

	NATO	NORTH ATLANTIC COUNCIL
	OTAN	CONSEIL DE L'ATLANTIQUE NORD

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11 October 2024

DOCUMENT
PO(2024)0313-AS1

**IBAN AUDIT REPORT ON THE 2022 FINANCIAL STATEMENTS OF THE NATO
MEDIUM EXTENDED AIR DEFENSE SYSTEM MANAGEMENT ORGANISATION IN
LIQUIDATION (NAMEADSMO i.L.)**

ACTION SHEET

On 11 October 2024, under the silence procedure, the Council noted the RPPB report and the IBAN Audit Report attached to PO(2024)0313, approved the conclusions in the RPPB report, and approved the public disclosure of the 2022 Financial Statements of NAMEADSMO i.L., the associated IBAN Audit Report and the RPPB report.

(Signed) Mark Rutte
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to PO(2024)0313.

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4 October 2024

DOCUMENT

PO(2024)0313

Silence Procedure ends:

11 Oct 2024 - 15:30

To: Permanent Representatives (Council)

From: Secretary General

**IBAN AUDIT REPORT ON THE 2022 FINANCIAL STATEMENTS OF THE NATO
MEDIUM EXTENDED AIR DEFENSE SYSTEM MANAGEMENT ORGANISATION IN
LIQUIDATION (NAMEADSMO i.L.)**

1. I attach the Resource Policy and Planning Board (RPPB) report on the International Board of Auditors for NATO (IBAN) Audit Report on the 2022 Financial Statements of the NATO Medium Extended Air Defense System Management Organization in Liquidation (NAMEADSMO i.L.). IBAN issued an unqualified opinion on the Financial Statements and on compliance for the year ended 31 December 2022.

I do not believe this issue requires further discussion in Council. Therefore, **unless I hear to the contrary by 15:30 hours on Friday, 11 October 2024**, I shall assume that Council has noted the RPPB report and the IBAN Audit Report, approved the conclusions in the RPPB report, and approved the public disclosure of the 2022 Financial Statements of NAMEADSMO i.L., the associated IBAN Audit Report and the RPPB report.

(Signed) Mark Rutte

1 Annex
2 Enclosures

Original: English

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**IBAN AUDIT REPORT ON THE 2022 FINANCIAL STATEMENTS OF THE NATO
MEDIUM EXTENDED AIR DEFENSE SYSTEM MANAGEMENT ORGANIZATION IN
LIQUIDATION (NAMEADSMO i.L.)****Report by the Resource Policy and Planning Board**

References:

- | | | |
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| A. | IBA-AR(2024)0001 | IBAN Audit Report on the 2022 Financial Statements of the NATO Medium Extended Air Defense System Management Organization in Liquidation (NAMEADSMO i.L.) for the year ended 31 December 2022 |
| B. | C-M(2015)0025 | NATO Financial Regulations (NFRs) |
| C. | C-M(2016)0023 | NATO Accounting Framework (NAF) |
| D. | PO(2015)0202 | The NATO-wide policy on Voluntary National Contributions (VNCs) from NATO Member States |
| E. | C-M(2005)0044-ADD1 | Charter of NAMEADSMO |
| F. | PO(64)379 | NATO Civilian Personnel Regulations (CPRs) |
| G. | C-M(66)9 | Rules Governing the Dissolution of NATO Production Organizations |
| H. | 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 Report on the 2022 resubmitted Financial Statements of the NATO Medium Extended Air Defense System Management Organization in Liquidation (NAMEADSMO i.L.). IBAN issued an unqualified opinion on the resubmitted Financial Statements and on compliance for the year ended 31 December 2022 (reference A).

2. The RPPB acknowledges that the observations highlighted in the IBAN Audit Report have been discussed and dealt with by participating Nations¹, represented on the NAMEADSMO i.L. Board of Directors (BoD). The RPPB is mandated under Article 15 of the NATO Financial Regulations (NFRs) (reference B) to examine the IBAN Audit Report and to provide comments and recommendations to Council as required.

AIM

3. This report highlights key issues in the IBAN Audit Report with the aim to enable the RPPB to reflect on strategic challenges resulting from the audit of Financial Statements of NATO entities and to recommend courses of action to Council as applicable, in order to improve transparency, accountability and consistency.

¹ The participating Nations are Germany, Italy and the United States of America.

OBSERVATIONS AND RPPB VIEW

4. During the audit, IBAN made four observations and recommendations for the NAMEADSMO i.L. One of them relates to the significant weaknesses identified in internal controls over the preparation of financial statements, while the other three relate to instances of non-compliance with NATO-wide policies on the recruitment, selection and appointment of a new Liquidator and Financial Controller, late submission of the NAMEADSMO i.L. 2022 Financial Statements and incomplete audit trail in relation to Home Leave. These observations and recommendations did not impact the audit opinion on the Financial Statements or on compliance.

4.1. Observation 1: The RPPB supports IBAN's recommendation that NAMEADSMO i.L. ensure that internal control processes are in place for the preparation of financial statements, to provide a reasonable basis for obtaining assurance that financial statements are prepared and presented in compliance with the NATO Accounting Framework (reference C) and the NFRs. The RPPB notes that NAMEADSMO i.L. resubmitted its Financial Statements to correct material misstatements found by IBAN, and that without these corrections, the NAMEADSMO i.L. 2022 Financial Statements would have included material errors leading to a qualified audit opinion both on the Financial Statements and on compliance. The RPPB considers that NAMEADSMO i.L. should apply remedial actions without delay and will closely monitor the progress made with regard to the implementation of IBAN's recommendation.

4.2. Observation 2: In the course of audit, IBAN found non-compliance with the NATO-wide policy on Voluntary National Contributions (VNCs) from NATO Member States (reference D). The BoD of NAMEADSMO i.L. appointed a new Liquidator and Financial Controller. While these positions were permanent posts in the NATO establishment, the BoD appointed VNCs instead. IBAN found that the Financial Controller was selected, nominated and appointed by the NAMEADSMO i.L. BoD instead of the Liquidator and that the appointment was not approved by Council. IBAN also found instances of non-compliance with the NFRs and the NAMEADSMO i.L. Charter (reference E) with regard to the recruitment, selection and appointment of the Financial Controller: the vacancy notice was not published, the recruitment process was not organised in accordance with the NATO Civilian Personnel Regulations (reference F) and an independent selection panel was not convened.

4.2.1. In their formal comments, the NAMEADSMO i.L. underlined that they are only financed by three Nations which gives those Nations the right to deviate from NATO regulations if they see the need to do so. The NAMEADSMO i.L. also emphasised contradiction between the requirement of the Rules Governing the Dissolution of NATO Production Organizations (reference G), which is binding for the disengagement of NATO organisations and the NATO-wide policy on VNCs from NATO Member States. Based on NAMEADSMO i.L. understanding of the document at reference G, the BoD appointed the VNCs as the accounts of the entity cannot be closed as long as the Liquidator and the Financial Controller are paid by the organization.

4.2.2. The RPPB supports IBAN's recommendation that NAMEADSMO i.L. comply with its Charter, the NFRs and the NATO-wide policy on VNCs from NATO Member States, regarding the employment of the staff of the Office of the Liquidator. In addition, the RPPB notes that a similar matter was raised in the IBAN audit reports on the 2022 Financial Statements of the NATO Alliance Ground Surveillance Management Organisation in Liquidation (NAGSMO i.L.) (IBA-AR(2023)0013) and on the 2023 Financial Statements of the NAGSMO i.L. (IBA-AR(2024)0005). In this respect, Council invited the International Staff to initiate a review of the Rules Governing the Dissolution of NATO Production Organizations (reference G) in 2024, with oversight from the relevant committees, to ensure they provide a clear framework regarding maintaining compliance with the NFRs (PO(2023)0467-AS1 (INV)). This review should include the assessment whether there is a need for appointing a Liquidator external to the organisation in liquidation in order to complete the liquidation of the NATO Procurement, Logistics or Service Organisation.

4.3. Observation 3: The RPPB supports IBAN's recommendation that NAMEADSMO i.L. ensure that its financial statements are submitted within the deadline set in Article 35 of the NFRs.

4.4. Observation 4: Concerning the incomplete audit trail for an expense recorded and payment made in relation to Home Leave, the RPPB supports IBAN's recommendation that NAMEADSMO i.L. maintain comprehensive accounting records of all transactions and ensure the existence of adequate audit trails.

4.5. Emphasis of Matter² on the Financial Statements: IBAN included an Emphasis of Matter paragraph to draw users' attention to the resubmission of the Financial Statements and to the remaining errors and inconsistencies presented or disclosed in the 2022 NAMEADSMO i.L. Financial Statements (reference to observation 1). The RPPB notes that observation 1 explains that the 2022 Financial Statements were resubmitted to correct material misstatements and includes a description of the misstatements and inconsistencies found in the Financial Statements first submitted to IBAN in August 2023, as well as the remaining errors and inconsistencies presented or disclosed in the resubmitted financial statements. The RPPB notes the repetition of the remaining errors and inconsistencies in the Emphasis of Matter paragraph. The RPPB recalls that Emphasis of Matter paragraphs are used for matters presented or disclosed in the Financial Statements that are fundamental to the users' understanding of the financial statements.

² Emphasis of Matter is used when the IBAN considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in its judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

4.6. Other Matter³ on Compliance: IBAN included an Other Matter paragraph to draw attention on two issues; firstly, on the late submission of the NAMEADSMO i.L. 2022 Financial Statements (reference to observation 3); and secondly, on the appointment of a new Liquidator and Financial Controller as VNCs, that is not compliant with the provisions of the NAMEADSMO Charter, the NFRs and the NATO-wide policy on VNCs from NATO Member States (reference to observation 2).

5. There were no outstanding audit observations and recommendations from the previous years' audits.

CONCLUSIONS

6. IBAN issued an unqualified opinion on the NAMEADSMO i.L. resubmitted 2022 Financial Statements and on compliance. Four observations and recommendations were raised for the NAMEADSMO i.L. There were no open or in-progress audit observations and recommendations from the previous years' audits.

