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31 March 2026

**DOCUMENT
PO(2026)0091-AS1**

**IBAN SPECIAL REPORT ON A RENEWED FIT-FOR-PURPOSE NATO FINANCIAL
REPORTING AND ACCOUNTING FRAMEWORK (FRAF)**

ACTION SHEET

On 31 March 2026, under the silence procedure, the Council noted the RPPB report at Annex to PO(2026)0091 and noted its conclusions, noted the IBAN special report enclosed to PO(2026)0091, and approved the public disclosure of the IBAN special report and the RPPB report.

(Signed) Mark RUTTE
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to PO(2026)0091.

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24 March 2026

**DOCUMENT
PO(2026)0091
Silence Procedure ends:
31 Mar 2026 – 17.30**

To: Permanent Representatives (Council)

From: Secretary General

**IBAN SPECIAL REPORT ON A RENEWED FIT-FOR-PURPOSE NATO FINANCIAL
REPORTING AND ACCOUNTING FRAMEWORK (FRAF)**

1. I attach the Resource Policy and Planning Board (RPPB) report and recommendation to Council on the International Board of Auditors for NATO (IBAN) special report on a renewed fit-for-purpose NATO financial reporting and accounting framework (FRAF).
2. I do not believe this matter requires further discussion in Council. Therefore, **unless I hear to the contrary by 17.30 on Tuesday, 31 March 2026**, I shall assume that Council has noted the RPPB report and its conclusions, noted the IBAN special report and approved the public disclosure of the IBAN special report and the RPPB report.

(Signed) Mark RUTTE

1 Annex
1 Enclosure

Original: English



**IBAN SPECIAL REPORT TO COUNCIL ON A RENEWED FIT-FOR-PURPOSE NATO
FINANCIAL REPORTING AND ACCOUNTING FRAMEWORK (FRAF)**

Report by the Resource Policy and Planning Board

References:

- | | |
|--------------------|-----------------------------------|
| A. IBA-A(2025)0038 | IBAN Special Report to Council |
| B. C-M(2015)0025 | NATO Financial Regulations (NFRs) |
| C. C-M(2016)0023 | NATO Accounting Framework (NAF) |

INTRODUCTION

1. With their letter at reference A, the International Board of Auditors for NATO (IBAN) submitted their Special Report on a renewed fit-for-purpose NATO Financial Reporting and Accounting Framework (FRAF).

AIM

2. This report highlights the RPPB's considerations on the main observations of IBAN's special report and its recommendations to the Council.

BACKGROUND

3. According to IBAN, it prepared its Special Report on its own initiative in accordance with Articles 2 and 14 of the IBAN Charter¹. The objective of this Special Report is to provide advice to Council on a renewed NATO FRAF fit-for-purpose for internal and external financial transparency and communication.

4. In their Special Report IBAN made two recommendations to NATO:

4.1. Produce a single set of audited financial statements for publication, incorporating all entities that operate under the juridical personality possessed by NATO by virtue of the Ottawa Agreement.

4.2. Develop and implement a plan to transition back to a full application of International Public Sector Accounting Standards (IPSAS), in order to fully meet external users' financial reporting needs, making use of the transition measures and provisions of the standard on First-time Adoption of Accrual Basis IPSASs (IPSAS 33).

¹ (ref. C-M(2015)0032)

DISCUSSION

5. During the RPPB meeting, IBAN presented their report and recommendations. The Head of Financial Reporting Policy (HFRP) and the Chair of the Working Group Financial Controllers (WGFC), on behalf of the WGFC, made statements, concluding that they were not in a position to support IBAN’s recommendations and referred to the formal comments provided by the HFRP, the WGFC and the Office of Legal Affairs (OLA) to the report.

6. The RPPB welcomed IBAN’s overall initiative of streamlining in order to increase efficiencies and effectiveness. However, the RPPB did not support IBAN’s recommendations, especially given the absence of a supporting cost-benefit analysis.

7. The RPPB had concerns with IBAN’s first recommendation to prepare one set of NATO (Ottawa Agreement) entities’ financial statements, as it could negatively impact transparency and accountability, due to the overall higher materiality. While the RPPB support continuous improvement and increased transparency, they raised concerns on the potential implications to the existing governance structure. In this respect, the RPPB highlighted the importance of maintaining accountability with the Heads of NATO Bodies.

8. In addition, in terms of the financial reporting coordinator and supporting team as recommended by IBAN for the preparation of the single set of NATO (Ottawa Agreement) financial statements, the RPPB did not support any new staff.

9. As a proposed way forward, the RPPB invited the HFRP (with the support of the WGFC) to explore options for further enhancing financial transparency to external stakeholders (e.g. based on existing reporting) while noting that NATO has already taken additional measures that reflect NATO’s priorities: to improve performance of military common-funded capabilities, services, programmes and activities, while enhancing transparency, accountability, management performance and long-term efficiencies in common funding.

10. Furthermore, the RPPB did not support IBAN’s second recommendation to transition back to a full application of IPSAS, recalling that Council agreed adaptations to a number of the IPSAS to better suit the specific requirements of the Alliance. These adaptations have always been intended to preserve the spirit of the IPSAS principles.

CONCLUSIONS

11. The RPPB did not support IBAN’s recommendation to produce a single set of audited financial statements for all the entities that operate under the juridical personality possessed by NATO by virtue of the Ottawa Agreement. In addition, the RPPB did not support IBAN’s recommendation to transition back to a full application of IPSAS.

12. As a way forward, the RPPB invited the HFRP (with the support of the Working Group Financial Controllers) to explore options for further enhancing financial transparency for external stakeholders.

RECOMMENDATIONS

13. The Resource Policy and Planning Board recommends that the Council:
 - 13.1. Note this report and its conclusions;
 - 13.2. Note the IBAN Special Report at reference A.

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

Brussels - Belgium



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IBA-A(2025)0038
18 June 2025

To: Secretary General
Attn: Director of the Private Office

Cc: NATO Permanent Representatives
Director, NATO Office of Resources
Chair, Resource Policy and Planning Board
Resource Policy and Planning Board representatives, NATO delegations
Private Office Registry

Subject: ***International Board of Auditors for NATO (IBAN) Special Report to Council on a renewed fit-for-purpose NATO financial reporting and accounting framework (FRAF) – IBA-AR(2025)0006***

IBAN submits herewith its approved Special Report with a Summary Note for distribution to the Council.

Yours sincerely,

Radek Visinger
Chair

Attachment: As stated above.

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**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the Special Report to Council on a renewed fit-for-purpose
NATO financial reporting and accounting framework (FRAF)**

Background

External financial transparency is an important topic for NATO and its member countries. As stated in the Report by the Resource Policy and Planning Board (RPPB) addressing the Wales Summit tasker on transparency and Accountability (PO(2015)0052), “NATO already recognizes that transparency is a key component in creating a public climate of support and understanding for the Alliance’s mission and accomplishments.” This RPPB Report also states “it is implicit in the Summit tasker that financial transparency is focused primarily on external stakeholders (such as the public, taxpayers, members of the legislature, the media, industry, academics) [...]”

NATO is composed of three organisations with a distinct legal status, each having their own juridical personality and legal capacity:

- The North Atlantic Treaty Organization (**NATO-Ottawa Agreement**)
- Supreme Headquarters Allied Powers in Europe (**SHAPE**)
- Headquarters Supreme Allied Commander Transformation (**HQ SACT**)

The North Atlantic Council also established by charter several organisations within the North Atlantic Treaty Organisation (NATO-Ottawa Agreement) for the implementation of tasks arising out of the North Atlantic Treaty, to which Council granted a clearly defined organisational, administrative and financial independence. These organisations are established under what is referred as NATO’s internal legal order.

However, while having a certain level of independence, organisations established by a charter do not have a distinct juridical personality, but rather share the one possessed by NATO (Ottawa Agreement). Moreover, these entities do not have separate legal capacity to conclude agreements, and contracts, and to acquire and dispose of property and assets in their own name, but in the name of NATO (Ottawa Agreement).

Currently, from a financial reporting perspective, NATO as a whole, for its three organisations with a distinct juridical personality, consists of 22 separate financial reporting entities each producing a full set of general-purpose financial statements in accordance with the NATO Accounting Framework (NAF), adapted from International Public Sector Accounting Standards (IPSAS).

Special Report objective

Considering NATO's ongoing work to improve financial transparency, and building on previous work conducted by IBAN on the matter, the objective of this Special Report is to provide advice to Council on a renewed NATO FRAF fit-for-purpose for internal and external financial transparency and communication. The focus is to improve NATO financial transparency to external users of its financial statements, in line with the principles of IPSAS general-purpose financial reporting and its conceptual framework, while maintaining internal financial transparency.

A renewed fit-for-purpose NATO FRAF for enhanced external financial transparency aligned with IPSAS

The establishment of several organisations within NATO (Ottawa Agreement) sharing the same juridical personality and legal capacity to conclude agreements and acquire property and assets, resulted in complex financial reporting requirements. The current NATO financial reporting approach, which requires communicating 22 separate financial statements prepared in accordance with the NAF, may be adequate for internal governance and transparency, as each NATO Reporting Entity covers a specific area of responsibility. However, from an external financial transparency perspective, an interested reader, such as a member of a national parliament or a taxpayer, would need to analyse the content of 22 financial statements to understand NATO's operations and the use and management of resources entrusted to the Organisation as a whole.

One way to clarify this complexity is to align the external financial reporting with the NATO legal framework, and not with its internal governance which is highly complex. From an external perspective, there are 20 NATO reporting entities sharing the same juridical personality and legal capacity of NATO (Ottawa agreement). Regrouping these 20 entities under one reporting entity would bring the total number of NATO reporting entities to three which will be in-line with the number of NATO organisations with a juridical personality and legal capacity. The financial information of the subordinate commands operating under SHAPE and HQ SACT are included in the unique set of financial statements of ACO and ACT. The financial statements of ACO and ACT, therefore, already reflect their respective juridical personality.

IBAN considers that a renewed FRAF with three NATO financial reporting entities will be better fit-for-purpose and its implementation will enhance external financial transparency in accordance with the IPSAS principals and conceptual framework, IPSAS being designed primarily to serve the financial reporting needs of external users of financial statements. The renewed FRAF will also create an enabling environment for increased internal collaborations and improvements, thereby helping governance mitigate the risk of silos and stovepipes building within the different NATO entities operating under NATO (Ottawa Agreement).

With the adoption of IPSAS in 2002, NATO not only adopted a new accounting framework, but also a completely new conceptual framework which aims at producing

transparent and clear financial information for external stakeholders, in addition to the information needs for internal management and governance. Council agreed in 2013 to depart from IPSAS and to adopt the NAF, which is an IPSAS-adapted framework. Several significant additional adaptations to IPSAS were incorporated to the NAF since 2013, mainly to address IBAN observations and reduce the number of qualified audit opinions. As reported by the RPPB in 2016 (C-M(2016)0023), NATO is no longer in a position since 2013 to assert that it is fully IPSAS compliant.

In IBAN's view, based on the magnitude of the adaptations to IPSAS effective before and after 2013, NATO is no longer in a position to assert that the NAF (including all its adaptations to IPSAS) preserves the spirit of IPSAS' principles. These principles for example require recognising all assets and liabilities in line with the accrual basis of accounting. IBAN therefore strongly encourages NATO to transition back to full-adoption of IPSAS, which is an internationally and modern recognised accounting framework for the public sector. IBAN is of the opinion that NATO's objective regarding IPSAS should be to complement the existing budgetary accounts used by NATO Committees with financial statements reflecting the Organisation's legal status and designed to provide transparency and accountability towards external users to NATO.

Recommendations

In order to improve external financial transparency and accountability, IBAN recommends that NATO:

- 1) Produce a single set of audited financial statements for publication, incorporating all entities that operate under the juridical personality possessed by NATO by virtue of the Ottawa Agreement. To undertake this, IBAN recommends that Council task the appropriate governing body to:
 - a. Nominate a NATO financial reporting coordinator, supported by a small team, responsible for producing and submitting to IBAN for external audit in line with the NATO Financial Regulations:
 - one set of financial statements for NATO (Ottawa Agreement) in full compliance with IPSAS (primarily for external stakeholders); and
 - the statements of budget execution and/or financial implementation reports for each NATO entity, as an annex (primarily for internal stakeholders).
 - b. Require each NATO (Ottawa Agreement) entity to submit a financial reporting package, including signed financial statements and account balances, and budgetary information covering their area of responsibility, to the newly nominated NATO financial reporting coordinator responsible for producing the one set of financial statements for NATO (Ottawa Agreement).

