

NATO UNCLASSIFIED

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REVIEW OF NATO FINANCIAL REGULATIONS

Note by the Secretary General

1. I attach a report by the Budget Committee (BC) on the review of the NATO Financial Regulations (NFRs). I note that this represents the first time in more than 30 years that the NFRs have been revised.
2. The NFRs direct the financial administration of all NATO bodies and provide key policy guidance for ensuring effective, economical budgetary and financial administration. Major changes have been made to strengthen financial management and accountability and to reflect best practice in public finance. As part of our recently agreed measures to improve financial transparency and accountability, I note that the new NFRs will be made publicly available.
3. The Resource Policy and Planning Board endorsed the review of the BC, and the BC's conclusion that, where necessary, requests for modifications or deviations from the NFRs should be submitted by the appropriate governing body of a NATO Procurement, Logistics and Support Organisations (NPLSO) to the Council for approval. The Board recognised that the views of the NPLSO participating nations would be key to the consideration and approval of any such requests.
4. To address the need to ensure consistency and comparability of the supporting financial rules and procedures, which are currently being developed by all NATO bodies, the RPPB invited NATO's Head of Financial Reporting Policy to provide an assessment focused on the rules and procedures covering common-funded NATO bodies, and those of NCIA and NSPA, before 1 January 2016.
5. Finally, while recognising that some NFR articles may require phased implementation during the course of 2015, the RPPB supported the BC conclusion that immediate implementation of the NFRs would present an overall low and manageable level of risk.
6. Unless I hear comments to the contrary by **18:00 hours on Monday 4 May 2015**, I will take it that Council has noted the report and its conclusions and approved the recommendations at paragraph 26, including that the new NFRs will take effect on 1 May 2015 and will supersede all previous NFRs.

(Signed) Jens Stoltenberg

Annex

Original: English

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REVIEW OF NATO FINANCIAL REGULATIONS

References:

- A. C-M(81)30
- B. PO(2015)0052
- C. AC/335-N(2014)0070-Rev 1 AS1

AIM

1. To recommend that Council approve the revised NATO Financial Regulations (NFRs) attached at appendix 1.

BACKGROUND

2. The Budget Committee (BC) has been conducting a review of the NFRs – the first in more than 30 years (ref a) – since the beginning of 2013. The NFRs govern the financial administration of all NATO bodies and as such represent the key policy guidance for ensuring effective, economical budgetary and financial administration. The NFRs also provide the essential principles against which the International Board of Auditors for NATO (IBAN) conducts audits of NATO bodies.
3. The review was prepared by a small Working Group, chaired and managed by the NATO Office of Resources, composed of key financial practitioners from the Strategic Commands, the International Military Staff; the International Staff and Agencies. Financial Controllers (and their staffs) of all NATO bodies have been actively engaged in the review throughout. The Working Group submitted proposed revisions to the NFRs in August 2013 and the Budget Committee has discussed them in over more than twenty meetings. This included a meeting dedicated to considering the formal views of the IBAN who, in accordance with the provisions of the existing NFRs, is to be consulted on revision proposals.
4. There were several drivers for change underpinning the need to conduct a review of the NFRs. Organisational changes associated with the New Command Structure and Agency Reform meant that the existing NFRs needed to be updated to reflect the institutional situation. In addition, the extant NFRs pre-dated the adoption of the International Public Sector Accounting Standards (IPSAS), the introduction of customer funding and the adoption of a new NATO Accounting Framework that meets the particular circumstances and needs of the Alliance. Underpinning all these issues were resource reform, the requirements for greater transparency and accountability and the need for continuous improvements in NATO's financial management to reflect best practices in public finance. The revision has also taken into account IBAN observations, repeated over several years, on the need for greater consistency and improved harmonisation of financial practices between NATO bodies.

5. In order to enhance financial transparency, the NFRs are part of a set of financial policy reports which will be made publicly available once they have been approved by Council (ref b).

KEY HIGHLIGHTS OF THE REVIEW

6. The following paragraphs set out the key highlights of the proposed changes.

Article 1 - Application

7. The BC recommends that once Council has approved the NFRs, the Secretary General address a copy of the new regulations to the Heads of all NATO bodies and their respective financial controllers emphasising that the regulations apply to all NATO bodies and the importance of adhering to them in strengthening financial governance across NATO.

8. The Charters of some NATO Procurement, Logistics or Service Organisations (NPLSO) allow the governing bodies to approve the adoption of a set of financial regulations respecting conditions peculiar to their operations. There is no intent to infringe the devolved responsibilities of the appropriate governing bodies, as empowered by their respective Council-agreed Charters. This article addresses the need for greater consistency and improved harmonisation of financial practices between NATO bodies. Modifications of, or deviations from, the NFRs (attached at enclosure 1) should be kept to a minimum and, where necessary, they must be specific and justified by the appropriate governing body and approved by Council, no longer by the governing bodies alone. Consequently, the BC recommends that Council task the Heads of these NATO bodies to submit any amendments, if required, to Council, for decisions as appropriate, as soon as possible and by no later than the end of 2015.

Article 3 – Responsibility and accountability

9. Consistent with the Civilian Personnel Regulations (CPRs) and the NATO Code of Conduct, this article strengthens the need for improved responsibility and accountability for sound financial management.

10. This is also addressed further in Article 4 which sets out the key principles to be followed and in Articles 12, 13 and 16 which reinforce the need for proper internal control, the importance of internal audit and the requirement to have access to an effective audit oversight and scrutiny.

