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NATO Support and Procurement Agency (NSPA)

Capellen | Luxembourg

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ENCLOSURE
AC/338(FAA)D(2025)0002

GI/2025/051

6 October 2025

MEMORANDUM FOR THE CHAIRPERSON, NSPO AGENCY SUPERVISORY BOARD

SUBJECT: REPORT BY THE NSPA HEAD OF INTERNAL AUDIT – AUTUMN 2025

Mr Chair,

Pursuant to the provisions of Functional Directive (FD) 2300 (Procedure XIII, n. 14) and FD 2600 (paragraph 5.8), I am pleased to present to you the report by the NSPA Head of Internal Audit (Autumn 2025) to be submitted to the Finance, Administration and Audit Committee (FAA Committee).

Although not required by our governing framework, an early version of this report was shared with the General Manager, who had the opportunity to provide comments and clarifications prior to its finalization. This practice ensures that management perspectives are considered while preserving the independence and objectivity of the Internal Audit function. The final version of this report has also been transmitted to the General Manager.

As prescribed, the report provides the FAA Committee with a comprehensive overview of the internal audit activities undertaken during the reporting period, including the internal audit activity's purpose, authority, responsibility, and performance relative to the Internal Audit Plan. The report also includes significant risk exposures and control issues, fraud risks, governance issues, and any other matters of relevance to the FAA Committee, including specific information on the recommendations released but not accepted by the audit customers, with the relevant reasoning. The report also includes a dedicated section on the independence of the internal audit activity.

Consistently with FD 2300 (Procedure XIII, n. 14), I respectfully request this report to be presented during a closed session of the FAA Committee plenary meeting.

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Date: 2025.10.06 17:21:36 +02'00'

Original: English

Annex: AC/338(FAA)D(2025)0002

REPORT BY THE NSPA HEAD OF INTERNAL AUDIT– AUTUMN 2025

EXECUTIVE SUMMARY

This is the seventeenth report to the Finance, Administration and Audit Committee (FAA) and it includes an update on the internal audit activity's purpose, authority, responsibility, resources and performance relative to the 2025 Internal Audit Plan. The report also includes updated information on significant risk exposures, including fraud risks, control and governance issues, and other areas of focus that could interfere with the achievement of NSPA's strategic objectives.

As required by the Internal Audit Charter (Functional Directive No. 2600, paragraph 3.7), the report provides information on "*the organisational independence of the internal audit function, disclosing the interference internal auditors encountered related to the scope, performance, or communication of internal audit work and results*".

Since May 2025, the Head of Internal Audit can count on a team of three out of a capacity of four, and this impacted the execution of the audit activities in 2025. As also highlighted in the draft 2026 Internal Audit Plan, and in accordance with FD 2300, art. 13.2, the Head of Internal Audit highlights to the FAA Committee the considerable resource constraints within which he is operating.

From 1st January 2025 to 2 September 2025, the Office of Internal Audit (GI), prepared the revised Internal Audit Charter, released five audit reports (four final reports and one initial report), prepared three Engagement Planning Memoranda (EPM). It also implemented and further refined the new procedure to track audit recommendation action plans, established a procedure to rate conclusions reached in the internal audit report. These procedures will also be used to provide objective and succinct conclusions to the FAA Committee.

The main findings identified during the audits executed in 2025 relate to several opportunities for improvement in selecting and accepting business opportunities (task 2023-07), transparency and accountability related to indirect posts (task 2025-03), the need for major improvements to be implemented in the area of human resources (task 2024-01.ICS.HR), an optimal follow up of previous observations and recommendations (task 2024-02) and the increase of effectiveness of NSPA activities (task 2024-05).

As of 2 September 2025, 56 recommendations have been released, 55 of which have been directly accepted by the audit customers. This results in an overall acceptance rate of 98%, which is above the results obtained by the benchmarked audit institutions.

Regarding risk exposure, the Head of Internal Audit (HIA) presented a reasoned proposal for the revision of the 2025 Internal Audit Plan, to include an assurance engagement on the risk management framework and on the anti-fraud and anti-corruption framework. The proposal was not supported by the General Manager, who fully concurred with the Audit Advisory Panel's position to maintain the plan and to "*not raise objections to audits being performed on risk management and on fraud and corruption from 2026 onwards, and makes recommendations to enhance their respective focus and scope*".

The HIA has included the same subjects (adequacy of risk management and assessment of anti-fraud and anti-corruption activities) in the 2026 Internal Audit Plan should the FAA Committee consider that the above-mentioned audits should not be executed in 2025.

In fulfilling the internal audit's role, it is important for the function to have early visibility on NSPA strategic initiatives. Currently, internal audit is brought in after key strategic decisions are discussed and taken. While we continue to deliver value, this reactive positioning creates a risk that the FAA Committee may not receive timely assurance on critical enterprise risks.

The Head of Internal Audit expresses serious concerns on the organisational independence of the internal audit function at NSPA and on the high level of pressure he is subjected when performing his activities.

REPORT BY THE NSPA HEAD OF INTERNAL AUDIT – AUTUMN 2025

REFERENCES:

1. NSPO Functional Directive No. 2300 – NSPO Financial Rules and Procedures
2. NSPO Functional Directive No. 2600 - Internal Audit Charter
3. Post description of the Head of Internal Audit (GI-001) validated by the General Manager on 7 February 2024
4. Institute of Internal Auditors, Global Internal Audit Standards (GIAS), 2024 (effective 9 January 2025)

1. INTRODUCTION

1.1 The NSPA Head of Internal Audit presents the mid-year report on internal audit activities executed in 2025 to the FAA Committee.

1.2 In accordance with Reference 1, procedure XIII, para. 14, this report includes the internal audit activity's purpose, authority, responsibility and performance relative to the annual Internal Audit Plan. The report also includes information on significant risk exposures and control issues, fraud risks and governance issues. A section on resources available at GI is also included.

1.3 Information on the independence of the internal audit function as required by reference 2 (paragraphs 3.7, 5.6 and 5.8) and by reference 4 (Standard 2.3 and Standard 7.1), is also included. Information on the Quality Assurance and Improvement Programme has been included in the 2026 Internal Audit Plan, which also incorporates an external assessment plan. Comprehensive information in this regard will be included in the HIA report to FAA Committee, Spring 2026.

