



NORTH ATLANTIC COUNCIL

CONSEIL DE L'ATLANTIQUE NORD

NATO UNCLASSIFIED

Releasable to Finland and Sweden

3 November 2022

DOCUMENT

PO(2022)0451-AS1 (INV)

IBAN ANNUAL ACTIVITY REPORT 2021

ACTION SHEET

On 2 November 2022, under the silence procedure, the Council noted the RPPB report attached to PO(2022)0451 (INV), agreed its conclusions and recommendations, noted the IBAN Report and agreed to the public disclosure of this report and the IBAN Report.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to PO(2022)0451 (INV).

NATO UNCLASSIFIED





NATO UNCLASSIFIED
Releasable to Finland and Sweden

25 October 2022

DOCUMENT
PO(2022)0451 (INV)
Silence Procedure ends:
2 Nov 2022 17:30

To: Permanent Representatives (Council)
From: Secretary General

IBAN ANNUAL ACTIVITY REPORT 2021

1. I attach the Resource Policy and Planning Board (RPPB) report on the International Board of Auditors for NATO (IBAN) Annual Activity Report 2021 (see Enclosure).
2. The IBAN Report has been reviewed by the Resource Policy and Planning Board (RPPB) (see Annex).
3. I do not believe this issue requires further discussion. Therefore, **unless I hear to the contrary by 17:30 hours on Wednesday, 2 November 2022**, I shall assume the Council noted the RPPB report, agreed its conclusions and recommendations, noted the IBAN Report and agreed to the public disclosure of this report and the IBAN Report.

(Signed) Jens Stoltenberg

1 Annex
1 Enclosure

NATO UNCLASSIFIED



NATO UNCLASSIFIED
Releasable to Finland and Sweden

ANNEX TO
PO(2022)0451 (INV)

IBAN ANNUAL ACTIVITY REPORT 2021

Report by the Resource Policy and Planning Board (RPPB)

References:

- | | |
|---|--|
| A. IBA-M(2022)0002-REV1 | IBAN Annual Activity Report 2021 |
| B. IBA-A(2021)0105-REV1 | IBAN Report on Main Findings from the 2019 Financial Statements Audits |
| C. IBA-A(2012)0047-REV1
IBA-AR(2021)0002 | Special Report on the new approach to NSIP audits and its impact on accountability |
| D. C-M(2015)0032 | Strengthening the External Audit Function at NATO |
| E. C-M(2015)0025 | NATO Financial Regulations (NFR) |
| F. PO(2015)0052 | Wales Summit tasker on transparency and accountability |

INTRODUCTION

1. The International Board of Auditors for NATO (IBAN) Annual Activity Report presents a summary of all IBAN calendar year audit activities carried out in 2021. Additionally, the IBAN report contains information on the IBAN's mandate and role, key activities and usage of resources, contribution to strengthening the accountability and corporate governance within NATO, the IBAN's performance, and other developments within IBAN as the external auditor of NATO¹.

AIM

2. This report highlights key issues in the IBAN Annual Activity Report 2021 to enable the Board to reflect on strategic issues or concerns emanating from the IBAN's audit activity of NATO Reporting Entities and to recommend courses of action to Council as applicable, which have the potential to improve transparency, accountability and consistency.

DISCUSSION

Key IBAN Activities and Usage of Resources

¹ On 07 July 2022, the IBAN presented the IBAN Annual Activity Report 2021 together with the Report on Main Findings from the 2020 Financial Statements Audits to the RPPB.

NATO UNCLASSIFIED
Releasable to Finland and Sweden

ANNEX TO
PO(2022)0451 (INV)

3. In the calendar year 2021, to execute its mandate the IBAN performed annual financial statements audits of 22 NATO Reporting Entities². In addition, the IBAN carried out performance audits of selected NATO bodies, operations, or programmes and conducted 74 audits of expenditures incurred on NATO Security Investment Programme (NSIP) projects.

4. For the 2020 financial year, the IBAN issued 32 audit reports on financial statements of NATO Reporting Entities³ comprising 30 unqualified audit opinions and two qualified opinions on the financial statements and 28 unqualified audit opinions and four qualified opinions on compliance. The IBAN also issued five audit reports for the non-NATO bodies⁴ containing four unqualified audit opinions, four qualified audit opinions, and three adverse opinions on the financial statements, as well as eight unqualified audit opinions and three qualified opinions on compliance. Overall, in 2021, the IBAN issued 86 audit opinions, two performance audit reports and one special report⁵ and 74 auditor's reports on NSIP Cost Statements⁶ out of which 41 audit opinions were unmodified, auditing EUR 297 million worth of NSIP expenditures⁷.

5. In 2021, 90% of the IBAN staff days were expended on audits, the remaining 10% were expended on staff training and administrative activities, which includes supporting the Board. Of the audit days, financial statements audit activities made up 62% of the total and performance audit activities represented 30%, which exceeded the mandated target of 25%. The remaining 8% of activity was attributed to NSIP activities. The total direct cost of audit was EUR 3.1 million in 2021 for audit scope that covered more than EUR 10 billion of expenditures for financial statements and the NSIP.

6. In IBAN's view, in order to improve the quality of financial information in support of decision-making, based on the legal framework of NATO, a simplification of NATO's Financial Reporting and Accountability Framework (FRAF) is possible by decreasing from 22 to three general purpose financial statements and audit reports without any loss in transparency and accountability. In that case, the financial information of individual NATO entities would still be disclosed in separate budget execution reports annexed to the financial statements and as separate segments in the notes.

² The IBAN also performs financial statements audits of some non-NATO multi-nationally funded or sponsored bodies with close cooperative links to NATO.

³ Some reports for the 2019 financial year for NATO Reporting Entities were issued in 2021 due to delays resulting from the COVID-19 pandemic.

⁴ For the non-NATO bodies, the IBAN usually performs the audit on a rotational basis by request, but some, such as NATO Parliamentary Assembly and the NATO Missile Firing Installation are audited each year.

⁵ On (1) the Recruitment and Selection of International Staff, (2) NATO Occupational Health and Safety, Environmental Protection, and Energy Efficiency Management Policies and Practices, and (3) a special report to Council on NATO Communications and Information Agency (NCIA) Service Rates.

⁶ Cost Statements are presented by territorial Host Nations, NATO Agencies and Strategic Commands.

⁷ NSIP open projects expenditure amounts 7.9 billion as at December 2021.

7. For the most part, IBAN met performance measures in 2021 as identified in its 2022-26 Strategic Plan. Although some performance measures and targets were impacted by the travel restrictions due to the COVID-19 crisis, the Board emphasizes the need for IBAN to improve the percentage of achievement of its objectives.

Financial Statements audits

8. Of the 86 audit opinions issued in 2021, 70 were unqualified compared to 41 the year before when 58 audit opinions were issued. Three adverse audit opinions were issued in 2021⁸.

9. In 2021, the number of audit opinions issued for both compliance and financial statements step up from 58 audit opinions in 2020 to 86 in 2021, which represents an increase of 48%.

10. Out of the six audit reports with a qualification, the IBAN issued 13 qualified opinions on the financial statements and/or compliance; four audit reports were for NATO Reporting Entities and the other two for non-NATO bodies. The Board acknowledges that for one non-NATO body IBAN issued three adverse opinions⁹.

11. In 2021, the IBAN agreed to audit ten resubmitted financial statements allowing NATO Reporting Entities and one non-NATO body to correct material misstatements or disclosures identified during the audit. The Board is aware that without these resubmitted financial statements the number of financial statements containing material errors could have increased. In addition, the Board notes that in order to address qualified audit opinions and observations that are in-progress or open for more than three years, a clear remedial action plan should be provided to the Council with deadlines on the implementation of the outstanding recommendations, submitted with the auditee's response on the IBAN audit of the 2021 financial statements.

12. Furthermore, the Board notes that in 2021, in addition to the resubmissions and already limited timeframe set out by the NATO Financial Regulations (NFR) to perform the audit process, other constraints such as waiting for the outstanding audit evidence, scheduling changes made by auditees and travel restrictions due to the COVID-19 crisis further prevented IBAN's ability to meet the 31 August deadline. The Board raises the importance of meeting the NFR deadlines to enhance financial transparency and consistency in the application of the NATO policy on the public disclosure of information (reference F).

13. The Board notes that in September 2021 the IBAN issued its Report to Council on the Main Findings from the 2019 Financial Statements Audits (reference B). The IBAN annually produces this report to provide a detailed overview to Council on the main findings

⁸ Audit performed for period 2017-2019 of Headquarters 1 (German-Netherlands) Corps – NATO Rapid Deployable Corps Germany/Netherlands (NRDC-GNL).

⁹ Non-NATO bodies do not report to the Council but to their own governing bodies.

from the audit of the financial statements of NATO Reporting Entities. The report provides a detailed overview on IBAN's financial statements audit work for internal and external stakeholders to increase transparency and accountability of NATO's use of public resources. This report is made available to the public on the IBAN website.

Performance audits

14. In 2021, the IBAN issued two performance audit reports and one special report. The number of audit days dedicated to performance audit and annual performance audit cost slightly increased in 2021. The IBAN charges for financial statements audits of non-NATO bodies and uses the audit-generated income to fund some aspects of its performance audit work, such as cost of travel and reimbursement of national expert, consultant and contractor costs. The ending balance for 2021 amounts to EUR 250,780.

15. The Board recognises the need to facilitate effective oversight of performance audit recommendations that remain unsettled and highlights the provision in the IBAN Charter (reference D) on annual preparation and presentation of analysis on the implementation of IBAN's observations and recommendations by the auditees. The IBAN Strategic Performance Audit Plan 2022-2023 provides feedback on the options to build more transparency and accountability into the follow on actions made by NATO entities on recommendations made in performance audits.

NATO Security Investment Programme (NSIP)

16. The Board notes that compared to 2020, in 2021 the number of audit opinions provided in the auditor's reports remained stable while the percentage of modified audit opinions slightly increased from 39% to 45%.

17. The Board recognises that of 33 modified audit opinions, 21 or 64% were related to missing or incomplete project financial documentation, such as signed contracts, invoices and bidding documents. Furthermore, the Board notes that in other cases, the modified opinion was due to unavailability of cost statement and supporting documentation, expenditures claimed outside the authorised scope of work or expenditures incurred in excess of the authorisations granted or due to non-compliance with the NSIP procurement regulations relating to award of contracts.

18. In order to provide an overview of the new approach to NSIP audit approved in June 2020, the IBAN issued a Special Report to Council on the new approach to NATO Security Investment Programme audits and its impact on accountability (reference C). The Board notes that this report sets out the main changes and their purpose, the main findings arising in the first year of implementation, the first impact on accountability as well as recommendations for improving overall accountability. This report is available to the public on the IBAN website.

19. In 2014, the Council tasked the Investment Committee to develop a plan with the objective of closing, by 30 June 2016, all existing completed NSIP projects at the time

amounting to EUR 5 billion due to the significant backlog of projects completed by 2014, but not yet technically inspected or audited. The Board acknowledges that during 2021 the IBAN audited 38 projects with expenditures amounting to EUR 263 million and that by the end of 2021, a total of 376 projects amounting to EUR 2.4 billion still remain to be closed. The Council deadline for closing out the projects was later extended until end of 2022. Therefore, the Board recommend that the Council encourages Host Nations to continue submitting projects for technical inspection and audit in order to close the projects and reduce the backlog.

