service Support Management Organisation (NAMMO) 2017	<a href="#">IBA-AR(2018)0018</a>	U	29.08.2018	30.11.2018	YES
24.	NATO Airborne Early Warning and Control Programme Management Agency (NAPMA) 2016	<a href="#">IBA-AR(2017)17</a>	Q (C)	24.08.2017	05.12.2017	YES

**LIST OF IBAN FINANCIAL STATEMENT AUDIT REPORTS ISSUED IN 2017 & 2018**

<b>Subject and Financial Year</b>		<b>IBAN Report Number</b>	<b>Audit Opinion</b>	<b>IBAN Issue Date</b>	<b>NAC Approval Date</b>	<b>Available to Public Yes/No/ Pending/NA</b>
25.	NATO Airborne Early Warning and Control Programme Management Agency (NAPMA) 2017	<a href="#">IBA-AR(2018)0013</a>	U	27.08.2018	23.11.2018	YES
26.	NATO Communications and Information Organisation (NCIO) 2016	<a href="#">IBA-AR(2017)15</a>	Q (FS, C)	24.08.2017	19.12.2017	YES
27.	NATO Communications and Information Organisation (NCIO) 2017	<a href="#">IBA-AR(2018)0011-REV1</a>	Q (FS, C)	29.08.2018	21.12.2018	YES
28.	NATO Coordinated Pension Scheme 2015	<a href="#">IBA-AR(2017)23</a>	Q (C)	27.09.2017	08.01.2018	YES
29.	NATO Coordinated Pension Scheme 2016	<a href="#">IBA-AR(2017)31</a>	Q (C)	27.10.2017	08.01.2018	YES
30.	NATO Coordinated Pension Scheme 2017	<a href="#">IBA-AR(2018)0029</a>	Q (C)	26.10.2018	21.12.2018	YES
31.	NATO Defense College (NDC) 2016	<a href="#">IBA-AR(2017)10</a>	U	24.08.2017	03.01.2018	YES
32.	NATO Defense College (NDC) 2017	<a href="#">IBA-AR(2018)0006</a>	U	18.06.2018	23.11.2018	YES
33.	NATO Defined Contribution Pension Scheme (NATO DCPS) 2015	<a href="#">IBA-AR(2016)28</a>	Q (C)	23.05.2017	20.07.2017	YES
34.	NATO Defined Contribution Pension Scheme (NATO DCPS) 2016	<a href="#">IBA-AR(2017)30</a>	Q (C)	24.10.2017	19.12.2017	YES
35.	NATO Defined Contribution Pension Scheme (NATO DCPS) 2017	<a href="#">IBA-AR(2018)0022</a>	U	27.08.2018	12.12.2018	YES
36.	NATO FORACS Office (NFO) 2015	<a href="#">IBA-AR(2017)22</a>	Q (FS, C)	19.12.2017	25.06.2018	YES
37.	NATO FORACS Office (NFO) 2016	<a href="#">IBA-AR(2017)27</a>	Q (FS, C)	20.12.2017	25.06.2018	YES
38.	NATO FORACS Office (NFO) 2017	<a href="#">IBA-AR(2018)0020</a>	U	29.08.2018	12.12.2018	YES
39.	NATO Provident Fund 2016	<a href="#">IBA-AR(2017)24</a>	Q (C)	31.08.2017	19.12.2017	YES
40.	NATO Provident Fund 2017	<a href="#">IBA-AR(2018)0010</a>	U	27.08.2018	12.12.2018	YES
41.	NATO Retirees Medical Claims Fund (RMCF) 2016	<a href="#">IBA-AR(2017)25</a>	U	31.08.2017	19.12.2017	YES
42.	NATO Retirees Medical Claims Fund (RMCF) 2017	<a href="#">IBA-AR(2018)0014</a>	U	27.08.2018	12.12.2018	YES
43.	NATO Staff Centre 2016	<a href="#">IBA-AR(2017)16</a>	Q (C)	31.08.2017	05.12.2017	YES
44.	NATO Staff Centre 2017	<a href="#">IBA-AR(2018)0016</a>	Q (C)	26.10.2018	21.12.2018	YES
45.	NATO Support and Procurement Organisation (NSPO) 2016	<a href="#">IBA-AR(2017)12</a>	Q (FS, C)	28.08.2017	24.01.2018	YES

