

	NATO	NORTH ATLANTIC COUNCIL
	OTAN	CONSEIL DE L'ATLANTIQUE NORD

NATO SANS CLASSIFICATION

26 janvier 2018

DOCUMENT
C-M(2017)0049-AS1

RAPPORT D'ACTIVITÉ 2016 DU COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES DE L'OTAN

NOTE SUR LA SUITE DONNÉE

Le 10 janvier 2018, le Conseil a pris note du rapport d'activité 2016 du Collège international des commissaires aux comptes de l'OTAN et a accepté qu'il soit communiqué au public, comme indiqué dans le C-DS(2018)0002.

(signé) Jens Stoltenberg
Secrétaire général

NB : La présente note fait partie du C-M(2017)0049 et doit être placée en tête de ce document.

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4 octobre 2017

DOCUMENT

C-M(2017)0049

Procédure d'accord tacite :

12 oct 2017 17:30

**RAPPORT D'ACTIVITÉ 2016
DU COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES DE L'OTAN**

Note du secrétaire général

1. On trouvera ci-joint le rapport d'activité 2016 du Collège international des commissaires aux comptes de l'OTAN (IBAN).
2. Le rapport d'activité de l'IBAN a été examiné par le Bureau de la planification et de la politique générale des ressources (RPPB), qui a rédigé un rapport exposant ses observations et recommandations à ce sujet (voir annexe).
3. **Sauf avis contraire me parvenant d'ici au jeudi 12 octobre 2017 à 17h30**, je considérerai que le Conseil aura pris note du rapport d'activité de l'IBAN et qu'il aura approuvé les recommandations énoncées au paragraphe 13 du rapport du RPPB, y compris celle concernant la communication au public.

(signé) Jens Stoltenberg

1 annexe
1 pièce jointe

Original : anglais

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RAPPORT D'ACTIVITÉ 2016
DU COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES DE L'OTAN

Rapport
du Bureau de la planification et de la politique générale des ressources

Références :

- a) IBA-M(2017)01-REV1
- b) C-M(2007)0009 et PO(2015)0052

INTRODUCTION

1. Dans le présent rapport, le Bureau de la planification et de la politique générale des ressources (RPPB) formule des observations et des recommandations concernant le rapport d'activité 2016 du Collège international des commissaires aux comptes de l'OTAN (IBAN), lequel présente un récapitulatif de l'ensemble des activités d'audit menées au cours de l'année 2016 ainsi que des informations concernant la gestion, par exemple l'utilisation qui a été faite des ressources humaines.

2. Le RPPB a déjà adressé au Conseil, pour chacun des rapports d'audit de l'IBAN, des rapports exposant ses conclusions et ses recommandations. Le présent rapport est donc axé sur les questions d'ordre général qui, d'après lui, mériteraient d'être examinées plus avant.

COMMENTAIRES DU RPPB

Audits financiers

3. S'il est vrai que la situation s'est améliorée par rapport aux années précédentes, le RPPB reste préoccupé par le nombre d'opinions avec réserve (23 %) émises en 2016 (concernant aussi bien des organismes OTAN que des organismes non OTAN). Le pourcentage d'opinions modifiées (opinion avec réserve ou déclaration d'abstention) est plus élevé si l'on considère uniquement les organismes OTAN (33 %).

4. L'IBAN note que, désormais, grâce à la révision du Règlement financier de l'OTAN (NFR)¹ et des règles et procédures financières (FRP)², la qualité des systèmes de contrôle interne fait l'objet d'une plus grande attention, le contrôle de l'utilisation qui est faite des crédits budgétaires est renforcé et le compte rendu financier est soumis à des échéances plus strictes. La disparité des approches pratiques suivies par les différents organismes OTAN est toutefois un obstacle à l'obtention de l'amélioration souhaitée. Le RPPB note que, d'après l'IBAN, il est possible de faire encore beaucoup plus pour améliorer la cohérence et, par voie de conséquence, aboutir à des gains d'efficacité et d'efficacités. Il continuera de vérifier régulièrement l'efficacité de la réglementation financière et d'évaluer la nécessité de l'améliorer encore.

¹ C-M(2015)0025.

² SG(2015)0130.

5. En 2016, les insuffisances constatées dans la gestion des immobilisations corporelles et des immobilisations incorporelles ainsi que dans le compte rendu y afférent ont donné lieu à la formulation d'importantes réserves. Ainsi, les trois plus grands organismes OTAN (ACO, NCIO et NSPO) peinent encore à assurer correctement le suivi et/ou le compte rendu des dépenses relatives à ce type d'actifs. Le nombre élevé d'opinions avec réserve formulées par l'IBAN montre que, malgré l'établissement d'un cadre comptable IPSAS³ adapté pour l'OTAN⁴, certains organismes continuent de se heurter à des difficultés au moment d'appliquer ces normes. Le RPPB demeure convaincu que le cadre comptable OTAN répond globalement aux besoins de l'Alliance, mais les problèmes liés à son application se sont révélés plus complexes que prévu. L'adoption, en 2017, des nouvelles méthodes comptables relatives aux immobilisations corporelles, aux immobilisations incorporelles et aux stocks⁵ devrait contribuer à remédier à ces problèmes. À cet égard, le RPPB prend note de l'avis émis par l'IBAN suite aux adaptations supplémentaires apportées au cadre comptable OTAN en 2016, qui creusent encore l'écart avec les IPSAS, à savoir qu'il y a lieu d'éviter toute nouvelle adaptation. Cet avis sera pris en compte en cas de nouvelle demande de dérogation aux IPSAS.

6. L'exercice 2016 est le premier pour lequel les rapports de l'IBAN devaient être établis en application du nouveau NFR. La publication tardive des états financiers reste source de préoccupation. Sept des 24 organismes OTAN concernés n'ont pas respecté la date butoir du 31 mars 2016 pour la présentation de leurs états financiers⁶. Le RPPB insiste sur le fait que toutes les parties prenantes doivent assumer leur part de responsabilité et faire en sorte que les échéances soient respectées.

Consolidation des états financiers

7. Le RPPB note que, selon l'IBAN, le moment est venu de consolider les états financiers des organismes OTAN financés en commun. Cette question est actuellement à l'examen au sein du RPPB, qui appuie sa réflexion sur une analyse préliminaire des options envisageables, laquelle fait le point sur les avantages, les contraintes, la faisabilité, les coûts et les économies correspondant à une telle démarche ainsi que sur ses implications en matière de gouvernance et d'obligation de rendre compte.

Programme OTAN d'investissement au service de la sécurité (NSIP)

8. Le RPPB tient à rappeler que le nombre de projets NSIP clôturés a atteint un pic en 2016, avec 1,2 milliard d'euros de dépenses certifiées⁷. Malgré cette évolution positive, il est déçu de constater qu'en dépit des importants efforts consentis et de la détermination de toutes les parties prenantes, il n'a pas été possible d'atteindre l'objectif fixé par le Conseil, qui consistait à clôturer pour la mi-2016 la totalité des projets achevés à la mi-2014, d'une

³ Normes comptables internationales du secteur public.

⁴ C-M(2013)0006, C-M(2013)0039 et C-M(2016)0023.

⁵ C-M(2017)0022 (INV), C-M(2017)0044 et C-M(2017)0043.

⁶ Les sept éléments en question sont le Secrétariat international, le nouveau siège de l'OTAN, le Centre d'information et d'analyse sur la sécurité des munitions (MSIAC), les sites de contrôle de la précision des détecteurs et des armes des forces navales de l'OTAN (FORACS OTAN), le régime de pensions coordonné, le régime de pensions à cotisations définies et le fonds de couverture médicale des agents à la retraite.

⁷ En 2016, 390 projets avaient été clôturés, dont 23 relevant du programme par tranches.

valeur estimée à 5 milliards d'euros. Diverses mesures, prenant notamment la forme de plans d'action spécifiques, ont été mises en place pour assurer la clôture, dès que possible et au plus tard en 2020, des projets achevés restants⁸. Le RPPB fera le point de la situation chaque année en s'appuyant sur l'avis du Comité des investissements.

9. Le RPPB continue de suivre cette question de près grâce aux rapports d'étape qu'il reçoit régulièrement du Comité des investissements au sujet de l'amélioration de la livraison des projets d'investissement financés en commun. La clôture technique et financière des projets NSIP est un élément essentiel pour garantir un niveau approprié de transparence et le respect de l'obligation de rendre compte s'agissant de l'utilisation des fonds communs OTAN.

Audits de performance

10. Le RPPB se félicite tant du nombre d'audits de performance réalisés⁹ – au sujet de chacun desquels il a adressé au Conseil un rapport exposant ses conclusions et ses recommandations – que de l'affectation par l'IBAN de 31 % de ses effectifs à ces audits en 2016 (à comparer avec l'objectif annuel de 25 % fixé dans le PO(2013)0253).

Communication au public

11. Le RPPB est satisfait de constater que le pourcentage de rapports de l'IBAN communiqués au public a continué d'augmenter¹⁰. La communication au public des rapports d'audit est un pas important vers un meilleur respect de l'obligation de rendre compte et vers plus de transparence, et c'est aussi l'occasion de mettre en lumière l'engagement de l'OTAN en faveur de la bonne gouvernance et de la transparence dans le domaine financier¹¹.

CONCLUSIONS DU RPPB

12. Le RPPB est arrivé aux conclusions énoncées ci-après.

- a) Les rapports de l'IBAN sont un outil important pour accroître la transparence et améliorer le compte rendu à l'OTAN en ce qui concerne l'utilisation des fonds publics mis à disposition par les pays.
- b) La révision du Règlement financier de l'OTAN (NFR) et des règles et procédures financières (FRP) est importante pour ce qui est de la gestion financière et du compte rendu financier à l'OTAN. Toutefois, comme l'application de la nouvelle réglementation n'en est qu'à ses débuts, il est encore trop tôt pour pouvoir déterminer si ces modifications déboucheront sur une amélioration tangible et durable dans ces domaines. L'un des obstacles à l'obtention de l'amélioration souhaitée est la disparité des approches pratiques suivies par les différents organismes OTAN. Le RPPB

⁸ C-M(2017)0030.

⁹ En 2016, l'IBAN a adressé au Conseil trois rapports consacrés à des audits de performance. Ces rapports portaient sur (1) la nécessité d'améliorer le processus OTAN des paquets de capacités, (2) la nécessité d'accroître l'efficacité du processus de retour d'expérience pour les exercices OTAN et (3) la planification de la continuité d'activité à l'OTAN.

¹⁰ Une liste complète des rapports d'audit figure à l'annexe A de l'IBA-M(2017)01-REV1, avec mention de ce qui a été décidé s'agissant de leur communication au public.

¹¹ PO(2015)0052.

continuera de vérifier régulièrement l'efficacité de la réglementation financière et d'évaluer la nécessité de l'améliorer encore.

