



NORTH ATLANTIC COUNCIL

CONSEIL DE L'ATLANTIQUE NORD

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27 January 2023

**DOCUMENT**  
PO(2023)0012-AS1 (INV)

**IBAN REPORT ON MAIN FINDINGS FROM THE 2020 FINANCIAL STATEMENTS  
AUDITS**

**ACTION SHEET**

On 26 January 2023, under the silence procedure, the Council noted the RPPB report attached to PO(2023)0012 (INV), agreed its conclusions and recommendations, noted the IBAN Report and agreed to the public disclosure of this report and the IBAN Report.

(Signed) Jens Stoltenberg  
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to PO(2023)0012 (INV).

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12 January 2023

**DOCUMENT**  
PO(2023)0012 (INV)  
**Silence Procedure ends:**  
**26 Jan 2023 – 17:30**

To : Permanent Representatives (Council)  
From : Secretary General

**IBAN REPORT ON MAIN FINDINGS FROM THE 2020 FINANCIAL STATEMENTS  
AUDITS**

1. I attach the Resource Policy and Planning Board (RPPB) report on the International Board of Auditors for NATO (IBAN) Report to Council on Main Findings from the 2020 Financial Statements Audits.
2. The IBAN Report has been reviewed by the RPPB (see Annex 1).
3. I do not believe this issue requires further discussion. Therefore, **unless I hear to the contrary by 17:30 hours on Thursday, 26 January 2022**, I shall assume the Council noted the RPPB report, agreed its conclusions and recommendations, noted the IBAN Report and agreed to the public disclosure of this report and the IBAN Report.

(Signed) Jens Stoltenberg

1 Annex  
1 Enclosure

Original: English



**IBAN REPORT ON MAIN FINDINGS FROM THE 2020 FINANCIAL STATEMENTS  
AUDITS**

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

References:

- |    |                 |   |
|----|-----------------|---|
| A. | IBA-M(2022)0001 | IBAN Report to Council on Main Findings from the 2020 Financial Statements Audits |
| B. | C-M(2015)0025   | NATO Financial Regulations (NFR)  |
| C. | C-M(2016)0023   | NATO Accounting Framework (NAF)   |
| D. | PO(2015)0052    | Wales Summit tasker on transparency and accountability                            |

**INTRODUCTION**

1. This report by the RPPB addresses the IBAN report on main findings from the 2020 financial statements audits (reference A). The IBAN report provides an overview to Council on the main findings of the 2020 financial statements audits to further enhance Council's ability to oversee and account for the organisation's limited resources.

**AIM**

2. This IBAN report enables the Board to reflect on strategic issues or concerns emanating from the audit of financial statements of NATO Reporting Entities and to recommend courses of action to Council as applicable, which have the potential to improve transparency, accountability and consistency.

**DISCUSSION**

3. The financial statements audits provide independent assurance and advice to Council that the financial statements of the NATO Bodies and Reporting Entities present fairly their financial position, financial performance and cash flows; and that funds have been properly used for the settlement of authorised expenditure and are in compliance with the regulations (reference B). Regardless many difficulties imposed as part of the COVID-19 pandemic, the IBAN was able to deliver its entire financial statements audit mandate for the financial year 2020.

4. In IBAN's view, in order to improve the quality of financial information in support of decision-making, based on the legal framework of NATO, a simplification of NATO's Financial Reporting and Accountability Framework (FRAF) is possible by decreasing from 22 to three general purpose financial statements and audit reports without any loss in transparency and accountability. In that case, the financial information of individual NATO

entities would still be disclosed in separate budget execution reports annexed to the financial statements and as separate segments in the notes.

5. Size and scale of Reporting Entities. In 2020 NATO Reporting Entities had annual expenses ranging from approximately EUR 1 million to EUR 3,541 million and therefore experienced varying degrees of complexity and materiality in financial reporting and accountabilities depending on their size and mandate.

5.1. IBAN audit opinions, current and prior year observations:

5.1.1. The IBAN notes the generally constant trend from 2018 to 2020<sup>1</sup> in the number of unqualified audit opinions issued both on financial statements (23 in 2018, 20 in 2019 and 21 in 2020) and on compliance (22 in 2018, 21 in 2019 and 19 in 2020). However, seven financial statements were resubmitted to the IBAN after the 31 March 2021 deadline, correcting material misstatements or disclosures found during the audit. This indicates that improvements to the financial reporting process and internal controls are still required.

5.1.2. During the same period, the overall number of qualified opinions on financial statements and compliance remained stable ranging from three to four per annum. Nevertheless, the number of qualified opinions on compliance increased from one in 2019 to three in 2020. In 2020, the IBAN issued a qualified audit opinion for the NATO Communications and Information Organisation (NCIO), and on compliance for the NATO Multi-Role Combat Aircraft Development Production and In-Service Support Management Organisation (NAMMO) and the NATO European Fighter Development, Production and Logistic Management Organisation (NEFMO). Two observations impacted the audit opinion on compliance for NAMMO and NEFMO and one observation impacted the audit opinion on the financial statements and on compliance for NCIO. The NAMMO and NEFMO observations relate to the purchase of a material amount of spare parts by third party stakeholders of Participating Nations on behalf of the NAMMO and NEFMO without the prior approval of commitment by the Financial Controller, as well as the identification of material misstatements in the presentation of the Statement of Budget Execution. The observation for NCIO relates to the completeness of Property, Plant & Equipment (PP&E) and intangible assets, including assets under construction. The constant trend of unqualified opinions on the financial statements reflects in overall terms that NATO is continuing its efforts regarding the implementation of the NATO Accounting Framework (NAF) (reference C). On the other hand, a decrease in the number of unqualified opinions on compliance in 2020 shows a need for enhanced NATO's compliance with the regulations in force.

5.1.3. The total number of observations and recommendations has remained stable since 2018. The number of newly issued observations has increased since 2018, but has remained mainly stable from 2019 to 2020 (33 in 2018, 40 in 2019 and 41 in 2020). Among prior year recommendations, the IBAN notes a mostly constant number of recommendations

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<sup>1</sup> In 2019 and 2020, the IBAN audit mandate covered 22 NATO Reporting Entities compared to 24 in 2018.

in-progress since 2018 while the number of open recommendations from 2019 to 2020 remained the same. IBAN's analysis of all outstanding recommendations indicate that NATO Reporting Entities are generally addressing IBAN recommendations in a timely manner, since 85 recommendations out of 102 outstanding recommendations, or 83%, relate to the prior four financial years (2017-2020) and 17 recommendations, or 17%, relate to recommendations raised in the 2016 financial year or before<sup>2</sup>.

5.1.4. In 2020, the IBAN communicated eight Emphasis of Matter paragraphs to draw users' attention to a matter presented or disclosed in the financial statements and two Other Matter paragraphs covering a matter other than those that are presented or disclosed in the financial statements.

