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|  | NATO | NORTH ATLANTIC COUNCIL       |
|                                                                                   | OTAN | CONSEIL DE L'ATLANTIQUE NORD |

**NATO UNCLASSIFIED**  
Releasable to Sweden

12 January 2024

**DOCUMENT**  
PO(2023)0468-AS1 (INV)

**IBAN AUDIT REPORT ON THE 2022 FINANCIAL STATEMENTS OF  
INTERNATIONAL MILITARY STAFF (IMS), NATO DEFENCE COLLEGE (NDC) AND  
SCIENCE AND TECHNOLOGY ORGANISATION (STO)**

**ACTION SHEET**

On 12 January 2024, under the silence procedure, the Council noted the RPPB report and the IBAN Audit Reports attached to PO(2023)0468 (INV), approved the conclusions and recommendations in the RPPB report and approved the public disclosure of the RPPB report, the IBAN Audit Reports and associated Financial statements of IMS, NDC and STO enclosed to PO(2023)0468 (INV).

(Signed) Jens Stoltenberg  
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to PO(2023)0468 (INV).

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20 December 2023

**DOCUMENT**  
PO(2023)0468 (INV)  
**Silence Procedure ends:**  
**12 Jan 2024 - 15:30**

To: Permanent Representatives (Council)

From: Secretary General

**IBAN AUDIT REPORT ON THE 2022 FINANCIAL STATEMENTS OF INTERNATIONAL  
MILITARY STAFF (IMS), NATO DEFENCE COLLEGE (NDC) AND SCIENCE AND  
TECHNOLOGY ORGANISATION (STO)**

1. I attach the Resource Policy and Planning Board (RPPB) report on the International Board of Auditors for NATO (IBAN) Audit Report on the 2022 Financial Statements of the International Military Staff (IMS), NATO Defense College (NDC) and the Science and Technology Organization (STO). The IBAN issued unqualified opinions on the Financial Statements and on compliance for the year ended 31 December 2022 of the IMS, NDC and STO.

2. I do not believe this issue requires further discussion in Council. Therefore, **unless I hear to the contrary by 15:30 hours on Friday, 12 January 2024**, I shall assume the Council noted the RPPB report and the IBAN Audit Reports, approved the conclusions and recommendations in the RPPB report and approved the public disclosure of the RPPB report, the IBAN Audit Reports and associated Financial statements of IMS, NDC and STO.

(Signed) Jens Stoltenberg

1 Annex  
2 Enclosures

Original: English

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**IBAN AUDIT REPORT ON THE 2022 FINANCIAL STATEMENTS OF INTERNATIONAL  
MILITARY STAFF (IMS), NATO DEFENCE COLLEGE (NDC) AND SCIENCE AND  
TECHNOLOGY ORGANISATION (STO)**

**Report by the Resource Policy and Planning Board (RPPB)**

References:

|    |                            |                                                                                                                                            |
|----|----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| A. | IBA-AR(2023)0018           | IBAN Audit Report on the 2022 Financial Statements of the International Military Staff (IMS) for the year ended on 31 December 2022        |
| B. | IBA-AR(2023)0017           | IBAN Audit Report on the 2022 Financial Statements of the NATO Defense College (NDC) for the year ended on 31 December 2022                |
| C. | IBA-AR(2023)0016           | IBAN Audit Report on the 2022 Financial Statements of the Science and Technology Organisation (STO) for the year ended on 31 December 2022 |
| D. | PO(2022)0516-AS1 (INV)     | Action sheet on the IBAN Audit Report on the audit of 2021 Financial Statements of IMS, NDC and STO                                        |
| E. | C-M(2015)0025              | NATO Financial Regulations (NFR)                                                                                                           |
| F. | BC-D(2015)0260- REV3 (INV) | NATO Financial Rules and Procedures (FRP)                                                                                                  |
| G. | C-M(2016)0023              | NATO Accounting Framework (NAF)                                                                                                            |
| H. | PO(64)379                  | NATO Civilian Personnel Regulations (CPRs)                                                                                                 |
| I. | PO(2015)0052               | Wales Summit tasker on transparency and accountability                                                                                     |

**INTRODUCTION**

3. This report by the Resource Policy and Planning Board (RPPB) addresses the IBAN Audit Reports on the 2022 Financial Statements of the International Military Staff (IMS), NATO Defense College (NDC) and Science and Technology Organisation (STO). The IBAN issued unqualified opinions on the Financial Statements and on compliance for the year ended 31 December 2022 (references A, B and C).

**AIM**

4. This report highlights key issues in the IBAN Audit Reports 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.

## DISCUSSION

5. In 2022, the IBAN made no observations and recommendations for the IMS and made two observations and recommendations for the NDC and two for the STO. The two observations for the NDC relate to the non-compliance of the procurement for the acquisition of flight tickets with the NATO Financial Regulations (NFRs) (reference E) and inconsistency in the presentation of consultant costs in the Financial Statements and budget execution statements. The two observations for the STO relate to the need to improve the control over the accounting of advances and costs for vessels' maintenance by the ship management contractor and to non-compliance of the procurement of electricity supply contract with the NFR and Financial Rules and Procedures (FRP) (reference F). These observations and recommendations did not affect the audit opinion on the Financial Statements, neither on compliance.

5.1. IBAN's Observation 1 for the NDC: The IBAN recommends that the NDC conduct procurement, in the case of commercial flights acquired through travel agencies, in accordance with the NFR and the Established Financial Limit (EFL) thresholds, and, where appropriate, justify any duly approved waiver from International Competitive Bidding. Moreover, the IBAN recommends that the NDC establish a contractual arrangement, for example a framework agreement with brokers for the provision of charter flight services, in order to streamline procurement, minimise the need for frequent urgent waivers and help mitigate by anticipation the risk of cost increases. In its formal comments, the NDC stated that it bases its procurement action on the estimated cost of the agency's commission rather than the total cost of commission and air tickets, and will therefore carefully consider IBAN's recommendation on future procurement actions. On the other hand, the NDC agrees with the IBAN's recommendation to enter into framework agreements with brokers as this is the planned NDC approach to address the increase in travel and transportation costs.

5.1.1. The RPPB supports IBAN's recommendation that the NDC conduct procurement in accordance with the NFRs and the EFL thresholds and establish a contractual arrangement in order to streamline procurement, minimise the need for urgent waivers and help mitigate the risk of cost increases.

5.2. IBAN's Observation 2 for the NDC: With regard to inconsistency in the presentation of consultant costs in the Financial Statements and budget execution statements, the RPPB supports IBAN's recommendation that the NDC revise the contracts of language teachers to accurately reflect their status as service providers if NDC does not engage them under the Civilian Personnel Regulations (CPRs) (reference H). In addition, the RPPB supports IBAN's recommendation that the NDC ensure that the accounting and budgetary classification of consultants and service providers aligns with the provisions outlined in their contracts, the relevant regulations, the nature of services rendered, and the specific method of recruitment or procurement employed. Finally, the RPPB supports IBAN's recommendation that the NDC disclose changes in accounting presentation regarding consultants and service providers in accordance with the NATO Accounting Framework

(NAF) (reference G) and ensure that comparative information is consistently reflected in the Financial Statements. In its formal comments, the NDC agreed to ensure that budgeting and accounting of service providers' expenses is aligned with the form of the contracts with these service providers.

5.3. IBAN's Observation 1 for the STO: In respect to the IBAN's recommendation on the need to improve the control over the accounting of advances and costs for vessels' maintenance by the ship management contractor, the RPPB supports IBAN's recommendation that the STO-Centre for Maritime Research & Experimentation (CMRE) establish a formal procedure with the ship management contractor to track the progress and costs of vessel maintenance work, in order to ensure the reliability of the assessment of costs to be recorded on an accrual basis at the end of the year. Furthermore, the RPPB supports IBAN's recommendation that the STO-CMRE obtain from the ship management contractor a summary invoice for the cost to be charged against the advances; and to implement a standard operating procedure for controlling the costs declared by the ship management contractor, in accordance with audit provisions of the framework contract, based for example on a documented review of the sub-contractors' invoices.

5.4. IBAN's Observation 2 for the STO: Regarding the non-compliance in procurement of STO-Collaboration Support Office (CSO)'s electricity supply contract with NFR and FRP, the RPPB supports IBAN's recommendation that the STO-CSO comply with the provisions of Article 32.1 of the NFR and Article XXXII of the FRP regarding procurement rules under simplified acquisition procedure and, if applicable, with waivers for the subscription of its electricity supply contract.

6. In addition, the IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one remains open and eight were closed in total for the three NATO entities. During the audit, IBAN closed the remaining elements of the financial year 2017 observations for all three NATO entities on the improvements needed in the area of risk management, internal control and internal audit. In addition, for the NDC, the IBAN closed observation on the effectiveness of the NDC risk management policy. For the STO, the IBAN closed the observation on the recognition of the fair value of STO's vessels, on the need to ensure prior approval of STO-CSO intra-budget transfers associated with the special carry forward of uncommitted appropriations and on the need to strengthen the procedure in support of the STO Financial Statements' note on related parties. Furthermore, the IBAN closed financial year 2014 observation on improvements needed in accounting to recognise its customer funded status and management accounting by project in the CMRE. The observations are detailed in documents at reference A to C.

7. Following the last year's Council invitation to the STO (reference D) to provide an action plan with deadlines on the implementation of the recommendation on the need to capitalize the upkeep costs for the vessels, the STO submitted an action plan as part of its formal comments in the IBAN Audit Report of STO 2022 Financial Statements. According

to the STO, the capitalisation of major upkeep expenses for the vessel Alliance will be taken into account in 2023 during its upcoming dry dock. In 2022, the STO-CMRE completed a dry dock of vessel Leonardo but did not capitalise its costs because, as stated by STO-CMRE, applicable expenditures for capitalization and reclassification included in this cost are considered not to be of material amount. The RPPB will closely monitor the implementation of this recommendation and the progress made during financial year 2023.

#### **IBAN PREVIOUS YEARS' OBSERVATIONS AND RECOMMENDATIONS IN-PROGRESS OR OPEN FOR MORE THAN THREE YEARS**

8. In the document at reference D, Council invited the IMS, NDC and STO to provide an action plan with deadlines on in-progress or open observations and recommendations that will be older than three years when submitting response on the IBAN audit of 2022 Financial Statements. Given that the IMS, NDC and STO implemented and IBAN subsequently closed all observations and recommendations in-progress or open for more than three years, the submission of an action plan is no longer required. The RPPB commends the IMS, NDC and STO for implementing all of the observations and recommendations in-progress for more than three years.

#### **CONCLUSIONS**

9. The IBAN issued unqualified opinions on the 2022 IMS, NDC and STO Financial Statements and on compliance. The IBAN made no observations and recommendations for the IMS and made two observations and recommendations for the NDC and two for the STO. As of the date of the IBAN Audit Reports, one previous years' observation was open and eight were closed.

10. The RPPB supports IBAN's recommendation that the NDC procurement for the acquisition of flight tickets is conducted in compliance with the NFR and consistently present consultant costs. Furthermore, the RPPB supports IBAN's recommendation that the STO improve the control over the accounting of advances and costs for vessels' maintenance by the ship management contractor and procure the electricity supply contract in compliance with the NFR and FRP.

11. The RPPB welcomes the STO's action plan responding to last year's IBAN recommendation on the need to capitalize the upkeep costs for the vessels. The RPPB will closely monitor the implementation of this recommendation and the progress made during financial year 2023.

12. In respect of previous years' observations, the RPPB welcomes the implementation of all IMS, NDC and STO observations and recommendations in-progress for more than three years.

**RECOMMENDATIONS**

13. The Resource Policy and Planning Board recommends that Council:
- 13.1. note this report and the IBAN Audit Reports at references A to C;
- 13.2. approve the conclusions at paragraphs 7 to 10;
- 13.3. approve to the public disclosure of the 2022 Financial Statements for the IMS, NDC and STO, their associated IBAN Audit Reports and this report in line with agreed policy at reference I.



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

Brussels - Belgium



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IBA-A(2023)0084  
25 August 2023

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

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

Subject: ***International Board of Auditors for NATO (IBAN) Audit Report on the audit of the International Military Staff's (IMS) Financial Statements for the year ended 31 December 2022 – IBA-AR(2023)0018***

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

IBAN's report sets out an unqualified opinion on the Financial Statements of the International Military Staff 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  
International Military Staff (IMS)  
for the year ended 31 December 2022**

The International Military Staff (IMS) is the core military staff in NATO HQ. It is the executive body of the Military Committee (MC), NATO's senior military authority. The role of the IMS is to provide strategic military advice and staff support for the MC. The IMS is also tasked with ensuring that the policies and decisions of the MC are implemented by the appropriate NATO bodies. The IMS budget includes the Programmes of Work for the NATO Headquarters C3 Staff (NHQC3S) and the NATO Office of the Chief Information Officer (OCIO).

The other budget component parts of the IMS Reporting Entity are:

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

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

The total expenses of the IMS, the NSO and Outreach Activities for the year ended 31 December 2022 were EUR 38.7 million.

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

IBAN made no observations and recommendations. IBAN followed up on the status of observations and recommendations from the previous years' audits and found that the remaining one was closed.

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

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IBA-AR(2023)0018

25 August 2023

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE  
INTERNATIONAL MILITARY STAFF  
(IMS)**

**FOR THE YEAR ENDED 31 DECEMBER 2022**

PUBLICLY DISCLOSED - PDN(2024)0007 - MIS EN LECTURE PUBLIQUE

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

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of IMS, for the 12 month period ended 31 December 2022, issued under document reference IMS-FC 290320, and submitted to IBAN on 31 March 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 IMS 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 and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter.

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

## Management's Responsibility for the Financial Statements

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

**Management's Responsibility for Compliance**

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

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

**Auditor's Responsibilities for Compliance**

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

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

Brussels, 25 August 2023



Radek Visinger  
Chair

## OBSERVATIONS AND RECOMMENDATIONS

IBAN made no observations and recommendations.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that the remaining one was closed.

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

## FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

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

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

| OBSERVATION / RECOMMENDATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | ACTION TAKEN BY AUDITEE                                                                                                                                                                                                                                                            | STATUS                                |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|
| <p>(1) IMS FY 2017<br/>IBA-AR(2018)0005, paragraph 1</p> <p><b>IMPROVEMENTS REQUIRED IN THE AREA OF INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT</b></p> <p><b>IBAN's Recommendation</b></p> <p>a) Prepare an entity-wide risk management policy, including financial risk management, applicable throughout the organization.</p> <p>b) Document the internal controls and associated risks in place for main processes within the IMS operations and assess the compliance with the framework chosen.</p> | <p>a) Status: <b>Observation Closed</b> as per IBA-AR(2019)0008.</p> <p>b) Status: <b>Observation Closed.</b></p> <p>IMS has assessed and documented the key processes within its system of internal control and risk management procedures, which have reached a satisfactory</p> | <p>Observation<br/><b>Closed.</b></p> |

| OBSERVATION / RECOMMENDATION                                                                                                                                                                                                                                                                                                                   | ACTION TAKEN BY AUDITEE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | STATUS |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| <p>c) Improve the disclosure of information in the Statement of Internal Controls to ensure compliance with the FRPs Article 12.</p> <p>d) Conduct an internal audit, through outsourcing if considered more appropriate, that fully evaluates the effectiveness of the system of internal control and risk management throughout the IMS.</p> | <p>level of maturity. The tasks of the new Internal Control Officer, appointed in 2022 at International Military Staff Budget Group level, include the systematic review and update of the risks associated with these processes in a comprehensive and organised manner.</p> <p>c) Status: <b>Observation Closed</b> as per IBA-AR(2019)0008.</p> <p>d) Status: <b>Observation Closed.</b></p> <p>In 2022, IMS engaged the NCIO internal auditor to perform a second formal internal control self-assessment survey of IMS. There was one risk reported (risks with use of the Information Technology applications), as well as several areas for improvement.</p> <p>In addition as recommended in 2022 by the IMS Audit Advisory Panel (AAP), it was agreed with NCIO's internal auditor that they would perform a review of the service level agreements in place between IMS and the International Staff. IBAN considers that IMS has implemented its recommendation to conduct an internal audit, through outsourcing if considered more appropriate, that fully evaluates the effectiveness of the system of internal control and risk management throughout the IMS.</p> |        |

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

***IMS' Comments***

*We note with satisfaction the unqualified audit opinion. We have neither formal  
nor factual comments.*

**GLOSSARY OF TERMS**

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

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

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

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



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

Brussels - Belgium



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IBA-A(2023)0077  
25 August 2023

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

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

Subject: ***International Board of Auditors for NATO (IBAN) Audit Report on the audit of the NATO Defense College (NDC) Financial Statements for the year ended 31 December 2022 – IBA-AR(2023)0017***

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

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO Defense College (NDC) 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 Defense College (NDC)  
for the year ended 31 December 2022**

The International Board of Auditors for NATO (IBAN) audited the NATO Defense College (NDC), which is responsible for organising courses and other programmes designed to prepare selected officers and officials for important NATO and NATO-related appointments, and to disseminate awareness of NATO initiatives and interests. The total expenses of NDC for the year ended 31 December 2022 were EUR 13.3 million.

IBAN issued an unqualified opinion on the financial statements and on compliance for the year ended 31 December 2022.

IBAN made two observations and recommendations. These findings are listed below and do not impact the audit opinion on the financial statements and on compliance:

1. Procurement for the acquisition of flight tickets does not fully comply with the NFRs.
2. Inconsistency in the presentation of consultant costs in the financial statements and budget execution statements.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that the remaining two were closed.

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

**NATO UNCLASSIFIED**

IBA-AR(2023)0017

25 August 2023

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE**

**NATO DEFENSE COLLEGE  
(NDC)**

**FOR THE YEAR ENDED 31 DECEMBER 2022**

PUBLICLY DISCLOSED - PDN(2024)0007 - MIS EN LECTURE PUBLIQUE

**NATO UNCLASSIFIED**

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

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of NATO Defense College (NDC), for the 12 month period ended 31 December 2022, issued under document reference IMSTAM(FC)-0008-2023, and submitted to IBAN on 31 March 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 NDC 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 and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter.

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

## Management's Responsibility for the Financial Statements

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

**Management's Responsibility for Compliance**

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

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

**Auditor's Responsibilities for Compliance**

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

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

Brussels, 25 August 2023



Radek Visinger  
Chair

**OBSERVATIONS AND RECOMMENDATIONS**

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

1. Procurement for the acquisition of flight tickets does not fully comply with the NFRs.
2. Inconsistency in the presentation of consultant costs in the financial statements and budget execution statements.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that the remaining two were closed.

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

### **1. PROCUREMENT FOR THE ACQUISITION OF FLIGHT TICKETS DOES NOT FULLY COMPLY WITH THE NFRS**

#### **Reasoning**

1.1 According to Article 32.1 of the NATO Financial Regulations (NRFs), NATO Procurement and Contracting shall be governed by the following procedures:

*“a) The timely acquisition of goods and services to be achieved wherever possible through a competitive bidding process, using approved procurement procedures [...];*

*(b) Goods and services will be procured, in a transparent and fair manner built upon the principle of non-discrimination and fairness in which eligible suppliers are given the same opportunity and treated in the same fair manner;”*

1.2 In addition, as per paragraph 5 a) and b) of the NATO Financial Rules and Procedures (FRPs) Section XXXII:

*“(a) (iii) Goods and services with an estimated cost exceeding twice Level B of the EFL (€40,000) but below Level D of the EFL (€160,000) shall be procured through soliciting offers from at least five suppliers known to meet the technical and commercial standards.*

*(b) Formal procurement, consisting of International Competitive Bidding and Proposals for all procurement actions exceeding Level D of the EFL (€160,000).”*

1.3 As regards any waivers of procurement rules and procedures, the FRPs Section XXXII paragraph 5 further states:

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

1.4 As part of its regular activities, NATO Defense College (NDC) routinely arranges commercial and charter flights with travel agencies and brokers for the organisation of study work. Commercial flights are scheduled, open to the public, and offer individual seat bookings, while charter flights are customisable, exclusive to the chartering party, and provide flexibility in terms of schedule, itinerary, and aircraft choice.

### Observations

1.5 In 2022, the International Military Staff (IMS) and NDC Financial Controller approved in two instances a commitment that deviated from the normal method of procurement for the acquisition of commercial flights and charter flights.

1.6 In one instance, NDC procured commercial airline tickets from a travel agency to transport a group of over 100 individuals. The travel agency presented NDC with a quote from an airline company amounting to EUR 169,616 surpassing the level D of the Established Financial Limit (EFL), therefore requiring an International Competitive Bidding (ICB) procedure in accordance with the FRPs. The travel agency invoiced NDC for its services and the final cost of the tickets amounted to EUR 154,900.

1.7 Based on the understanding that this was a commercial flight, NDC considered that it was not directly bound to the airline company but rather to the travel agency, and that only the service provided by the agent, practically its commission, is subject to the NATO tendering procedure.

1.8 However, IBAN considers that both the agency commission and the price of the tickets need to be included in the estimated commitment in order to assess the appropriate procurement methodology. This is because the service provided includes the issuance of the ticket, as evidenced by the agency's invoice.