Article 4 – Financial management

11. Detailed Financial Rules and Procedures (FRPs) need to be developed and agreed as a matter of urgency by the respective finance committees of all NATO bodies in order to provide additional guidance to ensure the effective implementation of the NFRs. These FRPs must be coherent with the NFRs. The FRPs (extant and to be developed) shall in no way be construed as superseding any provision of the NFRs; where there is a difference, the NFRs shall take precedence. It is also vital that FRPs are developed and approved by the appropriate finance committees as early as possible and by no later than 31 December 2015. The BC recognises that there are risks associated with having a mix

of “new” NFRs and “old” FRPs but believes that these risks are manageable and do not significantly weaken financial management.

12. While acknowledging the individual characteristics of NATO bodies, there is nevertheless the need to ensure consistency to the maximum extent possible between the FRPs of NATO bodies funded entirely, or significantly, by common funding. The BC notes the need for effective coordination by the staffs and the Nations in the respective NATO bodies in the development and approval of FRPs. The BC further notes the important role that the IBAN will play in highlighting any potential differences in the application of FRPs during the audits they conduct on the financial statements of all NATO bodies. Any IBAN observations to this effect will be dealt with in accordance with normal procedures. Based on audit findings by the IBAN, the Head of Financial Reporting Policy will monitor and provide a report to the Resource Policy and Planning Board, on the consistency of new FRPs once they have been approved and implemented.

Article 6 – Responsibilities of Financial Controllers

13. The review has clarified and strengthened the roles and responsibilities of Financial Controllers, who are the principal financial advisers to the Heads of NATO bodies and who exercise in their name a wide range of financial responsibilities.

Article 8 – Recruitment

14. The recruitment of Financial Controller positions of military bodies in the NATO Command Structure set out in the revised NFRs has been amended. Historically these posts had been reserved for the host nation concerned.

15. These positions will now be open to international competition, bringing recruitment more into line with the CPRs and the NATO-wide HR strategy of maintaining a merit-based recruitment process. The BC will keep under review the application of these new arrangements.

Article 10 – Term of appointment

16. This article has been revised so that, starting with the approval of the NFRs, Financial Controllers shall be appointed for a period of no more than 6 consecutive years in the post.

Article 13 – Internal audit

17. A new article has been developed to capture the importance of the internal audit function which was not reflected in the current version of the NFRs. The IBAN has frequently highlighted the inadequacies of internal audit as a key weakness in financial management of NATO bodies. To augment this function, an article has also been developed to establish Audit Advisory Panels (article 16) which are specialised panels of the relevant governing body designed to address internal and external audit findings.

Article 15 – IBAN reports

18. Consistent with the revision of the Charter of the IBAN and other steps taken to strengthen the external audit function at NATO, this article establishes a series of dates by when IBAN financial statement audits are to be submitted, dealt with by the resource committees and approved by Council.

19. Timelines are also dealt with in Article 35 which stipulates that NATO bodies must submit an annual financial statement for audit to the IBAN no later than 31 March of the following year. This is one month earlier than the current NFRs and is designed to ensure that financial statements and the associated IBAN report can be dealt with in a more timely and relevant manner by all stakeholders, including the NAC. The formal letter of engagement agreed by the IBAN and the auditee will specify the specific timelines which, if possible, may be earlier than 31 March.

Article 25 – Commitment practices

20. The review and revision has also tightened up the management of appropriations and commitment practices so as to ensure a more consistent approach by NATO bodies and the prevention of funds being requested in advance of when they are required.

Article 27 – Customer funded bodies

21. To reflect the universal application of the regulations and avoid the need for *ad hoc* modifications, a separate article has been introduced to reflect the specific requirements of customer-funded bodies. These commitment practices include the use of operating funds and pre-financing arrangements. These are consistent with the deviations approved by Council in 2004 (C-M(2004)0038) for the then NATO Consultation, Command and Control Agency (NC3A) which were justified by the introduction of customer funding for the Agency and addressed observations raised by the IBAN at the time. The IBAN has confirmed that the proposed approach is acceptable from an accounting and auditing perspective.

Article 32 – Procurement and Contracting

22. This article has been expanded to provide the strategic principles to govern the substantial amount of procurement rules and guidance in existence across NATO bodies. It has also been amended to reflect the situation that in several NATO Agencies the volume of procurement activity has justified the establishment of dedicated Directors of Acquisition; these positions play a greater role in managing procurement rules than was traditionally the case in the past when Financial Controllers, exercising their independent fiduciary responsibilities, were also responsible for procurement and contracting in addition to being the principal financial advisers to the Heads of NATO bodies.

Article 36 – Effective date(s)

23. The NFRs will take effect immediately after approval by Council and will supersede all previously published versions thereof. It is recognised that some articles, primarily articles 13 and 16 dealing with internal audit in Section III on Risk Management and articles 25 and 27 in Section V dealing with the management of appropriations, may require phased implementation during the course of 2015.

Article 37 - Revision

24. In order to avoid a repeat of the major delay between revisions, a clause has been inserted to ensure that the NFRs are kept under regular review.

Conclusions

25. The revision of the NFRs – the first in more than 30 years – represents a major step towards improving financial governance across NATO. The NFRs direct the financial

administration of all NATO bodies and provide key policy guidance for ensuring effective, economical budgetary and financial administration. Major changes have been made to strengthen financial management and accountability, to reflect best practice in public finance, and ensure greater consistency and harmonisation of financial practices between NATO bodies. In order to enhance financial transparency, the NFRs will be made publicly available.