6. Grouping of observations and recommendations: The IBAN categorised the observations and recommendations into five distinct themes for their report:

- Theme 1. Financial and budgetary accounting and reporting;
- Theme 2. PP&E, inventories and intangible assets;
- Theme 3. Procurement, contracting and other arrangements;
- Theme 4. Funding, revenue and cash management; and
- Theme 5. Compliance with other NATO regulations, rules and sound financial management principles.

6.1. While being the most significant in terms of total number, the first theme shows increase in the number of IBAN observations and recommendations from 40 to 44 since 2018. It relates to the preparation and presentation of the financial statements, budget execution statements, accounting and associated internal control and IT processes. However, it also relates to the open recommendation regarding the recognition of post-employment liabilities in the NATO Reporting Entities' financial statements to comply with the NAF (IPSAS 39, Employee Benefits), which will be addressed through a separate RPPB report.

6.2. The number of recommendations in the second theme have remained substantially stable since 2018 and there were ten recommendations in 2020 for nine NATO Reporting Entities. It calls for more progress by NATO Reporting Entities to improve financial accounting and reporting of PP&E as well as inventory and intangible assets. Given the significant amounts involved, this theme is important as it may lead to qualified opinions in the future.

6.3. The number of recommendations in the third theme reduced from nine in 2019 to six in 2020 and no new recommendations were made in 2020 while the number of recommendations in the fourth theme remained stable at 14 from 2019 to 2020. These two

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<sup>2</sup> The 17 recommendations raised in the 2016 financial year or before relate to ten NATO Reporting Entities and all five themes.

themes include recommendations related to procurement processes and arrangements between NATO Reporting Entities or with Nations as well as recommendations related to the management and reporting of funds, revenue and cash. While being the second most significant in terms of total number, the number of recommendations in the fifth theme reduced from 35 in 2018 to 28 in 2020. The majority of recommendations were related to compliance with the NATO Financial Regulations (NFR) (reference B) on risk management, internal control, the statement of internal control and internal audit and those associated with validity of information and solutions, prior approval of commitments, compliance with Civilian Personnel Regulations and representation allowance rules and obtaining related party declarations.

7. The Board recognises the IBAN's key role in providing independent assurance and advice to Council and is encouraged to note the relatively steady number of unqualified and qualified opinions and new recommendations issued during the past three years. On the other hand, the Board expresses concerns with regards an increase in qualified opinions on compliance in 2020 and states its expectations for the fast implementation of IBAN's observations. The Board also notes that seven resubmitted financial statements after 31 March 2021 correcting material misstatements or disclosure indicates that progress is still needed to strengthen internal controls over the financial reporting process in compliance with the NAF. In addition, the Board notes that in order to address qualified audit opinions and observations that are in-progress or open for more than three years, a clear remedial action plan should be provided to the Council with deadlines on the implementation of the outstanding recommendations, submitted with the auditee's response on the IBAN audit of the 2021 financial statements.

## **CONCLUSIONS**

8. The Board welcomes the assessment undertaken by IBAN on the main audit findings on the 2020 financial statements of NATO Reporting Entities allowing Council to focus on strategic issues and provide an overall assessment on the progress made by NATO Reporting Entities in connection with improving financial management, transparency, accountability and consistency.

9. The Board takes note that in IBAN's view the improvement of accountability and transparency to both internal and external stakeholders is achievable by decreasing the number of general purpose financial statements and audit reports.

10. The Board welcomes the generally stable trend in the total number of unqualified audit opinions and new recommendations. However, the Board raises its concerns regards the number of qualified audit opinions on compliance in 2020. The Board also notes that resubmission of financial statements shows that progress is still needed in strengthening internal controls over the financial reporting process in compliance with the NAF. Furthermore, the Board acknowledges that continued efforts are required on PP&E, inventories and intangible assets as well as on compliance with the NFRs, which were in

2020 the main cause of audit qualification. Implementation of risk management, internal controls and internal audit continues to be an area of concern. In this regard the Board, while encouraging NATO Bodies and Reporting Entities to make progress in these areas, notes the upcoming review of the NFRs will assess the options to address some concerns on the lack of clarity and simplicity.

11. The Board acknowledges that an action plan with mitigation measures on the qualified audit opinions and observations that are in-progress or open for more than three years should be submitted to the Council with the auditee's response on the IBAN audit of the 2021 financial statements.

## **RECOMMENDATIONS**

12. The Resource Policy and Planning Board recommends that the Council:

12.1. note this report and the IBAN audit report at reference A;

12.2. agree to the public disclosure of the IBAN audit report and this report in line with agreed policy at reference D.



International Board of Auditors for NATO  
Collège international des auditeurs externes de l'OTAN

Brussels - Belgium



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IBA-A(2022)0009  
10 February 2022

To: Secretary General  
(Attn: Director of the Private Office)

Cc: NATO Permanent Representatives  
Chair, Resource Policy & Planning Board  
Branch Head, Resource Management Branch, NATO Office of Resources  
Private Office Registry

Subject: ***International Board of Auditors for NATO (IBAN) Report on Main Findings from the 2020 Financial Statements audits – IBA-M(2022)0001***

IBAN submits herewith the approved Report on Main Findings from the 2020 Financial Statements audits for distribution to the Council. Considering its strategic and forward-looking nature, I would be pleased to present the Report to the Council for discussion.

Yours sincerely,

Daniela Morgante  
Chair

Attachments: As stated above.

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# IBAN REPORT

## on Main Findings from the 2020 Financial Statements Audits

## FOREWORD BY THE CHAIR

On behalf of the International Board of Auditors for NATO (IBAN), I am delighted to share with you the Report to the North Atlantic Council (Council) on Main Findings from the 2020 Financial Statements Audits. The purpose of this Report is to provide an overview to the Council on the main findings of the 2020 financial statements audits of NATO Reporting Entities.

In the view of strengthening transparency and accountability over the use of NATO's resources, IBAN believes that the current financial reporting complexity of the Organisation, with its 22 NATO Reporting Entities operating under NATO's three juridical personalities, needs to be complemented by additional aggregated information. Through the 2020 edition of this Report, our continuing goal is to support Council's ability to oversee and account for the Organisation's resources.

Travel restrictions and confinement measures imposed as part of the COVID-19 pandemic continued to be a challenge for our financial statements audits for both the reporting entities and for IBAN. While maintaining our independence and thanks to strong and sustained cooperation throughout the audit process, we were able to deliver our entire financial statement audit mandate under very difficult circumstances.

With the aim to serve the interests of our stakeholders in the best way possible, we will continue to report our main findings on our financial statements audits on an annual basis, in accordance with our independent status set out in our Council-approved Charter and in International Standards of Supreme Audit Institutions.



Daniela Morgante  
Chair  
International Board of Auditors for NATO

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## 1. IBAN'S RESPONSIBILITIES REGARDING FINANCIAL STATEMENTS AUDITS

### 1.1 IBAN's Mandate Regarding Financial Statements Audits

1.1.1 In accordance with Article 1 of its Charter, the International Board of Auditors for NATO (IBAN) mandate is to audit NATO Bodies on behalf of the North Atlantic Council (Council) and other NATO Reporting Entities in accordance with Council decisions. For the purposes of this audit mandate, the terms:

- **NATO Body** denotes civilian or military headquarters and other organisations established pursuant to the North Atlantic Treaty, subject to the provisions of either the 1951 Ottawa Agreement or the 1952 Paris Protocol.
- **NATO Reporting Entity** refers to a NATO body or an identifiable budget or area of activity that prepares financial statements. A NATO Reporting Entity may comprise one or more NATO civilian and military bodies, entities, budgets, or activities.