1.9 In addition, the delegation of the task of sourcing the best airline offer on the market to a third-party travel agency does not exempt NDC from complying with NATO procurement rules for the acquisition of commercial flight tickets. The travel agency is an intermediary agent, which is not subject to NATO rules and should not be understood as a recourse to not comply with these rules.

1.10 As the estimated commitment for NDC exceeded level D of the EFL, NDC should have performed an ICB for the acquisition of these flight tickets. Nevertheless, IBAN acknowledges that in practice, it may not be possible to apply an ICB to the purchase of commercial flights as they are subject to fixed, non-negotiable public fares.

1.11 However, NDC did not provide any authorisation or supporting documentation to justify a waiver from the ICB procurement procedure based on exceptional circumstance as stated by FRP Section XXXII. Therefore NDC does not fully comply with the NFRs.

1.12 In a second instance, NDC procured a charter flight in the amount of EUR 198,200 and requested a waiver of ICB in favour of a simplified tender procedure of Invitation of Bids (IFB) with five suppliers. The justification for the waiver refers to the limited time available for the preparation of a study visit to the NDC site compared to the time required to complete an international tender procedure.

1.13 Although we acknowledge the challenges faced by NDC in concluding logistical agreements with host countries for the organisation of a study, we believe that such task falls within NDC's recurring business and charter flight offer the necessary flexibility for proactive contractual anticipation. Therefore, procurement of charter flights should not be routinely handled as an urgent waiver, a procedure normally applied in exceptional circumstances, as specified in the NFRs.

1.14 An option would be to establish a framework contract for the purchase of charter services with a pool of several brokers pre-selected in accordance with the ICB procurement method, where appropriate. This approach would streamline procurement, minimise the need for frequent waivers and may mitigate by anticipation the risk of cost increases.

## Recommendations

1.15 IBAN recommends that NDC:

- a) Conduct procurement, in the case of commercial flights acquired through travel agencies, in accordance with the NFRs and the EFL thresholds, and, where appropriate, justify any duly approved waiver from ICB.
- b) Establish a contractual arrangement, for example a framework agreement with brokers for the provision of charter flight services, in order to streamline procurement, minimise the need for frequent urgent waivers and help mitigate by anticipation the risk of cost increases.

## 2. INCONSISTENCY IN THE PRESENTATION OF CONSULTANT COSTS IN THE FINANCIAL STATEMENTS AND BUDGET EXECUTION STATEMENTS

### Reasoning

2.1 As per the Preamble of the NATO Civilian Personnel Regulations (CPRs), the CPRs are applicable throughout NATO and govern personnel administration in each

NATO body for personnel of the following classes: international civilian personnel, consultants and temporary (civilian) staff.

2.2 Chapter XVI of the CPRs further details the provisions applicable to consultants:

*“68.1 The Head of the NATO body may call on the services of consultants when necessary.”*

*68.2 A consultant is defined as a recognized expert or specialist engaged to serve in an advisory or technical capacity.”*

2.3 In addition to this, the Internal Guidelines for NATO Administrators on the employment of Temporary Staff and Consultants (AP-WP(2009) 0001-Final dated 17 March 2010) stipulate that *“3.6 Before a decision is taken to engage a consultant under Chapter XVI of CPRs, careful consideration should be given to the possibility of contracting for their services through the NATO body’s Purchasing and Contracts procedures, especially if the value of the consultancy contract would exceed the threshold for competitive bidding under the NATO Financial Regulations.”*

2.4 Budget Committee’s (BC) *“Guidance on the preparation of the annual military budget estimates and reporting requirements for in-year execution”* (BC-D(2021)0046-REV2) states in paragraph 1.9.5 that:

*“The categories and definitions as set out in the NATO Civilian Personnel Regulations (NCPRs) and MC 0216/AAP 16(D) should be stringently applied, including for Consultants and Temporary Personnel. The BC, for budget purposes, will continue to require that consultants (as recognized experts or specialists providing advice or in a technical capacity) be separately identified from contractors providing supplies and services.”*

2.5 Paragraph 1.9.5.2 and following also establish that:

*“Costs for Consultants hired in accordance with Article XVI of the CPRs, where an employee/employer relationship may be said to exist, are to be placed in CISI 711200 - Consultants.[...] Contractors: Costs for contractors are to be charged to Chapter 2.”*

2.6 In addition, IPSAS 1 paragraph 42 states that:

*“The presentation and classification of items in the financial statements shall be retained from one period to the next unless:*

*(a) It is apparent, following a significant change in the nature of the entity’s operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in IPSAS 3; or*

*(b) An IPSAS requires a change in presentation.”*

2.7 Further paragraph 44 establishes that *“An entity changes the presentation of its financial statements only if the changed presentation provides information that is reliable and is more relevant to users of the financial statements and the revised structure is likely to continue, so that comparability is not impaired. When making such changes in presentation, an entity reclassifies its comparative information in accordance with paragraph 55 and 56.”*

## Observations

2.8 The NDC engages three types of consultants in the context of its core activity of delivering NATO senior-level courses: language teachers, interpreters and lecturers.

2.9 They are engaged following a selection done by the Academic Directorate and the Linguistics Services, which does not involve a competitive hire process. The consultants' contracts are not comparable in form and only contracts of language teacher clearly refer to Chapter XVI of the CPRs when the others do not.

2.10 The cost related to the remuneration of all three types of consultants was reported until end of 2021 under Chapter 1 – Personnel costs of the Budget Execution Statement of the Financial Statements. However, starting 2022, the cost of the language teachers, amounting to EUR 74,240, is reported under Chapter 2 – Services of the Budget Execution Statement when the other consultant's categories are still reported under Chapter 1.

2.11 We understand that the reclassification decision is based on NDC's assessment that language teachers should in fact be treated as service providers, given their role in providing a service of professional language classes. Furthermore, starting from 2023, NDC aims to apply this new classification also to lecturers, as NDC considers that they deliver specialised lectures for specific purposes without an employer/employee relationship. This new classification would not apply to interpreters, and NDC aims to continue to report them as consultants under Chapter 1.

2.12 Nevertheless, as previously stated, language teachers are contractually bound to NDC by CPRs. Therefore, their costs should be budgeted as personnel costs under Chapter 1, following the reporting requirements outlined in the BC guidance. This classification should be maintained until their contracts are officially revised to reflect their legal status as service providers.

2.13 Finally, in accordance with the NATO Accounting Framework's IPSAS 1 and IPSAS 3, this reclassification should be disclosed as a change in accounting policy as it affects the presentation of the statement of financial performance and the breakdown of costs for the different categories of consultant under Chapter 1 and Chapter 2. Comparative information for the previous year should be also consistently presented

in accordance with the revised policy. However, we found that the financial statements do not provide any of these required disclosures.

## Recommendations

### 2.14 IBAN recommends that NDC:

- a) Revise the contracts of language teachers to accurately reflect their status as service providers if NDC does not engage them under the CPRs.
- b) Ensure that the accounting and budgetary classification of consultants and service providers aligns with the provisions outlined in their contracts, the relevant regulations, the nature of services rendered, and the specific method of recruitment or procurement employed.
- c) Disclose changes in accounting presentation regarding consultants and service providers in accordance with the NATO Accounting Framework and ensure that comparative information is consistently reflected in the financial statements in accordance with the revised presentation.

## FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

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

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

| OBSERVATION / RECOMMENDATION                                                                                                                                                                                                                                                                                                  | ACTION TAKEN BY AUDITEE                                                                                                    | STATUS                        |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|-------------------------------|
| <b>(1) NDC FY 2019</b><br><b>IBA-AR(2020)0006, paragraph 1</b><br><br><b>EFFECTIVENESS OF THE NDC RISK MANAGEMENT POLICY</b><br><br><b>IBAN's Recommendation</b><br>IBAN recommends that NDC strengthens its risk management procedures in order to ensure their effectiveness in accordance with Article 11 of the NFRs, and | In December 2021, the Internal Auditor issued a report on the 'Internal Audit Mission on Risk Management in the IMS budget | Observation<br><b>Closed.</b> |

| OBSERVATION / RECOMMENDATION                                                                                                                                                                                                                                                                                                                                                                   | ACTION TAKEN BY AUDITEE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | STATUS                        |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|
| subsequently requests an evaluation by the NDC Internal Auditor as per FRP XI (5) for monitoring and validation purpose.                                                                                                                                                                                                                                                                       | <p>group-Follow-up'. In this report the Internal Auditor identified improvements that were still needed in order to fully implement the risk management policy (in areas such as risk owners, risks/mitigating actions, etc.).</p> <p>In 2022, NDC fully implemented a risk management policy. The identified weaknesses in risk management were addressed by establishing a governance framework, enhancing processes, and implementing appropriate tools to integrate risk management into daily decision-making. Throughout 2022, risks and their corresponding mitigating actions were managed through a comprehensive set of integrated and cross-cutting measures. This involved active participation of risk owners in the bi-annual risk appraisal and review process, as well as close monitoring of critical risks by the Command Group.</p> |                               |
| <p>(2) NDC FY 2017<br/>IBA-AR(2018)0006, paragraph 1</p> <p><b>IMPROVEMENTS REQUIRED IN THE AREA OF INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT</b></p> <p><b>IBAN's Recommendation</b><br/>IBAN recommends NDC to document the internal controls and associated risks in place for the main processes within NDC operations and assess the compliance with the framework chosen.</p> | <p>NDC has assessed and documented the key processes within its system of internal control and risk management procedures, which have reached a satisfactory level of maturity. The tasks of the new Internal Control Officer, appointed in 2022 at International Military Staff Budget Group level, include the systematic review and update of the risks associated with these processes in a comprehensive and organised manner.</p>                                                                                                                                                                                                                                                                                                                                                                                                                | Observation<br><b>Closed.</b> |

**NATO DEFENSE COLLEGE (NDC) FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS****OBSERVATION 1:  
PROCUREMENT FOR THE ACQUISITION OF FLIGHT TICKETS DOES NOT FULLY COMPLY WITH THE NFRS*****NDC's Formal Comments***

*Not agreed.*

*The NDC partially agrees with IBAN's recommendations. The following formal comments are provided:*

- a) In accordance with IPSAS 9, the travel agency acts as an agent of the NDC in procuring air transportation. The collection of payments for the flight tickets does not constitute economic benefits or service potential that flow to the travel agency and these are excluded from their revenue. The travel agency solely records their commission as revenue.*

*The NDC therefore bases its procurement action on the estimated cost of the agency's commission rather than the total cost of commission and air tickets. The NDC will carefully consider IBAN's recommendation on future procurement actions.*

- b) The NDC agrees with the recommendation to enter into framework agreements with brokers as this is the planned approach by the NDC to address the increase in travel and transportation costs.*

**IBAN's Position**

**Since the travel agency acts as an agent for NDC in procuring air transportation, NDC is a principal. NDC therefore needs to base its procurement action regarding air transportation on the estimated cost of the total cost of the commission and air tickets. IBAN maintains its recommendation under a).**

**In addition, as other contractual arrangements may apply, IBAN modified its recommendation under b) accordingly.**

**OBSERVATION 2:  
INCONSISTENCY IN THE PRESENTATION OF CONSULTANT COSTS IN THE  
FINANCIAL STATEMENTS AND BUDGET EXECUTION STATEMENTS**

***NDC's Formal Comments***

*Agreed.*

*The NDC will ensure that budgeting and accounting of service providers' expenses is aligned with the form of the contracts with these service providers. In addition, the NDC will disclose changes in accounting presentation and resulting restated comparative amounts for all restatements of material nature in accordance with the NATO Accounting Framework (IPSAS 3).*

**FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS**

**(1) NDC FY 2019**

**IBA-AR(2020)0006, paragraph 1**

**EFFECTIVENESS OF THE NDC RISK MANAGEMENT POLICY**

***NDC's Formal Comments***

*Agreed.*

*None.*

**(2) NDC FY 2017**

**IBA-AR(2018)0006, paragraph 1**

**IMPROVEMENTS REQUIRED IN THE AREA OF INTERNAL CONTROL, RISK  
MANAGEMENT AND INTERNAL AUDIT**

***NDC's Formal Comments***

*Agreed.*

*None.*

**GLOSSARY OF TERMS**

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

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

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

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



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

Brussels - Belgium



**NATO UNCLASSIFIED**

IBA-A(2023)0075  
25 August 2023

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

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

Subject: ***International Board of Auditors for NATO (IBAN) Audit Report on the audit of the Science and Technology Organisation's (STO) Financial Statements for the year ended 31 December 2022 – IBA-AR(2023)0016***

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

IBAN's report sets out an unqualified opinion on the Financial Statements of the Science and Technology Organisation (STO) and on compliance for financial year 2022.

Yours sincerely,

Radek Visinger  
Chair

Attachments: As stated above.

**NATO UNCLASSIFIED**

-1-

**Summary Note for Council  
by the International Board of Auditors for NATO (IBAN)  
on the audit of the Financial Statements of the  
Science and Technology Organisation (STO)  
for the year ended 31 December 2022**

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

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

IBAN issued an unqualified opinion on the financial statements and on compliance for the year ended 31 December 2022.

IBAN made two observations and recommendations. These findings are listed below and do not impact the audit opinion on the Financial Statements and on compliance:

1. Need to improve the control over the accounting of advances and costs for vessels' maintenance by the ship management contractor.
2. Procurement of electricity supply contract not complying with the NFRs and FRPs.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that five were closed, one remains open.

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

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

**NATO UNCLASSIFIED**

IBA-AR(2023)0016

25 August 2023

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE**

**SCIENCE AND TECHNOLOGY ORGANISATION**

**(STO)**

**FOR THE YEAR ENDED 31 DECEMBER 2022**

PUBLICLY DISCLOSED - PDN(2024)0007 - MIS EN LECTURE PUBLIQUE

**NATO UNCLASSIFIED**

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

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of Science and Technology Organisation (STO), for the 12 month period ended 31 December 2022, issued under document reference STO-OCS(2023)0030, and submitted to IBAN on 31 March 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 STO 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 and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter.

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

## Management's Responsibility for the Financial Statements

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

**Management's Responsibility for Compliance**

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

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

**Auditor's Responsibilities for Compliance**

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

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

Brussels, 25 August 2023



Radek Visinger  
Chair

**OBSERVATIONS AND RECOMMENDATIONS**

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

1. Need to improve the control over the accounting of advances and costs for vessels' maintenance by the ship management contractor.
2. Procurement of electricity supply contract not complying with the NFRs and FRPs.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that five were closed and one remains open.

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

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

**1. NEED TO IMPROVE THE CONTROL OVER THE ACCOUNTING OF ADVANCES AND COSTS FOR VESSELS' MAINTENANCE BY THE SHIP MANAGEMENT CONTRACTOR**

**Reasoning**

1.1 The NATO Financial Regulations (NFRs) require the Financial Controller (FC) 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.

1.2 According to the NFRs Article 34.2, *"the financial statements of all NATO bodies shall be prepared on an accruals basis of accounting"*.

1.3 According to NATO Accounting Framework (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 IPSASs."*

1.4 The STO comprises three executive bodies: the STO Office of the Chief Scientist (OCS) located in Brussels, Belgium, under the authority of the Chief Scientist; the STO Collaboration Support Office (CSO) located in Neuilly-sur-seine, France,

under the authority of its Director; and the STO Centre for Maritime Research and Experimentation (CMRE) located in La Spezia, Italy, under the authority of its Director.

1.5 In December 2021, CMRE signed a new contract with for the technical management of CMRE's two vessels, the Leonardo and the Alliance. The scope of the contract includes, but is not limited to: *“arranging and supervising dry dockings, repairs, alterations and the maintenance of the Vessel to the standards agreed with the Owners provided that the Managers shall be entitled to incur the necessary expenditure to ensure that the Vessel will comply with all requirements and recommendations of the classification society, and with the law of the Flag State and of the places where the Vessel is required to trade.”* In practice, under this framework contract, work on the vessels is carried out by sub-contractors and suppliers procured and administered by the ship management contractor on behalf of CMRE.

1.6 Contractually, CMRE is obliged to make regular advance payments to cover the costs to be incurred by the ship management contractor as budgeted: *“Following the agreement of the budget, the Managers shall prepare and present to the Owners their estimate of the working capital requirement for the Vessel and shall each month request the Owners in writing to pay the funds required to run the Vessel for the ensuing month, including the payment of any occasional or extraordinary item of expenditure, such as emergency repair costs, additional insurance premiums, bunkers or provisions. Such funds shall be received by the Managers within ten running days after the receipt by the Owners of the Managers’ written request and shall be held to the credit of the Owners in a separate bank account.”*

1.7 In addition, as per the terms of the contract, the ship management contractor is obligated to uphold accrual accounting for all expenses associated with ship maintenance. *“The Managers shall at all times maintain and keep true and correct accounts in respect of the Management Services in accordance with the relevant International Financial Reporting Standards or such other standard as the parties may agree, including records of all costs and expenditure incurred, and produce a comparison between budgeted and actual income and expenditure of the Vessel in such form and at such intervals as shall be mutually agreed.”*

1.8 CMRE possesses the authority to examine and retrieve all accounting information managed and maintained by the ship management contractor under the technical management contract, for the purpose of fulfilling its own accounting requirements. *“The Managers shall make such accounts available for inspection and auditing by the Owners and/or their representatives in the Managers’ offices or by electronic means, provided reasonable notice is given by the Owners.”*

1.9 In accounting terms, CMRE treats all fund requests made by the ship management contractor as advances. At the end of the year, CMRE receives a report ‘*Ship Operating Cost Statements*’ report with all record of actual spending and the remaining bank balance of advance funds. CMRE evaluates the maintenance expenses of the vessels based on the cash flow, determining the variance between the total advances paid and the actual bank balance of unused funds declared by the

ship management contractor. This remaining amount then serves as the updated closing balance for CMRE's advances, which is carried over to the subsequent year.

1.10 Furthermore, CMRE records the relevant accruals by utilising additional information provided by the ship management contractor regarding the progress of service and goods delivery from its suppliers and subcontractors for each outstanding purchase order at the end of the reporting period.

1.11 For the 2022 financial year, CMRE paid advances of EUR 1.9 million, of which EUR 1.5 million were spent by the ship management contractor and therefore recognised as expenses by CMRE. In addition, based on open purchase orders, the ship management contractor reported to CMRE expenses to accrue amounting to EUR 130,000.

### Observations

1.12 We found several errors or inaccuracies in the financial information provided by the ship management contractor leading to an understatement of expenditures recognised by CMRE for EUR 149,241.

1.13 Firstly we found an overstatement in the reported actual bank balance of unused funds by the ship management contractor at the end of the year. This overstatement was due to the inclusion of fund requests that had not been called and paid by CMRE. Because of this incorrect information, CMRE increased by error its final balance of advances, resulting in a EUR 42,266 understatement of maintenance expenses.

1.14 We found that the information provided by the ship management contractor to CMRE concerning the status of delivery of services and goods by its suppliers and subcontractors for outstanding purchase orders at 31 December 2022 was incomplete. Based on a review of the invoices from the ship management contractor's suppliers and subcontractors received by CMRE during the first half of 2023, we found that services and goods completed in 2022, with a value of EUR 106,975, were not initially included in the ship management contractor's accrual balance. Consequently, CMRE's accruals are understated by this same amount.

1.15 Moreover, from a methodological perspective, the financial information supplied by the ship management contractor to CMRE in the '*Ship Operating Cost Statements*' relies on cash transactions, omitting any payables and failing to differentiate prepayments made to the contractors. This can potentially affect CMRE's evaluation of expenditures based on an accruals approach.

1.16 We found that CMRE lacks a comprehensive standard operating procedure to effectively oversee the quality of financial information presented in the '*Ship Operating Cost Statements*'. Specifically, there is a need to establish a procedure for reconciling maintenance costs recognised in the financial statements with the invoices received

from suppliers and subcontractors, as per the commitments made by the ship management contractor.

1.17 Lastly, we found that apart from invoices for calls for funds, CMRE did not receive any progress invoices from the ship management contractor that would reflect the maintenance cost as stated in the 'Ship Operating Cost Statements'. Therefore CMRE did not obtain a formal invoice document from its technical management supplier covering the incurred costs, against which the advances were charged.

## Recommendations

1.18 IBAN recommends that STO-CMRE:

- a) establish a formal procedure with the ship management contractor using appropriate financial reporting statements to track the progress and costs of vessel maintenance work, in order to ensure the reliability of the assessment of costs to be recorded on an accrual basis at the end of the year;
- b) obtain from the ship management contractor a summary invoice for the cost to be charged against the advances;
- c) implement a standard operating procedure for controlling the costs declared by the ship management contractor, in accordance with audit provisions of the framework contract, based for example on a documented review of the sub-contractors' invoices.

## 2. PROCUREMENT OF CSO'S ELECTRICITY SUPPLY CONTRACT NOT COMPLYING WITH THE NFRS AND FRPS

### Reasoning

2.1 Article 32.1 of the NATO Financial Regulations (NFRs) states that *"Goods and services will be procured, in a transparent and fair manner built upon the principle of non-discrimination and fairness in which eligible suppliers are given the same opportunity and treated in the same fair manner."*

2.2 The Financial Rules and Procedures (FRPs) Article XXXII, subparagraph 5(b)(ii), establishes that under simplified acquisition procedures *"Goods and services of which the cost is estimated to exceed the equivalent of Level B of the EFL (€20,000) but below twice Level B of the EFL (€40,000) shall be procured through soliciting offers from at least three suppliers known to meet the technical and commercial standards."*

2.3 In addition according to the FRPs Article XXXII, subparagraph 13, waivers of procurement rules *"may only be authorized by the Financial Controller in the interests of security, urgency, standardisation of equipment, or in exceptional circumstances."*

This authorisation and proper justification are requested when, for example, the entity awards a sole-source contract without solicitation or competition.