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- c. Invite the Secretary General and the NATO financial reporting coordinator to sign the one set of financial statements of NATO (Ottawa Agreement).
 - d. Review the NATO Financial Regulations, Rules and Procedures, NPLSO Regulations and the NATO Charters, to take into account the changes related to the renewed FRAF, while preserving the authority and accountability of existing senior managerial and financial roles.
 - e. Develop a standard chart of accounts to be used across NATO (Ottawa Agreement).
- 2) Develop and implement a plan to transition back to a full application of IPSAS, in order to fully meet external users' financial reporting needs, making use of the transition measures and provisions of the standard on First-time Adoption of Accrual Basis IPSASs (IPSAS 33). To undertake this, IBAN recommends that Council task an appropriate governing body and set a specific implementation timeframe.

All tasking decisions by Council should clearly identify those responsible to take action and set deadlines for the delivery of the expected outcomes.

In their formal comments, the Head of Financial Reporting Policy - the designated point of contact for the International Staff (IS), in coordination with the Chair of the Working Group of Financial Controllers and the IS Office of Legal Affairs, provided additional contextual information on the content of the Special Report and raised a number of challenges concerning the following main areas:

- Cost-benefit analysis,
- Legal entities with separate juridical personality,
- Preserving the spirit of IPSAS,
- Financial statements and existing governance structure,
- Whole of NATO financial statements.

After considering the comments, and based on the IBAN positions, we maintain our conclusion and recommendations and strongly believe that implementing these recommendations will help improve NATO's external financial transparency reflecting the Organisation's legal status.

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18 June 2025

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**SPECIAL REPORT TO COUNCIL
ON A RENEWED FIT-FOR-PURPOSE NATO FINANCIAL REPORTING
AND ACCOUNTING FRAMEWORK (FRAF)**

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1 BACKGROUND

1.1 NATO creation and its legal framework

1.1.1 The North Atlantic Treaty was signed on 4 April 1949 in Washington and resulted in the creation of the North Atlantic Council (Council). While the signing of the North Atlantic Treaty created an Alliance of countries united against any form of military aggression, and a forum for member nations to discuss and consult together, it did not create a military structure that could effectively coordinate their actions or any other form of an organisation with a juridical personality.

1.1.2 Soon afterwards, in 1951, an Agreement was signed in Ottawa (Ottawa Agreement) which established a permanent civilian secretariat to support the Council. This agreement formalised the status of the North Atlantic Treaty Organization (NATO), National Representatives and International Staff. By virtue of this agreement, NATO was created as an organisation with a juridical personality.

1.1.3 The Protocol on the Status of International Military Headquarters set up pursuant to the North Atlantic Treaty was signed in Paris in 1952 (Paris Protocol). By virtue of this Protocol, two organisations with individual juridical personalities were created: the Supreme Headquarters Allied Powers in Europe (SHAPE), and the Headquarters Supreme Allied Commander Transformation (HQ SACT) (re-designated from the Headquarters of the Supreme Allied Commander Atlantic in 2003). Table 1 illustrates the legal framework within which NATO operates as explained above.

Table 1: Foundational Documents related to the legal framework of NATO

Year	Treaty/Agreement	NATO Governing Body and Organisations with Juridical Personality
1949	North Atlantic Treaty (Washington)	North Atlantic Council (Council) Governing body of the three organisations below
1951	Agreement on the status of the North Atlantic Treaty Organization (Ottawa)	North Atlantic Treaty Organization (NATO) Organisation with a juridical personality
1952	Protocol on the Status of International Military Headquarters (Paris)	Supreme Headquarters Allied Powers in Europe (SHAPE) Organisation with a juridical personality
		Headquarters Supreme Allied Commander Transformation (HQ SACT) Organisation with a juridical personality

Source: Washington Treaty (1949), Ottawa Agreement (1951) and Paris Protocol (1952)

1.1.4 Council also established by charter several organisations within the North Atlantic Treaty Organisation (NATO Ottawa) for the implementation of tasks arising

out of that Treaty, to which Council granted a clearly defined organisational, administrative and financial independence. Each of these organisations comprise for example an Agency Supervisory Board/Board of Directors composed of a representative of each participating NATO state and an executive body, as reflected in their respective charter. The charters of these organisations, unless otherwise agreed, conform with the Regulations for NATO Procurement, Logistics or Service Organisations (NPLSO) with reference C-M(2009)0079. According to the NPLSO Regulations, the legal status, including the juridical personality and legal capacity of each of the organisations established by Council, as also reflected in the respective charters, is defined as follows:

“SECTION III – LEGAL STATUS

11. Juridical Personality

“(a) each NPLSO constitutes an integral part of the North Atlantic Treaty Organisation.

(b) It shares in the international personality of NATO, as well as in the juridical personality possessed by NATO by virtue of Article IV of the Ottawa Agreement. The juridical personality of every NPLSO is an intrinsic part of that of NATO and cannot be distinguished from it. [...]

SECTION IV – AGREEMENTS AND CONTRACTS

14. General Provisions

The North Atlantic Council may, by explicit provision in the Charter of a NPLSO, grant to that NPLSO within the scope of its functions, authority to :

(a) conclude agreements and contracts, and acquire and dispose of property in the name of NATO [Ottawa Agreement]; [...]

SECTION V – OWNERSHIP OF ASSETS

18. General Provisions

(a) In implementation of Article 14 above, all assets acquired by a NPLSO shall be acquired in the name of and as the property of NATO [Ottawa Agreement]; [...]

Source: NPLSO Regulations

1.1.5 The Secretary General’s role regarding compliance of these organisations is set out in the NPLSO Regulations: *“Should the Secretary General of NATO regard any decision of the Board of Directors, communicated to him/her [...] as contrary to the provisions of the Charter of the NPLSO or of a nature to jeopardise the general interests of NATO, he/she shall so inform the Board of Directors concerned and, if necessary, bring the matter to the notice of the North Atlantic Council for such action as it may wish to take.”* This illustrates that, while having a certain level of independence, these organisations do not ultimately have a distinct juridical personality and legal capacity, but rather share the one possessed by NATO.

1.1.6 A number of entities were activated by Council, granting them international status under the Paris Protocol. Not all of these entities operate under the legal personality possessed by SHAPE or HQ SACT under article 10 of the Paris Protocol. Unless otherwise agreed by Council, only those entities that draw their full legal status without restriction from the Paris Protocol operate under either SHAPE or HQ SACT. Full legal status is normally granted for Allied Headquarters that are immediately subordinate to SHAPE or HQ SACT in accordance with article 1 of the Paris Protocol. Therefore, most NATO Force Structure bodies and Centres of Excellence activated by Council under the Paris Protocol do not operate under the juridical personality of SHAPE or HQ SACT and are not NATO Reporting Entities.

1.2 Importance of NATO financial transparency for Nations

1.2.1 Financial transparency is an important topic for NATO and its member countries. Recognising its importance, Council agreed at the Wales Summit in September 2014 to further work in a number of areas including improving transparency. As stated in 2015 by the Secretary General in a letter addressed to the Heads of NATO bodies (SG(2015)0124), *“the demand for increased transparency and accountability has grown and will continue to grow. It has been a recurring theme in NAC [North Atlantic Council] discussions before and since the Wales Summit.”*

1.2.2 NATO is a public sector international organisation largely funded by its member countries. The governments of NATO countries need to obtain support for the Organisation from their citizens and representative bodies. As stated in the Report by the Resource Policy and Planning Board (RPPB) addressing the Wales Summit tasker on transparency and Accountability (PO(2015)0052), *“NATO already recognizes that transparency is a key component in creating a public climate of support and understanding for the Alliance’s mission and accomplishments.”* This RPPB Report also states that *“it is implicit in the Summit tasker that financial transparency is focused primarily on external stakeholders (such as the public, taxpayers, members of the legislature, the media, industry, academics) [...]”*

1.2.3 More recently, at the 2021 Brussels Summit, Heads of State and Government agreed the NATO 2030 agenda which includes a significant increase in common funding spending. At the Madrid Summit in July 2022, Heads of State and Government tasked the RPPB to propose additional measures for enhancing transparency and accountability in common funding. This tasking placed renewed attention on NATO transparency and accountability. The resulting report (PO(2023)0278(INV)), endorsed at the Vilnius Summit in July 2023, states that *“Transparency, accountability, management performance and efficiency are the fundamental principles of good governance and underpin the effective stewardship of public funds made available by Allies to NATO”*. The report also recognises that the International Board of Auditors for NATO (IBAN) routinely contributes to financial transparency through its audit reports, and underlined that the IBAN’s 2022 Annual Activity Report (AAR) highlighted additional steps that could be taken to improve financial transparency.

1.2.4 In practice, financial transparency may be of an external and internal nature:

- **External financial transparency** refers to being transparent towards external stakeholders of an organisation. According to the NATO Accounting Framework (NAF), these include taxpayers, members of the legislature, creditors, suppliers, the media, and employees. External stakeholders also include the NATO Nations' Supreme Audit Institutions (SAIs).
- **Internal financial transparency** refers to being transparent towards internal stakeholders within an organisation in order to ensure good governance. NATO's internal stakeholders are the Council, its subsidiary governing bodies, such as the RPPB and the Budget Committee, the customer-funded Agency Supervisory Boards, and the Boards of Directors and Steering Committees of other NATO bodies and entities.

1.2.5 SAIs are independent public oversight institutions, responsible for the external audit of a government's use of public funds (the NATO Nation's SAIs are listed in Appendix 2). The reporting mechanisms of SAIs vary and may involve legislatures, judicial authorities, or public disclosure, all essential to effective oversight and the integrity of public governance. In intergovernmental organisations such as NATO, the absence of a legislature places an even greater responsibility on the mandated external audit body to ensure external financial transparency, compared to their role at the national level.

1.2.6 As an organisation that deals with defence and security, external transparency may be challenging for NATO, as many documents are classified and information is shared following the "need to know" principle. Nevertheless, NATO took steps to show that it abides to the highest standards and principles of transparency, which also applies to the Organisation's finances.

1.2.7 NATO publicly discloses the civilian and military budget totals, as well as the NATO Security Investment Programme annual ceiling and implementation statistics. NATO also publicly discloses unclassified financial statements of NATO Reporting Entities, including the IBAN audit opinions, and audit observations and recommendations.

1.2.8 Considering the importance of this topic, IBAN held a conference on "*Transparency and Accountability as Key Elements of Good Governance across NATO*" in the fall of 2022. With the conference's focus on transparency and accountability as core strategic values for NATO, the objective was to raise interest and stimulate discussion with internal stakeholders (the Council, Nation Delegations and NATO entities) as well as with other NATO external stakeholders, such as the Nations' SAIs, Partner Nations, other international audit institutions, academia, the media and industry.

1.3 Previous works on NATO's financial reporting and accounting framework (FRAF)

1.3.1 In its 2015 AAR, IBAN advocated for greater financial transparency in NATO, and believed that it was time to consolidate the financial statements of common-funded NATO entities. This would have allowed external readers of the financial statements, including Member States, NATO governing bodies and the public, to have a single document allowing them to more clearly understand the total amount of common funding NATO receives and how this funding is used. The RPPB noted the IBAN view and based on a report by the Head of Financial Reporting Policy (HFRP) (part of the International Staff NATO Office of Resources (NOR)) concluded that the conditions and structure at NATO did not, at the time, lend themselves to producing common-funded consolidated financial statements. The report also mentioned that it may be appropriate to revisit the issue in the future.

1.3.2 Since 2019, in its annual Reports on Main Findings from Financial Audits, IBAN has raised the issue that it was not possible to present a combined view of NATO financial expenses due to the fact that expenses incurred between different NATO Reporting Entities are not eliminated. This has a negative impact on external financial transparency: by not eliminating inter-entity account balances, the information cannot provide a fair and accurate presentation of the Organisation's overall financial position and performance. In addition, IBAN stated in its 2021 and 2022 AARs that while acknowledging that significant improvements related to NATO's financial reporting and accountability were made in the past years, a considerable financial reporting simplification is possible, while improving the quality of financial information in support of decision-making.