**LIST OF IBAN FINANCIAL STATEMENT AUDIT REPORTS ISSUED IN 2017 & 2018**

Subject and Financial Year		IBAN Report Number	Audit Opinion	IBAN Issue Date	NAC Approval Date	Available to Public Yes/No/ Pending/NA
46.	NATO Support and Procurement Organisation (NSPO) 2017	<a href="#">IBA-AR(2018)0015</a>	Q (FS, C)	29.08.2018	21.12.2018	YES
47.	NATO European Fighter Aircraft Development, Production and Logistic Management Organisation (NEFMO) 2016	IBA-AR(2017)13	U	29.08.2017	10.11.2017	NO (Withheld)
48.	NATO European Fighter Aircraft Development, Production and Logistic Management Organisation (NEFMO) 2017	IBA-AR(2018)0019	U	29.08.2018	23.11.2018	NO (Withheld)
49.	NATO EF 2000 and Tornado Development, Production and Logistics Management Agency (Admin) (NETMA) 2016	<a href="#">IBA-AR(2017)21</a>	U	29.08.2017	10.11.2017	YES
50.	NATO EF 2000 and Tornado Development, Production and Logistics Management Agency (Admin) (NETMA) 2017	<a href="#">IBA-AR(2018)0021</a>	U	29.08.2018	30.11.2018	YES
51.	New NATO Headquarters (NHQ) 2015	<a href="#">IBA-AR(2017)28</a>	Q (FS, C)	09.02.2018	21.12.2018	YES
52.	New NATO Headquarters (NHQ) 2016	<a href="#">IBA-AR(2017)34</a>	Q (FS, C)	09.02.2018	21.12.2018	YES
53.	New NATO Headquarters (NHQ) 2017	<a href="#">IBA-AR(2018)0026</a>	U	27.08.2018	21.12.2018	YES
54.	Science and Technology Organisation (STO) 2016	<a href="#">IBA-AR(2017)16</a>	U	24.08.2017	03.01.2018	YES
55.	Science and Technology Organisation (STO) 2017	<a href="#">IBA-AR(2018)0017</a>	Q (C)	29.08.2018	12.12.2018	YES
<b>Non-NATO multi-national bodies</b>						
56.	AFNORTH International School (AIS) 2016	IBA-AR(2017)05	U	30.06.2017	NA	NA
57.	AFNORTH International School (AIS) 2017	IBA-AR(2018)0008	U	29.06.2018	NA	NA
58.	Headquarters 1 (German/Netherlands) Corps (HQ NRDC-GNL) 2014-2016	IBA-AR(2017)35	Q (C)	26.01.2018	NA	NA
59.	Military Engineering Centre of Excellence (MILENG COE) 2014-2016	IBA-AR(2017)38	Q (FS, C)	09.02.2018	NA	NA
60.	NATO Joint Electronic Warfare Core Staff (NATO JEWCS) 2013-2015	IBA-AR(2017)02	U	28.03.2017	NA	NA



LIST OF IBAN FINANCIAL STATEMENT AUDIT REPORTS ISSUED IN 2017 & 2018						
Subject and Financial Year		IBAN Report Number	Audit Opinion	IBAN Issue Date	NAC Approval Date	Available to Public Yes/No/ Pending/NA
61.	NATO Joint Electronic Warfare Core Staff (NATO JEWCS) 2016-2017	IBA-AR(2018)0031	Q (FS, C)	14.12.2018	NA	NA
62.	NATO Parliamentary Assembly (NPA) 2016	IBA-AR(2017)03	U	16.03.2017	NA	NA
63.	NATO Parliamentary Assembly (NPA) 2017	IBA-AR(2018)0004	U	02.03.2018	NA	NA
64.	NATO Missile Firing Installation (NAMFI) 2016	IBA-AR(2017)39	U	15.12.2017	NA	NA
65.	NATO Missile Firing Installation (NAMFI) 2017	IBA-AR(2018)0032	U	30.11.2018	NA	NA
66.	SHAPE International School (SIS) 2016	IBA-AR(2017)41	U	26.01.2018	NA	NA
67.	SHAPE International School (SIS) 2017	IBA-AR(2018)0034	U	30.11.2018	NA	NA
<b>Performance Audit Reports</b>						
68.	Assessment of outcomes and benefits of NATO Security Investment Programme (NSIP) Projects	<a href="#">IBA-AR(2017)07</a>	N/A	23.05.2017	10.01.2018	YES
69.	The need to revise the NATO-wide framework on Morale and Welfare Activities	<a href="#">IBA-AR(2017)01</a>	N/A	31.03.2017	19.12.2017	YES
70.	NATO Budget Preparation and Approval Processes	IBA-AR(2017)32	N/A	01.12.2017	---	Pending
71.	NATO Evaluation System	IBA-AR(2018)0024	N/A	28.09.2018	---	NO (NATO RESTRICTED)
72.	Prevention & Detection of Fraud & Corruption	IBA-AR(2018)0027	N/A	30.11.2018	---	Pending

U = Unqualified

Q = Qualified

A = Adverse

D = Disclaimer

FS = Financial Statements

C = Compliance

NA = Not Applicable

Since the 2013 financial year, public disclosure of IBAN reports is applicable to unclassified reports (financial statement and performance audits) of NATO agencies, military commands, project offices, and benefit plans.