7. The RPPB supports IBAN's recommendation that improvements are needed in strengthening internal controls over the preparation of financial statements and as regards compliance with the NAMEADSMO i.L. Charter, the NFRs and the NATO-wide policy on VNCs from NATO Member States. Moreover, the RPPB supports IBAN's recommendation that NAMEADSMO i.L. ensure that its financial statements are submitted within the deadline of 31 March as laid down in the NFRs, maintain accounting records of all transactions and ensure the existence of adequate audit trails.

RECOMMENDATIONS

8. The Resource Policy and Planning Board recommends that Council:

8.1. note this report and the IBAN Audit Report at reference A;

8.2. approve the conclusions at paragraphs 6 and 7;

8.3. approve the public disclosure of the NAMEADSMO i.L. 2022 Financial Statements, its associated IBAN Audit Report and this report in line with agreed policy at reference H.

³ Other Matter is used when the IBAN considers it necessary to communicate a matter other than those that are presented or disclosed in the Financial Statements that, in IBAN's 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



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IBA-A(2024)0031
27 March 2024

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

Cc: NATO Permanent Representatives
Chair of Board of Directors, NAMEADSMO in Liquidation
Head of the Office of the Liquidator, NAMEADSMO in Liquidation
Financial Controller, NAMEADSMO in Liquidation
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 NATO Medium Extended Air Defense System Management Organization in Liquidation (NAMEADSMO i.L.) Financial Statements for the year ended 31 December 2022 – IBA-AR(2024)0001***

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 Medium Extended Air Defense System Management Organization in Liquidation (NAMEADSMO i.L.) and on compliance for financial year 2022.

Yours sincerely,

Radek Visinger
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 Medium Extended Air Defense System Management Organization
in Liquidation (NAMEADSMO i. L.)
for the year ended 31 December 2022**

The NATO Medium Extended Air Defense System Management Organization in Liquidation (NAMEADSMO i.L.) is responsible for the planning, execution and overall management of the liquidation of the Medium Extended Air Defense System programme with the goal to complete the ongoing effort, safeguard the development results and accomplish a successful closeout on behalf of its members.

The total expenses of NAMEADSMO in Liquidation in 2022 amounted to USD 669,238.

IBAN issued an unqualified opinion on the Financial Statements resubmitted on 30 November 2023 and on compliance for the year ended 31 December 2022.

IBAN made the following observations and recommendations:

1. Significant weaknesses identified in internal controls over the preparation of the financial statements.
2. Instances of non-compliance with NATO-wide policies on the recruitment, selection and appointment of a Liquidator and Financial Controller.
3. Late submission of the 2022 NAMEADSMO i.L. Financial Statements.
4. Incomplete audit trail for an expense recorded and payment made in relation to Home Leave.

There were no outstanding audit observations and recommendations from the previous years' audits.

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

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IBA-AR(2024)0001

27 March 2024

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE
NATO MEDIUM EXTENDED AIR
DEFENSE SYSTEM MANAGEMENT ORGANIZATION IN LIQUIDATION**

(NAMEADSMO i. L.)

FOR THE YEAR ENDED 31 DECEMBER 2022

PUBLICLY DISCLOSED - PDN(2025)0025 - 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 NAMEADSMO in Liquidation (NAMEADSMO i.L.), for the 12 month period ended 31 December 2022, issued under document reference GM-5006-40010O-OL, and resubmitted to IBAN on 30 November 2023. These Financial Statements comprise the Statement of Financial Position as at 31 December 2022, 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 2022, 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 2022.

In our opinion, the Financial Statements give a true and fair view of the financial position of NAMEADSMO i.L. as at 31 December 2022, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2022, 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 Organisation of Supreme Audit Institutions (INTOSAI) Principles as per our Charter, and standards consistent with the International Standards of Supreme Audit Institutions (ISSAI 2000-2899).

We are independent in accordance with the INTOSAI Code of Ethics (ISSAI 130) 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.

Emphasis of Matter on the Financial Statements

As described in audit observation 1 of this audit report, IBAN found misstatements in

the 2022 NAMEADSMO i.L. Financial Statements first submitted to IBAN on 22 August 2023. These misstatements, some of which were material, were corrected in a resubmission of the Financial Statements on 30 November 2023.

Although multiple corrections were made in the resubmission, the following remaining non-material errors and inconsistencies still exist in the resubmitted 2022 NAMEADSMO i.L. Financial Statements:

- The '*General Description of the NATO MEADS Management Organization in Liquidation*' describes the composition of the Office of the Liquidator for financial year 2021 instead of 2022;
- Note 1 to the Financial Statements on '*Significant Accounting Policies*' makes reference to the period of 1 January 2020 to 31 December 2020 instead of 1 January 2021 to 31 December 2021 in the disclosure made on comparative figures from the previous reporting period;
- Note 7 to the Financial Statements on '*Deferred Revenue and Liability*' contains a table in which the sum of the Liability to Nations (USD 1,806,358) for each participating nation with regard to the Administrative activities does not correspond to the total Liability to Nations (USD 1,766,358). The correct amount is USD 1,766,358;
- The Statement of Budget Execution contains a column for '*Amended estimated budget for 2022*' for which the total budget amendments for all budgets (USD 960,195) does not correspond to the sum of the different budget amendments (USD 188,895). The correct amount is USD 188,895;
- The total amount of lapsed credits for the 2022 Administrative Budget in the notes to the Statement of Budget Execution (USD 281,286) does not correspond to the total amount of lapsed credits in the Statement of Budget Execution for the 2022 Administrative Budget (USD 290,362). The correct amount is USD 290,362.

Our opinion is not modified in respect of this matter.

Management's Responsibility for the Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of NAMEADSMO i.L. 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 standards consistent 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 standards consistent 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 Organisation of Supreme Audit Institutions (INTOSAI) Principles as per our Charter, and standards consistent with the International Standards of Supreme Audit Institutions (ISSAI 4000-4899).

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

Other Matters on Compliance

Firstly, according to the NATO Financial Regulations (NFRs), the deadline for submitting the 2022 financial statements for audit to IBAN was 31 March 2023. NAMEADSMO i.L. submitted its signed Financial Statements for the financial year ending 31 December 2022 on 22 August 2023, and therefore failed to comply with the

deadline of 31 March 2023 as laid down in the NFRs. IBAN agreed to audit a resubmitted version of the 2022 NAMEADSMO i.L. Financial Statements in response to a request from NAMEADSMO i.L. to correct material misstatements and errors in disclosure notes identified by IBAN during the audit period.

Without these corrections, the 2022 NAMEADSMO i.L. Financial Statements would have included material errors leading to both a qualified audit opinion on the Financial Statements and on compliance. The resubmitted Financial Statements were sent to IBAN on 30 November 2023 (i.e. after the deadline of 31 March 2023).

Secondly, NAMEADSMO i.L. recruited, selected and appointed a new Liquidator and Financial Controller in 2022, as Voluntary National Contributions (VNCs) by two NATO Member States to these two permanent posts in its NATO establishment. This is not compliant with the provisions of the NAMEADSMO Charter, the NFRs and the NATO-wide policy on VNCs from NATO Member States. The new Liquidator and Financial Controller started their functions on 1 January 2023, and as such, prepared, signed and submitted the 2022 NAMEADSMO i.L. Financial Statements. Given that both VNCs did not hold executive positions with responsibilities over the use of funds in 2022, IBAN considers that the instances of non-compliance with the Charter, the NFRs and the NATO-wide policy on VNCs from NATO Member States, do not materially impact the audit opinion on compliance in 2022.

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

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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, 27 March 2024

A handwritten signature in blue ink, appearing to be 'Radek', written in a cursive style.

Radek Visinger
Chair

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OBSERVATIONS AND RECOMMENDATIONS

IBAN made four observations and recommendations. These observations do not impact the audit opinion on the Financial Statements and on compliance:

1. Significant weaknesses identified in internal controls over the preparation of the financial statements.
2. Instances of non-compliance with NATO-wide policies on the recruitment, selection and appointment of a Liquidator and Financial Controller.
3. Late submission of the 2022 NAMEADSMO i.L. Financial Statements.
4. Incomplete audit trail for an expense recorded and payment made in relation to Home Leave.

There were no outstanding audit observations and recommendations from the previous years' audits.

1. SIGNIFICANT WEAKNESSES IDENTIFIED IN INTERNAL CONTROLS OVER THE PREPARATION OF THE FINANCIAL STATEMENTS

Reasoning

1.1 According to the NATO Accounting Framework (NAF), IPSAS 1, *“the Financial Statements shall present fairly the Financial Position, Financial Performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSAS.”*

1.2 Article 6 of the NATO Financial Regulations (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 the NATO Accounting Framework.

1.3 A key part of any system of internal control is to ensure adequate processes are in place for the preparation, review and reporting of the Financial Statements. Adequate review procedures are necessary to provide a reasonable basis for obtaining assurance that financial statements are in compliance with the applicable financial reporting framework.

1.4 Article 12.2 of the NFRs provides that in order to meet the desired internal control standards, the Financial Controller shall establish and maintain comprehensive accounting records of all assets and liabilities. Article 12.3 also states that internal control activities shall include (but not be limited to) adequate audit trails and data confidentiality, integrity and availability in information systems.

Observations

1.5 IBAN found misstatements in the 2022 NAMEADSMO i.L. Financial Statements first submitted to IBAN on 22 August 2023, as described below. These misstatements, some of which were material, were corrected in a resubmission of the Financial Statements on 30 November 2023. Without these corrections, the 2022 NAMEADSMO i.L. Financial Statements would have included material errors leading to both a qualified audit opinion on the Financial Statements and on compliance.

A. Material misstatements in the Budget Execution Statement first submitted to IBAN

1.6 IBAN found that the 2022 Budget Execution Statement did not contain budget appropriations of USD 1.4 million related to a special carry-forward to budget year 2022, of commitments from the 2018 operational budget, as reflected in the Budget Execution Statement of the 2021 NAMEADSMO i.L. Financial Statements. These appropriations were not used in 2022, and fully lapsed at 31 December 2022, as the NAMEADSMO i.L. Board of Directors did not approve a carry-forward of commitments to 2023 for the unused appropriations.