## Observations

2.4 We found that CSO maintains its electricity contract with the national institutional supplier by indefinite renewal despite the existence of alternate private-sector suppliers on the market. CCO did not authorise and properly justify a formal waiver from the normal method of procurement. The overall commitment for this supplier amounts to EUR 30,274 in 2022.

2.5 This does not comply with the principle of non-discrimination and fairness in Article 32.1 of the NFRs. In addition this is not compliant with FRPs Article XXXII, which requires that such a commitment is procured through soliciting offers from at least three suppliers, for which a waiver of procurement rules may only be authorised by the Financial Controller in the interests of security, urgency, standardisation of equipment, or in exceptional circumstances.

## Recommendations

2.6 IBAN recommends that STO–CSO comply with the provisions of Article 32.1 of the NFRs and Article XXXII of the FRPs regarding procurement rules under simplified acquisition procedure and, if applicable, with waivers for the subscription of its electricity supply contract.

## FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

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

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

| OBSERVATION / RECOMMENDATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | ACTION TAKEN BY AUDITEE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | STATUS              |
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| <p><b>(1) STO FY 2021</b><br/>IBA-AR(2022)0022, paragraph 1</p> <p><b>NEED TO CAPITALISE THE UPKEEP COSTS FOR THE VESSELS</b></p> <p><b>IBAN's Recommendation</b><br/>IBAN recommends that STO-CMRE:</p> <p>a) Reclassifies inspections cost for the Certificate of Class currently reported as expenses in the STO Statement of Financial Performance as PP&amp;E in the STO Statement of Financial Position.</p> <p>b) Accounts and discloses with retroactive effect in the STO Financial Statements past expenses for the Certificate of Class inspections as PP&amp;E in accordance with the NATO Accounting Framework.</p> <p>c) Depreciates the Certificate of Class inspections costs considering that the useful life for depreciation corresponds to the period between two consecutive inspections in accordance with the NATO Accounting Framework.</p> <p>d) Makes an assessment in order to determine if the minor upkeeps need to be capitalised in accordance with IPSAS 17.</p> <p>e) Develops an accounting policy for Certificate of Class inspection costs, consistent with NATO Accounting Framework and IPSAS 17 requirements, taking into account the above changes.</p> | <p>As stated by the auditee in the previous year's formal comment <i>"The capitalization of upkeep costs will be considered for the next major dry-dock taking place in 2023. Currently, the costs that belong to the regular maintenance cannot be clearly differentiated from the costs that belong to the survey to obtain the certificate of class. In the future, a clear cost breakdown will be prepared to enable full assessment of the costs that require capitalization."</i></p> <p>CMRE has informed us that the capitalisation of major upkeep expenses for the ALLIANCE will be taken into account in 2023 during its upcoming dry dock. However, CMRE did not capitalise the costs associated with the LEONARDO dry dock in 2022.</p> | Observation Open.   |
| <p><b>(2) STO FY 2021</b><br/>IBA-AR(2022)0022, paragraph 2</p> <p><b>NEED TO STRENGTHEN THE PROCEDURE IN SUPPORT OF THE STO FINANCIAL STATEMENTS' NOTE ON RELATED PARTIES</b></p> <p><b>IBAN's Recommendation</b><br/>IBAN recommends that STO strengthen its procedure for identifying related party transactions and monitoring the absence of conflicts of interest on an annual basis. In order to maintain an adequate audit trail in support of the disclosure notes to the STO financial statements, all members of the key management personnel, including the</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <p>A new procedure was put in place in 2022 to address the IBAN recommendation. STB members are now invited at least once a year to notify the OCS of any changes in their status of Related Party. Key management personnel of</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Observation Closed. |

| OBSERVATION / RECOMMENDATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | ACTION TAKEN BY AUDITEE                                                                                                                                                                                                                                                                                                                                             | STATUS              |
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| members of the Science and Technology Board, should confirm on an annual basis annual declarations signed in previous years, concerning related party relationships or transactions that could affect the operation of the reporting entity.                                                                                                                                                                                                                                                                     | STO entities are also invited to provide the declaration on an annual basis. IBAN notes that despite the invitation to do so, four Nations have still not provided updates in 2022 and 2023. The action taken by OCS is in line with the IBAN recommendation.                                                                                                       |                     |
| <p><b>(3) STO FY 2021</b><br/> <b>IBA-AR(2022)0022, paragraph 3</b></p> <p><b>NEED TO ENSURE PRIOR APPROVAL OF STO-CSO INTRA-BUDGET TRANSFERS ASSOCIATED WITH THE SPECIAL CARRY FORWARD OF UNCOMMITTED APPROPRIATIONS</b></p> <p><b>IBAN's Recommendation</b><br/> IBAN recommends that STO- CSO, when requesting the approval of a special carry-forward to the BC, ensure that it requests approval of the related intra-budget transfers, by indicating the originating and the receiving budget chapter.</p> | <p>There was no special carry forward in 2022.</p> <p>In the interest of increased transparency, STO agrees that, in the future, when submitting special carry forward requests to the Budget Committee, associated budget transfers, if any, will be highlighted.</p>                                                                                              | Observation Closed. |
| <p><b>(4) STO FY 2019</b><br/> <b>IBA-AR(2020)0010, paragraph 1</b></p> <p><b>RECOGNITION OF THE FAIR VALUE OF STO'S VESSELS</b></p> <p><b>IBAN's Recommendation</b><br/> IBAN recommends that STO improves the reliability of information presented in the Financial Statements, by:</p> <p>a) Recognising in its financial statements the Vessels controlled by STO as Property, Plant and Equipment assets measured at fair value, in accordance with IPSAS 1</p>                                             | <p>a) On 14 January 2022 the Council noted that <i>"the BC sees merit in enhancing the disclosure of the Vessels and proposes that STO, although compliant with the NAF, should improve the reliability of information presented in the Financial Statements, by recognising in its notes the Vessels controlled by STO. In this respect, to provide a true</i></p> | Observation Closed. |

| OBSERVATION / RECOMMENDATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | ACTION TAKEN BY AUDITEE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | STATUS                            |
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| <p><i>and fair view, while applying NAF, STO should enhance the information in the disclosure note better highlighting the ownership, obligations and financial responsibilities. The BC proposes that STO continues to capitalise enhancements and upgrades to the Vessels.” IBAN acknowledges the importance of enhancing the quality of financial information beyond the requirements of the NAF in the case of CMRE’s vessels. This involves recognising and highlighting in the disclosure note the ownership, obligations, and financial responsibilities. As there is no explicit requirement from Nations to recognise the fair value of the vessels in the notes, IBAN confirms that this information aligns with the NAF requirements and fulfills the reporting needs of the Nations. Observation <b>closed</b>.</i></p> <p>b) Correcting the error disclosed in Note 4 to the Financial Statements related to the custody of the Vessels and disclose relevant additional information regarding ownership, obligations and financial responsibilities of the Vessels.</p> <p>c) Reviewing the accounting treatment and disclosure of the Vessel upkeep and dismantling costs in the Financial Statements, in accordance with IPSAS 17.</p> | <p><i>and fair view, while applying NAF, STO should enhance the information in the disclosure note better highlighting the ownership, obligations and financial responsibilities. The BC proposes that STO continues to capitalise enhancements and upgrades to the Vessels.” IBAN acknowledges the importance of enhancing the quality of financial information beyond the requirements of the NAF in the case of CMRE’s vessels. This involves recognising and highlighting in the disclosure note the ownership, obligations, and financial responsibilities. As there is no explicit requirement from Nations to recognise the fair value of the vessels in the notes, IBAN confirms that this information aligns with the NAF requirements and fulfills the reporting needs of the Nations. Observation <b>closed</b>.</i></p> <p>b) Observation <b>closed</b> in IBA-AR(2021)0020.</p> <p>c) Observation <b>closed as superseded</b> in IBA-AR(2022)0022.</p> |                                   |
| <p><b>(5) STO FY 2017</b><br/><b>IBA- AR(2018)0017, paragraph 4</b></p> <p><b>FURTHER IMPROVEMENTS REQUIRED IN THE AREA OF RISK MANAGEMENT, INTERNAL CONTROL, AND INTERNAL AUDIT.</b></p> <p><b>IBAN’s Recommendation</b><br/>Complete the on-going work of assessing and documenting the system of internal control and risk management procedures to support compliance with NFR Articles 11 and 12, FRPs XI and XII, and the internal</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | <p>STO has assessed and documented the key processes within its system of internal control and risk management procedures, which have</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | <p>Observation <b>Closed</b>.</p> |

| OBSERVATION / RECOMMENDATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | ACTION TAKEN BY AUDITEE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | STATUS              |
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| control framework that it chooses.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | reached a satisfactory level of maturity. The tasks of the new Internal Control Officer, appointed in 2022 at International Military Staff Budget Group level, include the systematic review and update of the risks associated with these processes in a comprehensive and organised manner.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                     |
| <p><b>(6) STO FY 2014</b><br/> <b>IBA-AR(2015)36, paragraph 1.1</b></p> <p><b>CENTRE FOR MARITIME RESEARCH AND EXPERIMENTATION (CMRE) – IMPROVEMENTS NEEDED IN ACCOUNTING TO RECOGNIZE ITS CUSTOMER FUNDED STATUS / IMPROVEMENTS NEEDED TO MANAGEMENT ACCOUNTING BY PROJECT</b></p> <p><b>IBAN's Recommendation</b><br/> The Board recommends that CMRE develop a methodology that will allow it to determine the costs per project, including the allocation of overhead costs to individual projects. This will allow for the determination of surplus or deficit by project, and provide management with information that is useful in managing the business.</p> | <p>STO CMRE incorporates a project budgeting tool into its financial Enterprise Resource Planning (ERP) system, allowing the creation of project budgets and the allocation and monitoring of direct costs during project execution. IBAN notes that this tool lacks the capability to allocate and control direct personnel costs and overheads on a project-specific basis, as they can only be managed through general cost centres.</p> <p>To address this limitation, STO CMRE has recently introduced a time-accounting system that tracks the allocation of staff time to each project and compares it against the budget. This system provides valuable information for project-oriented business management. With these technical components in place, along with the inclusion of standard budgetary costs for direct personnel and integration of</p> | Observation Closed. |

| OBSERVATION / RECOMMENDATION | ACTION TAKEN<br>BY AUDITEE                                                                                  | STATUS |
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|                              | standard overheads, CMRE is able to implement a method for calculating project costs and evaluating result. |        |

**SCIENCE AND TECHNOLOGY ORGANISATION (STO) FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS****OBSERVATION 1:****NEED TO IMPROVE THE CONTROL OVER THE ACCOUNTING OF ADVANCES AND COSTS FOR VESSELS' MAINTENANCE BY THE SHIP MANAGEMENT CONTRACTOR****STO's Formal Comments**

*Recommendation a): Agreed.*

*CMRE will work with the ship management contractor to provide more information related to POs they are issuing to improve the accrual. CMRE will have the ship management contractor segregate the funds of Operational maintenance and Management fee to augment the reconciliation process.*

*Recommendations b) and c): Partially agreed.*

*CMRE considers the existing practices address the audit points and that, by implementing recommendation a), the overall accuracy and reliability of costs to be recorded will be improved sufficiently.*

*Prior to the beginning of each year, a maintenance budget is developed and agreed between CMRE and the ship management contractor. An excel report 'Ship Operating Cost Statements' is a record of actual spending with invoices attached. Although this lacks the accrual based accounting methodology, it does provide control over the budget and planned vs actual spending.*

**IBAN's Position**

**As stated in the observation, the ship management contractor does not issue a final invoice summarising the expenses to be deducted from the advances paid by STO. In addition, the specific controls regarding the monitoring of the execution of the contract and recognition of expenses are not currently documented in writing in a standard operating procedure in order to ensure continued compliance with the internal control framework adopted. IBAN therefore maintains its recommendations b) and c).**

**OBSERVATION 2:  
PROCUREMENT OF CSO'S ELECTRICITY SUPPLY CONTRACT NOT  
COMPLYING WITH THE NFRS AND FRPS**

**STO's Formal Comments**

*Recommendation agreed.*

*The CSO will take the necessary action to comply with NFR/FRPs on the understanding that the current electricity provider is the state electricity provider guaranteeing stable energy supply and predictable cost important to ensure continuity of CSO business operations.*

**FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS**

**(1) STO FY 2021**

**IBA-AR(2022)0022, paragraph 1**

**NEED TO CAPITALISE THE UPKEEP COSTS FOR THE VESSELS**

**STO's Formal Comments**

***Action Plan and Response to recommendation 1, IBA-AR(2022)0022: Need to capitalise the upkeep costs for the vessels***

*For the financial year 2023, CMRE will capitalize, in accordance with the NATO Accounting Framework/IPSAS 17 and the IBAN recommendation, applicable expenditures for the vessel Alliance, which are related to the ship survey (certification). These surveys (certification) include two dry-docks during a five-year period. The costs incurred in 2023 for the dry-dock will be evaluated for required capitalization and classification under IPSAS, in conjunction with input from the Ship Technical Manager.*

*In 2022, the Leonardo vessel completed a dry-dock with a total cost of 270 KEUR. Applicable expenditures for capitalization and reclassification included in this cost are considered not to be of material amount.*

## GLOSSARY OF TERMS

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

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

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

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

NATO UNCLASSIFIED  
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International Military Staff  
Etat-Major Militaire International

Brussels - Belgium



31 March 2023

IMSTAM(FC)-0007-2023

CHAIR, INTERNATIONAL BOARD OF AUDITORS FOR NATO (IBAN)

**INTERNATIONAL MILITARY STAFF (IMS) FINANCIAL STATEMENTS 2022**

1. Please find attached the 2022 International Military Staff (IMS) Financial Statements, issued in accordance with NATO Financial Regulation (NFR) Article 35.1.
2. I can confirm that, in accordance with NFR Financial Rules and Procedures (FRP) XXXV (4), the IMS can agree to public disclosure of these Financial Statements.
3. Notwithstanding the above, as stated in C-M(2012)0041, public disclosure of IBAN Audit Reports is a matter for Council decision, based upon the recommendation of the RPPB. Decisions are informed by the NATO policy on public disclosure of documents (C-M(2008)0116).
4. The IBAN Audit Report covering these Financial Statements has not been issued, but should be presented to Council no later than 31 August 2023 (NFR 15.2). As such, the IMS is not yet in a position to anticipate any potential representations that may be made to the RPPB, regarding the Audit Report.
5. The IMS therefore reserves its position on public disclosure of the eventual IBAN Audit Report.

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

Enclosure:

1. IMS-FC 290320 - IMS Financial Statements FY 2022, 29 Mar 23.

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

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Originating Office: FC - DGIMS-FC

Action Officer: Mrs A. MUEFFKE, Head, IMS-BG FC Office, (4593)

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

# INTERNATIONAL MILITARY STAFF (IMS) FINANCIAL STATEMENTS 2022



PUBLICLY DISCLOSED - PDN(2024)0007 - MIS EN LECTURE PUBLIQUE



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## Introduction

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

The IMS 2022 Financial Statements have been prepared in accordance with the NATO Accounting Framework, based on the International Public Sector Accounting Standards (IPSAS) as adapted by NATO and the NATO Financial Regulations (NFRs). They are presented in a commonly adopted layout. The expenses are charged over three budgets covering the IMS (including the Programmes of Work for the NATO Headquarters C3 Staff (NHQC3S) and the NATO Office of the Chief Information Officer (OCIO)), the NATO Standardization Office (NSO) and Outreach Programme. The budgetary expenses are recorded on an accrual basis, i.e. in the period in which the goods or services are delivered. Any exception to that principle is outlined in Annex A to the financial statements, which provides a comparison between the Budget Execution and IPSAS. The current status of the NATO-Iraq Trust Fund is presented in Annex B to the financial statements.

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

While 2022 started with the ongoing implementation of work strands focussed on NATO's 2030 Agenda, these were overtaken when Russia began amassing forces along Ukraine's eastern and southern borders. NATO's gaze turned east to ensure the bordering Allies remained safe and secure. The IMS – through its Joint Intelligence and Security Division – closely monitored the situation and provided regular situational updates to all Allies. Given Russia's aggression against Ukraine in 2022, this work continues.

At the Madrid Summit, in July 2022, Allied Heads of State and Government agreed to invest more in NATO and increase common funding. They launched a new NATO Innovation Fund to help the Alliance sharpen its technological edge. NATO's closest partners Finland and Sweden were invited to join the Alliance, a significant boost to Euro-Atlantic security.

Changes within the IMS, in 2022 have included the creation of the Joint Air Power and Space Staff Element, dedicated solely to the analysis and advice of all Joint Air Power and Space related-issues, ranging from Concepts, Plans and Policies to the Development of future capabilities.

The IMS C3 Programme of Work allowed the NHQC3S to provide the Alliance C3 strategic military and political advice in a number of areas, including digital transformation, information and data management.

The OCIO had its first full year of operations in 2022 and despite challenging circumstances, the office has delivered against the mandates agreed by the Council. The OCIO continues to grow, following Allies' decision to add significant cybersecurity responsibilities and associated resources.

In 2022, the NATO Standardization Office, as part of the IMS, continued to initiate, co-ordinate, support and administer standardization activities as agreed by Allies.

The 2022 IMS Outreach Programme budget supported 74 Partnership Cooperation Menu events whereby 439 partner participants were subsidized (2021: 33 events and 195 partner participants). Partner Nations can participate in a broad menu of education, training and consultation events through the Partnership Cooperation Menu.

Overall, despite challenging circumstances, the IMS continued to provide unconditional support to the NATO Military Committee, IS Divisions and to joint work-strands, across all domains – demonstrating its continued drive to contribute to the Alliance's overall objectives, its three core tasks and its strengthened Deter and Defend Posture.



Janusz Adamczak  
Lieutenant General, Polish Army  
Director General  
International Military Staff



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

## **Statement on Internal Control for the year ended 31 December 2022**

The Director General, International Military Staff (DGIMS), exercises overall responsibility for IMS risk management and internal control systems, in accordance with Articles 3.1, 11.1 and 12.1 of the NATO Financial Regulations (NFRs).

In accordance with Article 6.1 of the NFRs, the IMS Financial Controller is responsible for the organisation and administration of the financial internal control system established pursuant to Article 12.1. The Financial Controller is responsible to the DGIMS for financial risk management and for establishing financial risk management standards (NFRs Financial Rules and Procedures XI.3 and XI.4). In addition, the Financial Controller is responsible for establishing a system of internal financial and budgetary control (Article 12.2 of the NFRs).

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

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

The risk management and internal control processes in place at the IMS can be assessed using the five key components of the COSO Framework:

### Control Environment

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

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

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

The Audit Advisory Panel (AAP) makes periodic assessments as to whether Internal Audit is properly resourced and has the appropriate standing. It reviews, provides input to and endorsement of, internal audit planning. It reviews the findings and recommendations of Internal Audit and the IBAN, and reviews management responses and follow-up actions. The AAP provides DGIMS with an annual report which includes an assessment on the effectiveness of risk management, internal control, and external financial reporting, along with advice and recommendations for

DGIMS.

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

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

#### Risk Assessment

As per the IMS risk management policy and in accordance with NFR Article 11, DGIMS has appointed a Risk Management coordinator. A Risk Management Board (RMB) prepares documentation for risk decision making at the Executive Management Board (EMB) while ensuring that risk management is conducted thoroughly and consistently across all IMS divisions. The EMB regularly monitors actions mitigating the significant risks identified.

#### Control Activities

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

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

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

#### Information and Communication

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

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

The IMS communicates externally on matters affecting the functioning of internal control mechanisms via the Statement on Internal Control, as part of the annual financial statements. External audit reports are reviewed by various oversight authorities and made available to the general public along with the financial statements.

#### Monitoring

An outsourced service provider is engaged to undertake internal audit assignments. The IMS is also subject to annual external audit from IBAN. Recommendations and observations arising from audits are assessed by the Audit Advisory Panel reporting

to the Director General. The results are then assessed by the Executive Management Board, who initiate any appropriate actions.

The Director General of the IMS and the Financial Controller have a collective responsibility for periodically assessing and reviewing the adequacy and effectiveness of the system of internal control as stipulated in the NFRs. Their review is informed by the above five COSO components and by the work of IMS Senior Managers, the AAP and the Risk Management Board and of internal audit; with external audits performed by IBAN also contributing to their review.

No significant issues regarding financial or operational matters were raised in 2022 during the IBAN external audit of the IMS Financial Statements 2021, resulting in an unqualified audit opinion.

In 2022, the internal auditor conducted the second iteration of the formal internal control self-assessment survey which yielded a high participation rate this year. The results show on average there is agreement that internal controls are working across all areas surveyed, with some participants identifying ideas for improvement in their area of responsibility. The risk related to deficiencies of the financial system (FinS) to support Business Continuity, reported in last year's financial statements, remains ongoing.

