



NORTH ATLANTIC COUNCIL

CONSEIL DE L'ATLANTIQUE NORD

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20 December 2022

DOCUMENT

PO(2022)0516-AS1 (INV)

**IBAN AUDIT REPORT ON THE AUDIT OF 2021 FINANCIAL STATEMENTS OF
INTERNATIONAL MILITARY STAFF (IMS), NATO DEFENSE COLLEGE (NDC) AND
SCIENCE AND TECHNOLOGY ORGANIZATION (STO)**

ACTION SHEET

On 19 December 2022, under the silence procedure, the Council noted the RPPB report at annex to PO(2022)0516 (INV), agreed its conclusions and recommendations, noted the IBAN Audit Reports and agreed to the public disclosure of this report, the IBAN Audit Reports and associated 2021 financial statements of IMS, NDC and STO.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to PO(2022)0516 (INV).

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14 December 2022

DOCUMENT
PO(2022)0516 (INV)
Silence procedure ends:
19 Dec 2022 – 17:30

To: Permanent Representatives (Council)

From: Secretary General

**IBAN AUDIT REPORT ON THE AUDIT OF 2021 FINANCIAL STATEMENTS OF
INTERNATIONAL MILITARY STAFF (IMS), NATO DEFENSE COLLEGE (NDC) AND
SCIENCE AND TECHNOLOGY ORGANIZATION (STO)**

1. I attach the Resource Policy and Planning Board (RPPB) report on the International Board of Auditors for NATO (IBAN) Audit Report on the audit of the 2021 financial statements of the International Military Staff (IMS), NATO Defense College (NDC) and the Science and Technology Organization (STO). The IBAN Audit Reports set out unqualified opinions on the financial statements and on compliance for the IMS, NDC and STO for the 2021 financial year.

2. I do not believe this issue requires further discussion in the Council. **Therefore, unless I hear to the contrary by 17:30 hours on Monday, 19 December 2022**, I shall assume the Council noted the RPPB report, agreed its conclusions and recommendations, noted the IBAN Audit Reports and agreed to the public disclosure of this report, the IBAN Audit Reports and associated 2021 financial statements of IMS, NDC and STO.

(Signed) Jens Stoltenberg

1 Annex
6 Enclosures



**IBAN AUDIT REPORT ON THE AUDIT OF 2021 FINANCIAL STATEMENTS OF IMS,
NDC AND STO**

Report by the Resource Policy and Planning Board (RPPB)

References:

| | | |
|----|--------------------------|--|
| A. | IBA-AR(2022)0020 | IBAN Audit Report on the audit of 2021 financial statements of the NATO International Military Staff (IMS) |
| B. | IBA-AR(2022)0018 | IBAN Audit Report on the audit of 2021 financial statements of the NATO Defence College (NDC) |
| C. | IBA-AR(2022)0022 | IBAN Audit Report on the audit of 2021 financial statements of the NATO Science and Technology Organisation (STO) |
| D. | IBA-AR(2022)0005-AS1 | Action sheet on the IBAN Audit Report on the audit of 2020 financial of IMS and NDC and 2020 financial year restated financial statements of STO |
| E. | AC/335-D(2022)0055 (INV) | Handling arrangements for 2021 Financial Statements Audit Reports) |
| F. | C-M(2016)0023 | NATO Accounting Framework (NAF) |
| G. | BC-D(2022)0207 (INV) | Action plans for IBAN observations older than three years |
| H. | BC-D(2022)0217 (INV) | Budget Committee's Advice on Action plans for IBAN observations older than three years |
| I. | PO(2015)0052 | Wales Summit tasker on transparency and accountability |

INTRODUCTION

1. This report by the Resource Policy and Planning Board (RPPB) addresses the IBAN Audit Reports on the audit of 2021 financial statements of the IMS, NDC and STO. The IBAN Audit Reports set out unqualified audit opinions on the financial statements and on compliance of the IMS, NDC and STO for financial year 2021 (references A, B and C).

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2. This report highlights key issues in the IBAN Audit Reports (references A to C) to enable the RPPB to reflect on strategic challenges emanating from the audit of financial statements of NATO entities and to recommend courses of action to Council as applicable, which have the potential to improve transparency, accountability and consistency.

DISCUSSION

3. In 2021, the IBAN made no new observations and recommendations for the IMS and NDC and made three observations and recommendations for the STO, which do not impact the audit opinions on the financial statements or on compliance. The three observations for the STO relate to the need to capitalize the upkeep costs for the Vessels, to strengthen the procedure in support of the STO Financial Statements' note on related parties, and to ensure explicit prior approval of the STO-Collaboration Support Office (CSO)

intra-budget transfers associated with the special carry forward (SCF) of uncommitted appropriations.

4. In addition, the IBAN followed up on the status of outstanding observations and recommendations from the previous years' audits and found that six remain in-progress and nine were closed in total for the three NATO entities. For the IMS, the IBAN closed observation on the effectiveness of the IMS risk management policy; for the NDC, on the reduction in the use of physical cash and for the STO, on the improvements in the internal control process for the preparation of financial statements and budget execution statement. For all three NATO entities, the IBAN closed observations on temporary loans between NATO reporting entities and on the fair presentation of conversion of lapsed appropriations into advanced contributions. The observations are detailed in documents at references A to C.

4.1. STO Observation 1: IBAN recommends that the STO-Centre for Maritime Research & Experimentation (STO-CMRE) accounts and discloses with retroactive effect in the STO Financial Statements past expenses for the Certificate of Class inspections as Property, Plant & Equipment (PP&E) (sub-recommendation b). STO stated that the capitalization of the upkeep costs will be applied for future costs and not retroactively, as currently the costs that belong to the regular maintenance cannot be clearly differentiated from the costs that belong to the survey to obtain the Certificate of Class¹. In its reply, the IBAN maintained its position.

4.1.1. The RPPB supports IBAN's recommendation that the STO-CMRE reclassifies, accounts and discloses with inspections cost for the Certificate of Class as PP&E in the STO financial statements. The RPPB acknowledges that in accordance with the NAF the STO should account and disclose with retroactive effect past expenses for the Certificate of Class inspections as PP&E in the STO Financial Statements². However, as the STO did not keep the record of technical breakdown of costs, currently the costs that belong to the regular maintenance cannot be clearly differentiated from the costs that belong to the survey to obtain the Certificate of Class. The RPPB recommends that the Council invite the STO to continue with the implementation of this observation in coordination with the IBAN and to provide an action plan to the Council with the implementation deadlines when submitting their response on the IBAN audit of 2022 financial statements. In case the agreement can not be reached, the Council could invite the RPPB to provide the advice on the way ahead. In addition, the RPPB supports IBAN's recommendation that the STO-CMRE develops an accounting policy for Certificate of Class inspections cost, consistent with the NAF (reference F) and IPSAS 17 requirements.

4.2. STO Observation 2: As regards the IBAN's recommendation on the need to strengthen the procedure in support of the STO Financial Statements' note on related

¹ The capitalization of upkeep costs will be considered for the next major dry-dock taking place in 2023.

² NAF Article 6.4 IPSAS 17 Adapted - Property Plant and Equipment; "If the PP&E is upgraded after 1 January 2013, only the portion related to the modification should be capitalised".

parties, the STO stated that it has a procedure in place to support the information provided in the note on related parties and records no indication that the current procedure is resulting in incomplete disclosures in the financial statements. Nevertheless, the STO will review the current procedure and periodically remind Science and Technology Board (STB) representatives and key management personnel that it is their responsibility to report any related party transactions or conflicts of interest.

4.2.1. The RPPB supports IBAN's recommendation that in order to demonstrate the accuracy of the disclosures made in the STO financial statements, all members of the key management personnel, including the members of the STB, should confirm on an annual basis related party relationships or transactions that could affect the operation of the reporting entity.

4.3. STO Observation 3: In respect to the IBAN's recommendation on the need to ensure prior approval of the STO-CSO intra-budget transfers associated with the SCF of uncommitted appropriations, the STO agrees to highlight SCF requests when submitting them to the Budget Committee (BC) associated budget transfers.

4.3.1. The RPPB supports IBAN's recommendation that the STO-CSO, when requesting the approval of SCF to the BC, ensures that it requests approval of the related intra-budget transfers, by indicating the originating and the receiving budget chapters.

4.4. Observations in-progress or open for more than three years for the financial year 2020: Council invited the STO to provide an action plan with deadlines on the implementation as regards the 2014 financial year recommendation (reference D). As no action plan has been received from the STO, the RPPB invited the STO management to provide a remedial action plan by 15 October 2022 and the Financial Controller to update the BC that subsequently provided advice and recommendation to the RPPB (reference E). The STO presented its action plan (reference G), making reference to the information already included in the IBAN Audit Report of the STO's 2021 financial statements to the BC at the meeting held on 9 November 2022. The RPPB supports STO's efforts to continue applying remedial actions with an aim to address IBAN recommendation outstanding for more than three years within deadlines set out in the action plan (reference H).

4.4.1. IMS, NDC and STO prior year observation in-progress for more than three years: For the 2017 financial year, the IBAN made an observation for all three NATO reporting entities on the improvements needed in the area of risk management, internal control and internal audit. The observations are detailed at references A to C. When submitting their response on the IBAN audit of 2022 financial statements, the IMS, NDC and STO may still have 2017 financial year outstanding observations and recommendations. If such is the case, the RPPB recommends that the Council invite the IMS, NDC and STO to provide an action plan to the Council with deadlines on the implementation of these observations and recommendations that will be older than three years.

CONCLUSIONS

5. The IBAN Audit Reports set out unqualified opinions on the financial statements and on compliance of the IMS, NDC and STO in 2021. Three new observations were raised for the STO. As of the date of the respective IBAN Audit Reports on the 2021 financial statements six prior year observations for the IMS, NDC and STO were in-progress and nine were closed.

6. In respect of prior year observations, the RPPB notes the improvements made by the IMS, NDC and STO and welcomes the STO management commitment to continue with the corrective actions with an aim to promptly implement pending recommendations. Prior years' in-progress and closed observations are detailed in document at reference A.

7. The RPPB supports IBAN's recommendation that the STO capitalizes the upkeep costs for the Vessels, strengthens the procedure in support of the STO Financial Statements' note on related parties, and ensures prior approval of the STO-CSO intra-budget transfers associated with the SCF of uncommitted appropriations. Furthermore, the RPPB recommends that the Council invite the STO to continue with the implementation of the observation on the need to capitalize the upkeep costs for the Vessels in coordination with the IBAN and to provide an action plan to the Council with the implementation deadlines when submitting their response on the IBAN audit of 2022 financial statements..

8. The STO provided an action plan regarding the IBAN 2014 financial year recommendation and updated the BC that subsequently provided advice and recommendation to the RPPB. The RPPB welcomes the STO's commitment to continue with its progress in addressing IBAN recommendation outstanding for more than three years within deadlines set out in the action plan.

9. Concerning the 2017 financial year recommendations, the RPPB recommends that Council invite the IMS, NDC and STO to provide an action plan to the Council with deadlines on the implementation of the outstanding observations and recommendations that will be older than three years when submitting their response on the IBAN audit of 2022 financial statements.

RECOMMENDATIONS

10. The Resource Policy and Planning Board recommends that the Council;

10.1. note this report and the IBAN Audit Reports at references A to C;

10.2. approve the conclusions at paragraphs 5 to 9;

10.3. invite the STO to provide an action plan to the Council with deadlines on the implementation of the observation on the need to capitalize the upkeep costs for the Vessels when submitting their response on the IBAN audit of 2022 financial statements.

10.4. invite the IMS, NDC and STO to provide an action plan to the Council with deadlines on the implementation of the outstanding observations and recommendations that will be older than three years when submitting their response on the IBAN audit of 2022 financial statements ; and

10.5. agree to the public disclosure of the 2021 financial statements for the IMS, NDC and STO, their associated IBAN Audit Reports and this report in line with agreed policy at reference I.



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

Brussels - Belgium



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IBA-A(2022)0095
24 August 2022

To: Secretary General
(Attn: Director of the Private Office)

Cc: NATO Permanent Representatives
Director, International Military Staff
Financial Controller, International Military Staff
Chair, Resource Policy & Planning Board
Branch Head, Resource Management Branch, NATO Office of Resources
Private Office Registry

Subject: ***International Board of Auditors for NATO (IBAN) Audit Report on the audit of the International Military Staff's (IMS) Financial Statements for the year ended 31 December 2021 – IBA-AR(2022)0020***

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

IBAN's report sets out an unqualified opinion on the Financial Statements of the International Military Staff and on compliance for financial year 2021.

Yours sincerely,

Daniela Morgante
Chair

Attachments: As stated above.

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**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Financial Statements of the
International Military Staff (IMS)
for the year ended 31 December 2021**

The International Military Staff (IMS) is the core military staff in NATO HQ. It is the executive body of the Military Committee (MC), NATO's senior military authority. The role of the IMS is to provide strategic military advice and staff support for the MC. The IMS is also tasked with ensuring that the policies and decisions of the MC are implemented by the appropriate NATO bodies.

The other component parts of the IMS Reporting Entity are:

- The NATO Standardisation Office (NSO), which is an independent NATO office composed of Military and Civilian staff headed by a Director. The mission of the NSO is to initiate, co-ordinate, and support and administer the standardisation activities conducted under the authority of the NATO Committee for Standardisation.
- The IMS Outreach, which includes partnership activities with Nations in North Africa (Mediterranean Dialogue), the Middle East (Istanbul Cooperation Initiative), and with Afghanistan, Iraq, Pakistan and the African Union (Other Military Cooperation).

The above components are incorporated into one set of financial statements, which is the subject of this report.

The total expenses of the IMS, the NSO and Outreach Activities for the year ended 31 December 2021 were EUR 28.47 million.

IBAN issued an unqualified opinion on the Financial Statements and on compliance for the year ended 31 December 2021.

IBAN made no observations and recommendations. IBAN followed up on the status of observations and recommendations from the previous years' audits and found that three were closed and one remains in progress.

The Audit Report was issued to the International Military Staff (IMS) whose comments have been included, with the IBAN's position on those comments where necessary.

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IBA-AR(2022)0020

24 August 2022

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE

INTERNATIONAL MILITARY STAFF

(IMS)

FOR THE YEAR ENDED 31 DECEMBER 2021

PUBLICLY DISCLOSED - PDN(2023)0010 - MIS EN LECTURE PUBLIQUE

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INDEPENDENT EXTERNAL AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL***Financial Statements*****Opinion on the Financial Statements**

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of IMS, for the 12 month period ended 31 December 2021, issued under document reference IMSTAM(FC)-0007-2022, and submitted to IBAN on 31 March 2022. These Financial Statements comprise the Statement of Financial Position as at 31 December 2021, the Statement of Financial Performance, the Statement of Changes in Net Assets/Equity and the Statement of Cash Flow, for the 12 month period ended 31 December 2021, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a Budget Execution Statement for the 12 month period ended 31 December 2021.

In our opinion, the Financial Statements give a true and fair view of the financial position of IMS as at 31 December 2021, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2021, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

Basis for Opinion on the Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies and reporting entities pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 2200-2899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's Responsibility for the Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of IMS are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31st March following the end of the financial year.

The Financial Statements are signed by the Head of the NATO reporting entity and the Financial Controller. In signing the Financial Statements, the Head of the NATO reporting entity and the Financial Controller confirm 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.

This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. This also covers reporting on the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit. This involves taking into account Considerations Specific to Public Sector Entities. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with the bodies charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

Compliance

Opinion on Compliance

Based on the procedures we performed, nothing has come to our attention, as part of our audit of the Financial Statements that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Basis for Opinion on Compliance

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000-4899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's Responsibility for Compliance

All NATO staff, military and civilian, are obligated to comply with the NATO Financial Regulations, associated Financial Rules and Procedures and internal implementing directives. These include the NATO Civilian Personnel Regulations.

The Head of the NATO reporting entity is responsible and accountable for sound financial management. The financial administration of NATO bodies and reporting entities must incorporate the principles of propriety, sound governance, accountability, transparency, risk management and internal control, internal audit, external audit, and fraud prevention and detection.

Auditor's Responsibilities for Compliance

In addition to the responsibility to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement, the IBAN Charter requires IBAN to provide independent assurance and report annually to the North Atlantic Council about whether funds have been properly used for the settlement of authorised expenditure (propriety) and are in compliance with the regulations in force (regularity). Propriety relates to the observance of the general principles governing sound financial management and the conduct of public officials. Regularity concerns the adherence to formal criteria such as relevant regulations, rules and procedures.

This responsibility includes performing procedures to obtain independent assurance about whether funds have been properly used for the settlement of authorized expenditure and whether they have been used in compliance with the regulations in force. Such procedures include consideration of the risks of material non-compliance.

Brussels, 24 August 2022



Daniela Morgante
Chair

OBSERVATIONS AND RECOMMENDATIONS

IBAN made no observations and recommendations.

IBAN followed up on the status of observations and recommendations from the previous years’ audits and found that three were closed and one remains in progress.

The Audit Report was issued to the International Military Staff (IMS) whose comments have been included, with the IBAN’s position on those comments where necessary.

FOLLOW-UP OF PREVIOUS YEARS’ OBSERVATIONS

IBAN followed up on the status of observations from the previous years’ audit. The observations and recommendations, the actions taken by the auditee as reviewed by IBAN, and their status are summarised in the table below.

The Open status is used for recommendations that are open and for which no notable progress has been achieved to date. The In-progress status is used for open recommendations when the NATO Reporting Entity has started to implement the recommendation or when some (but not all) sub-recommendations are closed. The Closed status is used for recommendations that are closed because they have been implemented, are superseded, or have lapsed. In the case where there are sub-recommendations, the status related to each sub-recommendation is indicated in the Action Taken column.

| OBSERVATION / RECOMMENDATION | ACTION TAKEN BY AUDITEE | STATUS |
|--|--|--------------------------------------|
| <p>(1) IMS FY 2020 IBA-AR(2021)0014, paragraph 1</p> <p>FAIR PRESENTATION OF CONVERSION OF LAPSED APPROPRIATIONS INTO ADVANCED CONTRIBUTIONS</p> <p>IBAN’s Recommendation IBAN recommends IMS to ensure, when Nations in the future decide to convert lapses directly into advanced contributions, that sufficient relevant information is disclosed in the notes to the financial statements on accounts impacted by this, such as Payables and Deferred Revenue.</p> | <p>IBAN acknowledges that IMS improved the disclosure notes in the 2021 IMS Financial Statements. IMS disclosed sufficient information on lapses converted into advanced contributions in the note 8 Payables and the note 8 Deferred revenue.</p> | <p>Observation Closed</p> |

| OBSERVATION / RECOMMENDATION | ACTION TAKEN BY AUDITEE | STATUS |
|--|---|--------------------------------------|
| <p>(2) IMS FY 2019 IBA-AR(2020)0005, paragraph 1</p> <p>EFFECTIVENESS OF THE IMS RISK MANAGEMENT POLICY</p> <p>IBAN's Recommendation IBAN recommends that IMS strengthens its risk management procedures in order to ensure their effectiveness in accordance with Article 11 of the NFRs, and subsequently requests an evaluation by the IMS Internal Auditor as per FRP XI (5) for monitoring and validation purposes.</p> | <p>The new IMS Risk Management Policy was approved and signed by the IMS Director General on 18 June 2020. In 2021, IMS held Risk Management Board meetings, where the Risk Register was reviewed and subsequently presented for decision-making at the Executive Management Board.</p> <p>In December 2021, the NCIA Internal Auditor issued a report on the 'Internal Audit Mission on Risk Management in the IMS budget group-Follow-up'. Overall, the IMS Budget Group took important actions in addressing the outstanding risk management observations (e.g. the update of the Risk Management Policy, IMS Risk Register). Meanwhile, there is some room for improvement in certain areas, such as the IMS risk universe, the IMS Risk Register, etc.</p> <p>Furthermore, in 2022 IMS organised the 'Management of Risk Foundation' training for key staff.</p> <p>IBAN will continue to monitor the improvement actions to be implemented by the IMS in order to increase the effectiveness of its risk management policy.</p> | <p>Observation Closed</p> |
| <p>(3) IMS FY 2019 IBA-AR(2020)0005, paragraph 2</p> <p>TEMPORARY LOANS BETWEEN NATO REPORTING ENTITIES</p> <p>IBAN's Recommendation IBAN recommends that IMS clarifies the internal control process related to the approval and payment of temporary loans, by ensuring that this process and</p> | <p>The IMS revised the standard operating procedure on Budgetary and Financial Matters (ref. IMSSOP-8), which was approved</p> | <p>Observation Closed</p> |

| OBSERVATION / RECOMMENDATION | ACTION TAKEN BY AUDITEE | STATUS |
|--|--|---|
| <p>associated loan terms and conditions are included in a written procedure approved by the IMS Director General.</p> | <p>and signed by the IMS Director General on 04 January 2021, becoming effective on 15 January 2021. The revised IMSSOP-8 clarifies the procedure for temporary cash transfers within the IMS Budget Group.</p> | |
| <p>(4) IMS FY 2017 IBA-AR(2018)0005, paragraph 1</p> <p>IMPROVEMENTS REQUIRED IN THE AREA OF INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT</p> <p>IBAN's Recommendation</p> <p>a) Prepare an entity-wide risk management policy, including financial risk management, applicable throughout the organization.</p> <p>b) Document the internal controls and associated risks in place for main processes within the IMS operations and assess the compliance with the framework chosen.</p> | <p>a) Status: Observation Closed as per IBA-AR(2019)0008.</p> <p>b) The IMS Office of the Financial Controller issued the IMS Internal Control Framework which was formally approved by the IMS Director General on 14 January 2021.</p> <p>IMS considers that the current internal procedures adequately document the main processes in place. However, as some of these do not necessarily emphasise the internal controls and associated risks of the processes documented, they may have to be reviewed and are subject to updates by the Internal Control Officer (new post which is anticipated to be filled in late 2022/early 2023).</p> <p>In 2021, the Internal Auditor conducted a formal internal control self-assessment survey in order to assess the maturity level of internal control in the IMS. There was only one risk reported (deficiencies of the financial system to support Business Continuity), as well as several areas for improvement. Observation In-Progress</p> <p>c) Status: Observation Closed</p> | <p>Observation In-Progress</p> |

| OBSERVATION / RECOMMENDATION | ACTION TAKEN BY AUDITEE | STATUS |
|--|---|--------|
| <p>c) Improve the disclosure of information in the Statement of Internal Controls to ensure compliance with the FRPs Article 12.</p> <p>d) Conduct an internal audit, through outsourcing if considered more appropriate, that fully evaluates the effectiveness of the system of internal control and risk management throughout the IMS.</p> | <p>as per IBA-AR(2019)0008.</p> <p>d) The Internal Auditor fully evaluated the effectiveness of the IMS Risk Management. In their 2021 follow-up review on risk management, the Internal Auditor found improvements in several areas, such as the update of the Risk Management Policy, establishment of the IMS Risk Register, etc.</p> <p>In the formal internal control self-assessment survey conducted in 2021, the Internal Auditor concluded that a review was required to identify and prioritise opportunities for improvement. This review could be done by the new Internal Control Officer for which recruitment is ongoing. Observation In-Progress.</p> | |

INTERNATIONAL MILITARY STAFF (IMS) FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

IMS' Formal Comments

We note with satisfaction the unqualified audit opinion. We have neither formal nor factual comments. Regarding the follow-up of previous years' observations, we agree to IBAN's status assessment and work towards addressing the remaining recommendations.

GLOSSARY OF TERMS

In accordance with International Standards of Supreme Audit Institutions (ISSAI 2705), audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

- An unqualified opinion is when IBAN issues an opinion that the financial statements and budget execution report are stated fairly and that nothing has come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A qualified opinion means that IBAN was generally satisfied with the presentation of the financial statements, but that some key elements of the statements were not fairly stated or affected by a scope limitation, or specific issues have come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A disclaimer is issued when the audit scope is severely limited and IBAN cannot express an opinion, or when there are material uncertainties affecting the financial statements or the use of funds.
- An adverse opinion is issued when the effect of an error or disagreement is so pervasive and material to the financial statements that IBAN concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

In accordance with auditing standards, three types of paragraphs may also be communicated in the auditor's report:

- Key Audit Matters (ISSAI 2701): Those matters that, in IBAN's professional judgement, were of most significance in the audit of the financial statements of the current period. Key Audit Matters are addressed to Council.
- Emphasis of Matter (ISSAI 2706): If IBAN considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.
- Other Matter (ISSAI 2706): If IBAN considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in our judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.



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

Brussels - Belgium



NATO UNCLASSIFIED

IBA-A(2022)0109
24 August 2022

To: Secretary General
(Attn: Director of the Private Office)

Cc: NATO Permanent Representatives
Commandant, NATO Defense College
Financial Controller, International Military Staff
Head Budget & Finance Branch, NATO Defense College
Chair, Resource Policy & Planning Board
Branch Head, Resource Management Branch, NATO Office of Resources
Private Office Registry

Subject: ***International Board of Auditors for NATO (IBAN) Audit Report on the audit of NATO Defense College's (NDC) Financial Statements for the year ended 31 December 2021 – IBA-AR(2022)0018***

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

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO Defense College and on compliance for financial year 2021.

Yours sincerely,

Daniela Morgante
Chair

Attachments: As stated above.

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**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Financial Statements of the
NATO Defense College (NDC)
for the year ended 31 December 2021**

The International Board of Auditors for NATO (IBAN) audited the NATO Defense College (NDC), which is responsible for organising courses and other programmes designed to prepare selected officers and officials for important NATO and NATO-related appointments, and to disseminate awareness of NATO initiatives and interests. The total expenses of NDC for the year ended 31 December 2021 were EUR 10.8 million.

IBAN issued an unqualified opinion on the Financial Statements and on compliance for the year ended 31 December 2021.

IBAN made no observations and recommendations. IBAN followed up on the status of observations and recommendations from the previous years' audits and found that three were closed and two remain in progress.

The Audit Report was issued to the NATO Defense College (NDC) whose comments have been included, with the IBAN's position on those comments where necessary.

