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**NATO FINANCIAL REGULATIONS (NFR)
AND
FINANCIAL RULES AND PROCEDURES (FRP)**

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**NATO FINANCIAL REGULATIONS AND FINANCIAL RULES AND PROCEDURES
(FRP) – UNDER JURISDICTION OF THE BUDGET COMMITTEE**

SECTION I – GENERAL PROVISIONS

PREAMBLE

- 1) *The NATO Financial Regulations (NFR), approved by the North Atlantic Council (NAC) (C-M(2015)0025), govern the financial administration of all NATO bodies. Article 4.4 of the NFR prescribes approval by the respective finance committees of rules and procedures (FRP) in implementation of the Regulations.*
- 2) *The present FRP are to be read in conjunction with the NFR, and shall in no way be construed as superseding any provision of the NFR. Any amendments to the NFR shall take immediate effect.*
- 3) *The Budget Committee may grant on specific and temporary exemption from provisions of the present FRP.*
- 4) *The present FRP form the basis of such additional directives as the responsible officers may, in application of Article 4.4 of the NFR, consider necessary for administrative management and control purposes.*
- 5) *For the purposes of the present FRP:*
 - (a) *the term “Strategic Commander” is used to designate the Supreme Commanders (SACEUR and SACT and, by assimilation, the Director General, International Military Staff);*
 - (b) *the term “Commander” designates the senior responsible officer of any other NATO body financed, wholly or partly, from common funded budget resource allocations;*
 - (c) *the term “officer” means any person exercising defined functions, regardless of grade or rank or civilian or military status.*

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NFR 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.

FRP I

1) *The present FRP are approved by the Budget Committee for the purpose of ensuring effective, economical budgetary and financial administration throughout the NATO International Staff (hereinafter referred to as I.S.) and military headquarters financed from the international common funded resource allocations approved by the NAC.*

2) *The provisions of these FRP may also be adopted, in whole or in part, by other bodies subject to the approval of their respective governing bodies and in accordance with their governance arrangements.*

NFR ARTICLE 2 - FINANCIAL YEAR

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

No FRP

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NFR 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.

FRP III

1) *The Secretary General, the Supreme Commanders and the other Heads of NATO bodies, in consultation and agreement with their Financial Controller, shall ensure that qualified officials are assigned to the following positions prescribed by the NFR and/ or FRP:*

a. *Budget Officer(s), to be responsible to the Financial Controller for:*

- (i) the effective oversight of the financial planning, programming, budgeting and evaluation cycle;*
- (ii) the preparation, screening, and submission of the annual budget to the Budget Committee and the defence of the budget in front of the Nations;*
- (iii) the effective and transparent execution of the annual budget and transfers within the approved budget in accordance with NFR Article 26 and any additional guidance provided by the Budget Committee;*
- (iv) the production of periodic and ad hoc reports about the execution of the budget in accordance with the requirements set by the Budget Committee.*

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- b. *Treasury Officer(s), to be responsible to the Financial Controller for:*
- (i) assessing, receiving and accounting for contributions and advances of contributions from member governments in accordance to NFR Article 29;*
 - (ii) receiving funds from other sources;*
 - (iii) safeguarding all funds and negotiable documents received;*
 - (iv) forecasting requirements and investing funds in accordance with NFR Article 31;*
 - (v) providing Disbursing Officers with funds and making payments as required;*
- c. *Disbursing Officer(s) responsible to the Financial Controller for:*
- (i) effecting payments pursuant to NFR Article 25;*
 - (ii) receiving and safeguarding funds and negotiable documents on behalf of the NATO body;*
 - (iii) operating such bank accounts as are approved by the Financial Controller;*
 - (iv) forecasting requirements and submitting requisitions for funds in accordance with instructions issued by the Financial Controller.*
- d. *Finance and Accounting Officer(s), to be responsible to the Financial Controller for:*
- (i) performing the control functions prescribed by FRP XXV;*
 - (ii) the effective oversight and control of the accounting and financial reporting prescribed by NFR Article 34;*
 - (iii) the preparation of the financial statements prescribed by NFR Article 35;*
 - (iv) the performance of periodic controls, and production of ad hoc reports, about the property asset accounting register and other financial report in accordance with the requirements set by the Nations.*
- e. *Head of Contracts of the NATO body to be responsible for:*
- (i) Developing, coordinating and promulgating procurement policy, procedure and best practice for a NATO body;*
 - (ii) Ensuring that procurement staff are suitably qualified and trained;*
 - (iii) promoting “best practice” procurement solutions to meet the needs of a dynamic operational environment;*
 - (iv) Promoting economies of scale, whenever practicable and feasible, through centralized procurement sourcing;*
 - (v) The functional oversight of the procurement function within the respective NATO body;*
 - (vi) Providing advice to higher authorities on matters of contracts and procurement.*
- f. *Purchasing and Contracting Officer(s), to have exclusive legal authority for the procurement of goods and services on behalf of the NATO body. Purchasing and contracting officers should be issued with clear warrants covering their responsibilities, which shall state any limitations on the scope of authority to be exercised.*

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g. Property Disposal Officer(s), to ensure the effective management of the disposal of assets and materiel procured by the entity written off in accordance with NFR Article 17, to account for such property and to dispose of it in compliance with all applicable national rules and regulations.

h. Property Accountable Officer(s), to be responsible for receiving and maintaining physical custody of all international property as well as for accounting for such property and maintaining up to date the entity's asset register.

i. Internal Control Officer(s) responsible for assessing and reviewing the Internal Control framework as stipulated in NFR Article 12.

2) The assignments prescribed in paragraph 1 may be modified to suit local circumstances. The modifications may involve assignment of more than one official to the functions enumerated in sub-paragraphs (d) through (h), or part-time assignment to any of the functions enumerated in sub-paragraphs (a) through (i). However, no modification of assignment shall entrust to the same official functions of authorisation and payment.