1.3.3 The IBAN AAR is presented annually at the Competent National Audit Bodies (CNAB) meeting, where member state SAIs, represented at senior national level, discuss it and provide comments to IBAN, which are then addressed to Council. Since 2016, the SAIs from NATO member countries have raised the issue of the need for consolidated financial statements at the NATO level. More recently, these SAIs have shown an interest on the topic of NATO financial reporting and enquired on the status of the concept of revising and simplifying NATO's financial reporting and improving governance, based on the three NATO legal entities. This is mentioned in the SAI comments addressed in June 2024 to Council on the IBAN 2023 AAR as the SAIs believe that this simplification is directly linked to efforts needed to improve NATO's transparency, accountability and governance.

2 PURPOSE OF THE SPECIAL REPORT ON NATO FINANCIAL REPORTING AND ACCOUNTING FRAMEWORK (FRAF)

2.1 IBAN's mandate

2.1.1 This special report is produced in accordance with Article 2 and 14 of the IBAN Charter (C-M(2015)0032). One of the functions of IBAN includes providing independent assurance and advice to the Council and, through their Permanent Representatives, the Governments of member countries on the financial statements of NATO bodies, in accordance with Article 2 of the IBAN Charter. The IBAN Charter also states, in Article 14, that the Board may at any time issue a special report to the Council on any relevant matter it considers to be worthy of attention.

2.1.2 IBAN made the decision to produce this special report based on previous work conducted on the topic, and following interest shown and recurring questions received from member state SAs during prior CNAB meetings. In their views, as the external auditor for NATO, IBAN has a specific role to provide advice to Council about the FRAF. This is also in line with IBAN's strategic plans 2022-2026 and 2025-2029 which indicate that "*IBAN will contribute towards NATO establishing a fit-for-purpose FRAF based on NATO's three legal entities*".

2.2 Special Report objective and methodology

2.2.1 Considering NATO's ongoing work to improve financial transparency, and building on previous work conducted by IBAN on the matter, the objective of this special report is to provide advice to Council on a renewed NATO FRAF fit-for-purpose for internal and external financial transparency and communication. The focus is to improve NATO financial transparency to external users of its financial statements, in line with the principles of the International Public Sector Accounting Standards (IPSAS) general-purpose financial reporting and its conceptual framework, while maintaining internal financial transparency.

2.2.2 The Special Report methodology consisted in reviewing key official documents regarding the adoption of IPSAS and the NAF. In addition, it involved consultations with Senior Management of the International Staff and the NATO finance community via the Working Group of Financial Controllers (WGFC). The IBAN team shared a short food-for-thought paper providing some tentative preliminary ideas about this topic, in order to facilitate the discussions and exchange of ideas in a constructive manner during these consultations. The draft Special Report was submitted individually to the International Staff and to the WGFC for factual and formal comments. IBAN reviewed the comments received and these were used to amend the report as necessary.

3 WHY NATO EXTERNAL STAKEHOLDERS DO NOT NEED 22 FINANCIAL STATEMENTS

3.1 Twenty-two NATO Reporting Entities producing individual financial statements is not fully fit-for-purpose for external financial transparency and communication

3.1.1 Financial transparency requires financial information to be clearly communicated to the user in a way that is understandable. Simply making information available, communicating too little or too much information, or even duplicating information, can often be regarded as lacking transparency. Therefore, in order for a separate group of external users to understand the financial information provided by NATO, it needs to be tailored to suit their needs.

3.1.2 External stakeholders expect a transparent organisation to prepare financial statements for separate reporting entities only when there are separate groups of external users. Also, external stakeholders expect financial statements to be based on recognised accounting standards, to ensure comparability with other entities. Since NATO adopted an IPSAS-based accounting framework and that it generally publicly discloses its financial statements, expectations of external stakeholders also need to be met.

3.1.3 Presently, from a financial reporting perspective, NATO as a whole is comprised of 22 separate financial reporting entities for three legal entities (see Table 2), each producing a full set of general-purpose financial statements (GPFs) in accordance with the NAF. GPFs are financial statements produced for external users. The 22 financial statements are publicly disclosed on an annual basis on the NATO website, except for the financial statements of two NATO Reporting Entities (due to classification reasons).

3.1.4 As explained in the IPSAS conceptual framework, the preparation of GPFs is not a cost-free process. For the financial reporting requirements to be efficient and effective, it is important that only the public sector entities, for which separate external users exist (such as separate groups related to the public, taxpayers, members of the legislature, the media, industry, and academics), are required to prepare GPFs. In IBAN's view, there are no separate external user groups for each of the GPFs currently produced by individual NATO entities.

Table 2 - NATO's 22 Financial Reporting Entities

NATO Reporting Entities		NATO Reporting Entities	
1	ACO - Allied Command Operations	12	NAMMO - NATO Multi-Role Combat Aircraft Development Production and In-Service Support Management Organisation
2	ACT - Allied Command Transformation	13	NAPMA - NATO Airborne Early Warning and Control Programme Management Agency
3	BGX - BICES Group Executive	14	NATO CPS/DBPS - NATO Coordinated Pension Scheme/Defined Benefit Pension Scheme
4	DCPS - Defined Contribution Pension Scheme	15	NCIO - NATO Communications and Information Organisation
5	DIANA - Defence Innovation Accelerator for the North Atlantic	16	NDC - NATO Defense College
6	IMS - International Military Staff	17	NEFMO - NATO European Fighter Aircraft Development, Production and Logistic Management Organisation
7	IS - International Staff	18	NETMA - NATO Eurofighter 2000 and Tornado Management Agency
8	MSIAC - Munitions Safety Information Analysis Center	19	NFO - NATO Naval Forces Sensor and Weapons Accuracy Check Sites Office
9	NAGSMO i.L. - NATO Alliance Ground Surveillance Management Organisation in Liquidation	20	NSPO - NATO Support and Procurement Organisation
10	NAHEMO - NATO Helicopter Design and Development Production and Logistics Management Organisation	21	RMCF - Retirees Medical Claims Fund
11	NAMEADSMO i. L. - NATO Medium Extended Air Defence System Design and Development, Production and Logistics Management Organisation in Liquidation	22	STO - Science and Technology Organisation

Source: IBAN

3.1.5 The current NATO financial reporting approach, which requires communicating 22 separate financial statements prepared in accordance with the NAF, may be adequate for internal governance and transparency, as each NATO Reporting Entity covers a specific area of responsibility. However, from an external financial transparency perspective, an interested reader, such as a taxpayer or a member of a national parliament, would need to analyse the content of 22 financial statements and the NAF adaptations, assuming they are publicly disclosed, to try to understand NATO's operations and the use and management of resources entrusted to the Organisation as a whole.

3.1.6 This complexity did not originate from a reporting and accounting framework design, but grew 'organically' over time. Nevertheless, such a large number of GPFs prepared in accordance with the NAF delivers only limited added value to their primary users, i.e., to external stakeholders, especially considering that NATO in fact consists of three legal entities. On the contrary, the high volume of financial statements and several adaptations to IPSAS tend to reduce overall perceived financial transparency, because the external users of financial statements are generally interested in having an overview that focuses on the rights and obligations of the organisation as a whole.

This is why in practice, governments and many prominent international institutions such as the Coordinated Agencies prepare financial statements reflecting their legal status.

3.1.7 Moreover, as each of the 22 NATO Reporting Entities produce separate financial statements, their financial statements include the financial operations between each other, including assets, liabilities, revenue and expenses. For example, when one NATO Reporting Entity requests another NATO entity to procure goods or services, revenue and expenses related to that same activity are included in both sets of financial statements, which could be interpreted as a form of duplication. As a result, external users are unable to obtain a combined view of the use and management of resources entrusted to the Organisation by aggregating the content of the carved-out financial statements.

3.1.8 IBAN raised this issue in its Reports on Main Findings on the financial statements audits of NATO Reporting Entities, produced since 2019 on an annual basis. As stated in the *IBAN Report on Main Findings from the 2022 Financial Statements Audits* (IBA-M(2024)0002), it is not possible to present a combined view of financial expenses due to the fact that expenses incurred between different NATO Reporting Entities are not eliminated. This has an impact on external financial transparency: by not eliminating inter-entity account balances, the information cannot provide a fair and accurate presentation of the Organisation's financial position and performance.

3.1.9 The current financial reporting approach does not allow the group of external users of the financial statements, including taxpayers and members of a national parliament, to draw conclusions, for example, on the total liabilities assumed by NATO as a whole, or on its overall financial position and performance, based on internationally recognised accounting standards. IBAN, therefore, considers that the current NATO financial reporting and accounting framework, which requires producing 22 individual financial statements in accordance with the NAF, is not fully fit-for-purpose for external financial transparency and communication and does not follow the spirit of IPSAS principles. According to these principles, financial statements should present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of assets, liabilities, revenue and expenses set out in IPSASs.

3.2 Three NATO Financial Reporting Entities is better fit-for-purpose for external financial transparency and communication

3.2.1 Producing 22 individual financial statements in accordance with the NAF is not prohibited, and there is nothing wrong in doing so for internal reporting and governance purposes, although not a cost-free process. However, since there are no separate external user groups for each of these financial statements, it is not the best solution for external transparency and reporting, and it does not, in our view, follow the spirit and objectives of the IPSAS conceptual framework on general-purpose financial reporting.

3.2.2 There are different ways to produce an overview of financial statements in the public sector. In the context of NATO, there is a logical-legal reason and a straightforward way to achieve a simplification: it is to use NATO’s three legal entities as a basis for preparing GPFs. IPSAS requires that a reporting entity accounts for its assets, liabilities, revenue and expenses. Since a precondition for assuming a liability is to have a juridical personality, a single set of financial statements based on the juridical person is a good practice and provides a complete view of the financial position (assets and liabilities) and performance (revenue and expenses) of an organisation.

Juridical personality

A juridical personality encompasses the specific capacity:
*“(a) to contract;
 (b) to acquire and dispose of immovable and movable property;
 (c) to institute legal proceedings.”*

Source: Convention on the Privileges and Immunities of the United Nations, 1946, Article 1.

3.2.3 As set out in the background section of this report (Table 1), NATO is comprised of three organisations with a separate juridical personality governed by the North Atlantic Council: NATO, SHAPE and HQ SACT. The 22 NATO Reporting Entities do not all have their individual juridical personality, but rather operate under one of these three organisations (see Appendix 1):

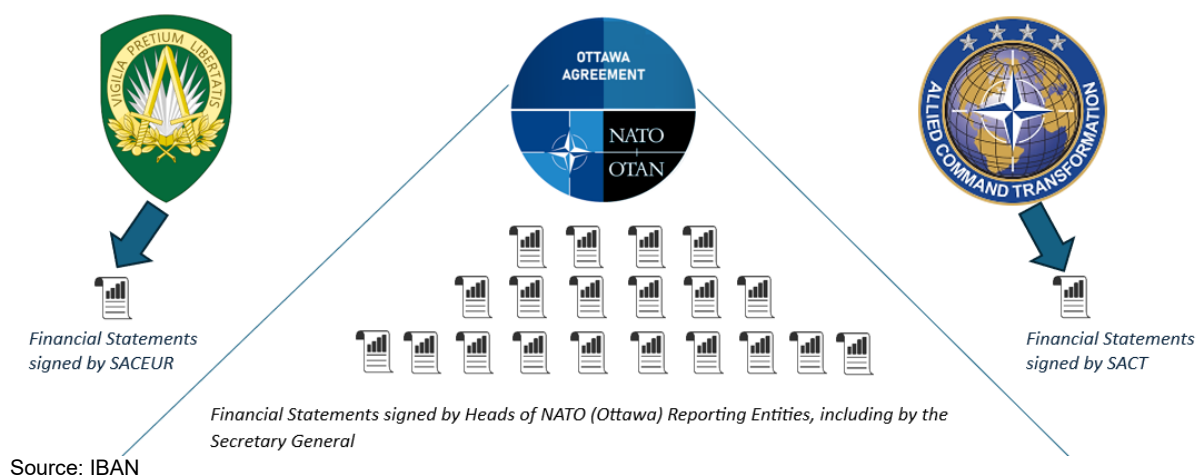
- Twenty NATO Reporting Entities operate under and share the same juridical personality possessed by NATO by virtue of the Ottawa Agreement.
- Allied Command Operations (ACO) is a NATO Reporting Entity that exercises the juridical personality possessed by SHAPE by virtue of the Paris Protocol. ACO includes SHAPE and its subordinate NATO bodies authorised to act on its behalf.
- Allied Command Transformation (ACT) is a NATO Reporting Entity that exercises the juridical personality possessed by HQ SACT by virtue of the Paris Protocol. ACT includes HQ SACT and its subordinate NATO bodies authorised to act on its behalf.