1.7 The approved '*Original estimated administrative budget*' for 2022 amounts to USD 771,300, while NAMEADSMO i.L. initially reported an amount of USD 959,600 and indicated that no budget amendments were made in 2022. After the approval of a budget increase of USD 188,300 by the NAMEADSMO i.L. Board of Directors on 1 June 2022, the original budget was increased to a total of USD 959,600.

1.8 While the total appropriations for the 2022 administrative budget amounted to USD 959,600, we noted that the sum of all expenditure incurred and all lapsed credits amounted to USD 1,033,026 in the 2022 Budget Execution Statement. The sum of all expenditure incurred and lapsed credits can not exceed the total appropriations.

B. Material misstatements in the Statement of Financial Position and Statement of Financial Performance first submitted to IBAN

1.9 The aggregate effect of all misstatements identified in the Statement of Financial Position and Statement of Financial Performance amounts to USD 40,943, and consists of the following individual misstatements:

- Accruals and accrued expenses were understated by USD 35,242 due to unrecorded transactions. This also resulted in an understatement of revenue and an overstatement of liabilities to Nations by USD 35,242.
- Use of an incorrect exchange rate to convert bank balances in EUR into USD at 31 December 2022 resulting in an overstatement of cash and cash equivalents and an overstatement of liabilities to Nations by USD 5,701. This also resulted in an understatement of expenses and revenue by USD 5,701 due to an unrealised exchange loss.

C. Disclosure notes to the Financial Statements first submitted to IBAN

1.10 We identified inconsistencies and errors in the disclosure notes to the Financial Statements, such as references to the wrong financial year, information that could not be traced to the Financial Statements and references to restated comparative figures while no restatements of comparative figures were made.

1.11 The above corrected misstatements indicate that adequate internal control processes were not in place for the preparation and review of the Financial Statements to avoid material misstatements or errors in disclosures.

D. Uncorrected errors and inconsistencies in the resubmitted Financial Statements

1.12 Apart from the corrected misstatements and errors in the resubmitted Financial Statements listed above, we identified the following remaining errors and inconsistencies in the financial statements after resubmission:

- The General Description of the NATO MEADS Management Organization in Liquidation describes the composition of the Office of the Liquidator for financial year 2021 instead of 2022;
- Note 1 to the Financial Statements on '*Significant Accounting Policies*' makes reference to the period of 1 January 2020 to 31 December 2020 instead of 1 January 2021 to 31 December 2021 in the disclosure made on comparative figures from the previous reporting period;
- Note 7 to the Financial Statements on '*Deferred Revenue and Liability*'; contains a table in which the sum of the Liability to Nations (USD 1,806,358) for each participating nation with regard to the Administrative activities does not correspond to the total Liability to Nations (USD 1,766,358). The correct amount is USD 1,766,358;
- The Statement of Budget Execution contains a column for '*Amended estimated budget for 2022*' for which the total budget amendments for all budgets (USD 960,195) does not correspond to the sum of the different budget amendments (USD 188,895). The correct amount is USD 188,895;
- The total amount of lapsed credits for the 2022 Administrative Budget in the notes to the Statement of Budget Execution (USD 281,286) does not correspond to the total amount of lapsed credits in the Statement of Budget Execution for the 2022 Administrative Budget (USD 290,362). The correct amount is USD 290,362.

1.13 We included an Emphasis of Matter paragraph in our basis for opinion on the financial statements, as we consider it necessary to draw users' attention to the resubmission of the Financial Statements and to the remaining errors and

inconsistencies presented or disclosed in the 2022 NAMEADSMO i.L. Financial Statements.

Recommendations

1.14 IBAN recommends NAMEADSMO i.L. to ensure that adequate internal control processes are in place for the preparation of the financial statements, to provide a reasonable basis for obtaining assurance that financial statements are prepared and presented in compliance with the NATO Accounting Framework and NATO Financial Regulations (NFRs).

2. INSTANCES OF NON-COMPLIANCE WITH NATO-WIDE POLICIES ON THE RECRUITMENT, SELECTION AND APPOINTMENT OF A LIQUIDATOR AND FINANCIAL CONTROLLER

Reasoning

2.1 On 22 April 2016, the North Atlantic Council agreed to put NAMEADSMO into liquidation, commencing 1 July 2016 (Ref. PO(2016)0230-AS).

2.2 Prior to being put into Liquidation, and in accordance with its Charter, the NAMEADSMO was a NATO Procurement, Logistics or Service Organisation (NPLSO) comprised of:

- A Steering Committee composed of one representative of each Participant who is a member to NAMEADSMO;
- An Executive Body, the NATO MEADS Design and Development, Production and Logistics Management Agency (NAMEADSMA), that consists of the General Manager, the Deputy General Manager and supporting staff.

2.3 With regard to appointment of supporting staff, Article 9.1 of the NAMEADSMO Charter states that these are *“to be appointed by the General Manager in accordance with the table of establishment of NAMEADSMA”*, and Article 9.2.2.13 of the NAMEADSMO Charter states that the General Manager is responsible for *“the selection and appointment of individuals to fill positions in NAMEADSMA in accordance with the establishment approved by the Steering Committee”*.

2.4 In case of a liquidation and dissolution of a NPLSO, the provisions of ‘Rules governing the dissolution of NATO Production Organisations’ (Ref. C-M(66)9) will apply.

2.5 These rules state that *“until the liquidation is completed, the provisions of the Charter of the Production Organization will continue to apply to the Production Organization in liquidation and its staff, insofar nothing to the contrary results from the provisions of this document or from the purpose of liquidation”*.

2.6 With regard to the organisation of the NPLSO in Liquidation, these rules state the following:

- Paragraph 2(a) – *“The Production Organization in liquidation shall be composed of the Board of Directors and a Liquidator.”;*
- Paragraph 2(b) – *“The Liquidator shall be appointed by the Board of Directors. He shall act, under the control of the Board, as the executor of the Production Organization, thus replacing the Executive Body.”;*
- Paragraph 2(c) – *“The Liquidator may be assisted by a small staff.”*

2.7 This implies that, after NAMEADSMO was put into liquidation by decision of the North Atlantic Council, the Steering Committee was replaced by a Board of Directors and the NAMEADSMA as an Executive Body was replaced by a Liquidator that may be assisted by a small staff.

Voluntary National Contributions (VNCs)

2.8 The NATO-wide policy on Voluntary National Contributions (VNCs) from NATO Member States (Ref. PO(2015)0202) *“establishes the conditions for the assignment of military or civilian Voluntary National Contributions (VNCs) from NATO member States to NATO bodies”, and “applies to all NATO bodies to which VNCs are assigned, and may be supplemented as required”.*

2.9 This policy defines VNCs as *“military or civilian national experts from the member States who are assigned to support specific NATO requirements, activities, initiatives, programmes or operations”, and states that VNCs “have and will keep their statutory and/or contractual relationship with their government or other national authority throughout the period of their assignment to NATO”.*

2.10 In accordance with paragraph 3.7 of this policy, *“VNCs shall not hold a permanent post on the NATO establishment”.*

2.11 With regard to identifying permanent posts on the NATO establishment, paragraph 8.8.4 the NAMEADSMO Charter states that the Steering Committee is responsible for *“approving and modifying the structure and size of NAMEADSMA, approving the organisation and establishment of personnel, including prior approval of appointments and positions at and above A5 level”.*

2.12 The policy contains the following provisions on the process to be followed concerning the appointment of VNCs:

- Paragraph 4.1 – *“Any Head of NATO Body may request the nomination of a VNC. When assigned, the Organization shall exercise functional oversight and accordingly, the VNC will be accountable to the Head of NATO Body or his/her delegated authority, for the performance of assigned functions and tasks in accordance with the description of job responsibilities mentioned in paragraph 4.3”*

- Paragraph 4.3 – *“A VNC’s assignment shall be confirmed through an exchange of letters between NATO and the contributing nation. The letter shall address the modalities of the arrangement, and should include the start date and duration of assignment, as well as a description of job responsibilities.”*

2.13 With regard to the implementation of this policy, paragraph 5.1 states that *“where applicable, Heads of NATO Bodies shall develop and implement detailed instructions for VNCs assigned to them, consistent with all relevant regulations in force. These instructions shall be developed through the appropriate consultative process with Nations.”*

Financial Controller - Recruitment, selection and appointment

2.14 In accordance with Article 6.1 of the NFRs, *“the Secretary General, the Supreme Commanders and the other Heads of NATO bodies shall have a Financial Controller on their staffs to be their principal financial advisor”.*

2.15 With regard to the recruitment of a Financial Controller, Article 8 of the NFRs states the following:

- Article 8.1 of the NFRs - *“the post of Financial Controller shall be recruited and appointed on the basis of merit by a candidate (preferably a civil servant), of any member country in accordance with the Civilian Personnel Regulations. The Financial Controller shall be nominated for appointment by the Secretary General, the Supreme Commander or the Head of the NATO body concerned, on the basis of recommendations put forward by an independent selection panel.”;*
- Article 8.4 of the NFRs - *“the vacancy notice for Financial Controller posts shall be advertised in accordance with standard recruitment practices.”*

2.16 With regard to the appointment of the Financial Controller, Article 9 of the NFRs states the following:

- Article 9.1 of the NFRs - *“The Financial Controller shall be selected and nominated by the Secretary General, the Supreme Commander or the head of other NATO body concerned”;*
- Article 9.2 of the NFRs - *“The effective appointment and contract renewal of the Financial Controller to the staff of the Secretary General, the Supreme Commander or the other Heads of NATO bodies shall be subject to prior approval by the Council based on the recommendation of the relevant finance committee or appropriate governing body.”*

Observations

2.17 The NATO establishment for NAMEADSMO i.L. in 2022, as approved by the Board of Directors, contained the following two permanent posts: the posts of

Liquidator and Financial Controller. Both posts were held by NATO International Civilian Staff from 1 January 2022 to 31 December 2022.