NFR 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;

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- (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.

FRP IV

1) *Detailed guidance on the resource planning process is issued on an annual basis by the Resource Policy and Planning Board or the Budget Committee as appropriate, encompassing the Directive on the Medium Term Resource Plan issued by the Resource Policy and Planning Board and equivalent guidance is available for the civil budget through the Medium Term Financial Plan.*

NFR 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.

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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).

FRP V

1) *The Head of the NATO body must ensure that the financial planning, programming, budgeting and evaluation cycles conducted pursuant to this Article are developed in accordance with the guidance and formats issued by the Resource Policy and Planning Board and the Budget Committee.*

SECTION II – FINANCIAL CONTROLLER

NFR 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.

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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.

FRP VI

1) *The Assistant Secretary General for Executive Management is responsible for the preparation of the annual Civil Budget estimates and Medium Term Resource Plan. The Head Budget, Planning and Analysis section is responsible for coordinating the development of the civil budget.*

2) *The Financial Controller shall be made aware at the earliest possible stage of all major issues of policy and projects having financial implications by subordinated Financial Controllers under their functional authority or other stakeholders as necessary.*

3) *The Financial Controller of a NATO body and his/her staff shall be independent of other staff elements.*

4) *The Financial Controller shall ensure that:*

- (a) detailed rules and procedures are established to attain effective financial administration;*
- (b) integrated accounting systems are established and maintained for all funds and property;*

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- (c) *all accounts are reconciled and verified on a regular basis, and all activities with financial implications, including multinational and non-appropriated fund activities, controlled by periodic inspection.*
- (d) *Copies of such inspection reports shall be kept for a period of three years and, on request, made available to the International Board of Auditors for NATO.*
- (e) *financial limits of discretionary powers delegated by FRP XII are promulgated and applied upon approval of the Budget Committee.*

5) *Pursuant to NFR Article 6.5, a Financial Controller appointed to serve two or more NATO bodies shall apply the supplementary financial directives and instructions prevailing in the body to which they are assigned.*

NFR 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.

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

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NFR 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 recommendations 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.

FRP VIII

1) *Not later than nine months prior to the expiration of a Financial Controller's appointment, the Head of the NATO Body shall decide whether or not reappointment is proposed.*

2) *The qualifications required by Financial Controllers will be further elaborated in the specific post descriptions.*

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NFR 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.

FRP IX

1) *The Budget Committee shall have the relevant information on the suitability and qualifications of the nominated candidate (as a minimum covering details outlined at NFR Article 8.3) deemed necessary to base:*

- (a) its recommendation on the effective appointment and contract renewal of a Financial Controllers subject to NAC approval;*
- (b) its decision on the effective appointment and contract renewal of other Financial Controllers who are under the purview of the Budget Committee.*

2) *If reappointment is desired by the Head of the NATO body and accepted by the Financial Controller, approval as required by NFR Article 9.2 or Article 9.3 shall be requested.*

3) *If reappointment is not proposed by the Head of the NATO body or not accepted by the Financial Controller, the recruitment procedure shall be initiated in line with the Civilian Personnel Regulations.*

NFR 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.

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FRP X

- 1) *The initial appointment of a Financial Controller to a NATO body shall be for a period of three years. The appointment of that Financial Controller can be renewed one time only for a further three year period. The total period of the appointment as Financial Controller in the NATO body concerned shall not extend beyond a maximum period of six consecutive years.*
- 2) *Following separation from an appointment, the Financial Controller shall not be offered an appointment as Financial Controller in the same NATO body for a minimum period of four years [cooling off period].*
- 3) *The provisions of 1 and 2 above do not prohibit a serving or former Financial Controller of one NATO body from being appointed as Financial Controller to another NATO body regardless of the years that person has served as a Financial Controller of another NATO body.*

SECTION III – RISK MANAGEMENT, INTERNAL CONTROL AND AUDIT

NFR 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.

FRP XI

- 1) *The Head of the NATO Body shall ensure commitment to overall risk management and that all staff divisions are able to identify the key risks, an evaluation of the nature and extent of those risks, and implementing controls to mitigate these risks.*
- 2) *Risk management is to be considered in strategic and operational planning, day-to-day management and decision making at all levels in the organization, whenever possible.*
- 3) *The Financial Controller will be responsible to the Head of the NATO body for financial risk management.*
- 4) *The Financial Controller will establish financial risk management standards. This will include an appropriate Internal Control framework to be reviewed by the Internal Control Officer.*
- 5) *Periodically, Internal Audit shall monitor and evaluate the effectiveness of the organization's risk management processes.*

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NFR 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;

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- (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.

FRP XII

1) *Five financial limits of discretionary powers (EFL) are established as follows:*

- (a) *EFL A: €10,000;*
- (b) *EFL B: €20,000;*
- (c) *EFL C: €80,000;*
- (d) *EFL D: €160,000;*
- (e) *EFL E: €800,000.*

2) *The system of Internal Control is designed to identify risks, to evaluate the nature and extent of those risks, and to manage them efficiently, effectively and economically. This information should be provided by the Financial Controller in the Statement of Internal Control, which is part of the financial statements.*

3) *The Statement of Internal Control shall include the following items:*

- (a) *confirmation that an effective system of internal control is maintained and operated by the NATO entity;*
- (b) *confirmation that the system of internal control provides reasonable assurance of the achievement of the following objectives: effectiveness and efficiency operations, reliability of financial information, and compliance with applicable rules and regulations;*
- (c) *confirmation with regard to safeguarding of assets;*
- (d) *an evaluation as to the adequacy of the system of Internal Control in place.*
- (e) *reference to the Internal Control framework used by the NATO entity for the assessment.*
- (f) *a summary of the review of the effectiveness of the system of internal control and on what information the assessment is based.*
- (g) *areas of improvement of the system of Internal Control and an assessment of the possible impact of these weaknesses.*

NFR 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:

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- (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.