## CUMULATIVE NSIP EXPENDITURE BY HOST NATION AS AT END 2018

Host Nation	MEUR Expenditure Reported (1)	MEUR Expenditure Certified (2)	MEUR Expenditure Certified %
Canada	80	80	100
Luxembourg	59	59	100
Denmark	737	719	98
United Kingdom	2,556	2,480	97
Portugal	604	571	95
Norway	2,209	2,105	95
France	1,015	961	95
Germany	5,962	5,511	92
Netherlands	961	868	90
Turkey	4,575	4,040	88
USA	1,459	1,273	87
Lithuania	45	37	82
Belgium	835	674	81
Greece	1,893	1,540	81
Italy	2,373	1,886	79
Slovakia	39	31	79
Latvia	43	33	77
Estonia	44	32	73
Spain	239	163	68
Poland	458	220	48
Czech Republic	133	61	46
Hungary	180	61	34
Bulgaria	58	18	31
Slovenia	37	6	16
Romania	53	5	9
Croatia	7	0	0
Iceland	17	0	0
<b>SUBTOTAL NATIONS</b>	<b>26,671</b>	<b>23,434</b>	<b>88</b>
NADGEMO	33	33	100
SHAPE	980	876.2	89
NCIA	6,347	3,643	57
NSPA	1,180	678	57
ACT	21	2	10
<b>SUBTOTAL AGENCIES/COMMANDS (3)</b>	<b>8,561</b>	<b>5,232</b>	<b>61</b>
<b>TOTAL</b>	<b>35,232</b>	<b>28,666</b>	<b>81</b>

NSIP Expenditure reported by Nations and Agencies and certified by the IBAN (Cumulative up to 31 December 2018 in Millions of EUR)

(1) Source: NATO Office of Resources.

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

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

## NSIP SLICE PROGRAMME: NUMBER AND VALUE OF PROJECTS

Evolution December 2017 – December 2018

NATION/ AGENCY	OPEN PROJECTS DECEMBER 2017 (EUR)		OPEN PROJECTS DECEMBER 2018 (EUR)		DIFFERENCE (number of projects)	% DIFFERENCE (value)
	N°	Value	N°	Value		
Belgium	3	35,132,409	3	35,132,409	0	0
Greece	18	123,278,753	16	110,703,666	- 2	- 10 %
Italy	13	90,965,624	13	90,965,624	0	0
Norway	2	42,559,112	2	42,559,112	0	0
Turkey	12	196,895,807	12	196,895,807	0	0
UK	3	18,121,487	3	18,121,487	0	0
<b>TOTALS</b>	<b>51</b>	<b>506,953,192</b>	<b>49</b>	<b>494,378,105</b>	<b>- 2</b>	<b>- 2.5 %</b>

Source: IBAN data.

## **International Board of Auditors for NATO (IBAN) Annual Action and Performance Plan 2019**

### **INTRODUCTION**

The 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 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 action and performance plan for 2019 is based upon the goals and objectives identified in the 2017-2021 strategic plan. It includes key performance indicators and targets for the various objectives to be achieved during 2019.

### **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. Through its performance audits IBAN also contributes to accountability and transparency at NATO.

IBAN performs its financial, compliance and performance 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 financial 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.

## **KPI's**

<b><i>Key Performance Indicator</i></b>	<b><i>Target</i></b>
% of audit opinions on NATO bodies given by 31 August on auditable signed financial statements.	100%
Issue the Annual Activities Report by the end of February.	Y/N
Number of entities' governing bodies which explicitly respond (agree or disagree) to all FS audit recommendations.	8 of 24

### **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 - through its performance audits - analyses and evaluates the economy, efficiency and effectiveness of programme management, procedures etc.

#### **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 efficiency and effectiveness of NSIP certification.**

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

## **KPI**

<b><i>Key Performance Indicator</i></b>	<b><i>Target</i></b>
% of COFFA's issued within 6 months of an audit request by Host Nations.	80%

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

The IBAN's 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 more effective operations and activities by NATO.

IBAN provides independent analysis and recommendations to the Council on the effectiveness, efficiency and economy of specific NATO bodies, operations, programmes and projects. Through strategic planning, audit execution and forward looking recommendations, we aim at optimizing procedures and value for money while delivering required outputs.