Public disclosure

20. By March 2022, 30 of 32 IBAN financial statements audit reports of NATO Bodies and other Reporting Entities were publicly disclosed on the NATO website. The remaining two reports have been withheld for public release because they contain restricted or sensitive commercial information. The public disclosure is still pending for two IBAN performance audit reports and one special report. The Board notes a certain delay in public disclosure of the IBAN audit reports on the NATO website and calls for a reduction of the backlog. Disclosure of audit reports is a significant step forward towards better accountability and improved transparency and an opportunity to underline NATO's commitment to good financial governance and transparency (reference F). Therefore, the IBAN Annual Activity Report 2021 should be made available to the public along with this RPPB report.

Resourcing

21. The Board highlights that NATO 2030-related increases in NATO Member States contributions needs to be balanced with enhanced accountability and transparency and consequently in general supports the increase of the NATO civil budget to fund IBAN's additional resource needs.

CONCLUSIONS

22. The IBAN provides an independent assurance and advice to Council and directly contributes to promotion of transparency and accountability across NATO. In 2021, the IBAN implemented its mandate by issuing 86 audit opinions, undertaking two performance audits and issuing three special reports and 74 NSIP Independent External Auditor's Reports.

23. The Board notes that in 2021, the IBAN agreed to audit ten resubmitted financial statements allowing auditees to correct material misstatements or disclosures identified during the audit. The Board acknowledges that an action plan with mitigation measures on qualified audit opinions and observations that are in-progress or open for more than three years should be submitted to the Council with the auditee's response on the IBAN audit of the 2021 financial statements.

24. The Board takes note that in IBAN's view the improvement of accountability and transparency to both internal and external stakeholders is achievable by decreasing the number of general purpose financial statements and audit reports.

25. Furthermore, the Board highlights the need for IBAN to improve the percentage of achievement of its performance measures and targets.

26. In 2021, in addition to the resubmissions of financial statements and limited timeframe set out in NFR, other constraints such as waiting for the outstanding audit evidence, scheduling changes made by auditees and travel restrictions due to the COVID-19 crisis further prevented IBAN's ability to meet the NFR deadline. The Board reiterates the importance of meeting the NFR deadlines to enhance financial transparency and consistency in the application of the NATO policy on the public disclosure of information.

27. In 2021 the IBAN issued two performance audit reports and one special report with a slight increase in the number of performance audit days. The Board acknowledges the need to facilitate effective oversight of performance audit recommendations that remain unresolved. The IBAN Strategic Performance Audit Plan 2022-2023 provides feedback on the options to build more transparency and accountability into the follow on actions made by NATO entities on recommendations made in performance audits.

28. With regard to NSIP projects audit, the Board notes that IBAN issued a special report on the new approach to NSIP audits and its impact on accountability to set out the main changes and main findings arising in the first year of implementation, its impact on accountability as well as recommendations for improving overall accountability.

29. The Board notes that disclosure of audit reports is a significant step forward towards better accountability and improved transparency and an opportunity to underline NATO's commitment to good financial governance and transparency. However, it also acknowledges the need for a decrease of the backlog in IBAN audit reports for public disclosure.

30. The Board generally supports the increase of civil budget to fund the IBAN's additional resources.

RECOMMENDATIONS

31. The Resource Policy and Planning Board recommends that the Council:

31.1. note this report and the IBAN audit report at reference A; and,

31.2. agree to the public disclosure of the IBAN audit report in reference A and this report in line with agreed policy at reference F.



IBAN ANNUAL ACTIVITY REPORT 2021





SERVING THE NATIONS

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 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.

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, and in accordance with the additional terms of reference defined in our Charter. Board Members and auditors have the necessary competencies and qualifications to perform their work.

FOREWORD BY THE CHAIR

The International Board of Auditors for NATO (IBAN) is the external auditor of NATO. Our role is to provide professional, independent, and objective assurance and advice to the North Atlantic Council (Council) and, through their Permanent Representatives, the governments of NATO member countries. Our assurance and advice is then approved by Council to be published and made available to other internal and external stakeholders including the public. IBAN's audit reports largely focus on the raising and spending of the funds collected by the Organisation and by which the Nations contribute resources for the efficient conduct of the missions and the effective achievement of the objectives of NATO.

Under its Council approved Charter, IBAN is responsible for the financial statements audits and performance audits of all NATO Reporting Entities, audits of the NATO Security and Investment Programme (NSIP) expenditures, and financial statements audits of some non-NATO multi-nationally funded entities. Our work directly contributes to promoting transparency and accountability across NATO.

As in 2020, the continuing world-wide COVID-19 crisis directly impacted IBAN's work and implementation of its mandate in 2021. Lessons learned in 2020 regarding the necessity of at times working remotely or partially remotely from our auditees ensured that our audit teams were able to successfully execute our audit mandate in 2021. Despite the inevitable delays arising from the COVID-19 pandemic we were able to issue all financial statements audit reports of NATO Reporting Entities for the 2020 financial year by 31 December 2021. We were also able to issue two performance audits and three special reports to Council in 2021. Lastly, we audited Euro (EUR) 297 million worth of NSIP expenditures and issue 74 auditor's reports on Cost Statements presented by territorial Host Nations, NATO Agencies and Strategic Commands. All of these efforts were a significant achievement on the part of our staff given the restrictions and obstacles arising from the COVID-19 pandemic.

Daniela Morgante
Chair
International Board of Auditors for NATO



TABLE OF CONTENTS

Page No

TABLE OF CONTENTS

SERVING THE NATIONS3

FOREWORD BY THE CHAIR4

CHAPTER 1 OUR MANDATE AND ROLE AS EXTERNAL AUDITOR7
FOR NATO

CHAPTER 2 OUR KEY ACTIVITIES AND USAGE OF RESOURCES10
Financial Statements Audit.....11
Performance Audit.....12
NSIP Audit.....12

CHAPTER 3 OUR CONTRIBUTION TO THE STRENGTHENING OF
ACCOUNTABILITY AND CORPORATE GOVERNANCE WITHIN
NATO15
Audit Methodology and Conduct of Audits17
Financial Statements Audit Work in 2021.....18
Report to Council on the Main Findings from the Financial
Statement Audits in 201918

CHAPTER 4 OUR CONTRIBUTION TO THE IMPROVEMENT OF THE
EFFECTIVENESS AND EFFICIENCY OF NATO ACTIVITIES20
Performance Audit Planning.....21
Performance Audit Reports Issued in 202122
Use of Income from Audits of Non-NATO Bodies23

CHAPTER 5 OUR CONTRIBUTION TO THE IMPROVEMENT OF THE NSIP
MANAGEMENT AND ACCOUNTABILITY25
Audit Methodology and Conduct of NSIP Audits26
NSIP Audit Activity 202127
Special Report to Council on the New Approach to NSIP Audits
and its Impact on Accountability28
Closure of Completed NSIP Projects28

CHAPTER 6 DEVELOPING IBAN AS AN INNOVATIVE AND PROACTIVE AUDIT ORGANISATION.....30
Our Staff.....31
Conference on transparency and accountability as key elements of good governance across NATO32
Our Annual Meeting with the National Audit Bodies.....32

CHAPTER 7 PERFORMANCE OF IBAN.....33
Our Annual Performance.....34
Performance Related To Goal 134
Performance Related To Goal 2.....35
Performance Related To Goal 3.....35
Performance Related To Goal 4..... 35
2022 Annual Action and Performance Plan.....36

TABLES AND CHARTS
Chart 1: Audit Opinions Issued in 2021 and 2020 12
Chart 2: NSIP Amounts Audited in 2021 and 2020 13
Chart 3: NSIP Audit Opinions Issued in 2021 and 2020..... 13
Chart 4: 2021 Allocation of Staff Resources..... 14
Chart 5: 2021 Cost of the Audit in Euro..... 14
Table 1: Funds From Audits of Non-NATO bodies24
Table 2: NSIP Audit Activity 2021.....27

ANNEXES
A. List of Reports Issued in 2021 Resulting from Financial Statements and Performance Audits
B. Cumulative NSIP Expenditure by Host Nation as at End 2021
C. Closure of Completed NSIP Projects under Council Tasking: Number and Value of Projects
D. Annual Action and Performance Plan 2022
E. IBAN Annual Financial Statements Audit Universe
F. Glossary of Terms and Abbreviations/Acronyms