FRP XIII

Internal Audit and Review Responsibilities

Role and Mandate

1) *The primary role of Internal Audit shall be to help the Secretary General, the Supreme Commanders, and the other Heads of NATO bodies to protect assets, reputation and sustainability of the organization. It does this by:*

- (a) *assessing whether all significant risks are identified and appropriately reported by management;*
- (b) *assessing whether risks are adequately controlled;*
- (c) *making recommendations to management to improve the effectiveness of governance, risk management and internal controls;*
- (d) *The internal audit activity must be independent and must report to a level within the organization that allows fulfilling its responsibilities. In each NATO body, the role of Internal Audit shall be articulated in an Internal Audit Charter, which should be publicly available within the organization.*

Scope of Internal Audit

2) *The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives.*

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Internal Audit Plan

3) *At least annually, the Head of Internal Audit will submit to the appropriate management board, including the Audit Advisory Panel, an internal audit plan for review and approval.*

4) *The internal audit plan will be developed based on a prioritization of the audit universe using a risk-based methodology, including input of senior management and the management board, including the Audit Advisory Panel. The Head of Internal Audit will review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to the management board, including the Audit Advisory Panel through periodic activity reports.*

Reporting and Monitoring

5) *A written report will be prepared and issued by the Head of Internal Audit following the conclusion of each internal audit engagement and will be distributed to the appropriate parties, in accordance with Internal Audit performance standards.*

6) *The Head of Internal Audit will periodically report to the management board, including the Audit Advisory Panel on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the management board, including the Audit Advisory Panel.*

NFR 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.

No FRP

NFR 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.

No FRP

NFR 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.

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

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1) *The roles and responsibilities of Audit Advisory Panels are distinct and separate from those performed at the governance level by audit committees such as the Resource Policy and Planning Board (RPPB) which continues to serve as the de facto audit committee advising the North Atlantic Council on audit issues. Separate audit committees exist to serve other NATO bodies.*

2) *The Audit Advisory Panel serves in an expert advisory capacity and contributes to the fulfilment of the oversight responsibilities of the Head of the NATO body. Its role is to provide assurance to the Head of the NATO body and the management board on the effectiveness of risk management, the effectiveness of the internal control systems and the transparency of external reporting processes.*

3) *Specifically the Audit Advisory Panel shall:*

- (a) Review corporate governance systems;*
- (b) Monitor the financial reporting processes;*
- (c) Monitor the effectiveness of the Internal Control System;*
- (d) Monitor the effectiveness of the Risk Management policies and procedures;*
- (e) determine whether the internal audit function is properly resourced and has appropriate standing within the organisation to protect and promote independence;*
- (f) Review, provide input and endorse the internal audit plan. Review progress against the plan at each meeting;*
- (g) Review the findings and recommendations of the internal audit function and the IBAN along with management responses and action plans and follow up on actions taken.*

4) *It shall be comprised of 3-5 members, who need to be appropriately qualified, and receive appropriate information, advice and training to enable them to carry out their roles effectively. At least one member must be from another NATO body.*

5) *It shall have written terms of reference which deal adequately with their membership, authority and duties. These terms of reference must be confirmed by the management board.*

NFR 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

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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.

FRP XVII

Write-off and Disposal of property

- 1) *The amount of the write-off will be based on the net book value.*
- 2) *Assets expensed in accordance with the NATO Accounting Framework or with a net book value up to Level C of the EFL (€80,000) will be written off under the authority of the Financial Controller.*
- 3) *The Budget Committee needs to authorise property write-offs in excess of Level C of the EFL (€80,000).*
- 4) *Authority to delete, dispose or write off assets and/or property funded by the NATO Security Investment Programme shall be done in accordance with guidance issued by the NATO Investment Committee.*

Write-off of cash and receivables (irrecoverable debts):

- 5) *The Head of the NATO body, through the Financial Controller, is responsible for authorising cash write-offs up to a maximum of half Level A of the EFL (€5,000) and up to Level A of the EFL (€10,000) for write-offs of receivables after all reasonable efforts have been made to collect the receivable. This authority may be delegated wholly or partially to the Financial Controller of a subordinate NATO body.*

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6) *Write-off of cash losses in excess of half Level A of the EFL (€5,000) need to be authorised by the Budget Committee. The Budget Committee needs to authorise write-offs of receivables exceeding Level A of the EFL (€10,000).*

7) *On write-offs, information will be provided to the Budget Committee on an aggregated level in the Financial Statements as audited by IBAN. It will also be provided in a separate report as required on an itemized basis to the Budget Committee.*

8) *The Financial Controller of the NATO body shall establish implementing directives describing the procedures for the write-off of cash and irrecoverable debts to be also applied consistently across the other subordinate NATO bodies. Submissions to the Budget Committee for write-offs shall be accompanied by an appropriate justification.*

Loss or damage caused by wilful act or gross negligence:

9) *In all cases a loss of cash, damage to or loss of property will be investigated. Where the outcome of the investigations suggests that they have been caused by a wilful act or gross negligence, the Head of the NATO body will establish a Board of Inquiry to investigate the matter.*

10) *Where, after enquiry, the Head of NATO Body is of the opinion that the damage or loss was caused by a wilful act or gross negligence, appropriate disciplinary action shall be taken in accordance with applicable national and/or international rules and within the authority of the Head of NATO body.*

Donations and transfers

11) *Donations: a transaction that involves giving property/assets that has been written off to a non-NATO entity, free of charge. Donations shall be approved by the relevant finance committee.*

12) *Transfers: a transaction covering the movement of surplus property/assets between NATO entities. Such transactions shall be made at net book value and should be attempted before write-off procedures are initiated. Transfers of surplus serviceable assets shall be managed within the delegated authority of the Financial Controller and reported to the relevant finance committee on an annual basis.*

SECTION IV – PREPARATION AND APPROVAL OF THE BUDGET

NFR ARTICLE 18 - PREPARATION AND SUBMISSION OF THE BUDGET

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.

