NATO OTAN
NORTH ATLANTIC COUNCIL
CONSEIL DE L'ATLANTIQUE NORD

12 January 2024

DOCUMENT
PO(2023)0463-AS1 (INV)

IBAN REPORT ON THE SUMMARY OF RESULTS OF NSIP AUDITS AND IMPLEMENTATION OF NSIP SPECIAL REPORTS RECOMMENDATIONS

ACTION SHEET

On 12 January 2024, under the silence procedure, the Council noted the RPPB report at annex to PO(2023)0463 (INV) and approved its conclusions and recommendations, as well as noted the IBAN report enclosed to PO(2023)0463 (INV) and approved the public disclosure of both reports.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to PO(2023)0463 (INV).

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Releasable to Sweden

19 December 2023

DOCUMENT
PO(2023)0463 (INV)
Silence Procedure ends:
12 Jan 2024 - 15:30

To: Permanent Representatives (Council)

From: Secretary General

IBAN REPORT ON THE SUMMARY OF RESULTS OF NSIP AUDITS AND IMPLEMENTATION OF NSIP SPECIAL REPORTS RECOMMENDATIONS

1. I attach the Resource Policy and Planning Board (RPPB) report addressing the International Board of Auditors for NATO (IBAN) Report on the Summary of Results of NSIP Audits and Implementation of NSIP Special Reports Recommendations.

2 I do not believe this issue requires further discussion in Council. Therefore, **unless I hear to the contrary by 15:30 hours on Friday, 12 January 2024**, I shall assume the Council noted the RPPB report and approved its conclusions and recommendations, as well as noted the IBAN report and approved the public disclosure of both reports.

(Signed) Jens Stoltenberg

1 Annex
1 Enclosure

Original: English

ANNEX TO
PO(2023)0463 (INV)

IBAN REPORT ON THE SUMMARY OF RESULTS OF NSIP AUDITS AND IMPLEMENTATION OF NSIP SPECIAL REPORTS RECOMMENDATIONS

Report by the Resource Policy and Planning Board

References:

A.	IBA-A(2023)0028 & IBA-AR(2023)0007	Report on the Summary of Results of 2022-2021 NSIP Audits and Implementation of NSIP Special Reports Recommendations
B.	C-M(2020)0010	Audit of the NSIP - IBAN Proposed Changes
C.	IBA-A(2020)0037 & IBA-AR(2020)0004	Special Report on NSIP Lump Sum Conversions
D.	IBA-A(2021)0047-REV1 & IBA-AR(2021)0002	Special Report on the New Approach on NSIP Financial Audits and its Impact on Accountability
E.	PO(2022)0118 (INV)	IBAN Special Reports Related to the Close-out of NSIP Projects
F.	AC/4-N(2020)0001 (INV); - DS(2020)0001 (INV)	Cost Statement Template - Guidance to Host Nations

INTRODUCTION

1. At reference A, the International Board of Auditors for NATO (IBAN) issued a report containing both a summary of the results of NSIP financial audits performed during the 2021-2022 period and an overview of the implementation of the IBAN's recommendations from the two previous Special Reports on the close out of NSIP projects.

AIM

2. This report highlights the key findings and observations by the IBAN and the Resource Policy and Planning Board's (RPPB) considerations and recommendations to the Council.

BACKGROUND

3. In 2020, IBAN proposed and Council agreed changes to NSIP audits focused on some practical improvements to the audit of NSIP expenditures (reference B). The objective was to better align reporting with the IBAN Charter and the principles of international auditing standards, as well as clarify roles and responsibilities and strengthen overall accountability within the NSIP. In the past, the IBAN would issue a Certificate of Final Financial Acceptance; the IBAN now issues an "independent external auditor's report" providing an unmodified or modified audit opinion.

4. Further to these changes, the IBAN submitted two Special Reports to the Council in 2020 and 2021 respectively that address the close-out of NSIP projects: one on NSIP Lump Sum Conversions (reference C) and another on the new approach to NSIP audits and its impact on accountability (reference D). Both reports were addressed by the RPPB, on advice of the Investment Committee (IC) which agreed ten measures to improve transparency, accountability and compliance, and were forwarded to Council (reference E). In reviewing the status of implementation of its recommendations from these two Special

Reports on NSIP, the IBAN highlights the actions taken by the IC and those remaining to be addressed.

DISCUSSION

Summary of Results of NSIP Audits from 2021-2022

5. For the 2021-2022 period, the IBAN issued 188 audit opinions, of which 111 were unmodified audit opinions (or 59%). Altogether, the expenditures presented by Host Nations in the cost statements amounted to EUR 781.5 million. The unmodified audit opinions related to well-prepared cost statements which were supported by documentary evidence (such as signed contracts and amendments, bidding documentation, hand-over and acceptance reports of works delivered, invoices and proof of payments related to the authorised scope of work) in order to demonstrate that all expenditures claimed were in compliance with the NSIP regulations in force.

6. The IBAN also issued 77 modified audit opinions, representing 41% of the total audits performed in in 2021 and 2022. The majority of the modified audit opinions (52 or 68%) were deemed limited, in that errors affected only part of the expenditures claimed in the cost statement. These also included modified audit opinions due to non-compliance with NSIP procurement and contracting regulations. This was followed by pervasive modified audit opinions (20 or 26%), where errors were considered pervasive and affected all expenditures claimed in the cost statement. These were mainly due to missing documentation affecting all expenditures incurred (such as all contracts, amendments and/or invoices missing). Only a small number of projects (5 or 6%) received a disclaimer, as the Host Nation could not present cost statements for audit as the supporting documentation was no longer available. On this basis, the IBAN was not able to determine whether expenditures incurred complied with the NSIP regulations in force. The RPPB notes that the measures already agreed by the IC in 2021 should contribute to enhancing compliance with NSIP regulations and as such, help prevent certain modified audit opinions. The RPPB will continue to monitor compliance rates and will assess whether future actions are required.

Other Relevant Matters for the Attention of the Council

7. The IBAN raised two matters it considered relevant to the Council's attention. The first relates to the signatory of the cost statements submitted for audit. With reference F, the IC agreed guidance to Host Nations on the preparation of cost statements to be submitted for audit, which are to be signed by "a responsible staff at an accountable level". The IBAN found that the level of authority and accountability of the cost statement signatory varied across Host Nations, and that in some cases, the cost statements were signed by the preparer. The IBAN pointed out that a more precise definition for the term would help avoid differences in approach between Host Nations with respect to the level of authority required to sign the cost statement, thereby providing more accountability and Alliance-wide consistency in national processes regarding NSIP.

8. The second matter raised by the IBAN relates to the procurement method applicable to Architecture and Engineering Fees (A/E Fees), which are authorised by the IC to Host Nations. It is not fully clear in the current NSIP regulations whether the procurement method agreed for the investment portion of the project also applies to A/E Fees, which are normally a percentage of the investment cost. This creates variations in the interpretation of governance decisions by Host Nations.

Implementation of IBAN Recommendations from Two Special Reports on NSIP

9. In its 2020 special report on Lump Sum Conversions (reference C), the IBAN recommended the development of a compendium of applicable NSIP regulations, including the responsibilities as a Host Nation for implementing NSIP projects. The IBAN further reiterated this point as a way to mitigate the risk that Host Nations are not fully aware of their NSIP regulatory responsibilities. The IC already invited the International Staff to particularly focus on applicable rules related to Host Nation responsibilities, a measure welcomed by the RPPB. Moreover, in response to the IBAN's recommendation at reference C, the IC invited all Host Nations to confirm by 31 March 2022 that their archiving policies are fully aligned with NSIP rules or, if not, what steps would be undertaken to adjust these accordingly. As of October 2023, 23 Host Nations responded to the invitation but 11 have not yet done so. The RPPB considers adequate document retention procedures a necessary enabler of the independent assurance provided to governance by the IBAN.

