



NORTH ATLANTIC COUNCIL
CONSEIL DE L'ATLANTIQUE NORD

NATO UNCLASSIFIED

11 February 2025

**DOCUMENT
PO(2025)0020-AS1**

**IBAN REPORT ON MAIN FINDINGS FROM THE
2022 FINANCIAL STATEMENTS AUDITS**

ACTION SHEET

On 11 February 2025, under the silence procedure, the Council noted the RPPB report attached to PO(2025)0020, agreed its conclusions and recommendations, noted the IBAN Report and agreed to the public disclosure of the IBAN Report.

(Signed) Mark RUTTE
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to PO(2025)0020.

NATO UNCLASSIFIED





NATO UNCLASSIFIED

4 February 2025

DOCUMENT
PO(2025)0020
Silence Procedure ends:
11 Feb 2025 – 17.30

To: Permanent Representatives (Council)
From: Secretary General

**IBAN REPORT ON MAIN FINDINGS FROM THE
2022 FINANCIAL STATEMENTS AUDITS**

1. I attach the Resource Policy and Planning Board (RPPB) report on the International Board of Auditors for NATO (IBAN) Report on Main Findings from the 2022 Financial Statements audits.
2. I do not believe this issue requires further discussion in Council. Therefore, **unless I hear to the contrary by 17.30 on Tuesday, 11 February 2025**, 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 the IBAN Report.

(Signed) Mark RUTTE

1 Annex
1 Enclosure

Original: English

NATO UNCLASSIFIED



2022 FINANCIAL STATEMENTS AUDITS**Report by the Resource Policy and Planning Board**

References

- | | | |
|----|-----------------|--|
| A. | IBA-A(2024)0047 | IBAN Report on Main Findings from the 2022 Financial Statements audits |
| B. | PO(2015)0052 | Wales Summit tasker on transparency and accountability |

INTRODUCTION

1. This report addresses RPPB considerations on the International Board of Auditors for NATO (IBAN) Report on Main Findings from the 2022 Financial Statements audits to further enhance Council's ability to oversee and account for the Organization's resources, as well as enhanced transparency and accountability over their use.

AIM

2. The aim is to enable the RPPB to reflect on strategic issues or concerns stemming from this report and to recommend courses of action to Council as applicable, which have the potential to improve transparency, accountability and consistency.

DISCUSSION

3. The RPPB noted the IBAN Main Findings Report and recognized the significant work done by the IBAN in the audits for the 2022 financial statements.

4. The RPPB noted that the number of unqualified audit opinions on the financial statements remains relatively stable over the last three years with 21 out of 22 NATO Reporting Entities unqualified in the 2022 financial year.

5. The RPPB noted that the existing adaptations to the NAF will be merged in the updated NAF, as part of the ongoing work-strand on the review of the NAF.

6. The RPPB expressed concerns related to the resubmission of financial statements by five NATO Reporting Entities after the 31 March 2023 deadline. These resubmissions, subject to IBAN's decision, corrected material misstatements or disclosures identified by IBAN during the audit period, potentially qualifying the audit opinion on the financial statements.

7. Regarding material errors identified leading to resubmissions, the IBAN explained that there are working level discussions between IBAN auditors and the auditees during the audit process. . In order to decrease the risk of resubmissions of financial statements, the RPPB expects adequate actions to be taken by the management of the corresponding entities in order to prevent this trend from becoming a systematic issue (e.g. competent accounting staff, staff training, more collaboration among NATO entities).

8. The RPPB will closely monitor future occurrences and trends for resubmissions and, if required, in consultation with IBAN, the RPPB may consider revising the handling of these financial statements in the future. The Head of Financial Reporting Policy (HFRP) will raise the topic of financial statements resubmissions at the Working Group of Financial Controllers' meeting to be held in November 2024.

9. The RPPB noted that NATO Reporting Entities are generally addressing and implementing prior years' recommendations. For the financial year 2022, out of 82 recommendations in total, 40 were newly issued and 42 remained open/in-progress. Of the open/in-progress recommendations, 32 recommendations (39%) related to the three prior financial years (2019-2021), while 10 recommendations (12%) related to the 2018 financial year or before. The RPPB recalls that in order to address recommendations that have remained in-progress or open for more than three years, the NATO Reporting Entities need to provide an action plan to Council with timelines on the implementation, to be submitted with the response on the IBAN audits.

CONCLUSIONS

10. The RPPB welcomes the IBAN Report on the Main Findings from the 2022 Financial Statements audits allowing Council to focus on strategic issues and providing an overall assessment on the progress made by NATO Reporting Entities in connection with improving financial management, transparency, accountability and consistency.

11. The RPPB noted the stable trend in the number of unqualified audit opinions on the financial statements over the last three years and welcomes that NATO Reporting Entities are generally addressing and implementing prior years' recommendations.

12. The RPPB expressed concerns related to the resubmission of financial statements by five NATO Reporting Entities after the 31 March 2023 deadline. The RPPB will closely monitor future occurrences and trends and, if required, in consultation with IBAN, the RPPB may consider revising the handling of these financial statements in the future.

RECOMMENDATIONS

13. The Resource Policy and Planning Board recommends that Council:

13.1. note this report, the conclusions and concerns in paragraphs 10 to 12 and the IBAN Report at reference A;

13.2. approve the public disclosure of the IBAN Report at reference A and this report in line with agreed policy at reference B.



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

Brussels - Belgium



NATO UNCLASSIFIED

IBA-A(2024)0047
12 June 2024

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 2022 Financial Statements audits – IBA-M(2024)0002***

IBAN submits herewith the approved Report on Main Findings from the 2022 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.

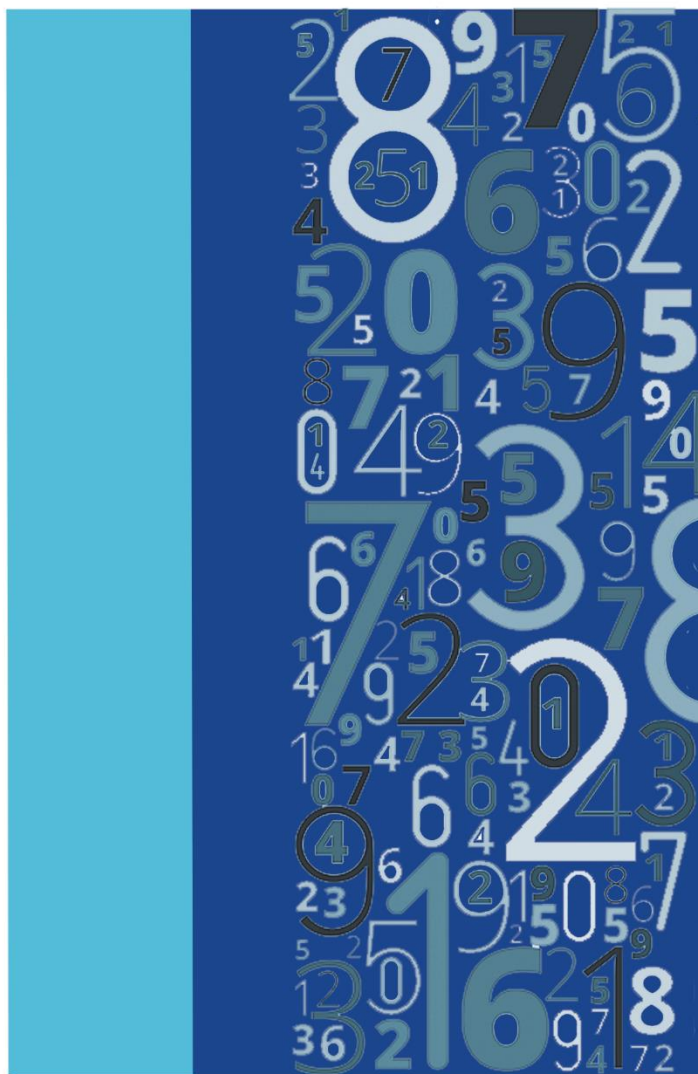
Yours sincerely,

Radek Visinger
Chair

Attachments: As stated above.