2.18 In September 2022, the NAMEADSMO i.L. Board of Directors decided to select and appoint a new Liquidator and new Financial Controller from 1 January 2023 onwards. The NATO establishment for NAMEADSMO i.L. remained unchanged as both the Liquidator and Financial Controller posts were maintained as permanent positions in the Executive Body of NAMEADSMO i.L.

2.19 Although these individuals only started in their new functions from 1 January 2023 onwards, we believe that their selection and appointment is relevant for the audit of the 2022 NAMEADSMO i.L. Financial Statements. The decision to select and appoint both individuals was made in 2022, and both individuals prepared and signed the 2022 NAMEADSMO i.L. Financial Statements.

Non-compliance with NATO-wide policy on VNCs from NATO Member States

2.20 We noted that the two individuals concerned were appointed as VNCs by two NATO Member States to these two permanent posts in the NATO establishment for NAMEADSMO i.L. by the Board of Directors. This is not compliant with paragraph 3.7 of the NATO-wide policy on VNCs from NATO Member States.

2.21 In addition to that, the provisions of paragraph 4.3 of the above-mentioned policy state that a VNC should always be accountable to the Head of NATO Body or his/her delegated authority, for the performance of assigned functions and tasks in accordance with the VNC's description of job responsibilities. This also implies that the post of Liquidator (i.e. Head of NATO Body for the Executive Body of NAMEADSMO i.L.) cannot be held by a VNC.

2.22 With regard to the process followed for appointing both VNCs, we found that the appointment of the VNCs is documented in a Board of Directors' decision sheet. There were no exchanges by letter between NAMEADSMO i.L. and the contributing Nations that confirmed the assignment of both VNCs. Therefore, there is uncertainty about the modalities of the arrangements made, the duration of their assignments and their job responsibilities. This is not compliant with paragraph 4.3 of the NATO-wide policy on VNCs from NATO Member States.

2.23 With regard to the implementation of the NATO-wide policy on VNCs from NATO Member States, we noted that NAMEADSMO i.L. did not develop and implement detailed instructions for VNCs assigned to them, consistent with all relevant regulations in force. This is not compliant with paragraph 5.1 of the NATO-wide policy on VNCs from NATO Member States.

Non-compliance with NFRs and the Charter with regard to recruitment, selection and appointment of a Financial Controller

2.24 With regard to the recruitment of the new Financial Controller, we noted that no vacancy notice was published in accordance with standard recruitment practices, no recruitment process was organised in accordance with the Civilian Personnel Regulations and no independent selection panel was convened. This is not compliant with Article 8 of the NFRs.

2.25 With regard to the selection and nomination of the new Financial Controller, we found that the Financial Controller was not selected and nominated by the Liquidator as the Executor of the NAMEADSMO i.L. (i.e. Head of NATO Body for the Executive Body of NAMEADSMO i.L.). Instead, the Financial Controller was selected, nominated and appointed by the NAMEADSMO i.L. Board of Directors. The effective appointment of the Financial Controller is documented in a Board of Directors' decision sheet. This is not compliant with Article 9.1 of the NFRs and Article 9 of the NAMEADSMO Charter.

2.26 With regard to the effective appointment of the new Financial Controller, we found that the effective appointment of the Financial Controller was not subject to prior approval by the North Atlantic Council based on a recommendation of the NAMEADSMO i.L. Board of Directors, and that the appointment itself was not made by the Liquidator. This is not compliant with Article 9.2 of the NFRs and Article 9 of the NAMEADSMO Charter.

2.27 Given that both VNCs did not hold executive positions with responsibilities over the use of funds in 2022, IBAN does not consider that the instances of non-compliance with the Charter, the NFRs and the NATO-wide policy on VNCs from NATO Member States, materially impact the audit opinion on compliance in 2022.

Recommendations

2.28 IBAN recommends that NAMEADSMO i.L. complies with its Charter, the NATO Financial Regulations, and the NATO-wide policy on Voluntary National Contributions (VNCs) from NATO Member States, regarding the employment of the staff of the Office of the Liquidator.

3. LATE SUBMISSION OF THE 2022 NAMEADSMO I.L. FINANCIAL STATEMENTS

Reasoning

3.1 Article 35.1 of the NATO Financial Regulations (NFRs) states that *“An annual financial statement for each NATO body, consolidated where applicable and appropriate, shall be submitted for audit to the International Board of Auditors for*

NATO by the Financial Controller not later than 31st March following the end of the financial year”.

Observations

3.2 NAMEADSMO i.L. submitted its signed Financial Statements for the financial year ending 31 December 2022 on 22 August 2023, and therefore failed to comply with the deadline of 31 March 2023 as laid down in Article 35 of the NFRs.

Recommendations

3.3 IBAN recommends NAMEADSMO i.L. to ensure that its financial statements are submitted within the deadline set in Article 35 of the NATO Financial Regulations (NFRs).

4. INCOMPLETE AUDIT TRAIL FOR AN EXPENSE RECORDED AND PAYMENT MADE IN RELATION TO HOME LEAVE

Reasoning

4.1 In accordance with Article 3 of the NFRs, the NAMEADSMO i.L. Liquidator, as the Head of NATO Body, is *“responsible and accountable for sound financial management and shall put in place the necessary governance arrangements to ensure and maintain this. This shall include, but is not limited to, the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources”*.

4.2 Article 6 of the 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.

4.3 Article 12.2 of the NFRs provides that in order to meet the desired internal control standards, the Financial Controller shall establish and maintain comprehensive accounting records of all assets and liabilities. Article 12.3 also states that internal control activities shall include (but not be limited to) adequate audit trails and data confidentiality, integrity and availability in information systems.

Observations

4.4 NAMEADSMO i.L. recorded an expense of USD 7,637 in relation to Home Leave for an entitled staff member in November 2022, and made a payment of the same amount to the staff member concerned in November 2022.

4.5 We found that NAMEADSMO i.L. was not able to provide us with evidence in support of the expense recorded, and did not keep comprehensive accounting records

for this transaction. Due to this incomplete audit trail, we were not able to assess whether these expenses of USD 7,637 were actually incurred by NAMEADSMO i.L., and whether these funds were used in compliance with the provisions of NATO Civilian Personnel Regulations on Home Leave.

Recommendations

4.6 IBAN recommends NAMEADSMO i.L. to maintain comprehensive accounting records of all transactions and ensure the existence of adequate audit trails.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

There were no outstanding audit observations and recommendations from the previous years' audits.

NATO MEDIUM EXTENDED AIR DEFENSE SYSTEM MANAGEMENT ORGANIZATION IN LIQUIDATION (NAMEADSMO i.L.) FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

NAMEADSMO i.L made no Formal Comments on Observations 1, 3 and 4.

OBSERVATION 2:

INSTANCES OF NON-COMPLIANCE WITH NATO-WIDE POLICIES ON THE RECRUITMENT, SELECTION AND APPOINTMENT OF A LIQUIDATOR AND FINANCIAL CONTROLLER

NAMEADSMO i.L's Formal Comments

Not agreed.

NAMEADSMO takes note of the observation, but would like to emphasize that the decision to appoint a VNC as liquidator and a financial controller at short notice was the unanimous decision of the three nations involved in the Agency.

Although NAMEADSMO i.L. is a NATO agency, which therefore has to follow NATO regulations, it is only financed by three nations. In our opinion, this also gives those nations the right to deviate from NATO regulations if they see the need to do so.

The necessity arose from the contradiction between the requirements of the C-M(66)9, which is binding for the disengagement of NATO organizations, and the NATO-wide policy on Voluntary National Contributions (VNCs) from NATO Member States.

Accordingly, the C-M(66)9(3) stipulates that "the Liquidator shall render final accounts". However, as long as the liquidator and/or the financial controller is paid by the organization, the accounts cannot be closed. This circular reference can only be removed by entrusting either another organization or a VNC with the liquidation. As the first option was not possible for NAMEADSMO i.L., only the second option remained.

IBAN's Position

NAMEADSMO i.L. was established as a NATO Procurement, Logistics or Service Organisation (NPLSO). In accordance with Article 39 (b) of the Regulations for NPLSOs (C-M(2009)0079), "All NPLSOs shall adhere to such standardised rules and regulations as the North Atlantic Council shall approve and designate as compulsory." In addition, in accordance with Article 2 (b) of these Regulations, "The Charter of each new NPLSO shall conform with these Regulations; any exception to the provisions of these Regulations must be justified and explicitly

approved by the North Atlantic Council.” Any exceptions to the provisions of the Charter and to Council-approved regulations designated as compulsory therefore require explicit approval by the Council. IBAN therefore maintains its 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.

North Atlantic Treaty Organization



NATO Medium Extended Air Defense System Management Organization in Liquidation



Financial Statements

For the year ended
31 December 2022

Serial # GM-5006-400100-OL

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A. Overview of NATO MEADS Management Organization's in Liquidation Operations and Environment

General description of the NATO MEADS Management Organization in Liquidation

The North Atlantic Treaty Organization (NATO) Medium Extended Air Defense System Management Organization (NAMEADSMO) is a NATO Development, Production and Logistics Organization (NPLO), a subsidiary body of NATO created by the North Atlantic Council with the "Charter of NAMEADSMO", documented at C-M(2005)0044-ADD1. Per virtue of the Section VII of the Charter, the organization comprises a Steering Committee (now called Board of Directors), and a NATO Agency whose headquarter is located in the United States of America.

NAMEADSMO shares the international characteristics of NATO and the jurisdictional autonomy by virtue of Article 4 of the Ottawa Agreement. NAMEADSMO was created to provide direction, coordination, and execution of all phases of the MEADS program as delineated by the participating Nations. The participating Nations (Participants) are Germany, Italy, and the United States of America.

On 4 April 2016, the Board of Directors (BoD) submitted a formal request to the North Atlantic Council (NAC) to place NAMEADSMO into Liquidation (NAMEADSMO i.L.). This request was approved and became effective on 1 July 2016.

NAMEADSMO i.L. is comprised of a BoD, composed of one representative from each of the Participants, and the Office of the Liquidator (OotL) which replaced the former NATO MEADS Management Agency (NAMEADSMA).