10. The IBAN also followed up on the recommendations from its 2021 special report on the new approach to NSIP (reference D), namely to establish a discharge procedure and to annually report to the Council on the IC's discharge activities. The RPPB notes that the development of a formal project financial closure and Host Nation discharge policy is underway in the IC, and that the 2022 Annual Report on NATO Common Funding already included NSIP discharge data. The RPPB welcomes these measures agreed by the IC.

CONCLUSIONS

11. The RPPB recognises that progress related to the close-out of NSIP projects is ongoing, such as the development of a formal project financial closure and Host Nation discharge policy which remains a long-standing IBAN recommendation (reference A and C). In particular, the RPPB expects this work to yield tangible improvements in the overall proportion of modified audit opinions. The RPPB intends to continue to include NSIP discharge data in the Annual Report on NATO Common Funding to Council, to strengthen transparency and accountability related the use of NSIP funds.

12. The RPPB acknowledges the points raised by IBAN in its report on the signatory of the cost statement and the procurement method applicable to A/E Fees. Regarding the signature of cost statements, the RPPB defers to Host Nations to determine the appropriate signatory but considers that, in accordance with the principle of segregation of duties, cost statements should not be signed by the preparer. The RPPB invites the IC to reflect this in

its upcoming work on a developing a project financial closure and Host Nation discharge policy. In addition, the RPPB considers that the procurement method applicable to A/E Fees can be usefully clarified as part of the IC's ongoing efforts to review NATO's procurement policies.

13. The RPPB reiterates its support for the measures agreed by the IC on improving transparency, accountability and compliance (reference E). In this vein, the RPPB invites the remaining 11 Host Nations to respond to the invitation by the IC to confirm that their archiving policies are fully aligned with NSIP rules or, if not, what steps would be undertaken to adjust these accordingly, in a letter to the IC Chair by no later than end-2023. Furthermore, and as an intermediate step to improve Host Nation awareness of their NSIP regulatory responsibilities, the RPPB invites the International Staff, in coordination with IBAN Staff, to compile and present to the IC a list of typical documentation requested during NSIP audits.

RECOMMENDATIONS

14. The Resource Policy and Planning Board:

14.1. invites the Investment Committee:

14.1.1. to reflect the RPPB's conclusion on the signatory of cost statements in its upcoming work on a developing a project financial closure and Host Nation discharge policy;

14.1.2. to clarify the procurement method applicable to A/E Fees as part of its ongoing efforts to review NATO's procurement policies;

14.2. invites the remaining 11 Host Nations to confirm that their archiving policies are fully aligned with NSIP rules or, if not, what steps would be undertaken to adjust these accordingly, in a letter to the IC Chair by no later than end-2023;

14.3. invites the International Staff, in coordination with IBAN Staff, to compile and present to the IC a list of typical documentation requested during NSIP financial audits;

14.4. recommends that Council:

14.4.1. note the IBAN report at reference A;

14.4.2. note this report and approve the conclusions outlined in paragraphs 11 through 13;

14.4.3. approve the public disclosure of this report and the IBAN report on the summary of results of NSIP audits and implementation of NSIP special reports recommendations, in line with the provisions of PO(2015)0052.

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

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IBA-A(2023)0028
24 May 2023

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 the Summary of Results of 2022-2021 NSIP audits and Implementation of NSIP Special Reports Recommendations – IBA-AR(2023)0007***

IBAN submits herewith the approved Report on the Summary of Results of 2022-2021 NSIP audits and implementation of NSIP Special Reports recommendations 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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Brussels | Belgium

REPORT ON THE SUMMARY OF RESULTS

of 2022-2021 NSIP audits and Implementation of NSIP Special Reports Recommendations

FOREWORD BY THE CHAIR

On behalf of the International Board of Auditors for NATO (IBAN), I am pleased to share with you this “Special Report to the North Atlantic Council (Council) on the summary of results of 2022-2021 NSIP audits and implementation of NSIP Special Reports recommendations”.

The NSIP is NATO’s core capital investment programme. It is an essential common funded resource pillar, designed to enhance and upgrade NATO assets, in order to obtain military capabilities that exceed national defence requirements of individual Nations.

In June 2018, NATO adopted a new governance model for common funded capability delivery, which, among others, aims to ensure clearer roles, responsibilities and increased accountability. In June 2020, following IBAN's recommendations, Council further strengthened the accountability of NSIP by approving some improvements to the independent assurance provided by IBAN in the form of a new audit report on the Programme's project expenditures, fully in line with international auditing standards.

Following such changes approved by Council and IBAN's previously issued Special Report on the new approach to NSIP audits including the main audit results from the first year of implementation of the new approach in 2020, this Special Report sets out the main audit results arising in the second and third years 2022-2021. It also reviews the status of implementation of IBAN recommendations from our two prior Special Reports on NSIP.

IBAN believes that the new approach to NSIP audits contributes to further strengthening the overall accountability of NSIP from a corporate governance perspective, as well as to clarifying the responsibility of Host Nations, governance, and external audit.

Further progress in key areas such as internal controls and documentation would lead to more effective governance and accountability of NSIP expenditures. The development and documentation of a formal discharge procedure and the issuance of one single compendium of applicable rules concerning NSIP would better support Host Nations in understanding and addressing their responsibilities for the implementation of NSIP projects from the planning phase until the final discharge.

With the aim to serve the interests of our stakeholders in the best way possible, this Special Report provides easy to understand aggregated information on the results of our NSIP audits. This will enable the Council to better oversee and account for the NSIP, as well as to strengthened transparency and accountability of the use of NATO resources.

Daniela Morgante
Chair
International Board of Auditors for NATO

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Annexes

1. IBAN'S RESPONSIBILITIES REGARDING NSIP AUDITS

1.1 The NATO Security Investment Programme (NSIP)

1.1.1 NATO established the NATO Security Investment Programme (NSIP) in 1951 as its core capital investment programme and one of the common funded resource pillars. It is designed to enhance and upgrade NATO assets in order to obtain military capabilities that exceed national defence requirements of individual Nations.

1.1.2 The programme funds the development, construction and implementation of military capabilities required by the Strategic Commanders to complete their missions. The common funding eligibility rules focus on the provision of requirements, which are over and above requirements expected to be made available by individual Nations. For example, NSIP can be used to provide, restore or enhance fixed infrastructure (such as new buildings or repairing airfields), communication information systems equipment (such as new software and hardware) or deployable strategic equipment (such as military transport vehicles). NSIP may also fund Alliance Operations and Mission requirements based on special eligibility rules, where common funds cover costs that are not attributable to a single nation.

1.1.3 The NSIP main stakeholders, apart from the North Atlantic Council (Council), are the Resource Policy and Planning Board (RPPB), the Investment Committee (IC), the Military Committee and the Strategic Commands, supported by the International Staff (IS) and International Military Staff, and Host Nations.

1.1.4 The IC, which operates under delegated authority from the RPPB, is the responsible governance body for the implementation of NSIP. Within this role, the IC approves the project scope and funding (project level authorisation), host nation designation and procurement method for individual NSIP projects. It manages NSIP at project level and monitors progress of all projects, including the calls for contribution and the technical and financial discharge of Host Nations' responsibilities for the implementation of the projects. The IC is accountable to the RPPB for the overall management and performance of the NSIP.

