

	NATO	NORTH ATLANTIC COUNCIL
	OTAN	CONSEIL DE L'ATLANTIQUE NORD

NATO UNCLASSIFIED

11 May 2015

DOCUMENT
C-M(2015)0032-AS1

STRENGTHENING THE EXTERNAL AUDIT FUNCTION AT NATO

ACTION SHEET

On 8 May 2015, under the silence procedure, the Council noted the report attached to C-M(2015)0032 and its conclusions and approved the revised Charter of the IBAN.

(Signed) Alexander Vershbow
Deputy Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2015)0032.

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6 May 2015

DOCUMENT
C-M(2015)0032
Silence Procedure ends:
8 May 2015 16:00

STRENGTHENING THE EXTERNAL AUDIT FUNCTION AT NATO

Note by the Deputy Secretary General

1. I attach a report by the Resource Policy and Planning Board addressing a number of tasks from Council to strengthen the external audit function at NATO, including revisions to the Charter of the International Board of Auditors for NATO (IBAN). The report was endorsed by the Deputies Committee on 12 January 2015.
2. Strengthening the external audit function is a key element of the broader efforts to improve financial governance at NATO. A number of revisions to the IBAN Charter have been made to strengthen the independence of the IBAN, better align it with international auditing standards, and enhance the efficiency and effectiveness of the IBAN.
3. Unless I hear comments to the contrary by **16:00 on Friday, 8 May 2015**, I will take it that the Council has noted the report and its conclusions and approved the revised Charter of the IBAN.

1 Annex

Original: English

(Signed) Alexander Vershbow



STRENGTHENING THE EXTERNAL AUDIT FUNCTION AT NATO

Report by the Resource Policy and Planning Board

References: (a) PO(2013)0253
(b) PO(2012)0342
(c) C-DS(2013)0039
(d) AC/335-N(2014)0025-REV4-AS1

Aim

1. To address the taskings set out (reference A) on strengthening the external audit function at NATO and invite the Deputy Permanent Representatives Committee (DPRC) to endorse these proposals for Council approval, including the revisions to the Charter of the International Board of Auditors for NATO (IBAN).

Background

2. On 30 July 2012 the Council commissioned a thorough review of the IBAN with the purpose of strengthening the external audit function at NATO (reference B). The Council tasked the development of a business case to identify and analyse options and propose recommendations on how to most effectively, efficiently and economically organise and implement the independent external audit function at NATO.

3. The business case was reviewed by the DPRC who submitted a report and recommendations to the Council (reference A) which was subsequently approved (reference C).

4. A number of revisions to the IBAN Charter were commissioned to strengthen the independence of the IBAN, better align it with international auditing standards and to enhance the efficiency and effectiveness of the IBAN. The RPPB has looked in detail at the draft revisions proposed by the IBAN and agreed at reference D, the revised Charter for approval by Council (attached at appendix 1).

5. The revised Charter addresses the following points as directed by the Council (paragraph 5 of reference A):

- Financial Statement, performance and NATO Security and Investment Programme (NSIP) audits should have the same statutory status in the Charter (article 2);
- The roles and responsibilities of Board Members and audit staff should be clearly defined (articles 3-12);
- reporting procedures, guidelines and the authority of the IBAN to manage the contradictory process should be stipulated (article 14); and,

- The Charter should specify that the IBAN will comply with the principles of the International Organisation of Supreme Audit Institutions (INTOSAI) and audit standards to conduct its work and with Council decisions (article 15).

6. As tasked at para 6 of reference A, there are three additional areas addressed in the proposed revision to the Charter.

7. Firstly, the appointment and management of audit and administrative staff should be under the authority of the IBAN (article 11). The IBAN will be responsible for the recruitment, selection and appointment of its staff and will continue to work closely with the recruitment service of Executive Management (EM) to ensure that the overarching recruitment regulations and policies are followed. As part of this additional manpower responsibility, the IBAN will ensure that it recruits a broad range of audit staff with an appropriate mix of grades necessary to achieve its objectives.

