



**NAJWYŻSZA IZBA KONTROLI**  
SUPREME AUDIT OFFICE  
OF POLAND



**TRIBUNAL DE CUENTAS**  
COURT OF ACCOUNTS  
OF THE KINGDOM OF SPAIN



**REPORT ON THE PEER REVIEW  
OF THE INTERNATIONAL BOARD OF AUDITORS FOR NATO**



Brussels, 16 December 2014



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## PEER REVIEW REPORT

December 16, 2014

Addressed to: INTERNATIONAL BOARD OF AUDITORS for NATO<sup>1</sup>  
NATO HQs, 1110 Brussels. Belgium


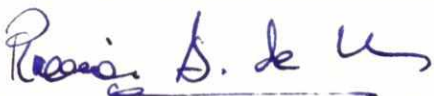
We have reviewed the auditing practice, including the system of audit quality control, of the International Board of Auditors for NATO (IBAN) in effect for the year 2014. Our peer review was conducted in accordance with the International Standards of Supreme Audit Institutions, specifically ISSAI 5600 on Peer Reviews Guideline established by the INTOSAI Professional Standards Committee<sup>2</sup>. The scope of the peer review has been agreed between reviewing Supreme Audit Institutions, the Supreme Audit Office of Poland and the Court of Accounts of the Kingdom of Spain, and IBAN in the Memorandum of Understanding signed by three parties.

As a part of our peer review, we considered IBAN's Charter and its internal Rules of Procedures, which are applicable in determining the nature and extent of its responsibilities. IBAN is responsible, among other things, for designing and employing a system of financial audit, including its quality control, which should be capable of providing the North Atlantic Council and the governments of NATO member states with assurance that NATO financial reporting is true and fair and common funds have been properly used for the settlement of authorised expenditure.

Our responsibility is to express an opinion on the design and employment of the system of financial audit, including its quality control. The nature, objectives, scope, and timing of the Peer Review are based on the standards mentioned in the first paragraph and have been described in the Peer Review Strategy and notified to IBAN.

As required by the standards, several financial audit engagements were selected for the review, including audits of one military command, one administrative body, one NATO agency, and one employee benefit plan, which provided an appropriate cross-section choice of NATO auditees.

**In our opinion, the system of financial audit, including its quality control, of IBAN in effect for the year 2014, has been suitably designed and employed to provide NATO with reasonable assurance that NATO financial reporting is, in all material respects, in conformity with applicable professional standards and NATO internal financial regulations. The International Board of Auditors for NATO has received a peer review rating of *pass*<sup>3</sup>.**

For the Reviewing Office	For the Reviewing Office
 <b>Krzysztof Kwiatkowski</b> President of the Supreme Audit Office of Poland	 <b>Ramon Alvarez de Miranda Garcia</b> President of the Court of Auditors of the Kingdom of Spain

<sup>1</sup> NATO: North Atlantic Treaty Organisation

<sup>2</sup> Supplemented by AICPA (*American Institute of CPA*) peer review standards in areas not covered by ISSAI 5600

<sup>3</sup> Possible report ratings are as follows: *pass*, *pass with deficiencies*, *fail* (in accordance with AICPA peer review standards)

## PEER REVIEW EVALUATION

### Executive summary

In accordance with its Charter, the International Board of Auditors for NATO (IBAN) provides the North Atlantic Council and the governments of NATO member states with assurance that financial reporting is true and fair and common funds have been properly used for the settlement of authorised expenditure. In addition, the Board reviews the operations of NATO Agencies and Commands to determine if they are being carried out effectively, efficiently and economically.

The Supreme Audit Institutions of Poland (Najwyższa Izba Kontroli, NIK) and the Kingdom of Spain (Tribunal de Cuentas, TCu) have conducted a peer review of the financial statement audit function of the IBAN. The objective of the peer review of the IBAN is to provide external advice on improving working methods in line with international standards and best practices and to allow the IBAN to identify further ways to allocate its resources more effectively and efficiently.