NATO UNCLASSIFIED

IBA-AR(2022)0018

24 August 2022

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE

NATO DEFENSE COLLEGE

(NDC)

FOR THE YEAR ENDED 31 DECEMBER 2021

PUBLICLY DISCLOSED - PDN(2023)0010 - MIS EN LECTURE PUBLIQUE

NATO UNCLASSIFIED

INDEPENDENT EXTERNAL AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL***Financial Statements*****Opinion on the Financial Statements**

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of NATO Defense College (NDC), for the 12 month period ended 31 December 2021, issued under document reference IMSTAM(FC)-0008-2022, and submitted to IBAN on 31 March 2022. These Financial Statements comprise the Statement of Financial Position as at 31 December 2021, the Statement of Financial Performance, the Statement of Changes in Net Assets/Equity and the Statement of Cash Flow, for the 12 month period ended 31 December 2021, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a Budget Execution Statement for the 12 month period ended 31 December 2021.

In our opinion, the Financial Statements give a true and fair view of the financial position of NDC as at 31 December 2021, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2021, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

Basis for Opinion on the Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies and reporting entities pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 2200-2899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's Responsibility for the Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of NDC are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31st March following the end of the financial year.

The Financial Statements are signed by the Head of the NATO reporting entity and the Financial Controller. In signing the Financial Statements, the Head of the NATO reporting entity and the Financial Controller confirm 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.

This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. This also covers reporting on the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit. This involves taking into account Considerations Specific to Public Sector Entities. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with the bodies charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

Compliance

Opinion on Compliance

Based on the procedures we performed, nothing has come to our attention, as part of our audit of the Financial Statements that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Basis for Opinion on Compliance

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000-4899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's Responsibility for Compliance

All NATO staff, military and civilian, are obligated to comply with the NATO Financial Regulations, associated Financial Rules and Procedures and internal implementing directives. These include the NATO Civilian Personnel Regulations.

The Head of the NATO reporting entity is responsible and accountable for sound financial management. The financial administration of NATO bodies and reporting entities must incorporate the principles of propriety, sound governance, accountability, transparency, risk management and internal control, internal audit, external audit, and fraud prevention and detection.

Auditor's Responsibilities for Compliance

In addition to the responsibility to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement, the IBAN Charter requires IBAN to provide independent assurance and report annually to the North Atlantic Council about whether funds have been properly used for the settlement of authorised expenditure (propriety) and are in compliance with the regulations in force (regularity). Propriety relates to the observance of the general principles governing sound financial management and the conduct of public officials. Regularity concerns the adherence to formal criteria such as relevant regulations, rules and procedures.

This responsibility includes performing procedures to obtain independent assurance about whether funds have been properly used for the settlement of authorized expenditure and whether they have been used in compliance with the regulations in force. Such procedures include consideration of the risks of material non-compliance.

Brussels, 24 August 2022



Daniela Morgante
Chair

OBSERVATIONS AND RECOMMENDATIONS

IBAN made no observations and recommendations.

IBAN followed up on the status of observations and recommendations from the previous years’ audits and found that three were closed and two remain in progress.

The Audit Report was issued to the NATO Defense College (NDC) whose comments have been included, with the IBAN’s position on those comments where necessary.

FOLLOW-UP OF PREVIOUS YEARS’ OBSERVATIONS

IBAN followed up on the status of observations from the previous years’ audit. The observations and recommendations, the actions taken by the auditee as reviewed by IBAN, and their status are summarised in the table below.

The Open status is used for recommendations that are open and for which no notable progress has been achieved to date. The In-progress status is used for open recommendations when the NATO Reporting Entity has started to implement the recommendation or when some (but not all) sub-recommendations are closed. The Closed status is used for recommendations that are closed because they have been implemented, are superseded, or have lapsed. In the case where there are sub-recommendations, the status related to each sub-recommendation is indicated in the Action Taken column.

| OBSERVATION / RECOMMENDATION | ACTION TAKEN BY AUDITEE | STATUS |
|---|---|--------------------------------------|
| <p>(1) NDC FY 2020 IBA-AR(2021)0015, paragraph 1</p> <p>NDC NEEDS TO REDUCE THE USE OF PHYSICAL CASH</p> <p>IBAN’s Recommendation Given the College’s significant level of payments in cash, IBAN recommends that NDC ensure a sound financial management of cash and mitigate the risk of errors and fraud by reducing the level of payments made in cash of subsidised fees and introducing other type of payment methods (prepaid credits cards, cheques).</p> | <p>In 2021, NDC implemented a zero-cash policy, with all payments now made via bank transfers and cash received only through electronic means. In general, for subsidised course members, subsidisation is paid to either personal bank accounts, institutional bank accounts or via rechargeable cards. As a result, the amount of payments in cash was significantly reduced in 2021.</p> | <p>Observation Closed</p> |

| OBSERVATION / RECOMMENDATION | ACTION TAKEN BY AUDITEE | STATUS |
|---|--|---|
| <p>(2) NDC FY 2020 IBA-AR(2021)0015, paragraph 2</p> <p>FAIR PRESENTATION OF FINANCIAL STATEMENTS AND BUDGET INFORMATION</p> <p>IBAN's Recommendation IBAN recommends NDC to ensure, when Nations in the future decide to convert lapses directly into advanced contributions, that sufficient relevant information is disclosed in the notes to the financial statements on accounts impacted by this, such as Payables and Deferred Revenue and Advances.</p> | <p>IBAN acknowledges that NDC improved the disclosure notes in the 2021 NDC Financial Statements. NDC disclosed sufficient information on lapses converted into advanced contributions in the note 6 Payables and the note 7 Deferred revenue and advances.</p> | <p>Observation Closed</p> |
| <p>(3) NDC FY 2019 IBA-AR(2020)0006, paragraph 1</p> <p>EFFECTIVENESS OF THE NDC RISK MANAGEMENT POLICY</p> <p>IBAN's Recommendation IBAN recommends that NDC strengthens its risk management procedures in order to ensure their effectiveness in accordance with Article 11 of the NFRs, and subsequently requests an evaluation by the NDC Internal Auditor as per FRP XI (5) for monitoring and validation purposes.</p> | <p>IBAN acknowledges the progress made by NDC in the area of risk management, in particular the update of the Risk Management Policy, Risk Register (updated in mid-2021) and the risk scoring criteria.</p> <p>In December 2021 the Internal Auditor issued a report on the 'Internal Audit Mission on Risk Management in the IMS budget group-Follow-up'. Overall, there improvements are still needed in order to fully implement the risk management policy (in areas such as risk owners, risks/mitigating actions, etc.).</p> <p>NDC will provide systematic training for key stakeholders once final governance for risk management is fully established.</p> | <p>Observation In-Progress</p> |

| OBSERVATION / RECOMMENDATION | ACTION TAKEN BY AUDITEE | STATUS |
|--|--|---|
| <p>(4) NDC FY 2019 IBA-AR(2020)0006, paragraph 2</p> <p>TEMPORARY LOANS BETWEEN NATO REPORTING ENTITIES</p> <p>IBAN's Recommendation IBAN recommends that NDC clarifies the internal control process related to the request, receipt and repayment of temporary loans, by ensuring that these processes and associated loan terms and conditions are included in a written procedure approved by the NDC Commandant.</p> | <p>NDC updated its internal Standard Operating Procedures in order to ensure that loans between reporting entities are authorised by the NDC Commandant. On 04 March 2021, the NDC Commandant approved the above procedure for temporary cash transfer. Furthermore, the NATO International Military Staff (IMS) revised the standard operating procedure on Budgetary and Financial Matters (ref. IMSSOP-8), which was approved and signed by the Director General of the NATO International Military Staff on 04 January 2021, becoming effective on 15 January 2021. The revised IMSSOP-8 clarifies the procedure for temporary cash transfers within the IMS Budget Group.</p> | <p>Observation Closed</p> |
| <p>(5) NDC FY 2017 IBA-AR(2018)0006, paragraph 1</p> <p>IMPROVEMENTS REQUIRED IN THE AREA OF INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT</p> <p>IBAN's Recommendation IBAN recommends NDC to document the internal controls and associated risks in place for the main processes within NDC operations and assess the compliance with the framework chosen.</p> | <p>IBAN acknowledges that NDC strengthened its internal control policies. Furthermore, NDC adopted the COSO framework for internal controls. Processes, procedures and tools used by the NDC in the implementation of its internal control framework are described in the Annex A to the Standard Operating Procedure 114.</p> | <p>Observation In-Progress</p> |

| OBSERVATION / RECOMMENDATION | ACTION TAKEN BY AUDITEE | STATUS |
|------------------------------|--|--------|
| | <p>NDC is currently conducting a comprehensive review of its internal procedures in order to ensure segregation of duties and clear definition of responsibilities in line with COSO and NATO standards.</p> <p>In 2022, IMS approved two new posts for internal audit and internal control with the objective of serving the entire IMS Budget Group. Recruitment has already started for the Internal Control Officer. Once the recruitment is finalised it is planned that annual assessments on internal control will be carried out at the IMS Budget Group level. In the meantime, NDC has continued to use the services of the NCIA Internal Auditor.</p> | |

NATO DEFENSE COLLEGE (NDC) FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

NDC made no formal comments on the report and previous year observations.

GLOSSARY OF TERMS

In accordance with International Standards of Supreme Audit Institutions (ISSAI 2705), audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

- An unqualified opinion is when IBAN issues an opinion that the financial statements and budget execution report are stated fairly and that nothing has come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A qualified opinion means that IBAN was generally satisfied with the presentation of the financial statements, but that some key elements of the statements were not fairly stated or affected by a scope limitation, or specific issues have come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A disclaimer is issued when the audit scope is severely limited and IBAN cannot express an opinion, or when there are material uncertainties affecting the financial statements or the use of funds.
- An adverse opinion is issued when the effect of an error or disagreement is so pervasive and material to the financial statements that IBAN concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

In accordance with auditing standards, three types of paragraphs may also be communicated in the auditor's report:

- Key Audit Matters (ISSAI 2701): Those matters that, in IBAN's professional judgement, were of most significance in the audit of the financial statements of the current period. Key Audit Matters are addressed to Council.
- Emphasis of Matter (ISSAI 2706): If IBAN considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.
- Other Matter (ISSAI 2706): If IBAN considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in our judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.



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

Brussels - Belgium



NATO UNCLASSIFIED

IBA-A(2022)0100
26 August 2022

To: Secretary General
(Attn: Director of the Private Office)

Cc: NATO Permanent Representatives
Chair/NATO Chief Scientist, Science and Technology Board
Chair, Science and Technology Organisation Finance and Audit Sub-Group
Director, Centre for Maritime Research and Experimentation
Director, Science and Technology Collaboration Support Office
Financial Controller, International Military Staff/Science and Technology Organisation
Chair, Resource Policy & Planning Board
Branch Head, Resource Management Branch, NATO Office of Resources
Private Office Registry

Subject: ***International Board of Auditors for NATO (IBAN) Audit Report on the audit of the Science and Technology Organisation (STO) Financial Statements for the year ended 31 December 2021 – IBA-AR(2022)0022***

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

IBAN's report sets out an unqualified opinion on the Financial Statements of the Science and Technology Organisation (STO) and on compliance for financial year 2021.

Yours sincerely,

Daniela Morgante
Chair

Attachments: As stated above.

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**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Financial Statements of the
Science and Technology Organisation (STO)
for the year ended 31 December 2021**

IBAN audited the Science and Technology Organisation (STO), which was established as a NATO Reporting Entity on 1 July 2012. Its mission is to help position the Nations' and NATO's Science and Technology investments as a strategic enabler of the knowledge and technology advantage for the defence and security posture of NATO nations and partner Nations.

The STO comprises three executive bodies: the STO Office of the Chief Scientist (OCS) located in Brussels, Belgium, under the authority of the Chief Scientist; the STO Collaboration Support Office (CSO) located in Neuilly-sur-seine, France, under the authority of its Director; and the STO Centre for Maritime Research and Experimentation (CMRE) located in La Spezia, Italy, under the authority of its Director.

IBAN issued an unqualified opinion on the Financial Statements of the Science and Technology Organisation (STO) and on compliance for financial year 2021.

IBAN made three observations and recommendations.

These findings are listed below and do not impact the audit opinion on the financial statements and on compliance:

1. Need to capitalise the upkeep costs for the Vessels.
2. Need to strengthen the procedure in support of the STO Financial Statements' note on related parties.
3. Need to ensure prior approval of STO-CSO intra-budget transfers associated with the special carry forward of uncommitted appropriations.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that three remain in-progress and three were closed.

The Audit Report was issued to STO whose comments have been included, with the IBAN's position on those comments where necessary.

The observations and recommendations and the follow-up of the previous years' observations and recommendations that are not in the Audit Report are included in a Management Letter addressed to STO management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under STO executive responsibility.

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IBA-AR(2022)0022

26 August 2022

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE

SCIENCE AND TECHNOLOGY ORGANISATION

(STO)

FOR THE YEAR ENDED 31 DECEMBER 2021

PUBLICLY DISCLOSED - PDN(2023)0010 - MIS EN LECTURE PUBLIQUE

NATO UNCLASSIFIED

INDEPENDENT EXTERNAL AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL***Financial Statements*****Opinion on the Financial Statements**

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of Science and Technology Organisation (STO), for the 12 month period ended 31 December 2021, issued under document reference STO-OCS(2022)0031, and submitted to IBAN on 31 March 2022. These Financial Statements comprise the Statement of Financial Position as at 31 December 2021, the Statement of Financial Performance, the Statement of Changes in Net Assets/Equity and the Statement of Cash Flow, for the 12 month period ended 31 December 2021, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a Budget Execution Statement for the 12 month period ended 31 December 2021.

In our opinion, the Financial Statements give a true and fair view of the financial position of STO as at 31 December 2021, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2021, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

Basis for Opinion on the Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies and reporting entities pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 2200-2899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's Responsibility for the Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of STO are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31st March following the end of the financial year.

The Financial Statements are signed by the Head of the NATO reporting entity and the Financial Controller. In signing the Financial Statements, the Head of the NATO reporting entity and the Financial Controller confirm 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.

This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. This also covers reporting on the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit. This involves taking into account Considerations Specific to Public Sector Entities. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with the bodies charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

Compliance

Opinion on Compliance

Based on the procedures we performed, nothing has come to our attention, as part of our audit of the Financial Statements that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Basis for Opinion on Compliance

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000-4899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's Responsibility for Compliance

All NATO staff, military and civilian, are obligated to comply with the NATO Financial Regulations, associated Financial Rules and Procedures and internal implementing directives. These include the NATO Civilian Personnel Regulations.

The Science & Technology Board, chaired by the Chief Scientist is responsible and accountable for sound financial management. The financial administration of NATO bodies and reporting entities must incorporate the principles of propriety, sound governance, accountability, transparency, risk management and internal control, internal audit, external audit, and fraud prevention and detection.

Auditor's Responsibilities for Compliance

In addition to the responsibility to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement, the IBAN Charter requires IBAN to provide independent assurance and report annually to the North Atlantic Council about whether funds have been properly used for the settlement of authorised expenditure (propriety) and are in compliance with the regulations in force (regularity). Propriety relates to the observance of the general principles governing sound financial management and the conduct of public officials. Regularity concerns the adherence to formal criteria such as relevant regulations, rules and procedures.

This responsibility includes performing procedures to obtain independent assurance about whether funds have been properly used for the settlement of authorized expenditure and whether they have been used in compliance with the regulations in force. Such procedures include consideration of the risks of material non-compliance.

Brussels, 26 August 2022



Daniela Morgante
Chair

OBSERVATIONS AND RECOMMENDATIONS

IBAN made three observations and recommendations. These observations do not impact the audit opinion on the financial statements and on compliance:

1. Need to capitalise the upkeep costs for the Vessels.
2. Need to strengthen the procedure in support of the STO Financial Statements' note on related parties.
3. Need to ensure prior approval of STO-CSO intra-budget transfers associated with the special carry forward of uncommitted appropriations.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that three were closed and three remain in progress.

The Audit Report was issued to STO whose comments have been included, with the IBAN's position on those comments where necessary.

The observations and recommendations and the follow-up of the previous years' observations and recommendations that are not in the Audit Report are included in a Management Letter addressed to STO management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under STO executive responsibility.

1. NEED TO CAPITALISE THE UPKEEP COSTS FOR THE VESSELS

Reasoning

1.1 The International Maritime Organization is the overarching authority on the requirement to maintain ships to a certain standard. A classification recognised by the Register of Ships is necessary for the owner of a ship to register the ship and obtain marine insurance on the ship. It may be required before a ship enters certain ports or waterways. The task of the classification society is to issue a certificate of seaworthiness attesting that the construction of a ship complies with the standards in force and to carry out regular in-service surveys to ensure that the standards are always met. Owners must follow the survey requirements in order to maintain valid certification. Valid certification is required to maintain insurance and permit the vessel to operate globally.

1.2 STO-CMRE has full operational control of two research vessels owned by NATO: the NATO Research Vessel (NRV) Alliance and the Coastal Research Vessel (CRV) Leonardo. Both vessels are insured for an annual premium amounting to EUR 0.75 million. According to the Protection and Indemnity underwriters – Ship Owners Club Rule 33 “*Classification and statutory certification of vessel*” to which STO has

subscribed: *'The insured vessel must be and remain throughout the period of entry classed with a classification society approved by the Managers'*.

1.3 The two vessels have been assigned the class of *"special service – research ship; unrestricted navigation"*. The Certification of Class is provided in accordance with the Registro Italiano Navale (RINa). They also have a similar unrestricted service notation under the American Bureau of Shipping (AMS) classification society. The NRV Alliance has an additional notation to allow the safe operation of the ship in ice-covered sea areas. The AMS *"Rules for Survey after Construction"* (Chapter 2 Section 1), as well as the RINa *"Rules for classification of ship"* (articles 4 and 7), require in particular:

- a) the first class renewal survey is to be completed within 5 years from the date of the initial classification survey and thereafter 5 years from the credited date of the previous class renewal survey;
- b) for dry-docking survey there is to be a minimum of two examinations of the outside of a vessel's bottom and related items during each five-year classification survey period. One such examination is to be carried out in conjunction with the Special Periodical Survey. In all cases, the interval between any two such examinations is not to exceed 36 months;
- c) in addition, examinations of the outside of a vessel's bottom and related items is normally to be carried out with the vessel in dry-dock. However, consideration may be given to an alternative examination while the vessel is afloat by an approved underwater inspection, equivalent to a dry-docking survey.

1.4 Accordingly, STO-CMRE's vessels undergo one major dry-dock and one minor wet-dock upkeep on a five-year period cycle implying several weeks of shipyard work. To pass and execute the classification survey, the vessels require in depth inspection and correction of the defects in accordance with certification requirements. The total estimated cost of a five year cycle inspection for the NRV Alliance is of EUR 2.2 million and at least EUR 0.35 million for the Leonardo. The last major upkeep for the NRV Alliance took place in 2018 (EUR 1.46 million), while the following upkeep is planned for 2023 (estimated at EUR 1.5 million).

1.5 The NATO Accounting Framework (NAF), IPSAS 17 paragraph 24 states that *'an entity does not recognize in the carrying amount of an item of property, plant, and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognized in surplus or deficit as incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the "repairs and maintenance" of the item of property, plant, and equipment'*. The day-to-day servicing refers to recurring repair and maintenance activities such as replacing small parts and consumables, necessary to ensure that the remaining potential of service is not compromised.

1.6 The NAF, IPSAS 17 paragraph 25 states that *'a condition of continuing to operate an item of property, plant and equipment may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognized in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of previous inspection (as distinct from physical parts) is derecognized'*. Major inspections are mandatory requirements to continue operating the vessels in accordance with Certificate of Class requirements. If the surveys were not completed by the due date, the ship's Certificate of Class would be suspended and, consequently, the ship's insurance would become invalid. The NATO Accounting Framework does not provide any adaptation to this specific provision of IPSAS 17.

Observations

1.7 IBAN found that the costs for major and minor upkeeps to get the Certificate of Class of the vessels are recognised and disclosed as day-to-day servicing expenses in the Statement of Financial Performance, rather than being recognised as Property, Plant and Equipment (PP&E) in the Statement of Financial Position.

1.8 These inspections and correction of defects differ in nature from day-to-day servicing because the STO-CMRE's ability to operate the NRV Alliance and CRV Leonardo depends on their successful completion. They are a condition of the Certificate of Class required by the insurer and International Maritime Organization to operate the vessel. As a result, the costs for the upkeeps needed to obtain the Certificate of Class of the vessels should be recognised and disclosed as PP&E in accordance with the provisions of IPSAS 17.

1.9 Based on the financial and operational information related to class inspections provided by STO-CMRE, we estimate that the understatement of the STO-CMRE net assets is at least EUR 0.65 million (exclusively for the cost of major upkeeps). STO-CMRE needs to make an assessment in order to determine if the minor upkeeps also need to be capitalised in accordance with IPSAS 17. This situation leads to a misstatement of the opening and closing net assets disclosed in the STO 2021 Financial Statements.

Recommendations

1.10 IBAN recommends that STO-CMRE:

- a) Reclassifies inspections cost for the Certificate of Class currently reported as expenses in the STO Statement of Financial Performance as PP&E in the STO Statement of Financial Position.
- b) Accounts and discloses with retroactive effect in the STO Financial Statements past expenses for the Certificate of Class inspections as PP&E in accordance with the NATO Accounting Framework.

- c) Depreciates the Certificate of Class inspections costs considering that the useful life for depreciation corresponds to the period between two consecutive inspections in accordance with the NATO Accounting Framework.
- d) Makes an assessment in order to determine if the minor upkeeps need to be capitalised in accordance with IPSAS 17.
- e) Develops an accounting policy for Certificate of Class inspection costs, consistent with NATO Accounting Framework and IPSAS 17 requirements, taking into account the above changes.

2. NEED TO STRENGTHEN THE PROCEDURE IN SUPPORT OF THE STO FINANCIAL STATEMENTS' NOTE ON RELATED PARTIES

Reasoning

2.1 IPSAS 20, which forms part of the NATO Accounting Framework, requires *'the disclosure of the existence of related party relationships where control exists and the disclosure of information about transactions between the entity and its related parties in certain circumstances. This information is required for accountability purposes and to facilitate a better understanding of the financial position and performance of the reporting entity'*.

2.2 This information is needed from *'parties that control or significantly influence the reporting entity'*, i.e. parties that have *'the power to participate in the financial and operating policy decisions of an entity, but not control those policies'*. *'Significant influence may be exercised in several ways, usually by representation on the board of directors or equivalent governing body'*.

2.3 Further, *'where an entity is subject to the oversight of an elected or appointed representative of the governing body of the government to which the entity belongs, that person is included in key management personnel if the oversight function includes the authority and responsibility for planning, directing and controlling the activities of the entity'*.

2.4 In order to identify such related parties and related party transaction, reporting entities have to ensure that they are making inquiries to all those individuals identified as key management personnel, which, in accordance with the NATO Accounting Framework, includes members of governing bodies, with the adequate audit trail to support the information disclosed in the financial statements.

2.5 In the absence of such formal evidence, external auditors cannot give assurance that, firstly, the management assertions made in accordance with the NATO Accounting Framework (IPSAS 20) are true and fair, and secondly, that the internal control activities are effective in detecting this type of transaction.

2.6 In this respect, Article 6 of the NATO Financial Regulation (NFRs) requires the Financial Controller to exercise the responsibility of budgeting, accounting and reporting activities of the NATO entity. This includes being responsible for the financial internal control system established and for the preparation of the financial statements in accordance with NATO Accounting Framework.

2.7 In addition, Article 12.3 of the NFRs states that *'Internal control activities shall include, [...] adequate audit trails and data confidentiality, integrity and availability in information systems'*.

Observations

2.8 IBAN found that Note 17 'Related parties' of the 2021 STO Financial Statements states that *'The key management personnel of the STO and the STB National Representatives, have no significant known related party relationships that could affect the operations of the STO. However, the STO Financial Controller is also the Financial Controller of the International Military Staff (IMS) and the NATO Defense College (NDC). The STO, IMS and NDC are therefore related parties'*. STO key management personnel sign declarations of related parties upon their appointment or when there is a change in post. However, this assessment is not made annually in order to ensure the accuracy of the related financial disclosure and demonstrate an adequate audit trail.

2.9 Such an annual statement provides minimum assurance that the entity has included in its internal control system a procedure to verify the absence of conflicts of interest and is able to identify related party relationships that could affect the operation of STO. This is an assessment that must be renewed each year by each member of the key management personnel and cannot be confused with, for example, adherence to the general NATO Code of Conduct via the employment contract.

2.10 In addition, this obligation extends to the representatives of the Science and Technology Board, in accordance with the requirements of the NATO Accounting Framework (IPSAS 20), as long as they have the power to participate in the financial and operating policy decisions, regardless of the level of control they provide over day-to-day affairs and the regulatory framework in which each of them has been appointed.

Recommendations

2.11 IBAN recommends that STO strengthen its procedure for identifying related party transactions and monitoring the absence of conflicts of interest on an annual basis. In order to maintain an adequate audit trail in support of the disclosure notes to the STO financial statements, all members of the key management personnel, including the members of the Science and Technology Board, should confirm on an annual basis annual declarations signed in previous years, concerning related party relationships or transactions that could affect the operation of the reporting entity.

3. NEED TO ENSURE PRIOR APPROVAL OF STO-CSO INTRA-BUDGET TRANSFERS ASSOCIATED WITH THE SPECIAL CARRY FORWARD OF UNCOMMITTED APPROPRIATIONS

Reasoning

3.1 According to the NATO Financial Regulations (NFRs) article 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.’*

3.2 For intra-budget transfers the Financial Rules and Procedures (FRPs) Article FRP XXVI para. 4 states: *“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: [...] 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.”*

3.3 As per the NFRs Article 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’.*

3.4 According to STO financial procedure *‘Budget Cycle for OCS and CSO’* para. 2.4, *‘The Budget Execution Reports (BER) is a formal budget adjustment process required by the Budget Committee (BC) during the financial year. The purpose of the BER is to decrease/increase original cost estimates for approved requirements if they cannot be accommodated within the powers of transfer of the FC. [...] The Budget Committee will issue the timelines for presenting these BER.’*

Observations

3.5 IBAN found that STO-CSO performed intra-budget transfers from chapter 1 and 2 to chapter 3 for a total amount of EUR 143,363. This transfer to Chapter 3 includes a special carry-forward of EUR 120,000 that was authorised in December 2021 by the BC in accordance with NFR Article 25.6. STO considers that the approval of the related intra-budget transfers was implicitly given by the BC when the special carry forward was authorised. However, by including the special carry forward in the budgetary transfer, this exceeded the Financial Controller’s authority.