Recommendations

26. The BC invites the RPPB to endorse this report and forward it with recommendations to Council to:

- a) Note the report;
- b) Approve the NFRs attached at Appendix 1;
- c) Agree that the NFRs govern the financial administration of all NATO bodies;
- d) Agree that they shall take immediate effect and shall be implemented in full by the end of 2015;
- e) Agree that the development of FRPs must be coherent with the NFRs and must be consistent between NATO bodies to the maximum extent possible;
- f) Invite the Secretary General to address a copy of the NFRs to the heads of all NATO bodies and their respective financial controllers underlining the points c-e above; and,
- g) Invite the Heads of NATO Procurement, Logistics or Service Organisations to consider what amendments, if any, need to be made to the NFRs to suit their individual circumstances and submit these to Council, for decisions as appropriate, as soon as possible and by no later than the end of 2015.

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NATO FINANCIAL REGULATIONS

SECTION I – GENERAL PROVISIONS

ARTICLE 1 – APPLICATION

1.1 These Regulations shall govern the financial administration of all civilian and military headquarters and other organizations established pursuant to the North Atlantic Treaty (hereinafter referred to as "NATO bodies").

1.2 In these Regulations, the term "Council" denotes the North Atlantic Council. The latter may, by separate decision, grant, within the framework of the North Atlantic Treaty Organisation, a clearly defined organisational, administrative and financial independence to a subsidiary NATO body. The governing boards of NATO Procurement, Logistics or Service Organisations (NPLSO) are empowered by their Charters, as approved by Council, to adopt a set of financial regulations which shall be in conformity with these NATO Financial Regulations (NFRs). Any amendments from the NFRs required in the financial regulations of an NPLSO entity must be justified by the appropriate governing body and submitted to the NAC for approval.

1.3 A glossary of terminology can be found at the end of these Regulations.

ARTICLE 2 – FINANCIAL YEAR

2.1 The financial year shall be the period 1st January to 31st December.

ARTICLE 3 – RESPONSIBILITY AND ACCOUNTABILITY

3.1 The Secretary General, the Supreme Commanders and the other Heads of NATO bodies are responsible and accountable for sound financial management and shall put in place the necessary governance arrangements to ensure and maintain this. This shall include, but is not limited to, the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources.

3.2 The adherence to article 3.1 is confirmed annually by signature of the Financial Statements and Statements of Internal Control. Both documents should be signed by the Head of the NATO body and the Financial Controller

3.3 All NATO staff, military and civilian, are obligated to comply with these NFRs, associated Financial Rules and Procedures and internal implementing directives. Any member of staff who contravenes the NFRs, associated Financial Rules and Procedures and internal implementing directives will be held accountable and may be financially liable for their actions. Serving military personnel may be referred to their respective national authorities for whatever disciplinary action is deemed appropriate. All NATO international civilian, temporary and consulting staff shall be dealt with in accordance with the disciplinary procedures defined under the NATO Civilian Personnel Regulations.

ARTICLE 4 – FINANCIAL MANAGEMENT

4.1 Activities undertaken by NATO bodies shall be conducted in accordance with an integrated financial management process that includes the following instruments:

- (a) Medium and/or long term planning;
- (b) Annual budgets;
- (c) Regular performance reports on financial management;
- (d) Regular financial execution reports; and,
- (e) Auditable annual Financial Statements.

4.2 The financial administration of NATO bodies must be based on clear delegations of authority and ensure the most cost efficient, cost effective and economic use of resources incorporating the following principles:

- (a) propriety;
- (b) sound governance;
- (c) accountability;
- (d) transparency;
- (e) risk management and internal control;
- (f) internal audit;
- (g) external audit; and
- (h) fraud prevention and detection.

4.3 Performance against these principles shall be measured on annual basis. Performance evaluation shall be drawn up in accordance with approved formats and submitted in accordance with procedures prescribed by the finance committee (or appropriate governing body).

4.4 The finance committee (or the appropriate governing body) shall, as applicable, approve a set of Financial Rules and Procedures that provide additional guidance to ensure the effective implementation of these Financial Regulations. The Council will specify the measures to be taken to ensure consistency, to the maximum extent possible, between the separate sets of Financial Rules and Procedures. Furthermore, and consistent with the applicable set of Financial Rules and Procedures, Financial Controllers may promulgate additional internal implementing directives in order to ensure sound financial management. Such internal implementing directives shall be sent to the relevant finance committee upon request.

ARTICLE 5 – FINANCIAL PLANNING

5.1 The financial planning, programming, budgeting and evaluation cycle shall form an integral part of the management process of all NATO entities.

5.2 The financial planning process shall delineate the activities and requirements needed to meet the mandates of NATO bodies. Objectives and strategies shall be derived from policy direction received from the Council or the appropriate governing body to whom Council has delegated such responsibilities.

5.3 The financial planning process shall serve as the framework for the development of annual financial plans or budgets.

5.4 The financial planning process shall be conducted in accordance with approved guidance and formats prescribed by the finance committee (or appropriate governing body).