As recommended by internal audit in their 2021 report, risk management training was rolled out to responsible staff members in divisions and independent offices in 2022. As a final step, internal audit recommends that the divisions conduct a deep dive threat analysis taking into consideration risks to achieve the objectives of the entity.

#### **Annual confirmation by the Head of NATO Body and the Financial Controller**

Overall, we confirm that an effective system of internal control is maintained and operated by the IMS in the financial year 2022 and up to the date of these financial statements. We confirm that the system of internal control provides reasonable assurance of the achievement of the following objectives: effectiveness and efficiency operations, reliability of financial information, and compliance with applicable rules and regulations; and with regard to safeguarding of assets.



Janusz Adamczak  
Lieutenant General, Polish Army  
Director General  
International Military Staff



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

**IMS**  
**Statement of Financial Position**  
**as at 31 December 2022**  
(in EUR)

|                                |       | <u>2022</u>              | <u>2021</u>              |
|--------------------------------|-------|--------------------------|--------------------------|
| <b>Assets</b>                  |       |                          |                          |
| <b>Current Assets</b>          | Notes |                          |                          |
| Cash and cash equivalents      | 2     | 35,553,035               | 18,933,761               |
| Receivables                    | 3     | 16,973                   | 10,427                   |
| Prepayments                    | 4     | 882,084                  | 853,353                  |
|                                |       | <u>36,452,091</u>        | <u>19,797,541</u>        |
| <b>Non-current Assets</b>      |       |                          |                          |
| Property, plant and equipment  | 5     | 89,161                   | 76,985                   |
| Intangible assets              | 6     | 11,095                   | 23,198                   |
|                                |       | <u>100,256</u>           | <u>100,183</u>           |
| <b>Total Assets</b>            |       | <u><b>36,552,347</b></u> | <u><b>19,897,724</b></u> |
| <b>Liabilities</b>             |       |                          |                          |
| <b>Current Liabilities</b>     |       |                          |                          |
| Payables                       | 7     | 13,650,402               | 7,938,973                |
| Deferred revenue               | 8     | 22,801,689               | 11,858,569               |
|                                |       | <u>36,452,091</u>        | <u>19,797,541</u>        |
| <b>Non-current Liabilities</b> |       |                          |                          |
| Deferred revenue               | 8     | 100,256                  | 100,183                  |
| <b>Total Liabilities</b>       |       | <u><b>36,552,347</b></u> | <u><b>19,897,724</b></u> |



Janusz Adamczak  
Lieutenant General, Polish Army  
Director General  
International Military Staff



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

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

The financial statements were issued to the International Board of Auditors for NATO on 31 March 2023.

**IMS**  
**Statement of Financial Performance**  
**for the year ended 31 December 2022**  
(in EUR)

|                                         |       | <u>2022</u>       | <u>2021</u>       |
|-----------------------------------------|-------|-------------------|-------------------|
|                                         | Notes |                   |                   |
| <b>Revenue</b>                          |       |                   |                   |
| Revenue                                 | 9     | 38,711,322        | 28,466,634        |
| <b>Total Revenue</b>                    |       | <u>38,711,322</u> | <u>28,466,634</u> |
| <b>Expenses</b>                         |       |                   |                   |
| Personnel                               | 10    | 12,338,025        | 11,550,574        |
| Contractual supplies and services       | 11    | 26,335,410        | 16,864,442        |
| Depreciation and amortization           | 5,6   | 37,887            | 51,618            |
| <b>Total Expenses</b>                   |       | <u>38,711,322</u> | <u>28,466,634</u> |
| <b>Surplus/(Deficit) for the period</b> |       | <u>-</u>          | <u>-</u>          |

**IMS**  
**Cash Flow Statement**  
**for the year ended 31 December 2022**  
(in EUR)

|                                                             |       | <u>2022</u>       | <u>2021</u>       |
|-------------------------------------------------------------|-------|-------------------|-------------------|
| <b>Cash Flows from operating activities</b>                 | Notes |                   |                   |
| Surplus/(Deficit) for the period                            |       | -                 | -                 |
| <b>Non-cash movements</b>                                   |       |                   |                   |
| Depreciation and amortization                               | 5,6   | 37,887            | 51,618            |
| (Decrease)/Increase in payables                             |       | 5,711,430         | 4,792,627         |
| (Decrease)/Increase in other current liabilities            |       | 10,943,120        | (737,212)         |
| (Increase)/Decrease in receivables                          |       | (6,545)           | 418               |
| (Increase)/Decrease in other current assets                 |       | (28,731)          | 385               |
| (Decrease)/Increase in long-term provisions                 |       | 73                | (34,692)          |
| <b>Net cash flows from operating activities</b>             |       | <u>16,657,234</u> | <u>4,073,144</u>  |
| <b>Cash flows from investing activities</b>                 |       |                   |                   |
| Purchase of property, plant and equipment                   | 5     | (37,960)          | (48,114)          |
| <b>Net cash flows from investing activities</b>             |       | <u>(37,960)</u>   | <u>(48,114)</u>   |
| <b>Cash flows from financing activities</b>                 |       |                   |                   |
| Cash out from IMS BG transfer                               | 2     | (1,000,000)       | -                 |
| Cash in from IMS BG transfer                                |       | 1,000,000         | -                 |
| <b>Net cash flows from financing activities</b>             |       | <u>-</u>          | <u>-</u>          |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |       | <u>16,619,274</u> | <u>4,025,030</u>  |
| Cash and cash equivalents at the beginning of the period    |       | 18,933,761        | 14,908,730        |
| Cash and cash equivalents at the end of the period          | 2     | <b>35,553,035</b> | <b>18,933,761</b> |

**IMS**  
**Statement of Changes in Net Assets**  
**for the year ended 31 December 2022**  
(in EUR)

|                                                            |   |
|------------------------------------------------------------|---|
| <b>Balance at 31 December 2020</b>                         | - |
| Surplus/(Deficit) for the period                           | - |
| <b>Change in net assets/equity for the year ended 2021</b> | - |
| <b>Balance at 31 December 2021</b>                         | - |
| Surplus/(Deficit) for the period                           | - |
| <b>Change in net assets/equity for the year ended 2022</b> | - |
| <b>Balance at 31 December 2022</b>                         | - |

**IMS  
Notes  
for the year ended 31 December 2022**

**1 Significant accounting policies**

**1.1 Basis of preparation**

The IMS Financial Statements 2022 have been prepared in accordance with the NATO Accounting Framework. This accounting framework is based on International Public Sector Accounting Standards (IPSAS) as adapted by NATO. The financial statements comply with the financial requirements of the NATO Financial Regulations (NFRs) and the associated Financial Rules and Procedures (FRPs) as well as with IMS directives and policies.

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

In accordance with Article 2 of the NFRs, the financial year covered by these financial statements is 1 January 2022 to 31 December 2022.

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

**1.2 Accounting estimates and judgements**

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

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

**1.3 Changes in accounting policy and standards**

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set in IPSAS 3. For the 2022 financial statements, the accounting policies have been applied consistently throughout the reporting period.

#### 1.4 Changes in pronouncements

At the date of authorisation of these financial statements, the following revised IPSAS is effectively implemented at the IMS:

- IPSAS 5, Borrowing Costs – Non-Authoritative Guidance (issued November 2021).

The IMS has not applied the following new IPSAS that has been issued but is not yet effective.

- IPSAS 43, Leases (issued January 2022)

The IPSASB also approved Improvements to IPSAS, 2021 (issued January 2022), which resulted in the amendment of the following IPSAS:

- IPSAS 17, Property, Plant, and Equipment;
- IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets;
- IPSAS 22, Disclosure of Financial Information About the General Government Sector;
- IPSAS 29, Financial Instruments: Recognition and Measurement;
- IPSAS 30, Financial Instruments: Disclosures;
- IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs);
- IPSAS 39, Employee Benefits; and
- IPSAS 41, Financial Instruments.

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

#### 1.5 Foreign currency transactions

These financial statements are prepared in euro, which is the functional and reporting currency of the IMS. Foreign currency transactions are accounted for at the NATO exchange rates prevailing on the transaction date in the general ledger. Monetary assets and liabilities at year-end which were denominated in foreign currencies are assessed for materiality and if material are translated into euro using the applicable NATO exchange rates as at 31 December 2022. Realized and unrealized gains and losses resulting from the settlement of such transactions and from the revaluation at the reporting dates of monetary assets and liabilities denominated in foreign currencies are recognized in the Statements of Financial Position and Financial Performance. An assessment was made of all assets and liabilities in foreign currencies as at 31 December 2022. The amount of unrealized gains is deemed immaterial.

#### 1.6 Consolidation

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

While Morale and Welfare activities are under the control of the head of the NATO body, in accordance with the NATO Accounting Framework departure from IPSAS 6, they have not been consolidated into these financial statements. A separate activity report is

submitted to the Budget Committee as required by the NFRs, and summary information is presented in Note 15.

### 1.7 Services in-kind

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

### 1.8 Financial instruments

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

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

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

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

The maximum exposure as at 31 December 2022 is equal to the total amount of bank balances, short-term deposits, and receivables disclosed in the statement of financial position. Receivables considered uncollectible are adequately provided for. There is a very limited credit risk associated with the realization of these instruments.

**Currency risk:** The IMS' exposure to foreign currency exchange risk is very limited, as nearly all transactions are in euro.

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

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

### 1.9 Leases

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

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

### 1.10 Cash and cash equivalents

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

### 1.11 Receivables

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

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

### 1.12 Prepayments

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

### 1.13 Property, plant and equipment

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

### 1.14 Intangible assets

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

### 1.15 Impairment of tangible and intangible assets

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

### 1.16 Payables

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

### 1.17 Deferred revenue and advances

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

### 1.18 Employee benefits – Post-employment benefits

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

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

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

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

**Continued Medical Coverage:** Some qualifying retirees may also benefit from Continued Medical Coverage.

### 1.19 Revenue recognition

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

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

## 1.20 Financial result

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

## 1.21 Trust funds

The IMS manages the NATO-Iraq Trust Fund on behalf of the contributing nations. NATO recognizes an asset when it controls access to the asset and gains economic benefit or service potential but matches this to an equal liability. In its Statement of Financial Performance, the IMS does not recognize any expenditure or revenue in relation to the trust funds, which it does not control. After payment of the final invoice and bank charges, the trust fund is fully depleted and the bank account closed in January 2023.

## 2 Cash and cash equivalents

| (in EUR)                               | 2022              | 2021              |
|----------------------------------------|-------------------|-------------------|
| Current bank accounts IMS              | 34,536,126        | 17,864,880        |
| Cash equivalents                       | 993,804           | 993,804           |
| Current bank accounts NATO-Iraq Trust  | 21,391            | 72,227            |
| Advances                               | 1,714             | 2,849             |
| <b>Total Cash and Cash Equivalents</b> | <b>35,553,035</b> | <b>18,933,761</b> |

Cash and cash equivalents are short-term liquid assets. Deposits are held in interest bearing bank accounts in immediately available funds. Cash holdings are largely determined by the timing of receipts from the nations, which arrive in two instalments, generally in April and December. The bank account for the NATO-Iraq Trust Fund was closed in January 2023 (see Annex B).

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

During the year, cash transfers totalling 1,000,000 EUR (2021: nil) were provided to other entities in the IMS Budget Group in order to cover temporary shortfalls of funds related to the timing of the receipt of the calls for contributions. As at 31 December 2022 all of these cash transfers have been repaid.

## 3 Receivables

The average credit period on receivables is 30 days.

The receivables balance in the amount of 16,973 EUR (2021: 10,427 EUR) primarily consists of a reimbursement for an event held in late 2022. No receivables are past their due date as at 31 December.

## 4 Prepayments

| (in EUR)                              | 2022           | 2021           |
|---------------------------------------|----------------|----------------|
| Advances and prepayments to suppliers | 682,711        | 663,000        |
| Prepaid expenses                      | 199,373        | 190,353        |
| <b>Total Prepayments</b>              | <b>882,084</b> | <b>853,353</b> |

The advances relate to the provision of contractually agreed working capital for the C3 and CIO Programmes of Work. The main balance of prepaid expenses is the 2023 portion of the education allowance entitlements for the school year 2022-2023.

## 5 Property, plant and equipment

| (in EUR)                                        | 2022           | 2021           |
|-------------------------------------------------|----------------|----------------|
| Cost opening balance                            | 360,150        | 334,990        |
| Additions                                       | 37,960         | 48,114         |
| Disposals                                       | (30,624)       | (22,954)       |
| <b>Cost closing balance</b>                     | <b>367,486</b> | <b>360,150</b> |
| Accumulated depreciation opening balance        | 283,165        | 281,773        |
| Current year depreciation                       | 25,784         | 24,346         |
| Retired depreciation                            | (30,624)       | (22,954)       |
| <b>Accumulated depreciation closing balance</b> | <b>278,325</b> | <b>283,165</b> |
| <b>Net Carrying Amount</b>                      | <b>89,161</b>  | <b>76,985</b>  |

The useful life of the vehicles used in the calculation of depreciation is 5 years. The depreciation charge for the year is 25,784 EUR (2021: 24,346 EUR).

In 2022, the IMS disposed of one vehicle as shown in the above table. Proceeds of sale of property plant and equipment amounting to 5,400 EUR were realised in the year (2021: 1,700 EUR). These proceeds are included under payables to nations to be reimbursed as miscellaneous income in the following year.

In accordance with the NATO Financial Regulations (art. 17) an annual summary of property written-off or transferred is provided in the following table. In 2022, all transactions were under the authority of the Financial Controller.

| Items          | Date purchased | Cost in EUR | NBV in EUR                           | Write-off or transfer | Reason   | Disposal date | Revenue in EUR |
|----------------|----------------|-------------|--------------------------------------|-----------------------|----------|---------------|----------------|
| Vehicle 1      | 2012           | 30,624      | Nil                                  | Write-off             | Obsolete | 2022          | 5,400          |
| Vehicle 2      | 2014           | 32,496      | Nil                                  | Write-off             | Obsolete | 2023          | TBD            |
| Vehicle 3      | 2009           | 17,858      | Nil                                  | Write-off             | Obsolete | 2023          | TBD            |
| Shelving units | 2018           | 3,337       | N/A – below capitalization threshold | Transfer              | Obsolete | 2022          | N/A            |

## 6 Intangible assets

| (in EUR)                                        | Software       |                |
|-------------------------------------------------|----------------|----------------|
|                                                 | 2022           | 2021           |
| Cost opening balance                            | 409,043        | 409,043        |
| <b>Cost closing balance</b>                     | <b>409,043</b> | <b>409,043</b> |
| Accumulated amortization opening balance        | 385,846        | 358,574        |
| Current year amortization                       | 12,103         | 27,272         |
| <b>Accumulated amortization closing balance</b> | <b>397,949</b> | <b>385,846</b> |
| <b>Net Carrying Amount</b>                      | <b>11,094</b>  | <b>23,197</b>  |

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

The amortization charge for the year is 12,103 EUR (2021: 27,272 EUR).

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

## 7 Payables

| (in EUR)              | 2022              | 2021             |
|-----------------------|-------------------|------------------|
| Payables to nations   | 6,381,683         | 4,757,598        |
| Payables to suppliers | 3,784,351         | 756,699          |
| Accruals              | 3,433,500         | 2,422,958        |
| Other payables        | 50,869            | 1,718            |
| <b>Total Payables</b> | <b>13,650,402</b> | <b>7,938,973</b> |

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

Similar to 2021, nations have decided to convert prior years' surplus funds into advances for the following year (see note 8).

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

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

## 8 Deferred revenue

| (in EUR)                                  | 2022              | 2021              |
|-------------------------------------------|-------------------|-------------------|
| Advanced contributions for next year      | 22,000,000        | 11,213,791        |
| Deferred revenue - carry forwards         | 801,689           | 572,550           |
| Deferred revenue - trust funds            | -                 | 72,227            |
| <b>Total current deferred revenue</b>     | <b>22,801,689</b> | <b>11,858,569</b> |
| Investment in PPE and intangible assets   | 100,256           | 100,183           |
| <b>Total non-current deferred revenue</b> | <b>100,256</b>    | <b>100,183</b>    |
| <b>Total deferred revenue</b>             | <b>22,901,945</b> | <b>11,958,752</b> |

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

Advanced contributions include an element of prior years' surplus funds converted into 2023 advances (see note 7). Therefore, 4.7 MEUR of prior years' surpluses were converted into 2023 advanced contributions, along with the 2023 advance of 17.3 MEUR, for a total of 22 MEUR.

The deferred revenue for carry forwards relates primarily to the C3 programme of work and the IMS asset replacement plan.

The deferred revenue for trust funds is the corresponding liability for the cash received by nations to fund the NATO-Iraq Trust Fund (see Annex B), now depleted and closed.

Non-current deferred revenue represents the net carrying amount of property, plant and equipment and intangible assets as at 31 December 2022. The revenue will be recognized in the year when the depreciation and amortization expense will be recognized.

## 9 Revenue

| (in EUR)                               | 2022              | 2021              |
|----------------------------------------|-------------------|-------------------|
| Revenue from contributions             | 38,673,435        | 28,415,016        |
| Revenue released from deferred revenue | 37,887            | 51,618            |
| <b>Total Revenue</b>                   | <b>38,711,322</b> | <b>28,466,634</b> |

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

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

## 10 Personnel expenses

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

## Peacetime Establishment (PE)

|                                                              | Approved<br>PE - IMS | Filled<br>IMS | Approved<br>PE - NSO | Filled<br>NSO | Approved<br>PE - IMS and NSO | Filled<br>IMS and NSO |
|--------------------------------------------------------------|----------------------|---------------|----------------------|---------------|------------------------------|-----------------------|
| <b>Services paid by NATO budgets:</b>                        |                      |               |                      |               |                              |                       |
| Civilians (paid by Military Budget)*                         | 89                   | 74            | 16                   | 16            | 105                          | 90                    |
| Civilians (paid by Civil Budget)                             | 16                   | 14            | -                    | -             | 16                           | 14                    |
| Local Wage Rate                                              | 1                    | -             | -                    | -             | 1                            | -                     |
| <b>Services-in-kind provided by the nations:</b>             |                      |               |                      |               |                              |                       |
| Military                                                     | 318                  | 297           | 26                   | 18            | 344                          | 315                   |
| Voluntary National Contribution<br>(paid by Military Budget) | 52                   | 25            | -                    | -             | 52                           | 25                    |
| Voluntary National Contribution<br>(paid by Civil Budget)    | 33                   | 22            | -                    | -             | 33                           | 22                    |
| Partnership Staff Posts                                      | 11                   | 4             | 2                    | 2             | 13                           | 6                     |
| Other                                                        | 28                   | 28            | 2                    | 2             | 30                           | 30                    |
| <b>Total Ceiling posts</b>                                   | <b>406</b>           | <b>371</b>    | <b>42</b>            | <b>34</b>     | <b>448</b>                   | <b>405</b>            |
| <b>Total Posts</b>                                           | <b>548</b>           | <b>464</b>    | <b>46</b>            | <b>38</b>     | <b>594</b>                   | <b>502</b>            |

\* 1 military post temporarily civilianized in accordance with workforce guidelines.

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

| (in EUR)                   | 2022              | 2021              |
|----------------------------|-------------------|-------------------|
| Employment of personnel    | 11,614,396        | 10,879,731        |
| Post-employment benefits   | 578,092           | 540,779           |
| Training                   | 111,563           | 69,255            |
| Recruitment and separation | 32,883            | 57,093            |
| Miscellaneous              | 1,090             | 3,716             |
| <b>Total expenses</b>      | <b>12,338,025</b> | <b>11,550,574</b> |

**Untaken leave:** The balance of untaken leave at the end of 2022 was 696 days (2021: 883 days) for IMS and 65 days (2021: 129 days) for NSO. The associated cost is recognized as an accrual. The reduction in untaken leave is due to the end of COVID-19 measures and restrictions.

### 11 Contractual supplies and services

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

| (in EUR)              | 2022              | 2021              |
|-----------------------|-------------------|-------------------|
| Mission support       | 12,548,894        | 11,765,533        |
| General support       | 12,050,161        | 4,033,591         |
| Grants and subsidies  | 1,082,061         | 615,691           |
| Travel transportation | 638,158           | 201,426           |
| Miscellaneous costs   | 16,137            | 248,201           |
| <b>Total expenses</b> | <b>26,335,410</b> | <b>16,864,442</b> |

In 2022, the IMS ended one contract for the lease of a vehicle (2022: 75,210 EUR) and entered into a new 3-year contract (2022: 39,950 EUR) with an annual cost of 95,880 EUR (2021: 126,500 EUR), which is cancellable.

## 12 Related parties

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

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

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

## 13 Representation allowance

Representation allowance is available to certain designated NATO high-level officials whose position entails responsibility for maintaining relationships of value to NATO. In 2022, three senior IMS officials received representation allowances.

The total entitlement was 39,000 EUR (2021: 39,000 EUR) and the actual expenses were 30,020 EUR (2021: 9,329 EUR). The increase in actual expenses is due to the end of COVID-19 measures and restrictions.