NATO UNCLASSIFIED

International Board of Auditors for NATO
1110 Brussels, Belgium
Email: mailbox.IBAN@hq.nato.int



IBAN REPORT

on Main Findings from the 2022 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 IBAN Report to the North Atlantic Council (Council) on Main Findings from the 2022 Financial Statements Audits. The purpose of this Special Report is to provide an annual overview on the main findings of the 2022 financial statements audits of NATO Reporting Entities.

As per IBAN Charter, our Financial Statements Audits include a financial statements audit component and a compliance audit component. The objective of the financial statements audit component is to obtain a high level of assurance about whether the financial statements as a whole are free from material misstatement. The objective of the compliance audit component is to obtain independent assurance about 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 assurance on compliance is limited in a sense that, as part of the audit of the financial statements, IBAN does not certify the overall compliance with all regulations in force.

Based on the small number of IBAN's positions included in the audit reports in the case of disagreement or partial agreement with our observations and recommendations, NATO Reporting Entities have in majority agreed with our findings. Moreover, NATO Reporting Entities are generally addressing and implementing prior year recommendations. This confirms the trend of improvement in the quality of information in the financial statements available to final users and in the efforts to comply with NATO regulations and rules. However, there are still a considerable number of outstanding recommendations to address, some of which relate to resubmissions correcting material qualifying errors. Going forward, NATO Reporting Entities and governance need to pay particular attention to compliance with the NATO Financial Regulations and the NATO Accounting Framework.

In this context, with the aim to serve the interests of our stakeholders in the best way possible, we provide through this Report aggregated information on our audit findings and, thereby, additional support to Council's ability to oversee and account for the Organisation's resources, as well as enhanced transparency and accountability over their use.

Any suggestions that could further improve the quality of this report or increase its informational value for the Council can be addressed to the IBAN.



Radek Visinger
Chair
International Board of Auditors for NATO



TABLE OF CONTENTS

FOREWORD BY THE CHAIR 2

1. IBAN’S RESPONSIBILITIES REGARDING FINANCIAL STATEMENTS AUDITS 4

1.1 IBAN’s Mandate Regarding Financial Statements Audits 4

1.2 Financial Statements Audits and Reporting 8

1.3 Audit Standards and Financial Statements Audit Objectives 10

1.4 Management’s Responsibilities for the Financial Statements and for Compliance 11

1.5 Further adaptations to the NATO Accounting Framework 13

2. MAIN FINDINGS FROM THE 2022 FINANCIAL STATEMENTS AUDITS 14

2.1 Audit Opinions 14

2.2 Unqualified Audit Opinions 16

2.3 Qualified Audit Opinions 16

2.4 Adverse Audit Opinion 18

2.5 Overview of paragraphs communicated in the 2022 independent external auditor’s reports 19

2.6 Financial statements resubmitted after 31 March 2023 deadline 20

2.7 Observations and recommendations 21

2.8 Main findings per theme 25

3. CONCLUSION 30

Annex

1. List of Abbreviations/Acronyms 31

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. Our mandate also covers the financial audit of NATO 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. The juridical personality of these NATO Reporting Entities is an intrinsic part of that of NATO and cannot be distinguished from it. Three of them are the NATO benefit schemes that 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 different NATO benefit schemes centrally.

1.1.4 The NATO Central Europe Pipeline System (CEPS) Programme is an integral part of the NATO Support and Procurement Organisation (NSPO), which is one of the twenty NATO Reporting Entities operating under the juridical personality possessed by NATO by virtue of the Ottawa Agreement. The CEPS Programme includes four CEPS National Organisations (NO): the Belgian Pipeline Organisation (BPO) for Belgium and Luxembourg, the 'Defensie Pijpleiding Organisatie' (DPO) for the Netherlands, the 'Fernleitungs-Betriebsgesellschaft mbH' (FBG) for Germany and the 'Service National des Oléoducs Interalliés' (SNOI) for France. The CEPS NO are established by the CEPS Host Nations, and not by the Council, with a juridical personality that is different from the juridical personality possessed by NATO by virtue of the Ottawa Agreement.

1.1.5 ACO and ACT are NATO Reporting Entities that exercise respectively the juridical personalities possessed by the Supreme Headquarters Allied Powers Europe (SHAPE) and HQ Supreme Allied Commander Transformation (HQ SACT) by virtue of the Paris Protocol. ACO and ACT respectively include SHAPE and HQ SACT, and their subordinate NATO bodies authorised to act on their behalf. ACO also incorporates Crisis Response Operations (CRO), field or mission headquarters and units, including NATO Mission Iraq (NMI) and Kosovo Force (KFOR), which have a legal position entirely governed by their applicable mission-specific legal framework. NATO-led CRO have a juridical personality that is different from the juridical personality possessed by SHAPE by virtue of the Paris Protocol.

1.1.6 The following table presents the total expenses of each NATO Reporting Entity according to their Statement of Financial Performance. As NATO (Ottawa Agreement) does not prepare combined financial statements for the 20 entities operating under its single juridical personality, in which inter-entity transactions would be eliminated, it is not possible to present the total amount of net expenses incurred by NATO (Ottawa Agreement).

Table 1: Total Expenses in 2022 per NATO Reporting Entity

Juridical Personality	NATO Reporting Entity	Currency (in million)	Total Expenses 2022 (1)	Total Expenses 2021 (1)
Ottawa Agreement (1951)				
NATO (Ottawa)	BGX - BICES Group Executive	Not disclosed	Classified	Classified
	DCPS - Defined Contribution Pension Scheme (2)	EUR	161	45
	DIANA - Defence Innovation Accelerator for the North Atlantic (6)	EUR	1	-
	IMS - International Military Staff	EUR	39	28
	IS - International Staff	EUR	338	299
	MSIAC - Munitions Safety Information Analysis Center (3)	EUR	2	2
	NAGSMO i.L. - NATO Alliance Ground Surveillance Management Organisation in Liquidation (4)	EUR	3	7
	NAHEMO - NATO Helicopter Design and Development Production and Logistics Management Organisation (4)	EUR	14	13
	NAMEADSMO i.L. - NATO Medium Extended Air Defence System Design and Development, Production and Logistics Management Organisation in Liquidation (4)	USD	1	1
	NAMMO - NATO Multi-Role Combat Aircraft Development Production and In-Service Support Management Organisation (5) (6)	EUR	-	-
	NAPMA - NATO Airborne Early Warning and Control Programme Management Agency	USD	20	23
	NATO CPS/DBPS - NATO Coordinated Pension Scheme/Defined Benefit Pension Scheme (2)	EUR	248	217
	NCIO - NATO Communications and Information Organisation	EUR	722	791
	NDC - NATO Defense College	EUR	13	11
	NEFMO - NATO European Fighter Aircraft Development, Production and Logistic Management Organisation (4) (5)	Not disclosed	Commercially Sensitive	Commercially Sensitive
	NETMA - NATO Eurofighter 2000 and Tornado Management Agency	EUR	50	46
	NFO - NATO Naval Forces Sensor and Weapons Accuracy Check Sites Office (3)	EUR	1	1
	NSPO - NATO Support and Procurement Organisation	EUR	3,191	2,795
	RMCF - Retirees Medical Claims Fund (2)	EUR	96	31
	STO - Science and Technology Organisation	EUR	34	35
Paris Protocol (1952)				
SHAPE	ACO - Allied Command Operations	EUR	1,178	1,138
HQ SACT	ACT - Allied Command Transformation	EUR	174	148