SECTION II – FINANCIAL CONTROLLER

ARTICLE 6 – RESPONSIBILITIES

6.1 The Secretary General, the Supreme Commanders and the other Heads of NATO bodies shall have a Financial Controller on their staffs to be their principal financial advisor and who exercises in their names responsibilities for, but not limited to:

- (a) The budgeting, accounting and reporting activities of the NATO body;
- (b) ensuring adherence to the principles of sound financial management as laid down in article 4;
- (c) the management of appropriated and non-appropriated funds;
- (d) the responsibility for the organisation and administration of the financial internal control system established pursuant to article 12.1;
- (e) prior approval of commitments consistent with article 25;
- (f) management of commitments in line with article 25;
- (g) the authority to make transfers of approved authorisations permissible in accordance with article 26;
- (h) the authority to, coordinate, inspect and control the functions of the Financial Controllers of NATO bodies subordinate to their own.

6.2 The Financial Controller shall be responsible to the Head of the NATO body and shall be accountable to the relevant finance committee on the management of appropriated and non-appropriated funds.

6.3 The Financial Controller in a subordinate NATO military body shall report to the respective commanders or senior responsible officers but will be functionally accountable to the Financial Controller of the higher level NATO military body, operating under delegation where appropriate.

6.4 For the purposes of sub-article 6.1, the relevant finance committee shall determine whether the volume and complexity of budgetary and financial transactions of a subordinate NATO military body justifies the permanent and exclusive services of a Financial Controller. Otherwise, it shall specify the subordinate NATO military bodies to be commonly served by one Financial Controller and the body to the staff of which the latter shall be assigned.

6.5 Pursuant to sub-article 6.4, a Financial Controller designated to serve two or more NATO military bodies shall ensure the independence of the latter's financial and budgetary administration and be directly answerable to the respective commanders or senior responsible officers.

ARTICLE 7 – RECOURSE OF THE FINANCIAL CONTROLLER

7.1 In the exercise of the responsibilities as defined by Article 6.1, the Financial Controller shall have recourse, in the first instance, to the relevant finance committee and, when required, to the Resource Policy and Planning Board (RPPB) for resolution of any persistent doubt or disagreement regarding the compliance of any proposed measure or decision with the provisions found in these Regulations and the Financial Rules and Procedures.

7.2 Direct recourse to the relevant finance committee and the RPPB shall be reserved to a Financial Controller having the authority and responsibility prescribed by article 6.1 and shall be exercised in the following circumstances:

- (a) the Financial Controller shall have formally advised against implementation of the proposed measure or decision by the Secretary General, Supreme Commanders or the Head of the NATO body concerned on the grounds specified in sub-article 7.1;
- (b) such advice shall, after consultation with the Financial Controller, have been rejected or ignored by the Secretary General, the Supreme Commander or the Head of the NATO body concerned;
- (c) the Financial Controller shall have informed the Secretary General, the Supreme Commander or the Head of the NATO body concerned of the intention to seek a ruling by the relevant finance committee.

7.3 If such doubts and concerns persist, the Financial Controller shall have final recourse to the Council or appropriate governing body.

ARTICLE 8 – RECRUITMENT

8.1 The post of Financial Controller shall be recruited and appointed on the basis of merit by a candidate (preferably a civil servant), of any member country in accordance with the Civilian Personnel Regulations. The Financial Controller shall be nominated for appointment by the Secretary General, the Supreme Commander or the Head of the NATO body concerned, on the basis of recommendations put forward by an independent selection panel.

8.2 In the case of NATO military bodies, where two candidates are deemed to be equally qualified and suitable, the application of the candidate from the host nation could be given additional consideration. Where this does happen, it should be clearly stated in the recommendation put forward by the selection panel.

8.3 A qualified and suitable candidate should have an appropriate combination of education, competences, professional qualifications and experience relevant to the position, to fulfil the duties and responsibilities of a Financial Controller.

8.4 The vacancy notice for Financial Controller posts shall be advertised in accordance with standard recruitment practices.

ARTICLE 9 – APPOINTMENT

9.1 The Financial Controller shall be selected and nominated by the Secretary General, the Supreme Commander or the head of other NATO body concerned.

9.2 The effective appointment and contract renewal of the Financial Controller to the staff of the Secretary General, the Supreme Commander or the other Heads of NATO bodies shall be subject to prior approval by the Council based on the recommendation of the relevant finance committee or appropriate governing body.

9.3 The effective appointment and contract renewal of the Financial Controller to the staff of a Subordinate Commander shall be subject to prior approval by the finance committee.

ARTICLE 10 – TERM OF APPOINTMENT

10.1 The Financial Controller of a NATO body shall be appointed for a period of three years which may be renewed one time only for a further three year period.

SECTION III – RISK MANAGEMENT, INTERNAL CONTROL AND AUDIT

ARTICLE 11 – RISK MANAGEMENT

11.1 The Secretary General, the Supreme Commanders, subordinate commanders by delegation and the other Heads of NATO bodies shall:

- (a) Ensure effective, efficient and economical risk management procedures are in place to support the achievement of objectives as set by the Nations.
- (b) Identify, assess and mitigate the risks to the achievement of these objectives.

ARTICLE 12 – INTERNAL CONTROL

12.1 The Secretary General, the Supreme Commanders, subordinate commanders by delegation and the other Heads of NATO bodies shall ensure the necessary internal management functions are in place to support effective internal control, designed to provide reasonable assurance that the NATO body will achieve its objectives in the following categories:

- (a) Safeguard assets;
- (b) Verify the accuracy and reliability of accounting data and records;
- (c) Promote operational efficiency; and
- (d) Compliance with established managerial and command policies.