## 14 Contingent Liabilities

There has been one appeal lodged with the NATO Administrative Tribunal against the IMS related to a recruitment process. The case was heard in March 2023 with the ruling expected to be provided after the issuance of these financial statements. The probability of the outcome is assessed as not likely to result in any liability for the IMS.

## 15 Morale and Welfare Activities

The IMS carried out Morale and Welfare Activities (MWA) in 2022 for which a detailed annual special purpose report is presented to the Budget Committee. Morale and Welfare Activity is an activity of a NATO body that enhances the quality of life, promotes cohesion and integrity, and/or contributes to the physical and mental wellbeing of eligible individuals. At the IMS, the MWA mainly relate to the sale of petrol products and the language training centre.

The position of MWA at year-end is:

| (in EUR)                                                          | 2022   | 2021   |
|-------------------------------------------------------------------|--------|--------|
| Cash and cash equivalents                                         | 96,157 | 50,506 |
| Total liabilities including provisions and contingent liabilities | 71,143 | 42,277 |

As of year-end, no full-time equivalent staff (2021: nil) directly support the MWA.

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

#### 16 Events after reporting date

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

**ANNEX A**  
**IMS**  
**Budget Execution Statement**  
**for the year ended 31 December 2022**  
(in EUR)

|                                | Initial<br>Budget | BA2               | BA3               | Transfers | Final<br>Budget   | Expenses          | Carry<br>Forward | Lapsed           |
|--------------------------------|-------------------|-------------------|-------------------|-----------|-------------------|-------------------|------------------|------------------|
| <b>BUDGET 301 (IMS) 2022</b>   |                   |                   |                   |           |                   |                   |                  |                  |
| Chapter 1                      | 10,687,677        | 10,687,677        | 10,687,677        | -         | 10,687,677        | 10,290,667        | -                | 397,010          |
| Chapter 2                      | 29,475,117        | 29,475,117        | 29,475,117        | -         | 29,475,117        | 23,227,377        | 779,048          | 5,468,692        |
| Chapter 3                      | 40,000            | 40,000            | 40,000            | -         | 40,000            | 37,960            | -                | 2,040            |
| <b>TOTAL</b>                   | <b>40,202,794</b> | <b>40,202,794</b> | <b>40,202,794</b> | <b>-</b>  | <b>40,202,794</b> | <b>33,556,003</b> | <b>779,048</b>   | <b>5,867,743</b> |
| <b>BUDGET 302 (NSO) 2022</b>   |                   |                   |                   |           |                   |                   |                  |                  |
| Chapter 1                      | 1,990,919         | 1,990,919         | 1,990,919         | 1,318     | 1,992,237         | 1,992,237         | -                | -                |
| Chapter 2                      | 1,330,190         | 1,330,190         | 1,330,190         | (1,318)   | 1,328,872         | 1,180,935         | 22,641           | 125,297          |
| Chapter 3                      | -                 | -                 | -                 | -         | -                 | -                 | -                | -                |
| <b>TOTAL</b>                   | <b>3,321,109</b>  | <b>3,321,109</b>  | <b>3,321,109</b>  | <b>-</b>  | <b>3,321,109</b>  | <b>3,173,171</b>  | <b>22,641</b>    | <b>125,297</b>   |
| <b>BUDGET 501 (OTRCH) 2022</b> |                   |                   |                   |           |                   |                   |                  |                  |
| Chapter 1                      | 164,000           | 164,000           | 164,000           | -         | 164,000           | 55,122            | -                | 108,878          |
| Chapter 2                      | 1,400,000         | 1,400,000         | 1,400,000         | -         | 1,400,000         | 1,354,549         | -                | 45,451           |
| <b>TOTAL</b>                   | <b>1,564,000</b>  | <b>1,564,000</b>  | <b>1,564,000</b>  | <b>-</b>  | <b>1,564,000</b>  | <b>1,409,671</b>  | <b>-</b>         | <b>154,329</b>   |
| <b>TOTAL FY2022</b>            | <b>45,087,903</b> | <b>45,087,903</b> | <b>45,087,903</b> | <b>-</b>  | <b>45,087,903</b> | <b>38,138,845</b> | <b>801,689</b>   | <b>6,147,369</b> |
| <b>BUDGET 301 (IMS) 2021</b>   |                   |                   |                   |           |                   |                   |                  |                  |
| Chapter 2                      | 572,550           | 572,550           | 572,550           | -         | 572,550           | 572,550           | -                | -                |
| <b>TOTAL</b>                   | <b>572,550</b>    | <b>572,550</b>    | <b>572,550</b>    | <b>-</b>  | <b>572,550</b>    | <b>572,550</b>    | <b>-</b>         | <b>-</b>         |
| <b>BUDGET 302 (NSO)2021</b>    |                   |                   |                   |           |                   |                   |                  |                  |
| <b>TOTAL ALL BUDGETS</b>       | <b>45,660,453</b> | <b>45,660,453</b> | <b>45,660,453</b> | <b>-</b>  | <b>45,660,453</b> | <b>38,711,395</b> | <b>801,689</b>   | <b>6,147,369</b> |

The budget covers the financial year from 1 January 2022 to 31 December 2022 and includes the following budgets: 301 (IMS), 302 (NSO) and 501 (Outreach). The initial budget and subsequent revisions are reviewed, approved and issued by the Budget Committee.

In accordance with the NFRs, all changes between the initial and the final budget due to transfers of appropriations were either authorized by the Budget Committee, or were within the authority of the IMS Financial Controller. These changes are presented in the Budget Execution Statement. The lapses are mainly due to delays in the execution of the Chief Information Office (CIO) and NHQC3S programmes of work, and a reduction in NATO HQ occupancy costs.

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

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

| (in EUR)                                                  | <u>2022</u>              |
|-----------------------------------------------------------|--------------------------|
| <b>Total expenses, Statement of Financial Performance</b> | 38,711,322               |
| Capital and investments (see notes 5 and 6)               | 37,960                   |
| Depreciation and amortization (see notes 5 and 6)         | <u>(37,887)</u>          |
| <b>Total expenses, Budget Execution Statement</b>         | <u><b>38,711,395</b></u> |

**ANNEX B**  
**NATO-Iraq Trust Fund**  
**Status as at 31 December 2022**  
(in EUR)

| FINANCIAL YEAR                                       | IN COUNTRY COURSES | OUT OF COUNTRY COURSES |               |             | TOTAL             |
|------------------------------------------------------|--------------------|------------------------|---------------|-------------|-------------------|
|                                                      | EXPENSES           | EXPENSES               | SLOTS OFFERED | SLOTS TAKEN |                   |
| 2005                                                 | 133,235            | 1,494,235              | 123           | 200         | 1,627,470         |
| 2006                                                 | 966,684            | 1,355,890              | 444           | 253         | 2,322,574         |
| 2007                                                 | 745,024            | 1,230,390              | 223           | 197         | 1,975,414         |
| 2008                                                 | 2,900,068          | 1,105,880              | 230           | 208         | 4,005,948         |
| 2009                                                 | 200,557            | 1,263,332              | 220           | 208         | 1,463,889         |
| 2010                                                 | 218,647            | 1,737,842              | 412           | 336         | 1,956,489         |
| 2011                                                 | 44,135             | 1,733,875              | 468           | 420         | 1,778,010         |
| 2012                                                 | -                  | 23,366                 | 23            | 15          | 23,366            |
| 2013                                                 | -                  | 176,359                | 42            | 42          | 176,359           |
| 2014                                                 | -                  | 10,340                 |               |             | 10,340            |
| 2015                                                 |                    | 301,817                | 62            | 62          | 301,817           |
| 2016                                                 |                    | 1,565,362              | 340           | 268         | 1,565,362         |
| 2017                                                 |                    | 55,568                 | 4             | 4           | 55,568            |
| 2018                                                 |                    | 99,180                 | 7             | 7           | 99,180            |
| 2019                                                 |                    | 42,345                 | 4             | 4           | 42,345            |
| 2020                                                 |                    | -                      | -             | -           | -                 |
| 2021                                                 |                    | 66,553                 | 9             | 9           | 66,553            |
| 2022                                                 |                    | 72,227                 |               |             | 72,227            |
| <b>TOTAL</b>                                         | <b>5,208,350</b>   | <b>12,334,560</b>      |               |             | <b>17,542,910</b> |
| <b>NATO-IRAQ TRUST FUND STATUS AS OF 31 DEC 2022</b> |                    |                        |               |             |                   |
| <b>FUND DONATED</b>                                  |                    |                        |               |             | <b>17,176,421</b> |
| <b>INTEREST EARNED (net of finance costs)</b>        |                    |                        |               |             | <b>366,490</b>    |
| <b>FUND USED</b>                                     |                    |                        |               |             | <b>17,542,910</b> |
| <b>FUND AVAILABLE</b>                                |                    |                        |               |             | <b>0</b>          |

Note: In 2022, expenses totalled 72,227 EUR (2021: 66,553 EUR). After payment of the final invoice and bank charges, the trust fund is fully depleted and the bank account closed in January 2023.



International Military Staff  
Etat-Major Militaire International

Brussels - Belgium



31 March 2023

IMSTAM(FC)-0008-2023

CHAIR, INTERNATIONAL BOARD OF AUDITORS FOR NATO (IBAN)

**NATO DEFENSE COLLEGE (NDC) FINANCIAL STATEMENTS 2022**

1. Please find attached the 2022 NATO DEFENSE COLLEGE (NDC) Financial Statements, issued in accordance with NATO Financial Regulation (NFR) Article 35.1.
2. I can confirm that, in accordance with NFR Financial Rules and Procedures (FRP) XXXV (4), the NDC can agree to public disclosure of these Financial Statements.
3. Notwithstanding the above, as stated in C-M(2012)0041, public disclosure of IBAN Audit Reports is a matter for Council decision, based upon the recommendation of the RPPB. Decisions are informed by the NATO policy on public disclosure of documents (C-M(2008)0116).
4. The IBAN Audit Report covering these Financial Statements has not been issued, but should be presented to Council no later than 31 August 2023 (NFR 15.2). As such, the NDC is not yet in a position to anticipate any potential representations that may be made to the RPPB, regarding the Audit Report.
5. The NDC therefore reserves its position on public disclosure of the eventual IBAN Audit Report.

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

Enclosure:

1. NDC 290323- NDC Financial Statements FY 2022, 29 Mar 23

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

Originating Office: FC - DGIMS-FC

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

NATO UNCLASSIFIED

# NATO DEFENSE COLLEGE FINANCIAL STATEMENTS

## 2022



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## Introduction

1. The NATO Defense College (NDC) is a NATO Military body of the NATO Military Committee (MC) led by the Commandant, who reports to the Chair of the Military Committee through the Director General of the International Military Staff. Its mission is to contribute to the effectiveness and cohesion of the Alliance by developing its role as a major centre of education, outreach and research on transatlantic security issues. As the Alliance's premier academic institution, the NDC aspires to be regarded as the first choice for nations in the educational development of their senior officers and officials, and as a respected source of relevant policy-making advice.
2. The year 2022 was a successful year for the NDC. Although the transition back from COVID was a demanding process, rendered even more difficult by the situation in Ukraine, the College managed to achieve all objectives set for the year across all three pillars of its mission. The NDC not only delivered all scheduled courses, with more than 400 course members from more than 50 NATO and Partner countries, but it also enhanced the overall quality of the education provided, by consistently integrating feedback from internal and external stakeholders, and thus significantly improving Course Members' experience. On the Research pillar the College recorded a significant increase in publications, while also maintaining a solid conference programme, whereas in the Engagement domain, activities were not only back at pre-COVID level, but a more focused and integrated approach was developed in order to better manage the growing number of requests for cooperation from around the globe.
3. The NDC 2022 Financial Statements have been produced in accordance with the NATO Accounting Framework (NAF) based on the International Public Sector Accounting Standards (IPSAS) as adapted by NATO and the NATO Financial Regulations (NFRs). They are presented in a commonly adopted layout.
4. The expenses recorded herein are mainly charged over two budgets, the NDC budget, covering its operating and maintenance costs, and a delegated portion of the Outreach Programme for which the NDC has operational control. In 2022 the NDC has also executed a portion of the centrally-managed NATO-Iraq Trust Fund, as well as other non-appropriated reimbursable activities.
5. The budgetary expenses are recorded on an accrual basis, i.e. in the period in which the goods or services are delivered. Any exception to that principle is outlined in Annex 1 to the financial statements, which provides a comparison between the Budget Execution and IPSAS.
6. The IMS Budget Group covers a number of budgets and entities linked together for financial management purposes by a Financial Controller. The Financial Controller is the Financial Controller of the IMS, the Science and Technology Organisation (STO) and the NDC. The NDC, the STO and IMS are therefore related parties under a common Financial Controller.



Olivier RITTIMANN  
Lieutenant General, French Army  
Commandant  
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PRTCV - Financial Controller  
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Science & Technology Organisation

## NDC Statement of Internal Control FY 2022

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

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

In order to meet the provisions of the NFRs, the NDC has established systems of Risk Management and Internal Control, which are being continuously enhanced with the aim to ensure the achievement of NDC mission and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. The systems of Risk Management and Internal Control are designed to manage and minimize, rather than entirely eliminate, risk at the NDC. Risk Management and Internal Control can therefore provide only a reasonable, but not absolute, assurance of effectiveness. The risks addressed at the NDC include risks to NDC operational aims and objectives; compliance with the NFRs; the reliability of financial information; and the safeguarding of assets. This process has been in place for the year ended 31 December 2022 and up to the date of these financial statements.

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

### Control Environment

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

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

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

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

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

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

The new mission and structure of the NDC was agreed in 2021, resulting in a revised “Policy Guidance for the NATO Defense College”, and the ensuing End-State Peacetime Establishment approved in the course of 2022. The new structure has been implemented and the recruitment of the newly approved NATO International Civilian positions is ongoing.

#### Risk Assessment

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

In the course of 2022 the NDC has further improved the effectiveness of its risk management framework, and a ‘risk culture’ is now embedded in all NDC’s internal processes. The risk register has been institutionalised, made available across the Organisation, and its revisions with relevant updates are conducted every six months.

#### Control Activities

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

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

#### Information and Communication

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

Communication also provides for the effective functioning of internal control. In this regard important information is disseminated through the staff by means of weekly bulletins and periodic all-hands meetings called by the Commandant.

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

#### Monitoring Activities

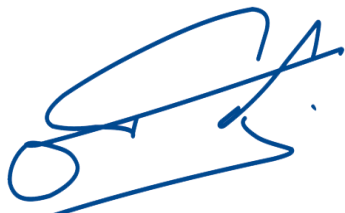
An outsourced Internal Audit service provider is engaged on a periodic basis, to undertake internal audit assignments. On top, NDC internal controls of non-appropriated funds are conducted regularly. The NDC is also subject to annual external audit from the IBAN.

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

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

No issues regarding financial or operational matters were raised in 2022. The IBAN external audit of the 2021 Financial Statements resulted in an unqualified opinion, with no new observation and recommendations. Of the five observations and recommendations from previous years' audits, only two remained in progress and were addressed in the course of 2022.

We are satisfied that the Risk Management and Internal Control systems in operation across the NDC during the year 2022 were reasonably adequate and effective. However, areas of improvements still exist, in particular on internal control certification. In the course of 2023 it is NDC's intention to implement an organization wide internal control certification process along the lines of what is already done at other NATO bodies including—*inter alia*—initiatives such as the issue of sub-certification letters and COSO self-assessment surveys.

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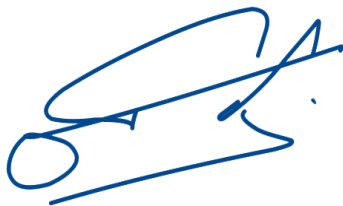
Olivier RITTIMANN  
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A blue ink signature of Rui M. M. da Silva, featuring a large, stylized 'R' followed by a series of loops and a final horizontal stroke.

Rui M. M. DA SILVA  
PRTCV - Financial Controller  
International Military Staff  
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**NATO DEFENSE COLLEGE  
STATEMENT OF FINANCIAL POSITION**

|                                      | <i>Notes</i> | <b>2022</b>       | <b>2021</b>       |
|--------------------------------------|--------------|-------------------|-------------------|
| <b>ASSETS</b>                        |              |                   |                   |
| <b>Current Assets</b>                |              |                   |                   |
| Cash and Cash Equivalents            | 2            | 3,390,316         | 5,204,768         |
| Receivables                          | 3            | 420,180           | 237,276           |
| Prepayments and Advances             | 4            | 11,052            | 19,390            |
| <b>Total Current Assets</b>          |              | <b>3,821,548</b>  | <b>5,461,434</b>  |
| <b>Non-Current Assets</b>            |              |                   |                   |
| Property, Plant & Equipment          | 5            | 13,099,264        | 12,698,451        |
| <b>Total Non-Current Assets</b>      |              | <b>13,099,264</b> | <b>12,698,451</b> |
| <b>TOTAL ASSETS</b>                  |              | <b>16,920,812</b> | <b>18,159,885</b> |
| <b>LIABILITIES</b>                   |              |                   |                   |
| <b>Current Liabilities</b>           |              |                   |                   |
| Payables                             | 6            | 1,085,848         | 1,541,057         |
| Deferred Revenue & Advances          | 7            | 2,735,700         | 3,920,377         |
| <b>Total Current Liabilities</b>     |              | <b>3,821,548</b>  | <b>5,461,434</b>  |
| <b>Non-Current Liabilities</b>       |              |                   |                   |
| Non-Current Deferred Revenue         | 7            | 13,099,264        | 12,698,451        |
| <b>Total Non-Current Liabilities</b> |              | <b>13,099,264</b> | <b>12,698,451</b> |
| <b>TOTAL LIABILITIES</b>             |              | <b>16,920,812</b> | <b>18,159,885</b> |
| <b>TOTAL NET ASSETS/EQUITY</b>       |              | <b>-</b>          | <b>-</b>          |



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



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

The financial statements were issued to the International Board of Auditors for NATO on 31 March 2023.

## NATO DEFENSE COLLEGE STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 31 December 2022  
(in EUR)

|                                         | <i>Notes</i> | <u><b>2022</b></u>       | <u><b>2021</b></u>       |
|-----------------------------------------|--------------|--------------------------|--------------------------|
| <b>Revenue</b>                          |              |                          |                          |
| Revenue                                 |              | 13,268,659               | 10,804,751               |
| <b>Total Revenue</b>                    | <b>8</b>     | <u><b>13,268,659</b></u> | <u><b>10,804,751</b></u> |
| <b>Expenses</b>                         |              |                          |                          |
| Personnel                               | 9            | 5,689,047                | 5,443,858                |
| Contractual Supplies and Services       | 10           | 6,555,824                | 4,872,889                |
| Capital and Investments Budgeting       |              | 473,279                  | 37,449                   |
| Depreciation                            | 5            | 550,509                  | 450,555                  |
| <b>Total Expenses</b>                   |              | <u><b>13,268,659</b></u> | <u><b>10,804,751</b></u> |
| <b>SURPLUS / DEFICIT FOR THE PERIOD</b> |              | <u><b>-</b></u>          | <u><b>-</b></u>          |

## NATO DEFENSE COLLEGE STATEMENT OF CASH FLOWS

For the year ended 31 December 2022  
(in EUR)

|                                                                 | <i>Notes</i> | <u>2022</u>        | <u>2021</u>      |
|-----------------------------------------------------------------|--------------|--------------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |              |                    |                  |
| <i>Surplus/Deficit for the period</i>                           |              | -                  | -                |
| <b>Non-cash movements</b>                                       |              |                    |                  |
| Depreciation / Amortization                                     | 5            | 550,509            | 450,555          |
| Increase - (Decrease) in payables                               |              | (455,209)          | 660,683          |
| Increase - (Decrease) in other current liabilities              |              | (1,184,677)        | (901,940)        |
| (Increase) - Decrease in receivables                            |              | (182,904)          | (220,839)        |
| (Increase) - Decrease in other current assets                   |              | 8,338              | (17,664)         |
| (Increase) - Decrease in Non-current deferred revenue           |              | 400,813            | 291,686          |
| <b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>                 |              | <u>(863,130)</u>   | <u>262,481</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |              |                    |                  |
| Purchase of property plant and equipment                        | 5            | (951,322)          | (742,241)        |
| <b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>                 |              | <u>(951,322)</u>   | <u>(742,241)</u> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                     |              |                    |                  |
| Cash in from IMS BG cash transfer                               |              | 500,000            | -                |
| Cash out from IMS BG cash transfer                              |              | (500,000)          | -                |
| <b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>                 |              | <u>-</u>           | <u>-</u>         |
| <b>Net Increase - (Decrease) in cash and cash equivalents</b>   |              | <u>(1,814,451)</u> | <u>(479,760)</u> |
| <b>Cash and cash equivalents at the beginning of the period</b> |              | <u>5,204,768</u>   | <u>5,684,528</u> |
| <b>Cash and cash equivalents at the end of the period</b>       |              | <u>3,390,316</u>   | <u>5,204,768</u> |

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

For the year ended 31 December 2022  
(in EUR)

|                                                            | Total |
|------------------------------------------------------------|-------|
| <b>Balance at the beginning of the period 2021</b>         | -     |
| Surplus / (deficit) for the period                         |       |
| <b>Change in net assets/equity for the year ended 2021</b> | -     |
| <b>Balance at the beginning of the period 2022</b>         | -     |
| Surplus / (deficit) for the period                         |       |
| <b>Change in net assets/equity for the year ended 2022</b> | -     |
| <b>Balance at the end of the period 2022</b>               | -     |

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Significant Accounting Policies

#### 1.1. Basis of Preparation

The NATO Defense College (NDC) Financial Statements 2022 have been prepared in accordance with the NATO Accounting Framework (NAF). This accounting framework is based on International Public Sector Accounting Standards (IPSAS), as adapted by NATO. The financial statements comply with the financial requirements of the NATO Financial Regulations (NFRs) and the associated Financial Rules and Procedures (FRPs) as well as with NDC directives and policies.