- c) La publication tardive des états financiers reste source de préoccupation. Il est impératif que tous les organismes OTAN respectent les échéances fixées dans le NFR et fassent en sorte de publier leurs états financiers en temps voulu.
- d) L'IBAN estime que le moment est venu de consolider les états financiers des organismes OTAN financés en commun, le but étant d'encourager, de manière générale, la transparence et le respect de l'obligation de rendre compte au sein de l'Organisation. Cette question est actuellement à l'examen au sein du RPPB.
- e) Malgré l'établissement d'un cadre comptable IPSAS adapté pour l'OTAN, certains organismes continuent de se heurter à des difficultés au moment d'appliquer ces normes. Le RPPB demeure convaincu que le cadre comptable OTAN répond globalement aux besoins de l'Alliance, mais les problèmes liés à son application se sont révélés plus complexes que prévu. À cet égard, il note que, d'après l'IBAN, il y a lieu d'éviter d'apporter des adaptations supplémentaires au cadre comptable OTAN.
- f) S'agissant du programme OTAN d'investissement au service de la sécurité (NSIP), le nombre de projets clôturés a atteint un pic en 2016, même s'il n'a pas été possible d'atteindre l'objectif fixé par le Conseil, qui consistait à clôturer pour la mi-2016 la totalité des projets achevés à la mi-2014. Diverses mesures, prenant notamment la forme de plans d'action spécifiques, ont été mises en place pour assurer la clôture, dès que possible et au plus tard en 2020, des projets achevés restants. Le RPPB fera le point de la situation chaque année en s'appuyant sur l'avis du Comité des investissements.
- g) La réalisation d'audits de performance témoigne de l'importance que les pays attachent au fait de pouvoir apprécier la mesure dans laquelle les exigences d'économie, d'efficacité et d'efficience sont respectées dans le cadre des activités et du fonctionnement des organismes OTAN. À cet égard, le RPPB se félicite tant du nombre d'audits de performance réalisés que de la part des effectifs de l'IBAN qui ont été affectés à ces audits en 2016.
- h) Le fait que le taux de communication au public des rapports d'audit ait continué d'augmenter contribue à un meilleur respect de l'obligation de rendre compte et à une plus grande transparence et met en lumière l'engagement de l'OTAN en faveur de la bonne gouvernance et de la transparence dans le domaine financier.
- i) Le RPPB indique en conclusion qu'en application du C-M(2007)0009 et du PO(2015)0052, il convient de rendre publics le rapport d'activité portant sur l'exercice 2016 de même que le présent rapport.

RECOMMANDATIONS DU RPPB

13. Le Bureau de la planification et de la politique générale des ressources recommande au Conseil :

- (a) de prendre note du rapport de l'IBAN diffusé sous la cote IBA-M(2017)01-REV1 ainsi que du présent rapport ;
- (b) d'approuver les conclusions qu'il énonce au paragraphe 12 ;
- (c) d'approuver, en application du C-M(2007)0009 et du PO(2015)0052, la communication au public du rapport d'activité 2016 de l'IBAN, diffusé sous la cote IBA-M(2017)01-REV1, ainsi que du présent rapport.

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28 April 2017

INTERNATIONAL BOARD OF AUDITORS FOR NATO

ANNUAL ACTIVITIES REPORT

2016



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 common funds have been properly used for the settlement of authorised expenditure. In addition, IBAN reviews the operations of NATO Agencies and Commands to determine if they are being carried out effectively, efficiently and economically.

- INDEPENDENCE -

IBAN and its individual members are responsible for their work only to the Council. They shall neither seek nor receive instruction from any authorities other than Council. The IBAN's budget is independent from that of the NATO International Staff.

- INTEGRITY -

IBAN conducts its work in a fair, objective, balanced, unbiased and non-political manner, using all relevant evidence in its analyses and formulations of audit opinions.

- PROFESSIONALISM -

IBAN's audit work is planned, executed and reported in accordance with the auditing principles and guidelines of the International Organisation of Supreme Audit Institutions, complemented by the audit standards of the International Federation of Accountants for financial audits. Board Members and auditors have the necessary competencies and qualifications to perform their work.

IBAN on the World Wide Web:

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

Foreword by the Chairman

The International Board of Auditors for NATO (IBAN) is an independent six-member external audit body reporting to the North Atlantic Council (Council) and contributes to promoting transparency and accountability within NATO. In accordance with its Charter, which was approved by the Council, IBAN is responsible for financial and performance audits of all NATO bodies, certain non-NATO multi-nationally funded bodies, and for certifying that expenditures incurred for the NATO Security and Investment Programme (NSIP) have been carried out in compliance with the regulations in force.

2016 was the first year that IBAN's audit reports reflected the application of the new NATO Financial Regulations which include shorter deadlines. Seven out of 24 NATO bodies did not submit their Financial Statements by the March 31st 2016 deadline – 5 were later issued prior to December 31, 2016. As a consequence of this, IBAN was unable to meet our mandated deadlines for these audits. Some of these audit reports will only be issued in mid-2017. These delays were caused by a very difficult conversion to a new computer system.

In 2016, IBAN issued 25 financial audit reports on NATO and non-NATO bodies comprising 30 Auditor's Opinions on the financial statements and on compliance, of which 23 were unqualified opinions. IBAN issued 7 (23%) qualified audit opinions on the financial statements or on compliance. This is in comparison to 2015, when IBAN issued 51 Auditor's Opinions, of which 33 were unqualified audit opinions and 18 (35%) audit opinions were qualified, adverse, or disclaimer of opinion. NATO continues to struggle with reporting properly for Property, Plant, and Equipment (PP&E), weak internal controls, and material weaknesses in internal controls over financial reporting.

Regarding NSIP, IBAN issued a total of 413 Certificates of Final Financial Acceptance (COFFAs) amounting to EUR 1.2 billion certified. This resulted in more than EUR 1.8 million of NSIP funds being recovered to the programme. The standard wording of these COFFAs was adjusted in 2016 to better reflect that the work done by IBAN is a certification of expenditures and not an audit of the projects.

A highlight of 2016 was the Council's response to our series of NSIP performance audits. We were pleased to see that the Council acted positively on one of our more far reaching recommendations. They created a panel of external national experts to review the current NSIP governance process. The panel will present its recommendations in the spring of 2017. IBAN applauds the Council's actions and we are looking forward to this report.

IBAN continued to increase our performance audit capacity in 2016 to review the efficiency, effectiveness, and economy of NATO activities. In 2016, 31% of IBAN's staff audit days were used for performance audit. In addition, we decided to increase the number of posts dedicated to performance audit from 5 to 6. In 2016 we issued three performance audit reports to Council. These reports were on (1) the need to improve NATO's Capability Package process, (2) the need to improve the effectiveness of the Lessons Learned process for NATO exercises, and (3) Business Continuity Planning within NATO.

IBAN continues to advocate for greater transparency in NATO, and there are now 19 NATO financial statements available from 2013, 21 for 2014, and 16 for 2015 publically available as of the publication of this report. NATO bodies now prepare their Financial Statements with the assumption that they will be disclosed publicly.

We also continue to support the consolidation of the financial statements of NATO common funded bodies, however, we have not seen any positive action by NATO to proceed with this concept.

Lyn Sachs
Chairman
International Board of Auditors for NATO

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- A. List of reports issued in 2016.
- B. Financial Statement Audit Universe.
- C. Cumulative NSIP Expenditure by Host Nation as at end 2016.
- D. NSIP Slice Programme: Number and Value of Projects.
- E. Annual Action and Performance Plan 2017.
- F. List of Abbreviations.

CHAPTER 1

IBAN BACKGROUND AND AUDIT HIGHLIGHTS

OUR MANDATE AND ROLE

1.1 The Annual Activity Report to the Council is prepared each year in accordance with Article 14 of the Charter of the International Board of Auditors for NATO (IBAN), which states that IBAN “*shall prepare and present in a timely manner each year a detailed report on the activities of the Board during the year, and on progress made in processing its reports.*”

1.2 IBAN is the independent, external audit body of NATO. The forerunners of IBAN were chartered in 1953 by the Council and consisted of two separate audit boards: one responsible for the audit of NATO financial accounts and one for the audit of NATO investment programme funds. The two boards were merged in 1967 to become the IBAN. IBAN is composed of six Board Members appointed by the Council from among candidates nominated by the member countries. Board Members serve for a non-renewable four year term and are fully paid for by their respective national administrations. During 2016 there were Board Members from Canada, Denmark, France, Germany, Greece, and Turkey. Additional information on the IBAN’s organisation is presented in Chapter 5 of this report.

1.3 Our primary function is to provide assurance to the Council and the Governments of member states that funds have been properly used for authorised expenditure by NATO bodies and/or programmes. IBAN’s mandate also extends to verifying that the activities and/or operations of NATO bodies have been carried out in compliance with rules and regulations and also with efficiency, effectiveness, and economy.

1.4 We conduct financial audits of agencies, military commands, benefit plans, and deliver financial certificates on the NATO Security and Investment Programme (NSIP). IBAN also carries out performance audits of selected NATO bodies, operations, or programmes. In addition, we audit some non-NATO multi-nationally funded entities with cooperative links to NATO. Our total audit scope in 2016 covered approximately EUR 11.5 billion of expenditures for financial statements and the NSIP.

IMPACT OF IBAN’S PERFORMANCE AUDITS ON THE NSIP

1.5 In 2015 IBAN issued the first of three planned performance audit reports on the NSIP. These three reports would review and assess the main phases of the NSIP from requirements definition, project implementation, to project delivery and provide a comprehensive overview and analysis of the NSIP.

1.6 The 2015 report was the *Special Report to Council on the need to reform NATO Security Investment Programme governance* and assessed how far NSIP governance enables NATO oversight bodies to monitor projects well and in good time, and NATO implementation bodies to complete them within agreed costs, scope and schedule. We focused on the project authorisation, implementation, and closure phases.

1.7 Our report found that Host Nations struggle to give accurate and feasible estimates of cost, scope and schedule, particularly for communication and information systems projects. We also reported that the NSIP has poor schedule control. Contributing factors include weaknesses in governance and oversight, including accountability and enforcement. In our opinion, a governance model that makes the 28 Nations directly responsible for day-to-day oversight of project implementation may not be fit for the purpose of delivering capabilities effectively and on time. We recommended that governance reform, beginning with an examination by independent external experts, is needed to ensure the long term viability of the NSIP. At the time of issuance of that report the Nations were reluctant to implement our recommendation.

1.8 In 2016, the second of our NSIP reports was issued titled *Performance Audit Report to Council on the Need to Improve NATO's Capability Package Process* (summarised in more detail in Chapter 4 of this report). In this report we assessed whether NATO effectively and efficiently manages and governs its activities to set and approve requirements for common funded capabilities. We found that the process to develop, approve and implement current NATO Capability Packages (CPs) means NATO struggles to deliver capabilities in time to meet dates set by its commanders and agreed by the NATO Nations. The available data show that most CPs, on average, are expected to be delivered more than 4 years after the date when the commanders need them.