1.1.5 NSIP projects are implemented by an NSIP Host Nation, which can be the country on whose territory the project is implemented (territorial Host Nation) or a NATO agency or Strategic Command. Host Nations are responsible for the implementation of authorised NSIP projects.

1.2 IBAN's Mandate regarding NSIP Audits

1.2.1 In accordance with Article 1 of its Charter, the International Board of Auditors for NATO (IBAN) is mandated to audit the NSIP on behalf of the Council. IBAN's mandate regarding NSIP audits covers NATO Nations as well as NATO entities receiving common funding from NSIP.

1.2.2 The function of IBAN regarding NSIP 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 expenditures incurred by member countries (Host Nations) or NATO bodies in respect of the NSIP have been carried out in compliance with the regulations in force (NSIP audit)."*

1.2.3 In addition to NSIP audits, in accordance with Article 2 of our Charter, IBAN's functions also cover financial statements audit of NATO Reporting Entities and performance audit.

1.2.4 According to the IC Implementation Management Procedure, an audit request should be submitted to IBAN not later than six months following the request for a technical inspection of the project. IBAN conducts the audit of NSIP expenditures per project based on the audit request received from the Host Nation responsible for the implementation of the authorised project. IBAN will not start the audit if a technical inspection has not yet been performed.

1.2.5 IBAN conducts its NSIP 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 Host Nations 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 Host Nation's staff to discuss preliminary audit results.

1.2.6 In accordance with Article 14 of its Charter, IBAN may issue a special report to Council on any relevant matter it considers to be worthy of attention. The purpose of this IBAN special report is to provide an overview of the audit results from the 2022 and 2021 NSIP audits and to review the status of implementation of IBAN recommendations from two prior Special Reports on NSIP.

1.3 Audit Standards and NSIP 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 NSIP audits are conducted in accordance with INTOSAI Principles as per our Charter, and standards consistent with the International Standards of Supreme Audit Institutions (ISSAI 2000-2899 and ISSAI 4000-4899).

1.3.2 The objective of the NSIP audit is to obtain independent assurance about whether something has come to our attention that causes us to believe that the expenditures incurred have not been carried out in compliance with the NSIP regulations in force. This objective includes issuing an independent external auditor's report with an audit opinion on compliance.

1.3.3 In accordance with the auditing standards, audit opinions on the expenditures incurred presented in the cost statements of the projects can be either unmodified or modified. Three types of paragraphs may also be communicated in the auditor's report in accordance with auditing standards. See the Glossary of Terms in Annex 3.

1.4 Management's Responsibilities for the cost statement and for compliance

1.4.1 Host Nations' responsibilities for the management and implementation of NSIP projects is laid down in various NSIP regulations and IC management procedures approved by either the Council or the IC since the 1950's. There is currently no compendium with all applicable rules and regulations related to NSIP, including the responsibilities as a Host Nation for implementing NSIP projects.

1.4.2 According to NSIP regulations and the IC Implementation Management Procedure, a Host Nation is responsible and accountable for the implementation of the NSIP project. This includes the responsibility for compliance with the NSIP regulations in force. This compliance with NSIP regulations also covers the responsibility for maintaining complete records and documentation to fully justify expenditures incurred and to allow for an audit and discharge of financial responsibilities. It further includes the responsibility for the preparation of a cost statement for all expenditures incurred for the project implementation, and for submitting it to IBAN for audit.

1.4.3 To initiate a financial audit, the Host Nation must submit a cost statement of the project expenditures incurred to IBAN for audit. From an audit standpoint, and consistent with current practice, the Host Nation is required to prepare and sign the cost statement by a responsible staff member at an accountable level.

1.4.4 Cost statements are the means through which the Host Nation presents a completed project for audit. By signing the cost statement, the Host Nation confirms that sufficient verification and internal controls are in place to ensure that all expenditures incurred are complete, correct, and compliant with NSIP regulations in force. The cost statements are prepared in accordance with guidance to Host Nations issued by the IC in 2020, which includes a template recommended for use.

1.5 The completion of NSIP projects

1.5.1 When the works implemented by a Host Nation related to an NSIP project are physically complete, the project must be subject to a technical inspection and formal acceptance of the works by NATO, according to NSIP regulations. The technical inspection (also called Joint Final Inspection and Formal Acceptance) serves as the formal acceptance by NATO that the project is physically complete, militarily and technically acceptable, and that the responsibility of the Host Nation for completion of the works has been fully discharged by NATO. The technical inspection and subsequent formal acceptance and discharge by the IC of the works implemented is therefore the first part of a dual-discharge process in NSIP.

1.5.2 After the technical inspection of the completed project, IBAN will perform an audit of the expenditures incurred presented in the cost statements and will issue the Independent External Auditor's Report to the Council, by delegation to the IC. This report provides independent assurance to Council that NSIP expenditures incurred by

Host Nations are carried out in compliance with the regulations in force. According to the NSIP regulations for technical inspections (AC/4-D/2074), IBAN also has a duty to report "*any material facts which were unknown or erroneously put to the inspection team or to the Committee"*. The independent assurance provided by IBAN in the form of an audit opinion assists the IC, acting on behalf of Council, in discharging the Host Nation from their financial responsibilities.

1.5.3 The actual discharge of Host Nations is based on the IC approval of a List of Completed Projects, in accordance with existing agreed NSIP regulations. This document is the final step in the project implementation process and, once approved by the IC, discharges the Host Nations from their financial responsibilities for these projects, on behalf of Council. After the approval of this document, the IS performs a technical and financial closure of the NSIP project.

1.5.4 Once an NSIP project has been technically inspected, audited by the IBAN and the Host Nation discharged for the completion of the works and its financial responsibilities, the project is considered closed and accepted into what is referred to as "the NATO inventory". This is not a physical inventory of NATO assets, but rather a terminology used to refer to NSIP works that are available for NATO use. As such, no NATO inventory exists of completed NSIP projects and the tangible and intangible assets (rights-to-use assets) delivered by these projects.

1.5.5 NATO has the right to use works that are accepted into the NATO inventory and the right to reimbursement of the residual value of NSIP-funded works that are deleted from the inventory. According to D-D(51)141, Provision of Funds for Second Slice Infrastructure dated 2 June 1951, *"[…] It is taken for granted that all completed infrastructure installations […] will be at the disposal of the appropriate NATO military authorities for as long as necessary."*

1.5.6 For fixed installations, the ownership of the assets is the territorial Host Nation. This is derived from a Council report from 4 December 1953 (C-M(53)161), where it is stated that *"it is its understanding that installations which have conclusively been accepted for financing under NATO common infrastructure, though they are for the use of NATO, are nevertheless the property of the host country, without prejudice to the provisions concerning residual value."*

1.5.7 From an accounting perspective, significant amounts of tangible assets/intangible assets (rights-to-use assets) delivered by NSIP projects are under the control of either Allied Command Operations (ACO), Allied Command Transformation (ACT), the NATO Support and Procurement Agency (NSPA) or the NATO Communications and Information Organisation (NCIO) following the NATO Accounting Framework. Therefore, these assets should be recognised in the financial statements of ACO, ACT, NSPA or NCIO.

