16 December 2020

**DOCUMENT** C-M(2020)0047-AS1

# IBAN ANNUAL ACTIVITY REPORT 2019

**ACTION SHEET** 

On 15 December 2020, under the silence procedure, the Council noted the IBAN Annual Activity Report 2019 attached to C-M(2020)0047, agreed the conclusions of the RPPB report, and agreed to the public disclosure of this report and the IBAN Annual Activity Report 2019.

(Signed) Jens Stoltenberg Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2020)0047.

**NATO UNCLASSIFIED** 



7 December 2020

DOCUMENT C-M(2020)0047 Silence Procedure ends: 15 Dec 2020 17:30

#### **IBAN ANNUAL ACTIVITY REPORT 2019**

# Note by the Secretary General

- 1. I attach the Resource Policy and Planning Board (RPPB) report on the International Board of Auditors for NATO (IBAN) Annual Activity Report for 2019 (see Annex 1). I also attach the IBAN Annual Activity Report 2019 (see Enclosure).
- 2. I do not believe this issue requires further discussion. Therefore, **unless I hear to the contrary by 17:30 hours on Tuesday, 15 December 2020,** I shall assume that the Council has noted the IBAN Annual Activity Report 2019, agreed the conclusions of the RPPB report, and agreed to the public disclosure of this report and the IBAN Annual Activity Report 2019.

(Signed) Jens Stoltenberg

Annex 1: RPPB report

Enclosure 1: IBAN Annual Activity Report 2019

1 Annex

1 Enclosure Original: English



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#### **IBAN ANNUAL ACTIVITY REPORT 2019**

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

#### References:

- a) IBA-M(2020)0002
- b) C-M(2007)0009 and PO(2015)0052
- c) IBA-M(2020)0001

#### INTRODUCTION

1. The International Board of Auditors for NATO (IBAN) report provides an overview of all IBAN audit activities undertaken in 2019. Additionally, the IBAN report contains information on the management of IBAN's resources, IBAN's performance, and other developments within IBAN as an audit organization.

### AIM

2. This report highlights key issues in the IBAN Annual Activity Report 2019 to enable the Board to reflect on strategic issues or concerns emanating from IBAN's audit activity of NATO entities and to recommend courses of action to Council as applicable, which have the potential to improve transparency, accountability and consistency.

#### **DISCUSSION**

Key IBAN Activities and Usage of Resources

- 3. The IBAN executed its mandate by conducting annual financial statement audits of NATO bodies<sup>1</sup>; delivering Certificates of Final Financial Acceptance (COFFAs) or an Independent External Auditor's Report<sup>2</sup> on NATO Security Investment Programme (NSIP) projects; and carrying out performance audits of selected NATO bodies, operations or programmes.
- 4. In 2019 the IBAN issued a total of 74 auditor's opinions on financial statements, of which 48 related to NATO bodies for the 2018 fiscal year. In 2019 the IBAN issued two performance audits<sup>3</sup> and 116 COFFAs, certifying EUR 350 million worth of NSIP expenditures.

<sup>1</sup> The IBAN also performs financial statement audits of non-NATO multi-nationally funded or sponsored bodies with close cooperative links to NATO.

This new report has replaced COFFA from June 2020 and provides a stronger regulatory framework for IBAN audits of NSIP expenditures, without changing the core task or underlying financial audit work.

<sup>(1)</sup> On the need for the NATO Communications and Information Agency (NCIA) to increase time accounting data quality and improve efforts to ensure more effective and transparent time accounting principles and practices, and on the (2) accountability, oversight, and management of trust funds.

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5. Remaining unchanged in 2019, 85% of IBAN staff days were expended on audits, the remaining 15% were expended on staff training and administrative activities, which includes supporting the Board. Of the audit days, financial statement audit activities made up 60% of the total and performance audit activities represented 33%, which is aligned to the Council mandated target of 25%. The remaining 7% of activity was attributed to NSIP activities which represents a slight increase on prior years. The total direct cost of audit (staff salary and travel costs) was EUR 3.1M in 2019 for audit scope covering over EUR 8 billion.

#### Financial Statements audits

- 6. The Board note that compared to prior years, NATO Bodies have made significant improvements in financial reporting, which led to a decrease in the quantity and severity of IBAN observations.
- 7. Of the 48 audits opinions issued for the 24 NATO Bodies and Reporting Entities in 2019, 45 were unqualified compared to 33 the year before and this represents an improvement of 25%. No disclaimers were received for 2018. The improvements are a result of organisation-wide efforts throughout the NATO Bodies, led primarily by the Financial Controllers.
- 8. The improvement in audit opinions was measured in equal affect for both audit opinions on compliance and financial statements moving from 15 qualified opinions in 2017 to 3 in 2018. The remaining 3 qualifications consisted of 2 qualifications on the financial statements and compliance of NATO Communications and Information Organisation (NCIO) and 1 qualification on compliance for Munitions Safety Information Analysis Center (MSIAC). The improvement in unqualified audit opinions on compliance largely relate to compliance with the provisions of the NFRs. The Board note that the substance of audit recommendations are more important than the number. As covered in the 2019 handling arrangements<sup>4</sup> the Board will take special consideration of prior year open observations that remain unresolved to highlight where observations still need further attention.
- 9. There were no IBAN audit reports or associated financial statements that were approved by the prescribed 31 December deadline as per NFR Article 35.1, due to a sudden and unexpected shortage of Head of Financial Reporting Policy (HFRP) staff within IS-NOR. The Board raise the importance of meeting the 31 December deadline which enhances financial transparency and offers greater consistency in the application of the current NATO policy on the public disclosure of NATO information (Reference b). The Board note that the Head of Financial Reporting Policy (HFRP) team within the NOR is now fully resourced.
- 10. The Board recall that in January 2020 the IBAN issued its first report to Council on the Main Findings from the Financial Statement Audits 2018 (Reference c). The IBAN will

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<sup>&</sup>lt;sup>4</sup> AC/335-N(2020)0051 – Handling Arrangements for audited 2019 financial statements

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produce this report annually and includes detailed information on the reasons for IBAN qualified audit opinions, a summary of observations and recommendations, and IBAN's main findings by theme or audit area. Overall, the report provides a concise overview on IBAN's financial statement audit work for internal and external stakeholders to increase transparency and accountability of NATO's use of public resources.

## NATO Security Investment Programme (NSIP)

- 11. The need for timely close-out of NSIP projects has been a recurrent concern to the IBAN and the Board and has therefore been the subject of specific taskings to reduce the backlog of unaudited expenditures and ensure prompt submissions of accounts for audit. <sup>5</sup> The technical and financial close-out of NSIP projects is a key element to ensuring proper transparency and accountability on the use of NATO common funds. The Investment Committee is inviting the RPPB to agree a further two year extension to the end of 2022 to close-out projects that were completed by mid-2014. The Board intends to invite the IC to produce accompanying strategies that will provide assurances to address completed projects beyond 2011. <sup>6</sup> At 31 December 2019, a total of 43 projects amounting to EUR 499 million still remain to be closed for projects programmed before 1994.
- 12. The IBAN conducted all NSIP certification work requested by nations and this amounted to 7% of total IBAN audit days. Although this presents a slightly higher amount than last year the Board fully shares the IBAN's concern with regard to the backlog of unaudited expenditures and the need to ensure more prompt host nation submissions of accounts for audit.
- 13. In 2019, IBAN proposed some practical improvements to the audit of the NSIP expenditures. This proposal, agreed by Council in June 2020, replaced the COFFA with an Independent External Auditor's Report.

#### Performance audits

- 14. IBAN conducted 2 pertinent performance audits in 2019, on which the Board has submitted its own reports to Council with conclusions and recommendations and the use of IBAN staff resources on performance audits in 2019 (33% against the yearly target of 25% set in PO(2013)0253).
- 15. The Board recognise that IBAN has the right to set audit objectives and priorities, and decide how its resources should be allocated. The Board welcome extra focus on the conduct of performance audits and in particular the willingness of the IBAN to consider inputs from stakeholders when selecting focus areas. On the other hand, the RPPB underline that

<sup>&</sup>lt;sup>5</sup> The revised Council tasking is to close-out old completed projects programmed before 2011 no later than by the end of 2020.

<sup>&</sup>lt;sup>6</sup> Refer to AC/4-N(2020)0021-FINAL.

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this additional focus should not be to the detriment of the two other important IBAN functions, the audit of financial statements of the NATO bodies and the NSIP audits.

16. The Board recognises the need to facilitate effective oversight of performance audit recommendations that remain unresolved. Therefore, the Board recommend that the Council invite the IBAN to propose options to build more transparency and accountability into the follow on actions made by NATO entities on recommendations made in performance audits.

## Public disclosure

17. For 2018 audits, 22 of 24 IBAN financial statement audit reports of NATO Bodies have been publicly released on NATO's website. The remaining reports have been withheld for public release because they contain restricted or sensitive commercial information. 1 of the 2 performance audit reports have been published on the NATO website. The other performance report has not been published due to containing sensitive commercial or restricted information. Disclosure of audit reports is a significant step forward towards better accountability and improved transparency and an opportunity to underline NATO's commitment to good financial governance and transparency.<sup>7</sup> Therefore, the IBAN Annual Activity Report 2019 should be made available to the public along with this RPPB report.