3.6 However, given that special carry-forwards and intra-budget transfers are covered by different rules, IBAN considers that the approval of special carry-forwards by the BC applies only to a specific budget chapter and does not implicitly cover any intra-budget transfers needed to make up the amount for the special carry-forward and therefore does not fall under the Financial Controller’s authority. Therefore, when making a request for a special carry-forward originating from different budget chapters,

when necessary, STO-CSO needs to ensure compliance with the NFRs and FRPs, by explicitly requesting authorisation of the intra-budget transfer, in accordance with the levels provided in FRP Article XXVI para. 4.

Recommendations

3.7 IBAN recommends that STO- CSO, when requesting the approval of a special carry-forward to the BC, ensure that it requests approval of the related intra-budget transfers, by indicating the originating and the receiving budget chapters.

FOLLOW-UP OF PREVIOUS YEARS’ OBSERVATIONS

IBAN followed up on the status of observations from the previous years’ audit. The observations and recommendations, the actions taken by the auditee as reviewed by IBAN, and their status are summarised in the table below.

The Open status is used for recommendations that are open and for which no notable progress has been achieved to date. The In-progress status is used for open recommendations when the NATO Reporting Entity has started to implement the recommendation or when some (but not all) sub-recommendations are closed. The Closed status is used for recommendations that are closed because they have been implemented, are superseded, or have lapsed. In the case where there are sub-recommendations, the status related to each sub-recommendation is indicated in the Action Taken column.

| OBSERVATION / RECOMMENDATION | ACTION TAKEN BY AUDITEE | STATUS |
|--|---|---------------------------------------|
| <p>(1) STO FY 2020 IBA-AR(2021)0020, paragraph 1</p> <p>FAIR PRESENTATION OF CONVERSION OF LAPSED APPROPRIATIONS INTO ADVANCED CONTRIBUTIONS</p> <p>IBAN’s Recommendation IBAN recommends that STO ensures when Nations in the future decide to convert lapses directly into advanced contributions, that sufficient relevant information is disclosed in the notes to the financial statements on accounts impacted by this, such as Payables and Deferred Revenue.</p> | <p>IBAN acknowledges that STO improved the disclosure notes in the 2021 STO Financial Statements. STO disclosed sufficient information on lapses converted into advanced contributions in the note 8 Advances and the note 9 Other current liabilities.</p> | <p>Observation Closed.</p> |
| <p>(2) STO FY 2020 IBA-AR(2021)0020, paragraph 2</p> <p>IMPROVEMENT NEEDED IN THE INTERNAL CONTROL PROCESS FOR</p> | | <p>Observation Closed.</p> |

| OBSERVATION / RECOMMENDATION | ACTION TAKEN BY AUDITEE | STATUS |
|---|--|---|
| <p>THE PREPARATION OF FINANCIAL STATEMENTS AND BUDGET EXECUTION STATEMENT</p> <p>IBAN's Recommendation IBAN recommends that STO strengthens its internal control over the preparation of the financial statements, in particular to ensure that the preparation, review and reporting process of the financial statements, including the budget execution statement and the cash flow statement, is fully documented and implemented.</p> | <p>IBAN acknowledges that processes and internal controls over the preparation of the STO financial statements have been improved due to internal reviews. No material misstatements were found during the audit of the 2021 STO Financial Statements.</p> | |
| <p>(3) STO FY 2019 IBA-AR(2020)0010, paragraph 1</p> <p>RECOGNITION OF THE FAIR VALUE OF STO'S VESSELS</p> <p>IBAN's Recommendation IBAN recommends that STO improves the reliability of information presented in the Financial Statements, by:</p> <p>a. Recognising in its financial statements the Vessels controlled by STO as Property, Plant and Equipment assets measured at fair value, in accordance with IPSAS 1.</p> | <p>a. On 25 June 2021, the Resource Policy and Planning Board (RPPB) approved (AC/335-D(2021)0009-AS1) the Budget Committee (BC) Report (BC-D(2021)0077) dated 16 June 2021 and agreed to recommend to Council to note the IBAN Audit Report on the STO 2019 Financial Statements. According to the BC Report, <i>"the BC sees merit in enhancing the disclosure of the Vessels and proposes that STO, although compliant with the NAF, should improve the reliability of information presented in the Financial Statements, by recognising in its notes the Vessels controlled by STO. In this respect, to provide a true and fair view, while applying NAF, STO should enhance the information in the disclosure note better highlighting the ownership, obligations and financial responsibilities. The</i></p> | <p>Observation In-Progress.</p> |

| OBSERVATION / RECOMMENDATION | ACTION TAKEN BY AUDITEE | STATUS |
|--|--|-----------------------------------|
| <p>b. Correcting the error disclosed in Note 4 to the Financial Statements related to the custody of the Vessels and disclose relevant additional information regarding ownership, obligations and financial responsibilities of the Vessels.</p> <p>c. Reviewing the accounting treatment and disclosure of the Vessel upkeep and dismantling costs in the Financial Statements, in accordance with IPSAS 17.</p> | <p><i>BC proposes that STO continues to capitalise enhancements and upgrades to the Vessels."</i></p> <p>STO improved the disclosure notes of the 2021 STO Financial Statements. However, STO has not yet recognised a value for the vessels in its disclosure notes, in order to provide a true and fair view, as requested by the BC. Observation In-Progress.</p> <p>Observation closed in IBA-AR(2021)0020</p> <p>c. STO-CMRE only started working on a memo in order to review the accounting treatment and disclosure of the Vessels' upkeep costs, in accordance with IPSAS 17. Observation closed as superseded by Observation 1.</p> | |
| <p>(4) STO FY 2019 IBA-AR(2020)0010, paragraph 3</p> <p>TEMPORARY LOANS BETWEEN NATO REPORTING ENTITIES</p> <p>IBAN's Recommendation IBAN recommends that STO clarifies the internal control process for CSO related to the request, receipt and repayment of temporary loans, by ensuring that these processes and associated loan terms and conditions are included in a written procedure approved by the CSO Director.</p> | <p>The CSO Director approved a written procedure regarding temporary cash transfers. The STO Financial Procedures have been updated, but still need to be reviewed by CMRE. After CMRE's review, the revised STO Financial Procedures need to be reviewed and approved by the Finance and Audit Sub-Group (FASG), which is estimated to be done in the fall of 2022.</p> | <p>Observation Closed.</p> |

| OBSERVATION / RECOMMENDATION | ACTION TAKEN BY AUDITEE | STATUS |
|---|---|--|
| <p>(5) STO FY 2017 IBA- AR(2018)0017, paragraph 4</p> <p>FURTHER IMPROVEMENTS REQUIRED IN THE AREA OF RISK MANAGEMENT, INTERNAL CONTROL, AND INTERNAL AUDIT.</p> <p>IBAN's Recommendation Complete the on-going work of assessing and documenting the system of internal control and risk management procedures to support compliance with NFR Articles 11 and 12, FRPs XI and XII, and the internal control framework that it chooses.</p> | <p>In December 2021, the Internal Auditor issued a report on the 'Internal Audit Mission on Risk Management in the IMS budget group-Follow-up'. Overall, improvements are still needed in the update of the risk assessment, criteria and scoring, risk management policy and directive (risk owners, scoring methodology). The risk management is expected to be further developed in 2022.</p> <p>In terms of documenting the internal controls, coordination is required between the STO entities in order to ensure a consistent approach, as well as a revision and update of the current procedures in place. In 2022, IMS approved two new posts for internal audit and internal control with the objective of serving the entire IMS Budget Group. Recruitment already started for the Internal Control Officer. Once the recruitment is finalised it is planned that annual assessments on internal control will be carried out at the IMS Budget Group level.</p> | <p>Observation In-Progress.</p> |

| OBSERVATION / RECOMMENDATION | ACTION TAKEN BY AUDITEE | STATUS |
|--|--|--|
| <p>(6) STO FY 2014 IBA-AR(2015)36, paragraph 1.1</p> <p>CENTRE FOR MARITIME RESEARCH AND EXPERIMENTATION (CMRE) – IMPROVEMENTS NEEDED IN ACCOUNTING TO RECOGNIZE ITS CUSTOMER FUNDED STATUS / IMPROVEMENTS NEEDED TO MANAGEMENT ACCOUNTING BY PROJECT</p> <p>IBAN’s Recommendation The Board recommends that CMRE develop a methodology that will allow it to determine the costs per project, including the allocation of overhead costs to individual projects. This will allow for the determination of surplus or deficit by project, and provide management with information that is useful in managing the business.</p> | <p>IBAN acknowledges the progress achieved by CMRE in developing a methodology for determining the costs per project, including the allocation of related overhead costs. According to CMRE, there is still a need to improve the use and quality of time accounting data, the linkages between time and project accounting, as well as continue to reinforce Project Management oversight (with an estimated completion at the end of 2022). During the 2022 audit, IBAN will need to test the methodology, which is being implemented by CMRE.</p> | <p>Observation In-Progress.</p> |

SCIENCE AND TECHNOLOGY ORGANISATION (STO) FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

**OBSERVATION 1:
NEED TO CAPITALISE THE UPKEEP COSTS FOR THE VESSELS**

STO's Formal Comments

Recommendation a) agreed, while recommendation b) will be applied for future costs not retroactively.

The capitalization of upkeep costs will be considered for the next major dry-dock taking place in 2023. Currently, the costs that belong to the regular maintenance cannot be clearly differentiated from the costs that belong to the survey to obtain the certificate of class. In the future, a clear cost breakdown will be prepared to enable full assessment of the costs that require capitalization.

Recommendation c)-e) agreed.

The accounting policy will be updated to reflect requirements of capitalizing major and minor upkeeps as well as resulting depreciation.

IBAN's Position

In accordance with the NATO Accounting Framework, including the objective of comparability, STO should account and disclose with retroactive effect past expenses for the Certificate of Class inspections as PP&E in the STO Financial Statements. IBAN therefore maintains sub-recommendation b).

**OBSERVATION 2:
NEED TO STRENGTHEN THE PROCEDURE IN SUPPORT OF THE STO FINANCIAL STATEMENTS' NOTE ON RELATED PARTIES**

STO's Formal Comments

Do not fully concur.

STO has a procedure in place to support the information provided in the note on related parties. STB members and key management personnel sign the declaration when taking up duties and are requested to report any changes as and when they occur. There is no indication that the current procedure is resulting in incomplete disclosures in the financial statements.

In line with IBAN's recommendation of best practice, STO will review the current procedure and periodically remind STB representatives and key management personnel that it is their responsibility to report any related party transactions or conflicts of interest.

IBAN's Position

IBAN considers that all members of the key management personnel, including the members of the Science and Technology Board, should confirm, on an annual basis, any related party relationships or transactions by signing annual declarations. This annual procedure is needed in order to maintain an adequate audit trail to demonstrate the accuracy of the disclosures made in the STO annual financial statements. IBAN therefore maintains its observation and recommendation.

OBSERVATION 3:

NEED TO ENSURE PRIOR APPROVAL OF STO-CSO INTRA-BUDGET TRANSFERS ASSOCIATED WITH THE SPECIAL CARRY FORWARD OF UNCOMMITTED APPROPRIATIONS

STO's Formal Comments

Do not fully concur.

In accordance with NFR article 26.1, the transfer had 'general prior approval of the relevant finance committee' when the BC approved the special carry-forward in an amount of EUR 120,000 for the 'Replacement of the Fire Detection System'.

In the interest of increased transparency, STO agrees that, in the future, when submitting special carry forward requests to the BC associated budget transfers, if any, will be highlighted.

IBAN's Position

Special carry-forwards and intra-budget transfers are covered by different NATO rules. Therefore, IBAN considers that the approval of special carry-forwards by the BC does not implicitly cover any intra-budget transfers needed to make up the amount for the special carry-forward. IBAN therefore maintains its observation and recommendation.

GLOSSARY OF TERMS

In accordance with International Standards of Supreme Audit Institutions (ISSAI 2705), audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

- An unqualified opinion is when IBAN issues an opinion that the financial statements and budget execution report are stated fairly and that nothing has come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A qualified opinion means that IBAN was generally satisfied with the presentation of the financial statements, but that some key elements of the statements were not fairly stated or affected by a scope limitation, or specific issues have come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A disclaimer is issued when the audit scope is severely limited and IBAN cannot express an opinion, or when there are material uncertainties affecting the financial statements or the use of funds.
- An adverse opinion is issued when the effect of an error or disagreement is so pervasive and material to the financial statements that IBAN concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

In accordance with auditing standards, three types of paragraphs may also be communicated in the auditor's report:

- Key Audit Matters (ISSAI 2701): Those matters that, in IBAN's professional judgement, were of most significance in the audit of the financial statements of the current period. Key Audit Matters are addressed to Council.
- Emphasis of Matter (ISSAI 2706): If IBAN considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.
- Other Matter (ISSAI 2706): If IBAN considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in our judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

NATO UNCLASSIFIED



International Military Staff
Etat-Major Militaire International

Brussels - Belgium



31 March 2022

IMSTAM(FC)-0007-2022

CHAIR, INTERNATIONAL BOARD OF AUDITORS FOR NATO (IBAN)

INTERNATIONAL MILITARY STAFF (IMS) FINANCIAL STATEMENTS 2021

1. Please find attached the 2021 International Military Staff (IMS) Financial Statements, issued in accordance with NATO Financial Regulation (NFR) Article 35.1.
2. I can confirm that, in accordance with NFR Financial Rules and Procedures (FRP) XXXV (4), the IMS can agree to public disclosure of these Financial Statements.
3. Notwithstanding the above, as stated in C-M(2012)0041, public disclosure of IBAN Audit Reports is a matter for Council decision, based upon the recommendation of the RPPB. Decisions are informed by the NATO policy on public disclosure of documents (C-M(2008)0116).
4. The IBAN Audit Report covering these Financial Statements has not been issued, but should be presented to Council no later than 31 August 2022 (NFR 15.2). As such, the IMS is not yet in a position to anticipate any potential representations that may be made to the RPPB, regarding the Audit Report.
5. The IMS therefore reserves its position on public disclosure of the eventual IBAN Audit Report.

Rui Mendes Da Silva
PRT CV
Financial Controller
International Military Staff
Science and Technology Organisation

Enclosure:

1. IMS Financial Statements FY 2021, 31 Mar 22.

Copy to: DIRECTOR NHQC3S, DIRECTOR CS, DIRECTOR NSO, EXCO, MA DGIMS, FC,
RECORDS

Originating Office: FC - DGIMS-FC

Action Officer: Ms. A. MUEFFKE Principal Administrator (Finance) to FC IMS, (4593)

Taxonomy: Organisation and Management Support (ORG) - ORG - Finance and
Accounting

NATO UNCLASSIFIED

INTERNATIONAL MILITARY STAFF (IMS) FINANCIAL STATEMENTS 2021



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Introduction

The International Military Staff (IMS) provides strategic and military advice and staff support to the Military Committee (MC), which advises the North Atlantic Council (NAC) on military aspects of policy, operations and transformation within the Alliance. It is responsible for preparing assessments and analysis on NATO military issues, identifying areas of strategic and operational interest, and proposing courses of action. It also ensures that the appropriate NATO military bodies implement NATO decisions and policies on military matters.

The IMS 2021 Financial Statements have been prepared in accordance with the NATO Accounting Framework, based on the International Public Sector Accounting Standards (IPSAS) as adapted by NATO and the NATO Financial Regulations (NFRs). They are presented in a commonly adopted layout. The expenses are charged over three budgets covering the IMS (Budget Code – BC 301), NATO Standardization Office (NSO) (BC 302) and Outreach (BC 501). The current status of the NATO-Iraq Trust Fund is presented in Annex 2 to the financial statements. The budgetary expenses are recorded on an accrual basis, i.e. in the period in which the goods or services are delivered. Any exception to that principle is outlined in Annex 1 to the financial statements, which provides a comparison between the Budget Execution and IPSAS.

The IMS Budget Group covers the International Military Staff, the Science and Technology Organization (STO) and the NATO Defense College (NDC) linked together for financial management purposes by one Financial Controller. The IMS, STO and NDC are therefore related parties under a common Financial Controller.

In 2021, NATO played a crucial part assisting with national and international efforts to limit the spread of the coronavirus. IMS worked alongside the IS, in giving Allies and Partners much needed support allowing them to enhance the preparedness and resilience of their national health systems, increase national inventories with modern medical equipment and save the lives of a large number of patients.

The year saw growing challenges at NATO's borders, with a more assertive Russia and a deteriorating security situation in and around Ukraine. Throughout the year, the NATO Military Committee actively engaged with our Partner Ukraine, including a special meeting of the NATO Chiefs of Defence called in December to discuss the ongoing crisis. The IMS – through its Joint Intelligence and Security Division – closely monitored the situation and provided regular situational updates to all Allies. Given Russia's aggression against Ukraine in 2022, this work continues.

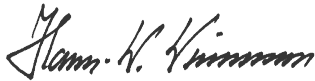
April 2021 proved to be decisive for NATO's engagement in Afghanistan, when Allies decided to conclude the Resolute Support Mission. The planned withdrawal of NATO troops from Afghanistan saw the security situation deteriorate more quickly than expected. Emergency procedures were set up to expedite the recall of all troops and Allied personnel and to help evacuate as many NATO-affiliated Afghans as possible. With the support of the IMS and SHAPE, refugees were accommodated at military facilities in KFOR and Allied Air Command during the process of their re-location to Allied Nations.

The IMS C3 Programme of Work enabled the development and maintenance of crucial policies, directives and standards, which realized the Alliance C3 Strategy in the areas of information management, data management (including metadata), communications, spectrum and identification and navigation as well as active participation in supporting various activities within the respective elements of the C3 Board substructure core services.

The Office of the Chief Information Officer (OCIO) reached Initial Operating Capability in 2021 and delivered against Allies' expectations. The OCIO continues to grow, following Allies' decision to add significant cybersecurity responsibilities and associated resources.

The NATO Standardization Office, as part of the IMS, continued to co-ordinate, support and administer standardization activities as agreed by Allies. With the exception of travel, due to COVID 19 related restrictions, all other requirements for which funds were made available were executed.

The 2021 IMS Outreach Programme budget supported 33 Partnership Cooperation Menu (PCM) events whereby 195 partner participants were subsidized (2020: 13 events and 30 partner participants). While the budget execution continued to be impacted by COVID-19 restrictions, PCM events and partner activities increased over 2020, with this positive trend expected to continue in 2022.



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Lieutenant General, German Army
Director General
International Military Staff



Rui M.M. da Silva
PRTCV - Financial Controller
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Statement on Internal Control FY 2021

The Director General, International Military Staff (DGIMS), exercises overall responsibility for IMS risk management and internal control systems, in accordance with Articles 11.1 and 12.1 of the NATO Financial Regulations (NFRs).

The IMS Financial Controller is responsible for financial risk management and for establishing financial risk management standards (NFR Financial Rules and Procedures XI.3 and XI.4). In addition, the Financial Controller is responsible for the system of internal financial and budgetary control (NFR 12.2).

The systems of risk management and internal financial control are based on an on-going process designed to identify the principal risks to the achievement of IMS policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 December 2021 and up to the date of these financial statements.

The systems of risk management and internal financial control are designed to manage and minimize rather than entirely eliminate risk at the IMS. Risk management and internal financial controls can therefore provide only a reasonable, but not absolute, assurance of effectiveness. The risks addressed at the IMS include risks to IMS operational aims and objectives; compliance with the NFRs; the reliability of financial information; and the safeguarding of assets.

The risk management and financial control processes at the IMS provide a network of internal controls that can be assessed using the five key components of the COSO Framework:

Control Environment

The culture and ethical values of the overall control environment are established by senior management. Measures for the promotion of ethical values include: IMS participation in the NATO-wide 'Building Integrity' initiative; the promulgation of the NATO Code of Conduct to all IMS staff; and disclosures on any senior management related party transactions in our annual financial statements.

Oversight is provided by the NATO Military Committee (MC), supported by various subcommittees, who routinely scrutinize IMS Senior Management reports on strategic operational matters.

On financial matters, interim Budgetary Execution Reports are presented to and reviewed by the NATO Budget Committee twice per year. In addition, IMS financial requirements comprising the yearly budget proposals are screened and reviewed by the nations at various oversight fora.

The Audit Advisory Panel (AAP) makes periodic assessments as to whether Internal Audit is properly resourced and has the appropriate standing. It reviews, provides input to and endorsement of, internal audit planning. It reviews the findings and recommendations of Internal Audit and the IBAN, and reviews management responses and follow-up actions.

The AAP provides DGIMS with an annual report which includes an assessment on the effectiveness of risk management, internal control, and external financial reporting, along with advice and recommendations for DGIMS.

An IMS Internal Control Framework (ICF) was adopted by the Audit Advisory Panel on 8 December 2020 and approved by DGIMS on 14 January 2021. The ICF is based on COSO's Internal Control – Integrated Framework (2013).

The current management structure of the IMS was reviewed by a panel of military experts in support of the Military Committee and was re-established under the authority of the NATO Secretary General in May 2016. Since 2020, an internal review is on-going to assess the necessary changes required to the personnel structure to achieve the IMS goals and objectives. The overall structure of the IMS incorporates clearly defined responsibilities and authorities in the pursuit of operational objectives.

Risk Assessment

DGIMS has appointed a Risk Management coordinator in accordance with NFR Article 11. He has established a Risk Management Board (RMB) which prepares documentation for optimal risk decision making at the Executive Management Board (EMB). The RMB ensures that risk management is conducted thoroughly and consistently across all IMS divisions in accordance with the Risk Management Policy. The EMB regularly monitors actions mitigating the significant risks identified.

Control Activities

The IMS operates a 'Tasker Tracker' mechanism; the mechanism uses software to launch, monitor and control ongoing progress towards management's operational requirements, in accordance with deadlines and operational priorities.

In the financial domain, the IMS finance and accounting system (FinS) has built-in approval workflows and controls, together with audit trails. The controls are designed in order that transactions are recorded consistently, accurately and in accordance with applicable rules and regulations.

IMS leadership is supported by the Executive Management Board which meets on a routine basis to review internal processes and to inform decision making.

Information and Communication

IMS internal communications are enhanced by strong reporting lines, based on military principles. The IMS has an extensive standard operating policy on the management of information and communications. This provides for effective communications in pursuit of operational objectives.

Communication also provides for the effective functioning of internal control. The Audit Advisory Panel, for example, reports to the Director General.

The IMS communicates externally on matters affecting the functioning of internal control mechanisms via the Statement on Internal Control, which is included with the annual financial statements. External audits include examinations of internal

controls and compliance. The results of these audits are reviewed by various oversight authorities and made available to the general public along with the financial statements.

Monitoring

An outsourced Internal Audit service provider is engaged on a periodic basis, to undertake internal audit assignments. The IMS is also subject to annual external audit from the International Board of Auditors for NATO (IBAN).

Recommendations and observations arising from audits are assessed by the Audit Advisory Panel reporting to the Director General. The results are then assessed by the Executive Management Board, who initiate any appropriate actions.

The Director General of the IMS and the Financial Controller have a collective responsibility for reviewing the effectiveness of the system of internal control. Our review is informed by the above five COSO components and by the work of IMS Senior Managers, external audits and internal audits.

No significant issues regarding financial or operational matters were raised in 2021 during the IBAN external audit of the IMS Financial Statements 2020, resulting in an unqualified opinion.

In 2021, the internal auditor of the NCIA Agency conducted a formal internal control self-assessment survey in order to evaluate the effectiveness of the internal control system throughout the IMS. Only one risk was reported, related to deficiencies of the financial system (FinS) to support Business Continuity beginning in 2022. There were no other issues reported on the submitted certifications.

In their follow-up review on risk management, the internal auditor found improvements regarding the update of the Risk Management Policy, establishment of the IMS Risk Register and presentation on risk management to the IMS Executive Management Board. In 2022, following risk management training, internal audit recommends that the divisions conduct a deep dive threat analysis taking into consideration risks to achieve the objectives of the entity.

Overall, we are satisfied that the risk management and internal financial control systems in operation across the IMS during the year 2021 were reasonably adequate and effective.



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Director General
International Military Staff



Rui M.M. da Silva
PRTCV - Financial Controller
International Military Staff

IMS
Statement of Financial Position
as at 31 December 2021
(in EUR)

| | | <u>2021</u> | <u>2020</u> |
|--------------------------------|-------|--------------------------|--------------------------|
| Assets | | | |
| Current Assets | | | |
| | Notes | | |
| Cash and cash equivalents | 2 | 18,933,761 | 14,908,730 |
| Receivables | 3 | 10,427 | 10,846 |
| Prepayments | 4 | 853,353 | 853,738 |
| | | <u>19,797,541</u> | <u>15,773,314</u> |
| Non-current Assets | | | |
| Property, plant and equipment | 5 | 76,985 | 53,218 |
| Intangible assets | 6 | 23,198 | 50,469 |
| | | <u>100,183</u> | <u>103,687</u> |
| Total Assets | | <u>19,897,724</u> | <u>15,877,001</u> |
| Liabilities | | | |
| Current Liabilities | | | |
| Payables | 7 | 7,938,973 | 3,146,346 |
| Deferred revenue | 8 | 11,858,569 | 12,595,780 |
| | | <u>19,797,541</u> | <u>15,742,126</u> |
| Non-current Liabilities | | | |
| Deferred revenue | 8 | 100,183 | 134,875 |
| Total Liabilities | | <u>19,897,724</u> | <u>15,877,001</u> |



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The notes on pages 12 to 23 form an integral part of these financial statements.

The financial statements were issued to the International Board of Auditors for NATO on 31 March 2022.