1.9 To address the problems found in our audit we made several recommendations (see chapter 4 of this report) and, as in the 2015 report on the CP implementation process, we stated that NATO could benefit from engaging a group of external national subject matter experts to deliver more detailed proposals in these areas for Council approval. As a result of our audits, a Group of Senior Experts (GSE) was established by Council in late 2016 to propose options to improve governance of the common funded capability delivery process.

1.10 In particular, the mandate of the GSE is to provide recommendations on ways to close significant gaps, minimise duplication of effort, and reduce the number of points that limit effective governance of the process. The GSE delivered its final report and recommendations to the Nations in April 2017.

1.11 We presented our views on ways to improve governance to the GSE in November of 2016. In particular, we noted that the deficiencies related to NSIP cannot be solved by revising governance structures alone. It is still IBAN's opinion that the current system may not be fit for the purpose of delivering capabilities effectively and on time and it is necessary to design a new, complete process that encompasses the following principles:

- Supports delivery of the right capability when it is needed (effectiveness),
- Is as simple as possible (efficiency),
- Is tailored and flexible to meet a variety of capability needs (appropriateness),
- Is subject to good governance with clear roles and responsibilities (accountability), and
- Provides a basis for clear decisions, with measurable results and consistent reporting (transparency).

1.12 We will issue the last of our current group of performance audits on the NSIP later in 2017. This report will address the last phases of the NSIP process by assessing the effectiveness of NSIP projects in achieving their planned outcomes and benefits.

FINANCIAL AUDIT ISSUES AND CONCERNS

1.13 As in prior years our audit of NATO bodies' financial statements raised concerns regarding financial management and accountability in NATO. The revised NATO Financial Regulations (NFRs) and Financial Rules and Procedures (FRPs) have a greater focus on sound systems of internal control, tighter control on the use of budgetary credits and stricter financial reporting deadlines. However, one of the risks impeding the achievement of the desired improvements is the lack of consistent implementation approaches throughout NATO. There is still much that can be done to improve consistency, which in turn, should lead to gains in efficiency and effectiveness that can result in reductions in resource requirements.

1.14 Additional adaptations to the NATO Accounting Framework were made in 2016, moving it further away from International Public Sector Accounting Standards (IPSAS). In our opinion, further adaptations to the NATO Accounting Framework should be avoided. While we noted some improvements related to the treatment of Property, Plant, and Equipment (PP&E), a number of large NATO bodies continue to have problems accurately tracking and/or reporting such assets. Our audit work led to a number of NATO bodies receiving modified compliance audit opinions for the 2015 account year due to material weaknesses in internal controls over financial reporting. This shows that that improvement is needed to financial management and reporting in NATO. The proper selection and implementation of a common Internal Control Framework would aid in identifying internal control weaknesses and gaps.

OUR ANNUAL MEETING WITH THE NATIONAL AUDIT BODIES

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

1.16 The 26th CNAB meeting to discuss the 2015 Annual Activities Report took place on 10 May 2016 under the chairmanship of the Hellenic Court of Audit. Conclusions of the CNAB representatives during the meeting included the following:

- Still saw the value in considering the establishment of an audit committee,
- Noted that the publication of IBAN reports was now the default position of NATO, but stated that, if reports were not made public, the reasons why should be publicly disclosed,
- Raised the issue of the slow pace at which IBAN reports were approved for publication by the Council,
- Agreed with the IBAN's proposal calling for a consolidated financial statement of all NATO common funded NATO bodies and expected NATO to implement it,
- Wanted to see more reporting by the RPPB and Council on the implementation

of IBAN recommendations and a plan to reduce future audit qualifications, in particular for those entities who have had multi-year/decade qualifications,

- Were concerned that there was a growing number of observations on common issues, such as PP&E and insufficient information on third party transactions,
- Noted that IBAN had made significant progress on NSIP and the close out of old and new projects. Requested that IBAN closely monitor the implementation of the Council approved measures to close out the old slice programme,
- Made suggestions to IBAN to maximise the impact of its performance audit reports, and
- Were very concerned that the financial statements of the New NATO HQ have been classified and that the information on the amounts expended were no longer publicly available. This goes against the principle of greater transparency and accountability in NATO.

1.17 We have addressed those points raised by the CNAB where deemed appropriate.

CHAPTER 2**OUR FINANCIAL STATEMENT AUDITS****BACKGROUND**

2.1 Each year we audit the financial statements of NATO bodies and retirement benefit plans. In addition, we also audit non-NATO multi-nationally funded or sponsored bodies in which NATO has a particular interest, such as Centres of Excellence and the NATO Parliamentary Assembly. In 2016, our audit scope for financial statement audits amounted to approximately EUR 10.3 billion.

2.2 NATO bodies have a varying degree of autonomy in managing their operations. All NATO bodies are subject to the NATO Accounting Framework and the NFRs that are approved by the Council and that provide a high level financial and budgetary framework. These NFR also apply to some of the non-NATO multi-national bodies via an explicit provision in their memoranda of understanding, however many have their own accounting principles and standards.

2.3 Although some NATO bodies consolidate financial information at varying levels, there is no consolidated NATO-wide financial reporting. The result is that in many cases the financial statements of the different NATO bodies are not homogeneous and difficult to compare. It also makes it difficult to provide a picture of NATO-wide financial operations and activities.

AUDIT METHODOLOGY AND CONDUCT OF AUDITS

2.4 The objective of the audit of financial statements is to provide assurance that these statements present fairly, in all material respects, the financial position of the NATO body and the results of its operations, in accordance with the NATO Accounting Framework (an adapted version of International Public Sector Accounting Standards, IPSAS) or other applicable financial reporting framework for non-NATO bodies; and that the underlying transactions are in compliance with budgetary authorisations and relevant regulations. We conduct our audits in accordance with the principles of the auditing standards of the International Organisation of Supreme Audit Institutions (INTOSAI), complemented, as and when required, by the International Standards on Auditing issued by the International Federation of Accountants (IFAC).

2.5 Audits are conducted on the auditee site by auditors, under the supervision of middle management and a Board Member. All NATO bodies are audited every year. Non-NATO bodies are usually audited on a rotational basis, but some, such as the NATO Parliamentary Assembly and the NATO Missile Firing Installation, are audited each year.

ALLOCATION OF RESOURCES

2.6 IBAN is responsible for the audit of over 40 separate NATO bodies, retirement benefit plans, and non-NATO multi-nationally funded bodies (see Annex B for the financial statements audit universe). Amounts audited per entity range from less than EUR 0.5 million to over EUR 2 billion. Resources allocated to financial statement audits decreased from 63% of the IBAN's total available audit staff days in 2015 to 59% in 2016 (2,122 days of 3,595 audit staff days total). This change reflects the IBAN's increased use of resources for performance audit and efficiency gains in our financial statement audit methodology.

2.7 Financial statements audits are resourced on the basis of a detailed risk assessment. The risk assessment takes into account elements such as the entity's size, its organisational complexity, our evaluation of internal control systems and business processes, the complexity of the transactions, and the time expired between audits. Other issues that may affect the allocation of resources include a prior qualified or adverse audit opinion, the implementation of new activities, a reorganisation, or any other event that creates an additional risk for the entities' activities.

REVISED NATO FINANCIAL REGULATIONS AND FINANCIAL RULES AND PROCEDURES

2.8 2016 was a year of progress in terms of NATO's financial management and reporting. The revised NFRs and FRPs¹ have instilled a greater focus on sound systems of internal control, tighter control on the use of budgetary credits and stricter financial reporting deadlines. These are promising developments. Since NATO is still in the early stages of implementation, though, it is too early to assess whether such developments are resulting in tangible and sustainable improvements in financial management and reporting as intended.

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

2.10 The following are examples of this:

- a. NATO bodies have purchased, and continue to purchase, many different software systems for accounting and resource planning. Had the purchase of these systems been better coordinated at the NATO level, an overall reduction of costs (including from lessons learnt in the design and implementation of such systems) and better inter-operability between NATO bodies could have been achieved.

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

- b. The revised FRPs require NATO bodies to reference the Internal Control Framework used by the NATO body. However, each NATO body is free to independently select and implement their own Internal Control Framework, risking unnecessary duplication of effort and inconsistent implementations.
- c. There have been delays in developing common NATO accounting policies, which are an important element of financial reporting consistency. As of 31 December 2016, no policies have been approved, while only one draft policy (Property, Plant and Equipment) was in development.

2.11 The revised NFRs require that NATO bodies present their financial statements for audit no later than the 31st of March, and for IBAN to present its financial audit reports to Council no later than the 31st of August. These deadlines were applicable for the first time to the preparation and audit of the 2015 financial statements.

2.12 We met this new audit deadline for all of the financial statements that were received by the 31st of March. However, the audit deadline could not be met for seven NATO financial statements² because they were only presented to us for audit between July and December 2016. The International Staff is responsible for preparing all seven of these financial statements. Substantial problems with a new software implementation were primarily responsible for these delays. These software problems negatively impacted our ability to audit these financial statements in an efficient and effective manner.

PUBLIC DISCLOSURE OF UNCLASSIFIED FINANCIAL AUDIT REPORTS AND RELATED FINANCIAL STATEMENTS

2.13 Improvement continues to be made in the public disclosure of the financial audit reports and related financial statements. Of the 18 financial audit reports³ of NATO bodies issued in 2016 relating to our audits of the 2015 financial statements, 16 have been publically disclosed. One is not disclosed due to its security classification and the other due to commercial sensitivities.

FURTHER ADAPTATIONS TO THE NATO ACCOUNTING FRAMEWORK

2.14 NATO adopted IPSAS as from 2006. In 2013, a number of deviations from IPSAS were made, mainly to defer the capitalization of PP&E, intangible assets and inventory to only those purchased after 1 January 2013. This necessitated changing the name to the NATO Accounting Framework. In 2016, the NATO Accounting Framework was further adapted. The main adaptations are:

- Communications and Information Systems (CIS) assets that are used by NCIA, the principal service provider of CIS capabilities to NATO Commands

² The seven financial statements are for the following separate financial reporting entities: the IS, the New NATO Headquarters, MSIAC, FORACS, the Coordinated Pension Scheme, the Defined Contribution Pension Scheme and the Retiree's Medical Claims Fund.

³ As highlighted earlier, seven financial audit reports remain to be issued as the related 2015 financial statements were issued late for audit. These audit reports will be issued in 2017 and IBAN expects to issue a disclaimer of opinion on the 2015 IS financial statements.

(including the IS and the IMS), in the delivery of goods and services to its customers received additional time, until 1 January 2018, before it is required to capitalize such assets in its Statement of Financial Position.

- Purchases from the United States' Foreign Military Sales (FMS) Program are allowed to be reported as expenses based on reporting from the United States government. Such reporting is not on an accrual basis.

2.15 In our view, further adaptations to the NATO Accounting Framework should be discouraged.

PROPERTY, PLANT & EQUIPMENT (PP&E), INTANGIBLE ASSETS AND INVENTORY

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

- A weak history and culture of reporting such assets in NATO.
- Involvement of multiple NATO bodies in procurement, storage and use of the assets.
- The use of different accounting systems throughout NATO.
- Different sources of funding (e.g. NSIP, military budget) with different processes.
- The difficult nature of military operations (e.g. urgency, high rotation of personnel, etc.).
- Lack of strong and consistent support from the Nations that this is important.
- Lack of consistent accounting policies.