3.2.4 The financial information of the subordinate commands operating under SHAPE and HQ SACT are included in the unique set of GPFs of ACO and ACT. The financial statements of ACO and ACT, therefore, already reflect their respective juridical personality.

3.2.5 In contrast, although there are no separate external user groups, the 20 NATO entities operating under the juridical personality provided by NATO from the Ottawa Agreement currently issue separate financial statements. This is the case, although the juridical personality of these NATO entities is an intrinsic part of that of NATO and cannot be distinguished from it.

3.2.6 This situation creates internal discrepancies between the three NATO Organisations with juridical personalities by not following the same financial reporting principles within the whole of NATO. Moreover, it makes NATO Reporting Entities operating under NATO (Ottawa Agreement) be perceived externally as being organisations with their own juridical personality, with separate external user groups. However, these entities all operate under the single juridical personality possessed by NATO (Ottawa Agreement), despite the fact that some of them have subsidiary governing bodies with organisational, administrative and financial independence granted by the Council. See figure 1 which illustrates the different reporting approaches followed by the three NATO legal persons.

Figure 1 - Three NATO legal persons and 22 Financial Statements



3.2.7 A single set of financial statements reflecting single juridical personality is a common practice used in international organisations that have adopted IPSAS. For example, NATO is one of the six Co-ordinated Organisations (see Table 3), which refers to the international organisations with a common system of remuneration and pensions, and which are members of the Co-ordination System. The other five Co-ordinated Organisations all produce IPSAS-based financial statements for their respective juridical personalities. While it is possible to prepare separate GPFs for individual NATO entities, it is commonly accepted and expected by the group of external users of an international organisation’s financial statements, as reflected in the comments to Council by NATO Nations’ SAIs, that only one audited GPFs be issued for each legal person, since juridical personality is a precondition for assuming rights, obligations and to incur liabilities.

Table 3 - Co-ordinated Organisations

Co-ordinated Organisations	
COE	The Council of Europe
ECMWF	The European Centre for Medium-Range Weather Forecasts
ESA	The European Space Agency
EUMETSAT	The European Organisation for the Exploitation of Meteorological Satellites
NATO	The North Atlantic Treaty Organization
OECD	The Organisation for Economic Co-operation and Development

Source: IBAN based on Co-ordinated Organisations' founding documents.

3.2.8 As 20 NATO Reporting Entities operate under the NATO (Ottawa Agreement) single juridical personality, overall external financial transparency and accountability would improve if there is only one NATO (Ottawa Agreement) Reporting Entity preparing a single set of financial statements in accordance with IPSAS 1 for external users. Any classified information may be redacted or excluded from the publicly disclosed financial statements. For example, NATO may decide in the published version of the financial statements to redact the note to the financial statements that discloses the details per current NATO Reporting Entity and/or the budget execution statements of individual entities. In addition, if deemed necessary, a non-material entity may be excluded from the reporting process in line with IPSAS.

3.2.9 The presentation of a single set of GPFS for NATO (Ottawa Agreement) would reflect its single juridical personality. Producing a single fit-for-purpose set of financial statements for NATO (Ottawa Agreement) implies a decrease from 22 to three financial statements communicated externally. Table 4 below illustrates the result of the proposed renewed FRAF in terms of NATO Reporting Entities and the related number of GPFSs required to be produced for external users.

Table 4 - The three NATO Reporting Entities under the renewed FRAF

Organisation with juridical personality	NATO Reporting Entities	Number of GPFSs required for external users
NATO (Ottawa Agreement)	NATO	1 (Vs 20 currently)
SHAPE	ACO	1 (No change)
HQ SACT	ACT	1 (No change)

Source: IBAN

3.2.10 The NATO (Ottawa Agreement) Reporting Entity under the renewed FRAF will incorporate all the activities of its associated juridical person when acting as principal, regardless of the type of activity carried out by the organisation, the source and type of funding (common funding, customer funding, joint funding, or otherwise), or the number of participating countries. IBAN considers that this approach with three NATO

Reporting Entities reflecting their respective juridical personalities constitutes a NATO FRAF better fit-for-purpose for external financial transparency and communication.

3.3 Three Financial Reporting Entities would not impact actual NATO internal financial transparency

3.3.1 Producing a single set of financial statements for NATO (Ottawa Agreement) can be achieved with no loss in financial information needed for internal financial transparency by internal stakeholders, including NATO governing bodies. This is because under the renewed FRAF, significant disclosures regarding each NATO entity will still be included in the notes to the single set of financial statements, including any inter-entity account balances. The inter-entity balances will be eliminated as part of the accounting exercise. Individual financial statements would, if required by Nations, still be produced by individual NATO entities (Ottawa Agreement), and signed by individual heads of NATO bodies and financial controllers for internal accountability purposes. If needed, they could also be published as segment reporting within the single set of financial statements as per *IPSAS 18 – segment reporting*. This information is important for NATO governing bodies from an internal financial transparency perspective.

3.3.2 The financial statements of ACO and ACT already reflect their respective juridical personalities as they include the financial information of their subordinate entities. Both ACO and ACT are already applying this approach with no loss in internal financial transparency.

3.3.3 NATO governing bodies use budget execution and/or financial implementation reports to monitor and decide on how resources are used in support of agreed objectives and requirements, and in compliance with the NFRs and Financial Rules and Procedures. This important element of internal financial transparency will remain unchanged, as, under the renewed FRAF, each NATO entity will continue to produce separate budget execution/financial implementation reports as needed. Under the renewed FRAF, these separate budget execution/financial implementation reports will be annexed to the single set of financial statements, in line with the NFRs. Therefore, NATO governing bodies and other internal stakeholders will continue to be able to oversee and assess whether management in individual NATO entities have made efficient and effective use of the resources provided.

3.3.4 Overall, under the renewed FRAF, the IBAN external audit function regarding financial statements audit will be strengthened. Rather than issuing 22 individual external audit reports, IBAN will issue three external audit reports and audit opinions on the financial statements, one for each Organisation with a juridical personality. No changes related to external audit are foreseen for ACO and ACT as IBAN already issues one audit report for each of these Reporting Entities. Each external audit report will clearly identify in the text of the report which NATO entity is concerned by the external audit opinion, audit observations and recommendations so that accountability is maintained internally. Although the number of financial audit reports would reduce from 22 to three, IBAN audit resources required to perform the audit work would remain

unchanged in order to maintain the same level of scrutiny in line with the IBAN Charter and Financial Auditing Standards.

3.3.5 This approach would by design lower the number of potentially qualified audit opinions to three. The risk of receiving a qualified audit opinion due to small errors detected could also fall for entities operating under the NATO (Ottawa Agreement) juridical person, because of the use of an overall higher materiality level in line with auditing standards. This would contribute to NATO's good financial management reputation from the external users of financial statements' perspective. It would also allow IBAN to focus on higher risks for the Organisation and strengthen its reporting on crosscutting issues, which frequently occur in the NATO environment. While maintaining internal financial transparency across all entities in line with IBAN Financial Auditing Standards, this will result in improved financial transparency for external users of financial statements, which would become much easier for them to understand and use.

3.4 Practical implications of three Financial Reporting Entities

3.4.1 Implementing the renewed FRAF would require the nomination of a NATO financial reporting coordinator, supported by a small team, to be made responsible for preparing the single set of financial statements of NATO (Ottawa Agreement), based on the financial information included in reporting packages provided by each NATO entity. As the preparation of the NATO (Ottawa Agreement) financial statements will use already existing financial information, this will limit additional resources needed to implement the renewed FRAF. The NATO financial reporting coordinator and the small team would form a financial reporting coordination unit.

3.4.2 Under the renewed FRAF, reporting packages for each NATO entity will be prepared. Each package will include account balances and disclosures in order to produce the single set of financial statements. The reporting packages would, if required by Nations, also include the signed financial statements of the individual NATO entity. The Heads of NATO bodies and Financial Controllers will sign the financial statements for their area of responsibility, including a statement of internal control, thereby preserving their existing authority and accountability within their NATO entity and towards any subsidiary governing bodies. Based on reliance on these signed financial statements, NATO's top international civil servant of NATO (Ottawa Agreement), the Secretary General, and the NATO financial reporting coordinator, will in turn sign the NATO (Ottawa Agreement) financial statements. The NFRs would need to be amended to reflect this change.

3.4.3 Producing a single set of financial statements based on multiple financial reporting packages (including accounting ledgers and disclosures) is an accounting technique, executed at year-end for reporting purposes. If applied to NATO, this reporting should have limited impact on the day-to-day governance activities within the different NATO Reporting Entities. This is a year-end reporting exercise that could be performed by a small team knowledgeable of IPSAS, responsible for eliminating inter-

entity accounting operations and compiling the note disclosures for the single set of financial statements, ensuring consistency across all segments.

3.4.4 The NATO Financial Regulations (NFRs) and Charters of current NATO Reporting Entities will need to be amended to take into account these new requirements. A standardised chart of accounts would also need to be adopted, allowing for improved comparability between different NATO (Ottawa Agreement) entities. As an interim measure, each entity's specific chart of accounts could be mapped to a standard chart of accounts used for the single set of NATO (Ottawa Agreement) financial statements. This exercise would require some relatively small additional resources, especially upfront, but these extra resources would in our view be modest and not significant for NATO (Ottawa Agreement) as a whole.

3.5 Benefits for NATO Committees and further potential improvements for NATO

3.5.1 Another benefit of the renewed FRAF is the significant lower number of financial statements and related audit reports that the RPPB, as the *de facto* NATO Audit Committee would need to review, discuss and prepare reports and review action plans on. With the new FRAF, the number of financial statements and associated audit reports to be handled by the RPPB and their national representatives would decrease from 22 to three; this would result in a reduction of the committee's workload and lead to greater efficiency within the Organisation.

3.5.2 In addition to enhancing NATO external financial transparency and communication, the proposed renewed FRAF can also be the foundation for further improvements, which could lead in the medium to long term to better efficiency, effectiveness and economy across NATO. In IBAN's view, producing one set of audited financial statements for the 20 existing NATO entities covered by the Ottawa Agreement will help strengthen the financial reporting and external audit process for the Organisation as a whole. Implementing the renewed FRAF will also create an enabling environment for increased internal collaborations and improvements, thereby helping governance mitigate the risk of silos and stovepipes building within NATO (Ottawa Agreement). These may include:

- Financial reporting support: IPSAS and audit trail expertise available within the financial reporting coordination unit to support individual NATO bodies entities.
- Shared services: potentially including for example financial reporting, internal audit and investigations, legal advisory, communication information systems (enterprise resource planning (ERP), cybersecurity), staff services and procurement. Implementing shared services may require redesigning some of the roles and responsibilities, internal controls and ERP systems.
- Increased comparability: a standardised chart of accounts, allowing for improved comparability between different NATO (Ottawa Agreement) entities.

- Governance efficiency: handling by the RPPB of one NATO (Ottawa Agreement) GPFS for external financial transparency and communication will be less resource-intensive than processing twenty.

3.6 The spirit of IPSAS principles needs to be preserved for the implementation of the renewed FRAF

3.6.1 In order to implement a renewed and useful fit-for-purpose FRAF for enhancing external financial transparency and communication, NATO needs to ensure that its accounting framework fully preserves the spirit of IPSAS principles. This includes the objective to provide financial transparency and communication to external users of the financial statements of the Organisation.

3.6.2 With the significant number of adaptations to IPSAS over the years, the actual NAF departs from key principles of the IPSAS conceptual framework, and this will need to be addressed while implementing the renewed FRAF. This is to ensure NATO remains aligned with modern and internationally recognised accounting standards.

4 WHY NATO NEEDS TO HAVE A MODERN AND INTERNATIONALLY RECOGNISED ACCOUNTING FRAMEWORK FULLY ALIGNED WITH IPSAS

4.1 The adoption and implementation of IPSAS is highly complex and requires considerable investment and expertise

4.1.1 Public sector accounting standards have considerably evolved and become more complex since the establishment of NATO in 1951. When NATO was first established, there were no international accounting standards in the public sector. Until 2002, when NATO decided to adopt the IPSAS, each NATO entity produced a set of cash-based accounts based on an earlier version of the NATO financial regulations. As these accounts were not publicly disclosed, financial transparency was largely driven by the requirements of internal users within NATO, mainly by NATO subsidiary governing bodies.