IMS
Statement of Financial Performance
for the year ended 31 December 2021
(in EUR)

| | | <u>2021</u> | <u>2020</u> |
|---|-------|-------------------|-------------------|
| | Notes | | |
| Revenue | | | |
| Revenue | 9 | 28,466,634 | 26,565,871 |
| Total Revenue | | <u>28,466,634</u> | <u>26,565,871</u> |
| Expenses | | | |
| Personnel | 10 | 11,550,574 | 11,523,459 |
| Contractual supplies and services | 11 | 16,864,442 | 14,990,431 |
| Depreciation and amortization | 5,6 | 51,618 | 51,980 |
| Total Expenses | | <u>28,466,634</u> | <u>26,565,871</u> |
| Surplus/(Deficit) for the period | | <u>-</u> | <u>-</u> |

IMS
Cash Flow Statement
for the year ended 31 December 2021
(in EUR)

| | | <u>2021</u> | <u>2020</u> |
|---|-------|-------------------|-------------------|
| Cash Flows from operating activities | Notes | | |
| Surplus/(Deficit) for the period | | - | - |
| Non-cash movements | | | |
| Depreciation and amortization | 5,6 | 51,618 | 51,980 |
| (Decrease)/Increase in payables | | 4,792,627 | (2,051,532) |
| (Decrease)/Increase in other current liabilities | | (737,212) | 5,811,735 |
| (Increase)/Decrease in receivables | | 418 | 52,828 |
| (Increase)/Decrease in other current assets | | 385 | 38,640 |
| (Decrease)/Increase in long-term provisions | | (34,692) | 37,871 |
| Net cash flows from operating activities | | <u>4,073,144</u> | <u>3,941,522</u> |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 5 | (48,114) | (58,663) |
| Net cash flows from investing activities | | <u>(48,114)</u> | <u>(58,663)</u> |
| Cash flows from financing activities | | | |
| Cash out from IMS BG transfer | 2 | - | (400,000) |
| Cash in from IMS BG transfer | | - | 400,000 |
| Net cash flows from financing activities | | <u>-</u> | <u>-</u> |
| Net increase/(decrease) in cash and cash equivalents | | <u>4,025,030</u> | <u>3,882,859</u> |
| Cash and cash equivalents at the beginning of the period | | 14,908,730 | 11,025,871 |
| Cash and cash equivalents at the end of the period | 2 | 18,933,761 | 14,908,730 |

IMS
Statement of Changes in Net Assets
for the year ended 31 December 2021
(in EUR)

| | |
|--|---|
| Balance at 31 December 2019 | - |
| Surplus/(Deficit) for the period | - |
| Change in net assets/equity for the year ended 2020 | - |
| Balance at 31 December 2020 | - |
| Surplus/(Deficit) for the period | - |
| Change in net assets/equity for the year ended 2021 | - |
| Balance at 31 December 2021 | - |

**IMS
Notes
for the year ended 31 December 2021**

1 Significant accounting policies

1.1 Basis of preparation

The IMS Financial Statements 2021 have been prepared in accordance with the NATO Accounting Framework. This accounting framework is based on International Public Sector Accounting Standards (IPSAS) as adapted by NATO. The financial statements comply with the financial requirements of the NATO Financial Regulations (NFRs) and the associated Financial Rules and Procedures (FRPs) as well as with IMS directives and policies.

The financial statements have been prepared on a going-concern basis.

In accordance with Article 2 of the NFRs, the financial year covered by these financial statements is 1 January 2021 to 31 December 2021.

The financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair value at the end of each reporting period. The accounting principles recognized as appropriate for the recognition, measurement and reporting of the financial position, performance and cash flows on an accrual based accounting using historical costs have been applied consistently throughout the reporting period. The principle accounting policies are set out below.

1.2 Accounting estimates and judgements

In accordance with IPSAS and generally accepted accounting principles, the financial statements necessarily include amounts based on estimates and assumptions made by the management and based on historical experience as well as on the most reliable information available. In exercising the judgements to make the estimates, a degree of caution was included in light of the principle of 'prudence' required by IPSAS in order not to overstate assets or revenue or understate liabilities or expenses.

The estimates and underlying assumptions are reviewed on an ongoing basis. These estimates and assumptions affect the amounts of assets, liabilities, revenue and expenses reported. By their nature, these estimates are subject to measurement uncertainty. The effect of changes to such estimates and assumptions in future periods could be significant to the financial statements.

1.3 Changes in accounting policy and standards

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set in IPSAS 3. For the 2021 financial statements, the accounting policies have been applied consistently throughout the reporting period.

1.4 Changes in pronouncements

At the date of authorisation of these financial statements, the IMS has not applied the following new and revised IPSAS that have been issued but are not yet effective. The effective dates of the following have been deferred due to COVID-19:

- IPSAS 41 Financial Instruments
- IPSAS 42 Social Benefits
- Amended or new paragraphs in IPSAS 1, 4, 5, 9, 12, 14, 19, 21, 23, 24, 26, 28, 29, 30, 32, 33, 34, 35, 36, 37, 38, 40

It is not expected that the adoption of or updates to these standards will have a material impact on the financial statements of the IMS in future periods.

1.5 Foreign currency transactions

These financial statements are prepared in euro, which is the functional and reporting currency of the IMS. Foreign currency transactions are accounted for at the NATO exchange rates prevailing on the transaction date in the general ledger. Monetary assets and liabilities at year-end which were denominated in foreign currencies are assessed for materiality and if material are translated into euro using the applicable NATO exchange rates as at 31 December 2021. Realized and unrealized gains and losses resulting from the settlement of such transactions and from the revaluation at the reporting dates of monetary assets and liabilities denominated in foreign currencies are recognized in the Statements of Financial Position and Financial Performance. An assessment was made of all assets and liabilities in foreign currencies as at 31 December 2021. The amount of unrealized gains is deemed immaterial.

1.6 Consolidation

Consolidated financial statements include the financial results of the controlling entity and its controlled entities.

While Morale and Welfare activities are under the control of the head of the NATO body, in accordance with the NATO Accounting Framework departure from IPSAS 6, they have not been consolidated into these financial statements. A separate activity report is submitted to the Budget Committee as required by the NFRs, and summary information is presented in Note 14.

1.7 Services in-kind

The IMS received services in-kind in the form of military personnel provided by the NATO nations. Such personnel are assigned to specific, military positions on the Peacetime Establishments (PE) of the IMS (see Note 10). In these financial statements, services in-kind are recognized neither as revenue nor as an asset.

1.8 Financial instruments

The IMS uses only non-derivative financial instruments as part of its normal operations. These financial instruments include: cash, bank accounts, deposit accounts, accounts receivable, provisions and cash transfers between NATO entities.

All financial instruments are recognized in the Statement of Financial Position at their fair value.

Credit Risk: In the normal course of business, the IMS incurs credit risk from trade receivables and transactions with banking institutions. The IMS manages its exposure to credit risk by:

- Holding current account bank balances and short-term deposits with registered banking institutions with a high credit rating;
- Maintaining credit control procedures over receivables.

The maximum exposure as at 31 December 2021 is equal to the total amount of bank balances, short-term deposits, and receivables disclosed in the statement of financial position. Receivables considered uncollectible are adequately provided for. There is a very limited credit risk associated with the realization of these instruments.

Currency risk: The IMS' exposure to foreign currency exchange risk is very limited, as most transactions are in euros.

Liquidity risk: The liquidity risk is based on the assessment of whether the organization will encounter difficulties in meeting its obligations associated with financial liabilities. There is a very limited exposure to liquidity risk because the budget funding mechanism guarantees contributions in relation to approved budgets. The accuracy of forecasting cash requirements as well as the delay in payment represent the main liquidity risk.

Interest rate risk: The IMS is restricted from entering into borrowings and investments, and therefore there is no interest rate risk identified.

1.9 Leases

Leases are classified as finance leases whenever the terms of the lease transfers substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The IMS only enters into operating leases. They are recognized as an expense in the statement of financial performance on a straight-line basis over the lease term.

1.10 Cash and cash equivalents

Cash and cash equivalents are defined as short-term assets. They include current bank accounts, deposits held with banks, pre-paid credit cards and other short-term highly liquid investments.

1.11 Receivables

Receivables are stated at net realizable value, after provision for doubtful and uncollectible debts.

Contributions receivable are recognized when a call for contribution has been issued to the member nations. No allowance for loss is recorded with respect to member countries' assessed contributions receivable except for exceptional and agreed technical reasons.

1.12 Prepayments

Prepayments and deposits are payments to suppliers, employees and other NATO entities in advance of the period to which they pertain.

1.13 Property, plant and equipment

Property, plant and equipment with finite useful lives that are acquired separately are carried at initial cost less accumulated depreciation and any recognized impairment losses. Depreciation is recognized on a straight-line basis over their estimated useful lives. Full depreciation is charged in the month of acquisition and nil in the month of disposal. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period with the effect of any changes in estimate accounted for on a prospective basis. Property, plant and equipment is derecognized upon disposal or when no future economic benefit is expected. The cost and any related accumulated depreciation are removed from the accounting records.

1.14 Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at initial cost less accumulated amortization and any recognized impairment losses. Amortization is recognized on a straight line basis over their estimated useful lives. Full amortization is charged in the month of acquisition and nil in the month of disposal. The estimated useful lives, residual values and amortization method are reviewed at the end of each reporting period with the effect of any changes in estimate accounted for on a prospective basis. Intangible assets are derecognized when no future economic benefit is expected. The cost and any related accumulated amortization are removed from the accounting records.

1.15 Impairment of tangible and intangible assets

The carrying values of non-current assets are reviewed for impairment when events or changes in circumstances indicate that they may be not recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Any provision for impairment is charged against the statement of financial performance in the year concerned.

1.16 Payables

Payables (including amounts due to other NATO entities) are initially recognized at their fair value and subsequently measured at amortized cost. This includes estimates of accrued obligations for goods and services received but not yet invoiced.

1.17 Deferred revenue and advances

Deferred revenue represents contributions from nations and/or third parties that have been called for current or prior years budgets but that have not yet been recognized as revenue. Funds are called in advance of their need because the entity has no capital that would allow it to pre-finance any of its activities. Advances are contributions called or received related to future budgets.

1.18 Employee benefits – Post-employment benefits

IMS civilian employees either participate in the Defined Contribution Pension Scheme (DCPS) or the Coordinated Pension Scheme (NATO Defined Benefit Plan).

The assets and liabilities for all NATO post-employment benefit schemes are accounted for centrally at NATO Headquarters by the International Staff and therefore are not recognized in these financial statements.

Defined Contribution plan: The assets of the plan are held separately from those of IMS in funds under the control of independent trustees or an Administrator. The IMS is required to contribute a specified percentage of payroll costs to the DCPS to fund the benefits. Payments to the DCPS are recognized as an expense when employees have rendered service entitling them to the contributions. The only obligation of IMS with respect to the DCPS is to make the specified contributions.

Defined Benefit plan: Employees who joined NATO before 1 July 2005 are members of the NATO Coordinated Pension Scheme which is a funded defined benefit plan. Under the plan and upon completion of 10 years employment with NATO, the employees are entitled to retirement benefits of 2% per year of service of final basic salary on attainment of a retirement age of 60. Staff members whose length of service is not sufficient to entitle them to a retirement pension are eligible for a leaving allowance.

Continued Medical Coverage: Some qualifying retirees may also benefit from Continued Medical Coverage (CMC).

1.19 Revenue recognition

Revenue comprises contributions from member nations and other customers to fund the entity's budgets. It is recognized as revenue in the Statement of Financial Performance in the year for which the contributions are used for their intended purpose as envisioned by the budgets. The balance of unspent contributions and other revenues that relate to future periods are deferred accordingly. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably.

Where a transfer is subject to conditions that, if unfulfilled, require the return of the transferred resources, the entity recognizes a liability until the condition is fulfilled.

1.20 Financial result

The financial result represents the net of bank interest earned, bank charges incurred and exchange rate gains and losses due to transactions in foreign currency. It is recognized as a payable to nations in order to return it to the nations.

1.21 Trust funds

The IMS manages the NATO-Iraq Trust Fund on behalf of the contributing nations. NATO recognizes an asset when it controls access to the asset and gains economic benefit or service potential but matches this to an equal liability. In its Statement of Financial Performance, the IMS does not recognize any expenditure or revenue in relation to the trust funds, which it does not control.

2 Cash and cash equivalents

| (in EUR) | 2021 | 2020 |
|--|-------------------|-------------------|
| Current bank accounts IMS | 17,864,880 | 13,756,627 |
| Cash equivalents | 993,804 | 993,324 |
| Current bank accounts NATO-Iraq Trust | 72,227 | 138,780 |
| Advances | 2,849 | 20,000 |
| Total Cash and Cash Equivalents | 18,933,761 | 14,908,730 |

Cash and cash equivalents are short-term liquid assets. Deposits are held in interest bearing bank accounts in immediately available funds. Cash holdings are largely determined by the timing of receipts from the nations, which arrive in two instalments, generally in April and December.

Cash equivalents are held in euros and are funds invested on a short-term deposit or business account.

During 2021, no cash transfers (2020: 400,000 EUR) were provided to other entities in the IMS Budget Group in order to cover temporary shortfalls of funds related to the calls for contributions.

3 Receivables

| (in EUR) | 2021 | 2020 |
|--------------------------------|---------------|---------------|
| Receivables from third parties | 10,427 | 10,389 |
| Accrued revenue | - | 456 |
| Total Receivables | 10,427 | 10,846 |

The receivables from third parties balance primarily consists of a VAT reimbursement on the purchase of a new vehicle and long-term illness insurance.

4 Prepayments

| (in EUR) | 2021 | 2020 |
|---------------------------------------|----------------|----------------|
| Advances and prepayments to suppliers | 663,000 | 696,188 |
| Prepaid expenses | 190,353 | 157,550 |
| Total Prepayments | 853,353 | 853,738 |

The advances relate to the provision of contractually agreed working capital for the execution of the C3 Programme of Work. The main balance of prepaid expenses is the 2022 portion of the education allowance entitlements for the school year 2021-2022.

5 Property, plant and equipment

| (in EUR) | Vehicles | |
|---|----------------|----------------|
| | 2021 | 2020 |
| Cost opening balance | 334,990 | 315,961 |
| Additions | 48,114 | 58,663 |
| Disposals | (22,954) | (39,634) |
| Cost closing balance | 360,150 | 334,990 |
| Accumulated depreciation opening balance | 281,773 | 301,754 |
| Current year depreciation | 24,346 | 19,653 |
| Retired depreciation | (22,954) | (39,634) |
| Accumulated depreciation closing balance | 283,165 | 281,773 |
| Net Carrying Amount | 76,985 | 53,218 |

The useful life of the vehicles used in the calculation of depreciation is 5 years. The depreciation charge for the year is 24,346 EUR (2020: 19,653 EUR).

In 2021, in addition to the disposal of the vehicle shown in the above table, there was one donation of property that meets the disclosure criteria in the NATO Financial Regulations. Proceeds of sale of property plant and equipment amounting to 1,700 EUR were realised in 2021 (2020: 6,360 EUR). These proceeds are included under payables to nations to be reimbursed as miscellaneous income via the call for contribution in the following year. The donated property was approved by the Budget Committee on 4 March 2021.

6 Intangible assets

| | Software | |
|---|----------------|----------------|
| (in EUR) | 2021 | 2020 |
| Cost opening balance | 409,043 | 409,043 |
| Cost closing balance | 409,043 | 409,043 |
| Accumulated amortization opening balance | 358,574 | 326,246 |
| Current year amortization | 27,272 | 32,328 |
| Accumulated amortization closing balance | 385,846 | 358,574 |
| Net Carrying Amount | 23,197 | 50,469 |

The useful life of software systems used in the calculation of amortization is 4 years.

The amortization charge for the year is 27,272 EUR (2020: 32,328 EUR).

In general, software is considered to be internally developed, however an assessment is made for each individual case to determine whether the asset can be considered as acquired off-the-shelf.

7 Payables

| | (in EUR) | |
|-----------------------|------------------|------------------|
| | 2021 | 2020 |
| Payables to nations | 4,757,598 | 413,791 |
| Accruals | 2,422,958 | 2,363,639 |
| Payables to suppliers | 756,699 | 334,493 |
| Other payables | 1,718 | 34,423 |
| Total Payables | 7,938,973 | 3,146,346 |

The payables to nations are surplus funds to be returned to the nations. They include lapsed appropriations and miscellaneous income from operational and financial results.

Exceptionally in 2021 and 2020, nations have decided to convert 2020 surplus funds into advances for the following year. In 2020, nations decided to convert 4.2 MEUR of the 4.5 MEUR 2020 lapses into advances for 2021, reducing the balance of payables to nations. In 2021, nations decided to convert the 413,791 EUR remainder of the 2020 surplus into 2022 advanced contributions, along with the 2022 advance of 10.8 MEUR, for a total of 11,213,791 EUR (see note 8). Nations have not taken a decision to convert the 2021 surplus funds, hence the increase in the balance of payables to nations.

Accruals are mainly related to goods and services received on the Programmes of Work of the IMS.

Payables are short-term liabilities to third parties directly related to the activities and operations of the IMS. The average credit period on purchases is 30 days. The IMS has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

8 Deferred revenue

| (in EUR) | 2021 | 2020 |
|---|-------------------|-------------------|
| Advanced contributions for next year | 11,213,791 | 12,000,000 |
| Deferred revenue - carry forwards | 572,550 | 457,000 |
| Deferred revenue - trust funds | 72,227 | 138,780 |
| Total current deferred revenue | 11,858,569 | 12,595,780 |
| Investment in PPE and intangible assets | 100,183 | 134,875 |
| Total non-current deferred revenue | 100,183 | 134,875 |
| Total deferred revenue | 11,958,752 | 12,730,655 |

Current deferred revenue consists mostly of advanced contributions for the next financial year and deferred revenue (budget appropriations carried forward) for which corresponding expenses will be incurred after the reporting date.

Advanced contributions include an element of 2020 surplus funds converted into 2022 advances (see note 7).

The deferred revenue for carry forwards relates primarily to the C3 programme of work.

The deferred revenue for trust funds is the corresponding liability for the cash received by nations to fund the NATO-Iraq Trust Fund (see Annex 2).

Non-current deferred revenue represents the net carrying amount of property, plant and equipment and intangible assets as at 31 December 2021. The revenue will be recognized in the year when the depreciation and amortization expense will be recognized.

9 Revenue

| (in EUR) | 2021 | 2020 |
|--|-------------------|-------------------|
| Revenue from contributions | 28,415,016 | 26,513,890 |
| Revenue released from deferred revenue | 51,618 | 51,980 |
| Total Revenue | 28,466,634 | 26,565,871 |

Revenue from contributions is revenue received from the member nations to cover the operational expenses of the IMS.

Revenue released from deferred revenue represents revenue released in respect of property, plant and equipment depreciation and amortization of intangible assets.

10 Personnel expenses

Employees are compensated for the service they provide in accordance with rules and amounts established by NATO. The compensation consists of basic salary, various allowances, health insurance, pension plan and other benefits as agreed with each host nation and the protocols of NATO.

Peacetime Establishment (PE):

| | Approved PE - IMS | Filled Positions - IMS | Approved PE - NSO | Filled Positions - NSO | Approved PE - IMS and NSO | Filled Positions - IMS and NSO |
|---|----------------------|------------------------------|----------------------|------------------------------|---------------------------------|---|
| Civilians (MBC)* | 86 | 74 | 16 | 16 | 102 | 90 |
| Military | 317 | 297 | 26 | 22 | 343 | 319 |
| Voluntary National Contribution (VNC) | 36 | 18 | - | - | 36 | 18 |
| IS-CIV VNC | 25 | 21 | - | - | 25 | 21 |
| National Manpower Overage (NMO) | 23 | 21 | - | - | 23 | 21 |
| Host Nation | 2 | - | - | - | 2 | - |
| PFP | 11 | 7 | 2 | 2 | 13 | 9 |
| Local Wage Rate (LWR) | 1 | - | - | - | 1 | - |
| Civilians (CBC) | 16 | 7 | - | - | 16 | 7 |
| Twinned posts (TP)** | 4 | 4 | 2 | 2 | 6 | 6 |
| Total Ceiling posts | 402 | 371 | 42 | 38 | 444 | 409 |
| Total Posts | 521 | 449 | 46 | 42 | 567 | 491 |
| <p>* 1 additional post as result of the application of SMAP-18 (Manpower Guidelines for the Temporary Filling of Established Military NU Posts with NICs). SMAP 18 provides a procedure by which commanders can seek to fill military NU mission essential posts with NICs on a temporary basis - MC-0216-4(AAP-16(D)) approved with IMS PE Change 4 2019.</p> | | | | | | |
| <p>** A twinned post is a post on a Peacetime Establishment (PE) which combines two or more separate posts on one or more PEs where the respective workload does not justify the presence of an incumbent for each post. When two or more International posts are linked as "twinned posts", only one is counted in the International Manpower Ceiling. (MC-0216-4(AAP-16(D))).</p> | | | | | | |

The breakdown of salaries and other personnel related expenses is as follows:

| (in EUR) | <u>2021</u> | <u>2020</u> |
|----------------------------|--------------------------|--------------------------|
| Employment of personnel | 10,879,731 | 10,899,209 |
| Post-employment benefits | 540,779 | 498,589 |
| Training | 69,255 | 36,466 |
| Recruitment and separation | 57,093 | 87,996 |
| Miscellaneous | 3,716 | 1,200 |
| Total expenses | <u>11,550,574</u> | <u>11,523,459</u> |

Untaken leave: The balance of untaken leave at the end of 2021 was 883 days (2020: 1,074 days) for IMS and 129 days (2020: 108 days) for NSO. The associated cost is recognized as an accrual. The variations in untaken leave are due to the impact of COVID-19 measures and restrictions.

11 Contractual supplies and services

Contractual supplies and services are expenses required for administrative support to the Military Committee. General support expenses mainly include costs for facility and infrastructure operation and maintenance, while mission support is mainly costs for CIS and scientific research contracts. The expenses are further broken down as follows:

| (in EUR) | 2021 | 2020 |
|-----------------------|-------------------|-------------------|
| Mission support | 11,765,533 | 10,958,053 |
| General support | 4,033,591 | 3,512,576 |
| Grants and subsidies | 615,691 | 336,515 |
| Miscellaneous costs | 248,201 | 1,925 |
| Travel transportation | 201,426 | 181,362 |
| Total expenses | 16,864,442 | 14,990,431 |

In 2021, the IMS had one contract for the lease of a vehicle with an annual cost of 126,500 EUR (2020: 79,200 EUR), which is cancellable.

12 Related parties

The key management personnel includes: the Director General IMS, Directors, and the Financial Controller. They are all rotated, typically every three years, and with the exception of the Financial Controller, have only management oversight of routine operating and maintenance activities. The detailed work related to these tasks tends to be undertaken by staff officers. The IMS Financial Controller is also the Financial Controller of the Science and Technology Organization (STO) and the NATO Defense College (NDC), forming together the IMS Budget Group. The IMS, STO and NDC are therefore related parties under a common Financial Controller.

The other key management personnel of the entity have no known significant related party relationships that could affect the operation of this reporting entity. Key management are remunerated in accordance with the applicable national or NATO pay scales. They do not receive from NATO any additional remuneration for Board responsibilities or access to preferential benefits such as the entitlement to receive loans over and above those available to all NATO personnel under normal rules.

During the year, the IMS entered into transactions with NATO entities outside the IMS Budget Group. The fees charged for these transactions were an appropriate allocation of the costs incurred.

13 Representation allowance

Representation allowance is available to certain designated NATO high-level officials whose position entails responsibility for maintaining relationships of value to NATO. In 2021, three senior IMS officials received representation allowances.

The total entitlement was 39,000 EUR (2020: 39,000 EUR) and the actual expenses were 9,329 EUR (2020: 15,739 EUR). The decrease in actual expenses is due to the impact of COVID-19 measures and restrictions.

14 Morale and Welfare Activities

The IMS carried out Morale and Welfare Activities (MWA) in 2021 for which a detailed annual special purpose report is presented to the Budget Committee. Morale and Welfare Activity is an activity of a NATO body that enhances the quality of life, promotes cohesion and integrity, and/or contributes to the physical and mental wellbeing of eligible individuals. At the IMS, the MWA mainly relate to the sale of petrol products and the language training centre.

The position of MWA at year-end is:

| (in EUR) | 2021 | 2020 |
|---|-------------|-------------|
| Cash and cash equivalents | 50,506 | 52,742 |
| Total liabilities including provisions and contingent liabilities | 42,277 | 28,458 |

As of year-end, no full-time equivalent staff (2020: nil) directly support the MWA.

In both years, four staff support the MWA as a minor part of their duties. The total extent of their MWA responsibilities amounts to less than one part-time equivalent.

15 Events after reporting date

There have been no other material events between the reporting date and the date the financial statements are authorized for issue that would affect the amounts recognized in these financial statements.

ANNEX 1
IMS
Budget Execution Statement
for the year ended 31 December 2021
(in EUR)

| | Initial Budget | Transfers | BA2 | Transfers | BA3 | Transfers | Final Budget | Commitments | Expenses | Total Spent | Carry Forward | Lapsed |
|--------------------------------|-------------------|-----------|-------------------|-----------|-------------------|-----------|-------------------|----------------|-------------------|-------------------|------------------|------------------|
| BUDGET 301 (IMS) 2021 | | | | | | | | | | | | |
| Chapter 1 | 10,188,486 | - | 10,188,486 | - | 10,188,486 | - | 10,188,486 | - | 9,738,294 | 9,738,294 | - | 450,192 |
| Chapter 2 | 18,329,114 | - | 18,329,114 | - | 18,329,114 | - | 18,329,114 | 572,550 | 14,597,504 | 15,170,054 | 572,550 | 3,159,060 |
| Chapter 3 | 40,000 | - | 40,000 | - | 40,000 | - | 40,000 | - | 16,926 | 16,926 | - | 23,074 |
| TOTAL | 28,557,600 | - | 28,557,600 | - | 28,557,600 | - | 28,557,600 | 572,550 | 24,352,724 | 24,925,274 | 572,550 | 3,632,326 |
| BUDGET 302 (NSO) 2021 | | | | | | | | | | | | |
| Chapter 1 | 1,901,388 | - | 1,901,388 | - | 1,901,388 | - | 1,901,388 | - | 1,808,157 | 1,808,157 | - | 93,231 |
| Chapter 2 | 1,230,246 | - | 1,230,246 | - | 1,230,246 | - | 1,230,246 | - | 1,080,166 | 1,080,166 | - | 150,080 |
| TOTAL | 3,131,634 | - | 3,131,634 | - | 3,131,634 | - | 3,131,634 | - | 2,888,323 | 2,888,323 | - | 243,311 |
| BUDGET 501 (OTRCH) 2021 | | | | | | | | | | | | |
| Chapter 1 | 164,000 | - | 164,000 | - | 164,000 | - | 164,000 | - | 4,123 | 4,123 | - | 159,877 |
| Chapter 2 | 1,400,000 | - | 1,400,000 | - | 1,400,000 | - | 1,400,000 | - | 732,416 | 732,416 | - | 667,584 |
| TOTAL | 1,564,000 | - | 1,564,000 | - | 1,564,000 | - | 1,564,000 | - | 736,539 | 736,539 | - | 827,461 |
| TOTAL FY2021 | 33,253,234 | - | 33,253,234 | - | 33,253,234 | - | 33,253,234 | 572,550 | 27,977,586 | 28,550,136 | 572,550 | 4,703,098 |
| BUDGET 301 (IMS) 2020 | | | | | | | | | | | | |
| Chapter 2 | 457,000 | - | 457,000 | - | 457,000 | - | 457,000 | - | 454,356 | 454,356 | - | 2,644 |
| TOTAL FY2020 | 457,000 | - | 457,000 | - | 457,000 | - | 457,000 | - | 454,356 | 454,356 | - | 2,644 |
| TOTAL ALL BUDGETS | 33,710,234 | - | 33,710,234 | - | 33,710,234 | - | 33,710,234 | 572,550 | 28,431,942 | 29,004,492 | 572,550 | 4,705,742 |

The budget covers the financial year from 1 January 2021 to 31 December 2021 and includes the following budgets: 301 (IMS), 302 (NSO) and 501 (Outreach). The initial budget and subsequent revisions are reviewed and issued by the Budget Committee.