#### **CONCLUSIONS**

- 18. IBAN execute an important function by strengthening transparency and accountability over the use of NATO's resources. In 2019 IBAN executed its mandate by issuing a total of 74 auditor's opinions, undertaking 2 performance audits and issuing 116 COFFAs.
- 19. Significant progress has been demonstrated by the NATO Bodies in 2018, particularly on the financial statement opinions: unqualified opinions increased to 94% for 2018 versus 69% for 2017; and no disclaimers of opinion were received for 2018. The RPPB welcome these improvements and acknowledge these are a result of organisation-wide efforts throughout the NATO Bodies, led primarily by the Financial Controllers. However, the RPPB recognises that many observations remain open and emphasises the need to continue the momentum to improve NATO's financial management and compliance. As covered in the 2019 handling arrangements the Board will take special consideration of prior year open observations that remain unresolved to highlight where observations still need further attention.
- 20. There were no IBAN audit reports or associated financial statements that were approved by the prescribed 31 December deadline as per NFR Article 35.1, due to a sudden and unexpected shortage of HFRP staff within IS-NOR. The Board note that the HFRP team within the NOR is now fully resourced.

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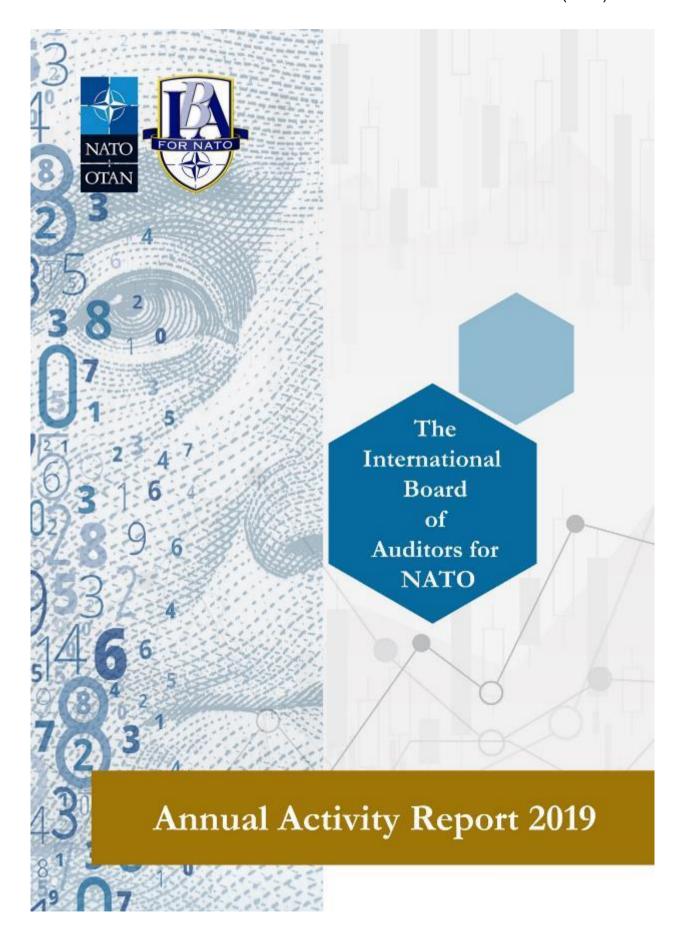
<sup>&</sup>lt;sup>7</sup> PO(2015)0052

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- 21. With regard to the closure of NSIP projects, the Board fully share the IBAN's concern with regard to the backlog of unaudited expenditures and the need to ensure more prompt host nation submissions of accounts for audit. The Investment Committee is inviting the RPPB to agree a further two year extension to the end of 2022 to close-out projects that were completed by mid-2014. The Board intends to invite the IC to produce accompanying strategies that will provide assurances to address completed projects beyond 2011.
- 22. Performance audits reflect the importance Nations place on evaluating the economy, efficiency and effectiveness of the activities and operations of NATO bodies. In this regard, the Board welcome the number of pertinent performance audits however continues to underline that this additional focus should not be to the detriment of the two other important IBAN functions, the audit of financial statements of the NATO bodies and the NSIP audits.
- 23. The Board recognises the need to facilitate effective oversight of performance audit recommendations that remain unresolved. Therefore, the Board recommend that Council invite the IBAN to propose options to build more transparency and accountability into the follow on actions made by NATO entities on recommendations made in performance audits.
- 24. The continued increase in the rate of public disclosure of audit reports contributes to better accountability and improved transparency, and underlines NATO's commitment to good financial governance and transparency.

## **RECOMMENDATIONS**

- 25. The Resource Policy and Planning Board recommends that the Council:
- 25.1. note this report and the IBAN report at reference a);
- 25.2. agree the conclusions at paragraphs 18 to 24; and
- 25.3. agree to the public disclosure of the IBAN Annual Activity Report 2019 and this report in line with agreed policy at Reference b).



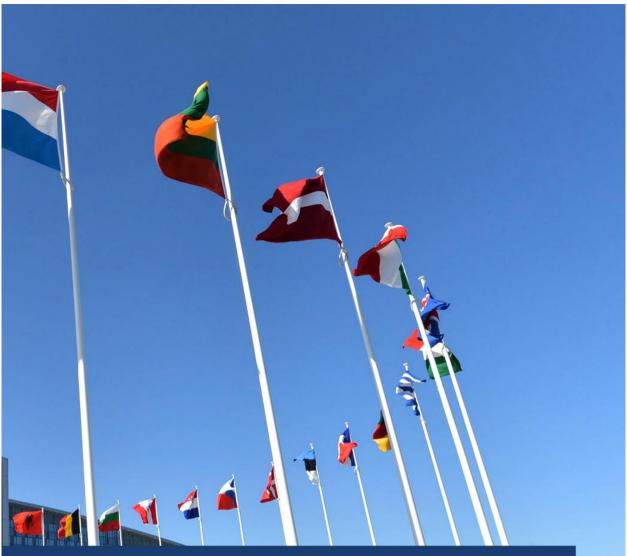


# MISSION

THROUGH ITS AUDITS, IBAN PROVIDES THE NORTH ATLANTIC COUNCIL AND THE GOVERNMENTS OF NATO MEMBER STATES WITH ASSURANCE THAT FINANCIAL REPORTING IS TRUE AND FAIR AND COMMON FUNDS HAVE BEEN PROPERLY USED FOR THE SETTLEMENT OF AUTHORISED EXPENDITURE. IN ADDITION, IBAN REVIEWS THE OPERATIONS OF NATO AGENCIES AND COMMANDS TO DETERMINE IF THEY ARE BEING CARRIED OUT EFFECTIVELY AND ECONOMICALLY.

# INDEPENDENCE

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



# NATIONS

# INTEGRITY

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

# PROFESSIONALISM

IBAN'S AUDIT WORK IS PLANNED, EXECUTED AND REPORTED IN ACCORDANCE WITH THE AUDITING PRINCIPLES AND GUIDELINES OF THE INTERNATIONAL ORGANISATION OF SUPREME AUDIT INSTITUTIONS, AND IN ACCORDANCE WITH THE ADDITIONAL TERMS OF REFERENCE DEFINED IN OUR CHARTER. BOARD MEMBERS AND AUDITORS HAVE THE NECESSARY COMPETENCIES AND QUALIFICATIONS
TO PERFORM THEIR WORK.

# FOREWORD BY THE CHAIRMAN

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

Under its Council approved Charter, IBAN is responsible for the financial statements audits and performance audits of all NATO Bodies and Reporting Entities, financial audits of the NATO Security and Investment Programme (NSIP), and financial statements audits of some non-NATO multi-nationally funded entities. Our work directly contributes to promoting transparency and accountability across NATO, in accordance with the decisions taken by the Heads of NATO Member States at the Wales Summit in 2014.

IBAN realises the demanding era we are going through and the Nations' need for reliable, and high quality assurance concerning their funding of, and investment in, NATO. The world-wide Covid-19 crisis presents the Nations and NATO with additional challenges, both from a financial and operational perspective. Therefore, IBAN is fully committed to the need for continuous and up-to-date improvement and is reviewing and revising its audit methods in order to provide the Alliance with the most effective audit service possible.

In addition, IBAN is aware of the need to reduce the gap between the technical complexity of our audit reports and Council's and the wider public's need to easily and fully use our independent and professional analysis. To address this, IBAN is undertaking a modernised approach to communication to our stakeholders so they can better understand our mission, core values, and the output of our audit activity. These actions directly support the process of strengthening and consolidating a culture of transparency and accountability across NATO.