Source: IBAN data

Notes to Table 1

- (1) All expenses are expressed in EUR million, closest rounding, except for NAMEADSMO in Liquidation and NAPMA, which are expressed in USD million. Total expenses in previous year 2021, are based on the audited 2021 Financial Statements. Expenses presented in this table are drawn from the financial statements of each NATO reporting entity and include costs invoiced between NATO reporting entities.
- (2) 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 schemes do not contain a statement of financial performance with expenses, in compliance with International Accounting Standard (IAS) 26 that applies via the hierarchy in International Public Sector Accounting Standards (IPSAS) 3 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.
- (3) MSIAC and NFO are NATO Reporting Entities only in respect of activities carried out by the International Staff (IS) in relation to MSIAC and NFO.
- (4) This amount of expense corresponds solely to the administrative budget expenses incurred by the entity and reflects its financial performance regarding its role as an agent. Expenditure reported under the operational budget are detailed in Table 2 below.
- (5) The Financial Statements of NAMMO and NEFMO are prepared on the basis that they are agents instead of principals. Therefore, NAMMO and NEFMO's operational expenditures are not reported as an expense in their respective Statement of Financial Performance. These expenditures continue to be reported in their respective operational budget execution report annexed to the Financial Statements, which is subject to audit by IBAN.
- (6) DIANA was established at the 2021 Summit in Brussels. The 2022 DIANA financial statements are the first one prepared for this entity and DIANA had no approved budget during 2022. As a consequence DIANA's financial statements do not include a Statement of Change in Net Assets/Equity and a Budget Execution Report. The financial statements cover the financial year from 1 January to 31 December 2022. The initial stand-up phase for DIANA began in July 2022.

1.1.7 As shown in Table 1 above, NATO's 22 Reporting Entities, which operate under three legal persons, incurred different levels of annual expenses ranging from approximately EUR 1 million to EUR 3,191 million in 2022. In addition, as shown in Table 2 below, operational budget expenditures vary from USD 308 for NAMEADSMO i.L. to EUR 1,236 million for NAHEMO in 2022. The significant number of reporting entities for three legal persons, all of which are preparing general-purpose financial statements, is an indicator of the challenging environment for NATO regarding financial transparency, especially towards its external stakeholders. According to the NAF (IPSAS 1), "General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs. Users of general purpose financial statements include taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media, and employees."

1.1.8 Operational budget expenditures relate to expenditures incurred as an agent on behalf of third-party participating NATO Nations and are not included in the NATO Reporting Entities' expenses. The financial statements of NATO Procurement, Logistics or Service Organizations (NPLSO) include an operational budget execution report in accordance with the Regulations for NPLSO (C-M(2009)0079). The following table presents the total operational budget expenditure for each NATO Reporting Entity acting as an agent on behalf of third-party participating NATO Nations:

Table 2: Total Operational Budget Expenditure per NATO Reporting Entity acting as an Agent

Juridical Personality	NATO Reporting Entity	Currency (in million)	Total Expenditure 2022 (1)	Total Expenditure 2021 (1)
Ottawa Agreement (1951)				
NATO (Ottawa)	NAGSMO i.L	EUR	55	85
	NAHEMO	EUR	1,236	1,035
	NAMEADSMO i.L.	USD	0	0
	NAMMO	EUR	608	585
	NEFMO	Not disclosed	Commercially sensitive	

Source: IBAN data

(1) Expenditure per NATO reporting entity acting as an agent, as shown in the operational budget execution report included in their respective Financial Statements as a separate annex in accordance with the NFRs and the Regulations for NPLSO. Carried-forward commitments are excluded from this amount. All operational budget expenditures are expressed in EUR million or EUR million equivalent, closest rounding, except for NAMEADSMO in Liquidation, which are expressed in USD million.

1.1.9 In accordance with Article 1 of the IBAN Charter and based on a specific Council authorisation, IBAN also audits financial statements of some 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 as 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 from a legal standpoint 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 in accordance with Article 14 of the 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. 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, and the status of outstanding recommendations from the previous years' audits.

1.2.3 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, which forms part of the audit report, therefore contains two separate audit opinions.

1.2.4 In the audit report on the financial statements, IBAN presents observations leading to modified audit opinions and may include other observations that need to 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.

1.2.5 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. At the end of an on-site visit, we hold a debrief meeting with the entity's staff to discuss preliminary audit findings.

1.2.6 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). For this financial year, at the date of this Report, other than for NEFMO which is commercially sensitive, all unclassified audit reports and the related financial statements were published, except for NAHEMO and NAMEADMO i.L..

1.2.7 In accordance with Article 14 of our Charter, IBAN reports on the audited annual financial statements relating to NATO reporting entities and may also at any time issue a special report to the Council on any relevant matter it considers to be worthy of attention. The purpose of this Special Report is to provide an overview of the main findings from the 2022 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 in accordance with the INTOSAI Principles as per our Charter, and standards consistent with the International Standards of Supreme Audit Institutions (ISSAI 2000-2899) for the financial statements audit component and ISSAI 4000-4899 for the compliance audit component.

1.3.2 The objective of the financial statements audit component 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 on the financial statements. 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 compliance audit component is to obtain independent assurance about 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. This objective includes issuing an independent external auditor's report that includes an audit opinion on compliance. Only instances of non-compliance related to the use of funds impact the audit opinion on compliance. The assurance on compliance is limited in a sense that, as part of the audit of the financial statements, IBAN does not certify the overall compliance with all 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 NAF), adapted from IPSAS. Council has also approved further changes deviating from the NAF (see section 1.5 below), which impact the preparation of the financial statements of NATO Reporting Entities. In addition, budget execution reports are, when applicable, annexed to the financial statements as required by Article 34.4 of the NFRs and the Regulations for NPLSO.

1.4.3 Financial statements are defined by IPSAS as general-purpose-financial-statements, as they are primarily designed to provide 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 respective Head and Financial Controller sign the financial statements of each NATO Reporting Entity. Their 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) for civilian staff 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.

1.5 Further adaptations to the NATO Accounting Framework

1.5.1 On 10 October 2019, Council approved an adaptation to the NAF IPSAS 6 Consolidated and Separate Financial Statements (C-M(2019)0026). The objective of the adaptation, effective for financial reporting periods beginning 1 January 2020 and with a transitional relief period through 31 December 2021, was to prescribe the accounting treatment for Morale and Welfare Activities (MWA) and related activities and/or Staff Association activities. The adaptation states that *“NATO Reporting Entities: Shall not consolidate Morale and Welfare Activities and/or Staff Association activities into their respective financial statements even when they are considered to be under the control, from a financial reporting perspective, of the NATO Reporting Entity preparing and issuing the financial statements.”*

1.5.2 On 16 June 2023, Council approved (PO(2023)0194-AS1 (INV)) that: *“In order to address the IBAN’s observation on disclosure of post-employment liabilities, [...] individual NATO bodies should not recognise their share of the post-employment liability and the IS OFC should continue with the current practice to centrally disclose post-employment pension and medical care accrued liabilities in the notes to the financial statements of the NCPS [NATO Coordinated Pension Scheme] and RMCF [NATO Retirees Medical Claims Fund]”*. This decision represents an adaptation to the NAF (IPSAS 39 Employee Benefits). The implementation of this amendment to the NAF during the course of the audit, with retroactive effects, removed the NAF requirement that NATO, as a whole should recognise its post-employment liabilities. As of 31 December 2022, the post-employment liability for the NCPS amounted to EUR 6.2 billion and EUR 2.7 billion for the RMCF.