In accordance with the NFRs, all changes between the initial and the final budget due to transfers of appropriations were either authorized by the Budget Committee, or were within the authority of the IMS Financial Controller. These changes are presented in the Budget Execution Statement. The lapses are mainly due to delays in the Chief Information Office (CIO) and C3 programmes of work, personnel recruitments and/or replacements withheld due to pending structural changes and reduced services and logistic support due to COVID-19 restrictions.

The credits carried forward are presented in the Budget Execution Statement as required by the NATO Financial Regulations and the FRPs. They represent the unexpended balances at year-end for which there is a legal liability or a Budget Committee decision and are equal to the deferred revenue – carry forwards (see Note 8).

The budget and the financial statements are not prepared on the same basis. In the financial statements, only current year depreciation/amortization is recognized as an expense, while in the budget all non-current assets are fully expensed during the year. The following table summarizes the differences:

| (in EUR) | <u>2021</u> | <u>2020</u> |
|---|--------------------------|--------------------------|
| Total expenses, Statement of Financial Performance | 28,466,634 | 26,565,871 |
| Capital and investments (see notes 5 and 6) | 16,926 | 89,851 |
| Depreciation and amortization (see notes 5 and 6) | <u>(51,618)</u> | <u>(51,980)</u> |
| Total expenses, Budget Execution Statement | <u>28,431,942</u> | <u>26,603,742</u> |

ANNEX 2
NATO-Iraq Trust Fund
Status as at 31 December 2021
(in EUR)

| FINANCIAL YEAR | IN COUNTRY COURSES | OUT OF COUNTRY COURSES | | | TOTAL |
|--|--------------------|------------------------|---------------|-------------|-------------------|
| | EXPENSES | EXPENSES | SLOTS OFFERED | SLOTS TAKEN | |
| 2005 | 133,235 | 1,494,235 | 123 | 200 | 1,627,470 |
| 2006 | 966,684 | 1,355,890 | 444 | 253 | 2,322,574 |
| 2007 | 745,024 | 1,230,390 | 223 | 197 | 1,975,414 |
| 2008 | 2,900,068 | 1,105,880 | 230 | 208 | 4,005,948 |
| 2009 | 200,557 | 1,263,332 | 220 | 208 | 1,463,889 |
| 2010 | 218,647 | 1,737,842 | 412 | 336 | 1,956,489 |
| 2011 | 44,135 | 1,733,875 | 468 | 420 | 1,778,010 |
| 2012 | | 23,366 | 23 | 15 | 23,366 |
| 2013 | | 176,359 | 42 | 42 | 176,359 |
| 2014 | | 10,340 | - | - | 10,340 |
| 2015 | | 301,817 | 62 | 62 | 301,817 |
| 2016 | | 1,565,362 | 340 | 268 | 1,565,362 |
| 2017 | | 55,568 | 4 | 4 | 55,568 |
| 2018 | | 99,180 | 7 | 7 | 99,180 |
| 2019 | | 42,345 | 4 | 4 | 42,345 |
| 2020 | | - | - | - | - |
| 2021 | | 66,553 | 9 | 9 | 66,553 |
| TOTAL | 5,208,350 | 12,262,333 | | | 17,470,683 |
| NATO-IRAQ TRUST FUND STATUS AS OF 31 DEC 2021 | | | | | |
| FUND DONATED | | | | | 17,176,421 |
| INTEREST EARNED (net of finance costs) | | | | | 366,490 |
| FUND USED | | | | | 17,470,683 |
| FUND AVAILABLE | | | | | 72,227 |

Note: In 2021, expenses totalled 66,553 EUR (2020: nil). The funds available are equal to the cash as at 31 December 2021.

NATO UNCLASSIFIED



International Military Staff
Etat-Major Militaire International

Brussels - Belgium



31 March 2022

IMSTAM(FC)-0008-2022

CHAIR, INTERNATIONAL BOARD OF AUDITORS FOR NATO (IBAN)

NATO DEFENSE COLLEGE (NDC) FINANCIAL STATEMENTS 2021

1. Please find attached the 2021 NATO DEFENSE COLLEGE (NDC) Financial Statements, issued in accordance with NATO Financial Regulation (NFR) Article 35.1.
2. I can confirm that, in accordance with NFR Financial Rules and Procedures (FRP) XXXV (4), the NDC can agree to public disclosure of these Financial Statements.
3. Notwithstanding the above, as stated in C-M(2012)0041, public disclosure of IBAN Audit Reports is a matter for Council decision, based upon the recommendation of the RPPB. Decisions are informed by the NATO policy on public disclosure of documents (C-M(2008)0116).
4. The IBAN Audit Report covering these Financial Statements has not been issued, but should be presented to Council no later than 31 August 2022 (NFR 15.2). As such, the NDC is not yet in a position to anticipate any potential representations that may be made to the RPPB, regarding the Audit Report.
5. The NDC therefore reserves its position on public disclosure of the eventual IBAN Audit Report.

Rui Mendes Da Silva
PRT CV
Financial Controller
International Military Staff
Science and Technology Organisation

Enclosure:

1. NDC Financial Statements FY 2021, 31 Mar 22.

Copy to: COMMANDANT NDC, HEAD OF FINANCE NDC, FC, RECORDS

Originating Office: FC - DGIMS-FC

Action Officer: Ms. A. MUEFFKE Principal Administrator (Finance) to FC IMS, (4593)

Taxonomy: Organisation and Management Support (ORG) - ORG - Finance and Accounting

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NATO DEFENSE COLLEGE FINANCIAL STATEMENTS

2021



Via Giorgio Pelosi, 1
00143 Rome
ITALY

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ANNEX 1 - BUDGET EXECUTION STATEMENTS FOR THE YEAR ENDED 31/12/202119

Introduction

1. The NATO Defense College (NDC) is a NATO Military body (NMB) of the Military Committee (MC) led by the Commandant, who reports to the Chair of the Military Committee (CMC) through the Director General of the International Military Staff (DGIMS). Its mission is to contribute to the effectiveness and cohesion of the Alliance by developing its role as a major centre of education, outreach and research on transatlantic security issues. As the Alliance's premier academic institution, the NDC aspires to be regarded as the first choice for nations in the educational development of their senior officers and officials, and as a respected source of relevant policy-making advice.
2. Similarly to 2020, also 2021 has been marked by the COVID-19 pandemic. Nonetheless, the investments made for the enhancement of the online learning platforms and for maintaining the safety of the workplace "paid dividend", and the NDC academic and research programmes could be conducted with little or no disruption also during lockdown periods. In the second part of the year, a slow but continuous return to normality was recorded, to the extent that field studies for the Senior Course (SC) and the NATO Regional Cooperation Course (NRCC) could be retrieved. The year concluded with a major highlight, the celebration of the NDC's 70th Anniversary, testifying the resilience of the Organisation and its capacity to efficiently and effectively deliver on its mission to educate future leaders and contribute to the Alliance policy-making.
3. The NDC 2021 Financial Statements have been produced in accordance with the NATO Accounting Framework (NAF) based on the International Public Sector Accounting Standards (IPSAS) as adapted by NATO and the NATO Financial Regulations (NFRs). They are presented in a commonly adopted layout.
4. The expenses recorded herein are mainly charged over two budgets, the NDC budget (budget code BC 303), covering its operating and maintenance costs, and a delegated portion of the Outreach Programme (BC 501) for which the NDC has operational control. In 2021 the NDC has also executed a portion of the centrally-managed NATO-Iraq Trust Fund, as well as other non-appropriated reimbursable activities.
5. The budgetary expenses are recorded on an accrual basis, i.e. in the period in which the goods or services are delivered. Any exception to that principle is outlined in Annex 1 to the financial statements, which provides a comparison between the Budget Execution and IPSAS.
6. The IMS Budget Group covers a number of budgets and entities linked together for financial management purposes by a Financial Controller. The Financial Controller is the Financial Controller of the IMS, the Science and Technology Organisation (STO) and the NDC. The NDC, the STO and IMS are therefore related parties under a common Financial Controller.

Olivier RITTIMANN
Lieutenant General, French Army
Commandant
NATO Defense College

Rui M. M. DA SILVA
PRTCV - Financial Controller
International Military Staff
Science & Technology Organisation

NDC Statement of Internal Control FY 2021

In accordance with the NATO Financial Regulations (NFRs) as supplemented by the Financial Rules and Procedures (FRPs), the Commandant of the NATO Defense College (NDC) is responsible and accountable for implementing and maintaining a sound financial management. In particular, as set forth in articles 11 and 12 of the NFRs, the Commandant is responsible for implementing sound risk management procedures and effective internal control arrangements aimed at supporting the achievement of the organizational objectives.

The NDC Financial Controller, in accordance with articles XI.3 and XI.4 of the FRPs, is responsible for financial risk management and for establishing financial risk management standards, as well as responsible for the system of internal financial and budgetary control (NFR 12.2).

In order to meet the provisions of the NFRs, the NDC has established systems of Risk Management and Internal Control, which are being continuously enhanced with the aim to ensure the achievement of NDC mission and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. The systems of Risk Management and Internal Control are designed to manage and minimize, rather than entirely eliminate, risk at the NDC. Risk Management and Internal Control can therefore provide only a reasonable, but not absolute, assurance of effectiveness. The risks addressed at the NDC include risks to NDC operational aims and objectives; compliance with the NFRs; the reliability of financial information; and the safeguarding of assets. This process has been in place for the year ended 31 December 2021 and up to the date of these financial statements.

In accordance with the Budget Committee (BC) recommendation to adopt COSO as internationally-recognized Internal Control Framework, the risk management and financial control processes at the NDC provide a network of internal controls that can be assessed using the five key components of the COSO Framework:

Control Environment

The culture and ethical values of the overall control environment are established by senior management. The promotion of ethical values includes: NDC participation in the NATO-wide 'Building Integrity' Initiative; the promulgation of the NATO Code of Conduct to all NDC staff; the disclosures on any senior management related party transactions in NDC annual financial statements.

The NDC structure provides for clear, hierarchical reporting lines based on military principles, as well as functional reporting lines, and appropriate authorities and responsibilities are formally entrusted to personnel in accordance with their role within the organization.

Oversight is provided by the NATO Military Committee (MC), supported by various subcommittees, who routinely scrutinize NDC senior management reports on strategic operational matters.

On financial matters, interim Budgetary Execution Reports are presented to, and reviewed by, the NATO Budget Committee twice per year. In addition, NDC financial requirements comprising the yearly budget proposals are screened and reviewed by the nations at various oversight fora.

The Audit Advisory Panel (AAP) makes periodic assessments as to whether Internal Audit is properly resourced and has the appropriate standing. It reviews, provides input to and endorsement of, internal audit planning. It reviews the findings and recommendations of Internal Audit and the IBAN, and reviews management responses and follow-up actions.

The AAP provides the Commandant with an annual report which includes an assessment on the effectiveness of risk management, internal control, and external financial reporting, along with advice and recommendations for the Commandant.

The new mission and structure of the NDC was agreed by the Military Committee on 30 April 2021 and noted by the North Atlantic Council (NAC), resulting in a revised “Policy Guidance for the NATO Defense College” (Document MC 123/10), and the ensuing Initial State Peacetime Establishment (ISPE) endorsed by the MC on 3 February 2022. Upon final approval of the End-State PE (ESPE), the NDC will activate the formal implementation of the new structure and start the recruitment of the newly approved NATO International Civilian positions.

Risk Assessment

The NDC continues to develop internal risk management policies and procedures, adapting existing risk management frameworks, to better identify those events that if occurring may affect the achievement of its objectives. Risk identification and management is progressively being extended to all organizational elements of the NDC.

In the course of 2021 the NDC has achieved important milestones in what concerns the effectiveness of its risk management framework, in particular by developing a thorough risk register, identifying and assigning risk owners and actioners, and by defining mitigation actions with relevant implementation dates. The risk register will be revised and updated every six months.

Control Activities

The NDC, through its Command Group (CG) and other internal boards, monitors and controls ongoing progresses towards the achievement of the set objectives, in accordance with deadlines and operational priorities.

In the financial domain, the NDC finance and accounting system (FinS) has built-in approval workflows, controls and verifications, which grant the necessary segregation of responsibilities, together with relevant audit trails, and ensures sufficient control as regards consistency and accuracy of financial transactions, and compliance to the NFRs.

Information and Communication

The NDC structure with its clear reporting lines underpins internal communication. The internal boards structure is the primary channel of information flow across internal stakeholders, and informs decision-making at all levels. The NDC has a Standard Operating Procedure (SOP 97) for a secure user access to Communication & Information resources. This provides for effective communications in pursuit of operational objectives. The NDC also holds an Audit Advisory Panel that periodically reports to the Commandant.

Communication also provides for the effective functioning of internal control. In this regard important information is disseminated through the staff by means of Weekly Bulletins and periodic All-Hands meetings called by the Commandant.

The NDC communicates externally on matters affecting the functioning of internal control mechanisms via the Statement on Internal Control, which is included with the annual Financial Statements and is released to the general public. External audits include examinations of internal controls and compliance with applicable rules and regulations. The results of these audits are reviewed by various oversight authorities and made available to the general public along with the financial statements.

Monitoring Activities

An outsourced Internal Audit service provider is engaged on a periodic basis, to undertake internal audit assignments. On top, NDC internal controls of non-appropriated funds are conducted regularly. The NDC is also subject to annual external audit from the International Board of Auditors for NATO (IBAN).

Recommendations and observations arising from audits are assessed by the Audit Advisory Panel reporting to the Commandant. The results are then assessed by NDC senior management, who initiate any appropriate actions.

The Commandant of the NDC and the Financial Controller have a collective responsibility for reviewing the effectiveness of the system of internal control. Our review is informed by the above five COSO components and by the work of NDC senior managers, external audits, and internal audits.

No significant issues regarding financial or operational matters were raised in 2021. The IBAN External Audit of the 2020 Financial Statements resulted in an unqualified opinion. IBAN observed on the need to reduce the use of physical cash. While strong internal controls continue to be in place for any cash payments, the NDC has implemented initiatives aimed at reducing the use of cash, *inter alia* by introducing rechargeable electronic cards for subsidized course members.

We are satisfied that the Risk Management and Internal Control systems in operation across the NDC during the year 2021 were reasonably adequate and effective. However, as suggested by the follow-up on the Internal Audit Mission on Risk Management conducted by NCIA in 2021, areas of improvements still exist and as such in the course of 2022 the NDC will further enhance the effectiveness of its risk management framework, in particular in what concerns risk assessment, risk treatment and monitoring & review.



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NATO DEFENSE COLLEGE STATEMENT OF FINANCIAL POSITION

As at 31 December 2021
(in EUR)

| | <i>Notes</i> | 2021 | 2020 |
|--------------------------------------|--------------|-------------------|-------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and Cash Equivalents | 2 | 5,204,768 | 5,684,528 |
| Receivables | 3 | 237,276 | 16,437 |
| Prepayments and Advances | 4 | 19,390 | 1,725 |
| Total Current Assets | | 5,461,434 | 5,702,691 |
| Non-Current Assets | | | |
| Property, Plant & Equipment | 5 | 12,698,451 | 12,406,766 |
| Total Non-Current Assets | | 12,698,451 | 12,406,766 |
| TOTAL ASSETS | | 18,159,885 | 18,109,457 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Payables | 6 | 1,541,057 | 880,374 |
| Deferred Revenue & Advances | 7 | 3,920,377 | 4,822,317 |
| Total Current Liabilities | | 5,461,434 | 5,702,691 |
| Non-Current Liabilities | | | |
| Non-Current Deferred Revenue | 7 | 12,698,451 | 12,406,766 |
| Total Non-Current Liabilities | | 12,698,451 | 12,406,766 |
| TOTAL LIABILITIES | | 18,159,885 | 18,109,457 |
| TOTAL NET ASSETS/EQUITY | | - | - |

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The notes on pages 10 to 18 form an integral part of these financial statements.

The financial statements were issued to the International Board of Auditors for NATO on 31 March 2022.

**NATO DEFENSE COLLEGE
STATEMENT OF FINANCIAL PERFORMANCE**

For the year ended 31 December 2021
(in EUR)

| | <i>Notes</i> | <u>2021</u> | <u>2020</u> |
|---|--------------|-------------------|------------------|
| Revenue | | | |
| Revenue | 8 | 10,804,751 | 8,749,703 |
| Total Revenue | | <u>10,804,751</u> | <u>8,749,703</u> |
| Expenses | | | |
| Personnel | 9 | 5,443,858 | 5,275,500 |
| Contractual Supplies and Services | 10 | 4,872,889 | 2,517,417 |
| Capital and Investments Budgeting | | 37,449 | 481,579 |
| Depreciation | 5 | 450,555 | 475,207 |
| Total Expenses | | <u>10,804,751</u> | <u>8,749,703</u> |
| SURPLUS / DEFICIT FOR THE PERIOD | | <u>-</u> | <u>-</u> |

NATO DEFENSE COLLEGE STATEMENT OF CASH FLOWS

For the year ended 31 December 2021
(in EUR)

| | <i>Notes</i> | <u>2021</u> | <u>2020</u> |
|---|--------------|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| <i>Surplus/Deficit for the period</i> | | - | - |
| Non-cash movements | | | |
| Depreciation / Amortization | 5 | 450,555 | 475,207 |
| Increase - (Decrease) in payables | | 660,683 | 69,056 |
| Increase - (Decrease) in deferred revenue & advances | | (901,940) | 2,372,317 |
| (Increase) - Decrease in receivables | | (220,839) | 35,161 |
| (Increase) - Decrease in other current assets | | (17,664) | 13,660 |
| (Increase) - Decrease in non-current deferred revenue | | 291,686 | (469,474) |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | | <u>262,481</u> | <u>2,495,927</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property plant and equipment | 5 | (742,241) | (5,733) |
| NET CASH FLOWS FROM INVESTING ACTIVITIES | | <u>(742,241)</u> | <u>(5,733)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Cash in from IMS BG cash transfer | | - | 400,000 |
| Cash out from IMS BG cash transfer | | - | (400,000) |
| NET CASH FLOWS FROM FINANCING ACTIVITIES | | <u>-</u> | <u>-</u> |
| Net Increase - (Decrease) in cash and cash equivalents | | <u>(479,760)</u> | <u>2,490,194</u> |
| Cash and cash equivalents at the beginning of the period | | <u>5,684,528</u> | <u>3,194,335</u> |
| Cash and cash equivalents at the end of the period | | <u>5,204,768</u> | <u>5,684,528</u> |

**NATO DEFENSE COLLEGE
STATEMENT OF CHANGES IN NET ASSETS**

For the year ended 31 December 2021
(in EUR)

| | Total |
|--|-------|
| Balance at the beginning of the period 2020 | - |
| Surplus / (deficit) for the period | - |
| Change in net assets/equity for the year ended 2020 | - |
| Balance at the beginning of the period 2021 | - |
| Surplus / (deficit) for the period | - |
| Change in net assets/equity for the year ended 2021 | - |

NOTES TO THE FINANCIAL STATEMENTS

1. Significant Accounting Policies

1.1. Basis of Preparation

The NATO Defense College (NDC) Financial Statements 2021 have been prepared in accordance with the NATO Accounting Framework (NAF). This accounting framework is based on International Public Sector Accounting Standards (IPSAS), as adapted by NATO. The financial statements comply with the financial requirements of the NATO Financial Regulations (NFRs) and the associated Financial Rules and Procedures (FRPs) as well as with NDC directives and policies.

The financial statements have been prepared on a going-concern basis.

In accordance with Article 2.1 of the NFRs, the financial year covered by these financial statements is 1 January to 31 December 2021.

The financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair value at the end of each reporting period. The accounting principles recognized as appropriate for the recognition, measurement and reporting of the financial position, performance and cash flows on an accrual based accounting using historical costs have been applied consistently throughout the reporting period. The principal accounting policies are set out below.

1.2. Accounting Estimates and Judgements

In accordance with IPSAS and generally accepted accounting principles, the financial statements necessarily include amounts based on estimates and assumptions made by the management and based on historical experience as well as on the most reliable information available. In exercising the judgements to make the estimates, a degree of caution was included in light of the principle of 'prudence' required by IPSAS in order not to overstate assets or revenue or understate liabilities or expenses.

The estimates and underlying assumptions are reviewed on an ongoing basis. These estimates and assumptions affect the amounts of assets, liabilities, revenues and expenses reported. By their nature, these estimates are subject to measurement uncertainty. The effect of changes to such estimates and assumptions in future periods could be significant to the financial statements.

1.3. Changes in Accounting Policy and Standards

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set in IPSAS 3. For the 2021 financial statements, the accounting policies have been applied consistently throughout the reporting period.

1.4. Changes in Pronouncements

At the date of authorisation of these financial statements, the NDC has not applied the following new and revised IPSAS that have been issued but are not yet effective. The effective dates of the following have been deferred due to COVID:

- IPSAS 41 Financial Instruments
- IPSAS 42 Social Benefits
- Amended or new paragraphs in IPSAS 1, 4, 5, 9, 12, 14, 19, 21, 23, 24, 26, 28, 29, 30, 32, 33, 34, 35, 36, 37, 38, 40

It is not expected that the adoption of or updates to these standards will have a material impact on the financial statements of the NDC in future periods.

1.5. Foreign Currency Transactions

These financial statements are prepared in euro, which is the functional and reporting currency of the NDC. Foreign currency transactions are accounted for at the NATO exchange rates prevailing on the transaction date. Monetary assets and liabilities at year-end which were denominated in foreign currencies are assessed

for materiality and if material are translated into euro using the applicable NATO exchange rates as at 31 December 2021. Realized and unrealized gains and losses resulting from the settlement of such transactions and from the revaluation at the reporting dates of monetary assets and liabilities denominated in foreign currencies are recognized in the statements of financial position and performance. An assessment was made of all assets and liabilities in foreign currencies as at 31 December 2021. The amount of unrealized gains is deemed immaterial.

1.6. Consolidation

Consolidated financial statements include the financial results of the controlling entity and its controlled entities.

While Morale and Welfare activities (MWAs) are under the control of the head of the NATO body, in accordance with the NAF departure from IPSAS 6 they have not been consolidated into these financial statements. A separate activity report is submitted to the Budget Committee as required by the NFRs, and summary information is provided at note 14.

1.7. Services In-Kind

The NDC received services in-kind in the form of military personnel provided by the NATO nations. Such personnel are assigned to specific, military positions on the Peacetime Establishments (PE) of the NDC (see note 9). In these financial statements services in-kind are recognized neither as revenue nor as an asset.

1.8. Financial Instruments

The NDC uses only non-derivative financial instruments as part of its normal operations. These financial instruments include cash, bank accounts, deposit accounts, accounts receivable, provisions and cash transfers between NATO entities.

All financial instruments are recognized in the statement of financial position at their fair value.

Credit Risk: In the normal course of business, NDC incurs credit risk from trade receivables and transactions with banking institutions. NDC manages its exposure to credit risk by:

- Holding current account bank balances and short-term deposits with registered banking institutions with a high credit rating;
- Maintaining credit control procedures over receivables.

The maximum exposure as at 31 December 2021 is equal to the total amount of bank balances, short-term deposits, and receivables disclosed in the statement of financial position. Receivables considered uncollectible are adequately provided for. There is a very limited credit risk associated with the realization of these instruments.

Currency risk: The NDC's exposure to foreign currency exchange risk is very limited, as most transactions are in euros.

Liquidity risk: The liquidity risk is based on the assessment whether the organization will encounter difficulties in meeting its obligations associated with financial liabilities. There is a limited exposure to liquidity risk because the budget funding mechanism guarantees contributions in relation to approved budgets. The accuracy of forecasting cash requirements as well as the delay in payment represent the main liquidity risk.

Interest rate risk: The NDC is restricted from entering into borrowings and investments, and therefore there is no interest rate risk identified.

1.9. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under lease contracts are recognised as an expense in the Statement of Financial Performance on a straight line basis over the term of the lease.

The NDC is not party to any financial lease contracts and therefore is not reporting any assets or liabilities related to financial leases.

1.10. Cash and cash equivalents

Cash and cash equivalents are defined as short-term assets. They include cash in hand, petty cash, current bank accounts, deposits held with banks and other short-term, highly liquid investments.

1.11. Receivables

Receivables are stated at net realizable value, after provision for doubtful and uncollectible debts. Contributions receivable are recognized when a call for contribution has been issued to the member nations. No allowance for loss is recorded with respect to member countries' assessed contributions receivable, except for exceptional and agreed technical reasons.

1.12. Prepayments

Prepayments and deposits are payments to suppliers, employees and other NATO entities in advance of the period to which they pertain.

1.13. Property, plant and equipment

Property, plant and equipment (PPE) with finite useful lives that are acquired separately are carried at initial cost less accumulated depreciation and any recognized impairment losses. Depreciation is recognized on a straight-line basis over their estimated useful lives. Full depreciation is charged in the month of acquisition and nil in the month of disposal. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period with the effect of any changes in estimate accounted for on a prospective basis. PPE is derecognized upon disposal or when no future economic benefit is expected from the use of the asset. The cost and any related accumulated depreciation are removed from the accounting records.

In accordance with IPSAS 17 as adapted by the NAF, all assets qualified as PPE and under the control of the NDC at the reporting date have been capitalized if exceeding the set capitalization thresholds, and recognised as non-current assets in the statement of financial position. Land and buildings are offered for use to the NDC by the MOD Italy. The values of land and building represent the historic cost as provided by the MOD Italy.

1.14. Impairment of tangible assets

The carrying values of non-current assets are reviewed for impairment when events or changes in circumstances indicate that they may be not recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Any provision for impairment is charged against the statement of financial performance in the year concerned.