4.1.2 In the private sector, accounting standards such as the International Financial Reporting Standards (IFRS) are designed for external users to complement management accounts, which are used by business owners and managers for internal decision-making and performance monitoring. IPSAS are the public sector equivalent of IFRS and are designed to complement budgetary accounting, by primarily serving the accountability needs of external users to an entity, such as citizens and their parliamentary representatives, and taxpayers. Therefore, adopting IPSAS complements, but does not replace existing budgetary accounting needs of internal users of financial information to govern and manage the resources entrusted to an entity.

4.1.3 As a result, adopting IPSAS requires a considerable investment, in terms of strengthening the size and subject-matter expertise of the staff in finance divisions, of training all programme officers in accrual accounting, and of implementing and maintaining full enterprise resource planning software that are able to deal with IPSAS requirements, in addition to existing budgetary accounting requirements. Since these financial statements also need to be audited, adopting IPSAS also means that audit resources and subject-matter expertise need to be significantly increased in order to maintain the same level of audit scrutiny on compliance with financial regulations expected in a public sector setting.

4.1.4 Finally, with the implementation of IPSAS, complexity increased considerably. To illustrate the complexity of IPSAS vis-à-vis previous and more simple accounting standards, NATO had developed its own accounting requirements before adopting IPSAS. Prior to the adoption of IPSAS, all financial reporting and accounting requirements were based on generally accepted accounting principles, approved by NATO governance and set out in two pages of the former NATO Financial Regulations. With the adoption of IPSAS, the complexity of the financial reporting requirements and the subject matter expertise needed by the preparers of financial statements and auditors have greatly increased. Currently, under IPSAS, the financial

reporting and accounting requirements are specified in a conceptual framework and three volumes totalling over 1800 pages.

4.2 NATO's implementation of IPSAS was problematic

4.2.1 NATO adopted accrual based IPSAS as NATO's financial accounting and reporting framework in 2002 with a view to implementing the standards as from 2006. The stated objective of implementing IPSAS was to improve the harmonisation and consistency of accounting and financial reporting NATO-wide, while there were other anticipated potential benefits such as improved resource and asset management within NATO.

4.2.2 With the adoption of IPSAS, the underlying financial reporting and accountability principles changed from being mostly internal to NATO, to being equally external and outward looking. This is because IPSAS is intended for users who are not in a position to require the entity to provide information tailored to their particular needs. IPSAS is therefore designed primarily to serve the financial reporting needs of external stakeholders, while also providing useful information for users internal to NATO.

4.2.3 In a Special Report on the implementation of IPSAS within NATO and the way forward issued in 2011 (C-M(2011)0000), IBAN noted that the intended users of the financial statements and the information needs of those users were not clearly identified when NATO adopted IPSAS. IBAN also noted that the financial statements of NATO entities did not appear to be widely used by those charged with governance, raising at the time the question of whether IPSAS compliant financial statements are relevant to the particular users of financial reporting within NATO.

4.2.4 Furthermore, IPSAS were adopted by Council on the basis that they would not entail any cost for NATO. With the experience of other organisations having adopted IPSAS in recent years, it appears that this assumption was not realistic, as most organisations have found that, with hindsight, the adoption of IPSAS required significant resources. This is because the cost of implementing a financial accounting and reporting framework such as IPSAS is not only related to interpreting and applying the standards in addition to existing budgetary accounting, but also in ensuring that computer information systems are able to meet the needs of IPSAS accounting.

4.2.5 The RPPB indicated in its 2013 Report on the Implementation of IPSAS in NATO (C-M(2013)0006), that there were "*many reasons why IPSAS implementation has had such a troubled history in NATO.*" The main reasons why implementation of IPSAS was problematic in NATO were highlighted as follows:

- "*The original Council decision in 2002 to adopt IPSAS was not supported by a detailed high level change management programme and was based on an erroneous assumption that compliance could be achieved at no cost.*"

- *The scale of effort required to support IPSAS implementation was not adequately captured. Fundamentally NATO remains a budget driven organisation where budgets are set on a cash basis and with different organisational structures covering not just common funding but multinational funding too. NATO's resource allocation decision making process does not use accruals information; instead the focus is on comparing cash spent against the level of cash authorised. The requirement to report and account on an IPSAS accruals basis has created a dual convention which has resulted in an increase in workload to operate on a cash and accruals basis.*
- *IPSAS implementation has been hampered by inconsistent application across NATO due to different interpretations of the standards and legacy IT systems that cannot produce IPSAS compliant financial information.*
- *A significant cultural change is also needed to support improved financial management in NATO and to make full use of the financial data reported under IPSAS."*

4.2.6 In summary, when NATO adopted IPSAS in 2002, there was a belief that the Organisation was implementing at no cost an improved financial reporting and accounting framework, replacing what was perceived at the time to be an outdated budgetary accounting model. However, by adopting IPSAS, NATO in fact did not replace the existing model, but rather adopted a new highly technical and costly financial reporting model designed for users external to NATO, in addition to keeping the existing budgetary accounting designed for internal users such as NATO Committees.

4.3 The current NATO Accounting Framework no longer preserves the spirit of IPSAS' principles

4.3.1 Following the adoption of IPSAS, NATO reporting entities faced significant challenges in order to ensure that the financial statements were prepared in compliance with the standards. This related in particular to the need to account for property, plant & equipment, which had not been accounted for in the past. During the course of its audits, IBAN identified material errors in several financial statements, which in principle should lead to qualified audit opinions. In a constructive spirit of cooperation, IBAN applied a policy starting in 2006 to issue its audit opinions based on resubmitted financial statements. IBAN proceeded with such flexibility as a practical way to address the continued transition to IPSAS. Without these resubmissions, about 87%, 35% and 47% of the financial statements would have been qualified in 2006, 2007 and 2008, respectively.

4.3.2 IPSAS did not originally provide a solution for accounting for the vast amount of property, plant and equipment, and intangible assets, controlled by the public sector and acquired prior to the adoption of IPSAS. Accounting for such assets posed a real problem for NATO, which possesses many assets mainly procured through the NATO Security Investment Programme, as it was regarded as a very costly and resource

intensive administrative exercise. However, in 2015, the IPSAS issued a new standard on First-time Adoption of Accrual Basis IPSASs (IPSAS 33), which stated that the historical cost of these assets could be accounted for based on an estimated deemed cost approach. This approach removes the costly exercise to perform market-price valuations of these assets, which is not necessarily meaningful in the public sector setting, and would be a good solution for NATO in accounting for its PP&E.

4.3.3 In February 2013, the RPPB issued a report (C-M(2013)0006) acknowledging that IPSAS was set up, as an “*all or nothing*” approach and recognised that if IPSAS was not fully applied, “*NATO will no longer be in a position to assert that it has fully adopted IPSAS*”, and viewed this to be an acceptable risk. The RPPB also stated that “*IPSAS should not be seen as a dogma.*” Based on these considerations, Council agreed in August 2013 (C-M(2013)0039), to no longer apply IPSAS and to adopt a NATO Accounting Framework, which is an IPSAS-adapted framework. In this report, it is mentioned that “*The IBAN will conduct audits of the financial statements of NATO entities in accordance with the approved Accounting Framework. The NATO Accounting Framework, once implemented, should lead to fewer qualified audit opinions related to IPSAS in due time.*” Regarding property, plant and equipment and intangible assets, NATO’s approach was to depart from IPSAS and to not account for assets acquired prior to 2013 or in the case of Communication Information Systems assets, prior to 2018.

4.3.4 Several significant additional adaptations to IPSAS were incorporated in the NAF since 2013, mainly to address IBAN observations and reduce the number of qualified audit opinions. As reiterated by the RPPB in 2016 (C-M(2016)0023), NATO is no longer in a position to assert that it is fully IPSAS compliant. Moreover, in IBAN’s view, based on the magnitude of the adaptations to IPSAS effective before and after 2013, NATO is no longer in a position to assert that the NAF (including all its adaptations to IPSAS) preserves the spirit of the principles of IPSAS, which for example require recognising all assets and liabilities in line with the accrual basis of accounting. Currently, some of NATO’s main assets and largest liabilities are not reported in the financial positions of NATO reporting entities. Such assets include the Alliance and Leonardo vessels, and the Airborne Warning and Control System (AWACS) core assets. Liabilities include the post-employment obligations for the NATO Coordinated Pension Scheme (EUR 6 Billion at year-end 2024) and the NATO Retirees Medical Claims Fund (EUR 3 Billion at year-end 2024).

4.3.5 General purpose financial statements should, according to IPSAS 1, be presented in a manner to ensure comparability both with the entity’s financial statements of previous periods and with the financial statements of other entities. As a result of the significant adaptations to IPSAS, the NATO’s way to apply its NAF is no longer fit-for-purpose for external users. This is because these significant adaptations to IPSAS resulted in that external stakeholders are not able to compare the financial statements of NATO entities with those of other entities that fully apply the internationally recognised IPSAS framework. Many prominent international organisations, including most multilateral development banks and United Nations agencies, have fully adopted IPSAS.

4.3.6 Furthermore, the NAF and its adaptations did not make it less challenging for NATO entities to produce financial statements in line with its accounting framework and related standards. As reported in 2010 (C-M(2010)0040), IBAN expected to see a gradual reduction in the number of resubmitted financial statements aiming to correct material errors identified during the course of the audit. Nevertheless, nearly 15 years later, IBAN continues to apply its flexibility policy, as reflected by the fact that 50% of the initial financial statements for 2023 provided to IBAN by NATO entities for audit were resubmitted to correct material errors which would have resulted in a modified opinion.

4.3.7 An IPSAS-based financial accounting and reporting framework is costly and requires considerable expertise across the organisation. These costs may only be justified if the financial statements are produced in line with objectives set out in IPSAS. If the objective for adopting IPSAS was not primarily to provide better information to external users in addition to existing budgetary accounts, NATO should have at the time considered whether an IPSAS-based framework represented the most suitable and cost-effective one. Other simpler reporting frameworks, based for example on budget implementation principles, should have been considered by NATO on the basis that it may be more suitable for exclusively internal reporting purposes and less costly.

4.4 Need for a transition back to full-adoption of IPSAS

4.4.1 Since NATO decided in 2002 to adopt IPSAS, IBAN considers that it should be fully endorsed and implemented with the objective to improve external financial transparency in line with common practices followed by modern organisations. IBAN is of the opinion that NATO's objective regarding IPSAS should be to complement the existing budgetary accounts used by NATO Committees with financial statements designed to provide transparency and accountability towards external users to NATO. IBAN therefore strongly encourages NATO to transition back to full-adoption of IPSAS, which is an internationally and modern recognised accounting framework for the public sector.

4.4.2 The transition measures and the provisions of the standard on First-time Adoption of Accrual Basis IPSASs issued in 2015 (IPSAS 33) could be used by NATO to help the transition to full IPSAS. This transition may require some additional costs upfront to cover consultancy services, however these costs are not expected to be highly significant, when compared to the costs already and continuing to be incurred in order to update the NAF and to prepare the financial statements.

5 CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

5.1.1 Since the Wales Summit in 2014, NATO took steps to strengthen financial transparency. The current NATO FRAF, which requires producing 22 separate financial statements in accordance with the NAF, may be considered adequate for internal financial transparency. However, external stakeholders expect that transparent modern organisations provide an overview of the use and management of resources entrusted to an organisation “as a whole” in accordance with internationally recognised accounting standards. IBAN considers that the current NATO FRAF is not fully fit-for-purpose for external financial transparency and communication and no longer in line with the spirit of IPSAS principles.

5.1.2 A considerable enhancement of the FRAF is possible by providing more financial transparency to external stakeholders, while maintaining the quality of financial information in support of decision-making by Nations. There is a logical legal reason and a straightforward way to achieve this strengthening: it is to use NATO’s three legal entities as a basis for preparing general-purpose financial statements in accordance with IPSAS.

5.1.3 The renewed FRAF would provide flexibility and could seamlessly fit to the existing institutional adaptation plans for NATO. The Heads and Financial Controllers of individual NATO entities, under clear delegation of authority, would continue to be responsible to the relevant committees/supervisory boards, maintaining their internal accountability to Nations at NATO entity-level, as is the case today.

5.1.4 In practice, this will involve producing a single set of audited financial statements for NATO (Ottawa Agreement) by including the 20 financial statements of existing NATO Reporting Entities that operate under the NATO (Ottawa Agreement) single juridical personality. The financial statements of ACO and ACT already reflect their respective juridical personalities, as they include the financial information of their subordinate entities. Under the renewed FRAF, these three financial statements will be prepared in accordance with IPSAS.