1.1.2 IBAN's mandate regarding financial statements audit covers 22 NATO Reporting Entities that operate under one of the three juridical personalities created by the NATO member States. NATO possesses one of these three personalities by virtue of the Ottawa Agreement. The two Supreme Headquarters, Supreme Headquarters Allied Powers Europe (SHAPE) and Headquarters Supreme Allied Command Transformation (HQ SACT), each possess one of the other two personalities by virtue of the Paris Protocol. Our mandate also covers the financial audit of non-appropriated funds, as far as they are included in the financial statements of a NATO Reporting Entity.

1.1.3 Twenty NATO Reporting Entities operate under the juridical personality possessed by NATO by virtue of the Ottawa Agreement. These NATO Reporting Entities constitute an integral part of the NATO Organisation. Three of the 20 NATO Reporting Entities are the NATO benefit schemes. These benefit schemes apply to all NATO International Civilians including those employed under the two Allied Commands, Allied Command Operations (ACO) and Allied Command Transformation (ACT). The International Staff (IS) carries out the financial management of the NATO benefits schemes centrally.

1.1.4 ACO and ACT are NATO Reporting Entities that exercise respectively the juridical personalities possessed by the Supreme Headquarters SHAPE and HQ SACT by virtue of the Paris Protocol. ACO and ACT respectively include SHAPE and HQ SACT, and their subordinate NATO military bodies authorised to act on their behalf.

1.1.5 The following table presents total expenses for each NATO Reporting Entity.

Table 1: Total Expenses in 2020 per NATO Reporting Entity

Juridical Personality	NATO Reporting Entity	Currency (in million)	Total Expenses 2020 (1)
<b>Ottawa Agreement (1951)</b>			
NATO (Ottawa)	BGX - BICES Group Executive	Not disclosed	Classified
	DCPS - Defined Contribution Pension Scheme (3)	EUR	27
	IMS - International Military Staff	EUR	27
	IS - International Staff	EUR	289
	MSIAC - Munitions Safety Information Analysis Center (5)	EUR	2
	NAGSMO - NATO Alliance Ground Surveillance Management Organisation (2)	EUR	7
	NAHEMO - NATO Helicopter Design and Development Production and Logistics Management Organisation (2)	EUR	12
	NAMEADSMO in Liquidation - NATO Medium Extended Air Defence System Design and Development, Production and Logistics Management Organisation in Liquidation (2)	USD	1
	NAMMO - NATO Multi-Role Combat Aircraft Development Production and In-Service Support Management Organisation	EUR	575
	NAPMA - NATO Airborne Early Warning and Control Programme Management Agency	USD	43
	NATO CPS - NATO Coordinated Pension Scheme/Defined Benefit Pension Scheme (DBPS) (3)	EUR	207
	NCIO - NATO Communications and Information Organisation	EUR	770
	NDC - NATO Defense College	EUR	9
	NEFMO - NATO European Fighter Aircraft Development, Production and Logistic Management Organisation	EUR	3,541
	NETMA - NATO Eurofighter 2000 and Tornado Management Agency	EUR	46
	NFO - NATO Naval Forces Sensor and Weapons Accuracy Check Sites Office (5)	EUR	1
	NNHQ - New NATO Headquarters (4)	EUR	5
	NSPO - NATO Support and Procurement Organisation	EUR	3,388
RMCF - Retirees Medical Claims Fund (3)	EUR	31	
STO - Science and Technology Organisation	EUR	34	
<b>Paris Protocol (1952)</b>			
SHAPE	ACO - Allied Command Operations (6)	EUR	1,065
HQ SACT	ACT - Allied Command Transformation	EUR	139

Source: IBAN data

Notes to Table 1

- (1) All expenses are expressed in EUR million except for NAMEADSMO in Liquidation and NAPMA, which are expressed in USD million. The totals include expenses between NATO Reporting Entities. It is therefore not possible to provide the total expenses for NATO.
- (2) The expenses as per financial statements only contain costs incurred in connection to the administrative budget, reflecting NATO's role as an agent. IBAN also audits the operational expenditure of NAGSMO, NAHEMO and NAMEADSMO in Liquidation, which amounted respectively to EUR 187.7 million, EUR 1,374.5 million and USD 0.1 million for 2020.
- (3) The benefits provided by these benefit schemes apply to NATO international civilians employed by all NATO Reporting Entities concerned, in accordance with the Civilian Personnel Regulations under the Ottawa Agreement and Paris Protocol. Financial statements of NATO benefit plans do not contain a statement of financial performance with expenses, in compliance with International Accounting Standard (IAS) 26 that applies to the preparation of financial statements of retirement benefit plans. Therefore the total decrease in net assets available for benefits are shown for all NATO benefit plans.
- (4) The New Headquarters (NHQ) is an activity of IS. As of next year, this activity will be incorporated in the financial statements of IS.
- (5) MSIAC and NFO are NATO Reporting Entities only in respect of activities carried out by IS in relation to MSIAC and NFO.
- (6) ACO also incorporates contributions to Crisis Response Operations (CRO), field or Mission headquarters and units that have a legal position entirely governed by their applicable mission-specific legal framework.

1.1.6 As shown in the above table, NATO Reporting Entities have different levels of annual expenses ranging from approximately EUR 1 million to EUR 3,541 million in 2020. NATO Reporting Entities therefore experience varying degrees of complexity and materiality in financial reporting and accountabilities depending on their size and mandate (see Table 1).

1.1.7 A simplification of NATO's Financial Reporting and Accountability Framework (FRAF) is possible, while improving the quality of financial information in support of decision-making. A simplification based on the legal framework of NATO would be more in line with the aim of the NATO Accounting Framework/General Purpose Financial Statements and at the same time improve accountability and transparency to both internal and external stakeholders. This approach would lead to a decrease from 22 to 3 general purpose financial statements and audit reports without any loss in transparency and accountability. This is because the financial information of individual NATO entities would still be disclosed in separate budget execution reports annexed to the financial statements and as separate segments in the notes.

1.1.8 In accordance with Article 1 of the IBAN Charter and based on a specific Council authorisation, IBAN also audits financial statements of non-NATO multi-nationally funded or sponsored entities that are not NATO Reporting Entities, but in which NATO has a particular interest. These entities are not NATO Reporting Entities because they do not operate under one of NATO's three juridical personalities. In addition, IBAN also audits under a separate Council mandate the SHAPE International

School, which is an integral element of SHAPE. According to the audit mandates of these entities, audit results are not reported to Council, but to their respective governing bodies. These financial audits do not form part of this report.