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

In accordance with Article 2.1 of the NFRs, the financial year covered by these financial statements is 1 January to 31 December 2022.

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

#### 1.2. Accounting Estimates and Judgements

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

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

#### 1.3. Changes in Accounting Policy and Standards

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set in IPSAS 3. For the 2022 financial statements, the accounting policies have been applied consistently throughout the reporting period.

#### 1.4. Changes in Pronouncements

At the date of authorisation of these financial statements, the following revised IPSAS is effectively implemented at the NDC:

- IPSAS 5, Borrowing Costs – Non-Authoritative Guidance (issued November 2021).

The NDC has not applied the following new IPSAS that has been issued but is not yet effective:

- IPSAS 43, Leases (issued January 2022)

The IPSASB also approved Improvements to IPSAS, 2021 (issued January 2022), which resulted in the amendment of the following IPSAS:

- IPSAS 17, Property, Plant, and Equipment;
- IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets;
- IPSAS 22, Disclosure of Financial Information About the General Government Sector;
- IPSAS 29, Financial Instruments: Recognition and Measurement;
- IPSAS 30, Financial Instruments: Disclosures;
- IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs);

- IPSAS 39, Employee Benefits; and
- IPSAS 41, Financial Instruments.

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

### 1.5. Foreign Currency Transactions

These financial statements are prepared in euro, which is the functional and reporting currency of the NDC. Foreign currency transactions are accounted for at the NATO exchange rates prevailing on the transaction date. Monetary assets and liabilities at year-end which were denominated in foreign currencies are assessed for materiality and if material are translated into euro using the applicable NATO exchange rates as at 31 December 2022. Realized and unrealized gains and losses resulting from the settlement of such transactions and from the revaluation at the reporting dates of monetary assets and liabilities denominated in foreign currencies are recognized in the statements of financial position and performance. An assessment was made of all assets and liabilities in foreign currencies as at 31 December 2022. The amount of unrealized gains is deemed immaterial.

### 1.6. Consolidation

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

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

### 1.7. Services In-Kind

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

### 1.8. Financial Instruments

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

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

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

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

The maximum exposure as at 31 December 2022 is equal to the total amount of bank balances, short-term deposits, and receivables disclosed in the statement of financial position. Receivables considered uncollectible are adequately provided for. There is a very limited credit risk associated with the realization of these instruments.

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

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

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

### 1.9. Leases

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

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

### 1.10. Cash and cash equivalents

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

### 1.11. Receivables

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

### 1.12. Prepayments

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

### 1.13. Property, plant and equipment

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

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

### 1.14. Impairment of tangible assets

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

### 1.15. Payables

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

### 1.16. Deferred revenue and advances

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

### 1.17. Employee benefits

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

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

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

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

**Continued Medical Coverage:** Some qualifying retirees may also benefit from Continued Medical Coverage.

### 1.18. Revenue recognition

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

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

### 1.19. Financial result

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

## 2. Cash and cash equivalents

| (in EUR)                       | 2022             | 2021             |
|--------------------------------|------------------|------------------|
| Cash Accounts                  | 1,221            | 10,709           |
| Petty Cash and Advances        | 2,500            | 2,500            |
| Current Bank Accounts in Euros | 3,386,595        | 5,091,373        |
| Cash Equivalent                | -                | 100,186          |
| <b>Total</b>                   | <b>3,390,316</b> | <b>5,204,768</b> |

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

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

During the year, a cash transfer of 500,000 EUR (2021: nil) was provided by the IMS in order to cover a temporary shortfall of funds related to the timing of the receipt of the 2<sup>nd</sup> call for contributions. As at 31 December 2022 such cash transfer has been repaid.

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

### 3. Receivables

| (in EUR)                                     | 2022           | 2021           |
|----------------------------------------------|----------------|----------------|
| Receivables from NATO Entities               | 233,108        | 236,367        |
| Receivables from Governments / Gov. Agencies | 183,072        | 779            |
| Receivables from Staff Members               | 4,000          | 130            |
| <b>Total</b>                                 | <b>420,180</b> | <b>237,276</b> |

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

### 4. Prepayments and Advances

| (in EUR)                             | 2022          | 2021          |
|--------------------------------------|---------------|---------------|
| Advances – Non Assigned Expenditures | -             | 1,848         |
| Advances – Vendors                   | 11,052        | 17,542        |
| <b>Total</b>                         | <b>11,052</b> | <b>19,390</b> |

The amounts are mainly prepayments for software licences that have to be operational as from 1 January 2023.

### 5. Property, Plant and Equipment

|                                 | Land      | Buildings   | Installed Equipment | Machinery | Automated Information Systems | Totals      |
|---------------------------------|-----------|-------------|---------------------|-----------|-------------------------------|-------------|
| <b>Cost</b>                     |           |             |                     |           |                               |             |
| Balance at 1 January 2021       | 7,718,220 | 7,119,426   | 2,554,203           | 83,438    | 160,838                       | 17,636,124  |
| Additions                       | -         | -           | 631,498             | 22,556    | 88,187                        | 742,241     |
| Balance at 31 December 2021     | 7,718,220 | 7,119,426   | 3,185,700           | 105,994   | 249,025                       | 18,378,365  |
| Additions                       | -         | -           | 554,322             | -         | 397,000                       | 951,322     |
| Balance at 31 December 2022     | 7,718,220 | 7,119,426   | 3,740,022           | 105,994   | 646,025                       | 19,329,686  |
| <b>Accumulated depreciation</b> |           |             |                     |           |                               |             |
| Balance at 1 January 2021       | -         | (3,627,297) | (1,415,983)         | (62,220)  | (123,858)                     | (5,229,358) |
| Depreciation expense            | -         | (177,986)   | (231,228)           | (7,952)   | (33,390)                      | (450,555)   |
| Balance at 31 December 2021     | -         | (3,805,282) | (1,647,211)         | (70,172)  | (157,248)                     | (5,679,913) |
| Depreciation expense            | -         | (177,986)   | (255,790)           | (7,190)   | (109,543)                     | (550,509)   |
| Balance at 31 December 2022     | -         | (3,983,268) | (1,903,001)         | (77,362)  | (266,791)                     | (6,230,422) |
| <b>Net book value</b>           |           |             |                     |           |                               |             |
| Balance at 31 December 2021     | 7,718,220 | 3,314,144   | 1,538,489           | 35,821    | 91,777                        | 12,698,451  |
| Balance at 31 December 2022     | 7,718,220 | 3,136,158   | 1,837,021           | 28,631    | 379,234                       | 13,099,264  |

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

| Category                      | Capitalization Threshold | Depreciation life |
|-------------------------------|--------------------------|-------------------|
| Land                          | € 200,000                | N/A               |
| Buildings                     | € 200,000                | 40 years          |
| Installed equipment           | € 5,000                  | 10 years          |
| Machinery                     | € 5,000                  | 10 years          |
| Furniture                     | € 5,000                  | 10 years          |
| Automated information systems | € 5,000                  | 3 years           |

The depreciation charge for the year was 550,509 EUR (2021: 450,555 EUR).

In accordance with the NATO Financial Regulations (art. 17) an annual summary of property written-off in 2022 is provided in the following table.

| Items (Quantity)                    | Purchased in | Net Book value | Total Cost     | Reason for Write-Off                                                |
|-------------------------------------|--------------|----------------|----------------|---------------------------------------------------------------------|
| Mission Equipment (495)             | 1994 → 2020  | -              | 26,889         | Obsolete or broken beyond economical repair. No longer serviceable. |
| Machinery (1)                       | 1988         | -              | 1,717          |                                                                     |
| Automated Information Systems (259) | 2006 → 2022  | -              | 76,237         |                                                                     |
| Communication Equipment (29)        | 1995 → 2010  | -              | 6,961          |                                                                     |
| Furniture (164)                     | 1967 → 2019  | -              | 30,142         |                                                                     |
| <b>Total</b>                        |              | -              | <b>141,946</b> |                                                                     |

## 6. Payables

| (in EUR)              | 2022             | 2021             |
|-----------------------|------------------|------------------|
| Payables to Suppliers | 493,278          | 747,313          |
| Accruals              | 387,307          | 391,368          |
| Payables to Nations   | 66,710           | 305,074          |
| Other Payables        | 138,553          | 97,302           |
| <b>Total</b>          | <b>1,085,848</b> | <b>1,541,057</b> |

Payables are short-term liabilities to third parties directly related to the activities and operations of the NDC. Payables to suppliers include invoices from commercial vendors not yet settled, whereas accruals include goods and services received by year-end, but for which relevant invoices were not received by the reporting date. Additionally, accruals also include the cost associated with the balance of untaken leave at the end of 2022 (448 days - 2021: 696 days), amounting to 82,717 EUR (2021: 124,729 EUR).

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

Payables to nations encompass liabilities from financial result, liabilities from operational result and liabilities from lapses. They will be offset in the 2<sup>nd</sup> call for contribution 2023.

Similar to 2021, nations have decided to convert prior years' surplus funds into advances for the following year (see note 7).

Other payables include credits advanced by nations to pay the field study costs of their personnel attending the Senior Course, as well as payments returned by banking institutions at year-end for reasons beyond NDC's control. Such payments will be newly processed in 2023.

## 7. Deferred revenue and advances

| (in EUR)                                  | 2022              | 2021              |
|-------------------------------------------|-------------------|-------------------|
| Deferred Revenue – carry forwards         | -                 | 1,400,000         |
| Advance Contributions for next year       | 2,735,700         | 2,520,377         |
| <b>Total current deferred revenue</b>     | <b>2,735,700</b>  | <b>3,920,377</b>  |
| Investment in PPE                         | 13,099,264        | 12,698,451        |
| <b>Total non-current deferred revenue</b> | <b>13,099,264</b> | <b>12,698,451</b> |
| <b>Total deferred revenue</b>             | <b>15,834,964</b> | <b>16,618,828</b> |

Current deferred revenue consists mostly of budget deferred revenue or advanced contributions for the next financial year, but for which corresponding expenses will be incurred after the reporting date. Advance contributions will be deducted from the 1<sup>st</sup> call for contribution 2023. In 2022 no credits were carried forward and therefore no related deferred revenues are recorded within these Financial Statements.

Advanced contributions include an element of prior years' surplus funds converted into 2023 advances (see note 6). Therefore, prior years' surpluses of 317 KEUR were converted into 2023 advanced contributions, along with the 2022 advance of 2,418 KEUR, for a total of 2.7 MEUR.

Non-current deferred revenue represents the net carrying amount of property, plant and equipment and intangible assets as at 31 December 2022. The revenue will be recognized in the year when the depreciation and amortization expense will be recognized.

## 8. Revenue

| (in EUR)                               | 2022              | 2021              |
|----------------------------------------|-------------------|-------------------|
| Revenue from NDC budget 303            | 10,397,745        | 9,342,975         |
| Revenue from other NATO budgets        | 1,033,961         | 628,876           |
| Revenue from third party reimbursables | 1,286,444         | 382,345           |
| Other revenue                          | 550,509           | 450,555           |
| <b>Total Revenue</b>                   | <b>13,268,659</b> | <b>10,804,751</b> |

In 2022 the NDC managed the following budgets:

- **NDC Budget (Military Budget code 303):** This revenue relates to the contributions received from the participating nations to exclusively cover the operating expenses of the College.
- **Other NATO budgets:** This revenue is the total from other NATO budgets. In 2022 the NDC managed a portion of the IMS Outreach Budget (budget code 501) in order to conduct Outreach/Cooperation activities with partner nations.
- **Third Party Reimbursables:** This revenue is the total of reimbursable activities conducted by the NDC, to include the NATO-Iraq Trust Fund.

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

## 9. Personnel

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

The breakdown of personnel expenses is the following:

| (in EUR)                   | 2022             | 2021             |
|----------------------------|------------------|------------------|
| Employment of Personnel    | 5,325,179        | 5,153,710        |
| Recruitment and Separation | 84,218           | 9,496            |
| Clothing                   | 1,492            | 1,496            |
| Medical Examinations       | 12,817           | 14,016           |
| Training                   | 6,655            | 17,966           |
| Post-Employment Benefits   | 258,686          | 247,174          |
| <b>Total</b>               | <b>5,689,047</b> | <b>5,443,858</b> |

The balance of untaken leave at the end of 2022 was 448 days (2021: 696 days). The associated cost is

recognized as an accrual.

Peacetime Establishment (PE):

|                                       | Authorized PE | Filled Positions |
|---------------------------------------|---------------|------------------|
| Civilians                             | 57            | 52               |
| Military (IMP)                        | 58            | 44               |
| Voluntary National Contribution (VNC) | 1             | 2                |
| Host Nation                           | 33            | 30               |
| Partnership Posts                     | 6             | 3                |
| <b>Total</b>                          | <b>155</b>    | <b>131</b>       |

## 10. Contractual Supplies and Services

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

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

In 2022, the NDC had only one non-cancellable operational lease contract related to the rental of copy machines for an amount of EUR 32,883 (2021: 32,883 EUR).

The future minimum lease payments are as follows:

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

## 11. Related Parties Disclosure

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

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

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

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

## 12. Representation Allowance

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

In 2022, one senior NDC official received representation allowance. The total entitlement was 4,000 EUR (2021: 3,379 EUR) and the actual expenses were 623 EUR (2021: 3,379 EUR) .

### 13. Events after reporting date

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

### 14. Morale and Welfare Activities

The NDC carried out Morale and Welfare Activities (MWA) in 2022 for which a detailed annual special purpose report is presented to the Budget Committee. Morale and Welfare Activity is an activity of a NATO body that enhances the quality of life, promotes cohesion and integrity, and/or contributes to the physical and mental wellbeing of eligible individuals. At the NDC, the MWA mainly relate to petrol products, rationed items and a small shop offering mementoes and other few items.

The position of MWA at year-end is:

| (in EUR)                                                          | 2022   | 2021   |
|-------------------------------------------------------------------|--------|--------|
| Cash and cash equivalents                                         | 73,120 | 64,670 |
| Total liabilities including provisions and contingent liabilities | 43,343 | 980    |

Two (2021: two) staff members support the MWA as a minor part of their duties. The total extent of their MWA responsibilities amounts to less than one part-time equivalent.

## ANNEX 1 - BUDGET EXECUTION STATEMENTS FOR THE YEAR ENDED 31/12/2022

A) NDC Budget (Military Budget Code 303)

| Budget Currency<br>EURO                   | Initial Budget<br>BA-1 | Transfers | BA-2              | Transfers | BA-3              | Transfers | Final Budget      | Expenses          | Carry Forward | Lapsed        |
|-------------------------------------------|------------------------|-----------|-------------------|-----------|-------------------|-----------|-------------------|-------------------|---------------|---------------|
| <b>BUDGET 303 - 2022</b>                  |                        |           |                   |           |                   |           |                   |                   |               |               |
| Chapter 1                                 | 6,115,841              | -         | 6,115,841         | (180,060) | 5,935,781         | (359,798) | 5,575,983         | 5,575,983         | -             | -             |
| Chapter 2                                 | 3,880,550              | -         | 3,880,550         | 180,060   | 4,060,610         | 359,798   | 4,420,408         | 4,420,408         | -             | -             |
| Chapter 3                                 | -                      | -         | -                 | -         | -                 | -         | -                 | -                 | -             | -             |
| <b>TOTAL FY 2022</b>                      | <b>9,996,391</b>       | <b>-</b>  | <b>9,996,391</b>  | <b>-</b>  | <b>9,996,391</b>  | <b>-</b>  | <b>9,996,391</b>  | <b>9,996,391</b>  | <b>-</b>      | <b>-</b>      |
| <b>BUDGET 303 - 2021</b>                  |                        |           |                   |           |                   |           |                   |                   |               |               |
| Chapter 1                                 | -                      | -         | -                 | -         | -                 | -         | -                 | -                 | -             | -             |
| Chapter 2                                 | 500,000                | -         | 500,000           | -         | 500,000           | -         | 500,000           | 462,649           | -             | 37,351        |
| Chapter 3                                 | 900,000                | -         | 900,000           | -         | 900,000           | -         | 900,000           | 890,027           | -             | 9,973         |
| <b>TOTAL FY 2021</b>                      | <b>1,400,000</b>       | <b>-</b>  | <b>1,400,000</b>  | <b>-</b>  | <b>1,400,000</b>  | <b>-</b>  | <b>1,400,000</b>  | <b>1,352,676</b>  | <b>-</b>      | <b>47,324</b> |
| <b>BUDGET 303 - ALL FYs</b>               |                        |           |                   |           |                   |           |                   |                   |               |               |
| Chapter 1                                 | 6,115,841              | -         | 6,115,841         | (180,060) | 5,935,781         | (359,798) | 5,575,983         | 5,575,983         | -             | -             |
| Chapter 2                                 | 4,380,550              | -         | 4,380,550         | 180,060   | 4,560,610         | 359,798   | 4,920,408         | 4,883,057         | -             | 37,351        |
| Chapter 3                                 | 900,000                | -         | 900,000           | -         | 900,000           | -         | 900,000           | 890,027           | -             | 9,973         |
| <b>GRAND TOTAL<br/>BUDGET 303 ALL FYs</b> | <b>11,396,391</b>      | <b>-</b>  | <b>11,396,391</b> | <b>-</b>  | <b>11,396,391</b> | <b>-</b>  | <b>11,396,391</b> | <b>11,349,067</b> | <b>-</b>      | <b>47,324</b> |

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B) Other NATO Budgets & Third Party Reimbursables

| Budget Currency<br>EURO                                                                                                                                                                                                                       | Initial Budget   | Transfers<br>Adjustments | Final Budget     | Expenses         | Carry Forward | Lapsed   |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|--------------------------|------------------|------------------|---------------|----------|
| <b>REIMBURSABLE BUDGETS</b>                                                                                                                                                                                                                   |                  |                          |                  |                  |               |          |
| BUDGET 2022 ZNC (501/IMS - PfP)*                                                                                                                                                                                                              | 483,000          | (88,349)                 | 394,651          | 394,651          | -             | -        |
| BUDGET 2022 ZNC (501/IMS - MD)*                                                                                                                                                                                                               | 359,500          | (3,717)                  | 355,783          | 355,783          | -             | -        |
| BUDGET 2022 ZNC (501/IMS - ICI)*                                                                                                                                                                                                              | 108,500          | (7,665)                  | 100,835          | 100,835          | -             | -        |
| BUDGET 2022 ZNC (501/IMS - OMC)*                                                                                                                                                                                                              | 207,000          | (24,308)                 | 182,692          | 182,692          | -             | -        |
| <b>TOTAL REIMBURSABLE BUDGETS</b>                                                                                                                                                                                                             | <b>1,158,000</b> | <b>(124,039)</b>         | <b>1,033,961</b> | <b>1,033,961</b> | <b>-</b>      | <b>-</b> |
| (*) According to the IMS Directives, since Budget 501 (Outreach PfP, MD, ICI and OMC) is reimbursable, the accrued and carried forward amounts are shown in both IMS and NDC books.<br>Expenses are recognized / recorded on an accrual basis |                  |                          |                  |                  |               |          |
| <b>REIMBURSABLE EXPENSES</b>                                                                                                                                                                                                                  |                  |                          |                  |                  |               |          |
| BUDGET 2022 N04 (TRUST FUNDS)                                                                                                                                                                                                                 | 72,227           | -                        | 72,227           | 72,227           | -             | -        |
| BUDGET 2022 Z01 (REIMBURSABLE EXPENSES)                                                                                                                                                                                                       | 1,214,218        | -                        | 1,214,218        | 1,214,218        | -             | -        |
| <b>TOTAL REIMBURSABLE EXPENSES</b>                                                                                                                                                                                                            | <b>1,286,445</b> | <b>-</b>                 | <b>1,286,445</b> | <b>1,286,445</b> | <b>-</b>      | <b>-</b> |
| <b>TOTAL REIMBURSABLE BUDGETS &amp; EXPENSES</b>                                                                                                                                                                                              | <b>2,444,445</b> | <b>(124,039)</b>         | <b>2,320,406</b> | <b>2,320,406</b> | <b>-</b>      | <b>-</b> |

In accordance with the NFRs, article 34.4, the NDC has included within its financial statements a budget execution report of its main budget (military budget code 303) that shows the initial budget allocations, the in-year changes as authorized under the authority of the Financial Controller or by the Budget Committee, the final approved budget and its execution status for the financial year 2022. Funds lapsed are also included. In addition thereto, a budget execution statement for all reimbursable budgets managed by the NDC has also been included.