12.2 In order to meet the desired internal control standards the Financial Controller shall:

- (a) establish a system of internal financial and budgetary control, embracing all aspects of financial management including transactions for which appropriations have been approved and those funded from such non-appropriated fund accounts as they may authorise within their jurisdiction;

- (b) designate and formally delegate authority to officials who may disburse and receive funds on their behalf;
- (c) establish and maintain comprehensive accounting records of all assets and liabilities.

12.3 Internal control activities shall include, but not be limited to:

- (a) segregation of duties;
- (b) avoidance of conflicts of interests;
- (c) adequate audit trails and data confidentiality, integrity and availability in information systems;
- (d) procedures for monitoring of performance and for follow-up of identified internal control weaknesses and deviations from the procedures laid down in the internal control system;
- (e) periodic assessment and review of the risk and the sound functioning of the internal control system;
- (f) formal approval process and authorisation for transactions.

ARTICLE 13 – INTERNAL AUDIT

13.1 All NATO bodies shall undertake internal audit activities in order to evaluate risk exposures and the effectiveness of internal controls in managing risk within the organisation's governance, operations and information systems regarding:

- (a) Reliability and integrity of financial and operational information;
- (b) Effectiveness and efficiency of operations and internal controls;
- (c) Safeguarding of assets;
- (d) Compliance with rules and regulations.

Internal audit reports should be submitted to the relevant Audit Advisory Panel for consideration.

13.2 All NATO bodies shall have access to a permanent, adequately resourced, internal audit function, compliant with internationally accepted Internal Auditing standards and the requirements of the NATO body concerned. Based on a cost/benefit analysis and risk assessment, management can decide to set up an in-house internal audit function or to outsource the required internal audit capability. In such cases, the applicable governing body should determine the most cost effective method of obtaining an internal audit function.

ARTICLE 14 – EXTERNAL AUDIT

14.1 External audit of the NATO bodies subject to these Regulations in accordance with Article 1 shall be performed by a Board of Auditors appointed by the Council.

14.2 The Board, constituted as the International Board of Auditors for NATO (IBAN), shall operate in accordance with the Charter approved by the Council.

14.3 The Council alone shall have the authority to amend the IBAN Charter, based on advice and recommendations from the IBAN and the RPPB.

ARTICLE 15 – REPORTS

15.1 The IBAN shall include in the audit report the response from management of the NATO body, normally endorsed by the relevant governing body, to the comments and observations in the audit findings, assuming that management has provided factual and formal comments to the IBAN's draft report within the deadline set by the IBAN in their letter of engagement.

15.2 The IBAN shall present its final reports, including factual and formal comments, together with the audited Financial Statement, to the Council not later than 31 August, following the end of the Financial Year. The IBAN final report shall also be copied to the relevant governing body. Council shall refer the final audit report to the RPPB for examination, comments and recommendations. The RPPB shall then consult with stakeholders as appropriate and submit advice to Council consistent with the timelines set out in article 35.

ARTICLE 16 – AUDIT ADVISORY PANEL

16.1 The Secretary General, the Supreme Commanders and the other Heads of NATO bodies shall establish an Audit Advisory Panel which should be constituted, operate and report in line with best international standards and practices, tailored where appropriate, and as agreed by the relevant governing body.

16.2 The Head of the NATO body shall submit all internal and external audit findings to the Audit Advisory Panel for their review and advice. The findings of the Audit Advisory Panel shall be presented to, and discussed with, the Head of the NATO body and the management board for consideration. It is the responsibility of the Head of the NATO body to take appropriate action as deemed necessary and to inform the Audit Advisory Panel of the follow-on actions and the results of those actions.

16.3 Where appropriate, and as agreed by the relevant governing bodies, an Audit Advisory Panel may serve several NATO bodies.

ARTICLE 17 – WRITE OFF AND DONATIONS

17.1 The Secretary General, the Supreme Commanders, Subordinate Commanders by delegation and the senior responsible officers of other NATO bodies through the Financial Controller (as assigned in article 6) may, after full investigation, authorise the write-off of losses of cash, stores and other assets up to the amounts prescribed in the Financial

Rules and Procedures approved by the relevant finance committee pursuant to article 4.4. A global statement of such amounts written-off shall be reported in the Annual Financial Statements.

17.2 Authorization to write-off losses of amounts exceeding those prescribed by the Financial Rules and Procedures approved pursuant to article 4.4 is reserved to the relevant finance committee.

17.3 The Financial Rules and Procedures approved by the relevant finance committee pursuant to article 4.4 shall prescribe measures by which reimbursement may be sought for damage to or loss of international property sustained as a result of wilful acts or gross negligence on the part of the staff of NATO bodies.

17.4 Donations of property/assets which a NATO body has ownership and control of, shall only be authorised by the relevant finance committee. Donations shall be reported in the Annual Financial Statements.

SECTION IV – PREPARATION AND APPROVAL OF THE BUDGET

ARTICLE 18 – BUDGET ESTIMATES

18.1 The Secretary General, the Supreme Commanders and the other Heads of NATO bodies shall, by 1st September, submit to the Council, or appropriate governing body as applicable, their budget estimates for the following year. In order to ensure cooperation and the effective exchange of information, the other Heads of NATO bodies shall, where necessary, adjust their timelines to ensure that their inputs to the appropriate finance committee are provided in a timely fashion.

18.2 The Council, or appropriate governing body as applicable, shall refer these annual budget estimates to the relevant finance committee for examination.

18.3 The Council shall simultaneously seek the advice of the Military Committee on the military aspects of all annual budget estimates submitted by the Supreme Commanders and other NATO military bodies.