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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.

FRP XVIII

Preparation and Submission of Budget Estimates

1) *The Financial Controller shall ensure that annual budget estimates under his/her jurisdiction are prepared and submitted in accordance with guidance issued by the Budget Committee and, where applicable, in accordance with complementary directives issued by the Financial Controller.*

Screening of Budget Estimates

2) *The Financial Controller shall have all budget estimates screened to ensure that the presentation is uniform and their content in conformity with established policies and instructions.*

NFR 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.

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1) *The Civil Budget is submitted and approved according to an Objective-Based framework.*

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NFR 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.

No FRP

NFR 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.

No FRP

NFR 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

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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.

FRP XXII

1) *Requests to meet the required appropriations shall be submitted in the name of the Head of the NATO Body (in accordance with NFR Article 18) based on timelines and supplementary guidance issued by the Budget Committee as and when necessary.*

NFR 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.

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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.

FRP XXIII

Review of Budgetary Execution

1) *The Budget Committee shall establish and issue to the Financial Controller instructions for the preparation and submission of in-year reviews of execution of, and revised forecast against, approved annual budgets. The reviews shall assess the continuing validity and accuracy of the budgets and encompass such authorisation of inter-chapter and inter-budget credit transfers, exceeding the powers of transfer delegated to the Financial Controller, as may be required for correction of cost estimates and for accommodating the financial consequences of changes in the scale or priority of activities, inflation, and movement in currencies.*

Exceptional Budgetary Adjustment

2) *The Financial Controller may, to meet financial or operational emergencies, submit budgetary adjustment proposals for special consideration by the Budget Committee at any time throughout the financial year.*

SECTION V - MANAGEMENT OF APPROPRIATIONS

NFR 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.

FRP XXIV

Budget Sufficiency

1) *In the absence of indications to the contrary, annual budgets approved by the NAC shall be deemed to cover the foreseeable costs during the financial year of all known and quantifiable requirements accepted for common funding within the limits of the applicable resource allocations.*

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NFR 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.

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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.

FRP XXV

Approval and Control of Commitments

1) *Liability to expend international funds shall not be incurred, nor shall such funds be expended, without the Financial Controller's prior or coincident approval of the corresponding commitment of appropriation and contract authority.*

2) *The Financial Controller, who remains accountable at all times, may delegate authority to approve requests for commitment of appropriations and contract authorities, or amendment of commitments, to the Finance and Accounting Officer. Such delegation of authority may be general or specific and, when granted, shall be documented.*

3) *The Finance and Accounting Officer is responsible to the Financial Controller for ensuring that requested commitments are within the appropriations and contract authorities available for the purposes concerned in the approved budget, or, if the case arises, in the approved budget as amended by the transfers permissible and effected pursuant to Article 26 of the NFR, that they are in accordance with all relevant policies and regulations and that they are supported by complete and accurate justification.*

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Approval of Expenditures

4) *The Finance and Accounting Officer is responsible to the Financial Controller for authorising expenditures in execution of each commitment following the confirmation by the requirement holder that the goods and services were delivered by the supplier.*

Payments

5) *The Finance and Accounting Officer is responsible to the Financial Controller for authorising payments of invoices received from suppliers including pre-payments before the delivery of goods and services if so agreed in the contractual agreement between the supplier and the customer. Such authorisation shall be conditional on certification that the payments are within the limit of the commitment, that they are arithmetically accurate and that they conform with the purpose of the commitment.*

6) *The Disbursing Officer is responsible to the Financial Controller for making the payments authorised by the Finance and Accounting Officer and for maintaining complete and accurate records and accounts in support of these transactions.*

Contract Authority

7) *Contract authority for a defined amount in the currency of the budget authorisation may be requested in the annual budget estimates or in intervening budgetary submissions in respect of all or, part of a budget which is not expected to give rise to commitments during the financial year.*

8) *Contract authority shall apply to multi-year contracts, capital expenditures, grants and subsidies where there is a legal obligation for future years. Below a threshold of Level C (Euro 80,000) the flexibility for the approval of contract authority should be delegated to the Financial Controllers, while amounts above Level C should continue to remain the prerogative of the Budget Committee.*

9) *A multi-year contract sets up a legal obligation for the entire duration of the contract. Given NATO's annual budget and in keeping with Article 25.1.c the budget holder would recognise the first year of the contract as a commitment and would seek contract authority for the future years.*

10) *If the delivery schedule of the contract anticipates a commitment in the current fiscal year and, therefore, appropriation for this purpose are requested in the budget allocation, the sum of the contract authority and the initial appropriation allocation shall equal the total estimated value of the proposed contract.*

11) *The request for contract authority shall be accompanied by a schedule of its proposed conversion to credit in the subsequent financial year or years. Proposals for contract authority conversion schedules continuing beyond the second financial year following that for which the authority is requested shall be supported by detailed justification.*

Commitment of Appropriations and Contract Authorities

12) *The Financial Controller shall designate officers authorised to initiate requests for commitment of appropriations and contract authorities.*

13) *Commitment of appropriations and contract authorities is the acceptance and recording of a legal liability to expend international funds.*

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14) *Appropriations and contract authorities shall be committed only for the purposes and to the extent authorised in the approved budget, and, if the case arises, in the approved budget as amended by the transfers permissible and effected pursuant NFR Article 26.*

15) *Requests for the commitment of appropriations and contract authorities shall be submitted for approval in the form prescribed by the Financial Controller.*

Recording of Committed Appropriations Carried Forward

16) *An automatic carry forward under NFR Article 25.3 occurs when the commitment was established in line with NFR Article 25.1.a, but the contract execution has been delayed, and related goods and services are still required and will be delivered in the following financial year.*