5.1.5 This will also involve developing and implementing within a reasonable timeframe a plan to transition back to a full application of IPSAS, in order to fully meet external users’ financial reporting needs, making use of the transition measures and provisions of the standard on First-time Adoption of Accrual Basis IPSASs (IPSAS 33). NATO’s adoption of a financial reporting framework fully compliant with IPSAS based on NATO’s three legal entities will provide strong and modern financial reporting for external stakeholders (such as citizens and their parliamentary representatives, and taxpayers), in line with common practices used by other international organisations.

5.1.6 In the medium-to-long term, this renewed FRAF, aligned with the objective of IPSAS, is therefore likely to generate efficiencies for Governing Bodies, NATO entities and IBAN. A fit-for-purpose FRAF would demonstrate financial transparency and

accountability, both to the Nations and to the external users of NATO's financial statements.

5.2 Recommendations

5.2.1 In order to improve external financial transparency and accountability, IBAN recommends that NATO:

- 1) Produce a single set of audited financial statements for publication, incorporating all entities that operate under the juridical personality possessed by NATO by virtue of the Ottawa Agreement. To undertake this, IBAN recommends that Council task the appropriate governing body to:
 - a. Nominate a NATO financial reporting coordinator, supported by a small team, responsible for producing and submitting to IBAN for external audit in line with the NATO Financial Regulations:
 - one set of financial statements for NATO (Ottawa Agreement) in full compliance with IPSAS (primarily for external stakeholders); and
 - the statements of budget execution and/or financial implementation reports for each NATO entity, as an annex (primarily for internal stakeholders).
 - b. Require each NATO (Ottawa Agreement) entity to submit a financial reporting package, including signed financial statements and account balances, and budgetary information covering their area of responsibility, to the newly nominated NATO financial reporting coordinator responsible for producing the one set of financial statements for NATO (Ottawa Agreement).
 - c. Invite the Secretary General and the NATO financial reporting coordinator to sign the one set of financial statements of NATO (Ottawa Agreement).
 - d. Review the NATO Financial Regulations, Rules and Procedures, NPLSO Regulations and the NATO Charters, to take into account the changes related to the renewed FRAF, while preserving the authority and accountability of existing senior managerial and financial roles.
 - e. Develop a standard chart of accounts to be used across NATO (Ottawa Agreement).
- 2) Develop and implement a plan to transition back to a full application of IPSAS, in order to fully meet external users' financial reporting needs, making use of the transition measures and provisions of the standard on First-time Adoption of Accrual Basis IPSASs (IPSAS 33). To undertake this, IBAN recommends

that Council task an appropriate governing body and set a specific implementation timeframe.

6 NATO COMMENTS RECEIVED AND THE IBAN'S POSITION

6.1 NATO comments received

6.1.1 We received formal comments from the Head of Financial Reporting Policy (HFRP), as designated point of contact for the International Staff. These comments were coordinated with the Chair of the Working Group of Financial Controllers (WGFC) and the Office of Legal Affairs (OLA). The full text is presented in Appendix 4.

6.1.2 In general, these formal comments provided additional contextual information on the content of the Special Report and raised a number of challenges concerning the following main areas:

- Cost-benefit analysis
- Legal entities with separate juridical personality
- Preserving the spirit of IPSAS
- Financial statements and existing governance structure
- Whole of NATO financial statements

6.1.3 The HFRP also provided separate coordinated factual comments, which we incorporated into the Report as appropriate.

6.2 IBAN's Position

6.2.1 IBAN appreciates and recognises the formal comments provided by HFRP, the WGFC and OLA. After considering the formal comments, and based on the IBAN positions on the main areas of the comments set out below, we maintain our conclusion and recommendations and strongly believe that implementing these recommendations will help improve NATO's external financial transparency reflecting the Organisation's external legal status.

Cost-benefit analysis

6.2.2 IBAN acknowledges that conducting a cost-benefit analysis prior to implementing a change in the financial reporting of an organisation is a good practice, and it is the prerogative of the Allies to decide on conducting one to assist them in making an informed decision on the way-forward about NATO financial external transparency and reporting. Performing such an analysis could provide useful information to properly budget and assign resources for the implementation of the renewed FRAF.

6.2.3 However, IBAN stresses the fact that meeting the financial transparency and reporting needs of external users of financial statements is not easy to quantify. As stated in the Report, the governments of NATO countries need to obtain support for the Organisation from their citizens and representative bodies. A perceived lack of financial transparency can, if not addressed by the Organisation, lead to an erosion of this support and may negatively impact NATO's external reputation on financial

transparency. IBAN therefore considers that meeting the needs for external financial reporting should be central to any cost-benefit analysis, and that not only the needs for internal financial management and accountability should be taken into account.

6.2.4 That being said, IBAN believes that the additional amount of recurring budgetary resources needed (mainly a small coordination team), would be relatively small, when compared to the resources currently expended to prepare the 20 financial statements for the entities operating under the NATO (Ottawa Agreement) juridical person.

Legal entities with separate juridical personality

6.2.5 IBAN understands that when NATO refers to external and internal legal orders, this represents two different dimensions. When referring to legal entities in this Report, IBAN means entities with a separate juridical personality established by an international treaty or agreement, not entities established by a NATO charter and internal regulations under the NATO internal legal order. As stated in section 1.1 of the Report, while having a certain level of independence, organisations established by a charter do not have a distinct juridical personality, but rather share the one possessed by NATO (Ottawa Agreement). Moreover, these entities do not have separate legal capacity to conclude agreements, and contracts, and to acquire and dispose of property and assets in their own name.

Preserving the spirit of IPSAS

6.2.6 IBAN recognises that some of the NAF adaptations to IPSAS may in fact be operationalisations rather than actual adaptations. Nonetheless, IBAN considers that the NAF adaptations regarding property, plant & equipment, communication information systems, and post-employment liabilities alone, represent a significant departure from the spirit of IPSAS.

6.2.7 Under IPSAS, recognising assets, despite a near-zero net book value, is important because these assets can still provide future economic benefits or service potential, require ongoing review of useful life and depreciation, and support transparent public sector financial reporting. The recognition reflects the asset's continuing role in delivering services or economic value, not just its depreciated cost.

6.2.8 In addition, recognising post-employment liabilities is essential for providing a faithful, transparent, and comprehensive view of an organisation's financial obligations, enabling sound financial management and maintaining stakeholder confidence.

Financial statements and existing governance structure

6.2.9 IBAN acknowledges the need to align financial reporting with the governance structure of NATO. The governing bodies of individual NATO entities may require the preparation and submission of separate financial statements to serve their internal

financial accountability needs. Although under the renewed FRAF, IBAN would not be submitting to Council a separate audit report for each set of financial statements for the 20 entities operating under the NATO (Ottawa Agreement) juridical person, these entities' financial information will continue to be audited in accordance with IBAN Financial Auditing Standards. This will mainly be through the reconciliation with and audit of the segment report prepared in accordance with IPSAS 18, in the single set of general purpose financial statements for NATO (Ottawa Agreement).

6.2.10 As an illustration of this approach currently used in NATO, following the creation of the NATO Support and Procurement Organisation (NSPO) in 2012 from the merger of three former NATO agencies, two of these former agencies, renamed as the NATO Airlift Management Programme (NAMP) and the Central Europe Pipeline System Programme (CEPS), have continued to this day to issue to their governing body a separate set of financial statements for their respective entity. This is not mandated by the NATO Financial Regulations, but these entities continue to do so to satisfy their own internal financial accountability requirements. These financial statements are not subject to a separate IBAN audit report, but the underlying accounting balances and transactions are included in the NSPO Consolidated Financial Statements and IBAN ensures that they reconcile with NSPO segment reporting and are audited accordingly. IBAN considers that a similar approach is possible across NATO (Ottawa Agreement) as a whole.

Whole of NATO financial statements

6.2.11 IBAN considers that preparing a single set of financial statements for NATO (Ottawa Agreement) is an important step, as each of the entities operating under the NATO (Ottawa Agreement) juridical person concludes agreements and contracts, acquires and disposes of property and assets in the name of NATO (Ottawa Agreement). These entities do not have a separate legal capacity. However, ACO and ACT respectively operate under the juridical personalities of SHAPE and HQ SACT, each with a separate legal capacity to conclude agreement and contracts, and to acquire and dispose of property and assets in their own name. Since a precondition for owning an asset and assuming a liability is to have a juridical personality, a single set of financial statements based on the juridical person and legal capacity is a good practice and provides a complete view of the financial position (assets and liabilities) and performance (revenue and expenses) of an organisation.

6.2.12 Once the renewed FRAF will be implemented, and experience of preparing three financial statements based on the three juridical personalities will be gained within the Organisation, this would make it possible to consider moving one step further in the future: to produce only one "whole of NATO" financial statements using the same technique, but for combining the NATO, ACO and ACT financial statements. While IBAN believes that this is still premature to implement in NATO, the idea deserves to be contemplated for demonstrating the unity of the Organisation in line with the "One NATO" concept. Reporting and publishing externally one set of combined financial statements would not only eliminate the inter-entity transactions,

but will also contribute to NATO strategic communication by providing a better external image of coherence, and would avoid giving an impression of a divided organisation.

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APPENDIX 1
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List of current NATO Reporting Entities per juridical personality

Juridical Personality	NATO Reporting Entity (ordered by acronym)	Currency (in million)	Total Audited Expenses as reported in 2023 (1)	Total Audited Expenses as reported in 2022 (1)	
Ottawa Agreement (1951)					
NATO	1	BGX - BICES Group Executive	Not disclosed	Not disclosed	Not disclosed
	2	DCPS - Defined Contribution Pension Scheme (2)	EUR	70	161
	3	DIANA - Defence Innovation Accelerator for the North Atlantic	EUR	9	1
	4	IMS - International Military Staff	EUR	53	39
	5	IS - International Staff	EUR	430	338
	6	MSIAC - Munitions Safety Information Analysis Center (3)	EUR	2	2
	7	NAGSMO i.L. - NATO Alliance Ground Surveillance Management Organisation in Liquidation	EUR	3	3
	8	NAHEMO - NATO Helicopter Design and Development Production and Logistics Management Organisation	EUR	15	14
	9	NAMEADSMO i.L. - NATO Medium Extended Air Defence System Design and Development, Production and Logistics Management Organisation in Liquidation	USD	-	1
	10	NAMMO - NATO Multi-Role Combat Aircraft Development Production and In-Service Support Management Organisation (4)	EUR	-	-
	11	NAPMA - NATO Airborne Early Warning and Control Programme Management Agency	USD	21	20
	12	NATO CPS/DBPS - NATO Coordinated Pension Scheme/Defined Benefit Pension Scheme (2)	EUR	267	248
	13	NCIO - NATO Communications and Information Organisation	EUR	792	728
	14	NDC - NATO Defense College	EUR	14	13
	15	NEFMO - NATO European Fighter Aircraft Development, Production and Logistic Management Organisation	Not disclosed	Not disclosed	Not disclosed
	16	NETMA - NATO Eurofighter 2000 and Tornado Management Agency	EUR	52	50
	17	NFO - NATO Naval Forces Sensor and Weapons Accuracy Check Sites Office (3)	EUR	2	1
	18	NSPO - NATO Support and Procurement Organisation	EUR	4,057	3,191
	19	RMCF - Retirees Medical Claims Fund (2)	EUR	39	96

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APPENDIX 1
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Juridical Personality	NATO Reporting Entity (ordered by acronym)		Currency (in million)	Total Audited Expenses as reported in 2023 (1)	Total Audited Expenses as reported in 2022 (1)
	20	STO - Science and Technology Organisation	EUR	38	34
Paris Protocol (1952)					
SHAPE	21	ACO - Allied Command Operations	EUR	1,296	1,173
HQ SACT	22	ACT - Allied Command Transformation	EUR	207	174

Notes

- (1) All expenses are expressed in EUR million, closest rounding, except for NAMEADSMO i.L. and NAPMA, which are expressed in USD million. Expenses presented in this table are drawn from the financial statements of each NATO Reporting Entity and include costs invoiced between each other. As NATO (Ottawa Agreement) does not prepare a single set of 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).
- (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 these multi-nationally funded activities.
- (4) The Financial Statements of NAMMO are prepared on the basis that NAMMO is an agent instead of a principal. Therefore, NAMMO's operational expenditures are not reported as an expense in its Statement of Financial Performance.