IBAN on the World Wide Web:
<http://www.nato.int/issues/iban>



Chapter 1

OUR MANDATE & ROLE AS
THE EXTERNAL AUDITOR
FOR NATO

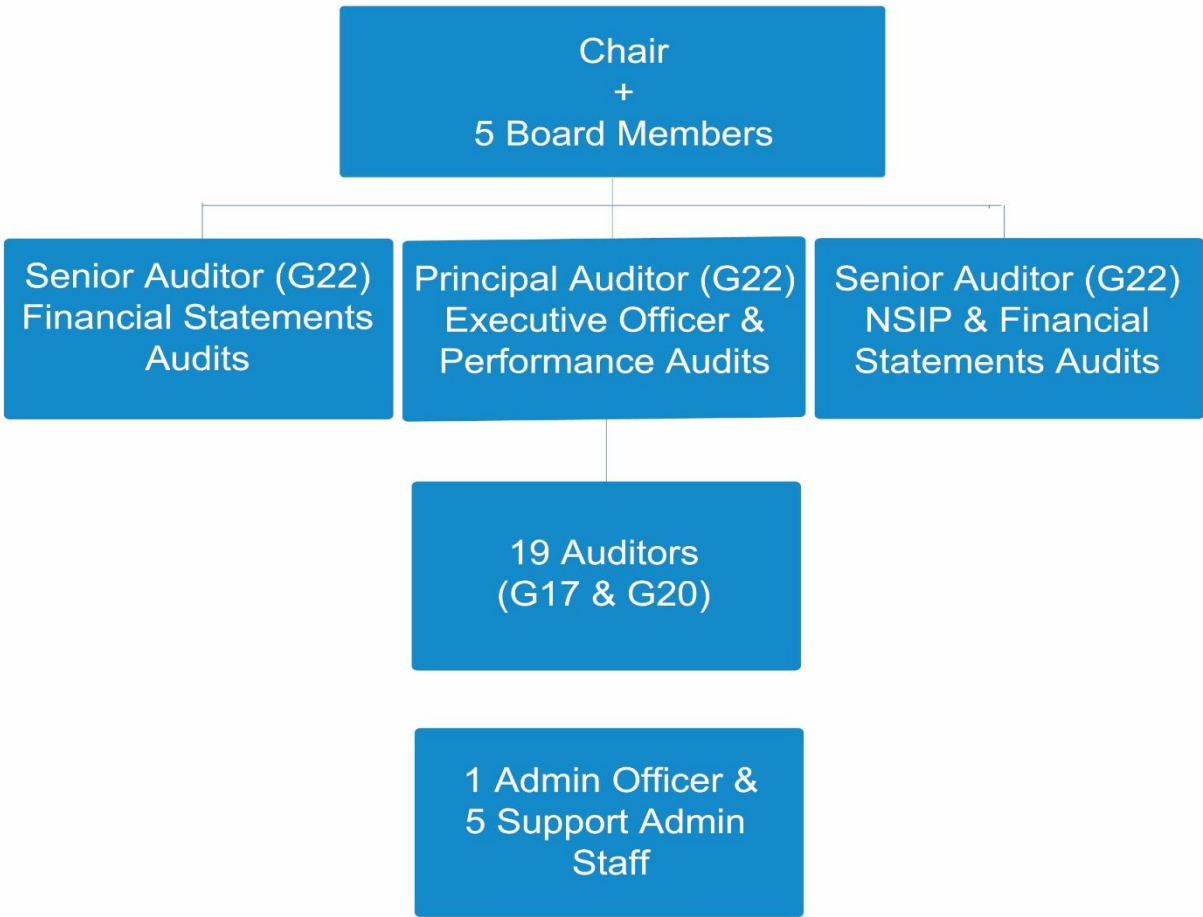
CHAPTER 1

OUR MANDATE AND ROLE AS THE EXTERNAL AUDITOR FOR NATO

1.1 IBAN is the independent, external audit body for 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 and reporting entities 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, operations, and programmes have been carried out with efficiency, effectiveness and economy; and
- the expenditures incurred by member states (Host Nations) or NATO bodies in respect of the NSIP have been 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 2021, Board Members from the Nations of Belgium, Canada, Germany, Italy, the Netherlands, Spain, and Turkey were at IBAN. The Board Members are supported by 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 Charter provides that the Board Members can be from all NATO Member States, regardless of size, so that each Nation has the opportunity to be a part of NATO’s external audit structure on a voluntary and rotational basis. This results in collective ownership of, and collective responsibility for, NATO’s external audit function. Since IBAN’s establishment, Board Members from 18 different NATO Nations have served on the Board.

1.4 IBAN is responsible only to the Council, although it engages and works closely with many other subordinate NATO governing bodies. NATO committees include the Deputy Permanent Representatives Committee (DPRC), Resource Policy and Planning Board (RPPB), Budget Committee (BC), and Investment Committee (IC). In addition, we present our financial statements audit 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**

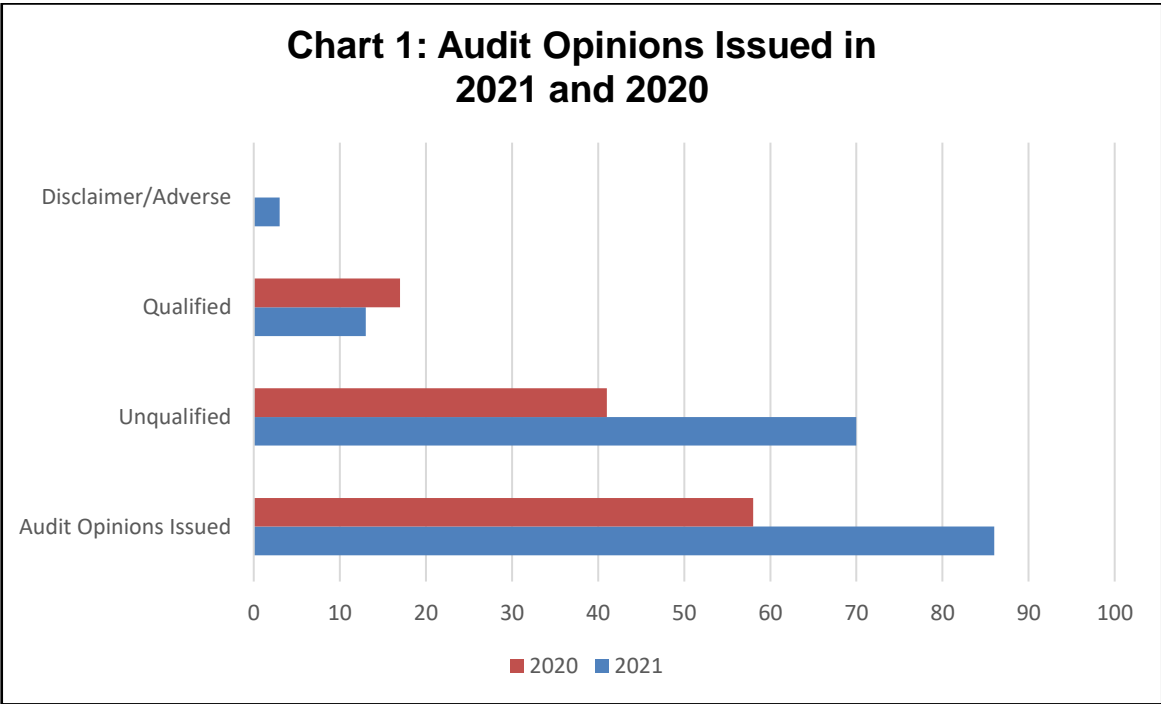
2.1 To execute our mandate, we perform annual financial statements audits of 22 NATO Reporting Entities. In addition, IBAN carries out performance audits of selected NATO Bodies, operations, or programmes. We also conducted 74 audits of expenditures incurred on NSIP projects.

2.2 Lastly, we also perform financial statements audits of some non-NATO multi-nationally funded or sponsored bodies with close cooperative links to NATO, usually on a cost reimbursable basis. In 2021, our total audit scope covered more than EUR 10 billion of expenditures for financial statements and the NSIP.

FINANCIAL STATEMENTS AUDIT

2.3 In 2021, we issued 32 audit reports on financial statements of NATO Reporting Entities and five audit reports on non-NATO bodies. Some reports for the 2019 financial year for NATO Reporting Entities were issued in 2021 due to delays resulting from the COVID-19 pandemic. Each audit report contains an independent external auditor's report and observations and recommendations per financial year audited. The independent external auditor's report includes an opinion on the financial statements and an opinion on compliance. An opinion can be unqualified, qualified, adverse, or a disclaimer of opinion. In accordance with auditing standards, three types of paragraphs may also be communicated in the auditor's report. These paragraphs are "Key Audit Matters", "Emphasis of Matter" and "Other Matter".

2.4 In the 32 audit reports for the NATO Reporting Entities, we issued 30 unqualified audit opinions and two qualified opinions on the financial statements, and 28 unqualified audit opinions and four qualified opinions on compliance. In the five audit reports for the non-NATO bodies covering in total 11 financial years, we issued four unqualified audit opinions, four qualified opinions, and three adverse opinions on the financial statements, as well as eight unqualified audit opinions and three qualified opinions on compliance. In 2021, we issued a total of 86 audit opinions, 70 were unqualified, 13 were qualified, and three were adverse. The total number of audit opinions issued in 2021 compared to 2020, is shown in Chart 1 below.



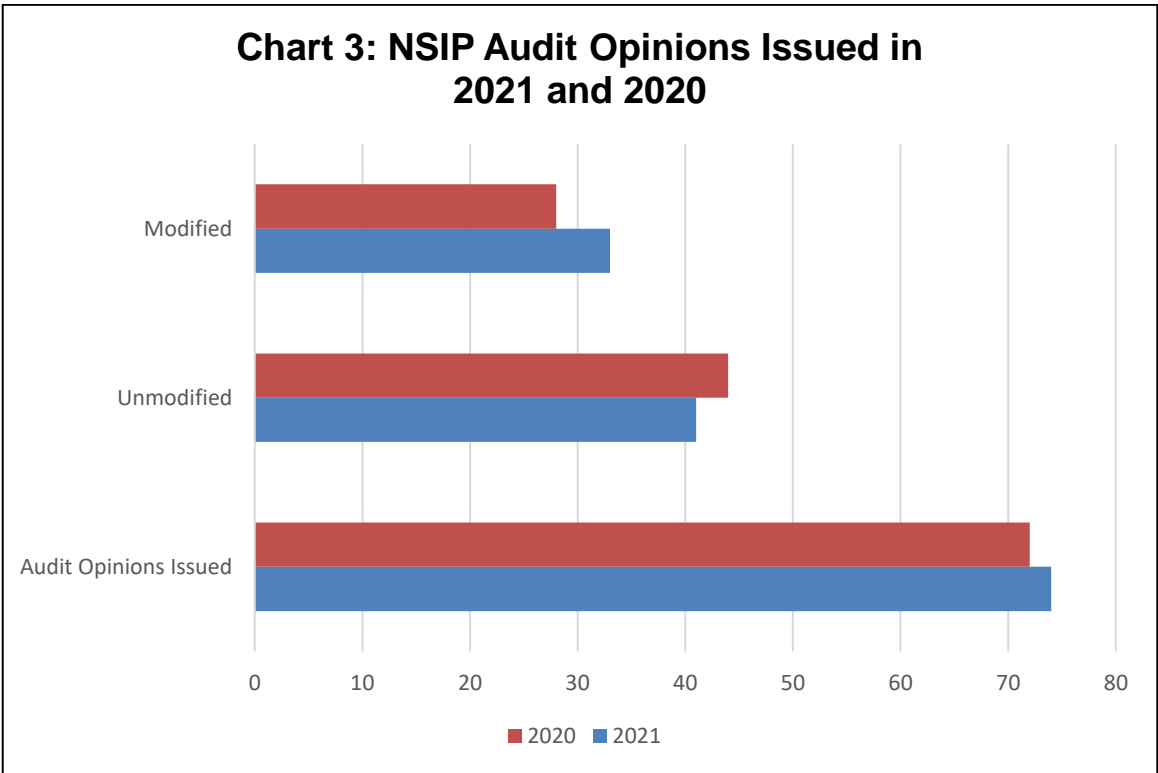
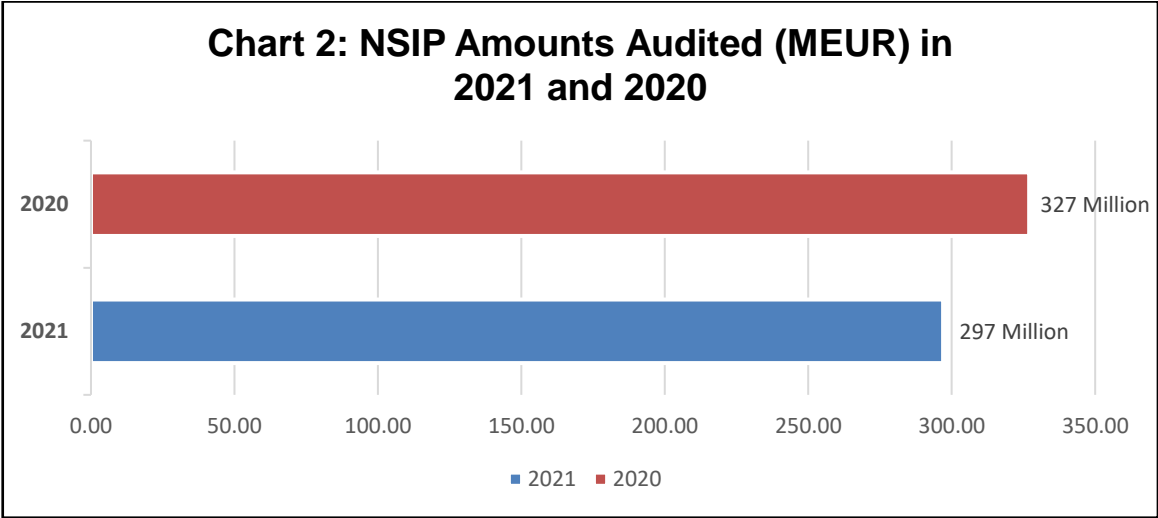
PERFORMANCE AUDIT

2.5 It is our aim to carry out at least one substantial performance audit per year, complemented by a number of smaller performance audits.