17) *In order to facilitate the receipt of goods and services requiring delivery early in the financial year for operational reasons, Financial Controllers may commit current year appropriations for goods and services receivable by the end of February in the following financial year, provided that the total amount remains no more than 1% of the entity's budget. Individual commitments will not be more than EUR 20,000.*

18) *In respect of implementation of Sub-Article 25.3 of the NFR, appropriations committed and carried forward pending execution shall be separately identified in the annual financial statements by the year of origin of the commitment.*

Direction for Commitment and Special Carry Forward of Appropriations

19) *In respect of implementation of Sub-Article 25.6 of the NFR, the Financial Controller shall ensure that the annual financial statements clearly demonstrate, by annotations as required, the amount of special carry forward authorisations per budget and the purpose for which the special carry forward was authorized. The execution status of such special carry forward appropriations should also be clearly identified in the in-year budget execution reviews.*

Expenses against accrued year-end liabilities

20) *In respect of implementation of Sub-Article 25.2 of the NFR, the Financial Controller shall actively monitor accrued expenses against actual year-end liabilities and take the steps necessary to ensure the earliest possible cancellation of unused balances.*

21) *The Financial Controller shall ensure that, wherever possible, contracts in respect of which appropriations are committed specify payment schedules terminating no later than the end of the second financial year following that in which the commitments were made.*

22) *In the case of contracts concluded with governmental services of member states, the Financial Controller may request the assistance of the respective delegations to NATO or of the Budget Committee in securing timely presentation of claims for payment. To this end the Financial Controller shall, as necessary, inform the Budget Committee by 30th September each year of claims for payment receivable against committed appropriations brought forward which are liable to final cancellation at the end of the year.*

Regularisation of Expenditure Exceeding Committed Appropriations Carried Forward

23) *In respect of Article 25.7, if the final expenditure requirement exceeds the initial commitment by an amount up to Level D of the EFL (€160,000), per transaction, the*

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Financial Controller is authorised to absorb the difference by a transfer within the total of the appropriations carried forward.

Renewal of Contract Authorities

24) *The annual budget estimates shall propose, as required by contractual payment provisions, conversion to appropriations of all or part of the original contract authority granted. In the case of partial conversion to appropriations, the annual budget estimates shall propose renewal of the contract authority balance, or amendment of the balance, accompanied by a schedule of its proposed conversion of contract authority to appropriation as a priority in the use of the resource allocation for the financial year concerned conversion to appropriation in the subsequent financial year or years.*

25) *The annual budget estimates shall treat conversion of contract authority to appropriations as a priority in the use of the resource allocation for the financial year concerned. The estimates shall accordingly be as accurate as possible in the forecast of subsequent annual conversions and in the suppression of unnecessary balances.*

26) *The annual budget estimates shall include a recapitulation of execution of the contract authority or appropriation plus contract authority allocation from the year of inception of the contract authority allocation.*

27) *Uncommitted contract authority may be carried forward to the extent required for the purposes for which it was initially approved, subject to the prior authorization of the finance committee. To this end, requests for retention and carry forward of uncommitted contract authority balances shall be submitted for approval by the finance committee at the latest by 1st December of each year.*

Commitments in advance of budget approval

28) *Cash that has been called on the basis of the approved budget can only be used for different purposes, as an interim and temporary solution, if all the following conditions are met:*

- (a). it supports the execution of unforeseen, urgent and exceptional operational activities consistent with NAC decisions; and,*
- (b). the Budget Committee deems it impossible to accommodate the additional requirements within existing and approved budgets; and,*
- (c). the need to fund these activities occurred after the regular budget recommendations submitted to Council; and,*
- (d). the Budget Committee's authority is delegated to it as part of the annual budget recommendations approved by Council.*

29) *The Budget Committee will immediately notify the RPPB of its decision to apply the abovementioned mechanism and the reasoning for it.*

30) *The use of cash within this framework shall be recorded via a suspense account and regularised as soon as possible either as part of the normal budget process (preparation or execution) or specifically approved by the NAC.*

NFR 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.

FRP XXVI

Transfer Restrictions

1) *The Budget Committee shall specify, in its initial and revised annual budget authorisations, and in intervening specific authorisations as necessary, those budget, chapter and item appropriations which may not be increased or decreased without its prior approval.*

2) *For the purposes of paragraph 1, the term “budget appropriation” shall be understood as covering the total appropriation for the current financial year, to the exclusion of the separate totals of committed appropriations carried forward from preceding financial years, as reported in the annual financial statements and periodic budget execution reports.*

3) *All budget transfers in excess of those delegations outlined in sub-paras b), c), and d) below require the prior approval of the Budget Committee.*

Intra-budget Transfer Authority

4) *The Financial Controller may authorise, within the budget and that of any other NATO body under their functional authority, transfers of appropriations between items of a chapter and between chapters, on the following conditions:*

(a) *total intra-budget transfers may not exceed 25% of the receiving chapter, or 25% of the sending chapter, or an amount equivalent to level E of the EFL (€800,000), whichever is the lower.*

(b) *where the receiving chapter is zero, transfers of appropriations shall be limited up to EFL Level C.*

5) *The Financial Controller may delegate these transfer authorities to the Financial Controller of a NATO body placed under his/her technical supervision, for exercise within the latter’s budget.*

Inter-budget Transfer Authority

6) *The Financial Controller may authorise, between the budget and that of any other NATO body under his/her functional authority, and between the budgets of such bodies, transfers of appropriations for:*

(a) *the correction of cost over-runs on approved requirements and*

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- (b). *new requirements of an item value not exceeding Level B of the EFL (€20,000), on the following conditions:*
- (i) *no transfer shall be authorised between budgets subjected to different cost-sharing formulae;*
 - (ii) *total inter-budget transfers may not exceed 10% of the authorized value of the beneficiary budget, or 10% of the authorised donor budget, or an amount equivalent to level E of the EFL (€800,000), whichever is the lower.*