## 1.2 Financial Statements Audits and Reporting

1.2.1 IBAN is appointed by Council as the external auditor of NATO Bodies and other Reporting Entities in accordance with Article 14 of the NATO Financial Regulations (NFRs). According to this Article, IBAN shall operate under a Charter approved by Council. The function of IBAN regarding Financial Statements Audit in accordance with Article 2 of the IBAN Charter is:

*To provide independent assurance and advice to the Council and, through their Permanent Representatives, the Governments of member countries that:*

- *the financial statements of the NATO bodies present fairly their financial position, financial performance, and cash flows and that;*
- *the funds have been properly used for the settlement of authorised expenditure and are in compliance with the regulations in force.*

1.2.2 In addition to financial statements audit, in accordance with Article 2 of its Charter, IBAN's functions also cover performance/value for money audit and the NATO Security Investment Programme (NSIP) audit.

1.2.3 IBAN provides an audit report on the financial statements for every NATO Reporting Entity to the Council. The audit report on the financial statements includes an opinion on the financial statements, an opinion on compliance, and may contain audit observations and recommendations.

1.2.4 The IBAN opinion on the financial statements sets out whether the financial statements present fairly the financial position, financial performance, its cash flows, and, when applicable, the budget execution of the NATO Reporting Entity. The IBAN opinion on compliance presents whether something has come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure and are not in compliance with the regulations in force. The IBAN independent external auditor's report therefore contains two separate audit opinions.

1.2.5 In the audit report on the financial statements, IBAN reports observations leading to modified audit opinions and may include any other observations that we consider should be brought to the attention of Council. Observations and recommendations raised during the audit, which have not been included in the IBAN's audit report addressed to Council, are set out in a management letter addressed to the Head of the NATO Reporting Entity.

1.2.6 IBAN conducts its financial audits in different phases, including audit planning, audit fieldwork and audit reporting. As part of the audit fieldwork phase, our audit teams perform audit tests and generally conduct on-site visits at the premises of the NATO Reporting Entities in order to have extensive dialogue and interactions with the auditees. At the end of an on-site visit, we hold a debrief meeting with the entity's staff to discuss preliminary audit findings. Due to the COVID-19 pandemic and associated travel restrictions, IBAN conducted part of its audit work remotely as we were able to perform fewer on-site visits.

1.2.7 Our unclassified audit reports and the related financial statements are published on our website after Council agreement on public disclosure in line with agreed Council policies (C-M(2012)0041 and PO(2015)0052).

1.2.8 In accordance with Article 14 of our Charter, IBAN reports on the audited annual financial statements relating to NATO Reporting Entities. The purpose of this IBAN Report on Main Findings is to provide an overview of the main findings from the 2020 financial statements audits.

### **1.3 Audit Standards and Financial Statements Audit Objectives**

1.3.1 IBAN undertakes its audits in accordance with the principles of the auditing standards of the International Organisation of Supreme Audit Institutions (INTOSAI) as per Article 15 of the IBAN Charter. We are independent and politically neutral in accordance with the INTOSAI Code of Ethics. Our financial audits are conducted according to the International Standards of Supreme Audit Institutions (ISSAI), which are officially authorised and endorsed by INTOSAI. We apply ISSAIs 2200-2899 to the financial statements audit component and ISSAI 4000 to the compliance audit component.

1.3.2 The objective of the audit of the financial statements is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an independent external auditor's report that includes an audit opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements or the accountability needs of users.

1.3.3 The objective of the audit of compliance is to obtain independent assurance about whether something has come to our attention that causes us to believe that the funds have not been properly used for the settlement of authorised expenditure and are not in compliance with the regulations in force.

1.3.4 In accordance with these 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 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.

1.3.5 Three types of paragraphs may also be communicated in the independent external auditor's report, in accordance with auditing standards:

- **Key Audit Matters** are those matters that, in IBAN's professional judgement, were of most significance in the audit of the financial statements of the current period. Key Audit Matters are addressed to Council.
- An **Emphasis of Matter** is communicated if IBAN considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.
- An **Other Matter** is communicated if IBAN considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in our judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

## 1.4 Management's Responsibilities for the Financial Statements and for Compliance

1.4.1 Management's responsibility for the financial statements is laid down in the NFRs (C-M(2015)0025) and Council approved deviations. The Financial Controller is responsible for submitting the financial statements for audit to IBAN no later than 31 March following the end of the financial year.

1.4.2 The financial statements of NATO Reporting Entities are prepared in accordance with the NATO Accounting Framework (C-M(2016)0023 and C-M(2019)0026), adapted from International Public Sector Accounting Standards (IPSAS). In addition, budget execution reports are, when applicable, annexed to the financial statements as required by Article 34.4 of the NFRs.

1.4.3 Financial statements are defined by IPSAS as General Purpose Financial Statements, as they are primarily designed to provide to stakeholders external to NATO a transparent and complete view of NATO's assets, liabilities, income, expenses and cash flow. Budget execution reports are Special Purpose Financial Reports, as they are designed to provide Member nations with visibility as to how resources are used in support of agreed objectives and requirements and in compliance with the NFRs.

1.4.4 The financial statements of each NATO Reporting Entity are signed by the respective Head and Financial Controller, whose confirmation in signing the financial statements covers, but is not limited to, the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources.

1.4.5 This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. It also includes the responsibility for ensuring adequate audit trails in accordance with the NFRs Articles 4.1 and 12.3. The confirmation also covers reporting on the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

1.4.6 Management's Responsibility for compliance arises from the fact that all NATO staff, military and civilian, are obligated to comply with the NFRs, associated Financial Rules and Procedures and internal implementing directives. These include the NATO Civilian Personnel Regulations (CPRs) and other applicable regulations, rules and procedures.

1.4.7 The Head of the NATO Body or other NATO Reporting Entity is responsible and accountable for sound financial management. The financial administration of NATO bodies and other NATO Reporting Entities must incorporate the principles of propriety, sound governance, accountability, transparency, risk management and internal control, internal audit, external audit, and fraud prevention and detection.

## 2. MAIN FINDINGS FROM THE 2020 FINANCIAL STATEMENTS AUDITS

### 2.1 Summary of Audit Opinions

2.1.1 The main findings from the 2020 Financial Statements Audits of the 22 NATO Reporting Entities cover the audit opinions and other paragraphs issued on the financial statements and on compliance, and the observations and recommendations addressed to Council. In order to place these findings into perspective, the audit results related to the 2020 financial statements are compared with the prior two years.