1.5.3 On 3 August 2023, Council approved further amendments to the NAF with a date of application as of 1 January 2021 (PO(2023)0315-AS1 (INV)). This amendment states that NCIO may consider Communication Information System (CIS) assets, including tangible assets under construction (AuC) and intangible assets under development (AuD), prior to 1 January 2018 as fully expensed. The implementation of this amendment to the NAF during the course of the audit, with retroactive effects, removed the NAF requirement to recognise CIS assets prior to 2018.

1.5.4 The above three further adaptations to the NAF were approved in separate decisions by Council, two of which with retroactive effect, without a revision of the NAF document (C-M(2016)0023). This increased complexity of NATO’s financial reporting requirements represents a further challenge for financial transparency at NATO.

2. MAIN FINDINGS FROM THE 2022 FINANCIAL STATEMENTS AUDITS

2.1 Audit Opinions

2.1.1 The main findings from the 2022 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 2022 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 4: Audit Opinions on the financial statements and on compliance

Financial statements		2022	2021	2020
	Unqualified	21	20	21
	Qualified	-	1	1
	Adverse	1	-	-
	Disclaimer	-	-	-
	Total (1)	22	21	22

Compliance		2022	2021	2020
	Unqualified	19	20	19
	Qualified	3	1	3
	Adverse	-	-	-
	Disclaimer	-	-	-
	Total (1)	22	21	22

Source: IBAN data

Notes

(1) In 2022, IBAN's audit mandate covered 22 NATO Reporting Entities compared to 21 in 2021 and 22 in 2020. The change in scope between 2021 and 2022 is explained by the establishment of the Defence Innovation Accelerator for the North Atlantic (DIANA) whose financial statements were published for the first time in 2022. In addition, as from 2021 the activities of the New NATO Headquarters were integrated into the financial statements of IS, in accordance with the NATO Accounting Framework.

2.1.3 The table above shows that the number of unqualified audit opinion on the financial statements remains relatively stable over three years with 21 out of 22 NATO Reporting Entities unqualified in the 2022 financial year. However, the year 2022 is characterised by the issuance of an adverse opinion on the financial statements of a reporting entity.

2.1.4 The number of qualified opinions on compliance increased in 2022 with 3 out of 22 NATO Reporting Entities qualified in 2022 compared to 1 out of 21 in 2021.

2.1.5 The table below presents the audit opinions issued by IBAN per NATO Reporting Entity for the 2022 financial statements and two comparative years.

Table 5: Audit Opinions per NATO Reporting Entity

Reporting Entity	2022		2021		2020	
	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
DIANA (3)	Unqualified	Unqualified	n/a	n/a	n/a	n/a
IMS	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
IS	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
MSIAC	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
NAGSMO in Liquidation	Unqualified	Qualified	Unqualified	Unqualified	Unqualified	Unqualified
NAHEMO	Adverse	Qualified	Unqualified	Unqualified	Unqualified	Unqualified
NAMEADSMO in Liquidation	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
NAMMO	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Qualified
NAPMA	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
NATO CPS/DBPS	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
NCIO	Unqualified	Unqualified	Qualified	Qualified	Qualified	Qualified
NDC	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
NEFMO	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Qualified
NETMA	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
NFO	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
NNHQ (2)	n/a	n/a	n/a	n/a	Unqualified	Unqualified
NSPO	Unqualified	Qualified	Unqualified	Unqualified	Unqualified	Unqualified
RMCF	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
STO	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
Unqualified	21	19	20	20	21	19
Qualified	-	3	1	1	1	3
Adverse	1	-	-	-	-	-
Disclaimer	-	-	-	-	-	-

Source: IBAN data

Notes

(1) Financial Statements (F/S).

(2) Not applicable (n/a) in 2021 and 2022 as the activities of the New NATO Headquarters were integrated into the financial statements of IS as from 2021, in accordance with the NATO Accounting Framework.

(3) The Defence Innovation Accelerator for the North Atlantic (DIANA) was established at the 2021 Summit in Brussels. The 2022 DIANA financial statements are the first one prepared for this entity.

2.2 Unqualified Audit Opinions

2.2.1 The audit opinions on the financial statements largely relate to the implementation of the NAF, which is a comprehensive set of accounting standards adapted from IPSAS. Implementing this framework requires each individual NATO Reporting Entity to maintain a high level of knowledge and expertise in accrual-based accounting and IPSAS disclosure requirements.

2.2.2 Since 2020, the number of NATO Reporting Entities with unqualified audit opinions on the financial statements remained relatively stable with 21 out of 22 for financial year 2022. The slight increase in number of unqualified opinions on the financial statements reflects in overall terms the improvement and sustained quality of financial information available to final users of the financial statements.

2.2.3 However, five NATO Reporting Entities resubmitted their financial statements to IBAN after the 31 March 2022 deadline to correct material accounting mistakes or disclosures found during our audit, which would otherwise have led to a qualified audit opinion on the financial statements. This number remains stable compared to previous years and shows that the financial reporting process and internal controls still need improvements (see section 2.6 below).

2.2.4 The audit opinions on compliance largely relate to compliance with the provisions of the NFRs. For NATO Reporting Entities with unqualified opinions on compliance, no material issue came to our attention related to the proper use of funds for the settlement of authorised expenditure and compliance with the regulations in force.

2.2.5 The number of unqualified audit opinions on compliance decreased from 20 to 19 over the same period. Despite this slight deterioration in the statistics, the level of unqualified opinion remains within the norms of the last three years and generally reflects NATO's compliance with the regulations in force.

2.3 Qualified Audit Opinions

2.3.1 IBAN did not raise any qualified opinion on the 2022 Financial Statements, but issued one adverse opinion (see paragraph 2.4).

2.3.2 IBAN issued three qualified opinions on compliance for the NATO Alliance Ground Surveillance Management Organisation in Liquidation (NAGSMO i.L.), the NATO Helicopter Management Organization (NAHEMO), and for the NATO Support and Procurement Organisation (NSPO).

Basis of qualified opinion on compliance for NAGSMO i.L.

2.3.3 The qualified opinion on compliance of NAGSMO i.L. relates to the fact that, as from the date of liquidation of NAGSMO on 1 April 2022, NAGSMO i.L. decided no longer to have a Financial Controller on its staff. Nevertheless, NAGSMO i.L. continued to incur material levels of expenditures after 1 April 2022. During the April to December 2022 period, NAGSMO i.L. incurred EUR 1,944,145 expenditure for the Administrative Budget and EUR 4,256,033 expenditure for the Operational Budget. Not having a Financial Controller leads to non-compliance with Section II – Financial Controller of the NAGSMO Financial Management Procedures Document and Financial Rules and Regulations (FMPD-FRP).