Daniela Morgante Chairman

International Board of Auditors for NATO

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

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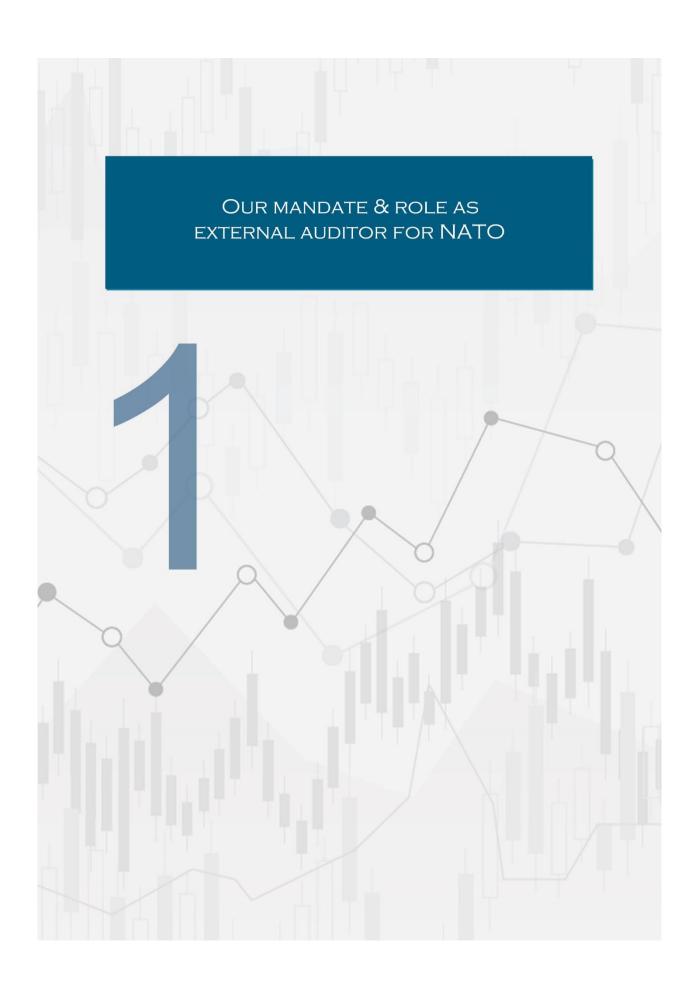
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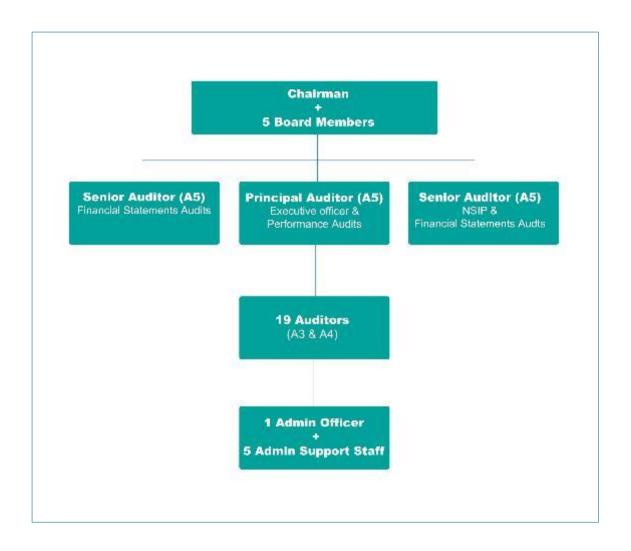


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#### **CHAPTER 1**

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

- 1.1 IBAN is the independent, external audit body of NATO. The forerunners of IBAN were chartered in 1953 by the Council and consisted of two separate audit boards: one responsible for the audit of NATO financial accounts and one for the audit of NATO investment programme funds. The two boards were merged in 1967 to become the IBAN. Our primary mandate is to provide independent assurance and advice to the Council and the Governments of Member States that:
  - the financial statements of the NATO bodies and reporting entities present fairly their financial position, financial performance, and cash flows, and that the funds have been properly used for the settlement of authorised expenditure and are in compliance with the regulations in force;
  - the activities of the NATO bodies, operations, and programmes have been carried out with efficiency, effectiveness and economy; and
  - the expenditures incurred by member states (Host Nations) or NATO bodies in respect of the NSIP have been carried out in compliance with the regulations in force.
- 1.2 IBAN is composed of six independent Board Members appointed by the Council from among candidates nominated by the Member Countries. The IBAN and its individual members are responsible for their work only to the Council. Board Members serve for a non-renewable four year term and are fully paid for by their respective national administrations. During 2019, the nations of Canada, Denmark, France, Greece, Italy, the Netherlands, Spain, and Turkey were represented by Board Members at IBAN at some point in the year. The Board Members are supported by audit and administrative staff that are paid for by NATO common funding. The IBAN's organisation is shown below in Figure 1.



- 1.3 IBAN's Charter provides that the Board's Members can be from all NATO Member States, regardless of size, so that each Nation has the opportunity to be represented in NATO's external audit structure on a voluntary and rotational basis. This results in collective ownership of, and collective responsibility for, NATO's external audit function. Since IBAN's establishment, 18 different NATO Nations were represented at Board Member level.
- 1.4 IBAN is responsible only to the Council, although it engages and works closely with many other subordinate NATO governing bodies. NATO committees include the Resource Policy and Planning Board (RPPB), Budget Committee (BC), and Investment Committee (IC). In addition, we present our financial statements reports and performance audit reports to the relevant governing body, either one of the committees above or, in the case of NATO agencies and some non-NATO bodies, to the relevant Agency Supervisory Board, Board of Directors, or Steering Committee.



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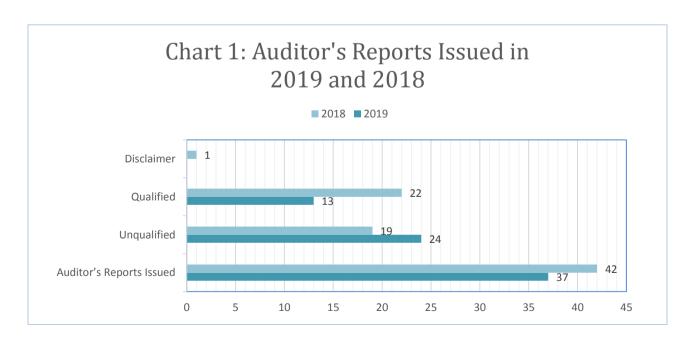
#### **CHAPTER 2**

#### **OUR KEY ACTIVITIES AND USAGE OF RESOURCES**

- 2.1 To execute our mandate, we conducted 24 annual financial statement audits of NATO agencies and military commands, as well as of other NATO Reporting Entities. In addition, IBAN carries out performance audits of selected NATO Bodies, operations, or programmes. We also delivered Certificates of Final Financial Acceptance (COFFAs) on NSIP projects until May 2020, since in June our NSIP audit process changed (see Chapter 5 for details).
- 2.2 Lastly, we also perform financial statement audits of some non-NATO multinationally funded or sponsored bodies with close cooperative links to NATO, usually on a cost reimbursable basis. In 2019, our total audit scope covered more than EUR 8 billion of expenditures for financial statements and the NSIP.

## **FINANCIAL STATEMENTS AUDIT**

- 2.3 In 2019 we issued 24 Auditor's Reports, with 48 opinions, on financial statements of NATO Bodies and Reporting Entities and 13 Auditor's Reports, with 26 opinions, on non-NATO bodies.
- 2.4 An Audit Report includes an opinion on the financial statements and an opinion on compliance. An opinion can be unqualified, qualified, adverse, or a disclaimer of opinion. The total number of Auditor's Reports issued in 2019 compared to 2018, is shown in Chart 1 below.

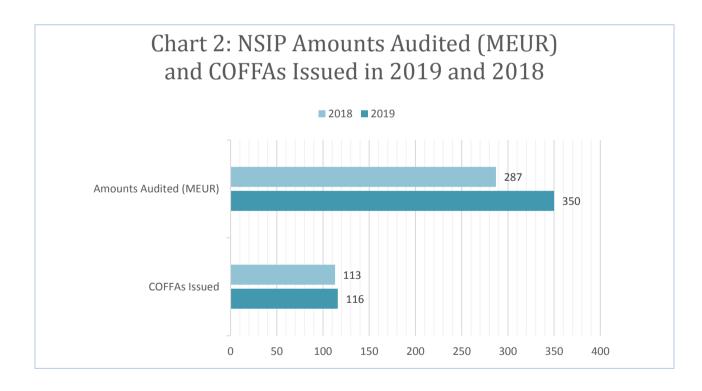


#### PERFORMANCE AUDIT

- 2.5 It is our aim to carry out at least one substantial performance audit per year, complemented by a number of smaller or shorter performance audits.
- 2.6 In 2019 we issued two performance audits to Council on (1) the need for the NATO Communications and Information Agency (NCIA) to increase time accounting data quality and improve efforts to ensure more effective and transparent time accounting principles and practices, and on the (2) accountability, oversight, and management of trust funds. In addition, a follow-up audit on a prior audit report began in Fall 2019 and this report was issued in early 2020.

#### **NSIP AUDIT**

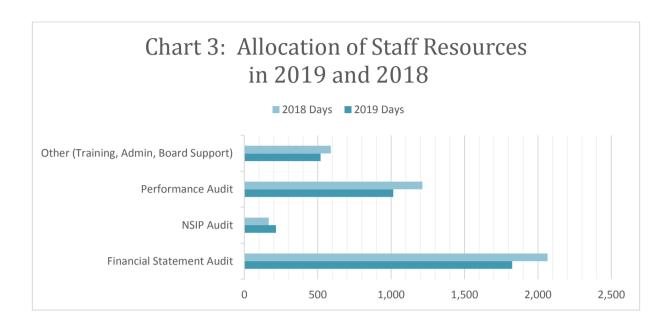
2.7 In 2019 we audited over EUR 350 million worth of NSIP expenditures. The amount audited in 2019 compared to 2018, and the number of COFFAs issued, is shown in Chart 2 below.