The peer review has been conducted in the areas of financial audit planning, conduct and reporting, audit quality control, audit resource potential, and audit administrative support. The peer review team has found that IBAN's performance, in regards to financial audit, is in all these areas up to professional standards and reasonable expectations. IBAN financial audit work does not reveal deficiencies that would have an impact on the peer review opinion provided above. There are several areas for improvement, which are indicated by the peer review team in more detail below, but they are generally of a minor and/or incidental nature. In our opinion, IBAN is capable of rectifying these expeditiously by following the peer review recommendations. The audit quality assurance and control system is excellently designed on the basis of all of the most recent applicable standards, and there were only small flaws in its practical implementation. Financial audit resource potential is effectively and efficiently employed by IBAN to meet growing requirements and expectations of member-states, especially in regards to the timely provision of audit reports. The increasing strain on IBAN's scarce audit resources requires an extra effort to deliver required and expected results. Administrative support that IBAN provides to auditors is well organised and fulfils all duties that are necessary to make financial auditing effective and efficient.

On the whole, the peer review team is confident that the International Board of Auditors for NATO is capable of providing NATO member states with assurance that common funds are properly accounted for by NATO bodies and that they are spent in accordance with all applicable rules and regulations.

## EVALUATION OF PARTICULAR REVIEW TOPICS

### I. FINANCIAL AUDIT PLANNING, CONDUCT AND REPORTING

#### IBAN Strategy

IBAN currently pursues the goals of its Strategic Plan 2010-2014. In reference to financial audit, the stated goal is to strengthen accountability and corporate governance at NATO. Within this goal there are four specific objectives: - develop risk-based audit methodology; - improve audit efficiency and effectiveness; - contribute to the development of a sound and consistent financial audit environment, and; - enhance relationship with key stakeholders.

**We assess that the goal and objectives have been successfully pursued by IBAN throughout the Strategic Plan period, which is evidenced by peer review findings described below.**

The new Strategic Plan 2015-2019 is currently under preparation.

In addition to the Strategic Plan, a Business Case on Strengthening the External Audit Function at NATO has been launched with the aim to make recommendations to the North Atlantic Council on the business case title issue. The main recommendations of the said Case were: - to revise IBAN Charter to update it to contemporary audit requirements; - to strengthen the independence of IBAN as external auditor for NATO; - implement improvements to IBAN business procedures, working methods and reporting-style; - delivery of audit reports within 6 months of issuance financial statements, beginning with FS 2014; - increase the percentage of performance audits to 25%; - restructure the IBAN audit staff by recruiting new staff at A3 level; - hold a peer review by the end of 2014.

**We assess that IBAN is up-to-date with the implementation of all the Business Case recommendations. Those that relate to financial audit are referred to under specific items below.**

#### Annual audit planning

We have reviewed the IBAN annual planning process and found the following:

IBAN annual planning is initiated by the Annual Planning Session, which is held in September of the preceding year before the actual audits are conducted. The session provides guidance on selected methodological issues and specific financial audit procedures. The outcome of each session is the development of principal planning documents, the Board Members' Portfolio and Auditors' Assignments and the Annual Performance Plan. The first of these documents is stated to be flexible, i.e. subject to change according the Board's needs and staff rotation. The second one sets objectives, in reference to financial audit, to pursue improved audit efficiency and effectiveness, development of a sound and consistent financial reporting, and enhanced relationship with key stakeholders. The said objectives are to be measured by key performance indicators, such as percentage of observations and recommendations satisfactorily closed, percentage of audits completed by scheduled milestones, delivery of audit reports within 6 months of issuance of financial statements, and attendance in key meetings with principal stakeholders. In connection with the Board decision that the annual planning and work cycle for all audits will be from 1 October to 30 September, future planning sessions, starting from 2015, will be held in June.

Following the Annual Planning Session, the Principal Auditor issues a memo called Annual Audit Assignment Planning for 201X, which gives guidance for detailed IBAN planning, including

financial audit planning, for the following year. The memo gives guidance as regards priorities for financial audit scheduling, timing for the planning work (shifting the main planning effort earlier, to the time before and during interim audit), and provides format for an individual audit engagement planning<sup>4</sup>.