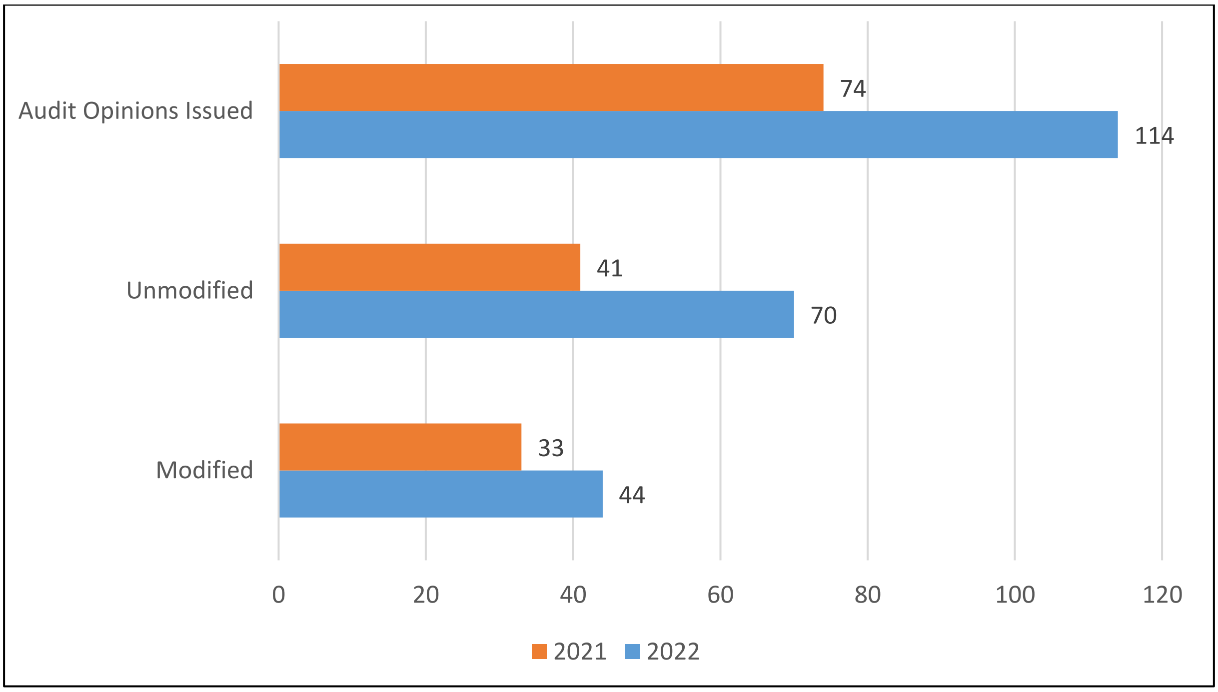
2. SUMMARY OF RESULTS FROM THE 2022 AND 2021 NSIP AUDITS

2.1 Summary of Audit Opinions

2.1.1 The results of the 2022 and 2021 NSIP audits cover the audit opinions and other paragraphs issued on cost statements presented by territorial Host Nations, NATO Agencies and Strategic Commands. In order to place the results into perspective, chart 1 and 2 below compare the audit opinions issued and the amounts audited for both years.

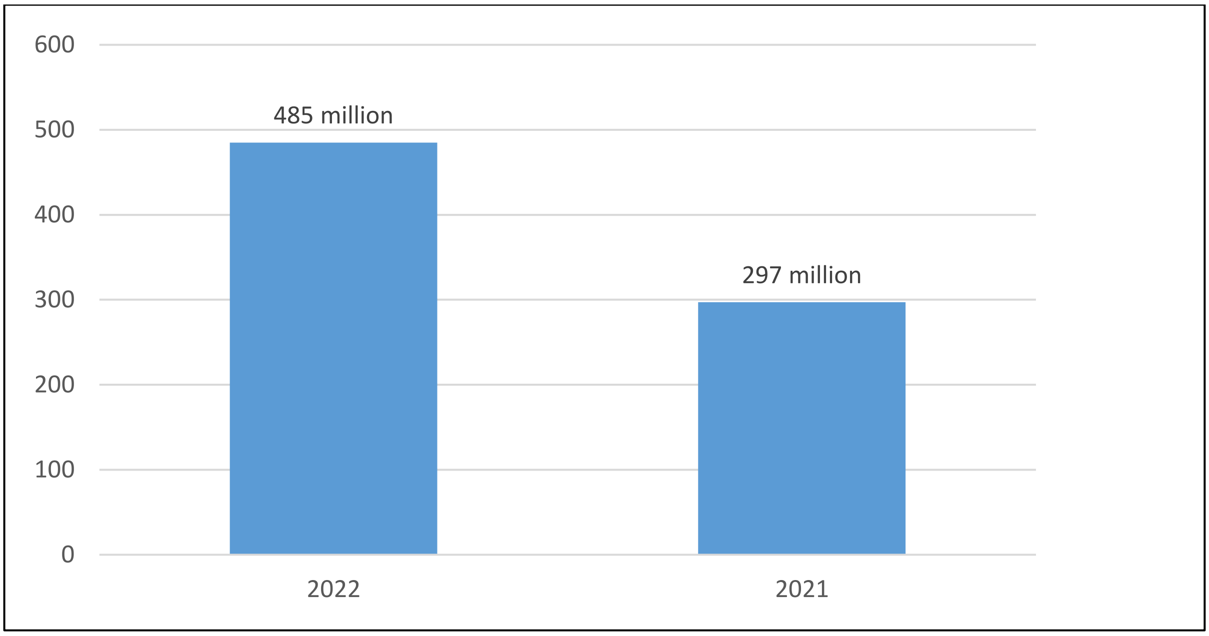
2.1.2 The following audit opinions were issued on the NSIP cost statements in 2022 and 2021:

Chart 1: NSIP Audit Opinions issued in 2022 and 2021



Source: IBAN data

Chart 2: NSIP Amounts Audited (MEUR) 2022 and 2021



Source: IBAN data

Notes
(1) Amounts audited represents amounts in cost statements presented for audit by the Host Nations.

2.1.3 In 2022, we issued 114 auditor's reports compared to 74 in 2021. This represents an increase of 54%. This is mostly due to more audit requests received and more audits performed in 2022 after the ease of COVID related travel restrictions. For similar reasons, there was an increase of 63% in total expenditures audited in 2022 compared to 2021.

2.1.4 Table 1 below presents the audit opinions issued by IBAN per territorial Host Nations, NATO Agencies and Strategic Commands for 2022 and 2021.

Table 1: Types of audit opinions per Host Nation

	2022			2021		
Host Nation (1)	**Modified**	**Unmodified**	**Total**	**Modified**	**Unmodified**	**Total**
Belgium	6	4	10	0	8	8
Bulgaria	0	0	0	1	0	1
Denmark	3	2	5	0	0	0
Estonia	0	2	2	0	0	0
France	0	3	3	0	0	0
Germany	3	17	20	0	0	0
Greece	0	0	0	0	1	1
Italy	4	2	6	3	1	4
Latvia	0	0	0	0	1	1
Lithuania	0	0	0	1	0	1
NCIA	8	10	18	13	7	20
Netherlands	0	0	0	0	2	2
Norway	1	6	7	4	1	5
NSPA	5	12	17	1	16	17
Poland	4	0	4	3	2	5
Romania	0	1	1	0	2	2
SHAPE	1	1	2	2	0	2
Spain	2	0	2	0	0	0
Türkiye	7	10	17	0	0	0
United Kingdom	0	0	0	5	0	5
Grand Total	**44**	**70**	**114**	**33**	**41**	**74**

Source: IBAN data

Notes
(1) The table includes only the Host Nations for which IBAN did an NSIP audit in 2022 and 2021.