2.1.2 The following audit opinions were issued on the financial statements and on compliance:

**Table 2: Audit Opinions on the financial statements and on compliance**

		2020	2019	2018
Financial statements	Unqualified (1)	21	20	23
	Qualified	1	2	1
	Adverse	-	-	-
	Disclaimer	-	-	-
	Total (2)	22	22	24
Compliance	Unqualified (1)	19	21	22
	Qualified	3	1	2
	Adverse	-	-	-
	Disclaimer	-	-	-
	Total (2)	22	22	24

Source: IBAN data

#### Notes

- (1) The total of unqualified opinions on the financial statements and on compliance for 2019 both increased by 1 compared to the information presented in our IBAN Report on Main Findings from the 2019 Financial Statements Audits (IBA-M(2021)0002-REV1). This change is due to the fact that the 2019 final audit report for NAMEADSMO in Liquidation was issued after the release of IBA-M(2021)0002-REV1 due to COVID-19 and related travel restrictions.
- (2) In 2019 and 2020, our audit mandate covered 22 NATO Reporting Entities compared to 24 in 2018. The Provident Fund was closed in 2018 and the activities of the NATO Staff Centre were integrated into the financial statements of IS as from 2019, in accordance with the NATO Accounting Framework.

2.1.3 The table above shows a generally stable number of unqualified audit opinions issued both on the financial statements and on compliance.

2.1.4 The table below presents the audit opinions issued by IBAN per NATO Reporting Entity for the 2020 financial statements and two comparative years.

**Table 3: Audit Opinions per NATO Reporting Entity**

Reporting Entity	2020		2019		2018	
	F/S (1) Opinion	Compliance Opinion	F/S (1) Opinion	Compliance Opinion	F/S (1) Opinion	Compliance Opinion
ACO	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
ACT	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
BGX	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
DCPS	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
IMS	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
IS	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
MSIAC	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	<b>Qualified</b>
NAGSMO	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
NAHEMO	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
NAMEADSMO in Liquidation	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
NAMMO	Unqualified	<b>Qualified</b>	Unqualified	Unqualified	Unqualified	Unqualified
NAPMA	Unqualified	Unqualified	<b>Qualified</b>	Unqualified	Unqualified	Unqualified
NATO CPS/DBPS	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
NATO Provident Fund (2)	n/a	n/a	n/a	n/a	Unqualified	Unqualified
NATO Staff Centre (2)	n/a	n/a	n/a	n/a	Unqualified	Unqualified
NCIO	<b>Qualified</b>	<b>Qualified</b>	<b>Qualified</b>	<b>Qualified</b>	<b>Qualified</b>	<b>Qualified</b>
NDC	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
NEFMO	Unqualified	<b>Qualified</b>	Unqualified	Unqualified	Unqualified	Unqualified
NETMA	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
NFO	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
NHQ	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
NSPO	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
RMCF	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
STO	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
Unqualified (3)	21	19	20	21	23	22
Qualified	1	3	2	1	1	2

Source: IBAN data

### Notes

(1) Financial Statements (F/S).

(2) Not applicable (n/a) in 2019 and 2020 as the Provident Fund was closed in 2018 and the activities of the NATO Staff Centre were integrated into the financial statements of IS as from 2019, in accordance with the NATO Accounting Framework.

(3) The total of unqualified opinions on the financial statements and on compliance for 2019 both increased by 1 compared to the information presented in our IBAN Report on Main Findings from the 2019 Financial Statements Audits (IBA-M(2021)0002-REV1). This change is due to the fact that the 2019 final audit report for NAMEADSMO in Liquidation was issued after the release of IBA-M(2021)0002-REV1 due to COVID-19 and related travel restrictions.

## 2.2 Summary of Unqualified Audit Opinions

2.2.1 The audit opinions on the financial statements largely relate to the implementation of the NATO Accounting Framework. The NATO Accounting

Framework is a complex set of accounting standards adapted from IPSAS. Implementing this framework requires individual NATO Bodies and other NATO Reporting Entities to maintain a high level of knowledge and expertise.

2.2.2 Since 2018, the number of unqualified audit opinions on the financial statements remained relatively stable with 21 out of a total of 22 NATO Reporting Entities being unqualified for 2020. The stable trend of unqualified opinions on the financial statements reflects in overall terms that NATO is continuing its efforts regarding the implementation of the NATO Accounting Framework. Nevertheless, seven financial statements were resubmitted to IBAN after the 31 March 2021 deadline, correcting material misstatements or disclosures found during our audit. This shows that improvements to the financial reporting process and internal controls are still required (see Table 5 in section 2.5 below).

2.2.3 The audit opinions on compliance largely relate to compliance with the provisions of the NFRs. For NATO Reporting Entities with unqualified opinions on compliance, we found no material matters related to the proper use of funds for the settlement of authorised expenditure and compliance with the regulations in force. The 2015 revision of the NFRs introduced a number of new requirements that NATO Reporting Entities largely implemented.

2.2.4 The number of unqualified audit opinions on compliance decreased from 21 to 19 over the same period. The relatively stable number of unqualified opinions on compliance generally reflects NATO's compliance with the regulations in force.

## 2.3 Summary of Qualified Audit Opinions

2.3.1 IBAN issued a qualified audit opinion on the 2020 financial statements and on compliance for the NATO Communications and Information Organisation (NCIO), and on compliance for the NATO Multi-Role Combat Aircraft Development Production and In-Service Support Management Organisation (NAMMO) and the NATO European Fighter Aircraft Development, Production and Logistic Management Organisation (NEFMO).

2.3.2 The qualified audit opinions on the 2020 financial statements and on compliance for NCIO relate to the completeness of Property Plant and Equipment (PP&E) and Intangible Assets, including assets under construction. We were not able to obtain sufficient evidence in respect to the completeness of PP&E and Intangible Assets, including assets under construction, reported in the 2020 Financial Statements. Additionally, PP&E and Intangible Assets recorded in the legacy accounting systems have not yet been fully migrated into the new Enterprise Business Applications (EBA) system and reported in the NCIO 2020 Financial Statements. Furthermore, NCIO did not include in the Financial Statements a note disclosure for Communications and Information Systems (CIS) assets that were under construction and development prior to 1 January 2018, in accordance with the NATO Accounting Framework. As a result, we were not able to obtain sufficient evidence in respect to the fair presentation of expenses and, given the Agency's no-profit/no-loss model, of

its associated revenue. In addition, we did not obtain sufficient evidence that a comprehensive inventory was established and maintained as required by Article 12 of the NFRs, which applies to all assets irrespective of when they were acquired, and requires that comprehensive accounting records are established and maintained for all assets.

2.3.3 The qualified audit opinions on compliance for NAMMO and NEFMO both relate to the following observations:

- Third party stakeholders of Participating Nations to NAMMO and NEFMO independently purchased a material amount of spare parts on behalf of NAMMO and NEFMO, and thereby entered into legally binding commitments with NAMMO and NEFMO funds without the prior approval of commitment by the Financial Controller. This is not compliant with Article 25 of the NFRs.
- The Statement of Budget Execution of both NAMMO and NEFMO were reported on a cash basis, rather than an accrual basis. This is not compliant with Article 25.2 of the NFRs, which states that appropriated funds for which goods and services have been rendered, but for which the invoice has not been received by the end of the financial year, shall be recorded as an accrued liability and the commitment shall be reduced. As a result, the expenditure of NAMMO and NEFMO incurred during the financial year were materially misstated in the Statement of Budget Execution.