2. INTERNAL AUDIT ACTIVITY'S PURPOSE AND SCOPE

2.1 NSPO Functional Directive No. 2600 Reference 2, paragraphs 1.1-1.3 states that:

The purpose of the internal audit function is to strengthen NSPA's ability to create, protect, and sustain value by providing with independent, risk-based, and objective assurance, advice, insight, and foresight.

The scope of internal audit services covers the entire breadth of the agency, including all of NSPA's activities, assets, and personnel.

The scope of internal audit activities also encompasses but is not limited to objective examinations of evidence to provide independent assurance and advisory services to the GM, Agency management and the FAA Committee on the adequacy and effectiveness of governance, risk management, and control processes for NSPA.

3. INTERNAL AUDIT MANDATE: AUTHORITY AND RESPONSIBILITY

The Internal Audit Charter

3.1 After discussion and recommendation of the FAA Committee during the meeting of 2-3 April 2025, the Agency Supervisory Board (ASB), through a silence procedure, approved the first revision of the NSPA Internal Audit Charter (FD 2600)[1].

[1] See AC/338-D(2025)0047-REV1-AS1 of 15 May 2025.

3.2 The NSPA internal audit function mandate is found in the NATO Support and Procurement Organisation (NSPO) Functional Directive No. 2300, Rule 13 – Internal Audit and Procedure XIII – Internal Audit. As stated in Procedure XIII, n. 1, first part, "*the primary role of Internal Audit shall be to help the General Manager to protect the assets, reputation and sustainability of the Agency. It does this by:*

a) assessing whether all significant risks are identified and appropriately reported by management and the risk management function in accordance with the existing risk management policies;

b) assessing whether risks are adequately controlled;

c) challenging management to improve the effectiveness of governance, risk management and internal controls".

3.3 The authority attributed to the internal audit function allows for unrestricted access to the FAA Committee and to its Chair, including in closed meetings, which takes place in accordance with the ASB Rules of Procedure and the NSPO Financial Rules and Procedures.

Post description of the Head of Internal Audit

3.4 The Internal Audit Charter requires the approval of the FAA Committee of the Head of Internal Audit post description, as the new GIAS call for the audit committee to approve the roles and responsibilities of the Head of Internal Audit[2]. The last revised post description for the Head of Internal Audit (Reference 3) was validated by the General Manager on 7 February 2024 and subsequently published on the Agency intranet.

3.5 On 27 August 2025, a revised post description was validated by the General Manager[3]. The Head of Internal Audit was not consulted[4] on the modifications made on his own post description[5]. Once informed of the publication on the Web, the Head of Internal Audit highlighted the threat to the independence of some elements introduced unilaterally in the post description[6]. Subsequently the Agency decided to withdraw the vacancy notice[7].

[2] See reference 2, 4.3.b, requiring FAA Committee to approve the HIA's post description before the publication of a vacancy announcement when significant changes to HIA's post description are made.

[3] On the same day, a vacancy notice for the post of Head of Internal Audit, including the revised post description, was published on the NSPA website as well as on LinkedIn and on the NATO career portal. The Head of Internal Audit was not consulted nor informed of the publication of his post.

[4] The GM Office stated that this is standard practice for any position (i.e. incumbent is not consulted when their own post is published). HIA replied that if a bad practice is broadly implemented, it does not become a good practice. However, although this is a manifest bad practice for any employee, the implications for HIA are more serious, due to the independence requirements which must be guaranteed to the Head of Internal Audit.

[5] According to the Agency internal procedures on "Staffing Resource Requests", when the post description of a filled post is modified the incumbent must acknowledge the modifications.

[6] In particular, an inappropriate role of the Executive Management Board over the annual internal audit plan was introduced in the (now withdrawn) post description of the Head of Internal Audit. These changes were considered "significant" by the HIA as they impact on the reporting lines and therefore required an approval of the FAA Committee in accordance with FD 2600, paragraph 4.3.b.

[7] The Office of the GM communicated the following: "*changes made were deemed to be administrative in nature, and not "significant" that would warrant approval by the FAA. To avoid the need to define "significant", GM decided to pull the recruitment, and planned to seek approval of the FAA as a result. Eventually, it was determined best to simply go back to the prior PD, and advertise it online thus not having to go via the FAA, to avoid losing any further time*". Given that the FAA Committee is fixed 20 days after the closing date of applications, there are no explicit time concerns. In HIA opinion, this early publication was done to avoid the intervention of the FAA Committee.

3.6 On 5 September 2025, the vacancy notice for the post of Head of Internal Audit was published in the NSPA website, once again. The post description associated to the vacancy notice was the one validated by the General Manager on 7 February 2024.

3.7 Such post description – which is now published on the Web – contains some serious mistakes[8] and is not consistent with the Internal Audit Charter (FD 2600, revision of 15 May 2025), which was revised following the entry into force of the new Global Internal Audit Standards[9]. The Head of Internal Audit highlighted this issue to the Acting Chief Human Resources Officer and to the General Manager's Office. Notwithstanding, the obsolete post description and the vacancy notice of the Head of Internal Audit are still on the NSPA website[10].

Operating Instruction No. 4600-21

3.8 The OI 4600-21 (Operating Instruction on Internal Audit), which provides additional details on the role and responsibility of the Office of Internal Audit, is currently under review to ensure consistency with the new Internal Audit Charter. A detailed Internal Audit Manual (Operating Procedure GI-001) was released in 2023 and is regularly updated by the Head of Internal Audit, after discussion with NSPA management. Recent updates related to the rating of recommendations released and on the overall rating of each audit report.

NSPO Human Resources Regulations (Regulation No. 4400)

3.9 The fourth revision of the NSPO Human Resource Regulations (Regulation No. 4400) was approved by the ASB on 28 June 2023; paragraph 5.4 (Selection and Appointment of the Head of Internal Audit) states that "*The General Manager shall appoint the Head of Internal Audit after consultation with the FAA Committee*".