**We assess that the Board's strategy and planning procedures assure effective and efficient audit process, essentially the planning, conduct and reporting of particular financial statements audits of all NATO entities on an annual basis. They precisely and clearly define the direction and control mission of IBAN Board Members as well as distribution of tasks of all IBAN auditors involved in financial auditing.**

### **Individual engagement audit strategy, planning, conduct and reporting**

We have reviewed IBAN's preparation to carry out financial auditing of NATO bodies and found the following:

IBAN has taken full account of the changes in the financial audit framework at the financial statements and assertion level by adopting the International Standards of Supreme Audit Institutions (ISSAIs). ISSAIs are an updated and comprehensive set of international standards, guidelines and best practices which were adopted at the 2010 INTOSAI Congress and are of considerable value for all public sector auditors worldwide. The introduction of the ISSAI financial audit framework demanded progressive implementation and sustained capacity building effort. The peer review team recognised that IBAN made such effort by adopting and implementing a risk-based audit methodology, developing an extensive and exhaustive financial audit manual, customising and augmenting the structure and content of the audit software (TeamMate), and providing IBAN audit personnel with adequate and continuous training.

#### **Individual engagement overall audit strategy and planning**

With the aim of evaluating IBAN's financial audit processes and practices in order to determine whether they are appropriately designed and comply with relevant audit standards and IBAN internal regulations, we have reviewed the audit proceedings in four particular engagements:

- **ALLIED COMMAND TRANSFORMATION – 2013 FINANCIAL STATEMENTS**

The Allied Command Transformation (ACT) is one of two strategic military commands of NATO. It leads the transformation of NATO's military structure, forces, capabilities and doctrine. It is mainly responsible for education, training and exercises, conducting experiments to assess new concepts and promoting interoperability throughout NATO. ACT Headquarters directs three subordinate commands: the Joint Warfare Centre in Norway, the Joint Force Training Centre in Poland and the Joint Analysis & Lessons Learned Centre in Portugal. The total expenditure of ACT amounted to approximately EUR 133 million in 2013. ACT HQs prepares financial statements, being the consolidation of separate financial statements of the mentioned subordinate commands.

- **NAMMO/NEFMO/NETMA – 2012 FINANCIAL STATEMENTS**

NAMMO and NEFMO are governing bodies of the NATO EF2000 and Tornado Development Production and Logistics Management Agency (NETMA). NETMA manages two of the largest

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<sup>4</sup> Financial Audit, NSIP Audit, and Performance Audit Assignment Planning Form 201X

NATO military budgets and programmes, consisting in the development of military aircraft. The main reasons for forming NETMA were to reduce administrative costs, improve management efficiency through the integration of resources, e.g. personnel, information technology, security, and concentration of specialist competence. Total Tornado/EF2000 expenditure in 2012 was around EUR 5.2 billion. The three foregoing organisations prepare separate financial statements.

- **INTERNATIONAL MILITARY STAFF – 2013 FINANCIAL STATEMENTS**

The International Military Staff (IMS) is the executive body of the Military Committee, NATO's senior military authority. It is responsible for preparing assessments, studies on NATO military issues identifying areas of strategic and operational interest and proposing courses of action. It also ensures that NATO decisions and policies on military matters are implemented by the appropriate NATO military bodies. For the year 2013 its budget amounted to EUR 30.4 million. The organisation prepares separate financial statements.

- **NATO DEFINED BENEFIT PENSION SCHEME - 2012 FINANCIAL STATEMENTS**

The NATO Defined Benefit Pension Scheme (NATO DBPS) applies to all NATO civilian staff recruited between 1 July 1974 and 30 June 2005. The Pension Scheme is an unfunded, defined benefit plan. The benefits of the NATO DBPS are paid from annual budgets approved by the North Atlantic Council. The Scheme's funding sources consist of compulsory contributions from active staff, employer contributions of certain NATO bodies, and, as a balancing resource, budgetary contributions by NATO member nations. In 2012 the NATO DBPS had 3,167 beneficiaries and a revised budget of EUR 107.2 million.