Transfers between NATO Budget Holders

7) *For the sole purpose of effecting adjustment of appropriation allocations as may minimise the administrative effort and cost of reimbursement of services rendered by one NATO body to another in execution of approved budgets, Financial Controllers may, by mutual consent, authorise transfers of appropriations between their own budgets and between those of any other NATO bodies.*

8) *Transfers between NATO bodies affected pursuant to paragraph 6 shall be reported in the submissions for in-year reviews of budget execution and in the annual financial statements.*

9) *The Financial Controllers of NATO bodies may authorise transfers between NATO bodies subject to the following condition: total transfer may not exceed 10% of the authorized value of the beneficiary budget, or 10% of the authorised donor budget, or an amount equivalent to level E of the established financial limits (EFL), whichever is the lower.*

Delegated Authority of the Secretary General

10) *The Secretary General will exercise such delegated authority as approved by the Council.*

NFR 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:

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- (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.

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1) *The Budget Committee will:*

- (a) *review annual customer rates of NSPA and approve the customer rates of NCIA and of the CMRE;*
- (b) *If the Budget Committee is unable to approve revised customer rates, they shall be returned, with an explanation of the reasons why agreement could not be reached, to the appropriate governing body for further consideration;*
- (c) *undertake assigned responsibilities for regulating the Operating Fund including using the Fund and increasing or decreasing its size for NCIA.*

Customer Agreements

2) *The authority for the Customer to establish agreements with Customer-funded bodies is bound by eligibility rules established by the resource committees.*

3) *In principle, agreements with Customer-Funded bodies are divided into three main categories:*

- (a). *an overarching agreement outlining the general principles establishing the relationship between both parties with general procedures necessary to engage into specific tasks, projects and programmes;*
- (b). *functional level agreements detailing the detailed deliverables, performance standards and financial terms and conditions applicable to tasks, projects and programmes. Agreements having multi-year costs and liabilities, shall be submitted to the Budget Committee for approval;*
- (c). *upon budget approval, annual commitments for the procurement of goods / services through the customer-funded bodies will be in accordance with the applicable procurement directives.*

4) *The agreements will be binding to the extent practicable between NATO Bodies, and will specify the appropriate dispute resolution methods.*

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SECTION VI PROVISION OF FUNDS

NFR 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.

FRP XXVIII

Cost-sharing of Expenditure against Committed Appropriations Carried Forward

1) *Expenditure against a committed appropriation carried forward shall be shared in accordance with the cost-sharing formula applicable to the budget code and budget year against which the commitment was initially made.*

NFR 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.

FRP XXIX

Issuance of calls for contribution

1) *Common-funded entities' calls for contribution will be consolidated and issued by I.S. Office of Financial Control. The amounts called shall be based on budget approval documents and input from the entities' Financial Controllers concerning refundable surpluses and other required adjustments to the calls, including specific Nation-by-Nation adjustments, and the requirements in accordance with the provisions of Sub-Article 29.3 of the NFR.*

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- 2) *The contributions shall be assessed in the same currency as that in which the budget concerned is expressed.*
- 3) *To the extent possible, each Nation's contribution will be requested in the Nations own currency for budgets expressed in that currency.*
- 4) *The I.S. Office of Financial Control shall, to the maximum extent possible, take all necessary measures to limit the foreign exchange rate risk for all Nations in issuing calls for contributions.*
- 5) *Relative to a call for contributions, any excess or shortfall in the budget currency amount received by the NATO body (including such differences resulting from exchange rates or bank charges) must be credited to or subsequently paid by the paying Nation.*

Timing of calls for contribution and follow up

- 6) *The two instalments shall be called in March and October of each year, based on the latest approved budget or revised budget. If the budget or revised budget has not been approved by the end of March or October, the relevant call will be issued as soon as possible thereafter based on a provisional budget.*
- 7) *Any adjustment required due to the difference between the total amount called for one budget year and the budget ultimately approved (overcall or undercall) will be applied to the last call for the subsequent year's budget.*
- 8) *Member governments shall be invited to pay their contributions as early as possible and in principle within one month after receipt of the call for contribution.*
- 9) *Payees shall inform the national representative of the Budget Committee and the call issuer of contributions remaining unpaid three months or more after the call. The payees will send reminders to payers of such unpaid amounts.*

Refundable surpluses

- 10) *Contributions paid in excess of the net expenditure reported in the annual financial statement constitute part of the refundable surplus which shall be refunded to contributors pro rata according to the cost sharing formula under which they were originally assessed.*
- 11) *All lapsed appropriations have to be returned to the Nations. Such refunds shall be effected by deduction from the first call following submission of the financial statements.*

NFR 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.

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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.

FRP XXX

Valuation of Advance Payments

1) *Advance payments on contributions shall be accounted for as follows:*

- (a) upon receipt, the advance payment shall be credited to an appropriate account expressed in the payment currency;*
- (b) on the date of the assessment of the contribution towards which the advance was paid, the member functional currency shall be credited at the then prevailing NATO rate of exchange.*
- (c) Advance payments shall be reflected separately in the annual financial statements.*

NFR 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.

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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.

FRP XXXI

Management of Bank Accounts

1) *The Financial Controller shall be responsible for the establishment and overall management of all bank and short term low risk investment accounts to be operated by the Treasury and Disbursing Officers designated pursuant to FRP VI. Short-term investments shall have a maturity of a maximum of one year.*

Dual Signature

2) *Transfers and withdrawals from bank and short term low risk investment accounts operated by Treasury and Disbursing Officers (where such posts exist) shall be authorised by two signatories designated by the Financial Controller.*

Reporting

3) *Reports on the income/revenue generated and expected from investment activities should be provided to the Budget Committee each trimester following the same timeline for the submission of budget execution reports.*

SECTION VII – PROCUREMENT AND CONTRACTING

NFR 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.