## 2.4 Overview of paragraphs communicated in the 2020 independent external auditor’s reports

2.4.1 The table below contains an overview of all paragraphs communicated in the independent external auditor’s reports on the 2020 financial statements in accordance with ISSAIs:

**Table 4: Paragraphs communicated in the 2020 independent external auditor’s reports**

Reporting Entity	Emphasis of Matter	Other Matter
ACO	2	1
BGX	1	-
MSIAC	1	-
NAMMO	1	-
NCIO	1	-
NFO	1	-
NSPO	-	1
RMCF	1	-
<b>Total</b>	<b>8</b>	<b>2</b>

Source: IBAN data

2.4.2 IBAN communicated eight Emphasis of Matter paragraphs to draw users' attention to a matter presented or disclosed in the financial statements. IBAN also communicated two Other Matter paragraphs covering a matter other than those that are presented or disclosed in the financial statements.

## 2.5 Financial statements resubmitted after 31 March 2021 deadline

2.5.1 According to the NFRs, the deadline for submitting the 2020 financial statements for audit to IBAN was 31 March 2021. As of 31 March 2021, 21 financial statements out of 22 were received by IBAN. The remaining set of financial statements was received shortly after.

2.5.2 During the audit of the 2020 financial statements, IBAN agreed to audit the financial statements resubmitted after 31 March 2021 by the following seven NATO Reporting Entities:

**Table 5: Resubmitted Financial Statements per NATO Reporting Entity**

NATO Reporting Entities	Resubmitted F/S	Month F/S Resubmitted
ACT	1	October 2021
IS	1	September 2021
NAHEMO	1	July 2021
NAMEADSMO in Liquidation	1	November 2021
NCIO	1	May 2021
NFO	1	July 2021
STO	1	June 2021
<b>Total F/S Resubmissions</b>	<b>7</b>	

Source: IBAN data

2.5.3 The above seven Financial Statements resubmitted after 31 March represent 32% of the 22 financial statements submitted to IBAN for audit. These resubmissions corrected material misstatements or disclosures identified during the audit. Without these restated financial statements resubmitted after 31 March, the number of financial statements containing material errors could have increased from one to eight. The above number of resubmitted financial statements indicates that progress is still needed to strengthen internal controls over the financial reporting process in order to ensure that the financial statements submitted by 31 March to IBAN for audit are prepared in accordance with the NATO Accounting Framework.

## 2.6 Summary of Observations and Recommendations

2.6.1 The IBAN audit report includes observations and recommendations leading to modified audit opinions and may include other significant observations and recommendations that we consider should be brought to the attention of Council.

2.6.2 In addition to reporting on observations and recommendations issued for the financial year covered by the report, a follow-up is performed on the status of observations and recommendations from the previous years' audits. During a follow-

up, an outstanding recommendation can either receive the status open, in-progress, or closed.

**Open:** is used for outstanding recommendations for which no notable progress has been achieved to date.

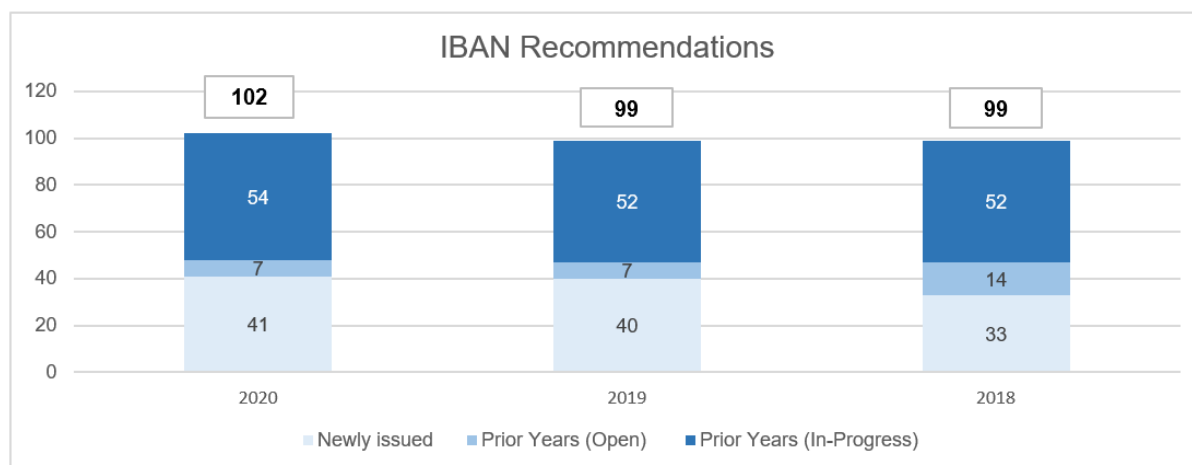
**In-progress:** is used for outstanding recommendations when the NATO Reporting Entity has started to implement the recommendation or when some, but not all, sub-recommendations are closed;

**Closed:** is used for previous years' audits' recommendations that were already implemented, superseded, or have lapsed.

Overview of current and prior year recommendations

2.6.3 The chart below contains an overview of all current and prior year recommendations as per IBAN audit reports for the financial years 2020, 2019 and 2018 based on the status of the recommendations described above.

**Chart 1: Number of IBAN recommendations**



Source: IBAN data

2.6.4 The above chart shows that the total number of observations and recommendations has remained substantially stable since 2018. The number of newly issued observations has increased since 2018, but has remained generally stable from 2019 to 2020. Among prior year recommendations, the share of recommendations in-progress also remained relatively stable since 2018. In general terms, this can be interpreted as a signal that financial reporting and compliance at NATO is in progress and NATO Reporting Entities are currently in the process of addressing our prior year recommendations. The stable number of newly issued observations and recommendations since 2019 indicates that progress is still required in order to ensure compliance with the NATO Accounting Framework and NATO regulations, rules and procedures.



Summary of main findings per theme

2.6.5 In order to present a more explanatory overview of the areas in which audit observations are being made, all audit observations from the 2020, 2019 and 2018 audit reports were categorised on the basis of five themes. This presentation of the observations allows to identify the areas in which most audit findings occur and, therefore, where improvements are still needed. When a recommendation relates to more than one theme, it has been included in the category that we believe carries more weight.

**Table 6: Observations and Recommendations per theme**

IBAN Observations and Recommendations per Audit Theme	Total number of IBAN Observations and Recommendations			Of which, IBAN Observations and Recommendations leading to modified audit opinion					
	2020	2019	2018	On F/S			On compliance		
				2020	2019	2018	2020	2019	2018
1. Financial and budgetary accounting and reporting	44	39	40		-	-	2	-	-
2. Property, plant, equipment, inventories and intangible assets	10	10	8	1	2	2	1	1	1
3. Procurement, contracting and other arrangements	6	9	8		-	-	-	-	-
4. Funding, revenue and cash management	14	14	8		1	-	-	-	-
5. Compliance with other NATO regulations, rules and sound financial management principles	28	27	35	-	-	-	2	-	1
<b>Total number of IBAN Observations and Recommendations</b>	<b>102</b>	<b>99</b>	<b>99</b>	<b>1</b>	<b>3</b>	<b>2</b>	<b>5</b>	<b>1</b>	<b>2</b>

Source: IBAN data.