2.6 In 2021 we issued two performance audits on (1) the Recruitment and Selection of International Staff, (2) NATO Occupational Health and Safety, Environmental Protection, and Energy Efficiency Management Policies and Practices, and (3) a special report to Council on NATO Communications and Information Agency (NCIA) Service Rates.

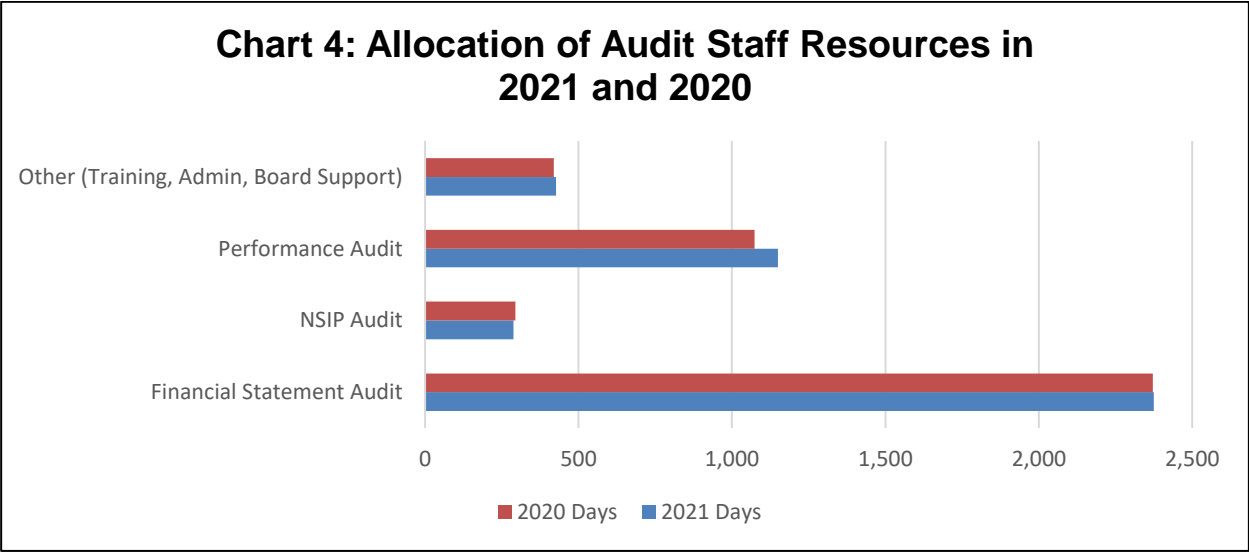
NSIP AUDIT

2.7 In 2021, we audited EUR 297 million worth of NSIP expenditures. The amount audited in 2021 compared to 2020 is shown in Chart 2 below. We issued 74 auditor’s reports on Cost Statements presented by territorial Host Nations, NATO Agencies and Strategic Commands. Out of 74 audit opinions provided in the Independent External Auditor’s Reports, 41 audit opinions were unmodified and 33 audit opinions were modified. The total number of NSIP audit opinions issued in 2021 compared to 2020, is shown in Chart 3 below.

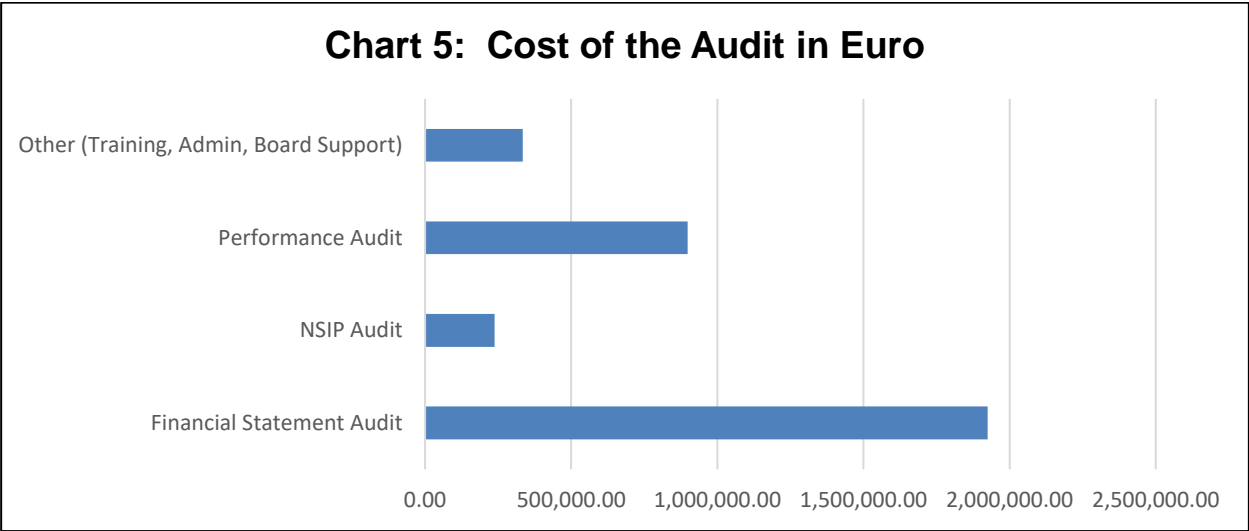


2.8 Chart 4 below shows the use of our audit staff resources in 2021 with the number of days expended on each type of activity compared to 2020. In 2021, we used a total of 4,240 auditor staff days. Of these, 3,813 days (90%) were expended on audits. The remaining 427 days (10%) were expended on staff training, administrative activities, and supporting the work of the Board itself. As a percentage of the staff days assigned only to audit work, performance audit represented 30% of the IBAN’s audit days, which exceeded our Council mandated target of at least 25%. The audit resources for financial

statements audits in terms of audit days was 62%. Resources in terms of audit days for NSIP audits in 2021 were 8%.



2.9 The direct cost (audit staff salary and travel costs) of the audits and other IBAN activities for 2021 is shown in Chart 5 below in EUR. The total direct cost of audit only activities was EUR 3.1 million in 2021.





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, compliance and performance audits. While financial audits are generally performed on an annual or multi-annual basis, specific reviews and performance audits are executed on an ad-hoc basis. 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 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 the different NATO Rapid Deployable Corps and the NATO Parliamentary Assembly. In 2021, our audit scope for financial statement audits amounted to almost EUR 10 billion.

3.4 The external audit of NATO Reporting Entities is performed by the IBAN in accordance with Article 14 of the NATO Financial Regulations (NFRs). IBAN operates in accordance with its Charter approved by the Council. According to Article 35 of the NFRs, annual financial statements shall be submitted for audit to IBAN not later than 31 March following the end of the financial year. Article 15 of the NFRs states that IBAN must present its final reports, including factual and formal comments, together with the audited financial statements, to the Council not later than 31 August, following the end of the Financial Year.

3.5 NATO Reporting Entities have a varying degree of autonomy in managing their operations. All NATO Reporting Entities are subject to the NATO Accounting Framework (NAF) and the NFRs that are approved by the Council and which together provide a high level financial and budgetary framework. These NFRs may 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, standards, and financial rules.

3.6 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

NATO UNCLASSIFIED

IBA-M(2022)0002-REV1

number of areas including reforming governance, 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 NSIP annual ceiling. NATO also publishes all unclassified financial statements of NATO Reporting Entities, including the IBAN audit reports. Council also decided to make financial statements unclassified wherever feasible.

3.7 While acknowledging that significant improvements were 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. A simplification based on the legal framework of NATO would be more in line with the aim of the NATO Accounting Framework/General Purpose Financial Statements and at the same time improve accountability and transparency to both internal and external stakeholders. This approach would lead to a decrease from 22 to 3 general purpose financial statements and audit reports without any loss in transparency and accountability. This is because the financial information of individual NATO entities would still be disclosed in separate budget execution reports annexed to the financial statements and as separate segments in the notes.

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 Reporting Entities, including NATO agencies, military commands, project offices, benefit plans, and the results of their operations, in accordance with the NAF (an adapted version of IPSAS) or other applicable financial reporting framework for non-NATO bodies; and that the funds have been properly used for the settlement of authorised expenditure and are in compliance with the regulations in force.

3.9 We conduct our audits in accordance with the International Standards of Supreme Audit Institutions, developed by the INTOSAI and in accordance with the additional terms of reference defined in our Charter. After each financial statements audit, we issue an audit report with an opinion on the financial statements and on compliance, as well as observations and recommendations. The opinion can be unqualified, qualified, disclaimed, or adverse. In accordance with auditing standards, three types of paragraphs may also be communicated in the auditor's report. These are "Key Audit Matters", "Emphasis of Matter" and "Other Matter" paragraphs.

3.10 Audits are generally conducted on the auditee site by auditors, under the supervision of our Board Members and Senior Auditors. All NATO Reporting Entities 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. Due to the COVID-19 pandemic and associated travel restrictions, IBAN conducted some audit work remotely as we were able to perform less on-site visits.

NATO UNCLASSIFIED

IBA-M(2022)0002-REV1

FINANCIAL STATEMENTS AUDIT WORK IN 2021

3.11 In 2021, we issued a total of 37 Financial Statements Audit Reports on NATO and non-NATO bodies comprising 43 audit opinions each on the financial statements and on compliance, for a total of 86 audit opinions. Of the 37 Audit Reports, 32 were for NATO Reporting Entities and five were for non-NATO bodies. Of the 86 audit opinions issued, 70 were with unqualified audit opinions, 13 were with qualified audit opinions, and three with adverse audit opinions. In 2021, 93% of our prior recommendations to auditees were closed or in progress by the next audit cycle.

3.12 Of the six Audit Reports we issued with 13 qualified opinions on the financial statements and/or compliance, four audit reports were for NATO Reporting Entities (see Annex A) and the other two Audit Reports were for non-NATO bodies. As a percentage of the 32 Audit Reports for NATO Reporting Entities, 13% were with a qualified opinion. One Audit Report with three adverse opinions on the financial statements and/or compliance related to non-NATO bodies. The financial audit observations and recommendations issued in 2021 included observations on a range of issues or errors which affected the audit opinion when material or other paragraphs in the auditor's report (Key Audit Matters, Emphasis of Matter or Other Matter) when significant. In addition, other observations deemed less significant for governance were communicated directly to the management of 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 for NATO Reporting Entities.

3.13 In 2021, IBAN agreed to audit nine financial statements resubmitted after the 31 March deadline by NATO Reporting Entities. These resubmissions corrected material misstatements or disclosures identified during the audit. Without these restated financial statements resubmitted after 31 March, the number of financial statements containing material errors could have increased. The nine financial statements of NATO Reporting Entities resubmitted after the 31 March deadline represent 28% of the 32 financial statements submitted to IBAN for audit. IBAN also agreed to audit the financial statements resubmitted by one non-NATO Body.