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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.

FRP XXXII

General Procurement Policy

- 1) *Unless otherwise prescribed by the Budget Committee, procurement (including oversight of contract performance) by all NATO bodies will be conducted in accordance with Budget Committee procurement guidance and the NSIP policy document for NSIP funding. Applicable procurement directives must be consistent with procurement rules agreed by Nations; where there is a conflict, the latter shall prevail.*
- 2) *NATO bodies shall establish appropriate contract files containing the records of all procurement actions. The documentation in the files shall be sufficient to constitute a complete history of the transaction for the purpose of:*
 - (a). *Supporting actions taken at each step in the acquisition process, including clearly outlining the basis on which the final award decision was based;*
 - (b). *Providing information for audits, reviews, and investigations;*
 - (c). *Furnishing essential facts in the event of protests, disputes, or litigation.*
- 3) *Segregation of duties and the delegation of authority are essential controls and shall be strictly enforced within the procure-to-pay process. Together, they ensure integrity of the process by reducing NATO's exposure to inappropriate or unauthorized financial risk and liabilities. Segregation of duties prevents any one person from controlling the entire procure to pay process by segregating approvals for the key stages of the supply chain process.*
- 4) *The location of the procurement function within the organizational structure shall ensure that the integrity and independence of this function are preserved. The Head of Contracts of the NATO body is responsible for the functional oversight of the contracting and procurement function. The officer responsible for procurement will ensure integrity of the procurement process by managing, controlling, and directing all phases of the process*

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in accordance with the applicable ethics regulations and guidelines such as the NATO Code of Conduct.

Bidding and award procedures

5) Requirements shall not be split in any way to circumvent any bidding and awards procedures contained herein. Subject to the provisions of FRP XXXII. a, procurement of goods and services shall be governed by the following procedures:

- (a). *Simplified procurement, consisting of streamlined procurement procedures that reduce administrative costs, promote efficiency and economy in contracting, and avoid unnecessary burdens for NATO bodies and suppliers. Simplified Procurement procedures include the use of 'open solicitation' approaches, whereby contractor pricing information such as published vendor catalogue prices may be considered a priced offer and may be readily obtained through expeditious means. NATO bodies shall use Simplified Procurement procedures to the maximum extent practicable for all purchases of goods and services with an estimate cost below Level D of the EFL (€160,000). Procurement of goods and services under the simplified acquisition procedure shall be governed by the following minimum, competition requirements:*
 - (i) *Goods and services estimated to costs less than the equivalent of Level B of the EFL (€20,000) may be procured from known suppliers without competitive bidding;*
 - (ii) *Goods and services of which the cost is estimated to exceed the equivalent of Level B of the EFL (€20,000) but below twice Level B of the EFL (€40,000) shall be procured through soliciting offers from at least three suppliers known to meet the technical and commercial standards;*
 - (iii) *Goods and services with an estimated cost exceeding twice Level B of the EFL (€40,000) but below Level D of the EFL (€160,000) shall be procured through soliciting offers from at least five suppliers known to meet the technical and commercial standards.*
- (b). *Formal procurement, consisting of International Competitive Bidding and Proposals for all procurement actions exceeding Level D of the EFL (€160,000).*
- (c). *Formal procurement actions shall be subject to a Contract Award Committee.*

6) In making purchases through Simplified Procurement procedures, NATO Bodies may use the following methods:

- (a). Petty Cash. *Petty cash is a cash fund of a fixed amount established by an advance of funds, without prior charge to a commitment for disbursement. It relates to small amounts totalling less than 5% of Level A of the EFL (€500). Use of petty cash shall be limited wherever possible.*
- (b). Purchase Cards (p-cards). *Purchase cards are used to streamline the procurement process of low-value goods and services through the delegation of procurement authority to end-users and the implementation of effective internal control mechanisms to prevent fraud and abuse. In no case the single purchase limit will exceed 15 % of Level B of the EFL (€3,000).*

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- (c). *Simplified contract mechanisms. use of standard forms and streamlined contract templates such as standard purchase orders, blanket purchase agreements and other pre-formulated contract templates.*

7) *In soliciting competition above EFL Level B, NATO bodies shall comply with the following requirements:*

- (a). *When soliciting quotations or offers, the Purchasing and Contracting Officer shall notify potential bidders of the basis on which award will be made (price only, or price and other factors);*
- (b). *Contracting officers are encouraged to use best value for the procurement of non-standard goods or services or where the risks associated with the procurement action would justify the use of such an award approach;*
- (c). *If the best-value award approach is used, the solicitation must state the relative importance assigned to each proposal evaluation factor and sub-factor.*

8) *Oral solicitations may be used in exceptional circumstances, if it is required for the timely satisfaction of procurement needs and if the estimated cost of goods and services does not exceed 15% of Level B of the EFL (€3,000). If an oral solicitation is used, the Purchasing and Contracting Officer should establish and maintain records of oral price quotations in order to reflect clearly the propriety of placing the order at the price paid with the supplier concerned. In most cases, this will consist merely of showing the names of the suppliers contacted and the prices and other terms and conditions quoted by each.*

9) *In order to foster transparency and competition, NATO bodies shall advertise procurement actions above twice Level B of the EFLs (€40,000) through their procurement opportunities websites.*

10) *Procurement officers will consider shared procurement solutions, whenever feasible and cost effective.*

11) *In awarding procurement actions regardless of the estimated cost, NATO bodies shall comply with the following requirements:*

- (a). *Unless otherwise authorized in these FRPs, procurement actions must be awarded in accordance with the award approach and evaluation criteria specified in the solicitation.*
- (b). *Before making award, the Purchasing and Contracting Officer must determine that the proposed price is fair and reasonable.*
- (c). *Contracting officers shall include additional statements supporting the award decision, if other than price-related factors were considered in selecting the supplier, and also include any other statements or documentation that may be required in accordance with applicable procurement directives or manuals.*