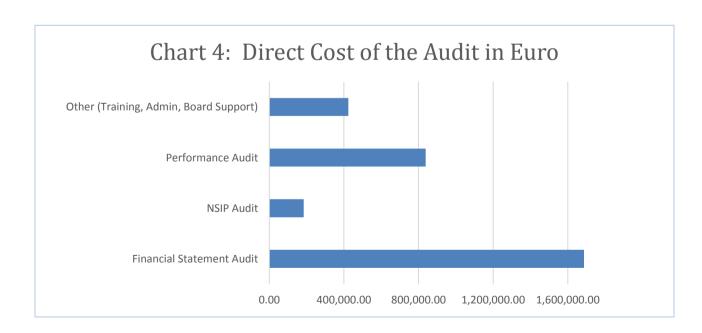
2.8 Chart 3 below shows the use of our audit staff resources in 2019 with the number of days (and the percentage it represents of the total) expended on each type of activity compared to 2018. In 2019 we used a total of 3,574 auditor staff days. Of these, 3,055 (85%) were expended on audits. The remaining 519 days (15%) were expended on staff training, administrative activities, and supporting the work of the Board itself. As a percentage of the staff days assigned to audit work, performance audit represented 33% of the IBAN's audit only days, which exceeded our Council mandated target of 25%. The

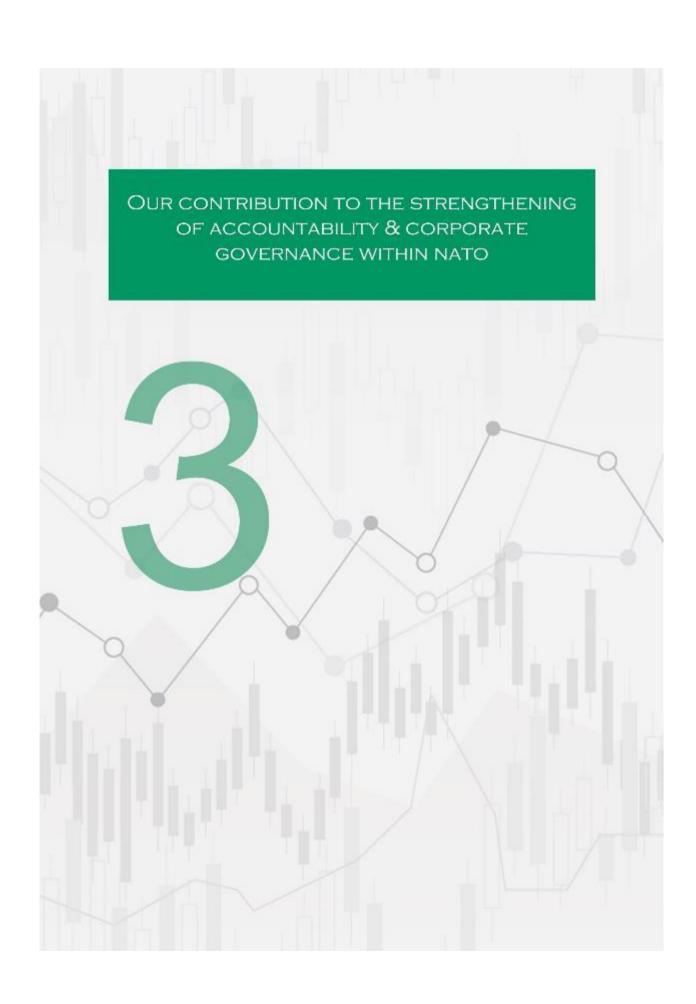
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audit resources for financial statement audits in terms of audit only days was 60%. Resources in terms of audit only days for NSIP in 2019 were 7%.



2.9 The direct cost (audit staff salary and travel costs) of the audits and other IBAN activities for 2019 is shown in Chart 4 below in EUR. The total direct cost of the audit was EUR 3.1 million in 2019.





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#### **CHAPTER 3**

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

- 3.1 The IBAN contributes to the strengthening of accountability and corporate governance within NATO through our financial and performance audits. While financial audits are generally performed on an annual or multi-annual basis, specific reviews are performed on an ad-hoc basis. Through its performance audits IBAN also contributes to accountability and transparency at NATO. We perform our financial, compliance and performance audit mandate in accordance with International Organisation of Supreme Audit Institutions (INTOSAI) standards.
- 3.2 We aim to achieve this by the following:
  - Provide independent assurance that the financial statements present fairly the financial position and financial performance of the entity and that the funds have been properly used in compliance with the regulations in force.
  - Contribute to the development of a sound and consistent financial reporting environment, and
  - Enhance relationships with our key stakeholders.
- 3.3 Each year we audit the financial statements of NATO agencies, military commands, project offices, and benefit plans. In addition, we also audit some non-NATO multi-nationally funded or sponsored bodies in which NATO has a particular interest, such as the NATO Rapid Deployable Corps and the NATO Parliamentary Assembly. In 2019, our audit scope for financial statement audits amounted to more than EUR 8 billion. In January 2019 we also provided a seminar to the NATO finance community on International Public Sector Accounting Standards (IPSAS) topics.
- 3.4 NATO Bodies and Reporting Entities have a varying degree of autonomy in managing their operations. All NATO Bodies and Reporting Entities are subject to the NATO Accounting Framework (NAF) and the NATO Financial Regulations (NFRs) that are approved by the Council and provide a high level financial and budgetary framework. These NFRs may also apply to some of the non-NATO multi-national bodies via an explicit provision in their memoranda of understanding. However, many have their own accounting principles, standards, and financial rules.
- 3.5 Financial transparency and accountability is an important topic at NATO. At the Wales Summit in September 2014, the North Atlantic Council agreed to further work in a number of areas including reforming governance and transparency and accountability, especially in the management of NATO's financial resources. In the spirit of transparency, NATO publishes the civilian and military budget totals, as well as the NSIP annual ceiling. NATO also publishes all unclassified financial statements of NATO Bodies and Reporting Entities, including the IBAN Auditor's Report and Letter of Observations and

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Recommendations. A decision was also made to make financial statements unclassified wherever feasible.

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

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

- 3.7 The objective of the audit of financial statements is to provide assurance that these statements present fairly, in all material respects, the financial position of the NATO Reporting Entities, including NATO agencies, military commands, project offices, benefit plans, and the results of their operations, in accordance with the NAF (an adapted version of IPSAS) or other applicable financial reporting framework for non-NATO bodies; and that the funds have been properly used in compliance with the regulations in force. We conduct our audits in accordance with the International Standards of Supreme Audit Institutions, developed by the INTOSAI and in accordance with the additional terms of reference defined in our Charter. After each financial statement audit, we issue an opinion on the financial statements and on compliance. The opinions can be unqualified, qualified, disclaimed, or adverse.
- 3.8 Audits are generally conducted on the auditee site by auditors, under the supervision of our Senior Auditors and Board Members. All NATO Bodies and Reporting Entities are audited every year. Non-NATO bodies are usually audited on a rotational basis strictly by request, but some, such as the NATO Parliamentary Assembly and the NATO Missile Firing Installation, are audited each year.

## **FINANCIAL STATEMENT AUDIT WORK IN 2019**

- 3.9 In 2019 we issued 28 Financial Statements Audit Reports on NATO and non-NATO bodies comprising 37 Auditors' Reports with opinions on the financial statements and on compliance. 24 of the Auditor's Reports were for NATO Bodies or Reporting Entities and 13 were for non-NATO bodies. Of the 37 Auditor's Reports, 24 were unqualified and 13 were qualified.
- 3.10 Of the 13 modified Auditor's Reports we issued, only 2 were for NATO bodies or NATO Reporting Entities (see Annex A), the other 11 were for non-NATO bodies. As a percentage of the 24 Audit Reports for NATO Bodies or Reporting Entities, only 10% were qualified. The Financial Statement Audit Reports issued in 2019 included observations on a range of issues or errors which can affect the audit opinion if they are material. In addition, other minor observations were communicated directly to the management of NATO and non-NATO bodies in Management Letters. Each year we follow-up on the status of all observations raised in prior years' audit reports.

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# REPORT TO COUNCIL ON MAIN FINDINGS FROM THE FINANCIAL STATEMENTS AUDITS 2018

- 3.11 In January of 2020 the IBAN issued its first "Report to Council on the Main Findings From the Financial Statement Audits 2018" (IBA-M(2020)0001). The purpose of this Report is to provide a detailed overview to Council on the main findings from the audit of the 2018 financial statements of NATO Bodies and Reporting Entities. The IBAN will produce this report annually and it should normally be made available to the public upon approval by the Council.
- 3.12 The report includes detailed information on the reasons for IBAN qualified audit opinions, a summary of observations and recommendations, and IBAN's main findings by theme or audit area. Overall, the report provides a concise and detailed overview on IBAN's financial statement audit work for internal and external stakeholders to increase transparency and accountability of NATO's use of public resources.