3.14 In 2021, in addition to the resubmissions and the already limited timeframe set out by the NFRs to perform the audit process, other constraints further prevented IBAN's ability to meet the 31 August deadline provided in the NFRs with concern to five NATO Reporting Entities. We needed to wait for outstanding audit evidence, scheduling changes made by auditees and travel restrictions due to the COVID-19 crisis affected the audits of those NATO Reporting Entities.

REPORT TO COUNCIL ON MAIN FINDINGS FROM THE FINANCIAL STATEMENTS AUDITS 2019

3.15 In September of 2021 the IBAN issued its "*Report to Council on the Main Findings From the Financial Statement Audits 2019*" (IBA-A(2021)0105-REV1). The purpose of this Report is to provide a detailed overview to Council on the main findings from the audit

NATO UNCLASSIFIED

NATO UNCLASSIFIED

IBA-M(2022)0002-REV1

of the 2019 financial statements of NATO Reporting Entities. The IBAN aims to produce the “*Main Findings*” report annually and it should normally be made available to the public upon approval by the Council.

3.16 The report includes detailed information on the reasons for IBAN qualified audit opinions and, where relevant, other paragraphs, a summary of observations and recommendations, and IBAN's main findings by theme or audit area. Overall, the report provides a concise and detailed overview on IBAN's financial statements audit work and outcomes for internal and external stakeholders, which increases the transparency and accountability of NATO's use of public resources.

NATO UNCLASSIFIED



Chapter 4

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

NATO UNCLASSIFIED

IBA-M(2022)0002-REV1

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. In exercising this mandate, 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 or follow-up performance audit reports. Follow-up performance audit refers to our review of the corrective actions taken by an audited entity in reaction to the results of our performance audit. IBAN usually performs selected follow-up performance audits within two to four years of the original audit.

4.4 In 2021 we issued two performance audit reports and one special report to Council. These reports were on (1) recruitment and selection of International Staff (IS), (2) NATO occupational health and safety, environmental protection, and energy efficiency management policies and practices, and (3) the special report to Council on the NCIA Service Rates.

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;

NATO UNCLASSIFIED

NATO UNCLASSIFIED

IBA-M(2022)0002-REV1

- Review Performance Audit Proposals and prepare recommendations to the Board;
- 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 NATO stakeholders in NATO. The programme includes performance audit topic proposals based upon input from Board Members, audit staff, and NATO resource committee Chairs and members.

PERFORMANCE AUDIT REPORTS ISSUED IN 2021

Performance audit on the recruitment and selection of International Staff

4.7 In this report we assessed to what extent is the International Staff (IS) able to effectively and efficiently fill its staffing needs and address its workforce diversity objectives.

4.8 This report has not yet been made public by Council.

Performance audit on NATO occupational health and safety, environmental protection, and energy efficiency management policies and practices

4.9 In this report we assessed (1) if there are NATO-wide governance structures, direction and policies that efficiently and effectively address occupational health and safety risks to the Alliance and meet international good practices, (2) if NATO governance structures and entities' implementation of environmental protection and energy efficiency activities are performed in accordance with the 2014 NATO Green Defence Framework and with international good practices, and (3) if NATO entities have occupational health and safety, environmental and energy management systems that efficiently, effectively and economically address risks to the Alliance and meet international good practices.

4.10 This report has not yet been made public by Council.

NATO UNCLASSIFIED

IBA-M(2022)0002-REV1

Special report to Council on the NATO Communications and Information Agency Service Rates

4.11 In this special report to Council we assessed what mechanisms NCIA has in place to ensure that its level of effort (or labour costs) estimate used in the establishment of its Service Rates (a) is complete and accurate and (b) provides confidence to stakeholders that services are delivered in the most economical manner. We also assessed what is the sufficiency and appropriateness of key performance information NCIA provided to the Nations related to the level of effort (or labour costs) estimate as part of its Service Rate budget submission.

4.12 This report has not yet been made public by Council.

USE OF INCOME FROM AUDITS OF NON-NATO BODIES FOR PERFORMANCE AUDIT

4.13 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 as they do not operate under one of NATO's juridical personalities. 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 three to four years and subject to the availability of IBAN staff resources. Normally, IBAN audits a maximum of seven or eight such bodies each year.

4.14 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 International School, NATO Missile Firing Installation, and the NATO Parliamentary Assembly would be done at no charge. These four audits are programmed and conducted every year in addition to any other audits of non-NATO bodies.

4.15 The costs to be reimbursed include staff hours expended on the audit by IBAN staff, 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.

4.16 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:

NATO UNCLASSIFIED

- 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.

4.17 Table 1 below shows the opening balance of funds in Euro from the audits of non-NATO bodies, the amount earned in 2021, the amount spent by IBAN, and the closing balance for the year.

Table 1: Funds from audits of Non-NATO bodies in Euro	
	2021
Starting balance	179,089
Income	73,365
Spent	1,674
Ending balance	250,780

Source: Office of Financial Control, International Staff.

4.18 IBAN used EUR 1,674 of our funds from audits of non-NATO bodies to support our performance audit work in 2021. Limited funds were used in 2021 due to the COVID-19 pandemic and associated travel restrictions.



Chapter 5

OUR CONTRIBUTION TO THE
IMPROVEMENT OF THE
NSIP MANAGEMENT &
ACCOUNTABILITY

CHAPTER 5

OUR CONTRIBUTION TO THE IMPROVEMENT OF THE NSIP MANAGEMENT AND ACCOUNTABILITY

5.1 IBAN provides independent assurance that the expenditure incurred by Member Countries and by NATO entities in respect of NSIP were carried out in compliance with the regulations in force. Through its performance audits, IBAN may also analyse and evaluate the efficiency, effectiveness and economy of the programme's management and procedures. We aim to achieve the following:

- Contribute to the improvement of NSIP management;
- Provide independent assurance for NSIP accountability; and
- Improve the efficiency, effectiveness and economy of the NSIP.

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. Council made major changes to the Programme in 1994 and renamed it the NSIP. In 2018, Council approved a new Common Funded Capability Delivery Governance Model for NSIP. The new governance model is currently under implementation.

5.3 The Programme is overseen by the Investment Committee (IC), on behalf of Council and individual projects are implemented by the "Host Nation" (a Member State, a NATO Strategic Command or a NATO Agency), which is responsible for the planning and execution of the project.

AUDIT METHODOLOGY AND CONDUCT OF NSIP AUDITS

5.4 The objective of the audit of the NSIP expenditures presented in the Cost Statement is to provide independent assurance to Council that NSIP expenditures incurred by Host Nations were carried out in compliance with the regulations in force. We conduct our audits in accordance with the International Standards of Supreme Audit Institutions (ISSAIs), approved by INTOSAI and in accordance with the additional terms of reference defined in our Charter. After each NSIP audit, we issue an Independent External Auditor's Report with an opinion on the expenditures presented in the Cost Statements. Opinions can either be unmodified or modified (see Glossary of Terms in Annex F).

5.5 The final financial closure of a project and formal discharge of the Host Nations are performed by the IC, on behalf of Council, based on the notation of a list of completed projects. This relieves and discharges the Host Nation from its financial responsibilities for the project.

5.6 According to Investment Committee Implementation Management Procedure

(AC/4-D(2017)0006-FINAL), an audit request shall be submitted to IBAN not later than six months following the request for a technical inspection (Joint Final Inspection and Formal Acceptance (JFAI)) of the project. Prior to submitting an audit request, the Host Nation needs to prepare and sign a Cost Statement reflecting all expenditures incurred for the project implementation, which it deems eligible for NATO funding. Cost statements are the means through which the Host Nation presents a completed project for audit. The audits are generally conducted on the Host Nation site by auditors, under the supervision of our Senior Auditors and Board Members.

NSIP AUDIT ACTIVITY IN 2021

5.7 In 2021, IBAN used 8% of the available staff resources on the audit of NSIP projects expenditures, which was the same as in 2020.

5.8 We issued 74 independent external auditor's reports on cost statements presented by territorial Host Nations, NATO Agencies and Strategic Commands. Out of 74 audit opinions provided in the auditor's reports, 41 audit opinions were unmodified and 33 audit opinions were modified. As a percentage of auditor's reports issued, 55% had unmodified audit opinions and 45% had modified audit opinions. Table 2 below shows IBAN's NSIP audit activity for 2021 in comparison to 2020.

Table 2: NSIP AUDIT ACTIVITY 2021		
	2021	2020
Amount audited ⁽¹⁾	297 MEUR	327 MEUR
Auditor's Reports issued	74	72

Note 1: Amount in cost statements presented by Host Nations for audit.

5.9 The 74 auditor's reports covered expenditures of EUR 297 million, which represents about 4% of the entire population of open NSIP projects (expenditure of EUR 7.9 billion reported as at December 2021). The total amount audited by IBAN and financially closed after the IC discharge of the Host Nation's responsibilities amounts to more than 79% of the total cumulative NSIP expenditure (see Annex B).

5.10 IBAN's audit of NSIP projects expenditures remained stable in 2021. The number of audits conducted depends on audit requests received from Host Nations. Due to the COVID-19 crisis and related travel restrictions in 2021, IBAN had to delay a number of planned NSIP audit missions. These audits will be conducted as long as on-site audit missions can be resumed.

5.11 The main reason for modified audit opinions (21 of 33 auditor's reports or 64%) related to missing or incomplete project financial documentation, such as signed contracts, invoices and bidding documents. Due to missing documentation, we could not reconcile and agree expenditures to contracts signed, nor could we verify whether expenditures incurred and presented in the Cost Statement were within the authorised scope of work. We therefore concluded that the expenditures reported in the Cost

NATO UNCLASSIFIED

IBA-M(2022)0002-REV1

Statements were not compliant with NSIP regulations, subject to decision by the Investment Committee.

5.12 In five cases, the Host Nation was not in a position to prepare cost statements for audit, as the supporting documentation for expenditures incurred was no longer available. As no cost statement and supporting documentation were submitted to us for audit, we are not able to determine whether expenditures incurred complied with the NSIP regulations in force.

5.13 In other cases, the modified opinion was due to expenditures incurred not being compliant with NSIP regulations because they were outside the authorised scope of work or in excess of the authorisations granted, or to non-compliance with the NSIP procurement regulations relating to award of contracts.

5.14 The Investment Committee Implementation Management Procedure require an audit request to be submitted to IBAN not later than six months following the request for a technical inspection of the project. IBAN will proceed with the audit only once the JFAI report has been accepted by the Investment Committee. On average, for the projects audited in 2021, the audit requests were submitted to IBAN five years after the request for technical inspection.

SPECIAL REPORT TO COUNCIL ON THE NEW APPROACH TO NSIP AUDITS AND ITS IMPACT ON ACCOUNTABILITY

5.15 In 2021, IBAN issued a “*Special Report to Council on the new approach to NATO Security Investment Programme audits and its impact on accountability*” (IBA-A(2021)0047-REV1 & IBA-AR(2021)0002). The purpose of the report was to provide Council with a first overview of the new approach to NSIP audits approved by Council in June 2020 and its impact on accountability as well as identifying ways to improve overall accountability. The report sets out the main changes and their purpose, the main findings arising in the first year of implementation in 2020, the first impact on accountability as well as recommendations for improving overall accountability.