ARTICLE 19 – FORMAT

19.1 The annual budget estimates shall be drawn up in accordance with approved formats and submitted in accordance with procedures prescribed by the relevant finance committee.

19.2 The finance committee shall require the annual budget estimates to be accompanied by analysis and detailed information as it deems necessary for explanation and justification of the funds requested.

ARTICLE 20 – CURRENCY

20.1 The budget shall normally be expressed in the currency of the country in which the NATO body concerned is situated, unless alternative arrangements have been approved by the relevant finance committee.

20.2 In cases where the execution of a single budget is entrusted to several NATO bodies situated in different countries, the Council, or appropriate governing body as applicable, may authorise expression of the budget in the currencies of these countries.

ARTICLE 21 – BUDGET APPROVAL

21.1 The relevant finance committee shall submit to the Council or appropriate governing body as applicable by 1st December, a report containing its observations on and recommendations for approval of the annual budget estimates.

ARTICLE 22 – INTERIM FINANCING

22.1 The Council, or appropriate governing body as applicable, shall normally approve the annual budget estimates before 1st January and shall simultaneously empower the relevant finance committee to approve, as necessary, one or more supplementary budgets within predetermined limits.

22.2 If the annual budget estimates cannot be approved before 1st January, the relevant finance committee shall approve appropriations required to meet:

- (a) operating expenditure for each quarterly period to be covered, in a global amount of one quarter of the total credit authorised for operating expenditure in the preceding budget, on the understanding that the allocation from this global amount to the appropriate groupings of the budget shall not normally exceed one twelfth per month of the appropriations approved for the same groupings in the preceding year;

- (b) capital expenditure, insofar as it concerns items accepted by the committee as an urgent requirement;
- (c) any other expenditure required to maintain critical operations or programmes.

22.3 The powers of provisional authorization delegated to the relevant finance committee by sub-article 2 shall be limited to the first two quarters of the year. Extension of provisional authorization beyond 1st July shall require approval by the Council or appropriate governing body as applicable.

ARTICLE 23 – REVISED BUDGETS

23.1 Supplementary budget estimates proposing adjustment of appropriations in the approved annual budget may be submitted in accordance with procedures prescribed by the relevant finance committee.

23.2 In particular, the effects of inflation factors and variations in the exchange value of a member country's currency in which the expenditures of a NATO body are to be made, or in which its budget is expressed, shall be assessed and, insofar as they may require additions to, or permit significant reductions of, appropriations in the approved annual budget, shall be reported to the relevant finance committee.

23.3 The budgetary adjustments proposed pursuant to sub-articles 1 and 2 may be approved by the finance committee within the limits set by the Council, or appropriate governing body as applicable, in accordance with sub-article 19.1.

23.4 Exceptional supplementary budgetary adjustments to meet financial or operational emergencies and changing requirements will be subject to approval by the Council or appropriate governing body.

23.5 Any increases in budgetary provision required by a NATO body subject to multinational funding arrangements shall, in all cases, be agreed in advance by the appropriate authorities concerned.

SECTION V – MANAGEMENT OF APPROPRIATIONS

ARTICLE 24 – PRINCIPLES OF ANNUAL BUDGETS

24.1 Appropriations shall be available for commitment only during the financial year for which they have been approved.

24.2 Appropriations which have not been committed shall lapse at the end of the financial year.

ARTICLE 25 – COMMITMENTS, CONTRACT AUTHORITY AND CARRY FORWARD

25.1 On approval of their annual and supplementary budget, the Secretary General, the Supreme Commanders, Subordinate Commanders by delegation and the other Heads of NATO bodies, subject to the concurrence of the Financial Controller, are:

- (a) Authorized to enter into commitments for goods and services to be rendered during the financial year;
- (b) Authorized to make payments in relation to the appropriations which have been approved and within the limits of such appropriations;
- (c) Authorized to enter into contract authority to incur legal obligations in the current financial year for the provision of goods and services for contracts in future financial years. These legal obligations will be reflected as commitments in future years and not against appropriated funds in the current financial year;
- (d) required to cancel unused contract authority at the end of the financial year for which it was granted.

25.2 Appropriated funds which have been committed and for which goods and services have been rendered but the invoice has not been received by the end of the financial year, shall be recorded as an accrued liability and the commitment shall be reduced. There is no carry forward in these circumstances since the appropriated funds have been used for their intended purpose.

25.3 Appropriated funds which have been committed, supported by a legal obligation, and for which goods and services have not yet been rendered by the end of the financial year shall be automatically carried forward to be used as soon as possible within the next two following financial years. Appropriated funds committed and carried forward shall be used only for the requirement, supported by a legal obligation, for which they were originally approved.

25.4 Appropriated funds carried forward represent legal obligations. A summary of appropriated funds carried forward shall be provided to the relevant finance committee on a regular basis who can request further explanation on the overall level of carry forwards.

25.5 At the close of the third financial year, balances of unused appropriations that have been carried forward in accordance with sub-para 3 above shall be finally cancelled, unless exceptionally approved for further carry forward by the appropriate governing body or relevant finance committee.

25.6 The relevant finance committee if empowered by the appropriate governing body may agree, before 31 December, to a special carry forward of uncommitted appropriations for a clearly identified purpose following receipt by 1 December of a special request with suitable justification.

25.7 If the final expenditure requirement exceeds the initial commitment by limited amounts, the Financial Controller is authorised flexibility, where possible, to absorb the difference within the total of authorisations so carried forward. Such transfers shall be made in a transparent manner.