Consequently, NAMEADSMO i.L. and its staff are under the governance of the NATO Document C-M(66)9 which states in Article 1.b):

"Until the liquidation is completed, the provision of the Charter of the Production Organization will continue to apply to the Production Organization in Liquidation and its staff, insofar as nothing to the contrary results from the provisions of this document or from the purpose of the liquidation."

The liquidation phase for the MEADS program is financed with the "inherited" contributions received prior to the liquidation phase from participating Governments in accordance with the Financial Management Policy Document (FMPD) and in accordance with the terms stipulated in the Design and Development (D&D) Memorandum of Understanding (MoU). While some parts of the MoU expired on 22 April 2017, Section 19.7 provides application in perpetuity of the Sections "Equipment", "Disclosure and Use of Project Information", "Controlled unclassified Information, "Security", "Third Party Sales and transfers", "Liability and Claims" and "Amendment, Termination, Entry into Effect, and Duration".

The FMPD specifies the financial management policies and the funding schedule set for the MEADS D&D phase also applicable for the liquidation phase. It delineates the Participants' annual cumulative financial ceilings which are the basis for the NAMEADSMO i.L. annual budgets. The budgets consist of the Administrative and Operational Budgets. Germany, Italy and the USA (DEU/ITA/USA) percentage shares of the total contribution ceiling are 25.2%, 16.7% and 58.1% respectively, including a portion of non-financial contributions as defined in the FMPD. No further contribution by each Nation will occur during the liquidation phase. The total contribution ceilings for Germany and Italy for the Operational Budget (OB) were reached in 2013 and for the Administrative Budget (AB) in 2014. The USA will not reach their contribution ceilings for either budget as it was noted with BoD decision D14/08 that "no additional USA funds will be provided for the remainder of the MEADS program."

NATO UNCLASSIFIED

The cumulative D&D costs incurred until 31 December 2021 amounts to 2,607M US Dollars and 1,420M Euros.

The organization of the OotL changed from previous years. In 2021, the Office of the Liquidator is comprised of the position of a Liquidator (DEU) and a Business Financial Manager (DEU)/acting Financial Controller (DEU). In addition, the agency has one consultant under contract supporting the agency in the close out effort.

NAMEADSMO i.L. has no liens or encumbrances on the agency's assets.

NAMEADSMO i.L. has given no guarantees to third parties.

NAMEADSMO i.L. is located in Huntsville, Alabama, USA.

Role of the Office of the Liquidator

Beginning 01 July 2016, the Office of the Liquidator (OotL) is the successor of NAMEADSMA. OotL is responsible for the planning, execution, and overall management of the liquidation of the program with the goal to complete the ongoing effort, safeguard the development results and accomplish a successful close-out.

Main responsibility of the OotL is the close out of contracts of the MEADS program. In addition, as per direction of the BoD, the OotL amends existing contracts or awards new ones. It also provides support and information/data to the BoD, the National Product Offices, Industry, and national price audit agencies.

The OotL inherited all existing contracts awarded by the (former) NATO Agency NAMEADSMA throughout the D&D phase.

Contract legacy with NAMEADSMA can be explained as follows:

- The Prime Contract with MEADS International (MI), the prime contractor, was definitized on 31 May 2005. The main D&D phase and MI main contract effort were completed on 31 December 2014 while "Data Archival" of all development documentation (drawings, reports, test results, etc.) and the distribution of the development residual material lasted throughout 2016-2017. It is now completed. Price audits are also complete. Remaining contractual and administrative close-out activities will be carried out prior final settlement in 2023.
- Ancillary contracts were also part of the business transferred to the OotL. Lockheed Martin was engaged in a cooperative agreement for the realization of a Low Frequency Sensor (LFS). The MBDA joint venture EuroMEADS was retrofitting one of the two Multifunction Fire Control Radars (MFCR). MBDA-DEU received a contract to fulfill a non-common requirement regarding German Maturation Activities funded by Germany only. MEADS LLC had been providing support services for the D&D effort to the Agency by conducting independent technical analyses of the MEADS Program system level performance, systems engineering activities, design, development, integration, fabrication, test, producibility, logistic, and programmatic activities. All ancillary contracts are completed and final pricing audits are complete. Remaining contractual and administrative close-out activities will be carried out prior final settlement in 2023.

NATO UNCLASSIFIED

Compliance with Financial Regulations

NAMEADSMO i.L. follows standardized rules and regulations approved by the NAC. Specifically, NAMEADSMO i.L. adheres to the NATO Financial Regulations (NFRs) and Financial Rules and Procedures (FRPs) and to the NATO Civilian Personnel Regulations (CPRs). Since the financial management of NAMEADSMO i.L. is separate and distinct from those of the International Staff or other NATO entities, NAMEADSMO i.L. also follows the NAMEADSMO Financial Rules and Regulations (FRRs), as approved by the NAMEADSMO BoD. If a conflict between the NFR/FRP and NAMEADSMO FRRs arises, the most recent NATO NFR/FRP will prevail.

Note that the BoD decided with decision D22/03 that the Liquidator has the discretion to modify processes and regulations of the NAMEADSMO FRR and Operating Instructions (OIs) to accommodate the OotL organization and requirements, as long as these modifications are compliant with the NFR.

NAMEADSMO i.L.'s mission, strategies and how they relate to its Financial Position, Financial Performance and Cash Flows

NAMEADSMO i.L. does not have any objectives and strategies in relation to its financial position, performance, and cash flows other than to have enough funding available to cover its administrative and operational costs. This is done while acting in the best interest of the three participating Nations within the mission established by the NAMEADSMO Charter and the D&D MoU objectives, in accordance with guidance received from the BoD.

Risks and Uncertainties that affect NAMEADSMO i.L.'s Financial Position and Performance

NAMEADSMO i.L.'s performance is based on the MEADS program results and deliveries that can be achieved with the resources spent. The financial position of NAMEADSMO i.L. is not affected by any significant risk as the MEADS program comes to an end.

Assets/Liabilities in regard of other NATO bodies

NAMEADSMO i.L. does not have any assets or liabilities in respect of other NATO entities.

B. Statement of Financial Position

as at 31 December 2022
(in US Dollars)

	Notes	2022	2021
Assets			
<i>Current Assets</i>			
Cash and Cash Equivalents	2	<u>6,512,861</u>	7,175,577
Receivables	3	1,064	-
Prepayments	4	<u>-</u>	<u>-</u>
		<u>6,513,925</u>	<u>7,175,577</u>
<i>Non-Current Assets</i>			
Property, Plant and Equipment	5	-	-
Total Assets		<u>6,513,925</u>	<u>7,175,577</u>
Liabilities			
<i>Current Liabilities</i>			
Accounts Payable and Accruals	6	35,242	22,702
Deferred Revenue and Liability to Nations	7	<u>6,478,683</u>	<u>7,152,875</u>
		<u>6,513,925</u>	<u>7,175,577</u>
Total Liabilities		<u>6,513,925</u>	<u>7,175,577</u>

C. Statement of Financial Performance

for the year ended 31 December 2022
(in US Dollars)

	Notes	2022	2021
Revenue	10		
Operational		-	-
Administrative		669,238	592,251
Total Revenue		669,238	592,251
Expense	11, 12, 13, 14		
Operational		-	-
Administrative		669,238	592,251
Total Expense		669,238	592,251
Net Result for the Year		-	-

D. Statement of Cash Flows

for the year ended 31 December 2022
(in US Dollars)

	<u>2022</u>	<u>2021</u>
<i>Operational Budget</i>		
Cash Paid to Contractors	(308)	(580)
Other Cash Receipts	-	-
Total Operational Budget	(308)	(580)
<i>Administrative Budget</i>		
Other Cash Receipts	-	1,849
Cash Paid to Suppliers and Employees	(669,238)	(610,266)
Total Administrative Budget	(669,238)	(608,417)
Total Cash Flows from Operating Activities	(669,546)	(608,997)
Total Cash Flows from Investing Activities	-	-
Total Cash Flows from Financing Activities	-	-
Net Increase/Decrease in Cash	(669,546)	(608,997)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	6,831	(8,505)
Cash at Beginning of Period	7,175,576	7,793,078
Cash at End of Period	6,512,861	7,175,576

E. Statement of Changes to Net Assets/Equity

for the year ended 31 December 2022
(in US Dollars)

	Capital assets	Reserves	Accumulated surplus/deficit	Total
Balance at the end of the period 1Jan - 31 Dec 2021	-	-	-	-
Net gains/(losses) recognised directly in net assets/equity	-	-	-	-
Surplus/(deficit) for the period	-	-	-	-
Change in net assets/equity for the year ended 31 Dec 2022	-	-	-	-
Balance at the end of the period 1 Jan - 31 Dec 2022	-	-	-	-
Net gains/(losses) recognised directly in net assets/equity	-	-	-	-
Surplus/(deficit) for the period	-	-	-	-
Change in net assets/equity for the year ended 2022	-	-	-	-
Balance at 31 December 2022	-	-	-	-

F. Notes to the Financial Statements

The notes form an integral part of these financial statements.

Note 1. Significant Accounting Policies

Basis of preparation

The financial statements of NAMEADSMO i.L. have been prepared on the accrual basis of accounting in accordance with the NATO Accounting Framework (NAF) as adopted by the North Atlantic Council (NAC). The NAF is an adaptation of the International Public Sector Accounting Standards (IPSAS).

The application of the NATO accounting framework has had no material impact on the disclosures or on the amounts recognised in the NAMEADSMO i.L. financial statements.

The financial statements comply with the accounting requirements of the NFR and FRP and the relevant NAMEADSMO FRR. They are prepared on a non-going concern basis in consideration of the decisions taken by the Participants.

With the development coming to an end and with none of the participating Nations continuing this MEADS Program, in 2012 the NAMEADSMO BoD requested a plan for the orderly transition to close-out the Agency by mid-2014. Subsequently, in June 2014 the BoD approved a new plan to initiate the liquidation of the entity on 1 February 2015. In the end, the BoD submitted a formal request to the NAC to place NAMEADSMO into Liquidation on 4 April 2016. This request was approved and became effective on 1 July 2016. Consequently, NAMEADSMO became “NAMEADSMO in Liquidation”, headed by the Liquidator who is supported by a small staff also referred to as “Office of the Liquidator”.