2.6.6 A modified audit opinion issued in an audit report may be the result of multiple observations and recommendations. This explains the difference between the above number of observations and recommendations leading to a qualification and the number of audit qualifications in a given financial year presented in Tables 2 and 3 above.

Financial and budgetary accounting and reporting

2.6.7 This theme includes recommendations relating to the preparation and presentation of the financial statements, budget execution statements, accounting and associated internal control and Information Technology (IT) processes. The number of observations and recommendations increased from 40 to 44 since 2018.

2.6.8 During our audits, we identified errors and internal control weaknesses related to the preparation and presentation of financial statements and budget execution statements. In 2020, in seven cases, this led NATO Reporting Entities to resubmit their financial statements for audit after 31 March 2021 in order to correct material errors.

2.6.9 Resubmitted financial statements aside, financial reporting across NATO Reporting Entities generally remained stable. Improvements are still required in the internal controls related to the preparation of financial statements by 31 March, including adequate audit trails as also required by the NFRs in order to avoid material errors occurring.

2.6.10 The recommendations mainly related to the following matters:

- Internal control weaknesses in the financial reporting process, covering areas such as IT controls, the estimation of accrued liabilities and expenses, reporting of activities undertaken as an agent, foreign currency conversions, comparative information, Value Added Tax (VAT), and the use of a dedicated fund reserve.
- Confirmations of year-end assets and liabilities between NATO Reporting Entities were not systematically performed.
- Weaknesses in the presentation of budget execution statements, including commitments, amounts carried forward and lapsed appropriations.
- Estimated financial impact of Resolute Support (RS) withdrawal was not yet available.
- Disclosure of previous year errors in the estimation of the Post-Employment Medical Scheme Liabilities.
- Post-employment liabilities were not recognised by NATO and only disclosed in the notes to the financial statements of the benefit schemes.

2.6.11 NATO as a whole does not recognise post-employment liabilities. Instead, these are disclosed in the notes to the financial statements of the two defined benefit schemes. As of 31 December 2020, the post-employment liability for the Coordinated Pension Scheme amounted to EUR 9.3 billion and EUR 5.3 billion for the NATO Retirees Medical Claims Fund. The NATO Accounting Framework (IPSAS 39) requires NATO Reporting Entities with employees contributing to the benefit funds to recognise a post-employment liability in their financial statements. Therefore, all NATO Reporting Entities with employees contributing to the benefit funds need in principle to recognise their share of the EUR 14.6 billion post-employment liability. Not doing so would normally require an adaptation to the NATO Accounting Framework.

2.6.12 In 1997, Council decided not to account for the post-employment benefit liability (C-M(97)85) regarding defined benefit schemes. With the subsequent Council decision to implement IPSAS and the following Council approval of the NATO Accounting Framework, it is unclear whether the Council decision not to account for the post-employment benefit liability still applies. This is especially the case given that the NATO Accounting Framework does not include an adaptation to IPSAS 39, nor

does it refer to this Council decision. Clarification in NATO's regulatory and accounting framework is needed in this respect.

Property, plant, equipment, inventories and intangible assets

2.6.13 This theme relates to the internal control, accounting and reporting of property, plant, equipment and inventories, covering both tangible and intangible assets. The number of recommendations have remained substantially stable since 2018 and there were ten recommendations in 2020 for nine NATO Reporting Entities. Improvements are still required in the financial accounting and reporting of PP&E, inventory and intangible assets to address the following issues and weaknesses:

- Lack of reliable and coordinated processes for updating asset registers and capitalising assets.
- Inaccurate and incomplete asset registers for tangible and intangible assets, including transfers of assets between NATO Reporting Entities.
- Incompleteness of recognition and disclosure of PP&E and intangible assets (including assets under construction), especially related to CIS, NSIP funded assets, Vessels and Contractor Acquired Property.
- Errors in the recognition of inventories in the financial statements.

2.6.14 From a compliance perspective, Article 12 of the NFRs on Internal Control requires NATO Reporting Entities to establish and maintain comprehensive accounting records of all assets and liabilities. Such accounting records include an inventory of PP&E and Intangible Assets, including assets under construction, indicating for instance the types of assets held, locations, the number of items per asset category and asset value. Article 12 of the NFRs applies to all assets, irrespective of when they were acquired. Establishing and maintaining a comprehensive inventory of assets is an important internal control to ensure the safeguard of the assets of NATO Reporting Entities.

2.6.15 This theme is significant as it may in the future lead to qualified opinions on the financial statements and on compliance, given the significant amounts involved.

Procurement, contracting and other arrangements

2.6.16 This theme includes recommendations related to procurement processes and arrangements between NATO Reporting Entities or with Nations. The number of recommendations in this area reduced from nine in 2019 to six in 2020. No new recommendations were made in 2020. Our prior year audits found some weaknesses in the procurement processes around monitoring and control over potential conflicts of interest in procurement, changing and delayed contract requirement definition, and the adaptation to the VAT regime. They also include the need for a memorandum of agreement and logistic support agreements with customer-funded agencies.

Funding, revenue and cash management

2.6.17 This theme includes recommendations related to the management and reporting of funds, revenue and cash. The number of observations and recommendations has increased since 2018 but has remained stable at 14 from 2019 to 2020. These audit recommendations mainly related to the accounting and reporting of revenue, temporary loans between three NATO Reporting Entities, calculation of customer rates and overhead assumptions, and the accounting and management of significant cash holdings and investments.

Compliance with other NATO regulations, rules and sound financial management principles

2.6.18 The number of recommendations in this area reduced from 35 in 2018 to 28 in 2020. Out of a total of 28 recommendations in 2020, the majority were related to compliance with the revised NFRs on risk management, internal control, the statement of internal control and internal audit. These requirements cover all parts of NATO's operations, with a much broader scope than only financial and budgetary matters. The delay in achieving compliance with these rules is partly due to a lack of clarity as to who in practice is responsible and accountable for their implementation. In our view, any new revision to the NFRs should seek to clarify responsibilities related to internal control and risk management.

2.6.19 Other recommendations included the need to strengthen the ability to challenge the validity of information and solutions provided by the NATO customer-funded agencies. They also included missing prior approval of commitments in line with the NFRs, compliance with the CPRs and representation allowance rules, and the need to obtain related party declarations from key management personnel including, if needed, from members of supervisory bodies and board of directors.

Aging of recommendations

2.6.20 The table below provides an overview of the aging of all recommendations categorised based on the five themes above.

**Table 7: Aging of recommendations per theme**

IBAN Recommendations per Audit Theme	2020	2017-2019	2016 or before
1. Financial and budgetary accounting and reporting	25	14	5
2. Property, plant, equipment, inventories and intangible assets	4	5	1
3. Procurement, contracting and other arrangements	-	1	5
4. Funding, revenue and cash management	4	9	1
5. Compliance with other NATO regulations, rules and sound financial management principles	8	15	5
<b>Total number of IBAN Recommendations</b>	<b>41</b>	<b>44</b>	<b>17</b>
<b>Grand total</b>	<b>102</b>		

Source: IBAN data.