2.3.4 It also leads to non-compliance regarding a number of other articles of the NAGSMO FMPD-FRPs, in particular concerning the internal control (Article 12), and the management of, and the provision of funds with respect to material levels of expenditure (Article 25). The requirement of Article 35 of the NAGSMO FMPD-FRPs and Implementing Rules and Procedures (IRP) XXXV, requiring a personal certification of the financial statements by a Financial Controller is also not fulfilled.

Basis of qualified opinion on compliance for NAHEMO

2.3.5 With regards to the qualified opinion on compliance of NAHEMO, IBAN draws attention to the fact that ‘Expenses’ disclosed in the Statement of Budget Execution for the Administrative Budget were presented on a modified cash basis (including paid and payable expenditures), whereas Article 25.2 of the NAHEMO Financial Regulations stipulates that they should be recorded on an accrual basis. This results in an understatement of ‘Expenses’ as they did not include accruals for EUR 1.3 million and, conversely, an overstatement of ‘Carry forwards’. In addition, the designation of unused appropriation from previous year disclosed in the Statement of Budget Execution for the Administrative Budget is not compliant with NAHEMO Financial Regulations’ definitions. The Statement of Budget Execution for the Administrative Budget refers to an uncommitted Special Carry Forward (SCFW) from 2020 of EUR 0.898 million. This was incorrect as the 2020 SCFW was fully committed in 2021 and should therefore have been reclassified to ‘Carry forwards 2021’.

Basis of qualified opinion on compliance for NSPO

2.3.6 Regarding the qualified opinion on compliance of NSPO, Article 27 of the NFRs on ‘Commitments related to Customer-funded Bodies’ allows the General Manager to enter into commitments and make payments for purposes relating to customer agreements, subject to the concurrence by the Financial Controller, and to the conditions defined by its Agency Supervisory Board in the NSPO Financial Rules and Procedures (FRPs). The NSPO FRPs on ‘Commitment of an appropriation and customer authorisations’ only allow the General Manager to delegate authority for requesting financial commitments of NSPO appropriations to NSPA post holders.

2.3.7 NSPO entered into a material amount of financial commitments (EUR 361 million) of NSPO appropriations without the involvement of NSPA post holders through the use of two electronics tools: NATO Logistics Stock Exchange and NATO Fuel Management Supply and Services. This is not compliant with Article 27 of the NFRs and with the conditions defined by its Agency Supervisory Board in the NSPO FRPs.

2.3.8 In addition, the CEPS National Organisation for France, 'Service National des Oléoducs Interalliés', delegated authority to a third party private-sector company to request and enter into commitments, and make payments in the name of that third party. This delegation of authority covered EUR 65.5 million of CEPS Operations and Maintenance (O&M) appropriations for 2022, and EUR 10.7 million of NSIP contract authority for newly authorised pipeline infrastructure works on French territory in 2022. Moreover, the third party was allowed to enter into commitments without prior-approval by the Financial Controller for all purchases below EUR 15,000, and all purchases made in relation to multiple chapters of the CEPS O&M budget. This is not compliant with Article 27 of the NFRs and Rule 27 of the NSPO FRPs, which require that only the General Manager, subject to the concurrence of the Financial Controller, is authorised to enter into commitments and make payments for purposes relating to customer agreements, subject to conditions defined by the relevant finance committee.

2.4 Adverse Audit Opinion

2.4.1 IBAN raised an adverse opinion on the NAHEMO financial statement for 2022. This is because IBAN found pervasive and material misstatements in NAHEMO's financial statements for the year ended 31 December 2022, relating to both the Administrative Budget and Operational Budget. These errors are due to a lack of internal control procedures underlying the preparation of the financial statements. These misstatements affect in a pervasive manner, the Statement of Financial Position, the Statement of Financial Performance, the Statement of Cash Flow, the Statements of Budget Execution, and several disclosure notes of the Financial Statements.

2.4.2 The misstatements related to the Administrative Budget include for example in the Statement of Financial Position, an understatement of the gross value of Property, Plant and Equipment (PP&E) and Intangible Assets by EUR 1.5 million, and an overstatement of Unearned Revenue by EUR 2.3 million. The misstatements related to the Operational Budget include for example in the Statement of Financial Position the understatement of Payables to suppliers by EUR 27.7 million, and in the Statement of Financial Performance the understatement of Revenue for the period by EUR 1.8 million. Due to the large number of individual misstatements affecting several parts of the Financial Statements, it is not practicable to present the complete gross and net financial effects of these misstatements.

2.5 Overview of paragraphs communicated in the 2022 independent external auditor's reports

Table 6: Overview of Key Audit Matter, Emphasis of Matter, Other Matter and Key Audit Matter paragraphs

Reporting Entity	2022		2021		2020	
	Emphasis of Matter	Other Matter	Emphasis of Matter	Other Matter	Emphasis of Matter	Other Matter
ACO	-	-	-	-	2	1
ACT	-	-	-	-	-	-
BGX	-	-	-	-	1	-
DCPS	-	-	-	-	-	-
DIANA	-	-	-	-	-	-
IMS	-	-	-	-	-	-
IS	-	-	-	-	-	-
MSIAC	-	-	-	-	1	-
NAGSMO	-	-	-	-	-	-
NAHEMO	1	-	-	-	-	-
NAMEADSMO in Liquidation	1	1	-	-	-	-
NAMMO	-	-	-	-	1	-
NAPMA	-	-	-	-	-	-
NATO CPS/DBPS	-	-	-	-	-	-
NCIO	-	1	-	-	1	-
NDC	-	-	-	-	-	-
NEFMO	-	-	-	-	-	-
NETMA	1	-	-	-	-	-
NFO	-	-	-	-	1	-
NHQ	-	-	-	-	-	-
NSPO	-	1	1	-	-	1
RMCF	-	-	-	-	1	-
STO	-	-	-	-	-	-
Total	3	3	1	-	8	2

2.5.1 In accordance with ISSAIs, IBAN included 'Emphasis of Matter' paragraphs on the financial statements in the audit reports of NAHEMO and NAMEADSMO i.L, and on compliance in the audit report of NETMA. IBAN also included 'Other Matter' paragraphs on the financial statements in the audit report of NSPO, and on compliance in the audit reports of NCIO and NAMEADSMO i.L. IBAN did not include any 'Key Audit Matter' paragraphs from 2020 to 2022. Our audit opinions are not modified with respect to these matters.

2.6 Financial statements resubmitted after 31 March 2023 deadline

2.6.1 According to the NFRs, the deadline for submitting the 2022 financial statements for audit to IBAN was 31 March 2023. By that date, IBAN had received 21 out of the 22 financial statements. NAHEMO's financial statements were submitted after the deadline, on 14 April 2023.

2.6.2 During the audit of the 2022 financial statements, IBAN agreed to audit the financial statements resubmitted after 31 March 2023 by the following five NATO Reporting Entities:

Table 7: Resubmitted Financial Statements per NATO Reporting Entity

Resubmitted Financial Statements	F/S 2022 (1)		F/S 2021 (1)	F/S 2020 (1)
NATO Reporting Entities	Month Resubmitted	N° of Resubmissions	N° of Resubmissions	N° of Resubmissions
ACO	June 2023	1	1	-
ACT (2)	n/a	-	-	1
DIANA	July 2023	1		
IS	n/a	-	2	1
NAHEMO (2)	n/a	-	2	1
NAMEADSMO in Liquidation	November 2023	1	-	1
NAPMA	October 2023	1	1	-
NATO CPS/DBPS (2)	n/a	-	1	-
NCIO	June 2023 & July 2023	2	-	1
NEFMO (2)	n/a	-		-
NFO (2)	n/a	-	-	1
STO (2)	n/a	-	-	1
Total F/S Resubmissions		6	7	7
Total NATO Reporting Entities		5	5	7

Source: IBAN data

Notes

(1) *Financial Statements (F/S).*

(2) *Not applicable (n/a)*

2.6.3 Resubmission after 31 March 2023 represent 23% of the 22 Financial Statements submitted to IBAN for audit. This year, one NATO Reporting Entity requested IBAN to audit a second resubmission of their Financial Statements. In 2021, two NATO Reporting Entities had requested a second resubmission.