2.1.5 The table shows that we audited NSIP expenditures in 17 territorial Host Nations, two NATO Agencies and one Strategic Command in 2021 and 2022. Out of the 70 unmodified audit opinions issued in 2022, 47 related to territorial Host Nations, 22 related to NATO Agencies and one related to a Strategic Command. For modified audit opinions, 30 related to territorial Host Nations, 13 to NATO Agencies and one related to a Strategic Command. Annex 1 shows the total expenditures presented in cost statements per Host Nations per year.

2.2 Summary of Unmodified Audit Opinions

2.2.1 In accordance with auditing standards and the IBAN Charter, an unmodified opinion is when IBAN issues an opinion on compliance of expenditures incurred and presented in the cost statement prepared by the Host Nation, stating that nothing has come to our attention that causes us to believe that the expenditures incurred have not been carried out in compliance with the NSIP regulations in force.

2.2.2 The unmodified audit opinions relate to well-prepared cost statements containing no mathematical calculation mistakes, and with expenditures within authorised scope and funds. These types of cost statements are also supported by documentary evidence, such as the signed contracts with any amendments, bidding documentation, hand-over and acceptance reports of works delivered, invoices and proof of payments related to the authorised scope of work for all expenditures claimed in order to demonstrate compliance with the NSIP regulations in force.

2.2.3 Out of the 114 audit opinions issued in 2022, 70 were unmodified. In 2021, 41 audit opinions were unmodified out of 74 audit opinions issued. As a percentage of the total number of issued auditor's report, 61% were unmodified in 2022 and 55% in 2021.

2.2.4 IBAN performs NSIP audits based on requests from the Host Nations and each project is different in terms of size, complexity and age. In addition, different Host Nations and differing numbers of projects are audited each year. Consequently, it is difficult to make a comparison year by year and identify reasons for the increase or decrease in the number of unmodified audit opinions.

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

2.3.1 Other Matter paragraphs are communicated if IBAN considers it necessary to communicate a matter other than those related to expenditures presented in the cost statements that, in our judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report. This may relate to additional expenditures incurred, but not included in the cost statement.

2.3.2 A total of 10 auditor's reports contained an Other Matter paragraph in 2022 (none in 2021). These Other Matters relate to expenditures not claimed, but within the authorised scope of work for a total amount of EUR 25.4 million. It may, for example, relate to:

- Invoices related to the projects but, by mistake, not included in the cost statement;
- The use of a lower percentage of National Administrative Expenses (NAE) than allowed according to NSIP regulations;
- The use of an incorrect sharing of costs between NATO and the Host Nation.

2.3.3 Emphasis of Matter paragraphs are communicated if IBAN considers it necessary to draw attention to a matter related to expenditures presented in the cost statement that, in our judgement, is of such importance that it is fundamental to the understanding of the expenditures incurred and presented in the cost statement. One auditor's report contained an Emphasis of Matter paragraph in 2022 (none in 2021).

2.4 Summary of Modified Audit Opinions

2.4.1 A modified audit opinion is issued when, during the course of the audit, issues come to IBAN's attention that cause us to believe that some, or all, expenditures incurred have not been carried out in compliance with the NSIP regulations in force. Three scenarios can form the basis for a modified opinion:

a) **Limited**: a number of errors affecting some of the expenditures claimed in the cost statement,
b) **Pervasive**: a number of errors considered pervasive and affecting all expenditures claimed in the cost statement,
c) **Disclaimer**: impossibility to express an opinion due to the cost statement not presented or documentation intentionally not provided.

2.4.2 Table 2 shows the number of modified audit opinions by type.

Table 2: Types of modified audit opinions by year

	2022	2021	Total
Limited	37	15	**52**
Pervasive	7	13	**20**
Disclaimer	0	5	**5**
Total	**44**	**33**	**77**

Source: IBAN data

2.4.3 When errors affecting only part (non-pervasive / limited) of the expenditures presented in the cost statement are found, this leads to a modified opinion. These errors could be, for example, missing documentation for part of the project, or expenditures claimed outside the authorised scope or calculation errors, or a combination of different types of errors affecting only a part of the total expenditures claimed. This type of modified opinion accounts for the majority (68%) of the auditor's report issued in 2022 and 2021 containing a modified opinion.

2.4.4 The main audit results leading to conclude on the pervasiveness of errors in 2022 and 2021 relate to missing documentation affecting all expenditures incurred (such as all contracts, amendments and/or invoices missing). Missing all contract award documentation (such as bidding documents, selection committee decisions etc.) may also result in a pervasive conclusion based on non-compliance with NSIP procurement regulations. During the period 2021-2022, these types of opinions represented 26% of the total modified audit opinions issued.

2.4.5 For five NSIP projects audited in 2021, the Host Nation was not in a position to prepare cost statements for audit, as the supporting documentation for expenditures incurred was no longer available. As no cost statement and supporting documentation were submitted to us for audit, we were not able to determine whether expenditures incurred complied with the NSIP regulations in force (disclaimer). None of this type of audit opinion were issued in 2022.

Categories of non-compliance leading to modified audit opinions

2.4.6 Audit findings on NSIP cost statements can be grouped into four categories of non-compliance with the NSIP regulations in force:

a) Non-compliance due to missing supporting documentation
b) Expenditures claimed outside the authorised scope of work
c) Expenditures within authorised scope of work but exceeding funds authorised
d) Non-compliance with NSIP procurement and contracting regulations

Non-compliance due to missing supporting documentation

2.4.7 The main reason for modified audit opinions (55% in 2022 and 64% in 2021) related to missing or incomplete project documentation, such as signed contracts and amendments, including technical annexes detailing the scope of work, and invoices. Non-compliance due to missing supporting documentation impacted audited expenditures totalling EUR 133.2 million in 2022 and EUR 104.6 million in 2021. Typically, invoices provide only limited information about the scope of work and therefore, contracts, amendments, change orders, acceptance reports and other documents detailing the work performed are key elements in an audit of NSIP projects expenditures.

2.4.8 Due to missing documentation supporting the expenditures incurred, we could not reconcile and agree expenditures to contracts signed, nor could we verify whether expenditures incurred and presented in the cost statement were within the authorised scope of work. Host Nations should keep financial records and documents until final project closure, audit, and discharge of the Host Nation by the IC, on behalf of Council. In these cases, Host Nations were not able to fully account for the NATO common funds received and, as a result, did not fulfil all of their regulatory responsibilities related to the implementation of the NSIP project.

Expenditures claimed outside the authorised scope of work

2.4.9 In other cases, the modified audit opinions were due to non-compliances of expenditures incurred with NSIP regulations because they were outside the authorised scope of work. There were 18 such cases impacting expenditures of EUR 6.1 million in 2022, and five cases in 2021 for an amount of EUR 4.6 million. Examples of errors that led to this category of non-compliance are as follows:

- Expenditures included in the cost statement for works for which no NATO costs were authorised, or for extra quantity of equipment,
- Overstatement of expenditures due to the use of incorrect NATO NSIP currency exchange rate,
- Calculation mistakes due to errors in spreadsheet applications when preparing the cost statement,
- Inclusion of expenditures related to Value Added Tax,
- Invoices non-pertaining to the project included in the cost statement,
- Incorrect sharing of costs between NATO and the Host Nation,
- Use of incorrect National Administrative Expenses (NAE) rate.

2.4.10 It is important for the Host Nations to have a robust and sound internal control environment in order to ensure that expenditures presented for audit in the cost statement are accurate, correct, supported and within the authorised scope agreed by the IC, as well as compliant with the NSIP regulations. This includes preparing reconciliations between authorised scope of work, contracts, and actual work delivered. A lack of an effective internal control environment in the preparation of the cost statement could lead to material misstatements or potential risk of fraud.