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

| (in EUR)                                                  | 2022              |
|-----------------------------------------------------------|-------------------|
| Total expenses NDC Budget (BC303)                         | 11,349,066        |
| Total expenses reimbursable budgets                       | 1,033,961         |
| Total other reimbursable expenses                         | 1,286,445         |
| <b>Total Expenses All Budgets</b>                         | <b>13,669,472</b> |
| Capital and investments (Note 5)                          | (951,322)         |
| Depreciation (Note 5)                                     | 550,509           |
| <b>Total Expenses, Statement of Financial Performance</b> | <b>13,268,659</b> |

Consolidated financial statements of the

# **NATO SCIENCE AND TECHNOLOGY ORGANIZATION**

for the year ended 31 December 2022



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## Introduction

1. The NATO Science & Technology Organization (STO) is a NATO organisation, with a Charter approved by the North Atlantic Council. The mission of the STO is to help position the Nations' and NATO's S&T investments as a strategic enabler of the knowledge and technology advantage for the defence and security posture of NATO Nations and partner Nations by:
  - a. Conducting and promoting S&T activities that augment and leverage the S&T capabilities and programmes of Nations and NATO in support of Alliance objectives;
  - b. Contributing to NATO's ability to influence security and defence related capability development and threat mitigation in NATO and partner Nations;
  - c. Delivering targeted and timely evidence-based advice in support of decision-making in NATO Nations and NATO.
2. According to the STO Charter, governance of the STO is vested in the Science & Technology Board (STB). The STO has three separate executive bodies, each one with a Head of NATO Body, budget or revenue stream, supported by the STO Financial Controller:
  - a. Office of the Chief Scientist (OCS), located in the NATO Headquarters, Brussels, Belgium;
  - b. Collaboration Support Office (CSO), located in Neuilly-sur-Seine, France ; and
  - c. Centre for Maritime Research & Experimentation (CMRE), located in La Spezia, Italy.
3. The OCS and CSO are NATO common-funded entities and their budgets part of the Military Budget. CMRE is customer funded and its revenue recognized based on goods and services delivered to its customers.
4. The STO 2022 Financial Statements have been prepared in accordance with the NATO Accounting Framework, based on International Public Sector Accounting Standards (IPSAS) as adapted by NATO and the NATO Financial Regulations. They are presented in a commonly adopted layout.
5. The IMS Budget Group covers a number of budgets and entities linked together for financial management purposes by a Financial Controller. The Financial Controller is the Financial Controller of the International Military Staff, the NATO Defence College and the Science and Technology Organization (STO). These entities are therefore related parties under a common Financial Controller.
6. In 2022, the STO was able to recover from the effects of the COVID-19 pandemic and returned to its normal pre-COVID operational activity level and provide NATO and the Nations with timely, targeted S&T Advice (OCS), sophisticated S&T Collaboration Support (CSO) and actual applied Science (CMRE) throughout all technology requirement areas including the Emerging Disruptive Technologies (EDTs).
7. Russia's unprovoked war on Ukraine, the new NATO Strategic Concept and the 2022 NATO Madrid Summit have put a complete new emphasis on Science & Technology in NATO and so the STO. Heads of State and Government and Allies at NATO have identified S&T as a key strategic enabler to NATO and the STO has begun to evaluate the impact and necessary organizational adaptation of the STO in its entirety to this new situation. All three STO entities work closely with and in support of the

Science & Technology Board (STB) 2030 Working Group (WG) to enable the STB to provide strategic guidance on the future direction of the STO with results expected by the end of 2023.

8. Following NAC approval of its new Peacetime Establishment, the OCS began implementation with a view to achieve its full capacity in 2023. In addition, the OCS continued to deliver high-level research reports in the areas of CBRN Defense, Autonomous Technologies, NATO Special Operations Forces and Artificial Intelligence. Following the developments in NATO after the 2022 Madrid Summit, the OCS is faced with an ever increasing demand for specific, targeted S&T Advice to NATO & NATO Nations and their leaderships in a variety of technology domains.

9. In 2022, the S&T Collaboration Support Office (CSO) finalized the implementation of its new PE, which allowed to support the return to normal S&T collaboration activity among NATO Nations & with Partners through the S&T Collaborative Program of Work (CPoW). As for the OCS, the CSO has also experienced an increase in demand for collaborative S&T from NATO Nations following the 2022 Madrid Summit. In coordination with the OCS, the CSO actively participates in supporting the STO2030 Working Group in its deliberations for subsequent STB decision in 2023 on the future direction of the S&T CPoW and related support service requirements.

10. In 2022, the CMRE profited from the effects of its restructuring efforts and an increase in demand for maritime S&T research from a variety of customers. This allowed the CMRE to achieve an operating result of MEUR 3.5 which was used to replenish the Net Equity Fund to its original volume, to increase the 'Vessel Reserve' for future scheduled dry-dock of the research vessels and into much needed investments in the IT infrastructure.

11. Nevertheless, despite the challenging circumstances, the STO and its composing activities and programmes were able to successfully contribute to the Alliance's overall objectives, its three core tasks and strengthened its Deter and Defend posture.



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



Rui M.M. da Silva  
PRTCV - Financial Controller

## Statement on Internal Control

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

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

The systems of Risk Management and Internal Financial Control are based on an on-going process designed to identify the principal risks to the achievement of STO policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 December 2022 and up to the date of these Financial Statements.

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

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

### Control Environment

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

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

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

The overall structure of the STO incorporates clearly defined responsibilities and authorities in the pursuit of operational objectives. In this regard, the Finance and Audit Sub-Group (FASG) mission is to prepare the decision making process of the STB, pertaining to the financial and

audit governance of the STO and the STO's Executive Bodies. The scope of the FASG activities covers all financial, audit and financial risk aspects of the STB's Governance.

#### Risk Assessment

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

The heads of each executive body regularly monitor actions mitigating the significant risks identified and regularly evaluate any evolving new risks for their potential impact on the organizations with a view to make the STO more resilient. Risk management processes continue to be developed, with the assistance of external consultants when necessary.

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

#### Control Activities

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

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

#### Information and Communication

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

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

#### Monitoring

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

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

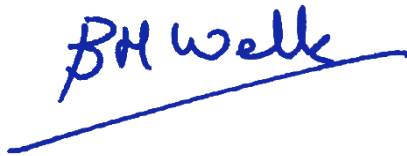
The Chair of the STB, the Heads of NATO body of CSO and CMRE and the Financial Controller have collective responsibility for reviewing the effectiveness of the system of internal control. The review is informed by the above five COSO components, and by the work of STO Senior Managers, external

audits, internal audits, and the work of various sub-groups reporting to the STB, including the Finance and Audit Sub-Group (FASG).

The IBAN audit of the STO 2021 Financial Statements resulted in an unqualified opinion. The IBAN made three observations with regards to the capitalization of upkeep costs for CMRE's research vessels, the procedure in support of the STO Financial Statements' note on related parties and the prior approval of intra-budget transfers associated with the special carry-forward of uncommitted appropriations. While the STO believes that sufficient information was provided regarding these matters, the STO will ensure that IBAN's recommendation is considered for future submission in related matters.

As recommended by the NCIA Internal Audit Unit in their 2021 Report, STO is taking the necessary measures to address all outstanding observations, in particular by continuously implementing improvements to risk management practices specifically tailored to each of the executive bodies.

Overall, while continuing to develop further application guidance within the framework of the STO Risk Management Policy, we are satisfied that the Risk Management and Internal Financial Control systems in operation across the STO during the year 2022 were reasonably adequate and effective.



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



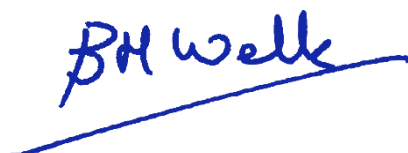
Rui M.M. da Silva  
PRTCV - Financial Controller

## STO Consolidated Statement of Financial Position

as at 31 December 2022

(in EUR)

|                                         |       | <u>2022</u>       | <u>Restated<br/>2021</u> |
|-----------------------------------------|-------|-------------------|--------------------------|
|                                         | Notes |                   |                          |
| <b>Assets</b>                           |       |                   |                          |
| <b>Current assets</b>                   |       |                   |                          |
| Cash and cash equivalents               | 2     | 11,245,726        | 7,821,348                |
| Receivables                             | 3     | 6,750,257         | 5,487,658                |
| Prepayments                             | 4     | 920,201           | 491,029                  |
|                                         |       | <u>18,916,184</u> | <u>13,800,035</u>        |
| <b>Non-current assets</b>               |       |                   |                          |
| Property, plant & equipment             | 5     | 1,699,869         | 2,887,016                |
|                                         |       | <u>1,699,869</u>  | <u>2,887,016</u>         |
| <b>Total assets</b>                     |       | <u>20,616,053</u> | <u>16,687,051</u>        |
| <b>Liabilities</b>                      |       |                   |                          |
| <b>Current liabilities</b>              |       |                   |                          |
| Payables                                | 6     | 2,799,233         | 2,237,966                |
| Deferred revenue                        | 7     | 419,872           | 725,924                  |
| Advances                                | 8     | 2,908,253         | 2,839,152                |
| Other current liabilities               | 9     | 667,683           | 1,100,610                |
|                                         |       | <u>6,795,041</u>  | <u>6,903,652</u>         |
| <b>Non-current liabilities</b>          |       |                   |                          |
| Deferred revenue                        | 10    | 733,562           | 814,207                  |
|                                         |       | <u>733,562</u>    | <u>814,207</u>           |
| <b>Total liabilities</b>                |       | <u>7,528,603</u>  | <u>7,717,859</u>         |
| Surplus/Deficit                         |       | 4,118,258         | (622,677)                |
| Retained earnings                       |       | 8,969,192         | 9,591,869                |
| <b>Total net assets</b>                 | 11    | <u>13,087,450</u> | <u>8,969,192</u>         |
| <b>Total net assets and liabilities</b> |       | <u>20,616,053</u> | <u>16,687,051</u>        |



Dr Bryan Wells  
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Chairman, NATO Science and Technology Board



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PRTCV - Financial Controller

The notes on pages 12 to 27 form an integral part of these financial statements. The financial statements were issued to the International Board of Auditors for NATO on 31 March 2023.

## STO Consolidated Statement of Financial Performance

for the year ended 31 December 2022

(in EUR)

|                                         |       | <u>2022</u>       | <u>2021</u>       |
|-----------------------------------------|-------|-------------------|-------------------|
|                                         | Notes |                   |                   |
| <b>Revenue</b>                          |       |                   |                   |
| Revenue                                 | 12    | 38,187,307        | 33,776,586        |
| Financial revenue                       |       | 64,792            | 173,368           |
| <b>Total revenue</b>                    |       | <u>38,252,099</u> | <u>33,949,954</u> |
| <b>Expense</b>                          |       |                   |                   |
| Personnel                               | 13    | 19,358,905        | 21,828,329        |
| Contractual supplies and services       | 14    | 13,401,504        | 11,118,829        |
| Depreciation                            | 5     | 1,219,840         | 1,435,532         |
| Financial costs                         |       | 153,592           | 189,941           |
| <b>Total expense</b>                    |       | <u>34,133,841</u> | <u>34,572,631</u> |
| <b>Surplus/(Deficit) for the period</b> |       | <u>4,118,258</u>  | <u>(622,677)</u>  |

## STO Consolidated Cash Flow Statement

|                                                                |       | 2022              | Restated<br>2021 |
|----------------------------------------------------------------|-------|-------------------|------------------|
| <b>Cash flow from operating activities</b>                     | Notes |                   |                  |
| Surplus/(Deficit)                                              |       | 4,118,258         | (622,677)        |
| <b>Non-cash movements</b>                                      |       |                   |                  |
| Depreciation                                                   | 5     | 1,219,840         | 1,435,532        |
| Effect of foreign exchange rate changes                        |       | 55,525            | (145,336)        |
| Increase / (decrease) in payables                              |       | 561,266           | (714,153)        |
| Increase / (decrease) in deferred revenue                      |       | (306,052)         | 98,379           |
| Increase / (decrease) in advances                              |       | 69,101            | (889,355)        |
| Increase / (decrease) in other current liabilities             |       | (432,927)         | 867,223          |
| Increase / (decrease) in deferred revenue                      |       | (80,645)          | 467,132          |
| (Increase) / decrease in other current assets                  |       | (429,171)         | 119,722          |
| (Increase) / decrease in receivables                           |       | (1,262,599)       | (695,402)        |
| <b>Net cash flow from operating activities</b>                 |       | <u>3,512,596</u>  | <u>(78,935)</u>  |
| <b>Cash flow from investing activities</b>                     |       |                   |                  |
| Purchase of property plant and equipment                       | 5     | <u>(32,693)</u>   | <u>(531,209)</u> |
| <b>Net cash flow from investing activities</b>                 |       | <u>(32,693)</u>   | <u>(531,209)</u> |
| <b>Cash flow from financing activities</b>                     | 2     |                   |                  |
| Cash in from IMS BG transfer                                   |       | 500,000           | -                |
| Cash out from IMS BG transfer                                  |       | <u>(500,000)</u>  | <u>-</u>         |
| <b>Net cash flow from financing activities</b>                 |       | <u>-</u>          | <u>-</u>         |
| <b>Net increase/(decrease) in cash and cash equivalents</b>    |       | <u>3,479,903</u>  | <u>(610,144)</u> |
| <b>Cash and cash equivalent at the beginning of the period</b> |       | <u>7,821,348</u>  | <u>8,286,156</u> |
| Effect of foreign exchange rate changes                        |       | (55,525)          | 145,336          |
| <b>Cash and cash equivalent at the end of the period</b>       | 2     | <u>11,245,726</u> | <u>7,821,348</u> |

## STO Consolidated Statement of Changes in Net Assets

for the year ended 31 December 2022

(in EUR)

|                                                            | Commitments<br>/ Legal<br>Obligations | Depreciation<br>Reserve | Vessels<br>Reserve | Net Equity<br>Fund | General<br>Reserve | Total      |
|------------------------------------------------------------|---------------------------------------|-------------------------|--------------------|--------------------|--------------------|------------|
| <b>Balance at the end of the period 2020</b>               | 1,255,307                             | 3,444,265               | 806,537            | 3,500,000          | 585,760            | 9,591,869  |
| Surplus/(deficit) for the period                           | (652,315)                             | (1,371,455)             | 4,313              | (1,184,484)        | 2,581,264          | (622,677)  |
| <b>Change in net assets/equity for the year ended 2021</b> | (652,315)                             | (1,371,455)             | 4,313              | (1,184,484)        | 2,581,264          | (622,677)  |
| <b>Balance at the end of the period 2021</b>               | 602,992                               | 2,072,810               | 810,850            | 2,315,516          | 3,167,024          | 8,969,192  |
| Surplus/(deficit) for the period                           | 666,221                               | (1,106,502)             | 1,400,000          | 1,184,484          | 1,974,055          | 4,118,258  |
| <b>Change in net assets/equity for the year ended 2022</b> | 666,221                               | (1,106,502)             | 1,400,000          | 1,184,484          | 1,974,055          | 4,118,258  |
| <b>Balance at the end of the period 2022</b>               | 1,269,213                             | 966,308                 | 2,210,850          | 3,500,000          | 5,141,079          | 13,087,450 |

## Notes to the STO Consolidated Financial Statements

### 1. Significant accounting policies

#### 1.1. Basis of preparation

The STO financial statements 2022 have been prepared in accordance with the NATO Accounting Framework (NAF). The NAF is based on International Public Sector Accounting Standards (IPSAS), as adopted by NATO. The financial statements comply with the financial requirements of the NATO Financial Regulations (NFRs) and the relevant entity directives and policies. In instances where there is a conflict between IPSAS and the NFRs, this has been noted.

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

In accordance with Article 2 of the NFRs, the financial year covered by these financial statements is 1 January to 31 December 2022. The financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair value at the end of each reporting period. The principal accounting policies are set out below. They have been applied consistently to all periods presented. The accounting principles recognized as appropriate for the recognition, measurement and reporting of the financial position, performance and cash flows on an accrual-based accounting using historical costs have been applied consistently throughout the reporting period.

#### 1.2. Accounting estimates and judgments

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

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

#### **Prior period restatement for presentation purposes in the 2021 cash flow statement**

In the 2021 cash flow statement, the amount related to unrealized foreign exchange rate changes was not disclosed as a separate line item. While not material, the cash flow statement has been amended to present these changes separately in the 2022 financial statements (loss of 55,525 EUR in 2022). The same approach is reflected in the 2021 presentation of the cash flow statement (gain of 145,336 EUR in 2021).

The advance on education allowance entitlements for the following school year is now disclosed as part of the prepaid expenses balance instead of other receivables. The corresponding 2021 comparatives were restated by reducing other receivables and increasing prepaid expenses by 149,764 EUR.

### 1.3. Changes in pronouncements

At the date of authorization of these financial statements, the following revised IPSAS is effectively implemented at the STO:

- IPSAS 5, Borrowing Costs – Non-Authoritative Guidance (issued November 2021).

The STO has not applied the following new IPSAS that has been issued but is not yet effective.

- IPSAS 43, Leases (issued January 2022)

The IPSASB also approved Improvements to IPSAS, 2021 (issued January 2022), which resulted in the amendment of the following IPSAS:

- IPSAS 17, Property, Plant, and Equipment;
- IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets;
- IPSAS 22, Disclosure of Financial Information About the General Government Sector;
- IPSAS 29, Financial Instruments: Recognition and Measurement;
- IPSAS 30, Financial Instruments: Disclosures;
- IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs);
- IPSAS 39, Employee Benefits; and
- IPSAS 41, Financial Instruments.

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

### 1.4. Foreign currency transactions

These financial statements are presented in euro (EUR), which is the STO functional and reporting currency. Foreign currency transactions are accounted for at the NATO exchange rates prevailing at the date of the transaction. Monetary assets and liabilities which were denominated in foreign currencies at year-end are assessed for materiality and if material are converted into euro using the applicable NATO exchange rates as at 31 December 2022. Realized and unrealized gains and losses resulting from the settlement of such transactions and from the revaluation at the reporting dates of monetary assets and liabilities denominated in foreign currencies are recognized in the Statement of Financial Performance.

### 1.5. Consolidation

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

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

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

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

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

### 1.6. Services in-kind

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

### 1.7. Financial instruments disclosure/presentation

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

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

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

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

Maintaining credit control procedures over receivables.

The maximum exposure as at 31 December 2022 is equal to the total amount of bank balances, short-term deposits, and receivables disclosed in the Statement of Financial Position. Receivables considered uncollectible are adequately accounted for. There is a very limited credit risk associated with the realization of these instruments.

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

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

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

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

### 1.8. Cash and cash equivalents

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

### 1.9. Receivables

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

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

### 1.10. Prepayments

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

### 1.11. Property, plant and equipment (PP&E)

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

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

#### **Assets purchased prior to the implementation of the NATO Accounting Framework**

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

### 1.12. Impairment of tangible and intangible assets

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

### 1.13. Payables

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

### 1.14. Deferred revenue

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

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

### 1.15. Advances

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

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

### 1.16. Employee benefits – Post-employment benefits

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

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

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

**Coordinated Pension Scheme:** Employees who joined NATO before 1 July 2005 are members of the NATO Coordinated Pension Scheme, which is a funded defined benefit plan. Under the plan and upon completion of 10 years employment with NATO, the employees are entitled to

retirement benefits of 2% per year of service of final basic salary on attainment of a retirement age of 60.

**Continued Medical Coverage:** Some qualifying retirees may also benefit from Continued Medical Coverage.

### 1.17. Net Assets

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

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

### 1.18. Revenue

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

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

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

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

Exchange rate revenue due to transactions in foreign currency, in accordance with IPSAS 4 – Effect of the foreign exchange rate, is recognized as financial revenue.

## 2. Cash and cash equivalents

|                  | (in EUR)          |                  |
|------------------|-------------------|------------------|
|                  | 2022              | 2021             |
| Current accounts | 11,243,036        | 7,818,479        |
| Petty cash       | 2,690             | 2,869            |
| <b>Total</b>     | <b>11,245,726</b> | <b>7,821,348</b> |

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

During the year, cash transfers totalling 500,000 EUR (2021: nil) were received from another entity in the IMS Budget Group in order to cover temporary shortfalls of funds related to the timing of the

receipt of the calls for contributions. As at 31 December 2022 all of these cash transfers have been repaid.

### 3. Receivables

|                                                | (in EUR)         |                  |
|------------------------------------------------|------------------|------------------|
|                                                | 2022             | Restated 2021    |
| Receivable from non consolidated NATO entities | 882,182          | 209,499          |
| Receivable from governments                    | 135,590          | 65,286           |
| Other receivables                              | 5,732,485        | 5,212,873        |
| <b>Total</b>                                   | <b>6,750,257</b> | <b>5,487,658</b> |

Other receivables are mainly invoices to be established for services that have been provided to CMRE customers, including NATO HQ SACT, but not yet invoiced at the end of the reporting period. The education advance for the following school year is now disclosed as part of the prepaid expenses balance instead of other receivables (see note 4).