2.6.4 Resubmitted financial statements corrected material misstatements or disclosures, found by IBAN during the audit period, which would otherwise have led to a qualified opinion. This highlights the need for further improvement in reinforcing internal controls over the financial reporting process, including establishing sufficient audit trails. This is essential to ensure that the financial statements submitted to IBAN for audit by 31 March in accordance with the NAF are free from material misstatements.

2.7 Observations and recommendations

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

2.7.2 In addition to reporting on observations and recommendations issued for the financial year covered by the report, we perform a follow-up on the status of observations and recommendations from the previous years' audits. We reassess the status of outstanding recommendations, which can receive the status open, in-progress, or closed.

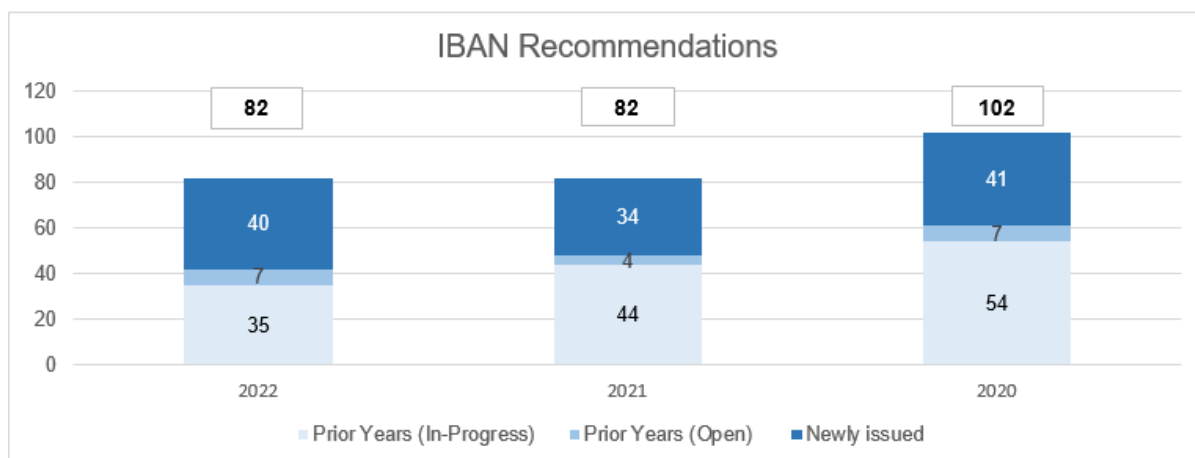
Open: is used for outstanding recommendations for which no notable progress has been achieved to date.

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

2.7.3 The chart below contains an overview of all current and prior year recommendations as per IBAN audit reports for the financial years 2022, 2021 and 2020 based on the status of the recommendations described above. A recommendation often consists of several sub-recommendations, which are not presented below.

Chart 1: Number of IBAN recommendations per status

Source: IBAN data

2.7.4 The chart above shows that the total number of recommendations for financial year 2022 remains stable compared to 2021 with 82 recommendations, against 102 recommendations two years ago. The share of recommendations per status shows an increase in newly issued recommendations, 49% of the total recommendations for 2022 against 41% for 2021. Conversely, there is a decrease in the percentage of recommendations in-progress, changing from 54% in 2021 to 43% in 2022.

2.7.5 The Audit Reports were issued to the respective NATO Reporting Entity, whose comments have been included, with the IBAN's position on those comments in the case of a disagreement or partial agreement. An IBAN's position was included for 11 recommendations for financial year 2022, indicating that NATO Reporting Entities agreed with 87% of the total 82 recommendations. Seven IBAN's positions related to newly issued recommendations, indicating 83 % agreement of the total 40 newly issued ones. Four IBAN's positions related to prior years, indicating 90% agreement of the total 42 recommendations from prior years.

2.7.6 NATO Reporting Entities are generally addressing and implementing prior year recommendations. This confirms the trend of improvement in the quality of information in the financial statements available to final users and in the efforts to comply with NATO regulations and rules. However, there are still a considerable number of outstanding recommendations to address, some of which relate to resubmissions correcting material qualifying errors.

Summary of closed observations and recommendations

2.7.7 In 2022, 40 recommendations related to 18 NATO Reporting Entities were closed, of which 28 were implemented, four were superseded by new recommendations, and eight were lapsed. Lapsed recommendations may result from, but are not limited to, a change in the NAF or the NFRs, or because a recommendation is no longer applicable due to changes in the NATO context.

2.7.8 In 2022, NCIO achieved a significant milestone by addressing a longstanding IBAN recommendation regarding the incomplete recognition and disclosure of PP&E, Intangible Assets, and assets under construction (AuC). This led to the recognition and disclosure of CIS assets totalling a gross value of EUR 1,542 million for 2022 and a restated balance of EUR 1,201 million for 2021 in the 2022 financial statements (compared to EUR 7 million in the 2021 Financial Statements). The majority of these assets related to CIS assets funded by the NSIP.

2.7.9 In addition, as described in paragraph 1.5 above, three further adaptations to the NAF were approved in separate decisions by Council, two of which with retroactive effect. As a result, three IBAN recommendations were closed. This concerns the NCIO, the RMCF and the NCPS. In one instance, this led to the removal of a recurring qualified audit opinion on the financial statements of NCIO.

Aging of recommendations

2.7.10 In order to present a more explanatory overview of the audit observations and recommendations, we categorised all findings from the audit reports into five themes. The table below provides an overview of the aging of all recommendations categorised based on the five themes.

Table 9: Aging of recommendations per theme

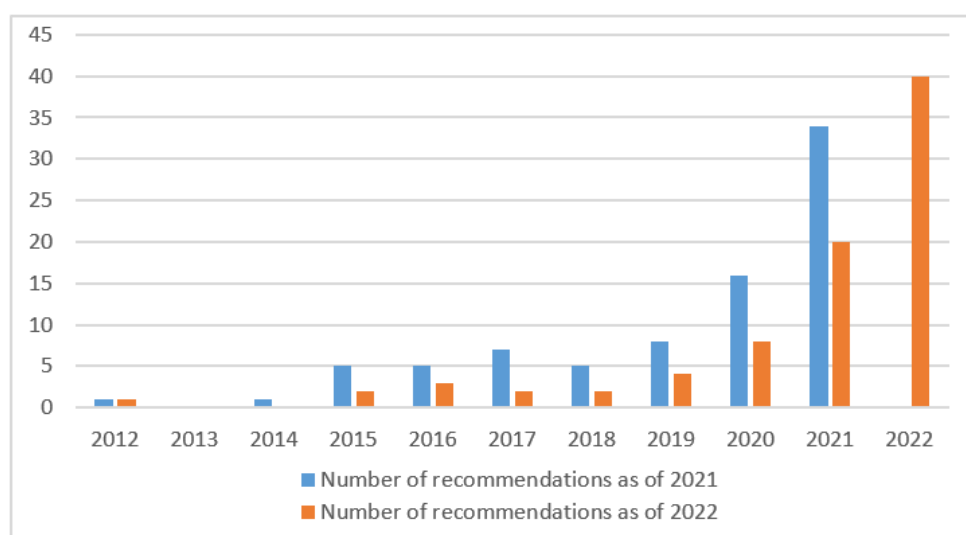
IBAN Recommendations per Audit Theme	2022	2019-2021	2018 or before
1. Financial and budgetary accounting and reporting	20	15	2
2. Property, plant, equipment, inventories and intangible assets	1	6	1
3. Procurement, contracting and other arrangements	5	3	1
4. Funding, revenue and cash management	-	3	1
5. Compliance with other NATO regulations, rules and sound financial management principles	14	5	5
Total number of IBAN Recommendations	40	32	10
Grand total	82		

Source: IBAN data.