Expenditures within authorised scope of work, but exceeding funds authorised

2.4.11 One of the key principles in NSIP is that "*no payments will be made in connection with common funded infrastructure projects unless work has been authorised by the Payments and Progress Committee* [today IC] *in advance.*" (C-M(53)18 and AC/4-D/1070 (1987 Edition) and its addenda).

2.4.12 Ten modified audit opinions in 2022 and two in 2021 were due to expenditures presented in the cost statements that exceeded authorised funds. The total expenditures in excess of authorisations amounted to EUR 1.6 million in 2022 and EUR 519,187 in 2021. We consider these expenditures non-compliant with NSIP regulations unless the Host Nation obtains additional funds authorisation from the IC. Furthermore, it is not in compliance with NSIP regulations to incur expenditures prior to authorisation from the IC and thereby to exceed the authorisations granted. If during the implementation of a project it becomes evident that project costs will change and exceed original authorisations, the Host Nation must inform the IC in a timely manner and seek an additional authorisation prior to incurring any additional expenditures.

Non-compliance with NSIP procurement and contracting regulations

2.4.13 Two modified audit opinions in 2022 and one in 2021 were for non-compliance with the NSIP procurement and contracting regulations. This impacted expenditures totalling EUR 1.1 million in 2022 and EUR 26.4 million in 2021. This type of non-compliance relates to cases where the Host Nation did not conduct the contract award in accordance with what was authorised by the IC. For example, issuing a contract using a sole-source approach when the IC authorised the issuance of the contract using international or national competitive biddings. In addition, when bidding documentation and contract award decision reports are missing, it is not possible for IBAN to verify whether the bidding procedure carried out complied with the authorised method of procurement and this results in a non-compliance with regulations.

2.5 Other relevant matters for the attention of the Council

Signatory of cost statements

2.5.1 From an audit standpoint and consistent with current practice, the Host Nation is required to properly prepare and sign a cost statement of expenditures incurred. According to guidance from the IC, a responsible staff member at an accountable level should sign the cost statement. Cost statements are the means through which the Host Nation presents a completed project for audit. By signing the cost statement, the Host Nation confirms that sufficient verification and internal controls, including audit trail, are in place to ensure that all expenditures incurred are complete, correct, and compliant with the terms of the authorisation and NSIP regulations in force.

2.5.2 During 2022 and 2021, we found that cost statements submitted for audit were signed by various levels of accountable people from the Host Nations, with different titles and functions. Based on the positions' titles, it is not always clear to IBAN at what level of accountability the signatory is. We also noted that sometimes the cost statement was signed by its preparer and not by somebody at a higher level of accountability that would ensure proper verification and internal controls prior to issuing it for audit.

2.5.3 IBAN believes that a more precise definition of what "a responsible staff at an accountable level" means would help avoid discrepancies of approach between Host Nations in respect of the level of authority required to sign the cost statement, thereby providing more accountability and Alliance-wide consistency in national processes regarding NSIP.

Procurement methods for Architect and Engineering (A/E) companies

2.5.4 As part of the NSIP authorisation process, the IC agrees on the procurement method to be used for the project as a whole. The default procurement strategy is International Competitive Bidding, and the authorisation documents indicate, when agreed, any deviation to this default strategy (e.g. National Competitive Bidding, sole-source). The Host Nation has to comply with the procurement method authorised by the IC.

2.5.5 In addition, the IC may authorise Host Nations to hire Architect and Engineering (A/E) companies to develop, plan and design an NSIP project, as well as to supervise and administer its implementation. A/E fees are normally authorised as a certain percentage of the overall funding authorisation for a project and are subject to audit as part of the expenditures included in the cost statement.

2.5.6 However, it is not fully clear in the current NSIP regulations whether the method of procurement authorised by the IC applies to all contracts awarded by the Host Nation to implement the project, or only applies to the contracts related to the civil works (excluding the contracts awarded to A/E companies). Some Host Nations award A/E contracts using national competitive bidding procedures, others use sole-source for the award, independently of the procurement method authorised by the IC. Another complexity comes from the fact that Host Nations may contract A/E companies at the design and planning stage of a project after having received advance-planning funds from the IC. However, at this stage of the project implementation, the IC has normally not yet agreed to the procurement method for the project as a whole.

2.5.7 IBAN considers that a clarification is needed from NSIP governance as to whether the procurement method authorised by the IC also applies to contracts awarded to A/E companies. This clarification would avoid misinterpretations from the different stakeholders (such as the Host Nations, the IS and the IBAN) involved in the various stages of the implementation of NSIP projects.

3. IMPLEMENTATION OF IBAN RECOMMENDATIONS FROM TWO SPECIAL REPORTS ON NSIP

3.1 Introduction

3.1.1 IBAN issued two Special Reports to Council on NSIP in 2020 and 2021:

- The Special Report on the new approach to NATO Security Investment Programme financial audits and its impact on accountability (IBA-A(2021)0047-REV1 and IBA-AR(2021)0002).
- The Special Report on NATO Security Investment Programme lump sum conversions (IBA-A(2020)0037 and IBA-AR(2020)0004);

3.1.2 The IC assessed these two Special Reports and agreed on a number of measures to improve compliance, transparency and accountability in closing out NSIP funded investment projects. These measures were reported to the RPPB which supported them and recommended Council to note the new measures (PO(2022)0118-AS1). The RPPB further recommended Council to note that more robust instruments would be needed should the new agreed measures not lead to visible progress by the end of 2022. The Council noted the RPPB report and its recommendations on 24 March 2022.

3.2 Special Report on the new approach to NATO Security Investment Programme financial audits and its impact on accountability

3.2.1 IBAN raised one recommendation in this Special Report recommending Council to develop and document a formal discharge procedure for NSIP, setting out roles and responsibilities of each party in the process. We also recommended establishing an annual reporting from the IC, through the RPPB, to Council on the discharge of Host Nations responsibilities granted by IC, on behalf of Council. Annex 2 provides more details on the actions taken by the IC to implement this IBAN recommendation.

3.2.2 Based on the IBAN recommendation, the IC invited the IS to develop and document a formal discharge procedure. According to PO(2022)0118-AS1, the IC agreed to develop this procedure no later than end 2022.

3.2.3 A formal discharge procedure is currently under development by the IC. According to the IS, who is supporting the IC on this matter, formal and informal meetings in the IC have taken place to discuss a potential way forward on the discharge of NSIP projects. The approach, as agreed by the IC, entails drawing on lessons learned from the Committee's handling of the discharge of completed projects.

3.2.4 Since the adoption of the new audit approach, the IC proceeded with the discharge of Host Nations financial responsibilities in those cases where IBAN issued unmodified audit opinions. For the NSIP projects where IBAN issued modified audit opinions due to missing or incomplete supporting documentation, a draft report is still under discussion in the IC and a final decision on discharge has not yet been made. For projects with a modified audit opinion due to other errors (such as expenditures exceeding the authorised funds but within the authorised scope), the application of extant procedures is foreseen by the IC.

3.2.5 IBAN underlines the importance of implementing its recommendation to develop and document a discharge procedure. As stated in this Special Report, the overall purpose of public sector accounting and financial reporting is to provide financial information for decision-making and allow for the discharge of accountability. There are three key stakeholders: governance, management and the external auditors. Governance is responsible for discharging management from their responsibilities. Governance discharges management based on information from various sources, including input from management and independent assurance provided by the external auditor. These key corporate governance principles on financial reporting and accountability also apply to NSIP.