12) *For contracts awarded under simplified procurement procedures, the NATO entity shall comply, in addition to the requirements of the previous paragraph, with the following requirements:*

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- (a). *Procurement actions will be awarded by duly appointed Purchasing and Contracting Officers;*
- (b). *Contracting officers shall only have to maintain written records of solicitations or offers under EFL Level D, to notes or abstracts to show prices, delivery, references to printed price lists used, the supplier or suppliers contacted, and other pertinent statements or data that may be required in accordance with applicable procurement directives and manuals.*

Waivers of procurement rules and procedures

13) *Departures from the above requirements may only be authorized by the Financial Controller in the interests of security, urgency, standardisation of equipment, or in exceptional circumstances. When the total amount exceeds the equivalent of Level E of the EFL (€800,000), such cases shall be reported to the Budget Committee for decision.*

Contract Award Committees (CAC)

14) *The Financial Controller shall issue instructions for the establishment and functioning of CACs as required. As a minimum, these instructions shall include the following representation:*

- (a). *Chairman: The Financial Controller or designated representative;*
- (b). *Technical Member: A representative designated by the chief of the staff element sponsoring the contract;*
- (c). *Independent Member: A military officer or civilian of grade category A, designated by the Commander (ASG for Executive Management in the I.S.) for a period of at least two years (renewable);*
- (d). *Secretariat: Contracting Officer; and*
- (e). *Legal Representative shall be invited for transactions exceeding two times Level E of EFL (€1,600,000) and is encouraged to participate in non-recurring contracts below this threshold.*

15) *The CAC will act as the source selection authority and may be assisted by evaluation teams, panels, and other technical advisors in order to conduct the evaluation and determine the winning bid / proposal and report its findings to the Financial Controller where the Financial Controller is not chairing the CAC.*

16) *The Financial Controller will exercise his fiduciary oversight and express concurrence or may reject the conclusion of the CAC thus forcing a cancellation and re-advertisement of the requirement subject to the Head of the NATO Body concurrence. Where the Financial Controller is not the Chairman of the CAC, he/she need to be promptly informed in order to exercise his/ her fiduciary oversight.*

17) *In cases where the award decision deviates from the proposed evaluation criteria specified in the solicitation of offers and the amount involved exceeds the amount of Level E of the EFLs (€800,000), award of the contract shall be held in abeyance pending application of the following procedure:*

17.1) *the Chairman of the CAC shall immediately inform the Financial Controller of the pending award and of the detailed findings and conclusions of the CAC;*

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17.2) *the Financial Controller shall review the information, comment as appropriate, and forward the dossier with the recommendation of the Financial Controller to the Budget Committee.*

17.3) *the Budget Committee shall render its decision as expeditiously as possible on the recommendation of the Financial Controller, normally within two weeks of receipt of the dossier.*

Contracts

Contracts shall be:

18) *prepared by the Purchasing and Contracting Officer, and where subject to CAC shall be strictly in accordance with their instructions;*

19) *subject to financial approval in accordance with the provisions of FRP III;*

20) *signed by the Purchasing and Contracting Officer on behalf of the Head of the NATO body, subject to the provision of sub-paragraph 21 below;*

21) *co-signed by the Financial Controller or designated representative, whenever their total value, original or as modified by subsequent changes, exceeds the value of Level C and be worded to specify that their validity is conditional on this dual signature.*

Contracts Awarded through other NATO bodies

22) *The Financial Controller of a NATO body may agree to have the procurement process conducted by or in coordination with other NATO bodies including customer funded agencies. In such cases, the NATO body supplying the service normally will apply their own procurement rules and procedure subject to any specific procedures on stipulation of the Financial Controller of the Agency or the Budget Committee. Both sides shall agree in writing their respective roles and responsibilities and define the terms of service, what information is needed and in which manner it shall be reported.*

Contracts in Support of Morale and Welfare Activities and concessionaires

23) *Procurement actions in support of Morale and Welfare Activities and concessionaires shall be conducted in accordance with procurement regulation of the NATO body concerned and these FRPs and are subject to the same approval levels established herein.*

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NFR 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 authorized.

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SECTION VIII – ACCOUNTING

NFR 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.

FRP XXXIV

1) *Detailed accounting records shall be established and maintained in support of the accounting requirements covered by Article 34 of the NFRs.*

NFR 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.

FRP XXXV

1) *The Financial Statements and the accompanying Statement of Internal Control shall be signed jointly by the Head of the NATO body and the Financial Controller and submitted not later than 31st March following the end of the financial year.*

2) *A Management Representation Letters shall be signed jointly by the Head of the NATO body and the Financial Controller and provided to the International Board of Auditors for NATO as part of its audit. The purpose of the Management Representation Letter is to provide the auditors with written representation that the NATO body has fulfilled its responsibility for the preparation of the financial statements in accordance with the NATO Accounting Framework, that it has provided the auditor with all relevant information and access, that all transactions have been recorded and are reflected in the financial statements, and other written representations requested by the auditors.*

3) *When consolidated financial statements are prepared the Financial Controller of the subordinate NATO body shall personally certify, for submission to the higher level NATO body Financial Controller, the financial data to be consolidated in the primary NATO reporting entity's financial statements in accordance with year-end instructions and timelines set forth for the preparation of the consolidated financial statements.*

4) *Submission of the Financial Statements will be accompanied by a statement on behalf of the NATO body that they may be publicly disclosed in accordance with C-M(2012)0041 or a declaration made that certain elements should be redacted in accordance with approved criteria. The final decisions on publication remain with the NAC.*

SECTION IX – EFFECTIVE DATE AND REVISION

NFR 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.

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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.

No FRP

NFR 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.

FRP XXXVII

1) *These FRPs shall be subject to periodic review by the Budget Committee as deemed necessary.*

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.