Accounting as Procurement Agent

According to the IPSAS Preface, IPSASs are converged with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) by adapting them to public sector context where appropriate.

The only IPSAS that specifically refers to Principals and Agents, is IPSAS 9 which provides guidance on how Principals and Agents should account for ‘Revenue from exchange transactions’.

IFRS 15 defines a Principal as the party that controls the goods or services before they are transferred to customers and defines an Agent as the party that arranges for the goods or services to be provided by another party without taking control over those goods or services.

In accordance with paragraphs B.35 and B.36 of IFRS 15, a Principal recognises revenue and expenses in gross amounts, whereas an Agent recognises only fees or commissions, even if gross cash flows go through the Agent.

NAMEADMO i.L. is responsible for the planning, execution and overall management of the liquidation of the program with the goal to complete the ongoing effort, safeguard the development results and accomplish a successful closeout on behalf of its member.

NAMEADSMA/NAMEADSMO i.L. – OotL has been acting as a procurement agent in respect of its operations since it does not control a good or service before it is transferred to the customer. As such the agency does not have:

- Primary responsibility for fulfilling the promise to provide the specified good or service
- Inventory risk
- Discretion in establishing the price for the specified good or service

The Agency was created for the sole purpose of designing MEADS on behalf of Germany, Italy and the United States and consequently has been carrying out the acceptance of goods and services on behalf of the participating Nations. All assets are owned, controlled, and operated by the three Nations.

The running costs of the Agency are reimbursed via the Administrative Budget. Therefore, the operational revenue and expenses are not recognised throughout these financial statements.

Accounting estimates and judgments

In accordance with NAF, the financial statements necessarily include amounts based on estimates and assumptions made by management and based on historical experience as well as on the most reliable information available. In exercising the judgments to make the estimates, a degree of caution was included in light of the principle of prudence 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 are not likely to be significant to the financial statements.

Changes in accounting policy

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 NAF/IPSAS 3. For the 31 December 2021 financial statements, the accounting policies have been applied consistently throughout the reporting period.

Restatements

NAMEADSMO i.L. restated balances. In line with IFRS 15, a Principal recognizes revenue and expenses in gross amounts, whereas an Agent recognizes only fees or commissions, even if gross cash flows go through the Agent.

Given that NAMEADSMO does not recognize any expenses in relation to OB expenditure, it no longer has any accruals in relation to the OB expenditure either. Payables in relation to the OB therefore only contain those invoices with an invoice date in the reporting year which remain unsettled at the period end date. Accruals previously shown in relation to OB expenditure, have now been presented as a Liability to Nations.

Changes in pronouncements

Some new standards, alignments, updates, amendments of standards and interpretations were issued. The adoption of or updates to these below-mentioned standards will not have a material impact on the financial statements of the agency.

IPSAS	Name	Effective date for periods beginning on or after
IPSAS 41	Financial Instruments	01 January 2023
IPSAS 42	Social Benefits	01 January 2023
IPSAS 36 and IPSAS 41	Long-term Interests in Associates and Joint Ventures (Amendment to IPSAS 36) and Prepayment Features with Negative Compensation (Amendment to IPSAS 41)	01 January 2023
IPSAS 19	Collective and Individual Services (Amendments to IPSAS 19)	01 January 2023
IPSAS	Improvements to IPSAS, 2019	01 January 2023
IPSAS 41	Non-Authoritative Amendments to IPSAS 41	01 January 2023
IPSAS 41	Non-Authoritative Amendments to IPSAS 41	01 January 2023
IPSAS 5	Amendments to IPSAS 5, Borrowing Costs – Non-Authoritative Guidance	No effective date
Improvement to IPSAS	General improvements and IFRS alignment improvements to IPSAS 2021	01 January 2023
IPSAS 43	Leases	01 January 2025

Foreign Currency

These financial statements are presented in US Dollars (USD), which is NAMEADSMO i.L.'s reporting currency. EURO (€) currency transactions are translated into USD at the average monthly NATO exchange rates, with the exception of foreign exchange transactions, which are converted at the daily exchange rate. Monetary assets and liabilities denominated in EURO at period-end are translated into USD using the NATO exchange rates applicable at 31 December 2022.

All EURO transactions related to the budget are converted into equivalent USD (EUSD) at the MoU exchange rate of 1.19.

Financial Instruments disclosure/presentation

NAMEADSMO i.L. uses only non-derivative financial instruments as part of its normal operations. These financial instruments include cash and cash equivalents, accounts receivable, provisions and liabilities. Financial instruments are recognized in the Statement of Financial Position at fair value.

Financial risk factors

NAMEADSMO i.L. is minimally exposed to a variety of financial risks, including credit, liquidity, and currency risks.

a. Credit risk

The OotL holds current bank account balances with registered banking institutions in the USA and Germany. Wells Fargo (USA) and Sparkasse (Germany) have a very low long-term credit risk rating. In accordance with Fitch, the following bank deposit ratings assigned (as of the date of the submittal of these Financial Statements):

- Wells Fargo Bank: A+/F1+
- Sparkasse Koblenz: A+/F1+

b. Liquidity risk

The OotL does not expect to encounter any difficulty in meeting obligations associated with financial liabilities. There is limited exposure to liquidity risk because of the budget mechanism that guarantees funds for the total approved budget.

c. Currency risk

The OotL continues to operate on the contributions received in prior years from the Participants in USD (\$) and EURO (€), based on the FMPD. Generally, expenses are paid in the same currency as the receipts. For the Operational Budget, in the past total obligations for each currency may not have matched the available resources in the same currency, yielding some foreign exchange risk from fluctuations in currency rates. Consequently, the BoD authorized foreign exchange money market operations, if necessary, to maintain adequate funding level in each currency to hedge this risk (decision D15/09). As of 2021 the Operational Budget holds enough resources in the same currency and therefore yielding no longer foreign exchange risk.

The exposure of financial instruments to foreign currency exchange risk associated with the Administrative Budget is insignificant as contributions and expenditure are made in USD only.

Revenue and Expense Recognition

Revenue comprises contributions from Participants to fund the entity's budgets. 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. The revenue recognition is matched with the recognition of expenses.

Administrative Budget

Administrative Budget contributions fund the costs of NATO contract personnel and the goods and services to be rendered toward the performance of tasks to be executed by NAMEADSMO i.L. over an agreed period of time. Contributions are initially recorded as deferred revenue liabilities. They are recognized as revenue in the statement of financial performance when such contributions are used for their intended purpose as estimated in the Administrative Budget.

Operational Budget

The entity's contracts are with the private sector utilizing *cost-plus fixed fee* contract. The operational revenue and expenses are not recognised since the entity is considered an agent in respect of its operations.

Budget Execution

Total budgetary resources are comprised of assessed contributions from the Participants.

The budgets are Administrative (costs for agency personnel, supplies and services, furnishings and equipment), and Operational (costs associated with the MEADS system development and ancillary contracts). Costs are further categorized by chapters, items and sub-items within the separate budgets. In accordance with NFR Art. 34.4, a Budget Execution Statement (BES) is presented in Annex I.

There has not been a change in the execution of the BES compared to the previous accounting period for transparency and disclosures to readers. The BES is prepared on an accrual basis of accounting.

Cash Flow Statements

NAMEADSMO i.L. has elected to use the direct method of presentation in these financial statements, in accordance with NAF.

Financial Assets

The financial assets are cash and cash equivalents, accounts receivable and prepayments. They are measured at fair value. Bank deposits denominated in foreign currencies are translated to reporting currency at the closing date NATO exchange rate. Changes in fair value are recognized in the Statement of Financial Performance

Financial Liabilities

The financial liabilities are accounts payable and accruals, and advances and deferred revenue and liability to Nations. They are measured at fair value. Changes in fair value are recognized in the Statement of Financial Performance. As consequence of the 1 July 2016 transition into liquidation, all NAMEADSMO assets and liabilities were subsumed into NAMEADSMO i.L. assets and liabilities.

Receivables

Amounts receivable are stated at fair value in the Statement of Financial Position. No provision for doubtful debts is necessary as all receivables are deemed to be collectible.

Prepayments

Advance payments to vendors are reflected as prepayments in the Statement of Financial Position.

Accounts Payable and Accruals

Accounts Payable represent amounts for which goods and/or services, supported by an invoice, have been received by period-end but which remain unpaid. Accruals represent amounts for goods and/or services rendered by period-end but are not yet supported by an invoice at period-end.

Deferred Revenue and Liability to Nations

Deferred revenue represents contributions from Participants and/or third parties for the Administrative Budget that have been called for, in prior years' budgets but that have not yet been recognized as revenue.

Liability to Nations refers to contributions from Participants and/or third parties for the Operational Budget that have been called for, in prior years' budgets but that have not yet been returned back to the Nations.

Property, Plant and Equipment (PP&E)

PP&E is reported in the financial statements in accordance with internal policy guidance for Property, Plant and Equipment for the Administrative Budget. No changes occurred with the criterion adopted by former NAMEADSMO's internal policy guidelines. PP&E is recognized in accordance with the criteria relating to control outlined in the NATO Accounting Framework.

After recognition as an asset, an item of PP&E is carried at its historical cost less any accumulated depreciation. Total cost consists of the asset purchase price plus any installation costs for bringing the asset to working condition for its intended use.

As allowed under the NATO Accounting Framework, NAMEADSMO i.L. uses capitalization thresholds based on its activities and size. These thresholds are lower than the agreed NATO thresholds in the framework.

NAMEADSMO i.L. uses the straight-line method of depreciation (calculated by dividing the cost equally over the asset's useful life) with a half-year rule to recognize assets with six months depreciation in the first year regardless of the date the asset was received. The half-year rule treats all property acquired during the year as being acquired exactly in the middle of the year. This means that only half of the full-year depreciation is allowed in the first year, with the remaining balance being deducted in the final year of the depreciation schedule, or the year that the property is disposed.