3.10 The above formulation was already highlighted as not being in compliance with the GIAS[11], as the involvement of the FAA Committee is not foreseen in the contract termination of the Head of Internal Audit. For this reason, the recently approved Internal Audit Charter (FD 2600, paragraph 4.3.c), stipulates that the FAA Committee will "*Endorse the decision of the GM on the appointment of the HIA and contract termination.*"

[8] E.g.: in the post description, the Head of Internal Audit "…shall ensure that NSPA's internal control, governance and risk management processes are effective and enable the Agency to achieve its objectives, in accordance with NSPA rules and procedures" whereas this is a management responsibility. The Head of Internal Audit has to provide "assurance" on risk, internal control and governance (i.e. Statement intended to increase the level of stakeholders' confidence about an organization's governance, risk management, and control processes over an issue, condition, subject matter, or activity under review when compared to established criteria).

[9] The updated GIAS include for the Head of Internal Audit a greater focus on developing and implementing a formal internal audit strategy aligned with the organisation's objectives, more direct engagement and interaction with the Board, and a responsibility to promote technology and innovation within the audit function. The Head of Internal Audit must also now define and monitor performance objectives (KPIs), actively foster a strong relationship with the Board, and ensure prompt disclosure of any impairments to independence or objectivity.

[10] See https://nspa-nato.career.emply.com/ad/gi-1-20a4/qhrtt4 , last consulted on 7 September 2025.

[11] See reference 4, GIAS, 7.1 Organisational independence.

3.11 There is a need to coordinate the above-mentioned prescriptive documents: a dynamic formulation could be used (e.g. "*The provisions for appointment of the HIA and for contract termination are specified in the Internal Audit Charter*") that would avoid additional administrative burden.

4. INTERNAL AUDIT RESOURCES[12]

Responsibilities

4.1 According to Functional Directive No. 2300, rule 13.2:

> "*The Agency shall have access to a permanent, adequately resourced, independent internal audit function, compliant with internationally accepted Internal Auditing standards. The General Manager can propose any additional resources required to enable the Head of Internal Audit to meet his mandate. If the General Manager does not budget adequate resources to allow the Head of Internal Audit to carry out their mandate, the Head of Internal Audit shall report to the FAA Committee that they feel they do not have adequate resources budgeted to perform internal audit's mandate*".

4.2 Within the existing Charter (Reference 2, paragraph 5.7), the Head of Internal Audit has the responsibility to communicate the impact of resource limitations on the internal audit plan to the General Manager (GM) and the FAA Committee.

Human resources

4.3 At the beginning of 2025, 3.5 full-time equivalent (FTE) posts were covered as follows: the Head of Internal Audit, 1 Senior Internal Auditor, 1 Internal Auditor and one part-time (50%) Administrative Assistant.

4.4 During 2025, the following human resources related events happened: :

a) An Internal Auditor (G15:A2) was selected in November 2024[13]. However, on 9 September 2025, the HR office communicated to the candidate that the Agency was not in a position to pursue the recruitment process, due to the personal security clearance not having been granted by the relevant security authority. HIA was informed at the same time as the HR Office released the communication to the candidate.

b) A Senior Internal Auditor (G17:A3) was selected at the end of 2024, obtained a security clearance and joined the Agency on 16 May 2025.

4.5 The NSPA Organisational Design and Workforce Management Office (HM) highlighted in July 2024 the need for an additional resource in the internal audit function for 2025 (from the current four auditors to five auditors). Another advice was released in March 2025 by HM to the Resource Board suggesting an additional A2 Internal Auditor be considered for 2026 (from the current four auditors to six auditors).

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[12] See reference 4, GIAS, 8.2 Resources.

[13] To be noted that the General Manager in March 2024 requested to have an assessment of the Office of internal audit by the organisational design expert before any more hires. This assessment was not done for some 4/5 months because the Organisational design expert was not yet recruited. The Staff Resource Request 2024-00119 reports the following information: "*Blocked by the GM pending an assessment of the GI Office*". The AAP, during the meeting of 15 April 2024, suggested "*GM to unfreeze the post currently frozen*". The GM did not change her position and the post remained frozen, with significant impact on internal audit activities.

4.6 Accordingly, the Head of Internal Audit presented his proposed strategy on internal audit resources at the FAA Committee meeting of Spring 2025.

4.7 The FAA Committee, during the meeting of 2-3 April 2025, noted the briefing by the Head of Internal Audit offering proposals on the resourcing of the NSPA Internal Audit function, noted several points that were raised in discussion and "*invited the General Manager to take appropriate action according to the points that were raised during the meeting by the FAA Committee representatives*"[14].

4.8 Consistently with what was highlighted to the FAA Committee meeting of 2-3 April 2025[15], on 3 April 2025 the Head of Internal Audit asked the Executive Officer and acting Human Resources Officer to be allowed to start the recruitment procedure of an additional position of A2 Internal Auditor. However, after several exchanges and requests for additional information, on 27 June 2025 the Office of the General Manager communicated to the Head of Internal Audit that the General Manager will not grant any additional resources to Internal Audit[16].

4.9 In this regard, in accordance with FD 2300, rule 13.2, the Head of Internal Audit – once again - underlines that he does not have adequate resources budgeted to perform the internal audit's mandate.

4.10 This issue was already emphasised in the 2025 Internal Audit Plan[17], in the 2024 mid-term report of the Head of Internal Audit[18], in the HIA report to the FAA Committee of Spring 2025[19] and in the 2026 Internal Audit Plan, presented to the FAA Committee in the current Autumn 2025 session[20].

Financial resources

4.11 The budget allocated to GI for 2025 is presented in the following table, together with its execution. Due to the insufficiency of audit resources and the consequent reduction of audit activities, the 2025 budget has not been fully executed.

Table 1: *Budget assigned to the Office of Internal Audit and relevant execution (July 2025)*

Budget Item	2025	Execution	% Execution
TDY (2610)	13,083.66€	1,910.15€	14.6%
TRAINING (2710)	11,600.06 €	3,676.24 €	31.7%
HOSPITALITY (2810)	270.00 €	260.30 €	96.4 %
TOTAL	**24,953.72 €**	**5,846.69 €**	**23.4%**

Source: *Finance Directorate August 2025*

[14] See AC/338(PS)DS(2025)0004-REV1_MULTI_REF_e, paragraph 22B.3.