MATERIAL WEAKNESSES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

2.17 There are a number of NATO bodies receiving, or are expected to receive, modified compliance audit opinions for the 2015 account year due to material weaknesses in internal controls over financial reporting. While there were different reasons for each NATO body, this demonstrates that further improvements are needed to financial management and reporting in NATO. The proper selection and implementation of an Internal Control Framework, preferably a common one across NATO, would aid in identifying internal control weaknesses and gaps.

SUMMARY OF FINANCIAL STATEMENT AUDIT WORK IN 2016

2.18 Our financial statement audits are performed to achieve reasonable assurance that (1) the financial statements fairly present an entity's financial positions at year end and their financial performances and cash flows for the year ended are in accordance with the relevant financial rules and regulations and (2) that the statements of budget execution and the underlying transactions are in compliance with budgetary authorisations and applicable regulations.

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

- The phrase “the Board issued an unqualified opinion” is used whenever we issue an opinion that the financial statements are stated fairly and that the underlying transactions conform to the rules and regulations.
- A qualified opinion means that we were generally satisfied with the presentation of the financial statements, but that some key elements of the statements were not fairly stated or affected by a scope limitation, or that the underlying transactions were not in conformity with budgetary authorisations and regulations.
- A disclaimer is issued when the audit scope is severely limited and we cannot express an opinion, or when there are material uncertainties affecting the financial statements.
- An adverse opinion is issued when the effect of an error or disagreement is so pervasive and material to the financial statements that we conclude that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

2.20 In 2016 we issued 25 financial audit reports on NATO and non-NATO bodies comprising 30 Auditors’ Opinions on the financial statements and on compliance. 18 of the audit opinions were for NATO bodies and 12 were for non-NATO bodies. Table 1 below shows the auditors opinions issued in 2016 compared to 2015.

Table 1: Auditor’s Opinions		
	2016	2015
Auditor’s Opinions Issued	30	51
Unqualified Opinion	23	33
Qualified Opinion	7	17
Disclaimer of Opinion	0	1

2.21 Reasons for the 7 qualified audit opinions issued in 2016 on financial statements included the following observations and issues:

- Noncompliance with the NATO Financial Regulations,
- PP&E/Intangible Assets,
- Material weaknesses in internal controls over financial reporting,
- Lack of sufficient audit evidence related to certain transactions, and
- Late issuance of the financial statements.

2.22 Some bodies had multiple observations resulting in a modified opinion. Of the 7 modified opinions we issued, 6 were for NATO bodies and 1 was for a non-NATO body. As a percentage of the audit opinions given for NATO bodies only, 33% were qualified or disclaimed.

2.23 The 2016 financial statement audit reports included 60 observations on a range of issues or errors which can affect the audit opinion if they are material. In addition, a further number of observations were communicated to NATO and non-NATO bodies in Management Letters. Reported observations can be related to the presentation of the financial statements, non-compliance with the NATO Accounting Framework, internal controls, non-compliance with NATO rules and regulations, late issuance of the financial statements, and accounting errors. The majority of observations for NATO bodies continued to be related to the application of the NATO Accounting Framework (adapted IPSAS) and in particular PP&E. Other observations were related to the lack of internal audit, weak internal controls, delays in issuing the financial statements, and general accounting errors. Each year we follow-up on the status of all observations raised in prior years' audit reports.

SUMMARY OF SIGNIFICANT AUDIT OPINIONS

2.24 The following is a summary of the 6 modified audit opinions issued in 2016 on NATO bodies (those related to non-NATO bodies are not provided):

- Allied Command Operations (ACO): We issued a qualified opinion on the Financial Statements and on compliance for the year ended 31 December 2015. IBAN did not obtain sufficient evidence that all property, plant and equipment (PP&E) and intangible assets acquired by ACO during 2015 were properly recorded in the ACO Consolidated Financial Statements. We were also unable to assess whether certain disclosures in the notes to the Consolidated Financial Statements, which relates to PP&E acquired prior to 2013, and are required by the NATO Accounting Framework, fairly present information for Resolute Support Mission and NCIS Group. We did not obtain enough evidence that comprehensive accounting records of all property acquired by ACO have been established and maintained as required by the NFRs. In particular, due to weaknesses in the asset management in Resolute Support Mission, ACO cannot ensure accurate property records.
- NATO Helicopter for the 1990s Design and Development, Production and Logistics Management Organisation (NAHEMO): We issued a qualified opinion on the Financial Statements and on compliance for the year ended 31 December 2015. IBAN found that Payables to Suppliers were understated by at least EUR 26.9 million in the Statement of Financial Position. This is because the process followed by the entity in managing invoices received was done out of the financial system, by-passing all financial control procedures, and only after a green light was given at the general manager's level would the invoices be recognised as payables. This resulted in a systematic delay in invoices being recognised as liabilities for the entity and uncertainty on the completeness of the recorded payables. We also found material weaknesses in internal control over financial reporting, including an insufficient review of the financial statements, which have led to material misstatements in the financial statements. The NFRs requires the establishment of a system of internal control. NAHEMA implemented new contracting management procedures that do not comply with the concept of internal control as described in the revised NFRs. Furthermore, we found material weaknesses in internal

control over financial reporting.

- NATO Communications & Information Organisation (NCIO): We issued a qualified opinion on the NCIO Financial Statements and on compliance for the year ended 31 December 2015. We were unable to provide audit assurance in respect to revenue in the Statement of Financial Performance related to Capability Development projects. This is due to significant weaknesses in the method of calculating the “cost-to-complete” for a contract, which directly impacts the calculation of revenue recognised during the year under the “percentage-of-completion” method. This also affects the level of provisions for future losses and eventually the surplus or deficit for the period. We were also unable to provide audit assurance on the Financial Statements in respect to the completeness of property, plant and equipment and intangible assets presented in the Statement of Financial Position. This is due to its multiple accounting systems and logistics tools that still do not support a proper financial reporting of property, plant and equipment and intangible assets. We did not obtain enough evidence that comprehensive accounting records of all property acquired by NCIO have been established and maintained as required by the NFRs. This is due to the fact that the multiple accounting systems and logistics tools in use still do not support effective and efficient management processes and financial reporting of property, plant and equipment and intangible assets acquired as required by NCIO’s legal framework.
- NATO Staff Centre: We issued a qualified opinion on the NATO Staff Centre Financial Statements on compliance for the year ended 31 December 2015. We found that the Staff Centre did not fully comply with the NFRs. In the area of procurement of goods and services, compliance with the procurement regulations were not fully in place as some goods were acquired during 2015 without proper bidding and contracting procedures.
- NATO Support Organisation (NSPO) 2015: We issued a qualified opinion on the NSPO Financial Statements and on compliance for the year ended 31 December 2015. As disclosed in the financial statements, the value of the Central Europe Pipeline System (CEPS) pipeline improvements made since 1 January 2013, of which the value has not been determined, is not yet reported as an asset in the Statement of Financial Position. This is required by the NATO Accounting Framework. The 2014 comparative information on CEPS pipeline improvements was also not reported, so our opinion on the current period’s financial statements was also modified because of the potential effect of these matters on the comparability of the current period’s figures and corresponding 2014 figures. In addition, some of the balances presented in the Cash Flow Statement could not be fully supported. This includes the ‘Effect of exchange rate changes on cash and cash equivalents’, the ‘Net Purchase of PPE, Intangible Assets and Inventories’ and the ‘Financing of PPE, Intangible assets and inventories’ line items. Furthermore, notes to the financial statements include tables disclosing the changes in PP&E and intangible assets, respectively, from 1 January to 31 December 2015. We were unable to reconcile the depreciation and amortisation balances presented in these

tables to the 'Depreciation and Amortisation' balances presented in the Statement of Financial Performance, Statement of Cash Flows and the Statement of Changes in Net Assets. As a result, IBAN was unable to provide assurance as to the accuracy of these notes. The NFRs require the establishment of a system of internal control. We found material weaknesses in internal control over financial reporting at NSPO. We also identified material misstatements during the audit which had not been prevented and detected by internal controls over financial reporting. These misstatements were corrected by NSPO.

- NATO Retirees Medical Claims Fund (RMCF) 2015: We issued a qualified opinion related to compliance for the RMCF financial statements for the year ended 31 December 2015. The NFRs require the financial statements to be submitted for audit to the IBAN by the Financial Controller not later than 31 March following the end of the financial year. The financial statements of RMCF for the year ended 31 December 2015 were only submitted on 20 July 2016, a delay of almost four months.

CHAPTER 3

OUR NATO SECURITY INVESTMENT PROGRAMME CERTIFICATION

BACKGROUND

3.1 NATO established the Infrastructure Programme in 1951 to provide common funded capabilities that exceed the military requirements of individual member states. The nations share the cost of the Programme based on agreed percentages. The Council made some major changes to the Programme in 1994 and renamed it the NATO Security Investment Programme (NSIP). The Programme is overseen by the Investment Committee (IC) and individual projects are implemented by the “Host Nation” (a member state or NATO body) which is responsible for the planning and execution of the project. The IBAN’s mandate in regard to the NSIP is to provide assurance that expenditure incurred by Host Nations has been carried out in compliance with the regulations in force. It should be noted that NSIP processes can be subject to performance audits (see chapter 4) and the resultant asset can be subject to financial audit when completed and transferred to a NATO body.

THE NSIP PROJECT CERTIFICATION PROCEDURE

3.2 When a project is presented for certification, the Host Nation prepares a cost statement, reflecting all costs incurred for the project implementation, and calculates the amount it deems eligible for NATO funding. The IBAN’s aim is to ascertain that the cost statement is complete, correct, and is compliant with the terms of the project scope and fund authorisations approved by the IC. The outcome of this process is either a Certificate of Final Financial Acceptance (COFFA) or a Letter of Observations. A COFFA is issued when all of the following criteria have been met:

- The project is operationally and financially complete and has been presented for certification as such;
- The project has been technically inspected and accepted (JFAI report approved by the IC);
- The amount of expenditure found eligible for NATO funding remained within the limits of the funds authorized;
- There are no observations, or any observation raised has been agreed by the Host Nation during the fieldwork.

3.3 In the case that one or more of the above criteria have not been met, the IBAN issues a Letter of Observations to the Host Nation specifying the corrective actions required for the issuance of a COFFA.

2016 NSIP PROJECT CERTIFICATION ACTIVITY

3.4 In 2016 the IBAN spent the equivalent of 1.8 staff years, or 10% of the available audit only staff days, on the certification of NSIP projects. Table 2 below shows the IBAN’s NSIP certification activity for 2016 in comparison to 2015.