With regard to financial audit at the foregoing entities, we reviewed and analysed the preliminary audit planning procedures followed by particular auditors. We found the following:

**We assess that the financial audit planning procedures used by IBAN auditors included all necessary elements required by standards, such as:**

- initial considerations, including legal and regulatory framework of audited entities, expectations of financial statements users, ethical aspects of an audit, initial communication with auditees.

While studying audit documentation of the four selected engagements we found that auditors refer to engagement acceptance as if they had an option of declining an engagement at NATO body in case when preconditions of an engagement are not met. However, Practise Note 9 of ISSAI 1210 says that "that public sector auditors may not have the option to decline or withdraw from the audit". In addition, NATO Financial Rules, Section IX, Article 28 and 29 establish the duty of IBAN to audit and report on the financial statements of NATO bodies. This is also confirmed by the IBAN Financial Audit Manual, paragraph 5.D.17. and reflected in the Section 1 of B.1PROG of TeamMate planning as a general rule.

*Recommendation:*

*We recommend that the Board ensure that IBAN auditors be made aware of not having an option to decline a financial audit engagement of a NATO body, and consequently, of no need to indicate their acceptance of the engagement in the audit documentation.*



- developing overall audit strategy, including understanding of the entity and its control environment, establishing materiality, analysing entity's operational processes and information systems used for accounting, assessing the risks of material misstatements as well as internal controls to mitigate those risks, which refer to assertions at the financial statements and account level,

Scope of improvement:

*We found that auditors properly evaluated the design of controls relevant to the audits and determined whether they have been implemented. However, even when the design of those controls was evaluated as capable of preventing, detecting and correcting material misstatements (mitigating identified risks), and implementation of those controls was confirmed the auditors decided not to rely on the said controls and, consequently, did not plan testing their effectiveness. The foregoing concerned three of the reviewed entities (except NAMMO/NEFMO/NETMA).*

*Representatives of IBAN middle management explained that the risk-based audit methodology requires a greater and more time-consuming effort in the first year of implementation. It is expected that reliance on controls, when it is considered efficient to do so, will be employed gradually for the audits of particular NATO bodies over a longer time-period.*

Recommendation

*Considering that since the time of inception of the risk-based audit approach IBAN developed ISSAI-based audit procedures and practices as well as manuals and audit software upgrades, we recommend that the process of introducing fully the said methodology should be accelerated.*

We also found that materiality established for all of the reviewed entities referred to the whole of financial statements. However, for ACT and NETMA there exists large disproportion between values of assets and amounts of expenses, which indicates that different levels of materiality should be established, in accordance with a guideline under paragraph 15.D.11. This would also be consistent with ISSAI 1320, paragraph 10, which implies that the auditor shall determine materiality levels applicable to particular classes of transactions, account balances or disclosures if misstatements of lesser amounts than materiality for the financial statements as a whole may influence economic decisions of the users.

Recommendation

*We recommend that auditors of the mentioned engagements be made aware of the need to consider financial data specific to particular entities while establishing levels of materiality.*

We reviewed planning further audit procedures in the NATO bodies selected for the peer review and found the following:

In all reviewed audits IBAN auditors made plans of further audit procedures, guided by overall audit strategy and the risk assessment carried out as referred to above. Audit plans responded appropriately to identified and assessed risks of material misstatements at the financial statements and assertion level by defining nature, timing and extent of tests of controls (NETMA) and substantive audit procedures (all four reviewed engagements). Substantive audit procedures were planned for all material classes of transactions, account balances and disclosures, which is consistent with paragraph 18 of the ISSAI 1315 – The Auditor's Responses to Assessed Risks.

**We assess that plans made ensure obtaining sufficient appropriate audit evidence regarding the assessed risks of material misstatements. All planned audit procedures are properly documented within appropriate slots of the audit software (TeamMate) and constitute a firm basis for the audit conduct.**

We found that one of instructions in the audit manual that refers to the planning process says that “Once the Audit Plan has been approved by the Board Member, the procedure steps should be “frozen” in TeamMate.<sup>5</sup>” This is not entirely consistent with ISSAI 1300<sup>6</sup>, A.2, which says that “Planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement.” Although the Financial Audit Manual requires that modifications to the planned procedures should be clearly documented in the record of work done or as additional procedures, the manual does not provide circumstances under which changes to original plans should be made.