8. Secondly, the responsibility of the IBAN to prepare and present its annual budget to be approved by Council and for which the IBAN should be solely responsible for its execution and reporting (article 16). The IBAN and EM have developed modalities for the annual budget of the IBAN to be included as a separate chapter or annex to the Civil Budget. The IBAN would be responsible to present its budget proposals to the Budget Committee (BC) during the annual budget screening process. The budget would be submitted to Council for approval as part of the annual budgetary process. The IBAN will be responsible for the execution of its budget in accordance with the NATO Financial Regulations and any directives and policies of the Financial Controller of the International Staff (IS). Transactions will be executed by the Office of the Financial Controller. The IBAN will report its budget execution as part of the Civil Budget execution process and the IBAN budget will also be auditable by an external auditor, if desired by the Nations. The 2014 approved IBAN budget will constitute the baseline for future budget planning and the Civil Budget estimates will separately identify the administrative support costs (Human Resources, financial, security, printing and other services rendered by the IS) and operating maintenance costs incurred for the IBAN.

9. Thirdly, the right of IBAN to have access to NATO and relevant national information, as mutually agreed by IBAN and the nations, required to conduct the audits should be stated explicitly in the Charter (article 13). Consistent with INTOSAI, the IBAN will have the right to obtain timely, unfettered, direct and free access to all NATO documents and information but that access to relevant national documents and information, needed for the proper discharge of their audit mandate, will be mutually agreed by the IBAN and the Nations. The text in the revised IBAN Charter is broad enough to accommodate any future policy decisions without the need to make subsequent revisions to the IBAN Charter.

10. Finally, as tasked at para 11 of reference A, the IBAN and EM have also developed modalities to carry out audits of non-NATO multi-nationally funded or sponsored entities, beginning in 2013, subject to reimbursement of the audit costs on a full-cost recovery basis. The income stemming from this type of work will be used by the IBAN in support of its programme of performance audit work. These modalities have been approved by the BC, subject to case-by-case agreement regarding the future use of such funds and such income will be duly reflected in the Financial Statements of the IS.

Recommendations

11. The RPPB invites the Council, after endorsement by the DPRC, to:
- a. Approve the enclosed revised IBAN Charter (paragraph 20(a) of reference A);
 - b. Note that the proposed Charter addresses the modalities of the budgetary and personnel proposals set out at paragraphs 7, 8 and 9 above (paragraph 20(b) of reference A); and,
 - c. Note the modalities agreed at paragraph 10 for the IBAN to use income generated through the audit of non-NATO multi-nationally funded or sponsored entities (paragraph 20(b) of reference A).

Charter of the International Board of Auditors for NATO

Mandate of the Board

Article 1 The NATO bodies, as defined below and the NATO Security Investment Programme (NSIP) shall be audited on behalf of the North Atlantic Council (hereinafter referred to as the Council) and in accordance with Council Decisions by the International Board of Auditors (hereinafter referred to as the Board). The Council, in consultation with the Board as appropriate, may authorise the Board to audit other multi-national entities or operations in which NATO has a particular interest. The Board shall also audit non-appropriated funds.

The term "NATO bodies" denotes a civilian or military headquarters and other organisations established pursuant to the North Atlantic Treaty, subject to the provisions of either the 1951 Ottawa Agreement or the 1952 Paris Protocol.

Functions of the Board

Article 2 The function of the Board is to provide independent assurance and advice to the Council and, through their Permanent Representatives, the Governments of member countries that:

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

Members of the Board

Article 3 The Board and its individual members shall be responsible for their work only to the Council. They shall perform their duties on a full time basis.

They shall have an independent status and shall be assimilated with officers of the highest classified rank. They shall neither seek nor receive instructions from any authority other than the Council. The Board shall be free to develop cooperative arrangements with the national audit bodies of member countries on the exercise of the Board's audit responsibilities.

According to Part III of Articles XII and XIII of Agreement on the status of the North Atlantic Treaty Organisation, National Representatives and International Staff signed in Ottawa on 20th September 1951, Board Members shall be immune from legal process in respect of words spoken or written and acts done by them in their official capacity and within the limits of their authority granted by the Council.

Article 4 The Board shall be composed of six members appointed by the Council from among candidates nominated by member countries, each being entitled to present one candidate only. For these appointments the Council will, in the first instance, take into account the length of time which has elapsed since a country has been represented on the Board. Members of the Board are appointed for a single term of four years which shall not be renewable.