5.16 The report has been approved for public disclosure by Council and is available on the IBAN webpage.

CLOSURE OF COMPLETED NSIP PROJECTS

5.17 In 2014, on the basis of an RPPB recommendation, Council tasked the IC to develop a plan with the objective of closing, by 30 June 2016, all existing completed NSIP projects at the time amounting to EUR 5 billion (C-M(2014)0052). The reason for this was due to the significant backlog of projects completed by 2014, but not yet technically inspected or audited. The purpose was to reduce the backlog of NSIP projects not yet technically inspected and audited and to allow Host Nations to focus on ensuring that newly completed projects would be closed following agreed timelines. The technical and

NATO UNCLASSIFIED

NATO UNCLASSIFIED

IBA-M(2022)0002-REV1

financial closure of NSIP projects is a key element to ensuring proper transparency and accountability on the use of NATO common funds.

5.18 An overview of the evolution between December 2020 and December 2021 of the closing of physically completed NSIP projects that are part of the Council tasker is provided at Annex C. At 31 December 2021, a total of 376 projects amounting to EUR 2.4 billion still remain to be closed.

5.19 During 2021, IBAN audited and issued auditor's reports for 38 of these 376 projects with expenditures presented in their Cost Statement amounting in total to EUR 263 million. For four projects, the Host Nations were subsequently discharged by the Investment Committee. For the remaining 34 projects, the Investment Committee has not yet discussed whether to discharge the Host Nations and therefore, the projects have not yet been financially closed.

5.20 The Council tasker for closing the projects was later extended until 2020 (C-M(2017)0030) and a further extension was granted by Council until end 2022 (C-M(2020)0045-AS1). However, the closing of projects remains dependent on Host Nations submitting projects for technical inspection and audit. IBAN encourages Host Nations to continue submitting projects for technical inspection and audit in order to reduce the backlog.



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, forward-looking, 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 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
- Improve visibility of IBAN within NATO and with our external stakeholders in accordance with INTOSAI

OUR STAFF

6.2 IBAN has an authorised post strength of twenty-two auditor posts, which has remained constant from prior years. As of 2021, IBAN's end state audit staff establishment is one G22 grade Principal Auditor, two G22 grade Senior Auditors, nine G20 grade auditors, and ten G17 grade auditor posts. In addition, we have one Administrative Officer and five Administrative Staff, who provide essential 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 and performance audit specialists. Approximately 64% of IBAN's audit staff in 2021 were either seconded from Member State Supreme Audit Institutions (SAIs) or are former employees of SAIs. 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 to nine 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 Of the 19 auditor posts at G20 and G17 grade, 13 (68%) are designated as financial statements auditors and six (32%) are designated as performance auditors. Our NSIP audit work is carried out by both financial statements and performance auditors.

6.5 The IBAN strives to provide our staff with relevant and sufficient professional training in accordance with the auditing standards of INTOSAI. 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 as well as individual training within NATO or with external bodies on topics related to audit or personal development.

NATO UNCLASSIFIED

IBA-M(2022)0002-REV1

CONFERENCE ON TRANSPARENCY AND ACCOUNTABILITY AS KEY ELEMENTS OF GOOD GOVERNANCE ACROSS NATO

6.6 The IBAN planned on holding a conference on “Transparency and Accountability as Key Elements of Good Governance across NATO” in the fall of 2020 and then rescheduled it to 2021. The conference focus is on transparency and accountability as core strategic values for NATO. The objective is to raise interest and stimulate discussion within internal stakeholders (the Council, Nations, and NATO bodies) as well as with other NATO stakeholders, such as the Nations’ citizens, Nations’ SAls, Partner Nations, other international audit institutions, academia, the media, and industry. The conference was delayed due to the COVID-19 pandemic, but IBAN plans to hold it in 2022.

OUR ANNUAL MEETING WITH THE NATIONAL AUDIT BODIES

6.7 Each year IBAN normally meets with the Competent National Audit Bodies (CNABs), which are, in majority, represented by the Nations’ SAls. During this meeting the CNABs would discuss the Annual Activity Report and have an exchange of views on a variety of auditing topics with the IBAN.

6.8 Due to COVID-19 pandemic travel restrictions, IBAN held a virtual CNAB meeting on 21 September 2021 to discuss the 2020 Annual Activity Report. We intend to resume face to face CNAB meetings as soon as practically possible.

NATO UNCLASSIFIED



Chapter 7

PERFORMANCE OF IBAN

CHAPTER 7**PERFORMANCE OF IBAN****OUR ANNUAL PERFORMANCE**

7.1 The Strategic Plan for 2022-2026, which was approved in 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 effectiveness, efficiency, and economy of NATO activities.
- Goal 3: Contribute to the improvement of the NSIP management and accountability.
- Goal 4: Develop IBAN as an innovative and proactive audit organisation.

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

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 2021 is shown below.

#	<i>Key Performance Indicator</i>	<i>Target</i>	<i>Actual</i>
1	% of audit opinions on NATO Reporting Entities given by 31 August on auditable	100%	77%

NATO UNCLASSIFIED

IBA-M(2022)0002-REV1

	signed financial statements.		
2	Issue the Annual Activity Report to the Council by the end of April.	Y/N	N

7.4 The first performance measure was not fully met as we were unable to issue all audit opinions by 31 August 2021 on NATO Reporting Entities from whom we received auditable financial statements by 31 March 2021 because of need to wait for receiving outstanding audit evidence, scheduling changes by auditees and travel restrictions due to the COVID-19 crisis. The second performance measure was also not achieved as we issued the Annual Activity Report in June 2021.

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 measure and target used to evaluate the achievement of the objectives in 2021 is shown in the table below.

<i>Key Performance Indicator</i>	<i>Target</i>	<i>Actual</i>
% of auditor's reports issued within 6 months of an audit request by Host Nations.	90%	70%

7.6 We did not meet the target for 2021 due to COVID-19 travel restrictions which forced the delay of NSIP audit missions and also to delays in receiving information from auditees necessary for audit.

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 and both were met.

<i>#</i>	<i>Key Performance Indicator</i>	<i>Target</i>	<i>Actual</i>
1	Issue at least 2 performance audits per year.	100%	100%
2	Perform follow-up on prior performance audit reports.	1	1

PERFORMANCE RELATED TO GOAL 4

7.8 Our objectives related to Goal 4 were to further promote IBAN's professional

NATO UNCLASSIFIED

NATO UNCLASSIFIED

IBA-M(2022)0002-REV1

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 and were partially met.

#	<i>Key Performance Indicator</i>	<i>Target</i>	<i>Actual</i>
1	Proactively develop and offer independent analysis and opinion to NATO governing bodies on financial, NSIP, and performance issues.	Y/N	Y
2	Publish articles on the IBAN internet website on IBAN activities or subjects of interest.	2	2
3	# of public events (conferences, seminars, courses, lectures, presentations) with auditees and stakeholders.	2	1

7.9 The first and second performance measures were met. The third performance measure was not fully achieved as, for the second year running, we were unable to hold a second planned event in 2021 due to the COVID-19 pandemic.

2022 ANNUAL ACTION AND PERFORMANCE PLAN

7.10 Our 2022 Annual Action and Performance Plan, which is based upon our 2022-2026 Strategic Plan, is included in this report at Annex D.

NATO UNCLASSIFIED

NATO UNCLASSIFIED

IBA-M(2022)0002-REV1

Approved by the Board on 13 April 2022



Daniela Morgante, IT
Chair /Présidente



Azmi Es, TU



Amipal Manchanda, CA



Karlo van den Akker, NL



Franz Wascotte, BE



Michael Gaul, GE

NATO UNCLASSIFIED



ANNEXES

NATO UNCLASSIFIED

ANNEX A
IBA-M(2022)0002-REV1

**LIST OF REPORTS ISSUED IN 2021
RESULTING FROM FINANCIAL STATEMENTS AND PERFORMANCE AUDITS**

LIST OF IBAN FINANCIAL STATEMENT AUDIT REPORTS ISSUED IN 2021						
Subject and Financial Year		IBAN Report Number	Audit Opinion	IBAN Issue Date	NAC Approval Date	Available to Public Yes/No/ Pending/NA
NATO Military Commands						
1.	Allied Command Operations (ACO) 2020	IBA-AR(2021)0030	U	25.08.2021	20.04.2022	Yes
2.	Allied Command Transformation (ACT) 2019	IBA-AR(2021)0001	U	16.04.2021	01.09.2021	Yes
3.	Allied Command Transformation (ACT) 2020	IBA-AR(2021)0038	U	17.12.2021	20.04.2022	Yes
NATO Agencies, Civil-Military Bodies, Special Projects, and Pension Schemes						
4.	BICES Group Executive (BGX) 2020	IBA-AR(2021)0019	U	20.07.2021	24.03.2022	No (NATO RESTRICTED)
5.	International Military Staff (IMS), NATO Standardisation Agency (NSA) (including Partnership for Peace (PfP), Mediterranean Dialogue (MD) Istanbul Cooperation Initiative (ICI) and Other Military Cooperation (OMC) 2020	IBA-AR(2021)0014	U	11.06.2021	14.01.2022	Yes
6.	International Staff 2019	IBA-AR(2021)0013	U	04.06.2021	07.12.2021	Yes
7.	International Staff 2020	IBA-AR(2021)0034	U	03.12.2021	24.03.2022	Yes
8.	Munitions Safety Information Analysis Centre (MSIAC) 2019	IBA-AR(2021)0007	U	04.06.2021	07.12.2021	Yes
9.	Munitions Safety Information Analysis Centre (MSIAC) 2020	IBA-AR(2021)0025	U	25.08.2021	24.03.2022	Yes
10.	NATO Airborne Early Warning and Control Programme Management Agency (NAPMA) 2020	IBA-AR(2021)0022	U	25.08.2021	14.01.2022	Yes
11.	NATO Alliance Ground Surveillance Management Organisation (NAGSMO) 2020	IBA-AR(2021)0024	U	25.08.2021	14.01.2022	Yes
12.	NATO Communications and Information Organisation (NCIO) 2019	IBA-AR(2020)0021	Q (FS, C)	12.02.2021	22.09.2021	Yes
13.	NATO Communications and Information Organisation (NCIO) 2020	IBA-AR(2021)0016	Q (FS, C)	25.08.2021	14.01.2022	Yes
14.	NATO Coordinated Pension Scheme 2019	IBA-AR(2021)0009	U	04.06.2021	07.12.2021	Yes
15.	NATO Coordinated Pension Scheme 2020	IBA-AR(2021)0029	U	25.08.2021	24.03.2022	Yes