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#### **CHAPTER 4**

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

- 4.1 The IBAN's audit mandate includes performance auditing. In exercising this mandate, IBAN provides independent analysis and recommendations to the Council on the effectiveness, efficiency and economy of specific NATO bodies, operations, programmes and projects. Our strategy is to increase the number of performance audits performed, focusing on the identification of opportunities for cost savings and more effective operations and activities by NATO.
- 4.2 To achieve this, we aim to conduct performance audits that meet the following criteria:
  - Select audit topics of common interest to Council and the Nations,
  - Perform audits that contribute to accountability and transparency within NATO, and
  - Where possible, conduct cross-cutting audits that contribute to recommendations to be applied NATO-wide.
- 4.3 It is our aim to carry out at least one substantial performance audit per year, complemented by a number of smaller studies. In 2019 we issued two performance audit reports to Council. These reports were on (1) the need for the NATO Communications and Information Agency (NCIA) to increase time accounting data quality and improve efforts to ensure more effective and transparent time accounting principles and practices, and (2) the need for strengthened accountability, oversight, and management of trust funds. In addition, a follow-up audit on a prior audit report began in Fall 2019 and this report was issued in early 2020.

## PERFORMANCE AUDIT PLANNING

- 4.4 Performance audit planning is prepared by the IBAN's Performance Audit Working Group, comprised of Board Members, the Principal Auditor and full-time performance auditors. The Working Group's role is to assist the IBAN by preparing material for decision and performing an advisory role within the IBAN with regard to Performance Auditing. The Working Group's tasks include the following:
  - Risk assessment of NATO bodies, programmes, and operations;
  - Topic monitoring, including evaluating potential topics and assisting colleagues in preparing Performance Audit Proposals;
  - Review Performance Audit Proposals and prepare recommendations to the IBAN;

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

## PERFORMANCE AUDIT REPORTS ISSUED IN 2019

Performance audit on the need for the NATO Communications and Information Agency to increase time accounting data quality and improve efforts to ensure more effective and transparent time accounting principles and practices

- 4.6 In this report we assessed whether the NCIA has mechanisms in place to ensure sufficient quality of data recorded in its Time Accounting System (TAS) and if the NCIA time accounting principles and practices compare well with good practices for time accounting, recording, and reporting. We found that the completeness of TAS data generally improved since 2015. However, improving the data quality remains a challenge for NCIA. Persistent issues with TAS data quality and inadequate mechanisms for assessing the data quality poses significant risks to NCIA and its customers, since cost estimates used in billing of customers might not be correct. We also identified inadequate management oversight of TAS data and an incomplete and ineffective control framework. This poses significant risks that TAS data is still inadequate as the basis for cost calculations.
- 4.7 Since NCIA has not conducted any systematic risk or data quality assessments of the data recorded in TAS, estimates are not based on formal risk assessments or measures taken to mitigate the impact of potential data quality issues. Weaknesses in time accounting information and policies could impact the reliability of data derived from TAS and shared with customers and other stakeholders, including financial reporting. Such weaknesses ultimately affect the trust among NCIA, as a customer funded agency, and its customers, governing bodies and other stakeholders.
- 4.8 NCIA has taken steps to implement a process for the development of the annual customer rates. A central question is whether NCIA in the near future can achieve high level time accounting data, which sufficiently and correctly could inform NCIA's customers and other stakeholders about NCIA's use of resources. This is important because NCIA

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has to be able to justify the costs associated with, for example, providing projects and services as well as its overall management of resources. The weaknesses in data quality means that NCIA cannot provide assurance that the invoicing of customers accurately reflects the costs incurred to provide projects and services. Therefore, this raises an issue of fairness and equity as estimates used for allocation of costs among NCIA customers might not fairly reflect their share of the overall costs.

- 4.9 NCIA is facing serious data governance challenges, as strong and reliable time accounting data is the basis for several critical business processes. It is essential that the Agency conduct more analytical work on TAS data in order to identify, manage, and mitigate risks. Given the fact that NCIA is a privileged sole provider of projects and services to NATO, our assessment was that the Agency needs to provide more transparency regarding TAS data and the associated risks. This is necessary to maintain the trust between the Agency, their customers, and other stakeholders.
- 4.10 To address the shortfalls found in our audit we recommended that Council instruct the NCIA to do the following:
  - 1) Implement measures to ensure data accuracy and quality in TAS, based on systematic risk assessments and management oversight.
  - 2) Review and strengthen internal controls of time accounting and explore and select options for enhanced automated controls.
  - 3) Review time accounting guidance effectiveness and establish clear roles and responsibilities for managers to enforce time accounting accuracy, discipline and coherence.
  - 4) Improve customer's insight and transparency on actual human resources spent on service delivery and project implementation.
  - 5) Ensure adherence to time accounting good practices which includes developing a data governance policy to effectively manage business critical data.

# Special report to Council on accountability, oversight, and management of trust funds

4.11 In this audit we assessed whether NATO effectively and efficiently manages trust funds. The Council did not agree to publically disclose this report and therefore the audit findings cannot be presented in this report.

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

- 4.12 Non-NATO multi-nationally funded and/or sponsored bodies are organisations that share a close relationship with NATO, but are not part of the organisation as they do not operate under one of NATO's juridical personalities. Currently, there are more than 40 such bodies. They have their own governance and oversight structures and are not subject to governance by Council. If Council agrees, IBAN may be appointed as the external auditor of such a body. Most audits of these bodies by IBAN are done on a rotating basis every 3-4 years and subject to the availability of IBAN staff resources. Normally, IBAN audits a maximum of seven or eight such bodies each year.
- 4.13 By decision of the Council, IBAN audits of non-NATO multi-nationally funded and/or sponsored entities are to be done on a full cost reimbursable basis. However, Council decided that the audits of the AFNORTH School, SHAPE International School, NATO Missile Firing Installation, and the NATO Parliamentary Assembly would be done at no charge. These four audits are programmed and conducted every year in addition to any other audits of non-NATO bodies.
- 4.14 The costs to be reimbursed include staff hours expended on the audit by IBAN staff and travel and per diem costs of IBAN auditors and Board Members. The Head of Budget Planning and Analysis of the International Staff determines the hourly charge out rate for IBAN audit services each year. This charge is a full cost reimbursement rate and includes salaries, pension contributions, administrative support costs, and common operating costs.
- 4.15 As a result of the 2012 Business Case on Strengthening the External Audit Function in NATO, the Council decided that revenue generated from the audits of these bodies is to be re-allocated to the IBAN to support more performance audit work. Income from the audits of these bodies is considered as revenue generated through customer funding and the NFR provisions regarding carry forwards do not apply. The revenue generated is held in a separate NATO account and does not lapse at year end. Potential use of this income for performance audit could include, but is not limited to:
  - Cost of travel related to performance audits.
  - Reimbursement of costs of national experts from Member State Supreme Audit Institutions to assist on performance audits.
  - Engagement of consultant or contractor experts in support of performance audit.

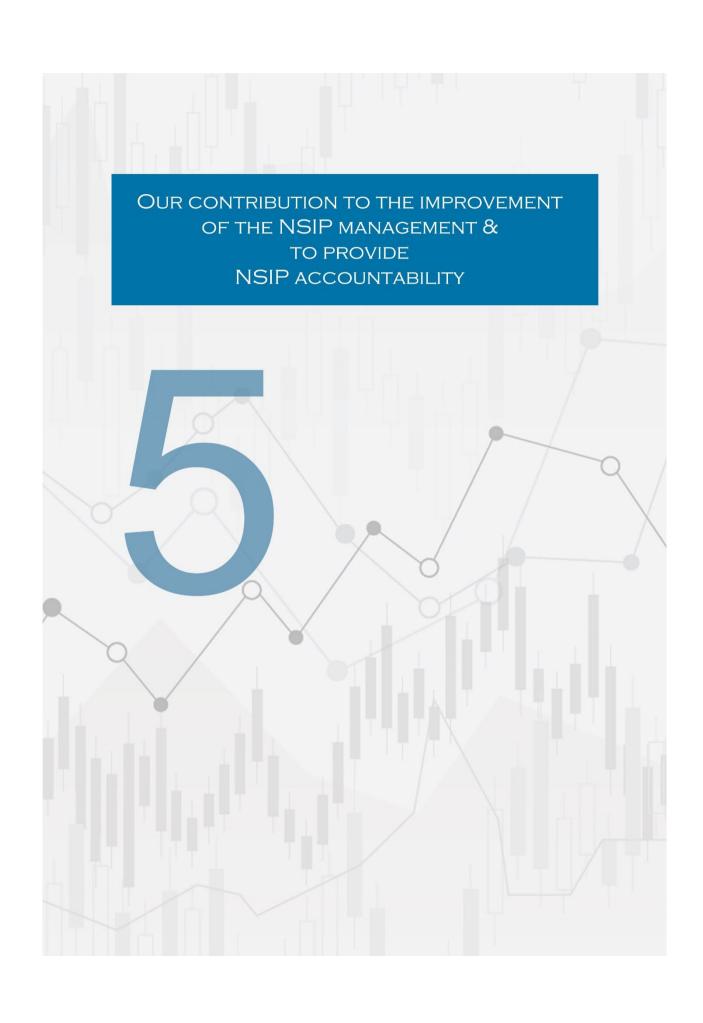
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4.16 Table 2 below shows the opening balance of funds in Euro from the audits of non-NATO bodies, the amount earned in 2019, the amount spent by IBAN, and the closing balance for the year.

Table 1: Funds from audits of Non-NATO bodies in Euro				
	2019			
Starting balance	87,645.15			
Income	48,926.92			
Spent	13,156.85			
Ending balance	123,415.22			

Source: Office of Financial Control, International Staff.