#### Recommendation

*We recommend that guidance in the IBAN Financial Audit Manual regarding open nature of financial audit plans should be more elaborate and explicit and include main circumstances under which modifications of and/or additions to the planned procedures are required.*

#### **Individual engagement audit conduct and reporting**

With the aim to evaluate IBAN financial audit conduct, whether it is appropriately designed and being complied with relevant standards and internal regulations, we have reviewed audit procedures in the four selected audit engagements.

The audit objective for three of the selected engagements (ACT, NAMMO/NEFMO/NETMA and IMS) was to express an opinion as to whether their financial statements presents fairly their financial position as at 31 December 2012 and of the financial performance and cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS) and to ensure that the budget execution and underlying transactions are in all significant respects in compliance with budgetary authorisations and provisions and the entities’ Financial Rules and Regulations.

We have reviewed control testing methods (ISSAI 1300, 1330), methods for analytical review of the financial statements (ISSAI 1520), methods for selecting and conducting substantial procedures [substantive analytical procedures (ISSAI 1520) and tests of details (ISSAI 1530)], evaluation of audit procedure results, assessment of obtained evidence (ISSAI 1450, 1500), documentation of audit procedures, evidence and conclusions (ISSAI 1230), reporting policy and practice (ISSAI 1700, 7005, 1706) and audit follow-up system (ISSAI 40). We reviewed how particular planned audit procedures were implemented and findings/conclusions documented. We reviewed the timing and budgeting of the audit engagements and two-stage quality control system during the audit proceedings. We also examined how the documentation requirements were fulfilled to meet the audit completion standards and found the following:

For the support of the audit conduct IBAN uses a customised electronic audit management software (TeamMate) to meet the requirements of the IBAN Financial Audit Manual. This Manual, approved

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<sup>5</sup> IBAN Financial Audit Manual, p. 220

<sup>6</sup> ISSAI 1300 – Planning an Audit of Financial Statement. p. 374-375

in November 2011, is adapted and updated to the relevant ISSAIs in all of its areas, and finds itself within the framework of NATO financial regulations and IBAN's Charter.

**We assess that the IBAN's audit team has obtained sufficient and appropriate evidence to support the findings and conclusions contained in the audit reports about the fair presentation of the financial statements and compliance with applicable rules and regulations. All the key audit information was recorded in the audit management software, which allowed complete traceability, including not only substantive evidence but also key review sign-offs at significant points of the audit procedure, coaching notes, minutes of engagement team discussions, budgeted and actual allocation of tasks, and administrative support.**

In accordance to the IBAN's Financial Audit Manual, the final audit file should be archived on timely basis, no more than 60 days after the date of the IBAN's final report. The final audit files ("Audit Completion and Reporting") for NETMA were archived on time. The ACT and IMS files were not finally archived within the established deadline, although the audit procedures and reviews were appropriately performed. Finally, the DBPS file has been closed without the final archival being performed.

#### Recommendation

*We recommend that the IBAN middle management ensure that the final archival of the audit engagement file be executed on time.*

We found that the quality control requirements were applied during the audit procedure, reflecting the involvement of the Agency Senior Auditor and the IBAN Board Members in the two-stage review procedure. The whole review procedure is recorded in the audit electronic file of TeamMate and includes pertinent coaching notes.

We found in the DBPS audit that the audit procedures performed by the primary auditor were checked and signed-off only by the Board Member for only part of the procedures and not for other parts, such as the auditing of expenses, Financial Statements review and audit reporting<sup>7</sup>. This was because of the justifiable absence of the Agency Senior Auditor.

#### Recommendation

*We recommend ensuring that the review procedures are consistently followed during the audit of all NATO bodies and maintained in case of absence of the reviewer.*

We also found that the NETMA audit file did not include the previous years' audit reports. However, the risk assessments performed during the audit indicated that such reports were known to the auditors.