[15] See AC_338(PS)DS(2025)0004-REV1_MULTI_REF_e, paragraph 22A.2.1: "*In response to a question by Denmark on when the Internal Audit function could be expected to implement its mandate fully, the Head of Internal Audit indicated that, if the FAA Committee provided adequate guidance and if the General Manager agreed on the proposed Personnel Establishment changes, recruitment could be initiated immediately*".

[16] Outcome of a bilateral meeting GM/HIA held on 27 June 2025. To be noted that although a senior officer was present and took notes, these notes were not shared with HIA. HIA, on the same day as the meeting, released a summary of key points, asking if there was any misinterpretation of such key points. No reply was ever provided, except a request not to interpret the lack of response as being an endorsement of the accuracy of what was said.

[17] See AC/338(FAA)D(2024)0003: executive summary and paragraph 9.2

[18] See AC/338(FAA)D(2024)0002: executive summary and paragraph 4.5

[19] See AC/338(FAA)D(2025)0001: executive summary and paragraph 4.5

[20] See AC/338(FAA)D(2025)0003: executive summary and paragraph 8.2

Ethics and Integrity initiatives

4.12 In addition to the obligations related to NATO Business Integrity initiatives, all GI staff, at the beginning of 2025, signed and committed to respect the Code of Ethics of the Institute of the Internal Auditors, which is now included in the GIAS, Domain II, Ethics & Professionalism.

4.13 Each audit staff, in the annual objectives recorded in the new Performance Management application (Career Navigator), received competency goals related to being "Principled", i.e. "Can be relied upon to meet commitments and act ethically in the best interests of the organisation".

4.14 Ethics and integrity matters are formally discussed bilaterally with each GI staff and the Head of Internal Audit three times a year (during the planning, review and appraisal phases of the Performance Management cycle).

5. PERFORMANCE RELATIVE TO THE 2025 INTERNAL AUDIT PLAN

5.1 The 2025 Internal Audit Plan[21] includes ten reports to be released: four related to audits carried forward from previous years and six related to new audits.

5.2 During 2025, priority was given to the completion of the audits carried forward from previous years and to the finalisation of the planning documents. In summary, the Office of Internal Audit, from 1st January 2025 up to 2 September 2025:

a) released five audit reports. Four final audit reports related to Selecting and accepting business opportunities, to Indirect posts, to the follow up of previous observations and recommendations and to the internal control system of the human resources offices. An initial report on the Effectiveness at NSPA was also released ;

b) finalised three EPMs;

c) implemented and further refined the new procedure to track audit recommendation action plans;

d) established a procedure to rate conclusions reached for the internal audit report. This procedure will also be used to provide objective and succinct conclusions to the FAA Committee.

Revision of the 2025 Internal Audit Plan

5.3 After consultation with the Audit Advisory Panel (AAP)[22] and after having provided a prior draft of the rationale to the General Manager's Office, the HIA asked the General Manager on 17 June 2025 to forward to the FAA Committee a proposal to add two new assurance engagements to the 2025 audit plan[23] and to postpone to 2026 two consulting engagements[24].

5.4 On 17 June 2025, the General Manager requested the Audit Advisory Panel Chair to provide comments on the draft revised 2025 internal audit plan. The HIA was not informed of this request.

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[21] AC/338(FAA)D(2024)0003.

[22] The Chair communicated the AAP's position on 11 June 2025, stating at the end of his communication: "*Of course it remains HIA's choice to consider or not those inputs into the document submitted to the GM*".

[23] The engagements were: 2025-07.A: Adequacy of risk management framework and 2025-08.A: Adequacy of NSPA's anti-fraud and anti-corruption framework.

[24] The consulting engagements were 2025-04: Business continuity and 2025-05: Data Protection. Both subjects were supposed to remain part of the auditable universe, to be assessed during the preparation of the 2026 Internal Audit Plan.

5.5 The silence procedure started on 14 August 2025[25] and was interrupted by a Nation[26], who requested to discuss the subject during the October 2025 FAA Committee meeting, so that the representatives can seek consensus on what will be audited for the remainder of 2025 and 2026.

Status of the engagements included in the 2025 Internal audit plan

5.6 The following table depicts the status of the audits included in the revised 2025 Audit Plan.

Table 2: *Status of audit engagements of the revised 2025 Internal Audit Plan, as at 02 September 2025*

	CODE	AUDIT SUBJECT	SITUATION ON 02/09/2025	EXPECTATIONS ON 31/12/2025
AUDITS CARRIED FORWARD FROM PREVIOUS YEARS	2023-05	Infrastructure and engineering projects	Ongoing	Completed
	2024-01	Internal control assessment – HR and overall assessment	Completed	Completed
		Internal control assessment – and overall assessment	Ongoing	Completed
	2024-05	Effectiveness	Initial report released	Completed
	2024-06.B & C	SAP migration to S4/HANA 2nd and 3rd audit	Not yet started	To be postponed to 2026 due to a change in the schedule of the project, as outlined by S4HANA Programme Manager
INITIAL 2025 INTERNAL AUDIT PLAN	2025-01	Internal Control Assessment	Planning completed (entrance conference scheduled)	Planning completed and 70% of Execution completed. The engagement will be completed in March 2026, so as to provide useful elements to the GM and the Financial Controller for the release of the Statement of Internal Control.
	2025-02	Follow up of previous years' recommendations	Ongoing	Completed
	2025-03	Indirect posts	Completed	Completed
	~~2025-04~~	~~Business continuity~~	During the EMB meeting held on 7 August 2025, when the draft 2026 audit plan was discussed, the audit customer (Chief Risk and Compliance Officer) requested to cancel these consulting engagements if not performed in 2025.	
	~~2025-05~~	~~Data Protection~~		
	2025-06	Efficiency over NSPA	Planning	Initial report released
NEW AUDITS ADDED	**2025-07.A**	**Adequacy of risk management framework**	**TO BE ADDED if revision of 2025 plan is approved**	**Planning completed**
	2025-08.A	**Adequacy of NSPA's anti-fraud and anti-corruption framework**	**TO BE ADDED if revision of 2025 plan is approved**	**Planning completed**

Source: *GI Information and monitoring system, 2025*

[25] AC/338(FAA)D(2004)0003-ADD1

[26] AC/338(FAA)D(2024)0003-ADD1-AS1

5.7 Out of the six specific tasks included in the 2025 internal audit plan, two have been proposed for postponing (task 2025-04 and task 2025-05, in red in the table above). However, the audit customer requested to cancel them if not performed in 2025.