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX A
IBA-M(2022)0002-REV1

LIST OF IBAN FINANCIAL STATEMENT AUDIT REPORTS ISSUED IN 2021

Subject and Financial Year		IBAN Report Number	Audit Opinion	IBAN Issue Date	NAC Approval Date	Available to Public Yes/No/ Pending/NA
16.	NATO Defense College (NDC) 2020	IBA-AR(2021)0015	U	11.06.2021	14.01.2022	Yes
17.	NATO Defined Contribution Pension Scheme (NATO DCPS) 2019	IBA-AR(2021)0010	U	04.06.2021	07.12.2021	Yes
18.	NATO Defined Contribution Pension Scheme (NATO DCPS) 2020	IBA-AR(2021)0032	U	15.10.2021	24.03.2022	Yes
19.	NATO EF 2000 and Tornado Development, Production and Logistics Management Agency (NETMA) 2020	IBA-AR(2021)0028	U	25.08.2021	14.01.2022	Yes
20.	NATO European Fighter Aircraft Development, Production and Logistic Management Organisation (NEFMO) 2020	IBA-AR(2021)0026	Q (C)	25.08.2021	24.03.2022	No (COMMERCIAL SENSITIVE)
21.	NATO FORACS Office (NFO) 2019	IBA-AR(2021)0012	U	04.06.2021	07.12.2021	Yes
22.	NATO FORACS Office (NFO) 2020	IBA-AR(2021)0023	U	25.08.2021	24.03.2022	Yes
23.	NATO Helicopter Management Organisation (NAHEMO) 2020	IBA-AR(2021)0031	U	25.08.2021	14.01.2022	Yes
24.	NATO Medium Extended Air Defense System Management Organisation (NAMEADSMO) In Liquidation 2019	IBA-AR(2021)0040	U	17.12.2021	24.03.2022	Yes
25.	NATO Medium Extended Air Defense System Management Organisation (NAMEADSMO) In Liquidation 2020	IBA-AR(2021)0041	U	17.12.2021	24.03.2022	Yes
26.	NATO Multi-Role Combat Aircraft Development Production And In-Service Support Management Organisation (NAMMO) 2020	IBA-AR(2021)0027	Q (C)	25.08.2021	24.03.2022	Yes
27.	NATO Retirees Medical Claims Fund (RMCF) 2019	IBA-AR(2021)0008	U	04.06.2021	07.12.2021	Yes
28.	NATO Retirees Medical Claims Fund (RMCF) 2020	IBA-AR(2021)0035	U	26.11.2021	24.03.2022	Yes
29.	NATO Support and Procurement Organisation (NSPO) 2020	IBA-AR(2021)0017	U	25.08.2021	24.03.2022	Yes
30.	New NATO Headquarters	IBA-AR(2021)0011	U	04.06.2021	07.12.2021	Yes

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX A
IBA-M(2022)0002-REV1

LIST OF IBAN FINANCIAL STATEMENT AUDIT REPORTS ISSUED IN 2021						
Subject and Financial Year		IBAN Report Number	Audit Opinion	IBAN Issue Date	NAC Approval Date	Available to Public Yes/No/ Pending/NA
	(NNHQ) 2019					
31.	New NATO Headquarters (NNHQ) 2020	IBA-AR(2021)0021	U	25.08.2021	24.03.2022	Yes
32.	Science and Technology Organisation (STO) 2020	IBA-AR(2021)0020	U	25.08.2021	14.01.2022	Yes
Non-NATO multi-national bodies						
33.	NATO Intelligence Fusion Centre (NIFC) 2016-2019	IBA-AR(2020)0020	Q (FS) ²	29.01.2021	NA	NA
34.	Headquarters 1 (German-Netherlands) Corps – NATO Rapid Deployable Corps Germany/Netherlands (NRDC-GNL) 2017-2019	IBA-AR(2021)0003	A (FS) ² Q (C) ²	30.04.2021	NA	NA
35.	NATO Missile Firing Installation (NAMFI) 2020	IBA-AR(2021)0033	U	26.11.2021	NA	NA
36.	NATO Parliamentary Assembly (NPA) 2020	IBA-AR(2021)0004	U	05.03.2021	NA	NA
37.	SHAPE International School (SIS) 2019-2020	IBA-AR(2021)0037	U ²	10.12.2021	NA	NA
Performance Audit Reports						
38.	Recruitment and Selection of International Staff	IBA-AR(2021)0005	NA	16.04.2021	Pending	Pending
39.	NATO occupational health and safety, environmental protection, and energy efficiency management policies and practices	IBA-AR(2021)0006	NA	30.04.2021	Pending	Pending
Special Audit Reports						
40.	New approach to NATO Security Investment Programme financial audits and its impact on accountability	IBA-AR(2021)0002	NA	30.04.2021	24.03.2022	Yes
41.	Main findings from the 2019 Financial Statements audits	IBA-M(2021)0002-REV1	NA	24.09.2021	17.12.2021	Yes
42.	NATO Communications and Information Agency Service Rates	IBA-AR(2021)0018	NA	14.07.2021	Pending	Pending

¹ The table includes reports related to the 2019 financial year that were issued by the IBAN in 2021 due to delays related to the COVID-19 pandemic.

² Audit Opinion is the same for all years audited.

U = Unqualified

Q = Qualified

A = Adverse

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX A
IBA-M(2022)0002-REV1

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 statements and performance audits) of NATO Reporting Entities.

CUMULATIVE NSIP EXPENDITURE BY HOST NATION AS AT END 2021

Host Nation	Expenditure Reported (1) (2)	Expenditure Financially closed – (2) (3)	Expenditure Financially closed
Albania	-	-	-
Belgium	880	705	80%
Bulgaria	78	18	23%
Canada	80	80	100%
Croatia	10	-	0%
Czech Republic	135	72	53%
Denmark	744	726	98%
Estonia	70	32	46%
France	1,026	961	94%
Germany	6,020	5,542	92%
Greece	1,911	1,553	81%
Hungary	187	101	54%
Iceland	37	-	0%
Italy	2,426	1,915	79%
Latvia	46	33	71%
Lithuania	48	37	77%
Luxembourg	59	59	100%
Netherlands	992	888	90%
Norway	2,259	2,114	94%
Poland	536	223	42%
Portugal	611	571	93%
Romania	85	16	19%
Slovakia	40	31	79%
Slovenia	39	6	15%
Spain	240	165	69%
Turkey	4,602	4,064	88%
United Kingdom	2,669	2,482	93%
United States of America	1,694	1,275	75%
Sub-Total Territorial Nations	27,526	23,670	86%
ACT	29	2	7%
NADGEMO	33	33	100%
NCIA	7,106	3,760	53%
NSPA	1,457	873	60%
SHAPE	987	872	88%
Sub-Total NATO Bodies (4)	9,612	5,541	58%
Total	37,138	29,211	79%

- (1) Source: IBAN based on NATO Office of Resources, International Staff data on annual expenditures for NSIP.
- (2) All amounts are expressed in EUR million.
- (3) Expenditure for projects financially closed after final discharge by the Investment Committee of the Host Nation based on the List of Completed Projects.
- (4) NATO Bodies NSIP expenditure is included in their audited Annual Financial Statements.

CLOSURE OF COMPLETED NSIP PROJECTS UNDER COUNCIL TASKING

NUMBER AND VALUE OF PROJECTS

Evolution December 2020 - December 2021

Host Nation	OPEN SUB-PROJECTS (1) 2020 (EUR)		OPEN SUB-PROJECTS (1) 2021 (EUR)		DIFFERENCE (number of projects)	% DIFFERENCE (value)
	No.	Value (2)	No.	Value (2)		
Belgium	8	46,799,114	8	46,799,114	0	0%
Bulgaria	2	29,768,932	2	29,768,932	0	0%
Czech Republic	1	5,069,876	1	5,069,876	0	0%
Denmark	2	5,665,366	2	5,665,366	0	0%
France	3	26,103,172	3	26,103,172	0	0%
Germany	16	255,364,918	16	255,364,918	0	0%
Greece	48	310,289,241	45	302,406,587	-3	3%
Hungary	6	23,764,842	5	20,040,393	-1	16%
Iceland	0	0	0	0	0	0%
Italy	34	351,033,540	34	351,033,540	0	0%
Latvia	1	12,502,964	1	12,502,964	0	0%
Lithuania	1	6,275,102	1	6,275,102	0	0%
Netherlands	2	38,782,270	1	23,316,587	-1	40%
Norway	3	42,559,112	3	42,559,112	0	0%
Poland	14	95,813,262	14	95,813,262	0	0%
Portugal	1	92,647	1	92,647	0	0%
Slovenia	3	23,587,842	3	23,587,842	0	0%
Spain	8	39,435,185	8	39,435,185	0	0%
Turkey	57	388,783,785	57	388,783,785	0	0%
United Kingdom	8	45,793,160	8	45,793,160	0	0%
USA	0	0	0	0	0	0%
Sub-Total Territorial Host Nations	218	1,747,484,330	213	1,720,411,544	-5	2%
ACT	5	9,913,836	5	9,913,836	0	0%
NCIA	147	577,281,062	137	553,032,722	-10	4%
NSPA	7	41,443,307	7	41,443,307	0	0%
SHAPE	14	97,150,588	14	97,150,588	0	0%
Sub-Total NATO Bodies	173	725,788,793	163	701,540,453	-10	3%
Total (3)	391	2,473,273,123	376	2,421,951,997	-15	2%

Source: IBAN data.

- (1): Projects authorised before 2011 and physically completed by 2014, but not yet financially closed and discharged by the Investment Committee.
- (2): Value based on authorised funds.
- (3): According to RPPB document AC/335-D(2021)0088 dated 17 December 2021, EUR 2.2 billion or 356 sub-projects remain to be closed. The difference to the above table is mainly because IBAN included all open projects from the Slice Programme. These are not all included in the Council tasking.

**International Board of Auditors for NATO
Annual Action and Performance Plan 2022****INTRODUCTION**

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

This Annual Action and Performance Plan for 2022 is based upon the goals and objectives identified in the 2022-2026 Strategic Plan. It includes key performance indicators and targets for the various objectives to be achieved during 2022.

GOAL 1: CONTRIBUTE TO THE STRENGTHENING OF ACCOUNTABILITY AND CORPORATE GOVERNANCE WITHIN NATO

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

Objective 1: Provide independent assurance that the financial statements present fairly the financial position, financial performance, and cash flows, of the entity and that the funds were properly used for the settlement of authorised expenditure in compliance with the regulations in force.

- We will continue to improve the quality, user friendliness and timeliness of our financial audit reports. We aim to make relevant audit recommendations that strengthen accountability and provide support to governance in NATO, and monitor their implementation.

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

- Make a continual assessment of the implementation of the NATO Accounting Framework and NATO Financial Regulations and provide recommendations to improve compliance. Provide coordinated advice in order to achieve a consistent application of the NATO Accounting Framework and NATO Financial Regulations

across NATO. Advocate for the simplification of NATO's Financial Reporting and Accountability Framework to improve the quality of financial information in support of decision-making by governance and the accountability needs of relevant external stakeholders.

- IBAN aims to continue providing annual cross-cutting overviews on the main findings from the financial statements audits and to intensify its efforts to produce special reports on strategic issues, such as those that have already been produced on the use of lump sums and on the NSIP new audit approach.

Objective 3: Enhance relationships with key NATO stakeholders.

- We seek to develop and maintain transparency and relationships with our key NATO stakeholders and auditees through regular consultations to better determine their needs and expectations. We liaise with committee chairpersons and other relevant stakeholders to offer IBAN's expertise and assistance in the area of accountability and governance.