#### Recommendation

*We recommend to include previous years' audit reports in the current year audit files, which is useful for better understanding of the entity, especially among new auditors.*

**We found that the audit reports released as a result of all four audits selected for the peer review were balanced and understandable, issued in due time, included executive summaries and a detailed follow up of observations and recommendations issued in previous years.**

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<sup>7</sup> The reviewing procedure for DBPS was corrected in the on-going DBPS audit of financial statements for 2013.

## II. AUDIT QUALITY CONTROL

We have reviewed IBAN audit quality control policies and practices and found the following:

IBAN has created a quality assurance system, whose objective is “to ensure that quality is built into its work throughout each engagement; and to support all staff across the organisation in understanding their personal responsibility for quality, the objectives of an audit and how their roles and responsibilities fit within those engagements.”<sup>8</sup> The system is based on ISSAI 1200 – *Overall Objectives of an Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, on the premise that IBAN is subject to quality control procedures according to the International Standard on Quality Control (ISQC) 1, *Quality Control For Firms That Perform Audits And Reviews Of Financial Statements, And Other Assurance And Related Services Engagements*, or regulatory requirements that are at least as demanding.

In essence, the said standards provide ethical requirements, responsibilities of leadership, relationships with auditees within specific engagements, preparation of human resources, performance of an engagements and its monitoring. The crucial principles of the system is that all participants of the audit process are personally responsible for its quality and that IBAN does not provide non-audit services to its Auditees. These responsibilities are divided into specific functions, depending on positions taken in the organisation.

The quality assurance system operates at the organisation’s level and at particular engagement level. At organisation’s level “IBAN performs a review annually to consider compliance with the Financial Audit Manual. Guidance is published or provided on the issues identified to staff through bulletins, technical updates and training. This helps spread good practice and ensure the continuing high quality of work.”<sup>9</sup> Deficiencies noted as a result of the monitoring process and recommendations for appropriate remedial action are communicated to the Board Members and other appropriate personnel. They may include taking remedial action in relation to an individual engagement, indications for training and professional development, proposed changes to quality control policies and procedures, and proposed disciplinary actions.

In the context of individual engagements, engagement teams are responsible for implementing IBAN’s quality control procedures. They are based on ISSAI 1220 – *Quality Control For An Audit Of Financial Statements*. The functions within the IBAN quality control system that were established at the engagement level are as follows:

- Board Member acting as an Engagement partner in the understanding of ISSAI 1220, responsible for the audit engagement and its performance, and for the audit report that is issued and performing second stage review, which includes ensuring that detailed first stage review has been performed,
- Engagement Quality Control Reviewer (where applicable) – providing an objective evaluation of the significant judgements made by the engagement team, and the conclusions reached in formulating the opinion,
- Agency Senior Auditor – responsible for managing the delivery of the audit, supporting and supervising the work of the Primary Auditor, ensuring quality through detailed first stage review, portions of which may be delegated to the Primary Auditor,

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<sup>8</sup> IBAN Financial Audit Manual, Chapter 5, p. 30

<sup>9</sup> IBAN Financial Audit Manual, Chapter 5, p. 36

- Primary Auditor – ensuring quality through on-site supervision of the work of the team (including first stage review when delegated by the Agency Senior Auditor), preparing and finalizing the audit planning and audit sections for review, preparing the audit reports at all stages for review,
- Team members – all team members have an individual and collective responsibility for ensuring quality within each assignment, which includes being aware of the objectives of the assignment and assigned tasks, reaching informed judgements based on the evidence, communication key issues to the Primary Auditor, and documenting the decisions and judgements in TeamMate.

The above mentioned responsibilities are embedded in the audit software (TeamMate), where each of the responsible persons records the execution of their direction, management and review duties by appropriate entries and signing-off.