Table 2: 2016 NSIP Project Certification Activity			
	2016	2015	% Change
Amount certified (COFFAs)	1,205 MEUR	1,319 MEUR	-9%
Number of COFFAs issued	413	258	+60%
Number of Letters of Observation	20	27	-26%
Funds returned to NSIP as a result of audit observations	1.85 MEUR	3.68 MEUR	-50%
Staff-years used	1.8	1.2	+50%

3.5 Despite the relatively low investment of IBAN staff resources used for NSIP project certification, the 2016 results remained encouraging. The activity resulted in EUR 1.85 million being recovered to the programme. This amount represents about 51% of the IBAN's entire budget for 2016.

THE CERTIFICATES OF FINAL FINANCIAL ACCEPTANCE

3.6 The 413 COFFAs issued in 2016, amounting to EUR 1.2 billion, represent about 17% of the entire population of open NSIP projects (expenditure of EUR 6.9 billion reported as at December 2016). As in previous years, the amount certified by the IBAN in 2016 continued to exceed the amount spent in that year by the Host Nations. As a consequence, the total amount certified by the Board increased from 77% to 80% of the total cumulative NSIP expenditure (see Annex C).

3.7 Out of the 413 COFFAs issued, 167 of them were issued under the Action Plan for the Close-Out of ISAF projects, with an Enhanced Accelerated Joint Final Inspection and Formal Acceptance procedure to be applied to ISAF projects below EUR 3 million and meeting certain other criteria. Under these procedures the reported expenditure is converted to a lump sum and is therefore not subject to audit.

OBSERVATIONS AND RESULTING FINANCIAL ADJUSTMENTS

3.8 Observations are related to the accuracy of the cost statements presented for review. When the auditors and the Host Nation cannot reach agreement on the observation during the mission, this is mentioned in the Letter of Observation. The Host Nation needs to reply to the observation and provide a detailed explanation.

3.9 The most important factors affecting the accuracy of the cost statements are:

- Inclusion of ineligible expenditure (outside the authorized scope),
- Erroneous cost sharing between the various project funding sources,
- Incorrect currency conversion,
- Mathematical errors, and
- Other observations (e.g. taxes, items to be covered by National Administrative Expenses, etc.).

3.10 These observations result in financial adjustments, either in favour of the NSIP accounts or in favour of the Host Nations. These adjustments are recorded at the moment they have been agreed by the Host Nation. In most cases, observations are settled during the fieldwork, but in some cases agreement can only be reached after a contradictory process, with a Letter of Observations and a reply.

3.11 For 2016, the agreed observations and corresponding financial adjustments amounted to EUR 2.36 million in favour of the Programme, and to EUR 0.51 million in favour of the Host Nations, leaving a net return of EUR 1.85 million to the NSIP.

CLOSE-OUT OF COMPLETED AND ONGOING NSIP PROJECTS

3.12 As part of its deliberations on the IBAN Report on the NSIP for 2012, the Resource Policy and Planning Board (RPPB) made a number of distinct recommendations to Council relating to the timely closure of completed and ongoing NSIP projects. These recommendations were agreed by Council and were the following:

- The IC should ensure that the various stakeholders in the Joint Final Acceptance and Inspection process (JFAI) meet their responsibilities in line with JFAI procedures;
- The IC was tasked to work with stakeholders to develop a plan with the objective of closing out the existing projects in the amount of EUR 5 billion by June 2016, including by making maximum use of existing procedures;
- With regard to newly completed projects, the IC should ensure that projects are submitted by Host Nations for JFAI and audit within set timelines, and that projects are closed within six months following the formal acceptance of the related JFAI; and
- The IC should provide progress reports to the RPPB on a semi-annual basis.

3.13 Concerning the close-out of the Slice Programme projects (programmed before 1994), an overview of the evolution between December 2015 and December 2016 is provided at Annex D. At the end of December 2016, a total of 84 of these old projects amounting to EUR 750 million remained to be closed.

CHAPTER 4

OUR PERFORMANCE AUDITS

BACKGROUND

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

4.2 It is our aim to carry out at least one substantial performance audit per year, complemented by a number of smaller studies. In 2016 we issued three performance audit reports to Council. These reports were on (1) the need to improve NATO's Capability Package process, (2) the need to improve the effectiveness of the Lessons Learned process for NATO exercises, and (3) Business Continuity Planning within NATO. In addition, we began work on the following audits in 2016 that will be completed in 2017: 1) the effectiveness of NSIP projects in achieving outcomes and benefits, 2) the need to revise NATO-wide framework on Morale and Welfare Activities, and 3) the efficiency and effectiveness of the NATO budget process.

ALLOCATION OF RESOURCES

4.3 In 2016 performance audit activities accounted for 31% of the total number of staff audit days available to the IBAN, including Voluntary National Contribution staff. This exceeded the target set by Council to have 25% of the total number of staff audit days used for performance audit. In 2016 we assigned six auditor posts to be full time to performance audit. New staff have been recruited for these posts and should be in place by the end of 2017.

4.4 In 2016 we received assistance from two SAIs with performance auditing. The Norwegian Audit Office and the Turkish Court of Accounts both provided senior performance auditors to IBAN as a Voluntary National Contribution (VNC). The VNC each worked with IBAN for approximately six months from autumn 2015 into spring 2016.

PERFORMANCE AUDIT PLANNING

4.5 Performance audit planning is prepared by the IBAN's Performance Audit Working Group. This working group, under the leadership of a Board Member, is comprised of the Principal Auditor and five full-time performance auditors. The Working Group's role is to assist the IBAN by preparing material for decision and performing an advisory role within the IBAN with regard to Performance Auditing. The Working Group's tasks include the following:

- Risk assessment of NATO bodies, programmes, and operations;
- Topic monitoring, including evaluating potential topics and assisting colleagues in preparing Performance Audit Proposals;
- Review Performance Audit Proposals and prepare recommendations to the IBAN;

- Support the IBAN by engaging with external stakeholders on performance audit related issues;
- Propose new guidance and methodology, and
- Prepare and share with the RPPB the IBAN's annual Performance Audit Programme in order to receive their feedback on our planning of performance audit topics.

4.6 The Working Group developed a comprehensive Performance Audit Programme for 2017-18 which prioritised our performance audit work for the next two years and identified the resources needed for performance audit. The plan is designed to help us become more transparent in communicating how and what we choose to audit to external stakeholders. The programme included performance audit topic proposals based upon input from Board Members, all audit staff, and interviews with senior NATO managers and NATO resource committee Chairpersons and members.

SUMMARY OF PERFORMANCE AUDIT REPORTS ISSUED IN 2016

Performance Audit Report to Council on the Need to Improve NATO's Capability Package Process

4.7 In this report we assessed whether NATO effectively and efficiently manages and governs its activities to set and approve requirements for common funded capabilities. We found that the process to develop, approve and implement current NATO Capability Packages (CPs) will take at least 16 years on average. As a result, NATO struggles to deliver capabilities in time to meet dates set by its commanders and agreed by the NATO Nations. The available data show that most CPs, on average, are expected to be delivered more than 4 years after the date when the commanders need them. Extended requirement definition time frames are among the sources of these delays.

4.8 Shortfalls in process, staffing, technology and governance contribute to this outcome:

- The CP process does not adequately include critical steps needed to develop capabilities, particularly those involving technology, which reduces its effectiveness.
- CPs generally do not originate from the NATO defence planning process, which results in ad-hoc work and limits traceability to NATO's agreed capability shortfalls.
- The Strategic Commands do not effectively manage their capability requirements work. Insufficient institutional capacity also causes overreliance on external support.
- The CP process does not fully incorporate important principles, such as change and risk management. Supporting information systems and processes are also deficient.
- Critical elements of governance, including overarching guidance, complete oversight and transparent monitoring and control, are not yet implemented.

4.9 Without a more concerted and coordinated effort across these areas, meaningful improvements to capability delivery will be difficult to achieve. Successfully undertaking such an effort will require stronger, more unified governance. The Nations recognise this, but have not yet agreed any substantial actions.

4.10 To address the shortfalls found in our audit we recommended the following:

- Design a complete process to ensure the delivery of the right capabilities on time. The process should include all capability development activities, traceability to NATO defence and operational planning as well as allow for ongoing prioritisation based on NATO assessments of current and future security needs.
- Create elements of a consistent NATO-wide portfolio, programme and project management approach to address management shortfalls and inconsistencies.
- Build institutional capacity by addressing the staffing needs for requirements management in the Strategic Commands.
- Improve information management and transparency by rationalising and modernising the processes and information technology used to manage CP work.
- Unify, strengthen and clarify (who, what, when, how, why) governance roles to ensure that capability requirements reflect needs and enable capability delivery as closely as possible to agreed plans.

4.11 In addition, as in our previous report on the CP implementation process, we stated that NATO could benefit from engaging a group of external national subject matter experts to deliver more detailed proposals in these areas for Council approval.

Special Report to Council on the Need to Improve the Effectiveness of the Lessons Learned Process for NATO Exercises

4.12 The IBAN addressed in this report the following two objectives:

1. To what extent do NATO's military commands implement the NATO lessons learned process for military exercises?
2. To what extent are lessons shared among NATO commands?

4.13 NATO commands are identifying lessons from exercises, but because of shortfalls in reporting and incomplete implementation of the remedial action process, few of those lessons are sufficiently learned. Of the 142 lessons identified from 5 recent major exercises, only 3 lessons have been recognized as being learned within the NATO lessons learned process. The IBAN found that reporting and implementation of the remedial action process was affected by the lack of a single party responsible at the appropriate command level for monitoring the implementation of the lessons learned

process for each exercise and unclear guidance. Further, IBAN found that NATO command leadership was not actively enforcing reporting requirements and had little visibility on the performance of the lessons learned process, resulting in significant delays. The IBAN also found that some NATO commands were assessing performance through activities outside of the lessons learned process, creating the risk that some lessons may not be learned or shared.

4.14 NATO commands are uploading lessons onto the NATO Lessons Learned Portal and sharing information through various formats, such as an annual lessons learned conference. However, the commands are limiting the information they make available to other commands. Lessons considered internal to a command or not applicable to others are not shared, and lessons from smaller, command-specific exercises are also often not shared. The IBAN found that lessons learned guidance does not provide detailed instructions on information sharing. The IBAN also found that the difficulties of transferring information from one lessons learned database to another, and the large number of available databases hosted both internally and externally to NATO, are creating an impediment to information sharing. This increases the risk of less cost effective efforts in the area. Lastly, the accuracy and validity of the data within the NATO Lessons Learned Portal, NATO's primary lessons learned information sharing platform, are questionable because of a lack of data quality controls and guidance.

4.15 Without more detailed guidance and stricter controls from engaged senior leadership, NATO commands may not fully implement the NATO lessons learned process for a given exercise. As a result, NATO's ability to incorporate and retain information that could improve its ability to meet its mission in an effective and efficient manner, and adapt to a continuously changing security environment could be significantly compromised.

4.16 We made two overall recommendations, supplemented by a number of more detailed sub-recommendations:

- To ensure better implementation of the lesson learned process when conducting exercises, the IBAN recommends that strategic commands increase timeliness, accountability and visibility of the process.
- To better institutionalise lessons from exercises and make this knowledge readily available NATO-wide, the IBAN recommends that sharing of this information be enhanced.