3.2.6 Regarding annual reporting to Council on the discharge granted, the IC agreed to send its annual report to the RPPB prior to the RPPB and Military Committees joint annual report to Council (see PO(2022)0118-AS1). Annual reporting, through the RPPB, to Council on the discharge granted by the IC did not yet take place. The IC also agreed that future annual NSIP Financial Activity Reports should include information regarding which Host Nations were discharged from their responsibilities and which were not. The IC NSIP Financial Activity Report for 2021 published on the NATO website includes a table with an overview of completed projects (euro amounts) in 2021 and Host Nation discharge.

3.3 Special Report on NATO Security Investment Programme lump sum conversions

3.3.1 IBAN raised six recommendations in this Special Report. Annex 2 provides more details on the actions taken by the IC to implement these IBAN recommendations. One of the main recommendations related to the development of a compendium of applicable NSIP regulations, including the responsibilities as a Host Nation for implementing NSIP projects.

3.3.2 As stated in this Report, the NSIP regulations are laid down in various NSIP documents and IC management procedures approved by either the Council or the IC since the 1950’s. There is currently no compendium with all applicable rules and regulations related to NSIP, including the responsibilities of a Host Nation for implementing NSIP projects.

3.3.3 Considering that the NSIP regulations are not laid down in one compendium, this may make it difficult for Host Nations to ensure that all regulations are being followed, especially considering the rotation of staff in Host Nations. There is therefore a risk that Host Nations are not fully aware of their NSIP regulatory responsibilities.

3.3.4 According to PO(2022)0118-AS1, the IC agreed that the IS should review the existing NSIP Manual from 2011, especially to reflect changes in roles and responsibilities arising from the 2018 agreed Governance Model. This work has not yet started. The NSIP Manual is a comprehensive guide on the NSIP developed by the IS for use by the wider NATO resource community. The IC or any other governing committee have not approved the NSIP Manual. Moreover, the NSIP Manual does not include the actual NSIP regulations agreed at governance level (IC, RPPB or Council), which Host Nations are held accountable for complying with. We therefore believe that reviewing the NSIP Manual will not be sufficient and that it is important to develop and keep updated a single compendium of applicable regulations related to NSIP.

3.3.5 One of the main reasons for modified audit opinions is missing or incomplete supporting documentation for expenditures incurred. The supporting documentation may no longer be available because the archiving policies in the territorial Host Nation or NATO Entity are not aligned to the NSIP regulations, which require all documentation to be kept until the discharge and final closure of the project. We therefore recommended in the 2020 Special Report that territorial Host Nations and NATO Entities confirm that their archiving and retention rules are aligned with NSIP regulations. The IC invited Host Nations to confirm this and so far, 21 territorial Host Nations and 2 NATO Agencies provided this confirmation to the Chair of the IC. The Strategic Commands have not yet provided such a confirmation.

3.3.6 We also recommended in the Report that all NSIP project expenditures are subject to an audit even in those cases where the documentation is lost or incomplete. Since 2020, expenditures incurred on NSIP funded projects are subject to audit and the external auditor's opinion is available for the IC prior to any decision on discharge of Host Nations responsibilities.

4. CONCLUSION

4.1 The IBAN NSIP audits of the expenditures presented in the cost statements resulted in 61% (70 out of 114) unmodified audit opinions in 2022 compared to 55% (41 out of 74) in 2021. With respect to the modified audit opinions for the period 2022-2021, 68% (52 out of 77) of them relates to non-compliance affecting only a part of the expenditures presented in the cost statements, 26% (20 out of 77) of the modified audit opinions for the same period were considered pervasive as the non-compliance affected all expenditures incurred for the project.

4.2 The main non-compliance finding is due to missing supporting documentation (55% of the modified opinion in 2022, 64% in 2021) such as signed contracts and amendments, including technical annexes detailing the scope of work, bidding documentation and invoices. Because of missing documentation, we could not reconcile and agree expenditures claimed to contracts signed, nor could we verify whether expenditures incurred were within the authorised scope of work.

4.3 Strengthening internal controls within the Host Nations in order to ensure that expenditures presented for audit in the cost statement are complete and accurate is important, including maintaining adequate audit trails. A lack of an effective internal control environment in the preparation of the cost statements could lead to misstatements, and ultimately to an elevated number of non-compliance with NSIP regulations found by the IBAN when conducting the audit.

4.4 We draw attention to our recommendations from two Special Reports to Council on NSIP issued in 2020 and 2021. In particular, we note that the development and documentation of a formal discharge procedure is still ongoing and we re-iterate the importance of finalising it at the earliest possible time. The development of one single compendium of applicable rules related to NSIP is also still pending. This compendium is important to ensure that Host Nations understand clearly their responsibilities for the implementation of NSIP projects from the planning phase until the final discharge.

EXPENDITURES PRESENTED IN COST STATEMENTS PER HOST NATIONS (EUR)

Host Nations	2022	2021
Belgium	19,034,005	12,176,883
Bulgaria	-	29,639,228
Denmark	9,278,202	-
Estonia	1,990,408	-
France	17,553,543	-
Germany	8,022,972	-
Greece	-	7,870,465
Italy	24,045,786	35,836,095
Latvia	-	49,907
Lithuania	-	4,634,036
NCIA	192,369,045	102,648,531
Netherlands	-	694,789
Norway	43,950,874	2,228,823
NSPA	24,276,205	18,399,595
Poland	38,422,362	46,718,795
Romania	890,742	2,758,521
SHAPE	26,513,220	33,081,715
Spain	7,720,466	-
Türkiye	70,742,511	-
United Kingdom (1)	-	-
Grand Total	**484,810,341**	**296,737,383**

Source: IBAN data

Notes

(1) There are no expenditures shown for the United Kingdom as they did not present any cost statement for the projects requested for audit.

ACTIONS TAKEN REGARDING THE IMPLEMENTATION OF IBAN RECOMMENDATIONS FROM TWO SPECIAL REPORTS ON THE NSIP

IBAN reviewed the implementation of recommendations raised in two Special Reports issued to Council and the actions taken by the Investment Committee:

- The Special Report on the new approach to NATO Security Investment Programme financial audits and its impact on accountability (IBA-A(2021)0047-REV1 and IBA-AR(2021)0002).
- The Special Report on NATO Security Investment Programme lump sum conversions (IBA-A(2020)0037 and IBA-AR(2020)0004).

The table below provides an overview of the actions taken by the Investment Committee to implement the recommendations.

Special Report on the new approach to NATO Security Investment Programme financial audits and its impact on accountability (IBA-A(2021)0047-REV1 and IBA-AR(2021)0002)	
IBAN RECOMMENDATION	**ACTIONS TAKEN**
IBAN recommends Council to task the appropriate governance body to develop and document a formal discharge procedure regarding NSIP. This should include:	The following measures were taken by the IC:
a) Setting out roles and responsibilities of each party in the process. It should also cover situations where discharge of Host Nations may be refused, for example based on audit findings.	a) The IC invited the International Staff to develop and document a formal discharge procedure. According to PO(2022)0118-AS1, the Committee agreed to develop this procedure no later than end-2022. A formal discharge procedure still needs to be developed. An IC working Group meeting was held in March 2023 to discuss a potential way forward on the discharge of NSIP projects. Work is still ongoing.
b) Annual reporting, through the RPPB, to Council on the discharge granted by IC, on behalf of Council, to Host Nations. Such a reporting could include information on how many Host Nations were discharged in a year and, if it occurred, where discharge was refused.	b) According to PO(2022)0118-AS1, the IC agreed to send its annual report to the RPPB prior to the RPPB and Military Committees joint annual report to Council. In addition, the IC agreed that future annual NSIP Financial Activity Reports should include information regarding which Host Nations were discharged from their responsibilities and which were not. The IC invited the International Staff to implement this starting with the 2021 report. Annual reporting, through the RPPB, to Council on the discharge granted by the IC did not yet take place. The NSIP Financial Activity Report for 2021 published on the NATO website includes a table with an overview of completed projects (euro amounts) in 2021 and Host Nation discharge.