**We have found audit quality control system in IBAN has been effectively implemented and most of the responsibilities described above have been duly fulfilled by IBAN personnel within all four reviewed engagements. Minor flaws in these duties, which did not have a material impact on the opinion of the review, were mentioned under the heading “Individual engagement audit conduct and reporting”.**

### III. IBAN AUDIT RESOURCE POTENTIAL

IBAN's audit resource establishment is 6 Board members, acting as engagement partners, 3 middle management personnel (Principal Auditor, Agency Senior Auditor, and NSIP Senior Auditor), and 19 auditors. However, financial audit team available at the moment is 10 auditors (19 – 5 performance auditors – 4 vacancies). Full financial audit staff of 14 auditors is expected in the middle of 2015.

IBAN's financial audit task is to audit 23 NATO bodies (established pursuant to the North Atlantic Treaty) and 27 entities in which NATO has a particular interest (multi-nationally funded commands and other bodies), which are audited on a cyclical basis, 6-7 annually at average. The cost of auditing multinational entities is reimbursed to IBAN's annual budget and is to be used to support performance auditing conducted by IBAN.

The above makes about 30 entities, of varying size – some, like ACO and ACT producing consolidated financial statements, and others, like NETMA/NEFMO/NAMMO producing separate financial statements – to audit annually. Overall expenditure audited annually by IBAN amounts to approximately 12 billion Euro.

As a matter of comparison with peer reviewer countries, Spain's actual budget 2013 of EUR 408 billion was audited by 447 auditors and Poland's actual budget 2013 of EUR 78 billion was audited by about 500 auditors.

The current calendar of financial audit requires that audit reports of all NATO bodies should be finalised 6 months after the issuance of the financial statements, i.e. by the end of October of an audit year. A proposed amendment to the NATO Financial Regulations stipulates the issuance of financial statements of all NATO bodies by 31 March and the finalisation of financial audits by 31 August. This would shorten the period of financial audit reporting to 5 months after financial statements are issued, which is in line with standard requirement that audited financial statements should be provided to their users within time to allow them to take conscious short- and long-term economic decisions. At the same time, such a demanding calendar of financial statement auditing puts a considerable strain on IBAN's available financial audit resources. Moreover, IBAN's effort is not alone to contribute to the success of timely reporting. The additional factor is processing IBAN reports by respective NATO committees, most notably Resource Policy and Planning Board. Increasing the number of reports within a shorter time may also put a strain on the committee's abilities to process IBAN financial audit reports and give timely advice on them to the Council.

#### Recommendations:

1. *We recommend that a considerable amount of the financial audit effort conducted by IBAN be further shifted to an interim audit period, which would allow for the effective and efficient use of IBAN financial audit resources at an earlier date within an overall audit calendar.*
2. *We recommend that reimbursements from auditing multinational entities be used to support performance auditing in a way to free resources for financial audits, e.g. by acquiring auditors from SAIs of member countries to join performance audit teams.*
3. *We recommend working out in collaboration with the RPPB ways to streamline the processing of IBAN financial audit reports before they are finally presented to the Council.*

#### IV. AUDIT ADMINISTRATIVE SUPPORT

The Peer Review team has reviewed the administrative support to the financial audit function and found the following:

Part of IBAN's administrative staff supports the work of the financial audit teams by carrying out clerical, IT and publishing tasks. This staff is composed of 1 administrative officer and two assistants with indefinite duration contracts in accordance with NATO policy.

- 1 Admin Officer (A3)
- 1 Principal Assistant -Agency (B5)
- 1 Agency Assistant (B4)

The main functions performed by the administrative staff in support of the financial audits are:

- Creation and maintenance of TeamMate project files for each entity,
- Sending of notification letters,
- Dealing with security issues (filling in appropriate forms and sending security certificates) – by Admin Officer,
- Storage of documents of interest for each entity,
- Registering of factual/formal comments,
- Editing reports, following instructions given by the auditors / middle management and Board,
- Scanning reports before sending and filing them as appropriate,
- Requesting translation when the report is final,
- Recording of any meeting / document / milestone in the 'Milestones' database,
- Helping the auditors in the process of TeamMate file completion and sending appropriate observations / recommendations to TeamCentral to be there tracked
- Following the report progress in upper committees,
- Provision of statistical data for each audit (time spent by the team vs. planned).