2.6.21 The above table shows that 44 recommendations out of 102, or 43%, relate to the prior three financial years (2017-2019), and 17 recommendations, or 17%, relate to recommendations raised in the 2016 financial year or before.

2.6.22 The 17 recommendations raised in the 2016 financial year or before relate to ten NATO Reporting Entities and all five themes. These recommendations mainly relate to the need for adequate net assets to fund promised future expected employee benefits, insufficient confirmation of year-end assets and liabilities between NATO Reporting Entities, and improvements needed to management accounting by project. They also relate to weaknesses in financial reporting and accounting, such as the lack of reliable and coordinated processes for capitalising assets and updating asset registers, the need for a memorandum of agreement and logistic support agreements with customer-funded agencies, and compliance with NATO regulations, such as in the area of internal control, risk management and internal audit. These 17 outstanding recommendations per NATO Reporting Entity and per theme are presented in the table below:

**Table 8: Outstanding recommendations from 2016 or before per NATO Reporting Entity and per theme**

Year observation raised	NATO Reporting Entity	Theme	N°of Observations and Recommendations
2012	RMCF	4. Funding, revenue and cash management	1
2013	ACO	1. Financial and budgetary accounting and reporting	1
2014	STO	5. Compliance with NATO regulations, rules and sound financial management principles	1
2015	ACO	3. Procurement, contracting and other arrangements	1
	DCPS	1. Financial and budgetary accounting and reporting	1
	MSIAC	5. Compliance with NATO regulations, rules and sound financial management principles	1
	NFO	5. Compliance with NATO regulations, rules and sound financial management principles	1
	NSPO	1. Financial and budgetary accounting and reporting	1
	NSPO	3. Procurement, contracting and other arrangements	1
2016	ACO	3. Procurement, contracting and other arrangements	2
	ACO	5. Compliance with NATO regulations, rules and sound financial management principles	1
	ACT	5. Compliance with NATO regulations, rules and sound financial management principles	1
	NAHEMO	2. Property, plant, equipment and inventories	1
	NClO	3. Procurement, contracting and other arrangements	1
	NSPO	1. Financial and budgetary accounting and reporting	2
			17

Source: IBAN data.

## 2.7 Conclusion

2.7.1 IBAN's audits of the financial statements of NATO Reporting Entities show a relatively stable number of unqualified opinions issued during the past three years. It also shows a relatively stable number of new recommendations, which remains encouraging. With respect to the unqualified opinions on the financial statements, confidence can be drawn from the fact that for the majority of NATO Reporting Entities, the financial statements present fairly their financial position, financial performance, and cash flows. Nevertheless, the seven resubmitted financial statements after 31 March 2021 correcting material misstatements or disclosures identified during the audit indicates that progress is still needed to strengthen internal controls over the financial reporting process in compliance with the NATO Accounting Framework.

2.7.2 Strengthening internal controls over the accounting and financial reporting process, including maintaining adequate audit trails, as well as over the management and reporting of funds, revenue and cash, may lead to further significant progress. Going forward NATO entities need to pay particular attention to the completeness of PP&E, inventories and intangible assets. In addition, we stress the importance of addressing in a timely manner our prior year recommendations on recognising post-employment liabilities and other prior year recommendations, also considering that a significant number of these is outstanding for more than three years.

2.7.3 In light of the ongoing revision of the NATO Financial Regulations and upcoming revision of the NATO Accounting Framework, NATO will have the opportunity to ensure that the regulations, rules and procedures are fully suited to the complexity of the Organisation and the two Supreme Commands. Achieving full compliance with NATO regulations, rules and procedures, and the NATO Accounting Framework remains a central focus going forward.

2.7.4 Improving the quality of financial information in support of decision-making and external accountability is also possible by simplifying NATO's FRAF. A simplification based on the legal framework of NATO would be more in line with the underlying aim of the NATO Accounting Framework and at the same time improve accountability and transparency to both internal and external stakeholders. This approach would lead to a decrease from 22 to 3 financial statements and audit reports without any loss in transparency and accountability, given that financial information of individual NATO entities would still be disclosed in separate budget execution reports annexed to the three financial statements and as separate segments in the notes.

**List of Abbreviations/Acronyms**

ACO	Allied Command Operations
ACT	Allied Command Transformation
BGX	NATO Battlefield Information, Collection and Exploitation Systems Group Executive
CIS	Communications and Information Systems
Council	North Atlantic Council
CPRs	Civilian Personnel Regulations
DCPS	NATO Defined Contribution Pension Scheme
ERP	Enterprise Resource Programme
FORACS	Naval Forces Sensor and Weapons Accuracy Check Sites (FORACS)
FRAF	Financial Reporting and Accountability Framework
F/S	Financial statements
HQ SACT	Headquarters Supreme Allied Command Transformation
IBAN	International Board of Auditors for NATO
IMS	International Military Staff
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
IS	International Staff
ISSAI	International Standards of Supreme Audit Institutions
MSIAC	Munitions Safety Information Analysis Center
MWA	Morale and Welfare Activities
NAGSMO	NATO Alliance Ground Surveillance Management Organisation
NAHEMO	NATO Helicopter Design and Development Production and Logistics Management Organisation



## NATO UNCLASSIFIED

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NAMEADSMO in Liquidation	NATO Medium Extended Air Defence System Design and Development, Production and Logistics Management Organisation in Liquidation
NAMMO	NATO Multi-Role Combat Aircraft Development Production and In-Service Support Management Organisation
NAPMA	NATO Airborne Early Warning and Control Programme Management Agency
NATO	North Atlantic Treaty Organisation
NATO CPS/DBPS	NATO Coordinated Pension Scheme (CPS), also referred to as the Defined Benefit Pension Scheme (DBPS)
NCIO	NATO Communications and Information Organisation
NDC	NATO Defense College
NEFMO	NATO European Fighter Aircraft Development, Production and Logistic Management Organisation
NETMA	NATO Eurofighter 2000 and Tornado Management Agency
NFO	NATO FORACS Office
NFRs	NATO Financial Regulations
NNHQ	New NATO Headquarters
NSIP	NATO Security Investment Programme
NSPO	NATO Support and Procurement Organisation
NR	NATO Restricted
Ottawa Agreement	Agreement on the status of the North Atlantic Treaty Organization, National Representatives and International Staff, signed in 1951 in Ottawa
Paris Protocol	Protocol to the SOFA on the Status of International Military Headquarters signed in 1952 in Paris
PP&E	Property Plant and Equipment
RMCF	Retirees Medical Claims Fund
SOFA	Agreement between the Parties to the North Atlantic Treaty regarding the Status of their Forces signed in 1951 in London

NATO UNCLASSIFIED

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SHAPE                      Supreme Headquarters Allied Powers Europe  
STO                         NATO Science and Technology Organisation

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