1.15. Payables

Payables (including amounts due to other NATO entities) are initially recognized at their fair value and subsequently measured at amortized cost. This includes estimates of accrued obligations for goods and services received but not yet invoiced.

1.16. Deferred revenue and advances

Deferred revenue represents contributions from nations and/or third parties that have been called for current or prior years budgets but that have not yet been recognized as revenue. Funds are called in advance of their need because the entity has no capital that would allow it to pre-finance any of its activities. Advances are contributions called or received related to future budgets.

1.17. Employee benefits

The NDC civilian employees either participate in the Defined Contribution Pension Scheme (DCPS) or the Coordinated Pension Scheme (NATO Defined Benefit Plan).

The assets and liability for all NATO post-employment benefit schemes are accounted for centrally at NATO Headquarters by the International Staff and therefore are not recognized in these financial statements.

Defined Contribution plan: The assets of the plan are held separately from those of NDC in funds under the control of independent trustees or an administrator. The NDC is required to contribute a specified percentage of payroll costs to the DCPS to fund the benefits. Payments to the DCPS are recognized as an expense when

employees have rendered service entitling them to the contributions. The only obligation of NDC with respect to the DCPS is to make the specified contributions.

Defined Benefit plan: Employees who have joined NATO before 1 July 2005 are members of the NATO Coordinated Pension Scheme which is a funded defined benefit plan. Under the plan and upon completion of 10 years of employment with NATO, the employees are entitled to retirement benefits of 2% per year of service of final basic salary on attainment of a retirement age of 60. Staff members whose length of service is not sufficient to entitle them to a retirement pension are eligible for a leaving allowance.

Continued Medical Coverage: Some qualifying retirees may also benefit from Continued Medical Coverage (CMC).

1.18. Revenue recognition

Revenue comprises contributions from member nations and other customers to fund the entity's budgets. It is recognized as revenue in the Statement of Financial Performance in the year for which the contributions are used for their intended purpose as envisioned by the budgets. The balance of unspent contributions and other revenues that relate to future periods are deferred accordingly. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably.

Where a transfer is subject to conditions that, if unfulfilled, require the return of the transferred resources, the entity recognizes a liability until the condition is fulfilled.

1.19. Financial result

The financial result represents the net of bank interest earned, bank charges incurred and exchange rate gains and losses due to transactions in foreign currency. It is recognized as a payable to nations in order to return it to the nations.

2. Cash and cash equivalents

| (in EUR) | 2021 | 2020 |
|--------------------------------|------------------|------------------|
| Cash Accounts | 10,709 | 49,595 |
| Petty Cash and Advances | 2,500 | 2,500 |
| Current Bank Accounts in Euros | 5,091,373 | 5,532,300 |
| Cash Equivalent | 100,186 | 100,133 |
| Total | 5,204,768 | 5,684,528 |

Cash and cash equivalents are short-term liquid assets. Deposit accounts are held in interest bearing bank accounts in immediately available funds. Cash holdings are largely determined by the timing of receipts from the nations, which arrive in two instalments, generally in April and December.

Cash equivalents are held in euros and are funds invested on a short term deposit or business account.

Reduction in cash accounts with respect to the previous financial year is the result of the progressive implementation of a zero-cash policy at the NDC.

3. Receivables

| (in EUR) | 2021 | 2020 |
|--|----------------|---------------|
| Receivables from NATO Entities | 236,367 | 4,362 |
| Receivables from Governments / Gov. Agencies | 779 | 5,224 |
| Receivables from Staff Members | 130 | 6,800 |
| Accrued Revenue | - | 51 |
| Total | 237,276 | 16,437 |

Receivables include outstanding reimbursements from different kinds of debtors, to include other NATO entities, NATO nations, third parties and staff members. The main balance refers on the one side to outstanding invoices issued to the IMS for the collection of expenses related to the delegated portion of the centrally-managed outreach budget (BC501) and on outstanding reimbursements related to the latest field study of the Senior Course on the other.

4. Prepayments and Advances

| (in EUR) | 2021 | 2020 |
|--------------------------------------|---------------|--------------|
| Advances – Non Assigned Expenditures | 1,848 | - |
| Advances – Vendors | 17,542 | 1,725 |
| Total | 19,390 | 1,725 |

Advances mainly relate to urgent software licences that had to be operational as from 1 January 2022.

5. Property, Plant and Equipment

| | Land | Buildings | Installed Equipment | Machinery | Automated Information Systems | Totals |
|---------------------------------|-----------|-------------|------------------------|-----------|-------------------------------------|-------------|
| Cost | | | | | | |
| Balance at 1 January 2020 | 7,718,220 | 7,119,426 | 2,548,470 | 83,438 | 160,838 | 17,630,391 |
| Additions | - | - | 5,733 | - | - | 5,733 |
| Balance at 31 December 2020 | 7,718,220 | 7,119,426 | 2,554,203 | 83,438 | 160,838 | 17,636,124 |
| Additions | - | - | 631,498 | 22,556 | 88,187 | 742,241 |
| Balance at 31 December 2021 | 7,718,220 | 7,119,426 | 3,185,700 | 105,994 | 249,025 | 18,378,365 |
| Accumulated depreciation | | | | | | |
| Balance at 1 January 2020 | - | (3,449,311) | (1,165,979) | (54,457) | (84,404) | (4,754,151) |
| Depreciation expense | - | (177,986) | (250,004) | (7,764) | (39,453) | (475,207) |
| Balance at 31 December 2020 | - | (3,627,297) | (1,415,983) | (62,220) | (123,858) | (5,229,358) |
| Depreciation expense | - | (177,986) | (231,228) | (7,952) | (33,390) | (450,555) |
| Balance at 31 December 2021 | - | (3,805,282) | (1,647,211) | (70,172) | (157,248) | (5,679,913) |
| Net book value | | | | | | |
| Balance at 31 December 2020 | 7,718,220 | 3,492,129 | 1,138,219 | 21,217 | 36,980 | 12,406,766 |
| Balance at 31 December 2021 | 7,718,220 | 3,314,144 | 1,538,489 | 35,821 | 91,777 | 12,698,451 |

The following thresholds and useful lives are used in the calculation of depreciation:

| Category | Threshold – per item (no grouping) | Depreciation life |
|-------------------------------|------------------------------------|-------------------|
| Land | € 200,000 | N/A |
| Buildings | € 200,000 | 40 years |
| Installed equipment | € 5,000 | 10 years |
| Machinery | € 5,000 | 10 years |
| Furniture | € 5,000 | 10 years |
| Automated information systems | € 5,000 | 3 years |

The depreciation charge for the year was 450,555 EUR (2020: 475,207 EUR).

In accordance with the NATO Financial Regulations (art. 17) an annual summary of property written-off in 2021 is provided in the following table.

| Items (Quantity) | Purchased in | Net Book value | Total Cost | Report of Survey | Reason for write-off |
|------------------------------------|------------------|----------------|----------------|------------------------------|---|
| Installed Equipment (66) | 2003 → 2020 | - | 34,847 | 01-02-04-11/2021 | Beyond state of repair. No longer serviceable. |
| Machinery (4) | 1989, 1999, 2003 | - | 31,467 | 05-13/2021 | |
| Automated Information Systems (67) | 2006 → 2016 | - | 9,571 | 09-15/2021 | |
| Furniture (292) | 1967 → 2015 | - | 92,430 | 01-03-06-07-10-12-14-16/2021 | |
| Total | | - | 168,315 | | |

6. Payables

| (in EUR) | 2021 | 2020 |
|-----------------------|------------------|----------------|
| Payables to Suppliers | 747,313 | 138,870 |
| Accruals | 391,368 | 221,090 |
| Payables to Nations | 305,074 | 520,377 |
| Other Payables | 97,302 | 37 |
| Total | 1,541,057 | 880,374 |

Payables are short-term liabilities to third parties directly related to the activities and operations of the NDC. Payables to suppliers include invoices from commercial vendors not yet settled, whereas accruals include goods and services received by year-end, but for which relevant invoices were not received by the reporting date. Additionally, accruals also include the cost associated with the balance of untaken leave at the end of 2021 (696 days - 2020: 668.5 days), amounting to 124,729 EUR (2020: 119,680 EUR).

The average credit period on purchases is 30 days. The NDC has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

Payables to nations encompass liabilities from financial result, liabilities from operational result and liabilities from lapses. They will be offset in the 2nd call for contribution 2022.

Exceptionally in 2021 and 2020, nations have decided to convert 2020 surplus funds into advances for the following year. In 2020, nations decided to convert 1.56 MEUR of the 2.0 MEUR 2020 lapses into advances for 2021, reducing the balance of payables to nations. In 2021, nations decided to convert the 520,377 EUR remainder of the 2020 surplus into 2022 advanced contributions, along with the 2022 advance of 2.0 MEUR, for a total of 2,520,377 EUR (see note 7). Nations have not taken a decision to convert the 2021 surplus funds.

Other payables include credits advanced by certain nations to pay the field study costs of their personnel attending the Senior Course. As a number of field studies had to be cancelled or curtailed due to COVID restrictions, such credits will be deducted from future balances due by the relevant nations for the same purpose.

7. Deferred revenue and advances

| (in EUR) | 2021 | 2020 |
|---|-------------------|-------------------|
| Deferred Revenue – carry forwards | 1,400,000 | 657,317 |
| Advance Contributions for next year | 2,520,377 | 4,165,000 |
| Total current deferred revenue | 3,920,377 | 4,822,317 |
| Investment in PPE | 12,698,451 | 12,406,766 |
| Total non-current deferred revenue | 12,698,451 | 12,406,766 |
| Total deferred revenue | 16,618,828 | 17,229,083 |

Current deferred revenue consists mostly of budget deferred revenue or advanced contributions for the next financial year, but for which corresponding expenses will be incurred after the reporting date. Advance contributions will be deducted from the 1st call for contribution 2022.

Advanced contributions include an element of 2020 surplus funds converted into 2022 advances (see note 6).

Non-current deferred revenue represents the net carrying amount of property, plant and equipment and intangible assets as at 31 December 2021. The revenue will be recognized in the year when the depreciation and amortization expense will be recognized.

8. Revenue

| (in EUR) | 2021 | 2020 |
|--|-------------------|------------------|
| Revenue from NDC budget 303 | 9,342,975 | 7,916,042 |
| Revenue from other NATO budgets | 628,876 | 358,362 |
| Revenue from third party reimbursables | 382,345 | 92 |
| Other revenue | 450,555 | 475,207 |
| Total Revenue | 10,804,751 | 8,749,703 |

In 2021 the NDC managed the following budgets:

- **NDC Budget (Military Budget code 303):** This revenue relates to the contributions received from the participating nations to exclusively cover the operating expenses of the College.
- **Other NATO budgets:** This revenue is the total from other NATO budgets. In 2021 the NDC managed a portion of the IMS Outreach Budget (budget code 501) in order to conduct Outreach/Cooperation activities with partner nations.
- **Third Party Reimbursables:** This revenue is the total of reimbursable activities conducted by the NDC, to include the NATO-Iraq Trust Fund.

Other revenue is revenue released from deferred revenue in respect of PPE depreciation.

9. Personnel

Employees are compensated for the service they provide in accordance with rules and amounts established by NATO. The compensation consists of basic salary, various allowances, health insurance, pension plan and other benefits as agreed with each host nation and the protocols of NATO.

The breakdown of personnel expenses is the following:

| (in EUR) | 2021 | 2020 |
|----------------------------|------------------|------------------|
| Employment of Personnel | 5,153,710 | 4,924,251 |
| Recruitment and Separation | 9,496 | 70,963 |
| Clothing | 1,496 | 1,467 |
| Medical Examinations | 14,016 | 26,112 |
| Training | 17,966 | 13,853 |
| Post-Employment Benefits | 247,174 | 238,854 |
| Total | 5,443,858 | 5,275,500 |

The balance of untaken leave at the end of 2021 was 696 days (2020: 668.5 days). The associated cost is recognized as an accrual.

Peacetime Establishment (PE):

| | Authorized PE | Filled Positions |
|---------------------------------------|---------------|------------------|
| Civilians | 53 | 50 |
| Military (IMP) | 52 | 44 |
| Voluntary National Contribution (VNC) | 1 | 4 |
| Host Nation | 32 | 30 |
| Partnership Posts | 4 | 3 |
| Total | 142 | 131 |

10. Contractual Supplies and Services

Contractual Supplies and Services are expenses required for administrative support to the NDC and include expenses for general administrative overheads, and the maintenance costs of buildings/grounds, communications and information systems, transportation, travel expenses, representation/hospitality and miscellaneous expenses.

Operating Leases: All leases of the NDC are operating leases as they do not transfer substantially all the risks and rewards incidental to ownership, they do not cover all of the assets' life, the ownership is not transferred by the end of the lease term and do not contain a bargain purchase option. Lease payments are recognized as an expense on a straight-line basis over the lease term.

In 2021, the NDC had only one non-cancellable operational lease contract related to the rental of copy machines for an amount of EUR 32,883 (2020: 32,883 EUR).

The future minimum lease payments are as follows:

- Less than one year: EUR 32,883
- Between one and five years: EUR 2,740
- Total non-cancellable operating lease payments: EUR 35,623

11. Related Parties Disclosure

The key management personnel includes: the Commandant, the Dean, the Director of Management, and the Head of Budget & Finance Branch. They are all rotated, typically every three years, and with the exception of the Head of Budget & Finance Branch, have only management oversight of routine operating and maintenance activities. The detailed work related to these tasks tends to be undertaken by staff officers.

The Financial Controller is also the Financial Controller of the International Military Staff and the Science and Technology Organization. The NDC, IMS and STO are therefore related parties under a common Financial Controller.

The other key management personnel of the entity have no significant known related party relationships that could affect the operation of this reporting entity. Key management is remunerated in accordance with the applicable national or NATO pay scales. They do not receive from NATO any additional remuneration for Board responsibilities or access to preferential benefits such as the entitlement to receive loans over and above those available to all NATO personnel under normal rules.

During the year, the NDC entered into non material transactions with other NATO entities outside the IMS Budget Group. The fees charged for these transactions were an appropriate allocation of the costs incurred.

12. Representation Allowance

Representation Allowance is allocated to certain designated high level officials whose position entails responsibility for maintaining relationships of value to NATO.

In 2021, one senior NDC official received representation allowance. The total entitlement was 3,379 EUR (2020: 4,317 EUR) and the actual expenses were 3,379 EUR (2020: 1,885 EUR) .

13. Events after reporting date

There have been no other material events between the reporting date and the date the financial statements are authorized for issue that would affect the amounts recognized in these financial statements.

14. Morale and Welfare Activities

The NDC carried out Morale and Welfare Activities (MWA) in 2021 for which a detailed annual special purpose report is presented to the Budget Committee. Morale and Welfare Activity is an activity of a NATO body that enhances the quality of life, promotes cohesion and integrity, and/or contributes to the physical and mental wellbeing of eligible individuals. At the NDC, the MWA mainly relate to petrol products, rationed items and a small shop offering mementoes and other few items.

The position of MWA at year-end is:

| (in EUR) | 2021 | 2020 |
|---|--------|--------|
| Cash and cash equivalents | 64,670 | 62,741 |
| Total liabilities including provisions and contingent liabilities | 980 | 820 |

Two staff members support the MWA as a minor part of their duties. The total extent of their MWA responsibilities amounts to less than one part-time equivalent.

ANNEX 1 - BUDGET EXECUTION STATEMENTS FOR THE YEAR ENDED 31/12/2021

A) NDC Budget (Military Budget Code 303)

| Budget Currency EURO | Initial Budget BA-1 | Transfers | BA-2 | Transfers | BA-3 | Transfers | Final Budget | Commitments | Expenses | Total Spent | Carry Forward | Lapsed |
|---|------------------------|-----------|-------------------|-----------|-------------------|-----------|-------------------|------------------|-------------------|-------------------|------------------|----------------|
| BUDGET 303 - 2021 | | | | | | | | | | | | |
| Chapter 1 | 6,424,246 | (216,410) | 6,207,836 | (221,350) | 5,986,486 | (274,286) | 5,712,200 | - | 5,394,953 | 5,394,953 | - | 317,247 |
| Chapter 2 | 3,668,932 | 122,910 | 3,791,842 | 221,350 | 4,013,192 | 344,593 | 4,357,785 | 500,000 | 3,857,754 | 4,357,754 | 500,000 | 31 |
| Chapter 3 | 1,052,000 | 93,500 | 1,145,500 | - | 1,145,500 | (70,307) | 1,075,193 | 900,000 | 175,193 | 1,075,193 | 900,000 | 1 |
| TOTAL FY 2021 | 11,145,178 | - | 11,145,178 | - | 11,145,178 | - | 11,145,178 | 1,400,000 | 9,427,899 | 10,827,899 | 1,400,000 | 317,279 |
| BUDGET 303 - 2020 | | | | | | | | | | | | |
| Chapter 2 | 147,121 | - | 147,121 | - | 147,121 | - | 147,121 | - | 147,121 | 147,121 | - | - |
| Chapter 3 | 510,196 | - | 510,196 | - | 510,196 | - | 510,196 | - | 510,196 | 510,196 | - | - |
| TOTAL FY 2020 | 657,317 | - | 657,317 | - | 657,317 | - | 657,317 | - | 657,317 | 657,317 | - | - |
| BUDGET 303 - ALL FYs | | | | | | | | | | | | |
| Chapter 1 | 6,424,246 | (216,410) | 6,207,836 | (221,350) | 5,986,486 | (274,286) | 5,712,200 | - | 5,394,953 | 5,394,953 | - | 317,247 |
| Chapter 2 | 3,816,053 | 122,910 | 3,938,963 | 221,350 | 4,160,313 | 344,593 | 4,504,906 | 500,000 | 4,004,875 | 4,504,875 | 500,000 | 31 |
| Chapter 3 | 1,562,196 | 93,500 | 1,655,696 | - | 1,655,696 | (70,307) | 1,585,389 | 900,000 | 685,388 | 1,585,388 | 900,000 | 1 |
| GRAND TOTAL BUDGET 303 ALL FYs | 11,802,495 | - | 11,802,495 | - | 11,802,495 | - | 11,802,495 | 1,400,000 | 10,085,216 | 11,485,216 | 1,400,000 | 317,279 |

B) Other NATO Budgets & Third Party Reimbursables

| Budget Currency | Initial Budget | Transfers Adjustments | Final Budget | Commitments | Expenses | Total Spent | Lapsed |
|---|------------------|-----------------------|------------------|-------------|------------------|------------------|----------|
| EURO | | | | | | | |
| REIMBURSABLE BUDGETS | | | | | | | |
| BUDGET 2021 ZNC (501/IMS - PfP)* | 413,000 | (227,678) | 185,322 | - | 185,322 | 185,322 | - |
| BUDGET 2021 ZNC (501/IMS - MD)* | 429,500 | (125,334) | 304,166 | - | 304,166 | 304,166 | - |
| BUDGET 2021 ZNC (501/IMS - ICI)* | 58,500 | (58,500) | - | - | - | - | - |
| BUDGET 2021 ZNC (501/IMS - OMC)* | 207,000 | (67,612) | 139,388 | - | 139,388 | 139,388 | - |
| TOTAL 2021 | 1,108,000 | (479,124) | 628,876 | - | 628,876 | 628,876 | - |
| TOTAL REIMBURSABLE BUDGETS | 1,108,000 | (479,124) | 628,876 | - | 628,876 | 628,876 | - |
| (*) According to the IMS Directives, since Budget 501 (Outreach PfP, MD, ICI and OMC) is reimbursable, the accrued and carried forward amounts are shown in both IMS and NDC books. Expenses are recognized / recorded on an accrual basis. | | | | | | | |
| REIMBURSABLE EXPENSES | | | | | | | |
| BUDGET 2021 N04 (TRUST FUNDS) | 66,553 | - | 66,553 | - | 66,553 | 66,553 | - |
| BUDGET 2021 Z01 (REIMBURSABLE EXPENSES) | 315,792 | - | 315,792 | - | 315,792 | 315,792 | - |
| TOTAL 2021 | 382,345 | - | 382,345 | - | 382,345 | 382,345 | - |
| TOTAL REIMBURSABLE EXPENSES | 382,345 | - | 382,345 | - | 382,345 | 382,345 | - |
| TOTAL REIMBURSABLE BUDGETS & EXPENSES | 1,490,345 | (479,124) | 1,011,221 | - | 1,011,221 | 1,011,221 | - |

In accordance with the NFRs, article 34.4, the NDC has included within its financial statements a budget execution report of its main budget (military budget code 303) that shows the initial budget allocations, the in-year changes as authorized under the authority of the Financial Controller or by the Budget Committee, the final approved budget and its execution status for the financial year 2021. Funds lapsed and carried forward are also included. In addition thereto, a budget execution statement for all reimbursable budgets managed by the NDC has also been included.

The budgets and the financial statements are not prepared on the same basis. In the financial statements current year depreciation is recognized as an expense, while in the budgets all non-current assets are fully expensed during the year. The following table summarizes the differences:

| (in EUR) | 2021 |
|---|-------------------|
| Expenses NDC Budget (BC303) | 10,085,216 |
| Total reimbursable budgets | 628,876 |
| Total reimbursable expenses | 382,345 |
| Total Expenses All Budgets | 11,096,437 |
| Capital and investments | (742,241) |
| Depreciation | 450,555 |
| Total Expenses, Statement of Financial Performance | 10,804,751 |



**Office of the Chief Scientist
Bureau du Directeur Scientifique**

Headquarters - Brussels - Belgium | Siège - Bruxelles - Belgique



31 March 2022

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Chair
International Board of Auditors for NATO (IBAN)

Subject : The Science and Technology Organization consolidated Financial Statements for the Year ended 31 December 2021

1. Please find attached the 2021 Science and Technology Organisation (STO) Financial Statements, issued in accordance with NATO Financial Regulation (NFR) Article 35.1, and the STO Charter C-M(2012)0046 Article 25.
2. I can confirm that, in accordance with NFR Financial Rules and Procedures (FRP) XXXV (4), the STO can agree to public disclosure of these Financial Statements.
3. Notwithstanding the above, as stated in C-M(2012)0041, public disclosure of IBAN Audit Reports is a matter for Council decision, based upon the recommendation of the RPPB. Decisions are informed by the NATO policy on public disclosure of documents (C-M(2008)0116).
4. The IBAN Audit Report covering these Financial Statements has not been completed, but should be issued to Council prior to 31st August 2022 (NFR 15.2). As such, the STO is not yet in a position to anticipate any potential representations that may be made to the RPPB, regarding the Audit Report.
5. The STO therefore reserves its position on public disclosure of the eventual IBAN Audit Report.

Sincerely yours

Dr Bryan WELLS
NATO Chief Scientist
STB Chairman

Annex 1: STO Financial Statements FY 2021

1 Annex

Copy to: Financial Controller International Military Staff & Science and Technology Organization,
Director Collaboration Support Office (CSO),
Director Center Maritime Research and Experimentation (CMRE)
Head of Finance CSO
Head of Finance CMRE

Consolidated financial statements of the
NATO SCIENCE AND TECHNOLOGY ORGANIZATION
for the year ended 31 December 2021



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Introduction

1. The NATO Science & Technology Organization (STO) is a NATO organisation, with a NAC approved Charter¹. The mission of the NATO STO is to help position the Nations' and NATO's S&T investments as a strategic enabler of the knowledge and technology advantage for the defence and security posture of NATO Nations and partner Nations by:
 - a. Conducting and promoting S&T activities that augment and leverage the S&T capabilities and programmes of Nations and NATO in support of Alliance objectives;
 - b. Contributing to NATO's ability to influence security and defence related capability development and threat mitigation in NATO and partner Nations;
 - c. Delivering targeted and timely evidence-based advice in support of decision-making in NATO Nations and NATO.
2. According to the STO Charter, governance of the STO is vested in the Science & Technology Board (STB). The STO has three separate executive bodies, each one with a Head of NATO Body, budget or revenue stream, supported by the STO Financial Controller:
 - a. Office of the Chief Scientist (OCS), located in the NATO Headquarters, Brussels, Belgium;
 - b. Collaboration Support Office (CSO), located in Neuilly-sur-Seine, France ; and
 - c. Centre for Maritime Research & Experimentation (CMRE), located in La Spezia, Italy.
3. The OCS and CSO are NATO common-funded entities and their budgets part of the Military Budget. CMRE is customer funded and its revenue recognized based on goods and services delivered to its customers.
4. The STO 2021 Financial Statements have been prepared in accordance with the NATO Accounting Framework (NAF), based on International Public Sector Accounting Standards (IPSAS) as adapted by NATO and the NATO Financial Regulations (NFRs). They are presented in a commonly adopted layout.
5. The International Board of Auditors for NATO (IBAN) issued² an unqualified opinion on the Financial Statements of the Science and Technology Organisation (STO) and on compliance for the financial year 2020. IBAN made two observations and recommendations on the fair presentation of conversion of lapsed appropriations into advanced contributions and on the fact that an improvement was needed in the internal control process for the preparation of financial statements and budget execution statement.
6. The IMS Budget Group covers a number of budgets and entities linked together for financial management purposes by a Financial Controller. The Financial Controller is the Financial Controller of the International Military Staff, the NATO Defense College and the Science and Technology Organization (STO). These entities are therefore related parties under a common Financial Controller.
7. Throughout 2021, the STO experienced and shared in the impact of the COVID-19 pandemic as it took effect in Europe and around the world. The spread of the virus on a pandemic scale, and the

¹C-M(2012)0046

²IBA-A(2020)0122

related response measures necessary for the STO to implement, not only caused deviations from the planned activities but also affected the modus operandi of the Organization.

8. Despite the challenges of the continued COVID-19 pandemic, the OCS maintained its level of support to the STB and ensured efficient STB decision-making through regular virtual meetings. In 2021, the OCS successfully delivered an ambitious reporting programme to inform and advise the Deputies Committee (DPRC) on topics related to Emerging & Disruptive Technologies. This was also the first year of a dedicated programmatic budget for the Chief Scientist. This budget proved very effective in supporting research work in areas such as climate change and space technologies.

9. In 2021, the S&T Collaboration Support Office (CSO) concentrated its efforts on delivering an efficient administrative and executive support to the Science & Technology Collaborative Program of Work (CPoW), investing in offering the STO community a secure virtual working environment and this way somewhat mitigating the unavoidable effect of the pandemic on the STO collaborative activities. In the meantime, the approval of its Peacetime Establishment (PE) Review (effective on 20 August 2021), meant increased activity in recruiting new staff members, implementing a new organization, and defining new processes. Among the key functions the new CSO structure allows, priority will be given towards collaborating with NATO entities to increase the visibility of the S&T Collaborative Model and its outputs.