Performance Audit Report to Council on Business Continuity Planning Within NATO

4.17 In this audit we assessed whether NATO effectively and efficiently manages the risk of disruption of its activities through business continuity planning and management of the plans. This report is classified and the audit findings cannot be presented in this report.

CHAPTER 5

USE OF OUR HUMAN AND FINANCIAL RESOURCES AND ANNUAL PERFORMANCE

OUR HUMAN RESOURCES AND THEIR USE

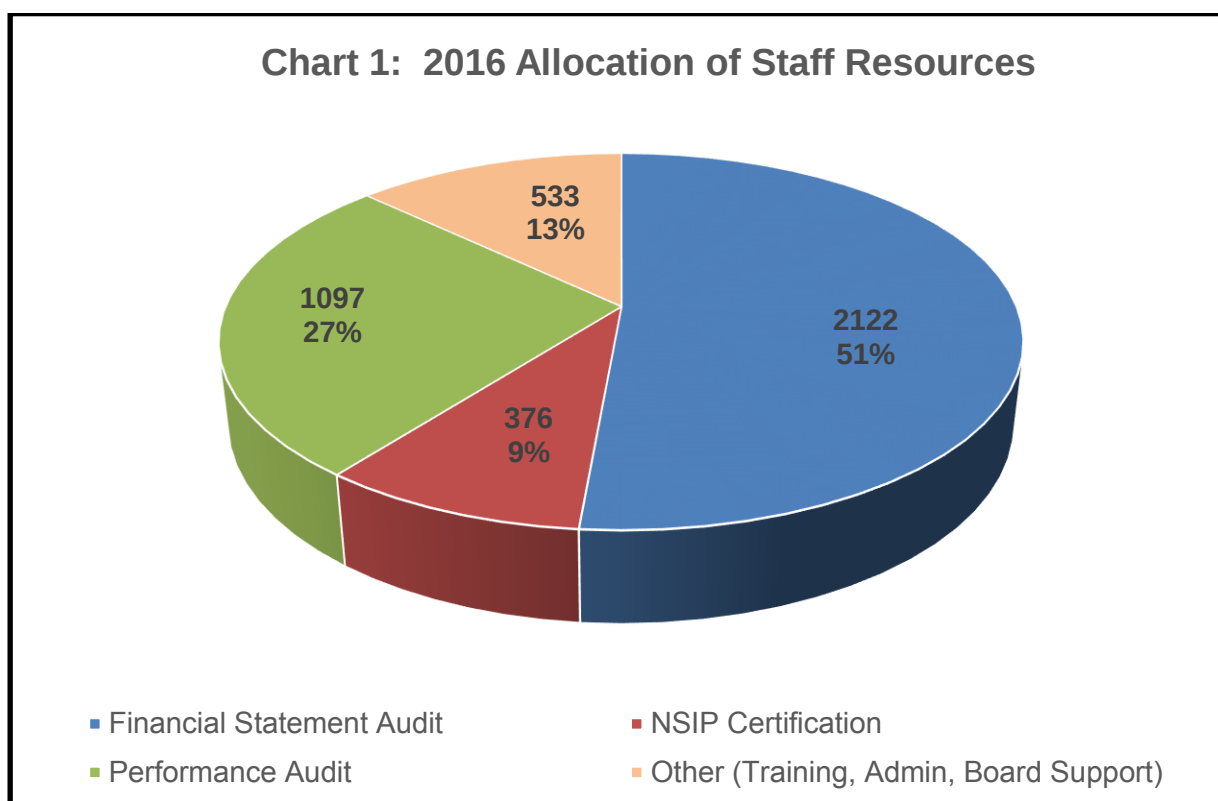
5.1 As we finalise the implementation of the recommendations to strengthen the external audit function in NATO, our internal organisation continues to change. While the total number of our authorised posts remained the same as in prior years, with twenty-two auditor posts in total, the composition of the posts changed with the downgrading of two additional A4 posts to A3. The audit staff establishment comprised one A5 grade Principal Auditor, two A5 grade Senior Auditors, thirteen A4 grade auditors, and six A3 grade auditors. We will downgrade a further four A4 grade posts to A3 posts in 2017 and 2018. This will result in an audit staff establishment of three A5, nine A4, and ten A3 grade posts. We also have one Administrative Officer and five Administrative Support Staff who provide support to our agency, NSIP, and performance audits and the general administration of IBAN.

5.2 Our staff is a diverse group of individuals skilled in a variety of audit disciplines and includes chartered accountants, information systems auditors, and performance audit specialists. More than 65% of the audit staff are seconded from member state 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 years. This policy of rotation ensures that the IBAN does not remain a static organisation and that audit practices and methodology can be refreshed with the influx of new staff.

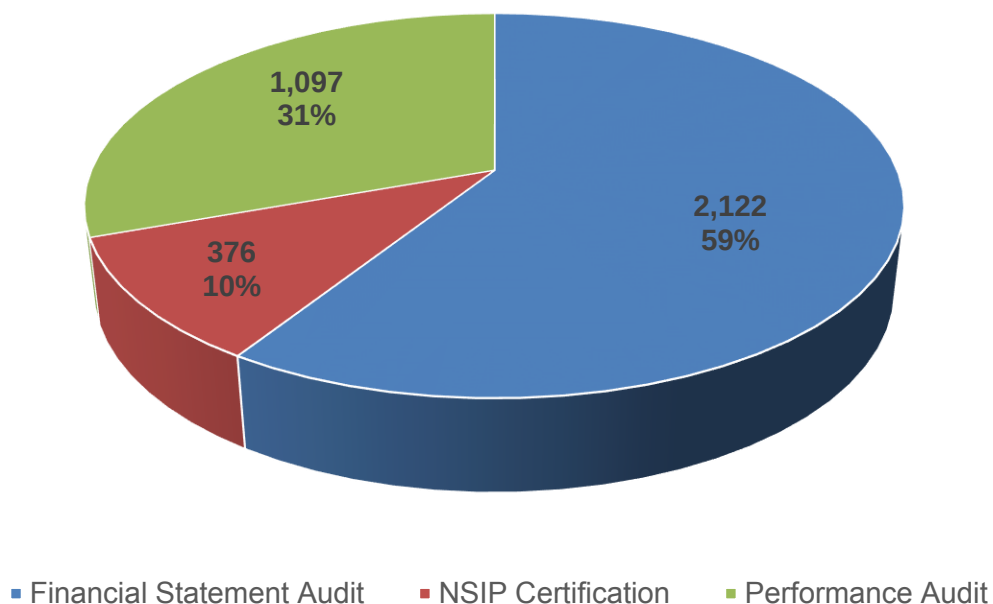
5.3 Board Members and auditors came from twelve different member states. At the end of 2016 there were four vacant auditor posts (21% of the IBAN's A4/A3 audit posts). This was the result of the unexpected departure of two staff members and the lengthy process required to hire new staff.

5.4 In general, we aim to provide our staff an adequate amount of relevant annual training in accordance with the auditing standards of INTOSAI and IFAC. We plan that each auditor should have one to two weeks of training per year. This training can be group training on specific audit topics and individual training within NATO or with external bodies on topics related to audit or personal development.

5.5 Chart 1 below shows the use of our audit staff resources in 2016 with the number of days (and the percentage it represents of the total) expended on each type of activity. In 2016 we used a total of 4,128 auditor staff days, including Voluntary National Contributions. Of these, 3,595 (87%) were expended on audits. The remaining 533 days (13%) were expended on staff training, administrative activities, and supporting the work of the Board itself.

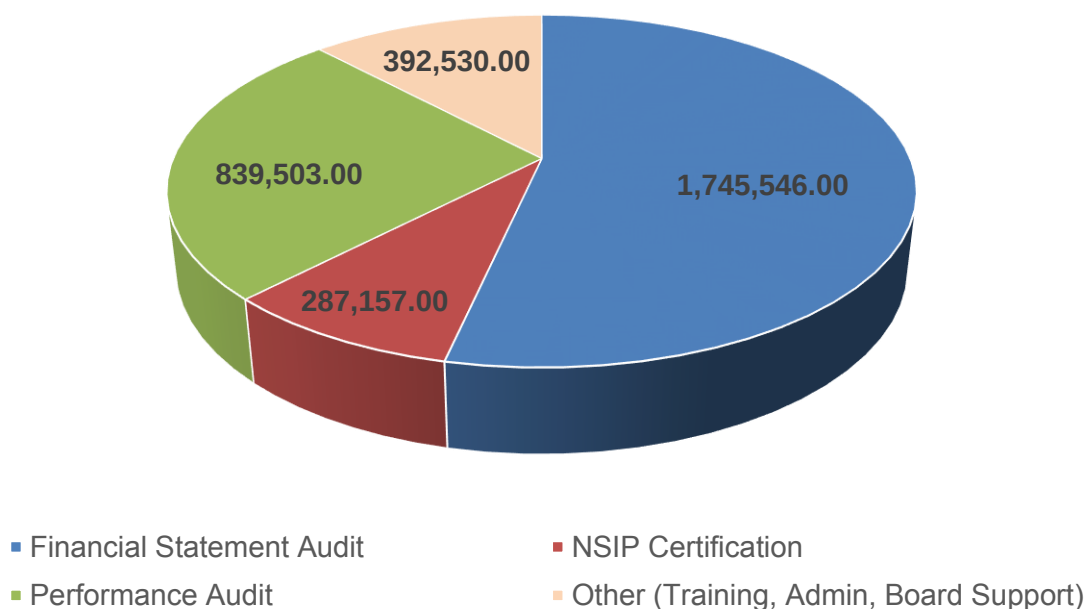


5.6 Chart 2 below shows the allocation of staff days used only for financial statements, NSIP and performance audit in 2016. As a percentage of staff days assigned to audit work, performance audit represented 31% of the IBAN's audit only days resources, which exceeded the target of 25% and was an increase from the 30% in 2015. Resources in terms of audit only days for NSIP in 2016 increased to 10% from 7% in 2015. The audit resources for financial statement audits in terms of audit only days decreased from 63% in 2015 to 59% in 2016.

Chart 2: 2016 Allocation of Audit Only Days

OUR FINANCIAL RESOURCES AND THEIR USE

5.7 Chart 3 below shows the direct cost (audit staff salary and travel costs) of the audits and other IBAN activities in 2016 in EUR. The total direct cost of the audit was EUR 3.26 million.

Chart 3: 2016 Direct Cost of the Audit in Euro

OUR ANNUAL PERFORMANCE

2016 ANNUAL PERFORMANCE PLAN

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

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

5.9 Our 2016 Annual Performance Plan is derived from the goals and objectives in the 2015-2019 Strategic Plan. The Annual Performance Plan includes specific key performance indicators and targets for the various objectives for 2016 to measure our performance.

PERFORMANCE RELATED TO GOAL 1

5.10 Our objectives related to Goal 1 were to provide independent assurance that the financial statements present fairly the financial position and performance of the entity, contribute to the development of a sound and consistent financial reporting environment, and enhance relationships with key stakeholders. The associated performance measure and target used to evaluate the achievement of the objectives in 2016 is shown below.