NATO Nations' Supreme Audit Institutions (SAIs)

NATO Country	Institution	Institution Name in English
Albania	Kontrolli i Larte i Shtetit	State Supreme Audit (Albania)
Belgium	Rekenhof - Cour des Comptes – Rechnungshof	Court of Audit (Belgium)
Bulgaria	Българската Сметна палата	Bulgarian National Audit Office
Canada	Office of the Auditor General of Canada - Bureau du vérificateur général du Canada	Office of the Auditor General of Canada
Croatia	Državni ured za reviziju	Republic of Croatia State Audit Office
Czechia	Nejvyšší kontrolní úřad	Czech Republic Supreme Audit Office
Denmark	Rigsrevisionen	National Audit Office of Denmark
Estonia	Riigikontroll	National Audit Office of Estonia
Finland	Valtiontalouden tarkastusvirasto	National Audit Office of Finland
France	Cour des comptes	Court of Accounts of France
Germany	Bundesrechnungshof	Federal Court of Auditors (Germany)
Greece	Ελεγκτικό Συνέδριο	Hellenic Court of Audit
Hungary	Állami Számvevőszék	State Audit Office of Hungary
Iceland	Ríkisendurskoðun	Icelandic National Audit Office
Italy	Corte dei conti	Court of Accounts of Italy
Latvia	Latvijas Republikas Valsts Kontrole	State Audit Office of the Republic of Latvia
Lithuania	Lietuvos Respublikos Valstybės kontrolė	National Audit Office of Lithuania
Luxembourg	Cour des comptes du Grand-Duché de Luxembourg	Court of Auditors of the Grand Duchy of Luxembourg
Montenegro	Crna Gora Državna Revizorska Institucija	State Audit Institution of Montenegro
Netherlands	Algemene Rekenkamer	Netherlands Court of Audit
North Macedonia	Државен Завод за Ревизија	State Audit Office (North Macedonia)
Norway	Riksrevisjonen	National Audit Office of Norway
Poland	Najwyższa Izba Kontroli	Supreme Audit Office (Poland)
Portugal	Tribunal de Contas	Court of Accounts of Portugal
Romania	Curtea de Conturi a României	Romanian Court of Accounts
Slovakia	Najvyšší kontrolný úrad	Supreme Audit Office of the Slovak Republic
Slovenia	Računsko sodišče	Court of Audit of the Republic of Slovenia
Spain	Tribunal de Cuentas	Spanish Court of Audit
Sweden	Riksrevisionen	Swedish National Audit Office
Türkiye	Türkiye Cumhuriyeti Sayıştay Başkanlığı	Turkish Court of Accounts
United Kingdom	National Audit Office	National Audit Office (United Kingdom)
United States of America	United States Government Accountability Office	United States Government Accountability Office

List of abbreviations and acronyms

AAR	Annual Activity Report
ACO	Allied Command Operations
ACT	Allied Command Transformation
CEPS	Central Europe Pipeline System Programme
CNAB	Competent National Audit Bodies
Council	North Atlantic Council
ERP	Enterprise Resource Planning
FRAF	Financial Reporting and Accounting Framework
GPFS	General-Purpose Financial Statements
HFRP	Head of Financial Reporting Policy
HQ SACT	Headquarters Supreme Allied Command Transformation
IBAN	International Board of Auditors for NATO
IPSAS	International Public Sector Accounting Standards
NAF	NATO Accounting Framework
NAMP	NATO Airlift Management Programme
NATO	North Atlantic Treaty Organisation
NFRs	NATO Financial Regulations
NOR	NATO Office of Resources
NSPO	NATO Support and Procurement Organisation
OLA	Office of Legal Affairs
Ottawa Agreement	Agreement on the status of the North Atlantic Treaty Organization, National Representatives and International Staff, signed in Ottawa in 1951
Paris Protocol	Protocol on the Status of International Military Headquarters set up pursuant to the North Atlantic Treaty, signed in Paris in 1952

RPPB	Resource Policy and Planning Board
SAI	Supreme Audit Institution
SHAPE	Supreme Headquarters Allied Powers Europe
WGFC	Working Group of Financial Controllers

NATO FORMAL COMMENTS ON THE SPECIAL REPORT TO COUNCIL

Formal comments from the Head of Financial Reporting Policy (HFRP), as designated point of contact for the International Staff

Importance of NATO transparency and accountability for Nations

1. *We would like to highlight that NATO has taken additional measures that reflect NATO's priorities: to improve performance of military common-funded capabilities, services, programmes and activities, while enhancing transparency, accountability, management performance and long-term efficiencies in common funding.*
2. *Heads of State and Government tasked the RPPB at the Madrid Summit in July 2022, as mentioned in IBAN's draft special report, to propose additional measures for enhancing transparency and accountability in common funding. This tasking placed renewed attention on NATO transparency and accountability (para 1.2.3).*
3. *Transparency, accountability, management performance and efficiency are the fundamental principles of good governance and underpin the effective stewardship of public funds made available by Allies to NATO. As a follow-on tasker from the Vilnius Summit, the North Atlantic Council (Council) approved the Accountability and Performance Framework (endorsed at the Defence Ministerial Meeting in February 2025) to systematically collect, measure, analyse and report on the delivery status and performance of military common-funded capabilities. The Accountability and Performance Framework is underpinned by a more methodical Performance Management Approach for military common funding and includes courses of actions to strengthen the resource committees' role in assessing the degree to which management authorities and implementing entities are delivering on their accountabilities when implementation is not as expected or planned.*

NAF's overall objective to follow the spirit of IPSAS

4. *Council agreed adaptations to a small number of the IPSAS to better suit the specific requirements of the Alliance. These adaptations have always been intended to preserve the spirit of the IPSAS principles. As per C-M(2016)0023, the RPPB noted overall that NATO can assert that the NATO Accounting Framework (NAF) preserves the spirit of the principles of IPSAS such as accrual accounting, relevance and fair and faithful presentation of financial information. Although all of them have been approved as adaptations from IPSAS, some of them are operationalisations or application guidance for NATO Reporting Entities: HFRP will analyse the existing NAF adaptations and reclassify them as*

operationalisations, as needed, during the next iteration of the revised NAF. Taking this into consideration, it would be useful if IBAN included specific examples of the key principles of the IPSAS conceptual framework that the NAF is currently departing from.

Cost-benefit Analysis

5. Statements in the IBAN special report regarding costs and workforce requirements needed for these changes should be supported by a cost-benefit analysis. Given that significant workload and associated cost are to be expected resulting from the revised FRAF (para 3.4.4), this cost-benefit analysis would need to assess, *inter alia*: the effects on the day-to-day financial management and governance activities, the additional resources needed for the single set of NATO Ottawa entities' financial statements, the standardization of different charts of accounts, budgetary account codes, Enterprise Resource Planning (accounting) and reporting systems used by the 20 NATO Reporting Entities, as well as amending the NFRs, charters of NATO Reporting Entities.
6. The IBAN should provide further information on how they assessed that implementing the renewed FRAF would require the nomination of a NATO financial reporting coordinator, supported by a 'small' team, with limited additional resources necessary, limited impact on the day-to-day financial management and governance activities within the different NATO Reporting Entities and potentially requiring some additional costs upfront for consultancy services 'not expected to be highly significant'. In IBAN's view, on the one hand, the handling by governance of one NATO Ottawa single set of financial statements will be less costly than processing twenty financial statements. On the other hand, IBAN also mentions that 20 reporting packages/individual financial statements would still have to be produced (para 3.3.1, 3.4.2).
7. Moreover, it is unclear how the additional resources would be limited if new posts need to be created, such as the NATO financial reporting coordinator, supported by a 'small' team, as part of the new financial reporting coordination unit.

Lack of elimination of inter-entity balances under the renewed FRAF

8. It is highlighted that the most significant transactions take place between the Strategic Commands (ACO and ACT) with the largest Ottawa entities (NCIA and NSPA). Therefore, the 'duplication' of transactions referred to by IBAN would not be solved by the single set of NATO Ottawa entities' financial statements, as the main inter-entity transactions would not be eliminated by staying at the level of the three NATO Reporting Entities,

despite IBAN's statement that, under the renewed FRAF, the inter-entity balances will be eliminated as part of the accounting exercise (para 3.3.1).

Reporting NATO's largest assets and liabilities in NATO's financial statements

9. *While IBAN correctly reports that NATO's largest assets (vessels, AWACS core assets) and liabilities (post-employment liabilities) are not reported in the financial positions of NATO reporting entities (para 4.3.4). it is equally important to highlight that these assets are close to the end of their estimated useful life.*
10. *For example, if NATO's two vessels had been capitalized at acquisition using a conservative estimate of a 30-year useful life (as the estimated useful life of vessels is 25-30 years), NATO's largest vessel would now be fully depreciated, yielding a net book value (NBV) of zero. Meanwhile, NATO's second vessel would have a remaining useful life of 7 years (or a NBV of less than EUR 2 million).*
11. *In addition, NATO has operated a fleet of AWACS aircraft since the 1980s. Considering this, in 2025 it is questionable whether the presentation of the net book value of NATO's largest assets (such as the vessels and AWACS core assets) in the Statement of Financial Position would bring added value to the users of the financial statements, in order to justify the significant efforts required in determining the assets' estimated deemed cost, considering that the assets are disclosed in the notes to the financial statements.*
12. *Furthermore, prior to the issuance of IPSAS 49 'Retirement benefit plans' (with an effective date of 01 January 2026), there were no IPSAS pronouncements for the accounting of retirement benefit plans. By lack of such guidance, for many years NATO has been using the guidance foreseen in IAS 26 'Accounting and reporting by retirement benefit plans' to account for the two retirements benefit plans, as well as the medical claims fund. NATO applies correctly one of three options permitted by IAS 26 for the presentation information on the actuarial present value of defined benefit plans, i.e. presentation in the notes to the financial statements. This accounting treatment is applied in the financial statements of the NATO Defined Benefit Pension Scheme (DBPS) and Retirees' Medical Claims Fund (RMCF).*

IBAN Recommendation 1 (para 5.2.1)

13. *While HFRP fully supports measures on increased transparency and accountability to the Nations (the most prominent example being the Accountability and Performance Framework approved by Council in January 2025), it is not in a position to support IBAN's first*

recommendation at this stage, before a full cost-benefit analysis is made. This cost-benefit analysis would assess, inter alia: the effects on the day-to-day financial management and governance activities, the additional resources needed for the set of financial statements for NATO (Ottawa Agreement) entities, the standardization of different charts of accounts, budgetary account codes, Enterprise Resource Planning (accounting) and reporting systems used by the 20 NATO Reporting Entities as well as amending the NFRs, charters of NATO Reporting Entities.

IBAN Recommendation 2 (para 5.2.1)

14. *NATO's entities' common goal is to be as IPSAS-compliant as possible, given that the NATO Accounting Framework is IPSAS-based. Our common goal is to limit, to the maximum extent possible, adaptations to IPSAS. The implementation of the NAF, an IPSAS-adapted framework, has significantly improved the solidity of the financial information, transparency, financial execution and reporting presented to governance, as well as to external stakeholders. Financial transparency needs to meet several objectives, among which: ensuring that governance and external stakeholders have oversight on what is happening in NATO entities, along with accountability throughout the entire process, including the audit of financial statements. Meanwhile, the full implementation of IPSAS would need to be assessed in terms of the additional value it could potentially bring, not only to external stakeholders, but also to NATO overall, along with the costs this would entail. HFRP also notes and fully supports WGFC's position that we should continue our journey to limit adaptations from IPSAS beyond the short-term required revision of the NAF, as well as that we should strive for full application of IPSAS over time.*
15. *We therefore reinforce the request that a cost-benefit analysis is essential before concluding on the 'less costly' renewed FRAF. We need to provide external stakeholders with the value created by NATO and what it actually delivers, which is the key objective of the Accountability and Performance Framework, that will systematically collect, measure, analyse and report on the delivery status and performance of military common-funded capabilities. This will be embedded in existing planning and reporting mechanisms, such as the Annual Report on NATO Common Funding, which should reflect a Performance Management Approach (input-output-outcome model) applied to all common-funded capability areas. Together with the support of the WGFC, HFRP is open to consider other options to improve communication to external stakeholders at reasonable costs, with the ultimate objective to enable greater accountability and transparency NATO-wide.*

Formal comments from the Working Group of Financial Controllers (WGFC)

16. *The WGFC has analysed the report and the potential impact the IBAN proposal could have on aspects related to governance, transparency of financial reporting, legal entities and control, roles and responsibilities of the Financial Controllers (FCs). In addition, we also exchanged views on the recommendation made by IBAN to return to a full application of IPSAS, rejecting any adaptations in the NAF.*