4.17 IBAN used approximately EUR 13 thousand of our funds from audits of non-NATO bodies to support our performance audit work in 2019. These funds were specifically used to pay for expenses, primarily travel costs, related to performance audits.



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#### **CHAPTER 5**

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

- 5.1 The IBAN provides independent assurance that the expenditure incurred by Member Countries and by NATO entities for the implementation of the NSIP is compliant with the Investment Committee's authorisations and decisions. The IBAN also, through its performance audits, analyses and evaluates the economy, efficiency and effectiveness of the programme's management and procedures. Through our NSIP audit work we aim to achieve the following:
  - Contribute to the improvement of NSIP management;
  - · Provide assurance of NSIP accountability; and
  - Improve the efficiency and effectiveness of our NSIP certification work.
- 5.2 NATO established the Infrastructure Programme in 1951 to provide common funded capabilities that exceed the military requirements of individual Member States. The Nations share the cost of the Programme based on agreed percentages. The Council made major changes to the Programme in 1994 and renamed it the NSIP. The Programme is overseen by the Investment Committee and individual projects are implemented by the "Host Nation" (a Member State, NATO Body, or NATO Strategic Command) which is responsible for the planning and execution of the project.

## THE NSIP FINANCIAL AUDITS

- 5.3 When a project is presented for audit, the Host Nation prepares a cost statement, reflecting all costs incurred for the project implementation, and calculates the amount it deems eligible for NATO funding. The IBAN then verifies if the cost statement is complete and correct, and if it complies with the terms of the approved project scope and fund authorisations. At the end of the audit, IBAN issues 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 audit as such;
  - The project has been technically inspected and accepted;
  - The amount of expenditure found eligible for NATO funding remained within the limits of the funds authorised:
  - There are no observations, or any observation raised was agreed by the Host Nation during the fieldwork.

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

#### IMPROVEMENTS TO OUR NSIP FINANCIAL AUDITS

- 5.5 In 2019, IBAN reviewed its audit procedures for the financial audit of NSIP projects and proposed Council some practical improvements to the audit of NSIP expenditures. The purpose of the improvements is to better align the reporting of the audit of NSIP expenditures with our Charter and the principles of the auditing standards of INTOSAI, as well as to strengthen accountability and reduce unnecessary administrative procedures.
- 5.6 Our main proposal was to replace the COFFA with an 'Independent External Auditor's Report' providing an audit opinion and audit findings, if any. This new report provides a stronger regulatory framework for our audits of NSIP expenditures, without changing our core task established by our Charter and the underlying financial audit work. We also proposed to make it a requirement that Cost Statement are signed by the Host Nation prior to submitting them for audit.
- 5.7 IBAN's proposal for improvements was discussed in beginning of 2020 by the Investment Committee, which recommended their implementation to the RPPB. Council approved the new NSIP audit approach in June 2020 and IBAN will implement the new audit report, replacing the COFFA, as from June 2020.

#### **NSIP FINANCIAL AUDIT ACTIVITY IN 2019**

5.8 In 2019, the IBAN used 7% of the available staff resources on the financial audit of NSIP projects compared to 5% of the available staff resources in 2018. Table 1 below shows the IBAN's NSIP audit activity for 2019 in comparison to 2018.

Table 2: NSIP FINANCIAL PROJECT AUDIT ACTIVITY 2019				
	2019	2018		
Amount audited (COFFAs)	350 MEUR	287 MEUR		
Number of COFFAs issued	116	113		
Number of Letters of Observation	4	8		

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- 5.9 IBAN's financial audit of NSIP projects remained stable in 2019 with a slightly higher amount audited compared to 2018 and the same level of COFFAs issued in 2019 compared to 2018. As in prior years, the IBAN conducted all NSIP audit work requested by nations and NATO agencies.
- 5.10 In 2019 IBAN issued 116 COFFAs amounting to EUR 350 million, which represents about 5% of the entire population of open NSIP projects (expenditure of EUR 6.8 billion reported as at December 2019). The total amount certified by IBAN amounts to more than 81% of the total cumulative NSIP expenditure (see Annex B).

#### **OBSERVATIONS AND RESULTING FINANCIAL ADJUSTMENTS**

5.11 Our NSIP financial audit work often results in observations on the accuracy of the reviewed cost statements, which require financial adjustments to the project's cost, either in favour of the NSIP accounts or in favour of the Host Nations. These adjustments are financially settled after the IC approval of the list of completed projects and final discharge of the Host Nation.

#### AUDIT OF THE NSIP CALL FOR CONTRIBUTIONS MECHANISM

5.12 In 2019, IBAN audited the NSIP Call for Contribution Mechanism. The objective of the audit was to provide a conclusion on whether the NSIP call for contributions mechanism is in compliance with the criteria set by NATO. During the audit, we checked processes and procedures in place for the preparation of the NSIP Call for Contributions and we reviewed and reconciled the underlying calculations for the NSIP Call for Contributions. We did not have any significant findings or recommendations related to compliance with the NSIP Regulations.

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

5.13 In order to close out older completed and ongoing NSIP projects, the RPPB made a number of recommendations to the Council, with the specific tasking to reduce the backlog of unaudited expenditures. The technical and financial close-out of NSIP projects is a key element to ensuring proper transparency and accountability on the use of NATO common funds. The revised Council tasking is to close-out old completed projects programmed before 2011 no later than by the end of 2020. However, this remains dependent on Host Nations submitting projects for technical inspection and financial audit.

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5.14 An overview of the evolution between December 2018 and December 2019 of the close-out of NSIP projects programmed before 1994 is provided at Annex C. At 31 December 2019, a total of 43 projects amounting to EUR 499 million still remain to be closed.



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#### **CHAPTER 6**

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

- 6.1 IBAN's ambition is to be an organisation that is conscious and forward-looking, is driven by internal development to be ready to meet emerging challenges, and aspires to contribute to improvements and reforms in NATO as a whole. IBAN aims to achieve this by the following:
  - Further promote 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 visibility of IBAN within NATO and with our external stakeholders.

### **OUR STAFF**

- 6.2 IBAN has an authorised post strength of twenty-two auditor posts, which has remained constant from prior years. However, the composition of the posts changed between 2013 and 2018 with the downgrading of 10 of 19 A4 grade auditor posts to A3 grade. This was the finalisation of the implementation of the 2012 recommendations to strengthen the external audit function in NATO, which related to our staff structure. As of 2019, IBAN's end state audit staff establishment is 1 A5 grade Principal Auditor, 2 A5 grade Senior Auditors, 9 A4 grade auditors, and 10 A3 grade auditor posts. In addition, we have 1 Administrative Officer and 5 Administrative Staff, who provide essential support to our audit teams as well as the general administration of IBAN.
- Our staff is a diverse group of individuals skilled in a variety of audit disciplines and includes chartered accountants and performance audit specialists. Approximately 60% of IBAN's audit staff are seconded from Member State Supreme Audit Institutions (SAIs) or are former employees of SAIs. The remainder include individuals recruited from other national audit bodies or the private sector. By Council decision, 75% of our auditor positions are posts for which rotation is desirable. As a result, auditors are usually employed for a maximum of six to nine years. This policy of rotation ensures that the IBAN does not remain a static organisation and that audit practices and methodology can be refreshed with the influx of new staff.
- 6.4 Of the 19 auditor posts at A4 and A3 grade, 13 (68%) are designated as financial statement auditors and 6 (32%) are designated as performance auditors. Our NSIP audit work is carried out by both financial statement and performance auditors.
- 6.5 The IBAN strives to provide our staff with relevant and sufficient professional training in accordance with the auditing standards of INTOSAI. We plan for each auditor to receive one to two weeks of training per year. This training can be group training on

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specific audit topics as well as individual training within NATO or with external bodies on topics related to audit or personal development.

### **WORKSHOP ON AUDITING SECURITY AND DEFENCE POLICIES**

6.6 In May 2019 the IBAN partnered with the European Court of Auditors (ECA) for a two day workshop on "Auditing Security and Defence Policies." The objective of the workshop, held at the ECA in Luxembourg, was to discuss audit approaches, methodologies, risks, and complications arising from auditing in the defence environment. Speakers came from a variety of international and private organisations including IBAN, the ECA, the European Parliament, the Organisation for Joint Armament Cooperation, and the European Defence Agency. Workshop participants included staff from the IBAN, NATO (including the International Staff, Agencies, and Commands), SAIs, and other public and private organisations.

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

- 6.7 Each year IBAN normally meets with the Competent National Audit Bodies (CNABs), which are, in majority, represented by the Nation's SAIs. During this meeting the CNABs would discuss the Annual Activity Report and have an exchange of views on a variety of auditing topics with the IBAN.
- The last CNAB meeting took place in 2017. No meetings were held in 2018 or 2019 because of the move to the New NATO HQ. The Covid 19 pandemic in early 2020 halted plans for a meeting this year. Comments on the Annual Activities Report for 2018-2017 were gathered electronically and the Board decided to continue with this approach for future Annual Activity Reports. IBAN decided to organise an annual conference to discuss different audit topics of interest to the Nations with internal and external stakeholders, such as NATO Delegation staff and staff from NATO bodies, agencies, and commands as well as the CNABs. Due to the Covid-19 pandemic, the first conference is scheduled to be held in February 2021 with a focus on "Transparency and Accountability as Key Elements of Good Governance Across NATO".