10. The 2021 CMRE Financial Plan Execution was finalized with revenue of EUR 26.8M compared to Plan of EUR 28.2. After implementing austerity measures across the organization in 2021, there is a minimal accounting loss reported. However, there is an increase in General Reserves and CMRE will be in a position to partially fund the Vessel Dry Dock reserve and begin to repay the Net Equity Fund that was used, as approved by the Board, to pay for Loss of Job Indemnity under the Restructuring Plan.



Dr Bryan Wells
NATO Chief Scientist
Chairman, NATO Science and Technology Board



Rui M.M. da Silva
PRTCV - Financial Controller

Statement on Internal Control

The NATO Chief Scientist and Chairman of the Science and Technology Board (STB), together with the Directors of the Centre for Maritime Research and Experimentation (CMRE) and the Collaborative Support Office (CSO), as Heads of the three Executive Bodies of the STO, collectively exercise overall responsibility for STO Risk Management and Internal Control systems, in accordance with Articles 11.1 and 12.1 of the NATO Financial Regulations (NFRs).

The STO Financial Controller is responsible for financial risk management and for establishing financial risk management standards (NFR Financial Rules and Procedures XI.3 and XI.4). In addition, the Financial Controller is responsible for the system of internal financial and budgetary control (NFR 12.2).

The systems of Risk Management and Internal Financial Control are based on an on-going process designed to identify the principal risks to the achievement of STO policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 December 2021 and up to the date of these Financial Statements.

The systems of Risk Management and Internal Financial Control are designed to manage and minimize rather than entirely eliminate risk at the STO. Risk management and internal financial controls can therefore provide only a reasonable, but not absolute, assurance of effectiveness. The risks addressed at the STO include risks to STO operational aims and objectives; compliance with the NFRs; the reliability of financial information; and the safeguarding of assets.

The risk management and financial control processes at the STO provide a network of internal controls that can be assessed using the five key components of the COSO Framework:

Control Environment

The culture and ethical values of the overall control environment are established by senior management. Measures for the promotion of ethical values include: STO participation in the NATO-wide 'Building Integrity' Initiative; the promulgation of the NATO Code of Conduct to all STO staff; and disclosures on any senior management related party transactions in the annual financial statements.

Oversight is provided by the Science and Technology Board (STB), supported by various sub-groups, who routinely scrutinize STO Senior Management reports on strategic operational matters.

On financial matters, interim Budgetary Execution Reports are presented to and reviewed by the NATO Budget Committee two times a year for the common-funded entities. In addition, STO financial requirements comprising the yearly budget proposals are screened and reviewed by the Nations at various oversight fora. For the customer-funded entity, the financial execution and the annual financial plan are submitted to and screened by the STB Finance and Audit Sub-Group (FASG).

The overall structure of the STO incorporates clearly defined responsibilities and authorities

in the pursuit of operational objectives. In this regard, the Finance and Audit Sub-Group (FASG) mission is to prepare the decision making process of the STB, pertaining to the financial and audit governance of the STO and the STO's Executive Bodies. The scope of the FASG activities covers all financial, audit and financial risk aspects of the STB's Governance.

Risk Assessment

The STO continues to develop internal risk management policies and procedures, adapting existing risk management frameworks, to better identify those events that if occurring may affect the achievement of its objectives.

The heads of each executive body regularly monitor actions mitigating the significant risks identified. Risk management processes continue to be developed, with the assistance of external consultants when necessary.

The Science and Technology Board (STB) is routinely informed about risks affecting the STO, via the work of the STB Finance and Audit Sub-Group (FASG).

Although in the course of 2021 some of the planned efforts were adversely affected by the limitations imposed by COVID-19, it is anticipated that in the course of 2022 the STO and its executive bodies will deploy relevant initiatives to further enhance the understanding of the risks which are implied in the set strategy, in order to anticipate adverse events and take the necessary corrective measures.

Control Activities

In the financial domain, the STO finance and accounting system (FinS) has built-in approval workflows and controls, together with audit trails. The controls are designed in order that the transactions are recorded consistently, accurately and in accordance with the applicable rules and regulations.

The heads of each executive body are supported by executive management boards who meet on a routine basis to review internal processes and to inform decision-making.

Information and Communication

STO internal communications are enhanced by strong reporting lines. The STO has extensive guidance on the management of information and communications. This promotes effective communications in pursuit of operational objectives. Communication also provides for the effective functioning of internal control. The FASG, for example, reports to the STB.

The STO communicates externally on matters affecting the functioning of internal control mechanisms including the Statement on Internal Control, which is included in the financial statements. External Audits include examinations of internal controls and compliance. The results of these audits are reviewed by various oversight authorities and made available to the general public along with the financial statements.

Monitoring

An outsourced Internal Audit service provider is engaged on a periodic basis, to undertake

internal audit assignments. The STO is also subject to annual external audit from the International Board of Auditors for NATO (IBAN).

Recommendations and observations arising from audits are assessed by the FASG, which vets the remediation actions, reporting the results to the STB.

The Chairman of the STB, the Heads of NATO body of CSO and CMRE and the Financial Controller have collective responsibility for reviewing the effectiveness of the system of internal control. The review is informed by the above five COSO components, and by the work of STO Senior Managers, external audits, internal audits, and the work of various sub-groups reporting to the STB, including the Finance and Audit Sub-Group (FASG).

The IBAN audit of the STO 2020 Financial Statements resulted in an unqualified opinion, with an observation to strengthen the internal control process over the preparation of the financial statements. The STO has taken the necessary steps to improve the preparation and review process for the production of the financial statements by ensuring that information and tables are rigorously and independently reviewed before they are issued.

The STO continues to work on all outstanding IBAN observations. A particular focus is on improving the implementation of risk management practices specifically tailored to each of the executive bodies. This was also suggested by the follow-up on the Internal Audit Mission on Risk Management conducted by NCIA in 2021, areas of improvements still exist and as such, in the course of 2022, the STO will further enhance the effectiveness of its risk management framework.

Overall, we are satisfied that the Risk Management and Internal Financial Control systems in operation across the STO during the year 2021 were reasonably adequate and effective.



Dr Bryan Wells
NATO Chief Scientist
Chairman, NATO Science and Technology Board



Rui M.M. da Silva
PRTCV - Financial Controller

STO Consolidated Statement of Financial Position

as at 31 December 2021

(in EUR)

| | | <u>2021</u> | <u>2020</u> <u>Restated</u> |
|---|-------|-------------------|--------------------------------|
| | Notes | | |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 2 | 7,821,348 | 8,286,156 |
| Receivables | 3 | 5,637,422 | 4,942,020 |
| Prepayments | 4 | 341,265 | 460,987 |
| | | <u>13,800,035</u> | <u>13,689,163</u> |
| Non-current assets | | | |
| Property, plant & equipment | 5 | 2,887,016 | 3,791,339 |
| | | <u>2,887,016</u> | <u>3,791,339</u> |
| Total assets | | <u>16,687,051</u> | <u>17,480,502</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Payables | 6 | 2,237,966 | 2,952,119 |
| Deferred revenue | 7 | 725,924 | 627,544 |
| Advances | 8 | 2,839,152 | 3,728,508 |
| Other current liabilities | 9 | 1,100,610 | 233,387 |
| | | <u>6,903,652</u> | <u>7,541,558</u> |
| Non-current liabilities | | | |
| Deferred revenue | 10 | 814,207 | 347,075 |
| | | <u>814,207</u> | <u>347,075</u> |
| Total liabilities | | <u>7,717,859</u> | <u>7,888,633</u> |
| Surplus/Deficit | | (622,677) | (2,270,996) |
| Retained earnings | 11 | 9,591,869 | 11,862,865 |
| Total net assets | | <u>8,969,192</u> | <u>9,591,869</u> |
| Total net assets and liabilities | | <u>16,687,051</u> | <u>17,480,502</u> |

Dr Bryan Wells
NATO Chief Scientist
Chairman, NATO Science and Technology Board

Rui M.M. da Silva
PRTCV - Financial Controller

The notes on pages 12 to 28 form an integral part of these financial statements.

The financial statements were issued to the International Board of Auditors for NATO on 31 March 2022.

STO Consolidated Statement of Financial Performance

for the year ended 31 December 2021

(in EUR)

| | | <u>2021</u> | <u>2020</u> <u>Restated</u> |
|---|-------|-------------------|--------------------------------|
| | Notes | | |
| Revenue | | | |
| Revenue | 12 | 33,776,586 | 31,845,422 |
| Financial revenue | | 173,368 | 18,164 |
| Total revenue | | <u>33,949,954</u> | <u>31,863,586</u> |
| Expense | | | |
| Personnel | 13 | 21,828,329 | 19,358,581 |
| Contractual supplies and services | 14 | 11,118,829 | 12,909,378 |
| Depreciation | 5 | 1,435,532 | 1,600,413 |
| Financial costs | | 189,941 | 266,210 |
| Total expense | | <u>34,572,631</u> | <u>34,134,582</u> |
| Surplus/(Deficit) for the period | | <u>(622,677)</u> | <u>(2,270,996)</u> |

STO Consolidated Cash Flow Statement

for the year ended 31 December 2021

(in EUR)

| | | 2021 | 2020 Restated |
|--|-------|-----------|------------------|
| Cash flow from operating activities | Notes | | |
| Surplus/(Deficit) | | (622,677) | (2,270,996) |
| Non-cash movements | | | |
| Depreciation | 5 | 1,435,532 | 1,600,413 |
| Increase / (decrease) in payables | | (714,153) | (158,022) |
| Increase / (decrease) in deferred revenue | | 98,379 | 220,866 |
| Increase / (decrease) in advances | | (889,355) | 953,378 |
| Increase / (decrease) in other current liabilities | | 867,223 | (51,138) |
| Increase / (decrease) in deferred revenue | | 467,132 | (52,151) |
| (Increase) / decrease in other current assets | | 119,722 | (189,163) |
| (Increase) / decrease in receivables | | (695,402) | 535,905 |
| Net cash flow from operating activities | | 66,401 | 589,092 |
| Cash flow from investing activities | | | |
| Purchase of property plant and equipment | 5 | (531,209) | (594,833) |
| Net cash flow from investing activities | | (531,209) | (594,833) |
| Cash flow from financing activities | | | |
| Net cash flow from financing activities | | - | - |
| Net increase/(decrease) in cash and cash equivalents | | (464,808) | (5,741) |
| Cash and cash equivalent at the beginning of the period | | 8,286,156 | 8,291,897 |
| Cash and cash equivalent at the end of the period | 2 | 7,821,348 | 8,286,156 |

STO Consolidated Statement of Changes in Net Assets

| | Commitments / Legal Obligations | Depreciation Reserve | Vessels Reserve | Net Equity Fund | General Reserve | Total |
|--|---------------------------------------|-------------------------|--------------------|--------------------|--------------------|-------------|
| Balance at the end of the period 2019 | 1,459,488 | 4,397,694 | 615,000 | 3,500,000 | 1,890,683 | 11,862,865 |
| Surplus/(deficit) for the period | (204,181) | (953,429) | 191,537 | - | (1,304,923) | (2,270,996) |
| Change in net assets/equity for the year ended 2020 | (204,181) | (953,429) | 191,537 | - | (1,304,923) | (2,270,996) |
| Balance at the end of the period 2020 | 1,255,307 | 3,444,265 | 806,537 | 3,500,000 | 585,760 | 9,591,869 |
| Surplus/(deficit) for the period | (652,315) | (1,371,455) | 4,313 | (1,184,484) | 2,581,264 | (622,677) |
| Change in net assets/equity for the year ended 2021 | (652,315) | (1,371,455) | 4,313 | (1,184,484) | 2,581,264 | (622,677) |
| Balance at the end of the period 2021 | 602,992 | 2,072,810 | 810,850 | 2,315,516 | 3,167,024 | 8,969,192 |

Notes to the STO Consolidated Financial Statements

1. Significant accounting policies

1.1. Basis of preparation

The STO financial statements 2021 have been prepared in accordance with the NATO Accounting Framework (NAF). The NAF is based on International Public Sector Accounting Standards (IPSAS), as adopted by NATO. The financial statements comply with the financial requirements of the NATO Financial Regulations (NFRs) and the relevant entity directives and policies. In instances where there is a conflict between IPSAS and the NFRs, this has been noted.

The financial statements have been prepared on a going-concern basis.

In accordance with Article 2 of the NFRs, the financial year covered by these financial statements is 1 January to 31 December 2021. The financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair value at the end of each reporting period. The principal accounting policies are set out below. They have been applied consistently to all periods presented. The accounting principles recognized as appropriate for the recognition, measurement and reporting of the financial position, performance and cash flows on an accrual-based accounting using historical costs have been applied consistently throughout the reporting period.

1.2. Accounting estimates and judgments

In accordance with IPSAS and generally accepted accounting principles, the financial statements necessarily include amounts based on estimates and assumptions made by the management and based on historical experience as well as on the most reliable information available. In exercising the judgements to make the estimates, a degree of caution was included in light of the principle of 'prudence' required by IPSAS in order not to overstate assets or revenue or understate liabilities or expenses.

The estimates and underlying assumptions are reviewed on an ongoing basis. These estimates and assumptions affect the amounts of assets, liabilities, revenue and expenses reported. By their nature, these estimates are subject to measurement uncertainty. The effect of changes to such estimates and assumptions in future periods could be significant to the financial statements.

1.3. Changes in accounting policies

The 2020 comparative balances have been restated to correct a clerical error in the 2020 financial statements as well as to reflect minor changes in accounting policy and presentation.

Prior period correction of error in the 2020 statement of financial position

In the 2020 financial statements, the incorrect amount of 12,197,064 EUR was displayed as retained earnings, on the face of the statement of financial position; this error has been corrected by restating the 2020 comparative balance to the amount of 11,862,865 EUR. The correct balance was used throughout the rest of the 2020 financial statements.

Recognition of financial revenue / financial costs for budget-funded entities

The financial result of the budget-funded entities, i.e. the net of bank interest earned, bank charges incurred and exchange rate gains and losses due to transactions in foreign currency, is collected on behalf of the nations and therefore recognized as a payable to nations. Previously, financial revenue and costs were partially recognized in the statement of financial performance according to the matching principle of revenue and expenses.

This change in accounting policy leads to a reduction of 1,147 EUR for the amounts of financial revenue and financial costs in the 2020 comparatives of the statement of financial performance. The amount of financial revenue in the restated 2020 comparatives is now 18,164 EUR, compared to 19,311 EUR in the 2020 financial statements. The amount of financial costs is reduced from 267,357 EUR in the 2020 financial statements to the restated 2020 comparatives of 266,210 EUR.

As a result, the financial revenue and financial costs that continue to be presented on the face of the STO consolidated statement of financial performance only relate to CMRE.

Presentational change of deficits from financial results

In order to provide more relevant data for the users of the financial statements some presentational change has been made. The excess of financial expenses over financial revenue is no longer presented as a receivable from Nations, but is directly offset against payables to Nations within other current liabilities. The balances related to these changes have been restated accordingly for the 2020 comparative information.

The total amount of other current liabilities on the face of the restated 2020 statement of financial position is now 4,942,020 EUR, reduced by 7,208 EUR from 4,949,228 EUR in the 2020 financial statements while the total amount of other current liabilities is increased by the same amount to 233,387 EUR, compared to 240,596 EUR in the 2020 financial statements.

1.4. Changes in pronouncements

At the date of authorization of these financial statements, the STO has not applied the following new and revised IPSAS that have been issued but are not yet effective. The effective dates of the following have been deferred due to COVID-19:

- IPSAS 41 Financial Instruments
- IPSAS 42 Social Benefits
- Amended or new paragraphs in IPSAS 1, 4, 5, 9, 12, 14, 19, 21, 23, 24, 26, 28, 29, 30, 32, 33, 34, 35, 36, 37, 38, 40

It is not expected that the adoption of or updates to these standards will have a material impact on the financial statements of the STO in future periods.

1.5. Foreign currency transactions

These financial statements are presented in euro (EUR), which is the STO functional and reporting currency. Foreign currency transactions are accounted for at the NATO exchange rates prevailing at

the date of the transaction. Monetary assets and liabilities which were denominated in foreign currencies at year-end are assessed for materiality and if material are converted into euro using the applicable NATO exchange rates as at 31 December 2021. Realized and unrealized gains and losses resulting from the settlement of such transactions and from the revaluation at the reporting dates of monetary assets and liabilities denominated in foreign currencies are recognized in the Statement of Financial Performance.

1.6. Consolidation

The STO comprises the Science and Technology Board (STB) and three separate executive bodies:

| Name | Location |
|---|----------------------------|
| Office of the Chief Scientist (OCS) | Brussels – Belgium |
| Collaboration Support Office (CSO) | Neuilly-sur-Seine – France |
| Centre for Maritime Research and Experimentation (CMRE) | La Spezia – Italy |

According to Article 25 of the Charter of the NATO Science and Technology Organization, the NATO Chief Scientist, supported by the STO Financial Controller, shall submit consolidated annual financial statements to the STB and the International Board of Auditors for NATO (IBAN).

The three bodies each have a separate Director (Head of NATO Body), and a separate budget or revenue stream. None of the bodies has control over the others, as defined in IPSAS 35 - paragraphs 18-22. CSO and OCS are common funded entities and CMRE is customer funded.

Morale and Welfare Activities (MWA) such as sport, community service, retail and concessionary activities are only conducted by the CMRE. In accordance with the NATO Accounting Framework departure from IPSAS 6, these activities are not consolidated into the respective financial statements of NATO reporting entities. More information on MWA is disclosed in note 19.

1.7. Services in-kind

The STO received services in-kind in the form of military personnel provided by the NATO nations. Such personnel are assigned to specific military positions on the Personnel Establishment (CMRE) and Peacetime Establishments (CSO and OCS) of the executive bodies and/or provided as voluntary contributions. This also includes military personnel assigned to the crew of the research vessels Alliance and Leonardo. In these financial statements, services in-kind are recognized neither as revenue nor as an asset.

1.8. Financial instruments disclosure/presentation

STO uses only non-derivative financial instruments as part of its normal operations. These financial instruments include cash, bank accounts, deposit accounts, accounts receivable, provisions and cash transfers between NATO entities.

All the financial instruments are recognized in the Statement of Financial Position at their fair value.

Credit risk: In the normal course of business, STO incurs credit risk from trade receivables and transactions with banking institutions. The STO manages its exposure to credit risk by:

Holding current account bank balances and short-term deposits with registered banking institutions with a high credit rating;

Maintaining credit control procedures over receivables.

The maximum exposure as at 31 December 2021 is equal to the total amount of bank balances, short-term deposits, and receivables disclosed in the Statement of Financial Position. Receivables considered uncollectible are adequately accounted for. There is a very limited credit risk associated with the realization of these instruments.

Currency risk: The STO's exposure to foreign currency exchange risk is very limited, as most of its transactions are dealt with in euros. A limited number of transactions are accounted for in other currencies.

Liquidity risk: The liquidity risk is based on the assessment of whether the organization will encounter difficulties in meeting its obligations associated with financial liabilities.

For CSO and OCS, there is a very limited exposure to liquidity risk because of the budget funding mechanism that guarantees contributions in relation to approved budgets. The accuracy of forecasting cash requirements as well as the delay in payment represent the main liquidity risk. For CMRE, liquidity risk is minimized by the cash available in the Net Equity Fund (NEF) and by the policy of requiring pre-payments and milestone payments from customers.

Interest rate risk: The organization is restricted from entering into borrowings and investments, and therefore there is no interest rate risk identified.

1.9. Cash and cash equivalents

Cash and cash equivalents are defined as short-term assets. They include cash in hand and deposits held with banks.

1.10. Receivables

Receivables are stated at net realizable value after provision for doubtful and uncollectible debts. It can also include amounts due from other NATO entities and/or staff members.

Contributions receivable are recognized when a call for contribution has been issued to the member nations. No allowance for loss is recorded with respect to member countries' assessed contributions receivable except for exceptional and agreed technical reasons.

1.11. Prepayments

Prepayments and deposits are payments to suppliers, employees and other NATO entities in advance of the period to which they pertain.

1.12. Property, plant and equipment (PP&E)

Property, plant and equipment with finite useful lives that are acquired separately are carried at initial cost less accumulated depreciation and any recognized impairment losses.

Depreciation is recognized on a straight-line basis over their estimated useful lives. Monthly depreciation is charged in the month of acquisition and nil in the month of disposal. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period with the effect of any changes in estimate accounted for on a prospective basis. Property, plant and equipment is derecognized when no future economic benefit is expected. The cost and any related accumulated depreciation are removed from the accounting records.

Assets purchased prior to the implementation of the NATO Accounting Framework

In accordance with the NATO Accounting Framework adaptation of IPSAS 17, Property, plant and equipment acquired prior to 1 January 2013 has been fully expensed and the STO does not foresee any grouping of assets. STO owns or controls approximately 100 assets purchased before 1 January 2013, amongst them the NATO Research Vessel Alliance and the Coastal Research Vessel Leonardo. In accordance with the NATO Accounting Framework, the STO capitalizes within the relevant equipment category, improvements made to the assets on or after 1 January 2013.

1.13. Impairment of tangible and intangible assets

The carrying values of non-current assets are reviewed for impairment when events or changes in circumstances indicate that they may be not recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Any provision for impairment is charged against the statement of financial performance in the year concerned.

1.14. Payables

Payables (including amounts due to other NATO entities) are recognized at their fair value. This includes estimates of accrued obligations for goods and services received but not yet invoiced.

1.15. Deferred revenue

For CSO and OCS, deferred revenue represents contributions from nations and/or third parties that have been called for current or prior year budgets but that have not yet been recognized as revenue.

For CMRE, deferred revenue represents revenue from customers for current or prior year activities for which goods have not been delivered or services have not been rendered at year-end.

1.16. Advances

For CSO and OCS, advances are income or contributions from member nations or third parties called or received, that are related to future budgets. Funds are called in advance of their need because the entity has no capital that would allow it to pre-finance any of its activities.

For CMRE, advances from customers are either cash received as working capital or result from advance billing to customers where the rate of expenditure has fallen behind the agreed payment milestones.

1.17. Employee benefits – Post-employment benefits

STO employees participate either in the Defined Contribution Pension Scheme (DCPS) or in the Coordinated Pension Scheme.

The assets and liabilities for all of NATO's post-employment benefit schemes are accounted for centrally at NATO Headquarters by the International Staff (NATO IS) and therefore are not recognized in these financial statements.

Defined Contributions Pension Scheme: The assets of the plan are held separately from those of STO in funds under the control of an independent Administrator. The STO is required to contribute a specified percentage of payroll costs to the DCPS to fund the benefits. Payments to the DCPS are recognized as an expense when employees have rendered service entitling them to the contributions. The only obligation of STO with respect to the DCPS is to make the specified contributions.

Coordinated Pension Scheme: Employees who joined NATO before 1 July 2005 are members of the NATO Coordinated Pension Scheme, which is a funded defined benefit plan. Under the plan and upon completion of 10 years employment with NATO, the employees are entitled to retirement benefits of 2% per year of service of final basic salary on attainment of a retirement age of 60.

Continued Medical Coverage: Some qualifying retirees may also benefit from Continued Medical Coverage (CMC).

1.18. Net Assets

Net assets are the residual interest in the assets of the entity after deducting its liabilities.

NATO entities perform their activities on a no profit/no loss basis over the reporting period. However, this does not prohibit the realization of an operating surplus or deficit in the financial reporting period.

1.19. Revenue

Revenue comprises contributions from member nations and other customers to fund STO activities. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably.

For CSO and OCS, revenue is recognized in the Statement of Financial Performance in the year for which the contributions are used for their intended purpose as envisioned by the budgets. The balance of unspent contributions and other revenues that relate to future periods are deferred accordingly. Where a transfer is subject to conditions that, if unfulfilled, require the return of the transferred resources, the entity recognizes a liability until the condition is fulfilled.

For CMRE, revenue is recognized as goods and services are delivered to customers.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Exchange rate revenue due to transactions in foreign currency, in accordance with IPSAS 4 – Effect of

the foreign exchange rate, is recognized as financial revenue.

2. Cash and cash equivalents

| | (in EUR) | |
|------------------|------------------|------------------|
| | 2021 | 2020 |
| Petty cash | 2,869 | 846 |
| Current accounts | 7,818,479 | 8,285,310 |
| Total | 7,821,348 | 8,286,156 |

Cash and cash equivalents are short-term liquid assets, held in EUR, GBP and USD. Deposits are held in interest bearing bank accounts in immediately available funds. For CSO and OCS, cash holdings are largely determined by the timing of receipts from the nations, which arrive in two instalments, generally in April and December.

3. Receivables

| | (in EUR) | |
|--|------------------|----------------------|
| | 2021 | 2020 Restated |
| Receivable from non consolidated NATO entities | 209,499 | 63,749 |
| Receivable from governments | 65,286 | 11,592 |
| Other receivables | 5,362,637 | 4,866,679 |
| Total | 5,637,422 | 4,942,020 |

Other receivables are mainly invoices to be established for services that have been provided to CMRE customers, including NATO HQ SACT, but not invoiced at the end of the reporting period.

4. Prepayments

| | (in EUR) | |
|--------------------------|----------------|----------------|
| | 2021 | 2020 |
| Prepaid expenses | 221,519 | 231,547 |
| Advances to vendors | 119,746 | 229,440 |
| Total Prepayments | 341,265 | 460,987 |

Prepaid expenses are amounts paid for expenses incurred or services rendered, but for which the benefits continue to flow in the following financial years. The figure relates, for the most part, to CMRE prepaid insurance for the two vessels and software licenses.

Advance to vendors is payment for which goods have not been received, or services have not been rendered.