The estimated useful lives for asset classes applicable to NAMEADSMO i.L. are listed in the table below:

Asset Class	Depreciation Method	Useful Life Years	Capitalization Threshold Dollars (\$)	Notes
Leasehold Improvements	Straight-Line	40	65,000	Major Building Renovations
Furniture & Fixtures	Straight-Line	10	1,000	Per item cost
Communication Systems	Straight-Line	3	1,000	Per item cost
Automated Information Systems	Straight-Line	3	1,000	Per item cost
Major Software	Straight-Line	3	65,000	Acquired Externally

Note that for some items the useful life is longer than the estimated life of the Agency. The depreciation expense was adjusted in 2012 and again in 2013 to the estimated expected end of the life of the agency. The final year of depreciation for all remaining NAMEADSMO assets was 2015. Consequently, everything acquired by the NAMEADSMO i.L. - OotL, starting 01 July 2016, is fully expensed.

Intangible Assets

NAMEADSMO i.L. does not have any intangible assets.

Retirement benefit plans: NATO Defined Contribution Pension Scheme (DCPS)

Contributions to the NATO defined contribution pension scheme are charged to the Statement of Financial Performance in the year to which they relate. NAMEADSMO i.L. is not directly exposed to any liabilities that may arise on the scheme and has no control over the assets of the scheme. The assets and liabilities for the NATO Pension Schemes are accounted for centrally by NATO International Staff (IS).

Retirement benefit plans: NATO Defined Benefit Scheme

Contributions to the NATO defined benefit scheme are charged to the Statement of Financial Performance in the year to which they relate. NAMEADSMO i.L. is not directly exposed to any liabilities that may arise on the scheme and has no control over the assets of the scheme. The assets and liabilities for the NATO Pension Schemes are accounted for centrally by NATO IS.

Provisions

Provisions are recognized when the entity has a legal or constructive obligation as a result of a past event, and where it is probable that an outflow of resources will be required to settle the obligation, and where a reliable estimate of the amount of the obligation can be made.

Contingent Liabilities

Contingent liabilities are possible obligations arising from past events whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the control of NAMEADSMO i.L..

Reserves and Net Assets

NAMEADSMO i.L. operates on a “no profit, no loss” basis. As such, it does not have net assets; any surplus gained in the year becomes payable to the Participants while any deficit becomes a receivable from the Participants.

Comparative Figures

The reporting period for the current financial statements of 12 months, is the same as the reporting period for the previous financial statements (01 Jan - 31 Dec 2020). Comparative amounts for related notes are therefore comparable.

Note 2. Cash and Cash Equivalents**2022:**

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational	91,211	-	-	-	4,609,960	4,706,625
Administrative	-	17,953	-	5,136	1,783,146	1,806,236
TOTAL	91,211	17,953	-	5,136	6,393,106	6,512,861

The agency's cash includes deposits which are held in non-interest-bearing current bank accounts in immediately available funds. Current bank accounts are held in USD (\$) and Euro (€) currencies.

2021:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational	91,501	-	-	-	4,609,960	4,712,652
Administrative	-	18,651	-	5,136	2,439,138	2,462,925
TOTAL	91,501	18,651	-	5,136	7,049,098	7,175,577

Note 3. Receivables**2022:**

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Contract Receivables		-		-		-
Total Operational	-	-	-	-	-	-
Administrative						
Miscellaneous					1,064	1,064
Total Administrative		-		-	1,064	1,064
TOTAL	-	-	-	-	1,064	1,064

2021:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Contract Receivables		-		-		-
Total Operational	-	-	-	-	-	-
Administrative						
Miscellaneous					-	-
Total Administrative		-		-	-	-
TOTAL	-	-	-	-	-	-

The office insurance policy with Marsch and McLennan Agency was cancelled effective 31 December 2022. The policy period was from 22 January 2022 through 27 January 2023. Marsch and McLennan Agency issued a prorated refund for \$181.26 (Policy CSU0182242 \$120.84 and Policy CSU0182243 \$60.42.)

Note 4. Prepayments**2022:**

There are no prepayments as at 31 December 2022.

2021:

There were no prepayments as at 31 December 2021.

Note 5. Property, Plant and Equipment

The gross carrying amount and the accumulated depreciation at the beginning and end of the period can be seen in the table below. A reconciliation of the carrying amount at the beginning and end of the period is also displayed.

	Furniture & Fixtures		Communication Systems		Automated Information Systems		Major Software		Total	
Reporting Period	Jan-Dec 2022	Jan-Dec 2021	Jan-Dec 2022	Jan-Dec 2021	Jan-Dec 2022	Jan-Dec 2021	Jan-Dec 2022	Jan-Dec 2021	Jan-Dec 2022	Jan-Dec 2021
Gross Carrying Amount, opening	2,661	6,395	-	-	13,274	13,274	-	-	17,165	19,669
Additions	-	-	-	-	-	-	-	-	-	-
Disposals	(2,661)	(1,894)	-	-	-	-	-	-	(17,165)	(1,894)
Loss on Disposals	-	-	-	-	-	-	-	-	-	-
Gross Carrying Amount, closing	2,661	4,501	-	-	13,274	13,274	-	-	17,165	17,775
Accumulated Depreciation, opening	2,661	6,395	-	-	13,274	13,274	-	-	17,165	19,669
Depreciation	-	-	-	-	-	-	-	-	-	-
Disposals	(2,661)	(1,894)	-	-	-	-	-	-	(17,165)	(1,894)
Accumulated Depreciation, closing	-	4,501	-	-	-	13,274	-	-	-	17,775
Net Carrying Amount	-	-	-	-	-	-	-	-	-	-

All property, plant, and equipment were written off effective December 2022. An itemized write-off list is as follows:

HR	BC	Nomenclature	Model	Serial
FURN	1A117189	Chair, Side	Leather Mid-Back	1203-5
FURN	1A117266	Shredder	602SF	671554.01173.D
IT	1A117579	COMPUTER LAPTOP	E6420	2BSYSR1
FURN	1A117655	Chair, Side	Black w/arms	P-1501-LC-30466.117
FURN	1A117708	Cabinet, storage	2 door metal 72"	0ID-88127
FURN	1A117766	Refrigerator	ET8MHKXMQ	EW1013093
FURN	1A117767	Microwave	VL 919200B	JES1136W1
FURN	1A117776	Cabinet, File	5-drawer	315CPQ
FURN	1A117780	Desk, L Unit	Left return	P-TMCEL.W.LC.LL.TDAB
FURN	1A117794	Cabinet, File	5-drawer	315CPQ
FURN	1A117799	Chair	Black w/arms	P-1501-LC-30466.117
FURN	1A117800	Chair, Side	Black w/arms	P-1501-LC-30466.117
FURN	1A117812	Chair, Side	Black w/arms	P-1501-LC-30466.117
FURN	1A117841	Chair	Aeron	AE 123AWC
FURN	1A118079	Cabinet, File	5-drawer	315CPQ
FURN	1A118353	Desk	Double Ped	PR3672-DP-P
FURN	1A118354	Credenza	Double Ped	CH2066-CO-P
FURN	1A118358	Table, Conf	36"x72"	PR3672TD
IT	1A149124	COMPUTER LAPTOP	E6420	H796KQ1
IT	1A117334	Monitor	55S405	1811NTX300001A00378
IT	1A117335	Mobile Phone		F2LY93AZKXKP
IT	1A117336	Mobile Phone		F2LY931DKXXP

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Note 6. Accounts Payable and Accruals**2022:**

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Accrued Expenses	-	-	-	-	-	-
Total Operational	-	-	-	-	-	-
Administrative						
Accounts Payable	-	-	-	-	-	-
Accrued Expenses	-	-	-	-	35,242	35,242
Total Administrative	-	-	-	-	35,242	35,242
TOTAL	-	-	-	-	35,242	35,242

2021:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Accrued Expenses	-	-	-	-	-	-
Total Operational	-	-	-	-	-	-
Administrative						
Accounts Payable	-	-	-	-	-	-
Accrued Expenses	-	58	-	-	22,644	22,702
Total Administrative	-	58	-	-	22,644	22,702
TOTAL	-	58	-	-	22,644	22,702

Prior to the restatement the amount recognized as Operational Accrued Expenses in US USD for the year 2020 was 27,689. Given that NAMEADSMO i.L. does not recognize any expenses in relation to OB expenditure, it no longer has any accruals in relation to OB expenditure either.

Note 7. Deferred Revenue and Liability to Nations**2022:**

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Liability to Nations	91,211	-	-	-	4,609,960	4,712,325
Total Operational	91,211	-	-	-	4,609,960	4,712,325
Administrative						
Liability to Nations	-	17,838	-	5,137	1,783,383	1,766,358
Total Administrative	-	17,838	-	5,137	1,783,383	1,766,358
TOTAL	91,211	17,838	-	5,137	6,393,343	6,478,683

Deferred revenue and Liability to nations include uncommitted funds and lapses. All remaining funds, if any, will be returned to the respective national treasuries prior to the dissolution of the agency.

2021:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Liability to Nations	91,501	-	-	-	4,609,960	4,712,651
Total Operational	91,501	-	-	-	4,609,960	4,712,651
Administrative						
Deferred Revenue	-	18,594	-	5,137	2,416,493	2,440,223
Total Administrative	-	18,594	-	5,137	2,416,493	2,440,223
TOTAL	91,501	18,594	-	5,137	7,026,452	7,152,875

Note 8. Other Current Liabilities**2022:**

There are no other current liabilities as the banks ceased to yield interest on the cash balances for the period 01 Jan – 31 Dec 2022.

2021:

There are no other current liabilities as the banks ceased to yield interest on the cash balances for the period 01 Jan – 31 Dec 2021.

Note 9. Provisions and Contingent Liabilities

The OotL does not have any provisions or contingent liabilities to report.

Note 10. Revenue

2022:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational	-	-	-	-	-	-
Administrative	-	-	-	-	669,238	669,238
TOTAL	-	-	-	-	669,238	669,238

The operational revenue is not recognised since the entity is considered an agent in respect of its operations.