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#### **CHAPTER 7**

#### PERFORMANCE OF IBAN

### **OUR ANNUAL PERFORMANCE**

- 7.1 The Strategic Plan for 2017-2021 provides information on IBAN's vision, mission statement, and three core values: Independence, integrity and professionalism. It details our four strategic goals related to its work, with specific objectives and strategies to achieve them. These strategic goals are the following:
  - Goal 1: Contribute to the strengthening of accountability and corporate governance within NATO.
  - Goal 2: Contribute to the improvement of the NSIP management and provide NSIP accountability.
  - Goal 3: Contribute to the improvement of the effectiveness and efficiency of NATO activities.
  - Goal 4: Develop IBAN as an innovative and proactive audit organisation.
- 7.2 Our 2019 Annual Performance Plan is derived from the goals and objectives in the 2017-2021 Strategic Plan. The Annual Performance Plan includes specific key performance indicators and targets for the various objectives for 2019 to measure our performance.

### PERFORMANCE RELATED TO GOAL 1

7.3 Our objectives related to Goal 1 were to provide independent assurance that the financial statements present fairly the financial position and performance of the entity, contribute to the development of a sound and consistent financial reporting environment, and enhance relationships with key stakeholders. The associated performance measure and target used to evaluate the achievement of the objectives in 2019 is shown below.

Key Performance Indicator	Target	Actual
% of audit opinions on NATO bodies given	100%	75%
by 31 August on auditable signed financial		
statements.		
Issue the Annual Activities Report by the	Y/N	N
end of February.		
Number of entities' governing bodies	8 of 24	8
which explicitly respond (agree or		
disagree) to all Financial Statements audit		
recommendations.		

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7.4 The first performance measure was not met as we were unable to issue all audit opinions by 31 August 2019 on NATO Bodies and Reporting Entities from whom we received auditable financial statements by 31 March 2019 because of staff vacancies of 23% for financial auditors. However, all reports were issued by November 2019. The second performance measure was not achieved as we did not issue the Annual Activities Report by February 2019. IBAN decided to issue a joint Annual Activities Report for 2018 and 2017 in April 2019 instead. The third performance measure was achieved as 8 governing bodies responded to our financial audit recommendations.

### PERFORMANCE RELATED TO GOAL 2

7.5 Our objectives related to Goal 2 were to contribute to the improvement of NSIP management, provide assurance of NSIP accountability, and improve our efficiency and effectiveness. The associated performance measures and targets used to evaluate the achievement of the objectives in 2018 are shown in the table below and was met.

Key Performance Indicator	Target	Actual
% of COFFA's issued within 6 months of an	80%	81%
audit request by Host Nations.		

#### PERFORMANCE RELATED TO GOAL 3

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

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

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### PERFORMANCE RELATED TO GOAL 4

7.7 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 and were partially met.

Key Performance Indicator	Target	Actual
Proactively develop and offer independent analysis	Y/N	Υ
and opinion to NATO governing bodies on financial		
and performance issues.		
Publish articles on the IBAN internet website on	2	0
IBAN activities or subjects of interest.		
# of public events (conferences, seminars, courses,	2	2
lectures, presentations) with auditees and		
stakeholders.		

7.8 The second performance measure was not achieved as we were unable to publish articles on the IBAN internet website due to lack of staff resources. In early 2020, the IBAN commenced a review of its external website which will result in new content being added on a regular basis

# 2020 ANNUAL ACTION AND PERFORMANCE PLAN

7.9 Our 2020 Annual Action and Performance Plan is included in this report at Annex D.

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# Approved by the Board on 19 June 2020



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# **ANNEXES**

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# LIST OF REPORTS ISSUED IN 2019 RESULTING FROM FINANCIAL STATEMENT AND PERFORMANCE AUDITS

	LIST OF IBAN F	INANCIAL STATEME	NT AUDIT R	EPORTS ISSU	JED IN 2019	
Subject and Financial Year				IBAN Issue Date	NAC Approval Date	Available to Public Yes/No/ Pending/NA
NAT	O Military Commands					
1.	Allied Command Operations (ACO) 2018	IBA-AR(2019)0016	U	28.08.2019	Pending	Pending
2.	Allied Command Transformation (ACT) 2018	IBA-AR(2019)0006	U	19.07.2019	28.05.2020	Yes
NAT	O Agencies, Civil-Military Bo	dies, Special Project	s, and Pensi	on Schemes		
3.	BICES Group Executive (BGX) 2018	IBA-AR(2019)0025	U	25.10.2019	28.05.2020	NO (NATO RESTRICTED)
4.	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) 2018	IBA-AR(2019)0008	U	19.07.2019	28.05.2020	Yes
5.	International Staff 2018	IBA-AR(2019)0020- REV1	U	13.09.2019	Pending	Pending
6.	Munitions Safety Information Analysis Centre (MSIAC) 2018	IBA-AR(2019)0018	Q (C)	25.10.2019	28.05.2020	Yes
7.	NATO Airborne Early Warning and Control Programme Management Agency (NAPMA) 2018	IBA-AR(2019)0009	U	28.08.2019	Pending	Pending
8.	NATO Alliance Ground Surveillance Management Organisation (NAGSMO) 2018	IBA-AR(2019)0024	U	28.08.2019	Pending	Pending
9.	NATO Communications and Information Organisation (NCIO) 2018	IBA-AR(2019)0019	Q (FS, C)	27.09.2019	Pending	Pending
10.	NATO Coordinated Pension Scheme 2018	IBA-AR(2019)0028	U	27.09.2019	Pending	Pending
11.	NATO Defense College (NDC) 2018	IBA-AR(2019)0007	U	28.08.2019	28.05.2020	Yes
12.	NATO Defined Contribution Pension Scheme (NATO DCPS) 2018	IBA-AR(2019)0027	U	29.11.2019	Pending	Pending

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	LIST OF IBAN FINANCIAL STATEMENT AUDIT REPORTS ISSUED IN 2019								
Subject and Financial Year				IBAN Issue Date	NAC Approval Date	Available to Public Yes/No/ Pending/NA			
13.	NATO EF 2000 and Tornado Development, Production and Logistics Management Agency (NETMA) 2018	IBA-AR(2019)0012	U	28.08.2019	Pending	Pending			
14.	NATO European Fighter Aircraft Development, Production and Logistic Management Organisation (NEFMO) 2018	IBA-AR(2019)0014	U	28.08.2019	Pending	Pending			
15.	NATO FORACS Office (NFO) 2018	IBA-AR(2019)0022	U	28.08.2019	Pending	Pending			
16.	NATÓ Helicopter Management Organisation (NAHEMO) 2018	IBA-AR(2019)0011	U	28.08.2019	Pending	Pending			
17.	NATO Medium Extended Air Defense System Management Organisation (NAMEADSMO) In Liquidation 2018	IBA-AR(2019)0005	U	21.06.2019	Pending	Pending			
18.	NATO Multi-Role Combat Aircraft Development Production And In-Service Support Management Organisation (NAMMO) 2018	IBA-AR(2019)0013	U	28.08.2019	Pending	Pending			
19.	NATO Provident Fund 2018	IBA-AR(2019)0023	U	28.08.2019	Pending	Pending			
20.	NATO Retirees Medical Claims Fund (RMCF) 2018	IBA-AR(2019)0026	U	29.11.2019	Pending	Pending			
21.	NATO Staff Centre 2018	IBA-AR(2019)0015	U	28.08.2019	Pending	Pending			
22.	NATO Support and Procurement Organisation (NSPO) 2018	IBA-AR(2019)0017	U	28.08.2019	28.05.2020	Yes			
23.	New NATO Headquarters (NNHQ) 2018	IBA-AR(2019)0021	U	28.08.2019	Pending	Pending			
24.	Science and Technology Organisation (STO) 2018	IBA-AR(2019)0010	U	28.08.2019	28.05.2020	Yes			
Non-NATO multi-national bodies									
25.	AFNORTH International School 2018	IBA-AR(2019)0003	U	12.04.2019	NA	NA			
26.	Multinational CIMIC Group (MNCG) 2012-2016	IBA-AR(2018)0035	Q (FS, C)	25.01.2019	NA	NA			
27.	NATO Parliamentary Assembly (NPA) 2018	IBA-AR(2019)0002	U	12.03.2019	NA	NA			
28.	NATO Rapid Deployable Corps Italy (NRDC-ITA) 2012-2017	IBA-AR(2019)0001	Q (FS)	15.03.2019	NA	NA			

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	LIST OF IBAN FINANCIAL STATEMENT AUDIT REPORTS ISSUED IN 2019							
			• • • • • • • • • • • • • • • • • • •		' Annroval		Approval	Available to Public Yes/No/ Pending/NA
Perf	ormance Audit Reports							
29.	NATO Communications and Information Agency need to increase time accounting data quality and improve efforts to ensure more effective and transparent time accounting principles and practices	IBA-AR(2018)0033	NA	08.02.2019	04.10.2019	Yes		
Spe	Special Audit Reports							
30.	Special report to Council on the need for strengthened accountability, oversight, and management of trust funds	IBA-AR(2019)0004	NA	09.05.2019	08.08.2019	No		

U = Unqualified

Q = Qualified

A = Adverse

D = Disclaimer

FS = Financial Statements

C = Compliance

NA = Not Applicable

Since the 2013 financial year, public disclosure of IBAN reports is applicable to unclassified reports (financial statement and performance audits) of NATO Bodies and Reporting Entities.