Special Report on NATO Security Investment Programme lump sum conversions (IBA-A(2020)0037 and IBA-AR(2020)0004)	
IBAN RECOMMENDATION	**ACTIONS TAKEN**
IBAN recommends Council to task the appropriate governance body to:	The following measures were taken by the Investment Committee:
1. Develop and regularly update a compendium of applicable rules related to NSIP, including the responsibilities as a Host Nation for implementing NSIP projects. This compendium should be widely communicated and be made available to Host Nations organisations.	1. No compendium of all applicable rules and regulations related to NSIP has been developed. According to PO(2022)0118-AS1, the IC agreed that the IS should review the 2011 NSIP Manual, especially to reflect changes in roles and responsibilities arising from the 2018 agreed Governance Model. The NSIP Manual is a comprehensive guide on the NSIP developed by the IS for use by the wider NATO resource community. The IC or any other committee have not approved the NSIP Manual. Moreover, the NSIP Manual does not include the actual NSIP regulations agreed at governance level (IC, RPPB or Council) which Host Nations are held accountable for complying with.
2. Put in place measures whereby the Host Nation formally confirms, for example with an acknowledgement letter, its responsibilities at every project level authorisation stage of the NSIP project cycle. This confirmation should cover the responsibility for implementing NSIP projects in accordance with NSIP Rules, and specifically for maintaining complete technical and financial project documentation and for presenting NSIP projects for technical inspection and audit within agreed timelines.	2. According to PO(2022)0118-AS1, the IC expects Host Nations to follow the agreed timelines and adhere to the obligation to retain project documentation until a Host Nation is discharged from its responsibilities. As part of the implementation of the new Governance Model, the IC is preparing templates for project proposals and Type B cost estimates submitted by Host Nations. These templates include a 'Policy Compliance Statement' to be signed by the senior leadership of the Host Nation, although this compliance statement does not refer to responsibilities related to document retention and completion of NSIP projects. The templates have not yet been agreed by the IC.
3. Require the NATO Agencies and Strategic Commands to adjust their archiving policies, so that they are fully aligned with the NSIP rules for retention of technical and financial project documentation for NSIP projects.	3. The IC agreed to invite all Host Nations (including NATO Agencies and Strategic Commands) to confirm in a letter to the IC Chair by 31 March 2022 that their archiving policies are fully aligned with the NSIP rules. As of 1 April 2023, the two NATO Agencies have provided this confirmation but the two Strategic Commands have not. NATO Agencies and Strategic Commands also must follow the NATO Records Retention Schedules, which require documentation relevant for NSIP audits to be retained for 10 years from the date of the issuance of the external audit report.

Special Report on NATO Security Investment Programme lump sum conversions (IBA-A(2020)0037 and IBA-AR(2020)0004)	
IBAN RECOMMENDATION	**ACTIONS TAKEN**
4. Invite Territorial Host Nations to confirm that national rules are in line with NSIP rules for retention of financial records, to the greatest extent possible, for NSIP projects.	4. The IC agreed to invite all Host Nations (including territorial Host Nations) to confirm in a letter to the IC Chair by 31 March 2022 that their archiving policies are fully aligned with the NSIP rules. As of 1 April 2023, 21 territorial Host Nations had provided this confirmation.
5. Consider the feasibility of introducing a mechanism with a view to improving Host Nation accountability for timely project closure, whereby a part of the authorised project management funds for the project is withheld until the final project closure and discharge of the Host Nation. Such a mechanism would also need to consider situations where a Host Nation seeks a lump sum conversion.	5. The IC considered the feasibility of introducing a mechanism whereby a part of the authorised project management funds is withheld until final projects closure and discharge. The Committee was not in favour of such an approach. According to PO(2022)0118-AS1, several Nations indicated that they would have difficulty to agree to any measure that may involve the financial retention or de-authorisation of funds. Measures to improve Host Nation accountability for timely project closure still need to be considered.
6. Ensure that all NSIP funded projects are subject to a financial audit, even in those cases where the documentation is lost or incomplete, and that the external auditor's opinion should be available prior to any decision by the IC on a potential lump sum conversion.	6. Since the new audit approach was implemented in 2020, expenditures incurred on NSIP funded projects are subject to audit and the external auditor's opinion is available for the IC prior to any decision on discharge of Host Nations responsibilities. NSIP projects are submitted for audit regardless of whether the related supporting documentation is incomplete or missing. In addition, the IC agreed to no longer approve 'a posteriori' lump sum conversions.

Glossary of Terms

In accordance with auditing standards, audit opinions on the expenditures incurred presented in the cost statements of the projects can be either unmodified or modified:

- An **unmodified opinion** is when IBAN issues an opinion on compliance of expenditures incurred in the cost statement and prepared by the Host Nation stating that nothing has come to our attention that causes us to believe that the expenditures incurred have not been carried out in compliance with the NSIP regulations in force.

- A **modified opinion** means one of the following:

  - ✓ IBAN issues an opinion on compliance of expenditures incurred presented in the cost statement and prepared by the Host Nation, stating that some elements of the cost statement are affected by a scope limitation, or that specific issues have come to our attention that causes us to believe that some expenditures incurred have not been carried out in compliance with the NSIP regulations in force.

  - ✓ IBAN issues an opinion on compliance of expenditures incurred presented in the cost statement prepared by the Host Nation, stating that the effect of an error, missing documentation or a disagreement is so pervasive and material that IBAN concludes that all expenditures incurred of the project have not been carried out in compliance with the NSIP regulations in force.

  - ✓ IBAN cannot express an opinion on the expenditures incurred because the cost statement is missing, the inherent documentation was intentionally not provided, or because the scope of the audit is severely limited due to material uncertainties affecting whether expenditures incurred have been carried out in compliance with the NSIP regulations in force.

Three types of paragraphs may also be communicated in the 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 expenditures presented in the cost statement. Key Audit Matters are addressed to Council.

- **Emphasis of Matter** is communicated if IBAN considers it necessary to draw attention to a matter related to expenditures presented in the cost statement that, in our judgement, is of such importance that it is fundamental to the understanding of the expenditures incurred and presented in the cost statement.

- **Other Matter** is communicated if IBAN considers it necessary to communicate a matter other than those related to expenditures presented in the cost statements that, in our judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report. This may relate to additional expenditures not included in the cost statement.

List of Abbreviations/Acronyms

ACO	Allied Command Operations
ACT	Allied Command Transformation
A/E	Architect and Engineering
Council	North Atlantic Council
IBAN	International Board of Auditors for NATO
IC	Investment Committee
INTOSAI	International Organization of Supreme Audit Institutions
IS	International Staff
ISSAI	International Standards of Supreme Audit Institutions
NAE	National Administrative Expenses
NATO	North Atlantic Treaty Organisation
NCIO	NATO Communications and Information Organisation
NSIP	NATO Security Investment Programme
NSPA	NATO Support and Procurement Agency
RPPB	Resource, Policy and Planning Board
SHAPE	Supreme Headquarters Allied Powers Europe