5.8 Two new audits tasks have been included in the revised 2025 internal audit plan (task 2025-07A and task 2025-08A).

5.9 It should be noted that the revision of the 2025 internal audit plan (AC/338(FAA)D(2024)0003-ADD1) was submitted to the nations on 14 August, with silence procedure concluding on 18 September 2025.

Findings

5.10 In 2025, five reports, four final reports and one initial report were released. The audit conclusions raised were acknowledged by the audit customers and adequate actions were identified in order to solve the highlighted issues. The Office of Internal Audit follows up on the recommendations four times a year, through the Business Planning Implementation Review (BPIR) application and reports the follow up results during the quarterly Corporate Performance meetings, in the presence of the General Manager.

5.11 The following table depicts the main conclusions of the audits executed in 2025, for which a final report has been released.

Table 4: *Summary of main conclusions of the audit reports released in 2025*

				RECOMMENDATIONS			
NR.	CODE	Audit subject	Overall conclusion	Released	Accepted	Reviewed / Supported by the AAP	Acceptance rate
1	2024-02	Follow up of previous observations and recommendations	**PARTIALLY SATISFACTORY** As of the end of October 2024, of the 429 accepted recommendations released between 2019 and 2024, 334 (78%) have been adequately implemented, resulting in an improved approach within NSPA Programmes, Offices or Divisions to risk management, governance and control. During the follow-up process, the audit customers communicated their intention to not implement seven action plans. Further to a specific request, they confirmed the acceptance of the risks and they have been informed that such acceptance would have been included in the final report of task 2024-02 and then escalated to the Finance Administration and Audit Committee.	NA	NA	NA	NA
2	2023-07	Selecting and accepting business opportunities	**PARTIALLY SATISFACTORY, SEVERAL IMPROVEMENTS ARE NEEDED** The current customer relationship management processes and tools do not allow the Agency to adequately identify future customer needs and react to them at the speed of relevance. Some key areas identified needing further development are: risks and controls with regards to business acceptance, Agency-wide Project Management tool, single and mandatory Agency-wide process for time accounting, and Customer Satisfaction tools. Some remediation actions are already foreseen, and several programmes demonstrated best practices that could be replicated.	14	14	14	100%

				RECOMMENDATIONS			
NR.	**CODE**	**Audit subject**	**Overall conclusion**	**Released**	**Accepted**	**Reviewed / Supported by the AAP**	**Acceptance rate**
3	2025-03	Indirect posts	**PARTIALLY SATISFACTORY, SEVERAL IMPROVEMENTS ARE NEEDED** Current organisational structure and workforce planning mechanisms provide a good foundation, nevertheless there are several key areas where more structured, transparent and accountable processes are needed in order to guarantee an adequate level of efficiency and compliance with regards to indirect posts. 3 priority 1 recommendations, 13 priority 2 recommendations, 1 priority 3 recommendation	17	17	Not yet discussed	100%
4	2024-01.HR	Internal control Arrangement within NSPA - HR	**UNSATISFACTORY, MAJOR IMPROVEMENTS ARE NEEDED.** Due to the limitation of scope resulting from the request for information not being adequately followed up, we were unable to obtain sufficient and appropriate evidence to draw a conclusion. Accordingly, we do not express any assurance on the effectiveness of the HR internal control system. Major improvements are needed to achieve a satisfactory internal control system at HR office. Two recommendations on the inadequacy of controls over background checks for A4 and below and to the controls over the additional step granted on appointment were considered extremely urgent and were released on 10 June 2025 as an early communication on the subject.	25	24	Not yet discussed	96%
			TOTAL	**56**	**55**	Not yet completed	**98,25%**

Source: *GI 2025.*

5.12 Regarding 2025 tasks, 55 out of 56 recommendations released were accepted directly by the audit customers. The acceptance rate (98,25%) is above the same rate of the audit institutions benchmarked[27].

5.13 Below is the rationale of the rejected recommendation, which refers to the rotation of senior staff and which was released in the framework of the assessment of internal control systems at HR offices.

[27] UK National Audit Office, Annual Reports and Accounts 2022-23, page 39: *"Between 1 April 2019 and 31 March 2022, we made 795 recommendations, 727 (91%) of which have been accepted or partially accepted by government. In total, 396 (50%) have been implemented and 300 (38%) are work in progress"*. At the European Court of Auditors (ECA), 60% of the 325 special report recommendations released in 2018 have been fully implemented (see 2022 Annual Activity Report, page 51).

Box 1: *Rationale of recommendation 2024-01.ICS.HR.06*

Rotation of senior staff

Staff rotation, also known as job rotation or compulsory internal mobility, refers to the practice of moving employees across different roles, departments or geographical locations. In international organisations, it is a strategic tool for capacity building, knowledge transfer and organisational cohesion.

The Organisation for United Nations has a formal mobility framework, aimed at career development and institutional effectiveness[28]. Similar policies exist within the European Union, the World Bank and other international organisations.

We enquired with NATO bodies[29] and we found that they do not have a formal staff mobility policy. Among NATO bodies, NCIA, ACO and IMS do not apply a definite duration tenure for A6 and A5, with the exception of the position of Financial Controller for whom, a specific definite duration is foreseen by the NATO Financial Regulations[30].

We also asked relevant information from HR and we were informed that currently (June 2025) at NSPA there are two staff assigned to an A6 post and seven staff assigned to an A5 post who hold an indefinite duration contract. This means that the duration policy indicated in the post description (i.e. tenure of nine years for A5 and tenure of six years for A6) will not be implemented, unless the individual voluntarily applies for another post, resigns, retires or is moved following a decision by top management.

Staff rotation is recognised as an effective anti-corruption tool, particularly in international and public sector organisations. It mitigates the risks associated with long term entrenchment, undue influence and the creation of corrupt networks

Being the NATO leading organisation in procurement, we consider that NSPA could benefit from a policy on mobility, as rotation is a key element in preventing fraud and corruption.