5. Property, plant and equipment

(in EUR)

| | Mission equipment | AIS equipment | Vehicles | Installed equipment | Work in progress | Total |
|---|--------------------|------------------|-----------------|---------------------|------------------|--------------------|
| Gross Book Value (1 Jan 2020) | 4,580,499 | 509,415 | 55,608 | 2,852,593 | 652,427 | 8,650,542 |
| Accumulated Depreciation | (2,418,328) | (426,544) | (17,301) | (991,450) | - | (3,853,622) |
| Net Book Value (1 Jan 2020) | 2,162,171 | 82,871 | 38,307 | 1,861,143 | 652,427 | 4,796,920 |
| Additions in 2020 | 369,516 | 222,295 | - | - | 3,022 | 594,833 |
| Adjustments in 2020 | - | 652,427 | - | - | (652,427) | - |
| Depreciation in 2020 | (1,061,142) | (242,370) | (11,141) | (285,760) | - | (1,600,413) |
| Net Book Value (31 Dec 2020) | 1,470,545 | 715,223 | 27,166 | 1,575,383 | 3,022 | (1,600,413) |
| Gross Book Value (31 Dec 2020) | 4,950,015 | 1,384,137 | 55,608 | 2,852,593 | 3,022 | 9,245,375 |
| Accumulated Depreciation (31 Dec 2020) | (3,479,470) | (668,914) | (28,442) | (1,277,210) | - | (5,454,036) |
| Net Book Value (31 Dec 2020) | 1,470,545 | 715,223 | 27,166 | 1,575,383 | 3,022 | 3,791,339 |

(in EUR)

| | Mission equipment | AIS equipment | Vehicles | Installed equipment | Work in progress | Total |
|---|--------------------|------------------|-----------------|---------------------|------------------|--------------------|
| Gross Book Value (1 Jan 2021) | 4,950,015 | 1,384,137 | 55,608 | 2,852,593 | 3,022 | 9,245,375 |
| Accumulated Depreciation | (3,479,470) | (668,914) | (28,442) | (1,277,210) | - | (5,454,036) |
| Net Book Value (1 Jan 2021) | 1,470,545 | 715,223 | 27,166 | 1,575,383 | 3,022 | 3,791,339 |
| Additions in 2021 | - | - | 47,416 | 483,793 | - | 531,209 |
| Adjustments in 2021 | - | - | - | 3,022 | (3,022) | - |
| Depreciation in 2021 | (827,363) | (303,025) | (11,907) | (293,237) | - | (1,435,532) |
| Net Book Value (31 Dec 2021) | 643,182 | 412,198 | 62,675 | 1,768,961 | - | 2,887,016 |
| Gross Book Value (31 Dec 2021) | 4,950,015 | 1,384,137 | 103,024 | 3,339,408 | - | 9,776,584 |
| Accumulated Depreciation (31 Dec 2021) | (4,306,833) | (971,939) | (40,349) | (1,570,447) | - | (6,889,568) |
| Net Book Value (31 Dec 2021) | 643,182 | 412,198 | 62,675 | 1,768,961 | - | 2,887,016 |

Property, plant and equipment are capitalized in the following categories:

| Category | Useful life | Threshold |
|---|-------------|-----------|
| Mission equipment | 3 | 50,000 |
| Automated information systems equipment | 3 | 50,000 |
| Vehicles | 5 | 10,000 |
| Installed equipment | 10 | 30,000 |

The depreciation charge for the year was 1,435,532 EUR (2020: 1,600,413 EUR)

The premises of the three entities are generally provided by the Host Nation at no cost or at a nominal charge. Leasehold improvements made after 1 January 2013 are capitalized in accordance with the STO accounting policies.

STO – Assets purchased prior to the implementation of the NATO Accounting Framework

In accordance with the NATO Accounting Framework, PP&E acquired prior to 1 January 2013 has been fully expensed and the STO does not foresee any grouping of assets.

CSO owns one staff car purchased before 1 January 2013.

CMRE owns approximately 100 assets purchased before 1 January 2013.

- *Vessels*
 - *The NRV Alliance*
 - *The CRV Leonardo*
- *IT Equipment*
 - *Disaster recovery*
 - *Satellite communication system*
 - *Various workstations and servers*
- *Mission Equipment*
 - *Multiple types of autonomous vehicles*
 - *Towed acoustics arrays*
 - *Multiple types of sonar*
- *Vehicles (car and forklift)*
- *Machinery (shredding machine)*
- *Installed Equipment*
 - *Air condition systems for the new and old building*
 - *Uninterrupted Power Supply (UPS) systems*
 - *TV closed circuit system*

NATO Research Vessels

The NATO vessels NRV Alliance and CRV Leonardo are used to carry out the CMRE programme of work for its customers. The CMRE and its predecessor organizations acquired full operational control and beneficial ownership of these two NATO vessels in 1988 and 2002 respectively. Following a North Atlantic Council decision on 21 December 2015, custody of both vessels (on behalf of NATO) was transferred from the Supreme Allied Commander Transformation, to the STO Centre for Maritime Research and Experimentation (CMRE) with effect from 1 January 2016.

The vessels are operated by the Italian Navy under Italian flagging and Italian military crew as agreed in a memorandum of understanding between the CMRE and Italy.

Notwithstanding the formal transfer in custody effective 1 January 2016, both vessels have been under the full operational control of the CMRE since their introduction into service in 1988 and 2002. The transfer of custody on behalf of NATO was a non-adjusting event. The acquisition date of both vessels remains unchanged. In accordance with the NATO Accounting Framework, the STO considers Property, Plant and Equipment (PP&E) acquired prior to 2013 as fully expensed. Therefore, consistent with the accounting treatment in prior years, these assets are not capitalized as PP&E on the face of the STO Consolidated Statement of Financial Position.

In accordance with the NATO Accounting Framework, improvements made to the vessels on or after 1 January 2013 are capitalized within the relevant equipment category.

CMRE intends to operate the vessels for the foreseeable future. Costs related to a potential future divestment have therefore not been assessed nor accounted for. Any future divestment decision (sale, dismantling or donation) regarding these vessels requires formal approval from the North Atlantic Council upon recommendation from the Defence Policy and Planning Committee (Resources) and Resource Policy and Planning Board.

Write-offs

In 2021, no write-offs met the disclosure criteria in the NFRs.

6. Payables

| | (in EUR) | |
|----------------------|------------------|------------------|
| | 2021 | 2020 |
| Payable to suppliers | 592,616 | 1,443,961 |
| Accruals | 1,645,350 | 1,508,158 |
| Total | 2,237,966 | 2,952,119 |

Payables are short-term liabilities to third parties directly related to the activities and operations of the STO. The average credit period on purchases is 30 days. STO has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

Accruals mainly relate to goods and services received before year-end and untaken leave.

7. Deferred revenue

The deferred revenue, in an amount of 725,924 EUR at year-end 2021 (2020: 627,544 EUR), is related to Programme of Work activities (OCS and CSO) and associated commitments not fully delivered by suppliers (carried-forward) at 31 December 2021 due to delays from contractors unable to fulfil their deliveries as planned.

8. Advances

| | (in EUR) | |
|-------------------------|------------------|------------------|
| | 2021 | 2020 |
| Advances from customers | 663,752 | 1,186,495 |
| Contributions | 2,133,387 | 2,500,000 |
| Other advances | 42,013 | 42,013 |
| Total | 2,839,152 | 3,728,508 |

Contributions are cash called or received related to future years' budgets (applicable to CSO and OCS), and advances from customers (applicable to CMRE) for pre-financing of European Community projects.

Advanced contributions include an element of 2020 surplus funds converted into 2022 advances (see note 9).

9. Other current liabilities

| | (in EUR) | |
|---------------------------------------|------------------|----------------------|
| | 2021 | 2020 Restated |
| Payables to nations | 542,410 | 233,387 |
| Liabilities for loss of job indemnity | 558,200 | - |
| | 1,100,610 | 233,387 |

Payables to nations are budget authorizations that were not used during the financial year and miscellaneous income to be returned to the nations. They include lapses, miscellaneous income from operational and financial results.

Exceptionally in 2021 and 2020, nations have decided to convert 2020 surplus funds into advances for the following year. In 2020, nations decided to convert 720,000 EUR of the 955,977 EUR 2020 lapses into advances for 2021, reducing the balance of payables to nations. In 2021, nations decided to convert the 233,387 EUR remainder of the 2020 surplus into 2022 advanced contributions, along with the 2022 advance of 1,900,000 EUR, for a total of 2,133,187 EUR (see note 8). Nations have not taken a decision to convert the 2021 surplus funds, hence the increase in the balance of payables to nations.

A liability in the amount of 558,200 EUR represents the remaining restructure costs to be paid out in 2022 (see note 15).

10. Deferred Revenue – Non-current liabilities

The deferred revenue for the capitalization of PP&E of CSO and OCS in an amount of 814,207 EUR (2020: 347,075 EUR) represents depreciation that has not been incurred. The revenue is recognized incrementally in the same year as the depreciation expense.

11. Net Assets

The deficit of the period of EUR 622,677 reduced the net assets, which are allocated as follows:

| Reserve | Commitments / Legal Obligations | Depreciation Reserve | Vessels Reserve | Net Equity Fund | General Reserve | Total |
|--------------------------------------|---------------------------------------|-------------------------|--------------------|--------------------|--------------------|---|
| Net Assets 31st December 2020 | 1,255,307 | 3,444,265 | 806,537 | 3,500,000 | 585,760 | 9,591,869 |
| Net change in Vessels Reserve | | | 4,313 | | | 4,313 |
| Net change in PPE | | (1,371,455) | | | | (1,371,455) |
| Net change in Commitments | (652,315) | | | | | (652,315) |
| Net change in Net Equity Fund | | | | (1,184,484) | | (1,184,484) |
| Net change in General Reserve | | | | | 2,581,264 | 2,581,264 |
| Net Assets 31st December 2021 | 602,992 | 2,072,810 | 810,850 | 2,315,516 | 3,167,024 | 8,969,192 |
| | | | | | | Net result of the period (622,677) |

Commitments/Legal Obligations

The reserve for commitments represents the value of orders for goods and services placed in one financial year, but neither received nor invoiced until the following fiscal year(s).

Depreciation Reserve

The depreciation reserve represents the net book value of assets and a source of future depreciation expense.

Vessels Reserve

The reserve is used to accumulate resources in current periods to fund future major vessel upkeep projects. NRV Alliance undergoes one major and one minor upkeep on a five-year period cycle. In 2021, a minor upkeep was performed in the amount of 745,687 EUR funded by the vessel reserve funds. At year end, a contribution to the vessel reserve fund was made in the amount of 750,000 EUR in preparation for the next upkeep.

Net Equity Fund (NEF)

The STO Charter states that the governing board may establish a Net Equity Fund (NEF) to facilitate the CMRE operations. The fund was established to provide liquidity for projects, to act as a buffer for project gains and losses, and to be a source of funds for investments. The reduction of 1,184,484 EUR represents the Loss of Job Indemnity pay out as disclosed in Note 15 (1,684,484 EUR) less repayment of 500,000 EUR from 2021 revenues. The NEF is to be repaid fully within a three-year period.

General Reserve

This represents the net accumulated surplus available for allocation in subsequent financial periods. In 2021, due to a reduction in expenditures, the general reserve increased by 2,581,264 EUR (2020 decreased by 1,304,924 EUR), after funding the vessel reserve in the amount of 750,000 EUR and the NEF in the amount of 500,000 EUR.

12. Revenue

| | (in EUR) | |
|----------------------------|-------------------|-------------------|
| | 2021 | 2020 |
| Revenue from contributions | 7,140,252 | 6,260,616 |
| Revenue from services | 26,636,334 | 25,584,806 |
| Total | 33,776,586 | 31,845,422 |

Revenue from contributions is the revenue received from the member nations to cover the operational expenses of CSO and OCS.

Revenue from services is the revenue received from CMRE customers: HQ SACT, European Community and projects funded from industries and other public organizations.

13. Personnel

Employees are compensated for the service they provide in accordance with rules and amounts established by NATO. The compensation consists of basic salary, various allowances, health insurance, pension plan and other benefits as agreed with each host nation and the protocols of NATO.

The personnel establishments (PE) of the STO entities at 31-Dec-2021 are shown in the table below.

| Personnel Establishment | PE - Authorized | | | PE - Filled | | |
|---------------------------------------|-----------------|------------|------------|-------------|------------|------------|
| | Mil | Civ | Total | Mil | Civ | Total |
| CSO | 13 | 39 | 52 | 10 | 36 | 46 |
| OCS | 4 | 5 | 9 | 2 | 4 | 6 |
| CMRE | 9 | - | 9 | 7 | - | 7 |
| International Manpower Ceiling | 26 | 44 | 70 | 19 | 40 | 59 |
| CMRE - Customer funded positions | - | 142 | 142 | - | 132 | 132 |
| Voluntary National Contributions | 1 | - | 1 | 1 | - | 1 |
| Total | 27 | 186 | 213 | 20 | 172 | 192 |

The breakdown of salaries and other personnel related expenses is as follows:

| | (in EUR) | |
|---|-------------------|-------------------|
| | 2021 | 2020 |
| Basic salary | 13,660,226 | 13,387,681 |
| Allowances | 2,122,376 | 2,087,500 |
| Employer's contribution to post-employment benefits | 1,149,128 | 1,081,728 |
| Employer's contribution to insurance | 1,719,536 | 1,684,834 |
| Loss of job indemnities | 1,684,484 | - |
| Consultant | 345,934 | 485,877 |
| Other allowances | 1,050,862 | 545,619 |
| Medical examination | 35,189 | 29,384 |
| Training | 60,594 | 55,958 |
| Total personnel expenses | 21,828,329 | 19,358,581 |

The restructuring at CMRE led to an increase of personnel expenses for loss of job indemnities and six months' notice payment within other allowances.

Untaken leave

The balance of untaken leave at the end of 2021 is 1,729 days (2020: 2,047 days). The associated cost is recognized as an accrual of 774,449 EUR (2020: 739,028 EUR).

14. Contractual supplies and services

| | (in EUR) | |
|-------------------------|-------------------|-------------------|
| | 2021 | 2020 |
| General support | 1,839,016 | 1,587,255 |
| Mission support | 8,733,087 | 10,654,771 |
| Travel | 257,713 | 222,715 |
| Grants and subsidies | 205,050 | 173,582 |
| Miscellaneous | 83,962 | 108,004 |
| Capital and investments | - | 163,051 |
| Total Expenses | 11,118,829 | 12,909,378 |

Contractual supplies and services include expenses required for STO activities: general administrative costs, maintenance costs of buildings/grounds, communications and information systems, transportation, travel expenses, representation/hospitality and miscellaneous expenses.

15. Contingent liabilities

In 2022, the Italian authorities re-issued a claim to the CMRE for contributions to the Italian National Health System. The claim covers all NATO entities in Italy and dates back to the 1980's. The NATO HQ legal services are aware of this matter, and the claims are suspended pending resolution of the issue between NATO and Italy. As of the date of the financial statements, the CMRE is not aware that the claim will be substantiated, and can make no estimate as to when this case will be resolved. There is a remote possibility of a future obligation and the CMRE assessment is that no settlement will be made.

In 2020 CMRE became aware of an invoice issued in 2019 in the amount of 213,000 EUR for repairs made to the NRV Alliance. CMRE's position is that these repairs, conducted in 2019, were a direct consequence of the supplier's defective workmanship when carrying out prior repairs in 2018. An initial court survey has indicated that CMRE would not be responsible for these costs. If further proceedings result in a liability, some or all of these costs may be reimbursed to CMRE through insurance proceeds.

Due to sequential years of losses at CMRE, restructuring began on 1 June 2021 after STB approval, with 12 posts approved for suppression. The total cost of Loss of Job Indemnity (LOJI) is estimated to be 1,684,484 EUR. The amount of 1,126,284 EUR was paid out in 2021 and the remainder of 558,200 EUR is to be paid out in 2022. As of 31 Dec 2021, there were nine posts suppressed, five voluntary and four involuntary. Three final posts will be suppressed in 2022 and the individuals have already signed agreements with departure dates on or before 31 Dec 2022. There has been one appeal lodged with the NATO Administrative Tribunal against the CMRE related to an involuntary post suppression. The case is expected to be heard in 2022 with the probability of the outcome assessed as uncertain and no reliable estimate can be made at this time.

16. Segment reporting

In accordance with IPSAS 18, the STO discloses segment information for its three executive bodies as provided in the STO Charter: CMRE, CSO and OCS. The inter-entity transactions have been eliminated

at consolidation.

(in EUR)

| | CMRE | | CSO | | OCS | | CONSOLIDATION | | Total | |
|-------------------------------------|-------------------|--------------------|------------------|------------------|------------------|----------------|------------------|----------|-------------------|--------------------|
| | 2021 | 2020 | 2021 | 2020 Restated | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 Restated |
| Segment revenue | | | | | | | | | | |
| Revenue from contributions | | | 5,684,531 | 5,383,078 | 1,455,720 | 877,538 | - | - | 7,140,251 | 6,260,616 |
| Revenue from services | 26,811,400 | 25,584,806 | - | - | - | - | (175,065) | - | 26,636,335 | 25,584,806 |
| Financial revenue | 173,368 | 18,164 | - | - | - | - | - | - | 173,368 | 18,164 |
| Total segment revenue | 26,984,768 | 25,602,970 | 5,684,531 | 5,383,078 | 1,455,720 | 877,538 | (175,065) | - | 33,949,954 | 31,863,586 |
| Segment expenses | | | | | | | | | | |
| Personnel costs | 16,788,849 | 14,921,062 | 4,208,911 | 3,719,254 | 830,569 | 718,265 | - | - | 21,828,329 | 19,358,581 |
| Contractual supplies and services | 9,257,200 | 11,141,454 | 1,411,543 | 1,608,651 | 625,151 | 159,273 | (175,065) | - | 11,118,829 | 12,909,378 |
| Depreciation and amortisation | 1,371,455 | 1,545,240 | 64,077 | 55,173 | - | - | - | - | 1,435,532 | 1,600,413 |
| Financial costs | 189,941 | 266,210 | - | - | - | - | - | - | 189,941 | 266,210 |
| Total segment expenses | 27,607,445 | 27,873,966 | 5,684,531 | 5,383,078 | 1,455,720 | 877,538 | (175,065) | - | 34,572,631 | 34,134,582 |
| Surplus/deficit for the year | (622,677) | (2,270,996) | - | - | - | - | - | - | (622,677) | (2,270,996) |
| Segment assets | 11,860,483 | 13,399,767 | 3,892,106 | 3,533,174 | 939,017 | 547,561 | (4,555) | - | 16,687,051 | 17,480,502 |
| Segment liabilities | 2,891,291 | 3,807,898 | 3,892,106 | 3,533,174 | 939,017 | 547,561 | (4,555) | - | 7,717,859 | 7,888,633 |

17. Related parties

The key management personnel of the STO, and the STB National Representatives, have no significant known related party relationships that could affect the operations of the STO. However, the STO Financial Controller is also the Financial Controller of the International Military Staff (IMS) and the NATO Defense College (NDC). The STO, IMS and NDC are therefore related parties.

During the year, the STO entered into transactions with NATO entities outside the IMS Budget Group. The fees charged for these transactions were an appropriate allocation of the costs incurred.

Key management personnel include the following officials:

| | |
|--|---|
| Science and Technology Board | <ul style="list-style-type: none"> NATO National Representatives on STB |
| Office of the Chief Scientist | <ul style="list-style-type: none"> NATO Chief Scientist |
| Centre for Maritime Research and Experimentation | <ul style="list-style-type: none"> CMRE Director CMRE Deputy Director |
| Collaboration Support Office | <ul style="list-style-type: none"> CSO Director CSO Deputy Director |

Remuneration of key management personnel

STO Board members do not receive remuneration or access to preferential benefits such as the entitlement to receive loans from NATO for their Board responsibilities.

STO key management personnel are remunerated in accordance with the applicable national or NATO pay scales. They do not receive from NATO any additional remuneration for Board responsibilities or access to preferential benefits such as the entitlement to receive loans over and above those available to all NATO personnel under the NATO Civilian Personnel Regulations.

| | (in EUR) | |
|--------------------------------------|----------------|----------------|
| | 2021 | 2020 |
| Basic salaries | 579,767 | 556,720 |
| Allowances | 61,595 | 46,317 |
| Post-employment benefits | 69,572 | 66,806 |
| Employer's contribution to Insurance | 70,045 | 66,871 |
| Total | 780,979 | 736,714 |

18. Representation allowance

Representation allowance is available to certain designated NATO high officials whose position entails responsibility for maintaining relationships of value to NATO. In 2021, three senior STO officials were entitled to representation allowance. The following expenses were made:

| Entity | (in EUR) | |
|--------------|--------------|--------------|
| | 2021 | 2020 |
| OCS | 599 | - |
| CSO | 671 | 3,011 |
| CMRE | 2,955 | 1,509 |
| Total | 4,225 | 4,521 |

19. Morale and Welfare Activities

The STO carried out Morale and Welfare Activities (MWA) in 2021 for which a detailed annual special purpose report is presented to the relevant Financial Committee. Morale and Welfare Activity is an activity of a NATO body that enhances the quality of life, promotes cohesion and integrity, and/or contributes to the physical and mental wellbeing of eligible individuals. At the CMRE, the MWA mainly relate to common interest clubs, athletic and recreational activities.

The position of MWA at year-end is:

| (in EUR) | 2021 | 2020 |
|---|---------|---------|
| Cash and cash equivalents | 278,468 | 78,626 |
| Total liabilities including provisions and contingent liabilities | 119,519 | 138,395 |

At year-end, 0.5 full-time equivalent staff (2020: 0.5 full-time equivalent staff) directly support the MWA.

20. Events after the reporting date

There have been no material events between the reporting date and the date the financial statements are authorized for issue that would affect the amounts recognized in these statements.

Annex 1: Budget Execution Statements

For the common funded elements of the STO, expenses are presented on a different basis in the statement of financial performance when compared to the budget execution statement: the statement of financial performance includes PP&E depreciation expenses, whereas the purchasing costs of PP&E are recognized in the budget execution statement.

OFFICE OF THE CHIEF SCIENTIST

| EURO | Initial Budget | Transfers | BA2 | Transfers | BA3 | Transfers | Final Budget | Commitments | Expenses | Total Spent | Carry-Forward | Lapsed |
|------------------------------|------------------|-----------|------------------|-----------|------------------|-----------|------------------|---------------|------------------|------------------|---------------|----------------|
| BUDGET 907 (OCS) 2021 | | | | | | | | | | | | |
| Chapter 71 | 1,474,223 | (500,000) | 974,223 | - | 974,223 | - | 974,223 | - | 830,569 | 830,569 | - | 143,654 |
| Chapter 72 | 259,697 | 500,000 | 759,697 | - | 759,697 | - | 759,697 | 90,102 | 625,151 | 715,253 | 90,102 | 44,444 |
| Chapter 73 | - | - | - | - | - | - | - | - | - | - | - | - |
| TOTAL | 1,733,920 | - | 1,733,920 | - | 1,733,920 | - | 1,733,920 | 90,102 | 1,455,720 | 1,545,822 | 90,102 | 188,098 |

The significant lapses in 2021 are due to the understaffing in NATO International Civilians Peacetime Establishment positions as well as to the travel restrictions imposed by NATO governments in response to the COVID-19 pandemic.

There is no difference between the actual budget execution amounts as per the OCS budget execution statement and the actual expenses as per the OCS segment reporting (see note 16).

COLLABORATION SUPPORT OFFICE

| | Initial Budget | Transfers | BA2 | Transfers | BA3 | Transfers | Final Budget | Commitments | Expenses | Total Spent | Carry-Forward | Lapsed |
|-------------------------------|------------------|-----------|------------------|-----------|------------------|-----------|------------------|----------------|------------------|------------------|----------------|----------------|
| BUDGET 908 (CSO) 2021 | | | | | | | | | | | | |
| Chapter 71 | 4,279,661 | - | 4,279,661 | - | 4,279,661 | (21,042) | 4,258,619 | 9,975 | 4,206,707 | 4,216,682 | 9,975 | 41,938 |
| Chapter 72 | 2,111,594 | - | 2,111,594 | - | 2,111,594 | (122,321) | 1,989,273 | 408,901 | 1,283,495 | 1,692,396 | 408,901 | 296,876 |
| Chapter 73 | 121,000 | - | 121,000 | - | 121,000 | 143,363 | 264,363 | 216,947 | 47,417 | 264,363 | 216,947 | - |
| TOTAL | 6,512,255 | - | 6,512,255 | - | 6,512,255 | - | 6,512,255 | 635,823 | 5,537,619 | 6,173,441 | 635,823 | 338,814 |
| BUDGET 908 (CSO) 2020 | | | | | | | | | | | | |
| Chapter 71 | 2,205 | - | 2,205 | - | 2,205 | - | 2,205 | - | 2,205 | 2,205 | - | - |
| Chapter 72 | 150,084 | - | 150,084 | - | 150,084 | - | 150,084 | - | 139,280 | 139,280 | - | 10,804 |
| Chapter 73 | 175,255 | - | 175,255 | - | 175,255 | - | 175,255 | - | 172,559 | 172,559 | - | 2,696 |
| TOTAL | 327,544 | - | 327,544 | - | 327,544 | - | 327,544 | - | 314,045 | 314,045 | - | 13,499 |
| BUDGET 908 (CSO) 2019 | | | | | | | | | | | | |
| Chapter 71 | - | - | - | - | - | - | - | - | - | - | - | - |
| Chapter 72 | - | - | - | - | - | - | - | - | - | - | - | - |
| Chapter 73 | 300,000 | - | 300,000 | - | 300,000 | - | 300,000 | - | 300,000 | 300,000 | - | - |
| TOTAL | 300,000 | - | 300,000 | - | 300,000 | - | 300,000 | - | 300,000 | 300,000 | - | - |
| TOTAL BUDGET 908 (CSO) | 7,139,799 | - | 7,139,799 | - | 7,139,799 | - | 7,139,799 | 635,823 | 6,151,664 | 6,787,486 | 635,823 | 352,313 |

The significant lapses in 2021 are a direct result from the protective measures taken by NATO governments in response to the evolving COVID-19 pandemic. The restrictions applied to international travel, meetings, exercises and scientific demonstrations of technologies directly impacted on the usual financial and personnel support of the CSO to S&T Board and Panel meetings and the scientific activities conducted within the framework of the annual S&T Collaborative Program of Work.

In 2021, the BC authorized a 'Special Carry-Forward' of the 2021 CSO budget for an amount of EUR 120,000 (Chapter 73) for the replacement of the Fire Detection System at the CSO. This amount is included within the total Carry-Forward.

The following table is a reconciliation of actual budget execution amounts as per the CSO budget execution statement to actual expenses as per the CSO segment reporting (see note 16).

| | (in EUR) |
|--|------------------|
| Total Expenses as per Budget Execution | 6,151,664 |
| Property Plant and Equipment capitalized (Recognition from Capital and Investments) | (531,210) |
| Depreciation | 64,077 |
| Total Expenses as per Financial Performance | 5,684,531 |