# **CUMULATIVE NSIP EXPENDITURE BY HOST NATION AS AT END 2019**

Host Nation	MEUR	MEUR	MEUR Expenditure
	Expenditure	Expenditure	Certified
	Reported (1)	Certified (2)	%
Canada	80	80	100%
Luxembourg	59	59	100%
Denmark	737	726	98%
Norway	2,213	2,112	95%
United Kingdom	2,631	2,482	94%
Portugal	610	571	94%
France	1,019	961	94%
Germany	5,971	5,534	93%
Netherlands	974	868	89%
Turkey	4,581	4,064	89%
USA	1,491	1,275	85%
Belgium	853	700	82%
Lithuania	46	37	81%
Greece	1,899	1,545	81%
Italy	2,379	1,915	81%
Slovakia	39	31	79%
Latvia	45	33	73%
Spain	239	164.7	69%
Hungary	182	97	53%
Estonia	63	32	51%
Poland	472	220	47%
Czech Republic	134	61.5	46%
Bulgaria	60	18	30%
Slovenia	39	6	15%
Romania	63	5	8%
Croatia	10	0	0%
Iceland	27	0	0%
SUBTOTAL NATIONS	26,918	23,597	88%
NADGEMO	33	33	100%
SHAPE	983	872.2	89%
NCIA	1,241	839	68%
NSPA	6,589	3,672	56%
ACT	24	2	8%
SUBTOTAL AGENCIES/COMMANDS (3)	8,871	5,418	61%
TOTAL	35,789	29,015	81%

NSIP Expenditure reported by Nations and Agencies and certified by the IBAN (Cumulative up to 31 December 2019 in Millions of EUR).

<sup>(1)</sup> Source: NATO Office of Resources.

<sup>(2)</sup> Expenditure covered by a Certificate of Final Financial Acceptance (COFFA).

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

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# **NSIP SLICE PROGRAMME: NUMBER AND VALUE OF PROJECTS**

Evolution December 2018 – December 2019

NATION/ AGENCY	OPEN PROJECTS  Dec-18  (EUR)		OPEN PROJECTS  Dec-19 (EUR)		DIFFERENCE (number of projects)	% DIFFERENCE (value)
	N°	Value	N°	Value		( *****)
Belgium	3	35,132,409	2	9,002,282	-1	74%
Greece	16	204,054,251	15	199,547,343	-1	2%
Italy	13	90,965,624	10	56,274,556	-3	38%
Norway	2	42,559,112	2	42,559,112	0	=
Turkey	12	196,895,807	11	173,374,516	-1	12%
UK	3	18,121,487	3	18,121,487	0	=
TOTALS	49	587,728,690	43	498,879,296	-6	15.1%

Source: IBAN data.

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# International Board of Auditors for NATO (IBAN) Annual Action and Performance Plan 2020

#### 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 2020 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 2020.

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

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

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

### **Objectives and Performance Measures**

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

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

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

### Objective 3: Enhance relationships with key stakeholders.

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

## **Key Performance Indicators**

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

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

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

### **Objectives and Performance Measures**

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

Objective 1: Contribute to the improvement of NSIP management.

Objective 2: Provide assurance of NSIP accountability.

Objective 3: Improve efficiency and effectiveness of NSIP certification.

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

# **Key Performance Indicators**

	Key Performance Indicator					Target	
%	% of auditor's reports issued within 6						80%
m	months of an audit request by Host Nations.						

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

The IBAN's audit mandate includes performance auditing of the activities of NATO bodies, operations, programmes and projects.

As IBAN understands that a major challenge for NATO's future is to enhance effectiveness and efficiency of its activities, IBAN refocuses its strategy towards higher percentage of proactive performance audits, focused on identification of opportunities for cost savings and more effective operations and activities by NATO.

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

### **Objectives and Performance Measures**

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

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

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

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

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

### **Key Performance Indicators**

Key Performance Indicator	Target
% of performance audit reports upon which	100%
the Resource Policy and Planning Board	
explicitly responds (agree or disagree).	
Perform follow-up on prior performance	1
audit reports.	

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

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

# **Objectives and Performance Measures**

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

Objective 1: Further promote IBANs professional development and sharing of corporate knowledge.

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

# Objective 3: Improve visibility of IBAN.

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

### **Key Performance Indicators**

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

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# IBAN ANNUAL FINANCIAL STATEMENT AUDIT UNIVERSE

IBAN Annual Financial Statement Audit Universe	2018 Expenditure/Value <sup>1</sup>
NATO Common Funded Bodies or Activities	
Allied Command Operations Group	1,022
Allied Command Transformation Group	144
International Military Staff Group	26
International Staff NATO HQ	267
International Staff New NATO Headquarters Building Project	26
International Staff Headquarters Staff Centre	1
NATO Coordinated Pension Scheme (Defined Benefit)	192
NATO Defence College	10
NATO Defined Contribution Pension Scheme	29
NATO Provident Fund	0
NATO Retiree's Medical Claim Fund	25
Science and Technology Organisation	35
Sub-total	1,777
NATO Joint/Multi-Nationally Funded Bodies or Activities	
Munitions Safety Information Analysis Centre	2
NATO AEW&C Programme Management Organisation	52
NATO Alliance Ground Surveillance Management Agency	9
NATO Battlefield Information Collection & Exploitation Systems Group	Non-disclosed <sup>2</sup>
Executive	
NATO Communications and Information Agency	863
NATO Eurofighter 2000 and Tornado Development Production and	44
Logistics Management Agency	
NATO European Fighter Aircraft Development, Production and Logistics Management Organisation	2,174
NATO Multi-Role Combat Aircraft Development and In-Service Support Management Organisation	413
NATO Helicopter Design and Development Production and Logistics Management Organisation	12
NATO Medium Extended Air Defence System Design and Development, Production and Logistics Management Organisation	1
NATO Naval Forces Sensor and Weapons Accuracy Check Sites Office	1
NATO Support and Procurement Agency	2,982
Sub-total	6,553
Non-NATO Multi-Nationally Funded or Sponsored Bodies <sup>3</sup>	0,000
AFNORTH International School	5
NATO Missile Firing Installation	10
NATO Parliamentary Assembly	4
SHAPE International School	5
Sub-total	24
Grand total	8,354

All amounts in Millions of EURO (MEUR).

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

By Council decision, the IBAN does not charge for the audits of the AFNORTH School, SHAPE School, NATO Missile Firing Installation, and the NATO Parliamentary Assembly. In addition, these four entities

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are audited on an annual basis so are included in the annual financial statement audit universe. These non-NATO bodies do not share NATO's legal status, but may have a close relationship with the organisation. They have their own governance structures and are not subject to oversight by Council. The IBAN also audits an additional variable number of these bodies on a full cost reimbursable basis annually by request and if audit resources are available to do so.

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## **Glossary of Terms**

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

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

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## **Abbreviations/Acronyms**

ACO Allied Command Operations
ACT Allied Command Transformation

BC Budget Committee

Board/IBAN International Board of Auditors for NATO

BGX NATO BICES Group Executive CEPS Central Europe Pipeline System

CIS Communications and Information Systems

CNAB Competent National Audit Bodies

COFFA Certificate of Final Financial Acceptance

COSO Committee of Sponsoring Organizations of the Treadway

Commission

Council North Atlantic Council

CPR Civilian Personnel Regulations

DCPS NATO Defined Contribution Pension Scheme

EUR Euro

FRAF Financial Reporting and Accountability Framework

FRP Financial Rules and Procedures

FORACS NATO Naval Forces Sensors and Weapon Accuracy Check Sites

IC Investment Committee

IFAC International Federation of Accountants

IMS International Military Staff

INTOSAI International Organisation of Supreme Audit Institutions

IPSAS International Public Sector Accounting Standards

IS International Staff

JFAI Joint Final Acceptance Inspection

KPI Key Performance Indicator

MC Military Committee

MEADS Medium Extended Air Defence System

MSIAC Munitions Safety Information Analysis Centre

MWA Morale and Welfare Activities

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

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NAPMO NATO Airborne Early Warning and Control Programme Management

Organisation

NOR NATO Office of Resources
NPA NATO Parliamentary Assembly

NCIA NATO Communications and Information (NCI) Agency NCIO NATO Communications and Information Organisation

NDC NATO Defence College

NEFMO NATO European Fighter Aircraft Development, Production and

**Logistics Management Organisation** 

NETMA NATO EF 2000 and Tornado Development, Production and Logistics

Management Agency

NFO NATO FORACS Office

NFR NATO Financial Regulations

NSIP NATO Security Investment Programme
NSPA NATO Support and Procurement Agency
NSPO NATO Support and Procurement Organisation

PP&E Property, Plant and Equipment RMCF Retirees Medical Claims Fund

RPPB Resource Policy and Planning Board RTA Research and Technology Agency

RTO NATO Research & Technology Organisation SACT Supreme Allied Commander Transformation

SAI Supreme Audit Institution

SHAPE Supreme Headquarters Allied Powers Europe

STO Science & Technology Organisation

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