2.7.11 The above table shows that 32 recommendations out of 82, or 39%, relate to the prior three financial years (2019-2021), and 10 recommendations, or 12%, relate to recommendations raised in the 2018 financial year or before. The table does not show the actual age of those recommendations that have been superseded by newer ones. Some longstanding issues may therefore appear in a more recent period than when IBAN first detected the issue.

2.7.12 The table below gives an indication of the change in the ageing of recommendations between 2021 and 2022, and shows that recommendations from previous years continue to be closed regularly and are replaced by new recommendations in the same proportion.

Chart 2: Change in the ageing of recommendations between 2021 and 2022



2.7.13 The table below presents the outstanding recommendations per NATO Reporting Entity and per theme:

Table 10: Outstanding recommendations from 2018 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
2015	MSIAC	5. Compliance with other NATO regulations, rules and sound financial management principles	1
	NATO FORACS Office	5. Compliance with other NATO regulations, rules and sound financial management principles	1
2016	ACO	3. Procurement, contracting and other arrangements	1
	NSPO	1. Financial and budgetary accounting and reporting	1
	NAHEMO	2. Property, plant, equipment, inventories and intangible assets	1
2017	NSPO	5. Compliance with other NATO regulations, rules and sound financial management principles	2
2018	ACO	5. Compliance with other NATO regulations, rules and sound financial management principles	1
	NSPO	1. Financial and budgetary accounting and reporting	1
			10

Source: IBAN data.

2.7.14 The ten recommendations raised in the 2018 financial year or before relate to six NATO Reporting Entities. They concern all five themes, but predominantly compliance with NATO regulations, rules and sound financial management principles. These recommendations cover areas such as:

- The need to hold sufficient funds to cover future NATO retiree medical claim obligations.
- Compliance with NATO regulations, such as in the area of internal control, risk management and internal audit.
- Weaknesses in Information Technology (IT) general computer controls.
- Lack of reliable and coordinated processes for capitalising assets and updating asset registers.
- No central overview and management of existing or possible litigations, claims or other legal cases.

2.8 Main findings per theme

2.8.1 The presentation of the observations per theme enables IBAN to focus on the areas with the highest occurrence of audit findings and, consequently, identify where improvements are required. When a recommendation relates to more than one theme, it has been included in the category that we believe carries more weight.

Table 8: 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					
	2022	2021	2020	On F/S			On compliance		
	2022	2021	2020	2022	2021	2020	2022	2021	2020
1. Financial and budgetary accounting and reporting	37	33	44	1	-	-	1	-	2
2. Property, plant, equipment, inventories and intangible assets	8	11	10	-	1	1	-	1	1
3. Procurement, contracting and other arrangements	9	7	6	-	-	-	-	-	-
4. Funding, revenue and cash management	4	6	14	-	-	-	-	-	-
5. Compliance with other NATO regulations, rules and sound financial management principles	24	25	28	-	-	-	3	-	2
Total number of IBAN Observations and Recommendations	82	82	102	1	1	1	4	1	5

Source: IBAN data.

2.8.2 A qualified audit opinion issued in an audit report may be the result of multiple observations and recommendations. This explains any difference between the above number of observations and recommendations leading to a qualification and the number of audit qualifications in a given financial year.

Financial and budgetary accounting and reporting

2.8.3 This theme includes recommendations relating to the preparation and presentation of the financial statements, budget execution reports, accounting and associated internal control and Information Technology (IT) processes. The total number of observations and recommendations slightly increased in 2022 compared to 2021 from 33 to 37. This theme represents in 2022 45% of all observations and recommendations.

2.8.4 During our audit, we found errors in the financial statements resulting from weaknesses in internal controls related to the preparation and presentation of financial statements and budget execution reports. Consequently, five NATO Reporting Entities had to resubmit their financial statements for audit purposes, with one entity doing so twice, after 31 March 2023 to correct material qualifying errors.

2.8.5 Recommendations related to resubmitted financial statements covered the following main areas:

- Incorrect recognition by NCIO of deferred revenue for PP&E and intangible assets related to CIS/Automated Information Systems (AIS) as a current liability (EUR 650 million in 2022 and EUR 568 million in 2021) instead of as a non-current liability in accordance with the NAF (IPSAS 1).
- Incorrect capitalisation and disclosure by NCIO of PP&E in its initial Financial Statements, resulting in an overstatement of the NCIO Statement of Financial Position by a total net book value of EUR 25 million.
- Inappropriate classification and disclosure by NCIO of the right to use a military SATCOM dedicated capacity amounting to EUR 771 million in the 2022 NCIO Financial Statements in accordance with the NAF.
- The 2022 NAMEADMO i.L. Budget Execution Statement did not contain budget appropriations of USD 1.4 million related to a special carry-forward to budget year 2022, of commitments from the 2018 operational budget. In addition, misstatements were identified in the Statement of Financial Position and Statement of Financial Performance amounting to USD 40,943.
- Missing disclosure note in the ACO Consolidated Financial Statements for a contingent liability related to the commitment to provide a loan to DIANA of up to EUR 23 million.
- The NAPMA Financial Statements included a material overstatement of the 'Development Laboratories' value, classified as PP&E. The overstatement of approximately USD 3 million in 2022 and USD 5 million in 2021 resulted in a corresponding understatement of the 'Work In Progress' value associated with these Development Laboratories.
- Overstatement of Contractual supplies and services for DIANA by approximately EUR 20,000. This amount related to service rendered in 2023, a significant part of which should have been carried forward.

2.8.6 Resubmitted financial statements indicate that significant improvements are required in internal controls related to the preparation of financial statements submitted by 31 March, in order to avoid material errors occurring. Such internal controls include establishing adequate audit trails, as required by the NFRs.

2.8.7 Other recommendations mainly related to the following matters:

- Internal control weaknesses found in the financial reporting process of various reporting entities covering areas such as the presentation and reconciliation of the budget execution statements, classification and recognition of customer advance, accounting of the NSIP call for contributions, the control over the accounting of advances and cost for Centre for Maritime Research and Experimentation (CMRE) vessel's maintenance, disclosure of MWA, financial reporting of the French National Organisation for the CEPS programme;
- Non-disclosure of NCIO's inventory held at third parties' locations.
- Non-compliance with IPSAS 18 segment reporting requirements and disclosures in NCIO financial statements.
- Incomplete disclosure of information on the nature of NSPO's combination of its business units operations into a single entity.
- No assessment of the estimated financial impact of the withdrawal of Resolute Support (RS) for NSPO and ACO.
- The need to assess going forward whether NSPO is acting as an agent or a principal at the programme/activity level.
- Improvement needed in year-end confirmations of budgetary surpluses of the NFO Ranges.
- IT control weaknesses in general computer control, including access rights and segregation of duties.