Absence of a structured staff mobility policy can lead to inequities and perception of favouritism in transfers, gaps in succession planning, missed opportunities in retaining high potential employees by offering growth and development through different roles, operational disruption due to inconsistent handover and failure of knowledge transfer.

Source: *Final report of the assessment of internal controls at HR, 02/09/2025*

5.14 Below is the text of the rejected recommendation, together with the reply provided by the audit customer and with the final position of the Head of Internal Audit.

[28] https://popp.undp.org/human-resources-management/appointment-and-promotion/mobility
[29] Information was requested from the heads of internal audit of ACO, ACT, IS, NCIA, NETMA, NAPMA, IMS.
[30] NFR, art. 10.1: "*The Financial Controller of a NATO body shall be appointed for a period of three years which may be renewed one time only for a further three year period*". For NSPA, see FD 2300, rule 10.1.

Box 2: *Recommendation 2024-01.ICS.HR.06*

Recommendation 6	Rating	Priority 2
The Official in charge of Human Resources should develop and implement a formal staff mobility policy, including clear objectives, defined types of mobility, transparent eligibility criteria, guidelines for onboarding/offboarding, monitoring and evaluation mechanisms. The audit customer has communicated the non-acceptance of the recommendation, together with the following comments: *Although the inherent advantages of mobility in senior executive positions are fully recognised, to date, in accordance with NCPR and NSPA regulations, only procurement positions and those with a definite tenure are affected by this rotation. The CHRO will participate in defining a mobility policy within NATO as part of the advisory panel's work. At this stage, this recommendation will remain for information purposes.* **GI considers that NSPA, as the NATO leading organisation in procurement, could do more to prevent the risk of fraud, establishing a formal and transparent policy on rotation of senior staff (A5 and above). We therefore keep this recommendation.** **In accordance with Functional Directive no. 2300, Procedure XIII - Internal Audit, n. 14, specific information on the recommendations released but not accepted by the audit customers, with the relevant reasoning, will be included in the next Head of Internal Audit report to the FAA Committee.**		

Source: *Final report of the assessment of internal controls at HR, 02/09/2025*

Added value

5.15 The implementation of GI accepted recommendations will lead to changes within the entities in terms of managerial practices, internal systems, and processes, resulting in an added value for the Agency.

6. RISK EXPOSURE

6.1 The information on risk exposure was obtained from the NSPA 2024 Enterprise Risk Management (ERM) Report as complemented by:

a) The Risk Management Tool;

b) The results of each audit engagement[31];

c) The IBAN audit report on NSPO 2023 Financial Statements and the previous findings on 2024 Financial Statements;

d) Review of documents;

e) Participation in / review of the contents of the minutes of the monthly meetings of the Risk Management Community of Interest,

f) Participation in / review of the contents of the minutes of the periodic meetings convened by the NSPA Internal Control Officer.

[31] Audit staff include a preliminary assessment of the risks relevant to the activity under review for each audit task. The preliminary risk assessment informs the objectives for each audit engagement, which will then allow for an understanding of the organisation's risk management processes and their effectiveness. At the end of the audit, with the final report, all findings are linked to a risk.

6.2 As appropriate, risks are discussed by the Head of Internal Audit during the bi-weekly meetings with the General Manager[32] and periodic meetings with the Financial Controller.

6.3 In his proposal to revise the 2025 Internal Audit Plan, HIA highlighted that the following elements would require a more in-depth assessment:

a) The formal definition of the process adopted for the identification of Principal Risks;

b) The comprehensiveness and granularity of the NSPA Principal Risks to support effective Risk Management measurement and oversight activities;

c) The adequacy of the Risk Management methods and tools to provide a direct link between strategic objectives and Principal Risks identified in the Enterprise Risk Management Report;

d) The presence of a holistic assessment and definition of L1 objectives and activities performed at lower levels (i.e. measurable KPIs and cascading down objectives).

6.4 As already mentioned in the HIA report to the FAA Committee of Spring 2025, the main ongoing weaknesses of the risk assessment and consequently of the risk exposure, relate to the fact that objectives are not systematically cascaded and filtered down and risks are not clearly identified and associated to those objectives. This subject was also identified and reported in previous assessments and is reported to the FAA Committee as an Agency-wide issue[33].

6.5 The absence of reference to human resources in the new eleven risks identified by the Agency and approved by ASB in June 2024 is another weakness identified[34]. Another element of concern is the ambiguity of the existing framework for identifying and managing risks at the operational level, as neither the expected merger of the two existing tools (Risk Management Tool and Risk and Control Matrix) nor the establishment of a new framework has been completed yet[35].

7. INTERNAL CONTROL ISSUES

7.1 The Agency's Internal Control Framework is codified in OI 4600-23, which was last updated in December 2020.

7.2 At the beginning of 2024 the General Manager instructed the Head of Internal Audit to modify the approach used for the assessment of internal controls and to increase reliance on the work performed by other assurance providers. Consequently, out of the planned assessments of the internal controls, only the assessment of HR was retained and those related to LCM and Procurement were not carried out.

[32] Further to some events that took place, the HIA requested that as of 1 September 2025, the NSPO Chair be present at the bilateral meetings with the General Manager. The GM requested to have a written update on the activities every two weeks, instead of bilateral meetings. HIA adhered to this request, highlighting that these updates are provided in response to a request and do not replace or alter internal audit established reporting lines, i.e. administratively to the General Manager and functionally to the FAA Committee.

[33] See AC/338(FAA)D(2024)0001, paragraph 6.4.

[34] This concern has already been reported in the 2024 mid-term report of the Head of Internal Audit to the FAA Committee, see AC/338(FAA)D(2024)0002, paragraph 6.4.

[35] This concern has also been discussed with the Audit Advisory Panel, during the meeting of 16 January 2025.

7.3 The Head of Internal Audit, when performing the assessment of internal controls, considered relying on the work performed by other assurance providers, in accordance with the Standards[36]. In this regard, the Head of Internal Audit notes that he cannot fully rely on all the conclusions reached by other assurance providers, due to lack of independence[37], lack of objectivity[38] and insufficient information on methodology and competence. This refers strictly to the conclusions, not to the specific assessments (i.e. the areas identified for improvement).