### **Objectives and Performance Measures**

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

**Objective 1: Subjects of common interest to the NAC and the Nations.**

**Objective 2: Audits that contributes to accountability and transparency within NATO.**

**Objective 3: Cross-cutting audits (i.e. benchmarking) that contribute to recommendations to be applied NATO – wide.**

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

#### **KPI's**

<b><i>Key Performance Indicator</i></b>	<b><i>Target</i></b>
% of performance audit reports upon which the RPPB explicitly responds (agree or disagree).	100%
Perform follow-up on prior performance audit reports.	1

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

Goals 1 to 3 signify IBAN's level of ambition to be an organization that is conscious and forward-looking, 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: Improve visibility of IBAN.**

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

**KPI's**

<b><i>Key Performance Indicator</i></b>	<b><i>Target</i></b>
Proactively develop and offer independent analysis and opinion to NATO governing bodies on financial and performance issues.	Y/N
Publish articles on the IBAN internet website on IBAN activities or subjects of interest.	2
# of public events (conferences, seminars, courses, lectures, presentations) with auditees and stakeholders.	2

## IBAN ANNUAL FINANCIAL STATEMENT AUDIT UNIVERSE

IBAN Annual Financial Statement Audit Universe	2017 Expenditure/Value <sup>1</sup>
<b><i>NATO Common Funded Bodies or Activities</i></b>	
Allied Command Operations Group	1,097.6
Allied Command Transformation Group	136.8
International Military Staff Group	24.9
International Staff NATO HQ	192.0
International Staff New NATO Headquarters Building Project	78.3
International Staff Headquarters Staff Centre	2.2
NATO Coordinated Pension Scheme (Defined Benefit)	158.5
NATO Defence College	9.0
NATO Defined Contribution Pension Scheme	377.7
NATO Provident Fund	0.4
NATO Retiree's Medical Claim Fund	323.2
Science and Technology Organisation	31.1
<b><i>Sub-total</i></b>	<b><i>2,431.7</i></b>
<b><i>NATO Joint/Multi-Nationally Funded Bodies or Activities</i></b>	
Munitions Safety Information Analysis Centre	1.7
NATO AEW&C Programme Management Organisation	213.3
NATO Alliance Ground Surveillance Management Agency	107.7
NATO Battlefield Information Collection & Exploitation Systems Group Executive	Non-disclosed <sup>2</sup>
NATO Communications and Information Agency	769.0
NATO Eurofighter 2000 and Tornado Development Production and Logistics Management Agency	43.0
NATO European Fighter Aircraft Development, Production and Logistics Management Organisation	2,600.0
NATO Multi-Role Combat Aircraft Development and In-Service Support Management Organisation	397.0
NATO Helicopter Design and Development Production and Logistics Management Organisation	996.8
NATO Medium Extended Air Defence System Design and Development, Production and Logistics Management Organisation	64.0
NATO Naval Forces Sensor and Weapons Accuracy Check Sites Office	1.6
NATO Support and Procurement Agency	2,603.0
<b><i>Sub-total</i></b>	<b><i>7,797.1</i></b>
<b><i>Non-NATO Multi-Nationally Funded or Sponsored Bodies<sup>3</sup></i></b>	
AFNORTH International School	4.0
NATO Missile Firing Installation	7.5
NATO Parliamentary Assembly	3.7
SHAPE International School	5.0
<b><i>Sub-total</i></b>	<b><i>20.2</i></b>
<b><i>Grand total</i></b>	<b><i>10,249.0</i></b>

<sup>1</sup> All amounts in Millions of EURO (MEUR).

<sup>2</sup> The NATO Battlefield Information Collection & Exploitation Systems Group Executive financial information is classified.

<sup>3</sup> 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 oversight by Council. The IBAN audits a variable number of these bodies annually by request and if audit resources are available to do so. 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. In addition, these four entities are audited on an annual basis.

## **Glossary of Terms**

Audit opinions on financial statements can be unqualified, qualified, disclaimer, or adverse:

- An unqualified opinion is when 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.

## **Abbreviations/Acronyms**

ACO	Allied Command Operations
ACT	Allied Command Transformation
BC	Budget Committee
Board/IBAN	International Board of Auditors for NATO
BGX	NATO BICES Group Executive
CEPS	Central Europe Pipeline System
CIS	Communications and Information Systems
CNAB	Competent National Audit Bodies
COFFA	Certificate of Final Financial Acceptance
COSO	Committee of Sponsoring Organizations of the Treadway Commission
Council	North Atlantic Council
CPR	Civilian Personnel Regulations
DCPS	NATO Defined Contribution Pension Scheme
EUR	Euro
FRAF	Financial Reporting and Accountability Framework
FRP	Financial Rules and Procedures
FORACS	NATO Naval Forces Sensors and Weapon Accuracy Check Sites
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
JFAI	Joint Formal Acceptance Inspection
KPI	Key Performance Indicator
MC	Military Committee
MEADS	Medium Extended Air Defence System
MSIAC	Munitions Safety Information Analysis Centre
MWA	Morale and Welfare Activities
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
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 and Procurement Agency
NSPO	NATO Support and Procurement 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
STO	Science & Technology Organisation
USD	United States of America Dollar
VNC	Voluntary National Contribution