2021:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational	-	-	-	-	-	-
Administrative	-	1,336	-	-	590,915	592,251
TOTAL	-	1,336	-	-	590,915	592,251

Note 11. Expenses

2022:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational	-	-	-	-	-	-
Total Operational	-	-	-	-	-	-
Administrative	-	-	-	-	-	-
Personnel	-	-	-	-	572,840	572,840
Operating	-	-	-	-	96,398	96,398
Total Administrative	-	-	-	-	669,238	669,238
TOTAL	-	-	-	-	669,238	669,238

The operational expenses are not recognised since the entity is considered an agent in respect of its operations.

2021:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational	-	-	-	-	-	-
Total Operational	-	-	-	-	-	-
Administrative	-	-	-	-	-	-
Personnel	-	-	-	-	529,626	529,626
Operating	-	1,336	-	-	61,289	62,625
Total Administrative	-	1,336	-	-	590,915	592,251
TOTAL	-	1,336	-	-	590,915	592,251

Note 12. Personnel Expenses

The figures disclosed below represent the costs of NATO personnel including salary, allowances, complementary insurance, and pension plan contributions. The amount for Personnel Expense in Note 11 is greater than the employee benefits expense defined in this note because Note 11 includes all Chapter 1 budget Personnel items such as recruitment/separation, home leave, contractor personnel expense, etc.

	31 Dec 2022 (2 people for 12 months)	31 Dec 2021 (2 people for 12 months)
Employee Benefits Expenses	554,000	449,169
Post Employment Benefits	18,840	16,850

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The OotL does not accrue untaken leave. In accordance with CPR Article 42.3, untaken leave must be taken within the allowed time period or will be forfeited.

The OotL does not have any termination benefits. The Agency has only seconded personnel under NATO personnel contracts.

NATO Pension Schemes are accounted for centrally at NATO Headquarters and therefore are not recognized in these financial statements. NATO IS manages these systems centrally on behalf of the other NATO entities.

Note 13. Leases

The OotL has two operational leases. One lease is for an office space with the JU Huntsville CRP III Owner, LLC, and terminated effective 31 December 2022 to reflect the BoD decision to extend the office through the end of 2022. The obligated lease payments, including operating expenses, from 01 January through 31 December 2022 amount to USD 44,354. The leasing company, JU Huntsville CRP III Owner/LLC issued a return of prorated operating costs in the amount of \$881.90.

The other operational lease is for a printer for the office which went into effect on 01 October 2020. The contract lease charge is in the amount of USD 50 per month (USD 600 for the year 2022) and the contract base rate in the amount of USD 24.75 per month (USD 297 for the year 2022). This lease was terminated effective 13 December 2022, and equipment picked up on 14 December 2022.

The OotL does not have any financial leases.

Note 14. Draw Down of Operations

Operational:

After the completion of all operational effort in November of 2020 (legacy effort from D&D program plus safe keeping effort during liquidation phase) the OotL continues to support national requirements (e.g., price audits, information requests) and the close out of contracts. The US pricing audit report was completed on 15 November 2022. This contract is in formal closeout protocol.

The MFCR#1 contract German pricing audit was completed in August 2022. This contract is in formal closeout protocol.

The LFS Cooperative Agreement contract US pricing audit was completed in August 2022. This contract is in formal closeout protocol.

All other operational effort is completed and closed out.

Administrative:

Parallel to closing down the operational part of the agency, the OotL continues the liquidation effort on the administrative side as well. All 2022 administrative effort is complete and final invoices have been paid.

Un-obligated funds will be continued to be used for administrative expenses of the OotL. Unused funds will be returned to Nations.

Note 15. Write-Off

In accordance with the NFRs Article 17 and the NAMEADSMO FRR Section VIII, 127, all remaining capital items were written off in 2022. These assets related to office furnishings and Automated Information Systems.

Note 16. Employee Disclosure

During 2022, there was no government personnel from the USA detailed to the agency.

Note 17. Related Parties

The OotL is under direct control of NAMEADSMO i.L.'s Board of Directors.

The key management personnel of the OotL and the BoD have no related party relationships that could affect the operation of this reporting entity. Board members receive no remuneration, and the Liquidator is remunerated in accordance with the published NATO pay scales. Neither receives loans that are not available to all staff.

NATO IS, who deals with NATO pensions on behalf of other NATO entities, is a related party due to the OotL's pension plans being handled centrally at NATO HQ. NATO IS performed administrative support services for the OotL in 2022. No fees were charged to OotL for the period ending 31 December 2022.

During 2022, there is one key management personnel - the Liquidator. The aggregate remuneration of key management personnel includes salary, allowances, and complementary insurances and was as follows for the period 01 Jan – 31 Dec 2022:

	31 Dec 2022 (1 person 12 months)	31 Dec 2021 (1 person 12 months)
Aggregate Remuneration	277,000	262,879

Note 18. Representation Allowance

There were no qualifying officials to receive Representation Allowance in 2022.

Note 19. Events after the Reporting Date

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

Note 20. Possible contingent assets based on the German Price Audits of 2022

With the result of the German Price Audits 2022, possible contingent assets are to be expected in 2023. The possible contingent assets are part of a negotiation process in 2023 and they sum up to approximately 110,000 €.

G. Report of Management

The North Atlantic Treaty Organization (NATO) Medium Extended Air Defense Missile System Management Organization in Liquidation's (NAMEADSMO i.L.) Financial Statements have been prepared in accordance with the NAF as adopted by the NAC. The NAF is an adaptation of the IPSAS. The Agency's system of internal financial control is designed to provide reasonable assurance regarding the reliability of financial reports and the preparation of financial statements.

The NAMEADSMO i.L. Financial Statements are approved and certified by the Liquidator and the Financial Controller respectively to the best of their knowledge and according to the applicable accounting standards to give a true and fair view, in all material respect, of the assets, liabilities, financial position and financial performance of NAMEADSMO i.L. and to be in accordance with the books and records maintained.

Liquidator

Financial Controller

Annex I – Budget Execution

The Budget Execution Statement (BES) for the current reporting period 01 January 2022 through 31 December 2022 is presented on the accrual basis of accounting. For transparency purposes, both the Operational and the Administrative Budgets are shown.

“Accrual Basis” provides full visibility of revenues and expenses recorded in the period when they are earned, irrespective of the actual cash flows (according to NAF).

The funds shown for the Operational Budget 2022 reflect the maximum amount that is being authorized to be committed and spent.

The funds shown for the Administrative Budget 2022 reflect only the current year authorizations. Remaining funds are available for future years until dissolution.

Statement of Budget Execution as at 31 December 2022

Equivalent USD	Original estimated budget for 2022	Amended estimated budget for 2022	Special Carry Forward 2021/2022	Special Carry Forward Adjustment 2021/2022	Final budget 2022/ Appropriations	Commitments	2022 Expenses	CFw for Committed Appropriations 2022 - 2023	Lapses
Budget 2022 Operational									
Chapter 3	595	595	-	-	595	308	308	-	287
Total FY 2022-	595	595	-	-	595	308	308	-	287
Budget 2022 Administrative									
Chapter 1 Personnel	550,700	194,600	-	-	745,300	572,840	572,840	-	172,460
Chapter 2 Admin/Svcs	199,600	-6,300	-	-	193,300	96,398	96,398	-	96,902
Chapter 4 Investments	21,000	0	-	-	21,000	0	0	-	21,000
Total FY 2022	771,300	188,300	-	-	959,600	669,238	669,238	-	290,362
Budget 2021 Operational									
Total FY 2021	-		-	-	-	-	-	-	-
Budget 2021 Administrative									
Total FY 2021	-		-	-	-	-	-	-	-
Budget 2020 Operational									
Total FY 2020	-		-	-	-	-	-	-	-
Budget 2020 Administrative									
Total FY 2020	-		-	-	-	-	-	-	-
Budget 2019 Operational									
Chapter 3	-		-		-	-	-	-	-
Total FY 2019	-		-	-	-	-	-	-	-
Budget 2019 Administrative									
Total FY 2019	-		-	-	-	-	-	-	-
Budget 2018 Operational									
Chapter 3			1,415,053		1,415,053				1,415,053
Total FY 2018			1,415,053		1,415,053				1,415,053
Budget 2018 Administrative									
Total FY 2018									
Total Operational	595	595	1,415,053	-	1,415,648	308	308	-	1,415,340
Total Administrative	771,300	959,600	-	-	959,600	669,238	669,238	-	290,362
Total all Budgets	771,895	960,195	1,415,053	-	2,375,248	669,546	669,546	-	1,705,702

Explanation of Special Carry Forward, Carry Forward and Lapsed Credits/Ending Balance:

Operational Budget:

The Budget Execution Statement (BES) shows special carry forward in order to recognize the nature of funds. Special carry forward are funds of uncommitted appropriations for a clearly identified purpose.

In the BES, the total amount of special carry forward of commitments from previous years for Chapter 3 (Design and Development) is USD 1,415,053. This special carry forward has not been prolonged to 2023 and as such lapsed.

The total amount of lapses represents funds that were budgeted for other OB related expenses but not obligated.

Administrative Budget:

The lapsed credits of USD 281,286 are funds that were approved by the BoD for the entire Administrative Budget 2022 but were not obligated or spent by the end of 2022.

Budget Transfers

For the Administrative Budget, transfers of credits between budget chapters can be made after approval of the BoD. The Liquidator may authorize transfers within any chapter between items and among sub-items within an item concerning recurring expenditure and within any item concerning capital expenditure. No transfers within the Administrative Budget occurred in 2022.

For the Operational Budget, transfers of credits between budget chapters and items can be made after approval by the BoD. The Liquidator may authorize transfers between sub-items within any chapter item. No transfers within the Operational Budget occurred in 2022 and no amendment to the budget took place.

Annex II: Budget Calls and Receipts

The Operational and Administrative Budget contributions are called based on cash requirements and within the FMPD schedule and limits. The Operational Budget reached the contribution ceiling in 2013, the Administrative Budget reached the contribution ceiling in 2014 and as such there were no calls made in 2022 by the OotL