Introduction

17. *The WGFC acknowledges and supports, as a general principle, the IBAN proposal to increase transparency and accountability. We fully support enhanced transparency and accountability and recognise the guidance of the Wales Summit tasker. It is important to maintain focus on financial transparency so that the financial statements continue to meet their primary purpose of providing nations with visibility as to how resources are used in support of approved organisational objectives and requirements, in compliance with the NFRs, FRPs and NAF. Quality and consistency of financial statements, as well as reporting promote transparency and usefulness of the information made available to the internal and external stakeholders.*

However, we consider that:

17.1 *Financial Statements shall be established in compliance with the governance structure of NATO, including the charters of the various entities. The proposal made by IBAN implies significant effort to change governance and adapt the Agencies' charters and roles of the heads of entities and FCs. These would be pre-requisites to the implementation.*

17.2 *Proposing an approach with three sets of Financial Statements would not meet the objective of greater transparency to external readers as the biggest inter-company eliminations (NCIA and NSPA versus the Commands) necessary to provide a fair, complete and transparent view on the costs would not occur, which contradicts the IBAN key goal.*

17.3 *WGFC does not agree with the assertion that the proposal 'would require some limited additional resources, especially upfront, but would not require a significant level of additional resources and efforts for NATO (Ottawa Agreement) as a whole.' WGFC finds that the report should be more explicit in analysing implementation challenges related to: technical complexities in consolidating financial statements of multiple entities that have different chart of accounts; resource implications related to the increased cost and burden associated with the consolidation of the financial statements. These costs include resources to prepare consolidation*

information at the NATO entities; resources to undertake the consolidation centrally; and management time to supervise and review the consolidation process. While WGFC recognises and supports the benefit of greater financial convergence and alignment among NATO entities, the report lacks sufficient evidence to support the conclusion of financial efficiencies which could be achieved in a reasonable timeframe. On the contrary, such an initiative solely driven by reporting requirements would require significant investments upfront to implement the changes. Realistic implications on systems, people, policies and processes are not included in the IBAN proposal, hereby not taking into account the scale of challenges involved.

17.4 *Given the afore-mentioned challenges and risks, WGFC would advise to look at alternative ways of achieving the transparency objective vis-a-vis external readers. A review and improvement of already existing instruments and reporting mechanisms could be considered, even if based on a simplified for information reporting framework.*

17.5 *NATO is not different from other international organisations. Separate statements allow transparency and accountability for each entity's unique activities and funding, meeting the needs of diverse stakeholders, in particular member states, donors and the public. In this context, WGFC refers to the UN that is presenting over 30 financial statements for its entities that operate with financial independence and under distinct mandates and governance, funding mechanisms and accounting requirements. These entities present their own financial statements in accordance with IPSAS and undergo separate audits.*

17.6 *WGFC would advise against suppressing the audit and certification of annual financial reports at entity level. This certification plays a great role to enforce quality, discipline and accountability at entity level and should be maintained.*

Analysis

Legal Entities and Control

18. *The IBAN report states that 20 NATO reporting entities operate under the single juridical personality possessed by NATO (Ottawa Agreement), despite the fact that most of them have their own governing bodies with organisational, administrative and financial independence granted by the Council. Within a common framework, each NATO entity has the authority and the responsibility for organisational governance, including direction, administration and control as governed by their specific charters as authorized by the Council. As such, each entity exercises its own control. The definition of legal entities as provided in the report does not meet the*

reality of the NATO entities that are governed by their specific charters and therefore constitute separate legal entities.

19. *The report does not elaborate on the nature of business for these entities and how their finances are controlled and reported, and how subsidiary structures are set up. The WGFC expresses strong reservations to conflate the “juridical personality” with the definition of “Reporting Entity”. NATO entities do not share their risks and rewards and require 22 financial statements in line with the ‘Key Characteristics of a Reporting Entity’ as described in the IPSAS Conceptual Framework.*
20. *As suggested in the report, the role of a Financial Reporting Coordinator responsible for preparing a single set of FS based on reporting packages would not have the overall accountability and authority unless the governance, roles and reporting lines of financial controllers are significantly reviewed. Each entity’s charter, NFRs, FRPs also require significant review. The preparation of a single set of FS for NATO Ottawa entities would imply overall control and therefore a consolidation of the individual FSs of these NATO entities, with the suggestion to provide segment information in the single set of FS. This is after all a consolidation, although, under the current governance structure, the consolidated NATO Ottawa entities’ single set of financial statements would not be able to comply with any IPSAS standard.*

Impact on Governance and legal instruments

21. *The charters are reference documents creating legally binding agreements between Nations, for the constitution of legal entities. Taking into account the ‘as is’ situation, the charters of the NATO bodies require the submission of annual financial statements to their Board, that will approve the financial statements considering the report of the NATO International Board of Auditors. Producing 22 individual financial statements is mandated by the NFRs and entities’ charters, which are decisions from Nations.*
22. *While the report recognizes that the charters of current NATO reporting entities would need to be amended to take into account the new requirements of the reporting entities, it underestimates the implications, risks and complexities of initiating a review of the Charters, and the significant collateral impacts to review the full set documents defining the compliance framework in each entity. The extensive effort of modifying the charters of all these entities requires a solid review of governance structure, NFRs, FRPs, Internal Control charters, Committee Terms of Reference, internal policies, and as such has a significant impact on entities’ ongoing activities. Such change management and costs, that would require multi-year efforts, should not be underestimated.*

23. *One of the key drivers for transparency and accountability is the ability to provide audited financial reporting aligned with the charter of each entity within NATO. It is the view of the FCs that this shall remain a fundamental principle to reinforce accountability and transparency. The audited Financial Statements at entity level are essential as some entities have different membership. A drastic change of governance structure for the purpose of reporting requirements for the external stakeholders may not be aligned with the objectives of NATO to reinforce transparency and accountability.*

Cost versus benefit

24. *IBAN states that only limited additional resources for a financial reporting coordination unit will be required. However, this change will significantly increase the cost and burden associated with the preparation of the financial statements of Ottawa entities. Implementation challenges are not mentioned in the report. Consolidation of financial statements across multiple entities and jurisdictions is complex. The report overlooks potential challenges during the implementation phase, such as the technical complexities involved in standardizing financial reporting practices and tools. More discussion on how to mitigate these challenges, implementation of new processes and tools with realistic timelines would strengthen the proposal.*
25. *The report indicates that the large number of GPFSSs is costly to NATO, however each NATO body would still need to prepare financial statements (including a statement of internal control) as required by their internal stakeholders and additional reporting packages for the production of a single set of financial statements. This means that the 'costly' production will remain unchanged, and additional processes, tools and resources will be required for this exercise leading to significant investments and additional resource requirements.*
26. *The IBAN proposal would require significant analysis and preparation before starting the implementation. The requirements are far more than the 'small reporting team' that is suggested in the report. A detailed cost-benefit analysis that provides stakeholders/decision makers with a clear picture of the financial benefits and realistic long-term costs would be needed to support a final decision.*

Roles and responsibilities of the FCs

27. *The creation of a NATO Financial Reporting Coordinator post generates an additional layer of authority above the NATO Bodies for preparation and approval of the financial statements. The Secretary General and NATO Financial Coordinator would be the signing authority of the combined*

financial Statements and this would automatically impact the authority of the head of the NATO entity, their FCs and their governing bodies.

Transition back to the full application of IPSAS

28. *When the decision was taken in 2002 to become IPSAS compliant as of 1 January 2006, there were only 20 IPSAS published, now there are 50. In 2002, NATO entities were cash based or modified cash based. Since the adoption of IPSAS, NATO entities went through a huge transformation towards modified accrual based accounting to full accrual accounting.*
29. *WGFC would like to pursue its commitment to IPSAS and to refer to the progress it has brought in terms of strengthening governance and achieving greater financial integrity. It serves the collective interest of both internal and external stakeholders by supporting transparency, accountability and informed decision-making. It has brought structure and comparability to financial processes. It has overall strengthened internal controls and comparability.*
30. *The WGFC supports the intent to limit to the maximum extent possible, adaptations to IPSAS. However, some adaptations are required to reflect the very specific nature of NATO, in cases where costs of IPSAS implementation largely outweigh the benefits. Those adaptations in the NAF are limited in number and should be kept to a strict minimum. These are mainly related to delays in implementation, reporting of CIS assets and pension liabilities. Other elements in the NAF cannot be considered as adaptations, but are rather application guidance (operationalisations) which reinforce the consistency across entities in applying IPSAS.*

WGFC Way-Ahead

31. *The WGFC supports the principle of continuous improvement and enhancing transparency, but wishes to express serious concerns on the impact this change could have on the governance of NATO and its entities. We believe that further analysis and preparation is needed. WGFC is willing to look with HFRP NOR at alternative ways in improving communication to external stakeholders at reasonable costs, while achieving the objectives of strong accountability and transparency at entity and NATO level.*

Formal comments from the International Staff's Office of Legal Affairs

32. *NATO's Office of Legal Affairs (OLA) appreciates the opportunity of presenting brief observations on the IBAN special report.*
33. *It is the prerogative of Allies to determine at which level they wish to facilitate financial transparency (including to external stakeholders) – at the NATO body-level, at the Ottawa personality-level, or even at the Enterprise level. The NATO Accounting Framework (based on IPSAS) neither alters the prerogative of Allies to decide nor, in cases of doubt, would it militate strongly in favour of a particular position (a fortiori if contrary to a well-settled convention for reporting accepted by the Allies).*
34. *Matters of policy may, of course, be informed by legal classifications. The existence of separate legal personalities under international law as highlighted in the IBAN special report may indeed be relevant to, but is certainly not dispositive of, the manner in which NATO may choose to prepare its financial statement(s). In NATO's case, relevant distinctions to determine financial reporting entities comprise both those drawn under international law (i.e. the three legal personalities recognised under the Ottawa Agreement and the Paris Protocol) and those drawn within NATO's internal legal order¹. Moreover, there are compelling policy components which should also be accounted for.*
35. *Allies in the North Atlantic Council have chosen to regulate different subject-matters at different levels. Some rules and policies (e.g., in the areas of employment law or security, but also the NATO Accounting Framework) apply to all NATO entities Enterprise-wide, across the three external legal personalities. Others apply within an entity possessing a separate external legal personality. Yet others are specific to a particular NATO body. Allies have thus struck a deliberate balance between institutional autonomy and integration on a case-by-case basis, as is their prerogative.*
36. *The NPLSOs referred to in the IBAN special report are a case in point. Allies in Council have granted such NPLSOs “a clearly defined organisational, administrative and financial independence”², with the charter for each NPLSO “taking into account as appropriate the structure*

¹ The notion of internal legal order of an international organisation is well established in legal doctrine. See H.G.Schermers, N.M.Blokker, *International Institutional Law* (6th ed. 2018), p. 1196; P. Cahier, 'L'Ordre Juridique Interne des Organisations Internationales', in R.J. Dupuy (ed.), *A Handbook on International Organizations*, (2nd ed. 1998) pp. 377-397, at pp. 377-382.

² C-M(2009)0079, “Regulations for NATO Procurement, Logistics or Service Organizations”, para. 1(b).

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of each NPLSO and the nature of its activities”³. While such entities were created by the Council and remain “under the authority of the [NAC]”⁴, they are vested with considerable autonomy. Operational decisions fall under the authority of the General Manager⁵, who is “directly responsible to the [NPLSO’s] Board of Directors”⁶. The Board, in turn, has broad supervisory powers, including the adoption of budgetary and financial decisions, for which it is “solely responsible”⁷.

37. In view of this structure, it is the prerogative of Allies to determine at which level they wish to facilitate financial transparency (including to external stakeholders) – at the NATO body-level, at the Ottawa personality-level, or even at the Enterprise level⁸. Either approach would appear to be legally defensible and consistent with the IPSAS conceptual framework, which recognises that “a public sector reporting entity may have a separate legal identity or be, for example, an organization, administrative arrangement or program without a separate legal identity”⁹.

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³ C-M(2009)0079, para. 2(a).

⁴ C-M(2009)0079, para. 45.

⁵ C-M(2009)0079, para. 35(a).

⁶ C-M(2009)0079, para. 36.

⁷ C-M(2009)0079, para. 33(d).

⁸ Based on the view that, as a legal matter, entities within all three external legal personalities are accountable to, and under the ultimate direction of, the Council.

⁹ Para. 4.11.

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