7.4 To provide the most updated and comprehensive view on the internal controls, the Head of Internal Audit will deliver more information on internal controls once the relevant reports (audit tasks 2024-01 and 2025-01) will be released. However, below are the subjects for which the main issues have been identified, in relation to the assessment of human resources offices:

a) Post descriptions and statements of work (availability, avoiding tailoring, update);

b) Overriding controls and deviations not identified and / or not adequately documented;

c) Poorly designed fraud prevention controls over post-employment activities;

d) Information related to external activities performed by NSPA staff;

e) Inadequacy of controls over background checks for A4 and below;

f) Control over the compliance of selection processes (i.e. appointment of Selection Committee, different rules for A4 and below and for A5 and above);

g) Controls over the general respect of recruitment rules (i.e. publication, participation of the individual in the publication, involvement of the selection committee);

h) Determination of the selection committee for A4 and below;

i) Controls over the additional step granted on appointment;

j) Modification of the support recording decisions of the Selection Committee / Reliability of selection reports (modifiable PDF documents).

8. FRAUD RISK

8.1 At the Office of Internal Audit, guidelines and templates to consider fraud risks are in place and considered during the planning phase of each audit.

8.2 A specific audit on the adequacy of fraud prevention at NSPA was performed in 2022. Several opportunities for improvement in the area of prevention and detection of fraud were identified and are currently under further analysis and implementation.

8.3 Regarding the response to fraud, the Agency established an Office of Investigations and hired a Senior Investigator. An additional investigator was recruited in 2024 and another investigator is under recruitment in 2025. Since 1 October 2023, the Office of Investigations is under the authority of the Executive Officer. It has to be noted that such an organisational structure generates concerns about adequate independence, which have been communicated to the senior management.

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[36] See reference 4, Standard 9.5.

[37] The NSPA officer in charge of internal controls reports to the Chief of Staff, who supervises all the support functions of the Agency, including Procurement, Human Resources, Information Technology.

[38] Inadequate segregation of duties has been highlighted. The audit customer accepted the relevant risk (see action plan in response to recommendation 2021-01.3).

8.4 The Agency stated that they have a different opinion and required to quantify the concerns on adequate independence. In this regard, HIA observes that the "independence" or lack of independence of an office of investigation is a qualitative concept, and concerns its susceptibility to influence or interference. Strictly speaking, it isn't directly measurable in the way a budget is, although it can be approximated or quantified using proxies and indicators. Assurance can be provided once an audit on the subject will be completed, which is the intention of HIA.

8.5 To take into account the NATO wide strategy for prevention of fraud and corruption, the Agency reviewed the NSPA Code of Conducts (OI 4400-01) in early 2024, which includes the NSPA Policy on the prevention, detection, investigation and sanction of all types of misconduct. It has also clarified the authority over the appointment of internal and external investigators, which now resides solely with the Investigation Authority.

8.6 The proposal for the revision of the 2025 Internal Audit Plan includes an assessment of the implementation of the NATO Strategy against fraud and corruption, following up on the audit performed in 2022 and the main concerns identified, including the independence of the Office of Investigations and the risk to the safety of NSPA staff when involved in providing evidence in relation to investigation cases.

9. GOVERNANCE ISSUES

9.1 At the beginning of 2024, the Office of Internal Audit performed a specific assessment on the internal governance at NSPA. The main results were communicated to the audit customers (Chief of Staff, Executive Officer, Chief Human Resources Officer, Competition Advocate).

9.2 The Office of Internal Audit concluded that some NSPA internal governance arrangements are not fully adequate to ensure transparency and accountability, manage risks, improve efficiency, protect reputation, and lead to long-term success.

9.3 The Office of Internal Audit released several recommendations on the subjects and is actively tracking its implementation.

10. INDEPENDENCE OF THE INTERNAL AUDIT FUNCTION

10.1 The Head of Internal Audit has a direct relationship with the Audit Advisory Panel, reports administratively (day-to-day operations) to the General Manager and functionally to the FAA Committee.

10.2 As mentioned in the previous report to the FAA Committee, the Office of Internal Audit does not conform with the IIA Standard on organisational independence.

10.3 The situation has recently worsened, due to several interferences by the AAP (an internal body nominated by the General Manager) and a high level of pressure put by the General Manager on internal audit activities and on the Head of Internal Audit.

10.4 Three elements need to be explicitly highlighted to the FAA Committee:

a) Interference in the preparation of the 2026 Internal Audit Plan;

b) Performance appraisal of the Head of Internal Audit;

c) Recent publication of the vacancy of the post of Head of Internal Audit.

Interferences on the preparation of the 2026 Internal Audit Plan

10.5 The HIA, in line with the Internal Audit Charter, consulted the AAP and the Executive Management Board (EMB) during the preparation of the 2026 Internal Audit Plan. In particular, HIA presented the list of prioritised audits to the AAP on 5 August 2025 and subsequently, on 7 August 2025 to the EMB.

10.6 After having read the minutes of the EMB meeting of 7 August 2025, HIA pointed out that, for the preparation of the Internal Audit Plan EMB members are consulted and that the Internal Audit Plan is not coordinated with EMB. HIA added that the preparation of the final version of the plan to be submitted to the FAA Committee is a prerogative of the Head of Internal Audit, who of course will consider the inputs received and will incorporate all the comments and requests for modification he considers appropriate;

10.7 Further, HIA indicated that a request addressed to the HIA to provide a revised draft to the EMB in order to have written feedback on the plan to confirm that EMB views were incorporated in the final version of the plan is manifestly in violation of the Internal Audit Charter (see 5.7.b) and the Global Internal Audit Standards. Finally, HIA highlighted that the GM's request to remove a sentence from the 2026 Internal Audit Plan is a serious threat to the independence of the Head of Internal Audit. The sentence included a risk to the safety of NSPA staff that in the Head of Internal Audit's opinion was above the Agency's risk appetite and therefore, could not - and was not - removed from the text to be presented to the FAA Committee.