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

KPI's

#	Key Performance Indicator	Target
1	% of audit opinions on NATO Reporting Entities given by 31 August on auditable signed financial statements.	100%
2	Issue the Annual Activity Report to the Council by the end of April.	Y/N

GOAL 2: CONTRIBUTE TO THE IMPROVEMENT OF THE EFFECTIVENESS, EFFICIENCY, AND ECONOMY OF NATO ACTIVITIES

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 the effectiveness, efficiency, and economy of its activities, IBAN refocuses its strategy towards a 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 evaluation to the Council on the effectiveness, efficiency and economy of specific NATO bodies, operations, programmes and projects. IBAN makes forward-looking recommendations aimed at process and

NATO UNCLASSIFIED

ANNEX D
IBA-M(2022)0002-REV1

service improvements and, when possible, optimising value for money while delivering required outputs. IBAN carries out its audit mandate in accordance with INTOSAI standards.

Objective 1: Focus on subjects of common interest to the Council and the Nations.

- Together with other selection criteria, we intend to focus on activities and initiatives that are considered to be important to the overall success of the Alliance, including new initiatives and important changes to the Alliance. By reporting directly to the Council, IBAN can contribute to and support high-level decision-makers in improving the performance of NATO.

Objective 2: Conduct audits that contributes to accountability and transparency within NATO.

- NATO faces challenges to implement good governance principles such as accountability and transparency. This has been evident through several recent audits. As we refer to INTOSAI standards, it is relevant also to give priority to these subjects that in many countries are seen as prerequisites for achieving good results in a transparent and accountable way. IBAN aims to organise conferences and seminars to disseminate information on these issues, in order to raise awareness on their importance in the NATO community as well as with external stakeholders. We aim to provide a web-based platform to let the NATO community profit from our releasable documents and increase IBAN's visibility.

Objective 3: Perform cross-cutting audits that contribute to recommendations to be applied NATO-wide.

- In general, cross-cutting audits add more complementary value than audits of individual entities. The ability to recommend good practice across NATO is contributing to better and more unified solutions. Even though cross-cutting audits normally are more cumbersome to conduct than single entity audits, they should be given priority as recommendations based on benchmarking and good practice are applicable NATO-wide and therefore adds more value.

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

KPI's

#	<i>Key Performance Indicator</i>	<i>Target</i>
1	Issue at least 2 performance audits per year.	100%
2	Perform follow-up on prior performance audit reports.	1

NATO UNCLASSIFIED

GOAL 3: CONTRIBUTE TO THE IMPROVEMENT OF THE NSIP MANAGEMENT AND ACCOUNTABILITY

IBAN provides independent assurance that the expenditures incurred by member states and by NATO entities for the implementation of the NSIP is compliant with the regulations in force. The IBAN also analyses and evaluates the economy, efficiency and effectiveness of programme management, procedures, and specific outputs. IBAN carries out its audit mandate in accordance with INTOSAI standards.

Objective 1: Provide independent assurance that NSIP expenditures are carried out in compliance with the regulations in force.

- To strengthen accountability and governance of the NSIP, our audit work provides audit opinions on expenditures incurred for individual NSIP projects. We aim to plan and conduct our audits based on audit requests received from Nations and NATO Bodies in order to deliver our audit reports to Council in a timely manner within current available resources. IBAN intends to issue another special report on the implementation of the new NSIP audit approach.

Objective 2: Contribute to the improvement of NSIP management.

- Make continual assessments of NSIP regulations and provide advice to Nations in order to achieve improved NSIP management and consistent application of regulations across Host Nations.

Objective 3: Enhance relationships with key NSIP stakeholders.

We seek to maintain transparency and relationship with our key NSIP stakeholders and auditees through regular consultations to better determine their needs and expectations. We liaise with committee chairpersons and other relevant stakeholders to offer IBAN’s expertise and assistance in the area of accountability and governance.

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

KPI

#	Key Performance Indicator	Target
1	% of acceptable and complete audit requests scheduled within 12 month of their receipt.	90%

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

NATO UNCLASSIFIED

ANNEX D
IBA-M(2022)0002-REV1

In order to achieve the objectives of Goals 1 to 3, IBAN must be an organisation that is innovative and proactive to meet the continuous developments and changes in its dynamic operational environment.

Objective 1: Further promote IBAN's workforce professional development and sharing of corporate knowledge.

- Enhance workforce mentoring of IBAN staff by improving their knowledge of professional standards, best practices, new audit developments, as well as an understanding of NATO's current challenges. We aim to provide an internal web-based platform to ensure the sharing of experience acquired by our auditors and provide professional training to facilitate individual learning.

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

- Continuously review our audit practices to ensure we deliver financial audit reports of NATO Reporting Entities to Council by 31 August of each year.
- Improve our audit practices by promoting and developing workplace innovation and efficiencies, such as through remote access to auditee IT systems, increased use of IT audit techniques, data analytics, and remote teleworking for staff.

Objective 3: Continuously improve IBAN Human Resource practices.

- Maintain a plan for staff succession and attracting qualified individuals from the public and private sector.
- Maintain clear and consistent communication to staff and application of IBAN Human Resource policies.
- Assist staff transitioning out of IBAN with information, such as career advice and contacts with other audit organisations.

Objective 4: Improve visibility of IBAN with key internal and external stakeholders.

- We regularly attend Council and committee meetings on matters of importance to the IBAN. Our aim is to publicise IBAN's work, including individual audit reports, and the annual activity report, strategic plan and annual performance plan to raise awareness of IBAN activities both internally and externally. This aim will also be achieved by organising dissemination activities and providing a web-based platform where the NATO community can access our releasable documents. We

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX D
IBA-M(2022)0002-REV1

will further develop and maintain professional contacts and cooperation with Supreme Audit Institutions of NATO Nations and with other like-minded international audit organisations, and in particular with the INTOSAI.

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

KPI's

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

NATO UNCLASSIFIED

ANNEX E
IBA-M(2022)0002-REV1

IBAN ANNUAL FINANCIAL STATEMENTS AUDIT UNIVERSE

IBAN Annual Financial Statements Audit Universe	FY 2020 Total Expenses ¹
<i>NATO Common Funded Bodies or Activities</i>	
Allied Command Operations Group	1,065
Allied Command Transformation Group	139
International Military Staff Group	27
International Staff NATO HQ	289
NATO Coordinated Pension Scheme (Defined Benefit)	207
NATO Defence College	9
NATO Defined Contribution Pension Scheme	27
NATO Retiree's Medical Claim Fund	31
New NATO Headquarters	5
Science and Technology Organisation	34
<i>Sub-total</i>	1,833
<i>NATO Joint/Multi-Nationally Funded Bodies or Activities</i>	
Munitions Safety Information Analysis Centre	2
NATO AEW&C Programme Management Organisation	38
NATO Alliance Ground Surveillance Management Agency	7
NATO Battlefield Information Collection & Exploitation Systems Group Executive	Non-disclosed ²
NATO Communications and Information Agency	770
NATO Eurofighter 2000 and Tornado Development Production and Logistics Management Agency	46
NATO European Fighter Aircraft Development, Production and Logistics Management Organisation	3,541
NATO Multi-Role Combat Aircraft Development and In-Service Support Management Organisation	575
NATO Helicopter Design and Development Production and Logistics Management Organisation	12
NATO Medium Extended Air Defence System Design and Development, Production and Logistics Management Organisation	1
NATO Naval Forces Sensor and Weapons Accuracy Check Sites Office	1
NATO Support and Procurement Agency	3,388
<i>Sub-total</i>	8,381
<i>Non-NATO Multi-Nationally Funded or Sponsored Bodies³</i>	
AFNORTH International School	4
NATO Missile Firing Installation	8
NATO Parliamentary Assembly	3
SHAPE International School	5
<i>Sub-total</i>	20
<i>Grand total</i>	10,234

¹ All amounts in Millions of EURO (MEUR). Non-EURO amounts converted at 31 December rates.

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

³ 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 so are included in the annual financial statement audit universe. These

non-NATO bodies do not share NATO'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 also audits an additional variable number of these bodies on a full cost reimbursable basis annually by request and if audit resources are available to do so.

NATO UNCLASSIFIED

ANNEX F
IBA-M(2022)0002-REV1

Glossary of Terms**Financial Statement Audit Opinion**

In accordance with auditing standards, audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

- An unqualified opinion is when IBAN issues an opinion that the financial statements and budget execution report are stated fairly and that nothing has come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A qualified opinion means that IBAN was generally satisfied with the presentation of the financial statements, but that some key elements of the statements were not fairly stated or affected by a scope limitation, or specific issues have come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A disclaimer is issued when the audit scope is severely limited and IBAN cannot express an opinion, or when there are material uncertainties affecting the financial statements or the use of funds.
- An adverse opinion is issued when the effect of an error or disagreement is so pervasive and material to the financial statements that IBAN concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

Three types of paragraphs may also be communicated in the independent external auditor's report, in accordance with auditing standards. These are Key Audit Matters, Emphasis of Matter and Other Matter.

NSIP Audit Opinion

In accordance with auditing standards, audit opinions on the expenditures incurred presented in the cost statements of the projects can be either unmodified or modified:

- An unmodified opinion is when IBAN issues an opinion on compliance of expenditures incurred in the Cost Statement and prepared by the Host Nation stating that nothing has come to our attention that causes us to believe that the expenditures incurred have not been carried out in compliance with the NSIP Regulations in force.
- A modified opinion means one of the following:

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX F
IBA-M(2022)0002-REV1

- IBAN issues an opinion on compliance of expenditures incurred presented in the cost statement and prepared by the Host Nation stating that some elements of the Cost Statement are affected by a scope limitation, or that specific issues have come to our attention that causes us to believe that some expenditures incurred have not been carried out in compliance with the NSIP Regulations in force.
- IBAN issues an opinion on compliance of expenditures incurred presented in the cost statement prepared by the Host Nation, stating that the effect of an error, missing documentation or a disagreement is so pervasive and material that IBAN concludes that all expenditures incurred of the project have not been carried out in compliance with the NSIP Regulations in force.
- IBAN cannot express an opinion on the expenditures incurred because the cost statement is missing, the inherent documentation was intentionally not provided, or because the scope of the audit is severely limited due to material uncertainties affecting whether expenditures incurred have been carried out in compliance with the NSIP Regulations in force.

NATO UNCLASSIFIEDANNEX F
IBA-M(2022)0002-REV1**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
Council	North Atlantic Council
CPR	Civilian Personnel Regulations
DCPS	NATO Defined Contribution Pension Scheme
DPRC	Deputy Permanent Representatives Committee
EHS	Environmental Health and Safety
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 Final 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
NADGEMO	NATO Air Defence Ground Environment Management Office
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

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX F
IBA-M(2022)0002-REV1

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
TAS	Time and Accounting System
USD	United States of America Dollar
VNC	Voluntary National Contribution

NATO UNCLASSIFIED



The International Board of Auditors for NATO

**The International Board
of Auditors for NATO
(IBAN)**

Bld Leopold III
B - 1110 Brussels
Mailbox.IBAN@hq.nato.int
www.nato.int/issues/iban