<i>Key Performance Indicator</i>	<i>Target</i>	<i>Actual</i>
% of audits completed on NATO bodies for which IBAN is the responsible auditor	100% (24)	75% (18)

5.11 The performance measure was not met as we did not complete all audits of NATO bodies for which we are the responsible auditor during the 2016 calendar year as a result of the late issuance of financial statements by some NATO bodies. We were only able to complete 18 of 24 NATO body audits during the calendar year. However, we will finalise all of these audits within 2017.

PERFORMANCE RELATED TO GOAL 2

5.12 Our objectives related to Goal 2 were to contribute to the improvement of NSIP management, provide assurance of NSIP accountability, and improve our efficiency and effectiveness. The associated performance measures and targets used to evaluate the achievement of the objectives in 2016 are shown in the table below.

Key Performance Indicator	Target	Actual
Amount of staff years used on NSIP certification	At least 1.5	1.8
Amount reviewed and certified per staff year	EUR 600 million	EUR 1.2 billion

5.13 The first performance measure was exceeded as we used 1.8 staff years for NSIP. The second performance measure was also exceeded as we certified over EUR 1.2 billion of NSIP funds in 2016.

PERFORMANCE RELATED TO GOAL 3

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

Key Performance Indicator	Target	Actual
Number of performance audit reports issued in 1 year	4	3
% of audit only staff days dedicated to Performance Audit	25%	31%
Consult with key stakeholders on annual Performance Audit plan in order to identify audits with the greatest potential for impact	Annually	Achieved

5.15 The first performance measure was not fully achieved as we issued three performance audit reports in 2016. We were unable to meet the target as a result of the unexpected departures of some performance audit staff and delays in bringing newly recruited staff into the organisation. In addition, we devoted more staff resources to one performance audit to ensure it was completed on time. The second performance measure was exceeded for the third year running as we used 31% of our available audit only staff days for performance audit. The third performance measure was also achieved as our performance audit planning process included consultation with key stakeholders to identify potential performance audit topics.

PERFORMANCE RELATED TO GOAL 4

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

<i>Key Performance Indicator</i>	<i>Target</i>	<i>Actual</i>
Provide continuing professional education to all IBAN auditors (including the 7 hours training course on report writing)	Minimum of 40 hours per year	Achieved
% of financial audit reports on NATO bodies issued by 31 August	100% (24)	71% (17)
% of financial audits of NATO bodies that have interim work being completed – either controls review, or preliminary substantive testing	50%	56%
% of all recommendations and observations settled within two follow-up audits	80%	86%
Enhance cooperation with national SAIs, such as auditor contributions and other activities	3 per year	3

5.17 The first performance measure on staff training was achieved and the 7 hours of report writing training was delivered in 2016. However, the second performance measure was not met. We were only able to issue 17 of 24 financial audit reports of NATO bodies by 31 August, 2016. This was the result of the late issuance of financial statements by some NATO bodies.

5.18 The third performance measure was achieved as we were able to perform interim audit work on 56% of our audits of NATO bodies. Some smaller NATO bodies/programmes may not require interim audit activity so it is not planned for these audits. The fourth performance measure relating to the settlement of report observations was exceeded as 91 of 106 observations were settled within two years of the audit. The last performance measure was achieved as we received Voluntary National Contributions from two SAIs and received assistance from the Canadian Office of the Auditor General to develop our internal risk management approach and risk register.

2017 ANNUAL ACTION AND PERFORMANCE PLAN

5.19 Our Annual Action and Performance Plan for 2017 is included in this report at Annex E.

Approved by the Board on 28 April 2017



Chairman

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Lyn Sachs

(Canada)



Board Member

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Klaus Getzke

(Germany)



Board Member

A handwritten signature in blue ink, appearing to read "Henrik Berg Rasmussen".

Henrik Berg Rasmussen

(Denmark)



Board Member

A handwritten signature in black ink, appearing to read "Hervé-Adrien Metzger".

Hervé-Adrien Metzger

(France)



Board Member

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Hacı Ömer Köse

(Turkey)



Board Member

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Georgia Kontogeorga

(Greece)

LIST OF REPORTS ISSUED IN 2016
RESULTING FROM FINANCIAL STATEMENT AND PERFORMANCE AUDITS

LIST OF IBAN FINANCIAL STATEMENT AUDIT REPORTS ISSUED IN 2016						
Subject and Financial Year		IBAN Report Number	IBAN Issue Date	RPPB Report Date	NAC Approval Date	Available to Public Yes/No/Pending
<i>NATO Military Commands</i>						
1.	Allied Command Operations (ACO) 2015	IBA-AR(2016)09	28.07.2016	11.11.2016	02.12.2016	YES
2.	Allied Command Transformation (ACT) 2015	IBA-AR(2016)06	28.07.2016	17.11.2016	07.12.2016	YES
<i>NATO Agencies, Civil-Military Bodies, Special Projects, and Pension Schemes</i>						
3.	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) 2015	IBA-AR(2016)04	28.07.2016	23.11.2016	16.12.2016	YES
4.	NATO Alliance Ground Surveillance Management Organisation (NAGSMO) 2015	IBA-AR(2016)18	26.08.2016	26.10.2016	21.11.2016	YES
5.	NATO BICES Group Executive (BGX) 2015	IBA-AR(2016)23	23.08.2016	11.11.2016	07.12.2016	WITHHELD (NATO RESTRICTED)
6.	NATO Helicopter Management Organization (NAHEMO) 2015	IBA-AR(2016)22	24.08.2016	06.12.2016	22.12.2016	YES
7.	NATO Medium Extended Air Defense System Management Organization (NAMEADSMO) 2015	IBA-AR(2016)07	28.07.2016	03.11.2016	01.12.2016	YES

LIST OF IBAN FINANCIAL STATEMENT AUDIT REPORTS ISSUED IN 2016						
	Subject and Financial Year	IBAN Report Number	IBAN Issue Date	RPPB Report Date	NAC Approval Date	Available to Public Yes/No/ Pending
8.	NATO Multi-Role Combat Aircraft Development Production And In-Service Support Management Organisation (NAMMO) 2015	IBA-AR(2016)19	24.08.2016	03.11.2016	21.11.2016	YES
9.	NATO Airborne Early Warning and Control Programme Management Agency (NAPMA) 2015	IBA-AR(2016)13	28.07.2016	29.09.2016	21.10.2016	YES
10.	NATO Communications & Information Organisation (NCIO) 2015	IBA-AR(2016)10	24.08.2016	15.12.2016	20.12.2016	YES
11.	NATO Defense College (NDC) 2015	IBA-AR(2016)08	28.07.2016	17.11.2016	06.12.2016	YES
12.	NATO Provident Fund 2015	IBA-AR(2016)15	23.08.2016	17.11.2016	06.12.2016	YES
13.	NATO Staff Centre 2015	IBA-AR(2016)16	31.08.2016	17.01.2017	01.02.2017	YES
14.	NATO Support and Procurement Organisation (NSPO) 2015	IBA-AR(2016)12	28.08.2016	17.01.2017	01.02.2017	YES
15.	NATO European Fighter Aircraft Development, Production And Logistic Management Organisation (NEFMO) 2015	IBA-AR(2016)21	24.08.2016	08.12.2016	20.12.2016	NO
16.	NATO EF 2000 and Tornado Development, Production and Logistics Management Agency (Admin) (NETMA) 2015	IBA-AR(2016)20	24.08.2016	03.11.2016	01.12.2016	YES
17.	NATO Retirees Medical Claims Fund (RMCF) 2015	IBA-AR(2016)24	25.11.2016	28.02.2017	16.03.2016	YES

LIST OF IBAN FINANCIAL STATEMENT AUDIT REPORTS ISSUED IN 2016						
Subject and Financial Year		IBAN Report Number	IBAN Issue Date	RPPB Report Date	NAC Approval Date	Available to Public Yes/No/Pending
18.	Science and Technology Organisation (STO) 2015	IBA-AR(2016)17	24.08.2016	17.11.2016	06.12.2016	YES
Non-NATO Multi-Nationally Funded or Sponsored Bodies						
19.	AFNORTH International School 2015	IBA-AR(2015)39	29.01.2016	N/A	N/A	NO
20.	NATO Missile Firing Installation (NAMFI) 2015	IBA-AR(2016)27	25.11.2016	N/A	N/A	NO
21.	NATO Parliamentary Assembly (NPA) 2015	IBA-AR(2016)03	21.03.2016	N/A	N/A	NO
22.	NATO Rapid Deployable Corps SPAIN (NRDC-SP) 2012-2014	IBA-AR(2016)01	02.03.2016	N/A	N/A	NO
23.	NATO Rapid Deployable Corps TURKEY (NRDC-TU) 2012-2015	IBA-AR(2016)25	28.10.2016	N/A	N/A	NO
24.	SHAPE International School 2014	IBA-AR(2016)02	22.03.2016	N/A	N/A	NO
25.	SHAPE International School 2015	IBA-AR(2016)29	25.11.2016	N/A	N/A	NO
Performance Audit Reports						
26.	Performance audit report to Council on the need to Improve the NATO Capability Package Process	IBA-AR(2016)05	25.05.2016	26.09.2016	12.12.2016	YES
27.	Special report to Council on the Inability of IBAN to audit the International Staff's 2015 Financial Statements	IBA-AR(2016)14	05.07.2016	19.07.2016	03.08.2016	WITHHELD

LIST OF IBAN FINANCIAL STATEMENT AUDIT REPORTS ISSUED IN 2016						
Subject and Financial Year		IBAN Report Number	IBAN Issue Date	RPPB Report Date	NAC Approval Date	Available to Public Yes/No/ Pending
28.	Special report to Council on the need to Improve the Effectiveness of the Lessons Learned Process for NATO Exercises	IBA-AR(2015)40	01.03.2016	PENDING	PENDING	PENDING
29.	Performance audit report to Council on Business Continuity Planning within NATO	IBA-AR(2016)11	30.09.2016	PENDING	PENDING	WITHHELD (NATO RESTRICTED)

Publication of IBAN reports is only applicable to unclassified reports of NATO bodies and only as from the audits of the 2013 financial year. Some non-NATO bodies have agreed to make their audit reports available to the public.