ARTICLE 26 – TRANSFER OF APPROPRIATIONS

26.1 Transfers of approved appropriations shall not be made without general or specific prior approval of the relevant finance committee or the Financial Controller within any delegated authority.

26.2 All transfers in accordance with this Article shall be recorded in the annual financial statement.

ARTICLE 27 – COMMITMENTS RELATED TO CUSTOMER-FUNDED BODIES

Preamble

27.1 Customer-funded bodies make agreements with customers to provide goods and services in accordance with customer requirements. Customers' agreements will describe the requirements for how funds are to be made available to the customer-funded bodies and how the funds will be committed and carried forward; these requirements may be different from common-funded NATO bodies.

Commitments

27.2 On approval of the annual statement of planned income and expenditure, the General Manager, subject to the concurrence of the Financial Controller, is authorized to:

- (a) enter into commitments and make payments for purposes relating to customer agreements, subject to conditions defined by the relevant finance committee;
- (b) Make anticipatory commitments and payments for work which is not yet formally contracted (pre-financing), but may be expected, with a high degree of probability, to be contracted in the near future; (the conditions under which this may be done shall be defined in the detailed Financial Rules and Procedures).

27.3 Where the business model in use predicates an Operating Fund, the management and use of the Operating Fund shall be in accordance with rules established by the appropriate regulatory authority.

SECTION VI – PROVISION OF FUNDS

ARTICLE 28 – CONTRIBUTIONS

28.1 Payments in accordance with budget appropriations shall be financed by contributions from member governments according to the cost-sharing formula agreed by the appropriate governing body in force for the financial year concerned.

ARTICLE 29 – CALLS FOR CONTRIBUTIONS

29.1 Contributions to non customer-funded NATO bodies shall be assessed on the basis of the budget appropriations as adjusted pursuant to Article 30.

29.2 Contributions shall be called for in instalments twice a year, unless the relevant finance committee authorises a different number of instalments.

29.3 Each contribution instalment shall be calculated to restrict total currency holdings to the minimum required to meet forecast payments prior to receipt of the following contribution instalment.

29.4 The management of calls for contributions from nations shall be in accordance with rules established by the appropriate finance committee.

ARTICLE 30 – ADJUSTMENTS

30.1 Subject to the provisions of Article 29, member governments may be requested to make an advance payment on the first contribution instalment for a financial year, in an amount sufficient to enable the financing of authorised expenditure required pending receipt of the first contribution instalment for the budget of that year.

30.2 The amount of such an advance shall be added to the final contribution instalment for the preceding financial year as assessed in accordance with Article 29.

30.3 If a budget has not been approved by 1st January, payment of advances on contribution instalments may be requested pending approval of the budget, up to the amounts of the provisional appropriations granted pursuant to Article 22.

30.4 All advances shall be assessed and requested and paid by and credited to member governments in the manner prescribed by Article 29 for normal contribution instalments.

ARTICLE 31 – DEPOSIT AND INVESTMENT OF FUNDS

31.1 The Secretary General, the Supreme Commanders, Subordinate Commanders by delegation and the other Heads of NATO bodies, through the Financial Controller (as assigned in article 6), shall respectively designate the bank or banks in which the funds for these bodies are to be held.

31.2 The Heads of NATO bodies are authorised to make short-term low risk investments of funds not immediately required according to the basic principles of sound financial management. They shall declare to the relevant finance committee the income on such investments as miscellaneous income in the annual financial statements.

31.3 In selecting a bank or financial institution and making short term, low risk investments, they shall aim to obtain the most favourable conditions for the required services in terms of costs, returns and financial risk taking account of the prevailing market conditions.

SECTION VII – PROCUREMENT AND CONTRACTING

ARTICLE 32 – PRINCIPLES

32.1 NATO Procurement and Contracting shall adhere to the following principles:

- (a) The timely acquisition of goods and services to be achieved wherever possible through a competitive bidding process, using approved procurement procedures to achieve the most effective, efficient and economical solution;
- (b) Goods and services will be procured, in a transparent and fair manner built upon the principle of non-discrimination and fairness in which eligible suppliers are given the same opportunity and treated in the same fair manner;
- (c) Tendering documents shall contain a clear, precise and complete description to enhance full and open competition among eligible suppliers;
- (d) Every aspect of the procurement process must conform to the highest standards of integrity and accountability.

32.2 The Financial Controller shall ensure and verify that procurement and contracting principles are adhered to and are in line with the principles of sound financial management as laid down in article 3. In exercise of these fiduciary responsibilities the Financial Controller shall be part of the contract approvals process to ensure that funds are used for their intended purposes. The relevant finance committee/governing body will provide appropriate levels of delegated powers to deviate from the strict application of competitive bidding where justified for operational, efficiency, economic or technical reasons. After risk assessment and taking into account internal control procedures, the Financial Controller may chair the Contracts Awards Committee for contracts to be issued above levels to be defined by the relevant finance committee/governing body.

32.3 Eligible suppliers must be from Participating Nations unless otherwise agreed by the relevant finance committee/governing body.

ARTICLE 33 – PROCUREMENT AND CONTRACTS

33.1 The implementing Financial Rules and Procedures approved pursuant to sub-article 4.4 shall specify the estimated values in excess of which contracts for the acquisition of services, equipment and supplies shall be awarded as a result of international competitive bidding and the conditions under which departure from this procedure may be authorised.