Property, plant, equipment, inventories and intangible assets

2.8.8 This theme relates to the internal control, accounting and reporting of property, plant, equipment, inventories and other assets, covering both tangible and intangible assets. The number of recommendations decreased by 27% with eight recommendations in 2022 for seven NATO Reporting Entities. One improvement concerns NCIO, as the qualified audit opinion on its financial statements and on compliance related to this topic was removed. However, 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.
- Errors in the recognition of inventories in the financial statements.
- Weaknesses in the recognition, disclosure and the asset management of NSIP funded assets.
- Lack of capitalisation of major upkeep costs.

2.8.9 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/development, 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.

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

Procurement, contracting and other arrangements

2.8.11 This theme includes recommendations related to procurement processes and arrangements between NATO Reporting Entities or with Nations. The number of recommendations in this area has risen steadily from six in 2020 to seven in 2021 and nine in 2022.

2.8.12 Our audits found weaknesses in the procurement and solicitation processes, covering areas such as:

- The ability to demonstrate compliance with the NATO regulations for non-competitive solicitations.
- The justification for departing from standard procurement procedures.
- The procurement of electricity supply and flight tickets not compliant with NATO regulations.
- No memorandum of agreement (MOA) in place for ACO with NCIO.
- The adaptation to the Value Added Tax regime.
- The clarification of the status of recoupment clauses in a NAPMA supplier contract.

Funding, revenue and cash management

2.8.13 This theme includes recommendations related to the management and reporting of funds, revenue and cash. The number of observations and recommendations decreased from six in 2021 to four in 2022. The recommendations related, among others, to:

- Improvement needed to the NCIO model for revenue recognition.
- The strengthening of internal controls related to cash management.
- Unreconciled cash and cash equivalents.
- RMCf net assets inadequate to fund promised future expected medical benefits.

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

2.8.14 The number of recommendations in this area remains stable at 24 in 2022 compared to 25 in 2021, with however a significant turnover (14 new recommendations). The majority of recommendations relate to compliance with the NFRs on risk management, internal control, the statement of internal control and internal audit, and with the CPRs. These recommendations cover all parts of NATO's operations.

2.8.15 Other recommendations related to compliance with the NFRs, CPRs or other NATO regulations and sound financial management principles covered areas such as:

- Late submission of financial statements.
- Non-compliance with the NFRs for commitments entered into through the use of electronic tools.
- Non-compliance with the NFRs with regard to the use of CEPS and NSIP funds by the CEPS National Organisation for France.
- The need to clarify whether the SHAPE International School financial administration should be governed by the NFRs.
- The need to review and update NAHEMO's financial regulatory framework;
- The need to clarify the legal status of the shop on NSPO's premises and ensure compliance with MWA Regulations.
- Instances of non-compliance and weaknesses in the recruitment and contracting of the Financial Controller and Liquidator positions, consultants, permanent and temporary staff.
- Non-compliance with the CPRs regarding the justification for the class of air travel and reporting to the appropriate finance committee.
- No central overview and management of existing or possible litigations, claims or other legal cases.
- Various non-compliance and internal control weaknesses with the NFRs, the FRPs and the CPRs, regarding travel cost, home leave payments, departure indemnity payments, signature and rights for bank transfers.

3. CONCLUSION

3.1.1 The number of unqualified audit opinion on the financial statements remains relatively stable over the last three years with 21 out of 22 NATO Reporting Entities unqualified in the 2022 financial year. With regard to unqualified opinions on the financial statements, these audit results provide assurance that the audited financial statements present fairly the financial position, financial performance and cash flows of the majority of NATO reporting entities.

3.1.2 NATO Reporting Entities are generally addressing and implementing prior year recommendations. This confirms the trend of improvement in the quality of information in the financial statements available to final users and in the efforts to comply with NATO regulations and rules. However, there are still a considerable number of outstanding recommendations to address, some of which relate to resubmissions correcting material qualifying errors.

3.1.3 However, the adverse opinion on the financial statements of one NATO Reporting Entity, and the six resubmissions of financial statements by five NATO Reporting Entities after 31 March 2023, indicate that progress is still needed to strengthen internal controls over the financial reporting and accounting processes, including maintaining adequate audit trails, in compliance with the NAF and NFRs.

3.1.4 NATO's 22 Reporting Entities, which operate under one of NATO's three legal persons, have different levels of annual expenses ranging from approximately EUR 1 million to EUR 3,191 million in 2022. Such significant number of reporting entities for three juridical persons, all of which are preparing general-purpose financial statements, is an indicator of the challenging environment for NATO regarding financial transparency, especially towards its external stakeholders.

3.1.5 Moreover, Council approved in three separate decisions further adaptations to the NAF impacting the preparation of the 2022 financial statements of NATO Reporting Entities. However, these amendments, two of which with retroactive effect, were made without a revision of the NAF. This increased complexity of NATO's financial reporting requirements represents a further challenge for financial transparency and accountability at NATO.

3.1.6 In addition, the number of qualified opinions on compliance increased in 2022 with three NATO Reporting Entities qualified in 2022 compared to one in 2021. This indicates that NATO reporting entities need to mitigate their compliance risk by strengthening their compliance management systems, in order to ensure that processes are implemented in compliance with the NATO regulatory framework.

3.1.7 In light of NATO 2030, and the associated increased funding and complexity of NATO activities, it is important for NATO to further strengthen financial transparency. Going forward, NATO Reporting Entities and governance need to pay particular attention to compliance with the NFRs and the NAF in this context.

List of Abbreviations/Acronyms

ACT	Allied Command Transformation
AIS	Automated Information System
BGX	NATO Battlefield Information, Collection and Exploitation Systems Group Executive
BPO	Belgian Pipeline Organisation
CEPS	Central European Pipeline System
Council	North Atlantic Council
CPRs	Civilian Personnel Regulations
CRO	Crisis Response Operation
DBPS	NATO Defined Benefit Scheme, also referred to as the NATO Coordinated Pension Scheme (NCPS)
DCPS	NATO Defined Contribution Pension Scheme
DIANA	Defence Innovation Accelerator for the North Atlantic
DPO	Defensie Pijpleiding Organisatie
FBG	Fernleitungs-Betriebsgesellschaft mbH
FORACS	Naval Forces Sensor and Weapons Accuracy Check Sites (FORACS)
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
IT	Information Technology
KFOR	Kosovo Force

NATO UNCLASSIFIED

ANNEX 1
IBA-M(2024)0002

MOA	Memorandum of Agreement
MSIAC	Munitions Safety Information Analysis Center
MWA	Morale and Welfare Activities
NAGSMO i.L.	NATO Alliance Ground Surveillance Management Organisation in Liquidation
NAHEMO	NATO Helicopter Design and Development Production and Logistics Management Organisation
NAMEADSMO i.L.	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
NCIO	NATO Communications and Information Organisation
NCPS	NATO Coordinated Pension Scheme (CPS), also referred to as the Defined Benefit Pension Scheme (DBPS)
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
NMI	NATO Mission Iraq
NNHQ	New NATO Headquarters
NO	National Organisation
NSIP	NATO Security Investment Programme
NSPO	NATO Support and Procurement Organisation
NR	NATO Restricted

NATO UNCLASSIFIED

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