FINANCIAL STATEMENT AUDIT UNIVERSE

IBAN Financial Statement Audit Universe	2015 Expenditure/Value ¹
<i>NATO Common Funded Bodies or Activities</i>	
Allied Command Operations Group	1,041.0
Allied Command Transformation Group	153.0
International Military Staff Group	24.0
International Staff NATO HQ	201.9
International Staff New NATO Headquarters Building Project	Non-disclosed ²
International Staff Headquarters Staff Centre	4.3
NATO Coordinated Pension Scheme (Defined Benefit)	141.3
NATO Defence College	9.88
NATO Defined Contribution Pension Scheme	296.3
NATO Provident Fund	4.9
NATO Retiree's Medical Claim Fund	288.9
Science and Technology Organisation	34.3
<i>Sub-total</i>	<i>2,199.8</i>
<i>NATO Joint/Multi-Nationally Funded Bodies</i>	
Munitions Safety Information Analysis Centre	1.5
NATO AEW&C Programme Management Organisation	103.6
NATO Alliance Ground Surveillance Management Agency	364.1
NATO Battlefield Information Collection & Exploitation Systems Group Executive	Non-disclosed ²
NATO Communications and Information Agency	675.0
NATO Eurofighter 2000 and Tornado Development Production and Logistics Management Agency	49.1
NATO European Fighter Aircraft Development, Production and Logistics Management Organisation	3,100.0
NATO Multi-Role Combat Aircraft Development and In-Service Support Management Organisation	386.0
NATO Helicopter Design and Development Production and Logistics Management Organisation	915.0
NATO Medium Extended Air Defence System Design and Development, Production and Logistics Management Organisation	53.53
NATO Naval Forces Sensor and Weapons Accuracy Check Sites Office	0.9
NATO Support and Procurement Agency	2,504.6
<i>Sub-total</i>	<i>8,153.3</i>
<i>Non-NATO Multi-Nationally Funded or Sponsored Bodies³</i>	
AFNORTH International School	3.6
Allied Rapid Reaction Corps	1.6
Centre of Excellence-Defence against Terrorism	Not Available
Centre of Excellence for Military Medicine	Not Available
Cooperative Cyber Defence Centre of Excellence	Not Available
Headquarters Rapid Reaction Corps France	Not Available
Intelligence Fusion Centre	Not Available
Joint Airpower Competence Centre	0.8
Joint Electronic Warfare Core Staff	2.2
Joint Chemical Biological Radiological and Nuclear Defence Centre of Excellence	Not Available
Military Engineering Centre of Excellence	Not Available
Multinational CIMIC Group	0.6

NATO Missile Firing Installation	7.3
NATO Parliamentary Assembly	3.8
NATO Rapid Deployable Corps – GERMANY/NETHERLANDS	Not Available
NATO Rapid Deployable Corps – GREECE	1.2
NATO Rapid Deployable Corps – ITALY	Not Available
NATO Rapid Deployable Corps – SPAIN	1.4
NATO Rapid Deployable Corps – TURKEY	1.9
NATO Special Operations Coordination Centre	Not Available
SHAPE International School	4.1
Sub-total	28.5
Grand total	10,381.6

¹ All amounts in Millions of EURO (MEUR).

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

³ IBAN audits non-NATO multi-nationally funded or sponsored bodies on a full cost reimbursable basis. These bodies are not a part of NATO and do not share the organisation's legal status, but may have a close relationship with the organisation. They have their own governance structures and are not subject to governance by the North Atlantic Council. In some instances, 2015 Financial Statements have not yet been submitted to the IBAN. Statements are often only submitted when an audit is planned. By Council decision, the IBAN does not charge for the audits of the AFNORTH School, SHAPE School, NATO Missile Firing Installation, and the NATO Parliamentary Assembly.

CUMULATIVE NSIP EXPENDITURE BY HOST NATION AS AT END 2016

	MEUR Expenditure Reported (1)	MEUR Expenditure Certified (2)	MEUR Expenditure Certified %
Canada	80	80	100
Luxembourg	59	59	100
Portugal	580	564	97
United Kingdom	2,534	2,432	96
France	1,015	961	95
Norway	2,174	2,058	95
Denmark	730	687	94
USA	1,369	1,270	93
Netherlands	942	850	90
Germany	5,903	5,325	90
Turkey	4,560	3,936	86
Latvia	35	30	86
Estonia	34	29	85
Lithuania	44	35	80
Belgium	821	653	80
Greece	1,878	1,456	78
Italy	2,341	1,775	76
Poland	420	212	50
Spain	236	111	47
Czech Republic	128	56	44
Hungary	144	61	42
Bulgaria	53	13	25
Slovakia	40	0	0
Slovenia	36	0	0
Romania	42	0	0
Croatia	5	0	0
Iceland	5	0	0
SUBTOTAL NATIONS	26,208	22,653	86
NADGEMO	33	33	100
SHAPE	977	845	86
NCIA	5,816	3,355	58
NSPA	1,125	370	33
ACT	15	2	13
SUBTOTAL AGENCIES/COMMANDS (3)	7,966	4,605	58
TOTAL	34,174	27,258	80

NSIP Expenditure reported by Nations and Agencies and certified by the IBAN
(Cumulative up to 31 December 2015 in Millions of EUR)

(1) Source: AC/4-N(2016)0010, NSIP Financial Statistics for the Year 2015, 04 April 2016.

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

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

NSIP SLICE PROGRAMME: NUMBER AND VALUE OF PROJECTS

Evolution December 2015 – December 2016

NATION/ AGENCY	OPEN PROJECTS DECEMBER 2015 (EUR)		OPEN PROJECTS DECEMBER 2016 (EUR)		DIFFERENCE (number of projects)	% DIFFERENCE (value)
	N°	Value	N°	Value		
Belgium	5	57,683,975	5	57,683,975	=	=
Denmark	1	16,724,522	0	0	- 1	- 100%
Germany	4	43,557,483	2	38,468,987	-2	- 12%
Greece	30	352,588,841	24	164,658,482	- 6	- 53%
Italy	26	237,119,351	20	173,259,304	- 6	- 27%
Norway	6	211,780,968	2	40,932,504	- 4	- 81%
Turkey	23	225,511,051	23	225,511,051	=	=
UK	10	58,975,455	8	45,675,833	- 2	- 23%
USA	2	10,368,000	0	0	- 2	- 100%
TOTALS	107	1,214,309,646	84	746,190,136	- 23	- 39%

Source: IBAN data.

**International Board of Auditors for NATO (IBAN)
Annual Action and Performance Plan 2017****INTRODUCTION**

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

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

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

The IBAN contributes to the strengthening of accountability and corporate governance within NATO in a number of ways, including through its financial audits and specific reviews of matters closely related to accountability and corporate governance, such as internal control. While financial audits are generally performed on an annual or multi-annual basis, specific reviews are performed on more of an ad-hoc basis. Through its performance audits IBAN also contributes to accountability and transparency at NATO.

IBAN performs its financial, compliance and performance audit mandate in accordance with INTOSAI standards.

Objectives and Performance Measures

IBAN's objectives related to Goal 1 are shown below.

Objective 1: Provide independent assurance that the financial statements present fairly the financial position and financial performance of the entity and that the funds have been properly used in compliance with the regulations in force.

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

Objective 3: Enhance relationships with key stakeholders.

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

<i>Key Performance Indicator</i>	<i>Target</i>
% of audits completed on NATO bodies for which IBAN is the responsible auditor before 1 September 2017.	100%

GOAL 2: CONTRIBUTE TO THE IMPROVEMENT OF THE NSIP MANAGEMENT AND PROVIDE NSIP ACCOUNTABILITY

IBAN provides independent assurance that the expenditure incurred by member countries and by NATO entities for the implementation of the NATO Security Investment Programme is compliant with the Investment Committee authorizations and decisions. IBAN also - through its performance audits - analyses and evaluates the economy, efficiency and effectiveness of programme management, procedures etc.

Objectives and Performance Measures

IBAN's objectives related to Goal 2 are shown below.

Objective 1: Contribute to the improvement of NSIP management.

Objective 2: Provide assurance of NSIP accountability.

Objective 3: Improve efficiency and effectiveness of NSIP certification.

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

<i>Key Performance Indicator</i>	<i>Target</i>
Amount of staff years used on NSIP work.	At least 1.5
NSIP expenditures audited and certified per staff year.	600€M

GOAL 3: CONTRIBUTE TO THE IMPROVEMENT OF THE EFFECTIVENESS AND EFFICIENCY 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 effectiveness and efficiency of its activities, IBAN refocuses its strategy towards higher percentage of proactive performance audits, focused on identification of opportunities for cost savings and more effective operations and activities by NATO.

IBAN provides independent analysis and recommendations to the Council on the effectiveness, efficiency and economy of specific NATO bodies, operations, programmes and projects. Through strategic planning, audit execution and forward looking

recommendations, we aim at optimizing procedures and value for money while delivering required outputs.

Objectives and Performance Measures

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

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

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

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

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

<i>Key Performance Indicator</i>	<i>Target</i>
Number of performance audit reports issued per year.	3
% of audit only staff day resources dedicated to Performance Audit.	25%
Consult with key external stakeholders to assist our strategic planning by identifying audit topics with the greatest potential for impact.	Annually

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

Goals 1 to 3 signify IBAN's level of ambition to be an organization that is conscious and forward-looking, is driven by internal development to be ready to meet emerging challenges, and aspires to contribute to improvements and reforms in NATO as a whole.

Objectives and Performance Measures

IBAN's objectives related to Goal 4 are shown below.

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

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

Objective 3: Improve visibility of IBAN.

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

<i>Key Performance Indicator</i>	<i>Target</i>
Provide continuing professional education to all IBAN auditors.	Approximately 1 week training for all staff and board members in 2017.
% of financial audit reports on NATO bodies issued by 31 August.	100%
% of all financial audit report recommendations settled within two follow-up audits.	80%

LIST OF ABBREVIATIONS

ACO	Allied Command Operations
ACT	Allied Command Transformation
BC	Budget Committee
Board/IBAN	International Board of Auditors for NATO
BGX	NATO BICES Group Executive
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
EUR	Euro
FRP	Financial Rules and Procedures
FORACS	NATO Naval Forces Sensors and Weapon Accuracy Check Sites
GSE	Group of Senior Experts
HQ JFC	Headquarters Joint Force Command
IC	Investment Committee
IFAC	International Federation of Accountants
IMS	International Military Staff
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
IS	International Staff
ISAF	International Security Assistance Force
JFAI	Joint Formal Acceptance Inspection
KPI	Key Performance Indicator
MC	Military Committee
MEADS	Medium Extended Air Defence System
MSIAC	Munitions Safety Information Analysis Centre
NAC	North Atlantic Council
NAEW&C	NATO Airborne Early Warning and Control
NAF	NATO Accounting Framework
NAGSMO	NATO Alliance Ground Surveillance Management Organisation
NAHEMA	NATO Helicopter for the 1990s Design and Development, Production and Logistics Management Agency
NAHEMO	NATO Helicopter for the 1990s Design and Development, Production and Logistics Management Organisation
NAMEADSMA	NATO Medium Extended Air Defence System Management Agency
NAMEADMSO	NATO Medium Extended Air Defence System Management Organisation
NAMFI	NATO Missile Firing Installation
NAMMO	NATO Multi-role Combat Aircraft Development Production and In- Service Support Management Organisation
NAPMA	NATO AEW&C Programme Management Agency

NAPMO	NATO Airborne Early Warning and Control Programme Management Organisation
NOR	NATO Office of Resources
NPA	NATO Parliamentary Assembly
NCIA	NATO Communications and Information (NCI) Agency
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
US	United States of America
USD	United States of America Dollar
VNC	Voluntary National Contribution