10.8 In the opinion of the Head of Internal Audit, the above are serious interferences with the activities of the internal audit function and present a threat to the independence of the internal audit. These concerns were communicated to the EMB members through an official note of the HIA dated 16 September 2025. No reactions or feedback have been received.

Performance appraisal of the Head of Internal Audit

10.9 The performance appraisal of the Head of Internal Audit is currently executed only by the General Manager, without a countersigner. This resulted in continuous conflicts with the General Manager, who assessed alone the performance of the Head of Internal Audit, without HIA having the required protections provided by the Civilian Personnel Regulations and the Operating Instruction 4400-12.

10.10 This approach is creating undue influence and pressure on the Head of Internal Audit, compromising his independence and his ability to report objectively to the FAA Committee. The last complete performance appraisal of HIA is the one pertaining to 2022.

10.11 The Office of General Manager communicated that this situation is exactly the same for all direct reports of the GM.

10.12 As also reported in the final report 2024-01.ICS.HR, HIA confirmed that this situation implies a lack of compliance with the Civilian Personnel Regulations (CPR, article 55.3 and Annex VIII.A) and that not respecting the CPR with respect to the HIA and nine additional individuals does not transform the non-compliance into compliance. Moreover, not having a countersigner implies the impossibility to go through the dispute resolution foreseen by OI 4400-12 and is a threat to having an objective appraisal.

10.13 The subject is serious for all those concerned (i.e. all Directors and Executives at A6 and A5 level reporting directly to GM, plus the Head of Internal Audit at A4 level) but especially for the Head of Internal Audit, posing a risk to the independence of the function.

<u>Early publication of the post of Head of Internal Audit further to a decision of the outgoing General Manager</u>

10.14 As regards the recent publication of the vacancy of the post of Head of Internal Audit, HIA pointed out to the acting Chief Human Resources Officer that under international recognised governance principles[39] and the Institute of Internal Auditors Standards, the recruitment and appointment of the Head of Internal Audit requires the involvement of the FAA Committee to safeguard the independence and credibility of the internal audit function. This is also confirmed by the Internal Audit Charter (FD 2600), approved by the ASB on 15 May 2025.

10.15 Given that the departure of the General Manager is now public (the new vacancy has been published; Ms Cummings's departure has also been announced on LinkedIn) and will take effect within the next 12 months, the timing of the decision to start the recruitment of the Head of Internal Audit risks creating the perception of undue influence and may undermine stakeholders' confidence in the integrity of the governance process.

10.16 The General Manager Office highlighted that such approach is efficient and good practice and that the goal is to have filled post.

10.17 HIA does not share the General Manager point of view: in practice this would result in the Head of Internal Audit selected by the outgoing General Manager who will end her mandate on 31 August 2026 and will not work a single day with the newly appointed Head of Internal Audit. On the other hand, the new General Manager, as from the first day (1 September 2026 will work, at least for three years, with a Head of Internal Audit selected by somebody else.

10.18 The Head of Internal Audit pointed out that it was necessary to bring this matter to the attention of the FAA Committee, in order to take reasoned decision on the subject.

11. CONCLUSIONS

11.1 Significant resource limitations have been experienced during 2025. The same or increased resource limitation is also expected for 2026.

11.2 The Head of Internal Audit, since May 2025, can count on three auditors (instead of four), and this has impacted the execution of the audit activities in 2025. As also highlighted in the draft 2026 Internal Audit Plan, and in accordance with FD 2300, rule. 13.2, the Head of Internal Audit highlights to the FAA Committee that he considers that he does not have the required resources to implement the internal audit mandate.

11.3 At the beginning of 2025, priority was given to the completion of audits carried forward from the previous year and the finalisation of the planning documents related to 2025 audits.

11.4 The performance achieved in 2025 consists in the preparation of the revised Internal Audit Charter, in the release of five audit reports, in the preparation of three EPMs, in the implementation of a new procedure to track audit recommendation action plans and in the establishment of a procedure to rate conclusions reached for the internal audit report. This procedure will also be used to provide objective and succinct conclusions to the FAA Committee.

11.5 With regards to risk exposure, internal controls and governance, the Head of Internal Audit considers that significant room for enhancement remains. More independent and objective assurance will be released to the FAA Committee with the Spring 2026 report, once the engagements on the adequacy of the risk management framework and on the internal controls will be completed.

[39] See, for example, G20/OECD Principles of Corporate Governance 2023, OECD Publishing, Paris, https://doi.org/10.1787/ed750b30-en.

11.6 The Head of Internal Audit expresses serious concerns about the interferences in the activities of the internal audit function, which compromise the ability to report objectively and independently to the FAA Committee.

2022 Organization and Personnel Establishment, creating a post of Senior Investigator within the Office of Internal Audit and Investigations. Consequently, for those audit observations related to the investigative processes, which were foreseen to be managed by the Head of Internal Audit and Investigations, no recommendations were released.

2.8 Later on, effective 1 October 2023, the responsibility of the Agency's investigations was shifted to the Executive Officer, and therefore the Office of Internal Audit lost visibility of any eventual remediation of the audit observations related to the investigative processes explained above.

2.9 This new audit will therefore analyze the current implementation framework and will identify, as appropriate, the eventual need to implement specific improvement actions.

2.10 Moreover, taking into account that it has been reported that NSPA staff members *"risked their safety"* to provide evidence to law enforcement[4], and considering recent media coverage has brought increased attention to fraud-related matters, the HIA considered necessary to allocate greater focus to evaluating the effectiveness of the anti-fraud management framework at NSPA.

2.11 This will include the methodologies followed for the investigation process, the definition of roles and responsibilities and the adequacy of the current level of independence of the Office of Investigation, given that some concerns have been highlighted to the Head of Internal Audit on this aspect.

2.12 The audit objectives and detailed scope will be discussed with the audit customer identified (Executive Officer, as Investigative Authority).

3. CONCLUSIONS

3.1 In view of the elements above, having consulted the audit customers concerned and having heard their point of view, the Head of Internal Audit considers that dedicated engagements on

(1) the adequacy of risk management framework; and

(2) the adequacy of NSPA's anti-fraud and anti-corruption framework;

should be included in the revised 2025 internal audit plan.

[4] See CH/2025/0030 of 15 May 2025.