Administrative tasks are reallocated in accordance with the workload in order to efficiently cover audit priorities. The administrative staff has, at a minimum, a secretarial background / education. All administrative staff are computer literate (Microsoft products mainly) and have language skills (English and French as a minimum). The Admin Officer and the Agency Assistant are 'Super Users' for Team Mate. They have been trained and/or self-trained on all different modules (except for Team Risk). The Principal Assistant is responsible for the web maintenance, using Dreamweaver, Contribute, and MS Access database.

The bulk of the documentation supporting financial audits is integrated within the TeamMate projects, from the planning till the end of the audit, with the final report. Observations that need to be tracked are sent to TeamCentral for follow up. Templates for questionnaires, legal letters, Management Letters of representations, etc., are available in the administrative section of TeamMate projects. All financial audit reports are also kept on a 'public' internal drive, presented by entity and by year (with write access for the Admin Staff and read only for the remaining staff).

Editorial support for financial audits is given by the Administrative staff helping auditors to follow processes in place and to ensure coherent style and format of all documents. The staff particularly looks at consistency of the vocabulary used and on spelling errors. Major editing is usually performed by the Agency Senior Auditor and/or the Board Member. Audit reports are sent to the HQ's professional translation services when necessary.

Discussions of financial statement audits in the Management Meetings and Board Meetings are fully documented by detailed meeting minutes. Communications with the entities are done on an ad

hoc basic, on auditors' requests or for the transfer of documents, reports, etc.

Technical means (tools):

The Board has been using Teammate since 2005, every year developing its knowledge of the product, upgrading regularly to the latest version, and using an increasing number of its modules. The Administrative Officer is the point of contact with the supplier (PwC) and ensures that the Board keeps up with new versions (updates and upgrades). One IT person located at the HQ IT support division is dedicated to helping the super users, when needed, for server issues and other technical issues. The TeamMate files are stored on a separate server at HQ. Technical support for the IT equipment is provided by the NATO Communications and Information Agency (NCIA). In addition, the Board has access to general IT support from the HQ IT support division.

All auditors are equipped with a desktop and with a laptop to go on mission. Microsoft Software is often slightly 'out of date' but still compatible with 'clients'.

Trainings are regularly held during the auditors' January training session. The TeamMate super users are also providing individual trainings to new auditors / Board Members; and some manuals for specific actions such as the 'replication' process can be found on the web. Super users, when feasible (when time and/or budget allows), attend international TeamMate forum meetings to keep up to date with new features, best practices, and make contacts with the TeamMate user community. The Board also promotes the use of IDEA and regularly trains its auditors on this software, including individual training in the past (not recently because of financial constraints).

**The peer review found that IBAN's administrative support is efficient and effective in ensuring audit information and documentation flow, the editorial and language support, the archiving system and the secretarial and technical support as well as in facilitating necessary training activities.**

**The audit administrative support activities have been tested in the four selected engagements, where its efficiency and effectiveness for the financial audit performance was confirmed.**

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The peer review has been carried out by the joint Polish-Spanish team composed of:

Wieslaw Kurzyca, NIK	- Senior Team Leader
Ana Cossio Capdevila, TCu	- Junior Team Leader
Maria Jesus Fernandez Garcia, TCu	- Team Member
Jeremi Sliwinski, NIK	- Team Member
Jose Rodriguez-Salinas Ostale, TCu	- Team Member
Andrzej Przybylski, NIK	- Team Member

## **Formal comment to the peer review report and evaluation provided by IBAN**

IBAN would like to thank the peer review team for their professionalism and courtesy. We are pleased that the peer review team has provided IBAN with a 'pass' rating in respect to our financial audits, as it validates the significant efforts that have been made in recent years.

We appreciate the useful recommendations for improvement that were made in the report. We will take those recommendations into account as we continue in our efforts to further improve the efficiency and effectiveness of our financial audits. Furthering our reliance on entity internal controls and allocating more of our audit work to the interim period are two areas that IBAN has been working on, and thus, the recommendations in these areas are particularly relevant.