SECTION VIII – ACCOUNTING

ARTICLE 34 – REQUIREMENTS

34.1 NATO bodies shall adhere to the accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council.

34.2 The financial statements of all NATO bodies shall be prepared on an accruals basis of accounting.

34.3 In accordance with IPSAS a complete set of financial statements shall comprise:

- (a) A statement of financial position;
- (b) A statement of financial performance;
- (c) A statement of change in net assets/equity;
- (d) A statement of cash flow;
- (e) Notes comprising a summary of significant accounting policies and other explanatory notes.

34.4 In addition to the above set out at paragraph 34.3, the financial statements of all NATO bodies shall also include, as a separate annex, a budget execution report.

ARTICLE 35 – ANNUAL FINANCIAL STATEMENTS

35.1 An annual financial statement for each NATO body, consolidated where applicable and appropriate, shall be submitted for audit to the International Board of Auditors for NATO by the Financial Controller not later than 31st March following the end of the financial year. The IBAN audit report, together with the associated financial statements, shall be finally noted or approved by the Council not later than 31 December.

SECTION IX – EFFECTIVE DATE AND REVISION

ARTICLE 36 – EFFECTIVE DATE

36.1 These Regulations supersede all previously published versions thereof.

36.2 They shall take effect in all NATO bodies immediately upon approval by the Council.

36.3 In order to comply with these Regulations, the finance committee of each NATO body shall ensure that any necessary amendments of the Financial Rules and Procedures prescribed by sub-articles 4.4, are approved and implemented without delay.

ARTICLE 37 – REVISION

37.1 The Council alone shall have authority to amend these Regulations.

37.2 These Regulations should be kept under regular review and updated whenever necessary taking into account the views and recommendations of the NATO Budget Committee, and in consultation with the International Board of Auditors for NATO.

37.3 An assessment of the need to revise these Regulations shall be conducted every five years. Whenever changes are necessary they have to be completed within two years.

NATO FINANCIAL REGULATIONS - GLOSSARY

Appropriation

An authorisation granted by the member nations as represented on the appropriate governing body or finance committee to allocate funds, incur legal obligations and make payments for specified purposes.

Audit Advisory Panel

A specialised panel of the relevant management board, composed of some 3-5 members, which ensures a regular overview of the entity's internal control framework, of the adequacy of stated policies and practices, compliance with standards and codes, and adequacy of financial information presented to the relevant governing body.

Budget

An estimate of all funding requirements for a body, agency or programme for a financial year.

Notes:

The budget is screened by the relevant finance committee and approved by member nations represented on the appropriate governing body.

Carry forward

A procedure whereby appropriated funds are authorised to be retained for use in the two years immediately following the year for which they were made available.

Special carry forward

An exceptional procedure whereby appropriated funds that have not been committed may be retained for use in the following financial year, based on a case-by-case approval by the relevant governing body or finance committee.

Commitment

The advance acceptance and recording of legal obligations against:

- a) appropriations for the current financial year; and,
- b) contract authority for future financial years.

Contract authority

The authority given to the Budget Holder by the appropriate governing body or finance committee to incur legal obligations against a contract in the current financial year for the provision of goods and services for contracts in future financial years.

Cost benefit analysis

A comparison between the cost of carrying out a service or activity and the value of that service or activity taking all costs into account.

Customer funding

In NATO, a regime whereby the cost of the activities of an organisation are recovered by charging customers for the services provided, based on agreed costs, scope and timelines, rather than by funding contributions from member nations.

Finance Committee

A committee made up of National representatives responsible for taking decisions or giving advice in the budgetary and financial field.

Note: In addition to the Budget Committee, the individual organisational charters of NATO bodies shall provide for a separate finance committee for these bodies.

Financial Controller

An individual responsible and accountable for managing the finances of the organisation. In NATO, the principal financial management adviser to the Head of NATO body in accordance with NATO Financial Regulations and their implementing Financial Rules and Procedures.

Head of NATO body

The senior responsible and accountable officer of any NATO body to whom either the Ottawa Agreement or Paris Protocol applies.

Internal control

The basic plan of organisation and all methods and measures employed to safeguard assets, verify the accuracy and reliability of accounting data and records, promote operational efficiency and compliance with established managerial and command policies.

Internal review

In NATO, an assessment under the responsibility of the financial controller (or equivalent) of a given organisation, evaluating the compliance, efficiency and cost-effectiveness of that organisation or a part thereof.

Lapsed commitment

A commitment that can no longer be fulfilled.

Lapsed appropriation

In NATO, an appropriation, in an approved budget, which has not been committed during the financial year and is therefore automatically cancelled.

Legal obligation

An obligation that derives from:

- (a) a contract (through its explicit or implicit terms);
- (b) Legislation;
- (c) Other operation of law.

Liabilities

Liabilities are present obligations for payment arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits or service potential.

Medium-term financial plan

In NATO, a rolling plan covering a projection of requirements for the following five financial years.

Miscellaneous income

In NATO, funds received by a headquarters which are not directly attributable to specific budget elements and are subsequently reimbursed to member nations.

Multinational funding

In NATO, the funding of costs by two or more nations, on a shared basis, normally under the provision of an MOU or similar arrangement.

Non-appropriated fund

In NATO, revenue, generated not through international funds, such as morale and welfare activities, trust funds or other funds managed by third parties..

Payment

Financial settlement made following the receipt of the invoice for goods and services received.

Risk management

In NATO, the technique of introducing calculated risk into budgeting, with the objective of optimising budget estimates against actual expenditure requirements.