Members of the Board shall preferably be high ranking officials or former high ranking officials of the national audit bodies of member countries or in any case high ranking government officials or former high ranking government officials having a thorough knowledge of, and experience in, auditing and the examination of government financial operations. They should have a good knowledge of one of the two official languages of NATO and an ability to work in the second. They shall have been security cleared by their own governments.

Article 5 Members of the Board, audit and administrative staff assigned to assist the Board, shall protect their independence and avoid any possible conflict of interest by abiding with the INTOSAI Code of Ethics. The members of the Board shall be remunerated by their respective government and shall receive no salary, fee or honorarium from NATO. Travel expenses incurred in the exercise of their audit functions will be reimbursed by NATO in accordance with the rules governing the civilian staff of NATO.

Article 6 The Board shall assign functional responsibilities to each Board member and a member shall be designated as rapporteur for each audit undertaken.

Chairman of the Board

Article 7 The Chairman of the Board, who shall be elected from among the Board Members, shall be appointed for a fixed two-year term by the Council upon nomination by the Chairman of the Council, and based upon a recommendation from the Board.

Article 8 The Chairman of the Board shall direct the discussions of the Board and organise its work, ensuring in particular the allocation of tasks among Board Members and the audit staff. The Chairman coordinates the external representation of the Board.

Staff Members

Article 9 Audit and administrative staff shall be assigned to the Board to assist it in its tasks. Their number and grades shall be approved by the Council based on the Board's proposals as part of the annual budgetary process. One of the audit staff shall be appointed as Principal Auditor and in this capacity shall assist the Chairman and the Board Members in their tasks. Some auditors shall be appointed as Senior Auditors to manage the different types of audit work conducted by the Board.

Article 10 The audit staff shall be qualified in auditing and shall preferably be officials seconded by national audit bodies or former officials from such bodies. The audit staff shall be responsible for the conduct of the audit work under the supervision of the Board.

Article 11 Audit and Administrative staff shall be remunerated by NATO funding and shall be subject to the NATO Civilian Personnel Regulations. The employment contracts of the audit and administrative staff will be signed on behalf of the Organisation by the Chairman of the Council or their representative.

The appointment, renewal and termination of contract of audit and administrative staff shall be based on the Board's decision in each case, taking into account their proficiency in the two official NATO languages, and for audit staff, an examination of the candidate's technical knowledge as well as their ability for audit tasks.

Article 12 The Board may, where appropriate, request support from the national administrations of member countries to provide Voluntary National Contributions to assist the Board in specific aspects of its functions.

Access to information

Article 13 The Board Members and audit staff have the right to obtain timely, unfettered, direct and free access to all NATO documents and information and, as mutually agreed by the IBAN and the Nations, to relevant national documents and information, for the proper discharge of their mandated responsibilities.

Reports issued by the Board

Article 14 The Board shall prepare and present in a timely manner each year:

- (a) a detailed report on the activities of the Board during the year, and on progress made in processing its reports;
- (b) reports on the audited annual financial statements relating to NATO bodies;
- (c) performance audit reports on the efficiency, effectiveness, and economy of the activities of NATO bodies;
- (d) an analysis of the implementation of its observations and recommendations by the audited entities bodies.

The Board may also at any time issue a special report to the Council on any relevant matter it considers to be worthy of attention.

All NATO unclassified IBAN reports could be disclosed to the public in accordance with Council agreed policy.

Independence of the Board

Article 15 The Board shall undertake its audits in accordance with the principles of the auditing standards of the International Organisation of Supreme Audit Institutions (INTOSAI).

Article 16 The annual budget of the Board shall be prepared by the Board and included in the annual budget of the International Staff submitted to Council as part of the annual budgetary process. The annual budget of the Board shall provide the means to enable the Board to perform its mandate and functions and it shall be a separate, auditable, part of the Civil Budget. The expenditures shall be authorised by the Chairman of the Board or his/her delegate.

The Board will report to the Council if it deems that the establishment or the funds provided are insufficient to enable the Board to carry out its mandate and functions.

Article 17 The Board shall establish its own rules of procedure subject to the present Charter.

Article 18 The Council alone shall have the authority to amend this Charter.