### 4. Prepayments

|                          | (in EUR)       |                |
|--------------------------|----------------|----------------|
|                          | 2022           | Restated 2021  |
| Prepaid expenses         | 344,987        | 371,283        |
| Advances to vendors      | 575,214        | 119,746        |
| <b>Total Prepayments</b> | <b>920,201</b> | <b>491,029</b> |

Prepaid expenses are amounts paid for expenses to be incurred or services to be rendered in the following financial years. The figure relates, for the most part, to CMRE prepaid insurance for the two vessels and software licences. The balance now includes the education advance paid to staff members for the following school year.

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

## 5. Property, plant and equipment

| (in EUR)                        |                   |               |          |                     |                  |             |
|---------------------------------|-------------------|---------------|----------|---------------------|------------------|-------------|
| Cost                            | Mission equipment | AIS equipment | Vehicles | Installed equipment | Work in progress | Total       |
| Balance at 1 January 2021       | 4,950,015         | 1,384,137     | 55,608   | 2,852,593           | 3,022            | 9,245,375   |
| Addition                        | -                 | -             | 47,416   | 483,793             | -                | 531,209     |
| Adjustments in 2021             | -                 | -             | -        | 3,022               | (3,022)          | -           |
| Balance at 31 December 2021     | 4,950,015         | 1,384,137     | 103,024  | 3,339,408           | -                | 9,776,584   |
| Additions in 2022               | -                 | -             | -        | -                   | 32,693           | 32,693      |
| Balance at 31 December 2022     | 4,950,015         | 1,384,137     | 103,024  | 3,339,408           | 32,693           | 9,809,277   |
| <b>Accumulated Depreciation</b> |                   |               |          |                     |                  |             |
| Balance at 1 January 2021       | (3,479,470)       | (668,914)     | (28,442) | (1,277,210)         | -                | (5,454,036) |
| Depreciation expenses 2021      | (827,363)         | (303,025)     | (11,907) | (293,237)           | -                | (1,435,532) |
| Balance at 31 December 2021     | (4,306,833)       | (971,939)     | (40,349) | (1,570,447)         | -                | (6,889,568) |
| Depreciation expenses 2022      | (574,585)         | (291,575)     | (19,876) | (333,804)           | -                | (1,219,840) |
| Balance at 31 December 2022     | (4,881,418)       | (1,263,514)   | (60,225) | (1,904,251)         | -                | (8,109,408) |
| <b>Net book value</b>           |                   |               |          |                     |                  |             |
| Balance at 31 December 2021     | 643,182           | 412,198       | 62,675   | 1,768,961           | -                | 2,887,016   |
| Balance at 31 December 2022     | 68,597            | 120,623       | 42,799   | 1,435,157           | 32,693           | 1,699,869   |

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

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

The depreciation charge for the year was 1,219,840 EUR (2021: 1,435,532 EUR)

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

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

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

CMRE owns approximately 100 assets purchased before 1 January 2013.

- *Vessels*
  - *The NRV Alliance*
  - *The CRV Leonardo*
- *IT Equipment*
  - *Disaster recovery*
  - *Satellite communication system*
  - *Various workstations and servers*
- *Mission Equipment*

- *Multiple types of autonomous vehicles*
  - *Towed acoustics arrays*
  - *Multiple types of sonar*
- *Vehicles (car and forklift)*
- *Machinery (shredding machine)*
- *Installed Equipment*
  - *Air condition systems for the new and old building*
  - *Uninterrupted Power Supply (UPS) systems*
  - *TV closed circuit system*

### **NATO Research Vessels**

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

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

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

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

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

### **Write-offs**

In accordance with the NATO Financial Regulations (art. 17) an annual summary of property written-off is provided. In 2022, the CSO staff car was written-off which was the only CSO asset purchased prior to 1 January 2013.

## 6. Payables

|                      | (in EUR)         |                  |
|----------------------|------------------|------------------|
|                      | 2022             | 2021             |
| Payable to suppliers | 1,254,163        | 592,616          |
| Accruals             | 1,545,070        | 1,645,350        |
| <b>Total</b>         | <b>2,799,233</b> | <b>2,237,966</b> |

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

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

## 7. Deferred revenue

The deferred revenue, in an amount of EUR 419,872 at year-end 2022 (2021: 725,924 EUR), is related to Programme of Work activities (OCS and CSO) and associated commitments not fully delivered by suppliers (carried-forward) at 31 December 2022 due to delays from contractors unable to fulfil their deliveries as planned.

## 8. Advances

|                         | (in EUR)         |                  |
|-------------------------|------------------|------------------|
|                         | 2022             | 2021             |
| Advances from customers | 434,240          | 663,752          |
| Contributions           | 2,450,000        | 2,133,387        |
| Other advances          | 24,013           | 42,013           |
| <b>Total</b>            | <b>2,908,253</b> | <b>2,839,152</b> |

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

Advanced contributions include an element of prior year's surpluses funds converted into 2022 advances (see note 9). Therefore, 540,411 EUR of prior years' surpluses were converted into 2023 advanced contributions, along with the 2023 advance of 1,909,589 EUR, for a total of 2,450,000 EUR.

## 9. Other current liabilities

|                                       | (in EUR)       |                  |
|---------------------------------------|----------------|------------------|
|                                       | 2022           | 2021             |
| Payables to nations                   | 526,877        | 542,410          |
| Liabilities for loss of job indemnity | 140,806        | 558,200          |
|                                       | <b>667,683</b> | <b>1,100,610</b> |

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

Similar to 2021, nations have decided to convert prior years' surplus funds into advances for the following year (see note 8).

The remaining liability for loss of job indemnity is paid out in 2023 (see also note 15).

## 10. Deferred Revenue – Non-current liabilities

The deferred revenue for the capitalization of PP&E of CSO and OCS in an amount of 733,562 EUR (2021: 814,207 EUR) represents depreciation that has not been incurred. The revenue is recognized incrementally in the same year as the depreciation expense.

## 11. Net Assets

The surplus of the period of 4,118,258 EUR reduced the net assets, which are allocated as follows:

| Reserve                              | Commitments<br>/ Legal<br>Obligations | Depreciation<br>Reserve | Vessels<br>Reserve | Net Equity<br>Fund | General<br>Reserve | Total             |
|--------------------------------------|---------------------------------------|-------------------------|--------------------|--------------------|--------------------|-------------------|
| <b>Net Assets 31st December 2021</b> | <b>602,992</b>                        | <b>2,072,810</b>        | <b>810,850</b>     | <b>2,315,516</b>   | <b>3,167,024</b>   | <b>8,969,192</b>  |
| Net change in Vessels Reserve        |                                       |                         | 1,400,000          |                    |                    | 1,400,000         |
| Net change in PPE                    |                                       | (1,106,502)             |                    |                    |                    | (1,106,502)       |
| Net change in Commitments            | 666,221                               |                         |                    |                    |                    | 666,221           |
| Net change in Net Equity Fund        |                                       |                         |                    | 1,184,484          |                    | 1,184,484         |
| Net change in General Reserve        |                                       |                         |                    |                    | 1,974,055          | 1,974,055         |
| <b>Net Assets 31st December 2022</b> | <b>1,269,213</b>                      | <b>966,308</b>          | <b>2,210,850</b>   | <b>3,500,000</b>   | <b>5,141,079</b>   | <b>13,087,450</b> |
| Net result of the period             |                                       |                         |                    |                    |                    | <b>4,118,258</b>  |

### Commitments/Legal Obligations

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

### Depreciation Reserve

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

expense.

**Vessels Reserve**

The reserve is used to accumulate resources in current periods to fund future major vessel upkeep projects. At year-end, a contribution to the vessel reserve fund was made in the amount of 1,400,000 EUR in preparation for the next upkeep.

**Net Equity Fund (NEF)**

The STO Charter states that the governing board may establish a Net Equity Fund (NEF) to facilitate the CMRE operations. The fund was established to provide liquidity for projects, to act as a buffer for project gains and losses, and to be a source of funds for investments.

The NEF was to be repaid fully within a three-year period; however, the current period surplus allowed for early payment, thereby restoring the fund to the previous established level of 3,500,000 EUR.

**General Reserve**

This represents the net accumulated surplus available for allocation in subsequent financial periods. In 2022, due to a reduction in expenditures, the general reserve increased by 1,974,055 EUR (2021 increased by 2,581,264 EUR), after funding the vessel reserve in the amount of 1,400,000 EUR and the NEF in the amount of 1,184,484 EUR.

**12. Revenue**

|                            | (in EUR)          |                   |
|----------------------------|-------------------|-------------------|
|                            | 2022              | 2021              |
| Revenue from contributions | 8,989,753         | 7,140,252         |
| Revenue from services      | 29,197,554        | 26,636,334        |
| <b>Total</b>               | <b>38,187,307</b> | <b>33,776,586</b> |

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

Revenue from services is the revenue received from CMRE customers and projects funded from industries and other public organizations.

**13. Personnel**

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

The personnel establishments (PE) of the STO entities at 31 December 2022 are shown in the table below.

| Personnel Establishment               | PE - Authorized |            |            | PE - Filled |            |            | VNC      |
|---------------------------------------|-----------------|------------|------------|-------------|------------|------------|----------|
|                                       | Mil             | Civ        | Total      | Mil         | Civ        | Total      |          |
| CSO                                   | 13              | 39         | 52         | 10          | 38         | 48         | 1        |
| OCS                                   | 4               | 5          | 9          | 2           | 4          | 6          | -        |
| CMRE                                  | 9               | -          | 9          | 6           | -          | 6          | -        |
| <b>International Manpower Celling</b> | <b>26</b>       | <b>44</b>  | <b>70</b>  | <b>18</b>   | <b>42</b>  | <b>60</b>  | <b>1</b> |
| CMRE - Customer funded positions      | -               | 142        | 142        | -           | 121        | 121        | -        |
| <b>Total</b>                          | <b>26</b>       | <b>186</b> | <b>212</b> | <b>18</b>   | <b>163</b> | <b>181</b> | <b>1</b> |

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

|                                                     | (in EUR)          |                   |
|-----------------------------------------------------|-------------------|-------------------|
|                                                     | 2022              | 2021              |
| Basic salary                                        | 13,237,975        | 13,660,226        |
| Allow ances                                         | 2,519,990         | 2,122,376         |
| Employer's contribution to post-employment benefits | 1,183,910         | 1,149,128         |
| Employer's contribution to insurance                | 1,582,954         | 1,719,536         |
| Loss of job indemnities                             | -                 | 1,684,484         |
| Consultant                                          | 542,423           | 345,934           |
| Other allow ances                                   | 160,354           | 1,050,862         |
| Medical examination                                 | 57,938            | 35,189            |
| Training                                            | 73,361            | 60,594            |
| <b>Total personnel expenses</b>                     | <b>19,358,905</b> | <b>21,828,329</b> |

#### Untaken leave

The balance of untaken leave at the end of 2022 is days 1,481 (2021: 1,729 days). The associated cost is recognized as an accrual of 594,813 EUR (2021: 774,449 EUR).

#### 14. Contractual supplies and services

|                         | (in EUR)          |                   |
|-------------------------|-------------------|-------------------|
|                         | 2022              | 2021              |
| General support         | 2,202,293         | 1,839,016         |
| Mission support         | 9,255,984         | 8,733,087         |
| Travel                  | 861,863           | 257,713           |
| Grants and subsidies    | 619,040           | 205,050           |
| Miscellaneous           | 236,941           | 83,962            |
| Capital and investments | 225,383           | -                 |
| <b>Total Expenses</b>   | <b>13,401,504</b> | <b>11,118,829</b> |

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

## 15. Contingent liabilities

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

In 2020, CMRE became aware of an invoice issued in 2019 in the amount of 213,000 EUR for repairs made to the NRV Alliance. CMRE's position is that these repairs, conducted in 2019, were a direct consequence of the supplier's defective workmanship when carrying out prior repairs in 2018. An initial court survey has indicated that CMRE would not be responsible for these costs. If further proceedings result in a liability, some or all of these costs may be reimbursed to CMRE through insurance proceeds. A decision is expected in April 2023.

Due to sequential years of losses at CMRE, restructuring began on 1 June 2021 after STB approval, with 12 posts approved for suppression. The total cost of Loss of Job Indemnity (LOJI) was estimated to be 1,684,484 EUR. The remaining amount of 140,806 EUR will be paid out in 2023. The one appeal lodged in 2021 with the NATO Administrative Tribunal against the CMRE, which was related to an involuntary post suppression, was heard and finally settled in 2022.

## 16. Segment reporting

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

|                                     | (in EUR)          |                   |                  |                  |                  |                  |                 |                  |                   |                   |
|-------------------------------------|-------------------|-------------------|------------------|------------------|------------------|------------------|-----------------|------------------|-------------------|-------------------|
|                                     | CMRE              |                   | CSO              |                  | OCS              |                  | CONSOLIDATION   |                  | Total             |                   |
|                                     | 2022              | 2021              | 2022             | 2021             | 2022             | 2021             | 2022            | 2021             | 2022              | 2021              |
| <b>Segment revenue</b>              |                   |                   |                  |                  |                  |                  |                 |                  |                   |                   |
| Revenue from contributions          |                   |                   | 7,348,059        | 5,684,531        | 1,641,695        | 1,455,720        | -               | -                | 8,989,754         | 7,140,251         |
| Revenue from services               | 29,272,553        | 26,811,400        | -                | -                | -                | -                | (75,000)        | (175,065)        | 29,197,553        | 26,636,335        |
| Financial revenue                   | 64,792            | 173,368           | -                | -                | -                | -                | -               | -                | 64,792            | 173,368           |
| <b>Total segment revenue</b>        | <b>29,337,345</b> | <b>26,984,768</b> | <b>7,348,059</b> | <b>5,684,531</b> | <b>1,641,695</b> | <b>1,455,720</b> | <b>(75,000)</b> | <b>(175,065)</b> | <b>38,252,099</b> | <b>33,949,954</b> |
| <b>Segment expenses</b>             |                   |                   |                  |                  |                  |                  |                 |                  |                   |                   |
| Personnel costs                     | 13,505,419        | 16,788,849        | 4,860,247        | 4,208,911        | 993,239          | 830,569          | -               | -                | 19,358,905        | 21,828,329        |
| Contractual supplies and services   | 10,453,575        | 9,257,200         | 2,374,474        | 1,411,543        | 648,456          | 625,151          | (75,000)        | (175,065)        | 13,401,505        | 11,118,829        |
| Depreciation and amortisation       | 1,106,502         | 1,371,455         | 113,338          | 64,077           | -                | -                | -               | -                | 1,219,840         | 1,435,532         |
| Financial costs                     | 153,591           | 189,941           | -                | -                | -                | -                | -               | -                | 153,591           | 189,941           |
| <b>Total segment expenses</b>       | <b>25,219,087</b> | <b>27,607,445</b> | <b>7,348,059</b> | <b>5,684,531</b> | <b>1,641,695</b> | <b>1,455,720</b> | <b>(75,000)</b> | <b>(175,065)</b> | <b>34,133,841</b> | <b>34,572,631</b> |
| <b>Surplus/deficit for the year</b> | <b>4,118,258</b>  | <b>(622,677)</b>  | <b>-</b>         | <b>-</b>         | <b>-</b>         | <b>-</b>         | <b>-</b>        | <b>-</b>         | <b>4,118,258</b>  | <b>(622,677)</b>  |
| <b>Segment assets</b>               | 15,805,418        | 11,860,483        | 3,580,833        | 3,892,106        | 1,236,588        | 939,017          | (6,785)         | (4,555)          | 20,616,054        | 16,687,051        |
| <b>Segment liabilities</b>          | 2,717,967         | 2,891,291         | 3,580,833        | 3,892,106        | 1,236,588        | 939,017          | (6,785)         | (4,555)          | 7,528,603         | 7,717,859         |

## 17. Related parties

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

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

Key management personnel include the following officials:

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

### Remuneration of key management personnel

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

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

|                                      | (in EUR)       |                |
|--------------------------------------|----------------|----------------|
|                                      | 2022           | 2021           |
| Basic salaries                       | 583,142        | 579,767        |
| Allowances                           | 48,231         | 61,595         |
| Post-employment benefits             | 69,322         | 69,572         |
| Employer's contribution to Insurance | 68,395         | 70,045         |
| <b>Total</b>                         | <b>769,090</b> | <b>780,979</b> |

## 18. Representation allowance

Representation allowance is available to certain designated NATO high-level officials whose position entails responsibility for maintaining relationships of value to NATO. In 2022, three senior STO officials received representation allowance. The total entitlement was 24,325 EUR (2021: 24,325 EUR) and actual expenses were 11,863 EUR (2021: 4,225 EUR).

## 19. Morale and Welfare Activities

The STO carried out Morale and Welfare Activities (MWA) in 2022 for which a detailed annual special purpose report is presented to the relevant Financial Committee. Morale and Welfare Activity is an activity of a NATO body that enhances the quality of life, promotes cohesion and integrity, and/or contributes to the physical and mental wellbeing of eligible individuals. At the CMRE, the MWA mainly relate to common interest clubs, athletic and recreational activities.

The position of MWA at year-end is:

|                                                                   | (in EUR) |         |
|-------------------------------------------------------------------|----------|---------|
|                                                                   | 2022     | 2021    |
| Cash and cash equivalents                                         | 229,029  | 278,468 |
| Total liabilities including provisions and contingent liabilities | 68,485   | 119,519 |

At year-end, 0.5 full-time equivalent staff (2021: 0.5 full-time equivalent staff) directly support the MWA.

## 20. Events after the reporting date

In early 2023, two CSO civilian staff members have lodged an appeal against the CSO with the NATO Administrative Tribunal. Respective hearings are not scheduled to be held prior to September 2023. The financial compensations claimed by the appellants are not deemed material at the STO level.

## Annex 1: Budget Execution Statements

The budgets cover the financial year from 1 January 2022 to 31 December 2022 and include the common funded elements of the STO. The initial budget and subsequent revisions are reviewed, approved and issued by the Budget Committee.

In accordance with the NFRs, all changes between the initial and the final budget due to transfers of appropriations were either authorised by the Budget Committee or were within the authority of the IMS/STO Financial Controller. These changes are presented in the Budget Execution Statement. The credits carried forward are presented in the Budget Execution Statement as required by the NATO Financial Regulations and the FRPs. They represent the unexpended balances at year-end for which there is a legal liability and are equal to the deferred revenue (see Note 7).

The Budget and the Financial Statements are not prepared on the same basis. In the financial statements only current year depreciation is recognized as an expense, while in the budget all noncurrent assets are fully expensed during the year.

### OFFICE OF THE CHIEF SCIENTIST

#### STATEMENT OF BUDGET EXECUTION AS OF 31 DECEMBER 2022

|                               | Initial Budget   | BA2              | Transfers | BA3              | Transfers | Final Budget     | Expenses         | Carry-Forward | Lapsed         |
|-------------------------------|------------------|------------------|-----------|------------------|-----------|------------------|------------------|---------------|----------------|
| <b>BUDGET 907 (OCS) 2022</b>  |                  |                  |           |                  |           |                  |                  |               |                |
| Chapter 1                     | 1,272,476        | 1,272,476        | (125,000) | 1,147,476        | (75,000)  | 1,072,476        | 993,239          | -             | 79,237         |
| Chapter 2                     | 592,777          | 592,777          | 125,000   | 717,777          | 75,000    | 792,777          | 559,154          | 86,321        | 147,302        |
| <b>TOTAL</b>                  | <b>1,865,253</b> | <b>1,865,253</b> | <b>-</b>  | <b>1,865,253</b> | <b>-</b>  | <b>1,865,253</b> | <b>1,552,393</b> | <b>86,321</b> | <b>226,539</b> |
| <b>BUDGET 907 (OCS) 2021</b>  |                  |                  |           |                  |           |                  |                  |               |                |
| Chapter 2                     | 90,102           | 90,102           | -         | 90,102           | -         | 90,102           | 89,302           | -             | 800            |
| <b>TOTAL</b>                  | <b>90,102</b>    | <b>90,102</b>    | <b>-</b>  | <b>90,102</b>    | <b>-</b>  | <b>90,102</b>    | <b>89,302</b>    | <b>-</b>      | <b>800</b>     |
| <b>TOTAL BUDGET 907 (OCS)</b> | <b>1,955,355</b> | <b>1,955,355</b> | <b>-</b>  | <b>1,955,355</b> | <b>-</b>  | <b>1,955,355</b> | <b>1,641,695</b> | <b>86,321</b> | <b>227,339</b> |

Credits carried forward relate to the programme of work. The lapses are mainly due to vacant positions during the year, as well as reduced activities in the programme of work. As the OCS does not have any assets at the end of 2022, there is no difference between the expenses reported in the Budget Execution Statement and expenses reported in the Statement of Financial Performance (see note 16).

**COLLABORATION SUPPORT OFFICE**

STATEMENT OF BUDGET EXECUTION AS AT 31 DECEMBER 2022

|                               | Initial Budget   | BA2              | Transfers | BA3              | Transfers | Final Budget     | Expenses         | Carry-Forward  | Lapsed         |
|-------------------------------|------------------|------------------|-----------|------------------|-----------|------------------|------------------|----------------|----------------|
| <b>BUDGET 908 (CSO) 2022</b>  |                  |                  |           |                  |           |                  |                  |                |                |
| Chapter 1                     | 5,126,443        | 5,126,443        | (105,774) | 5,020,669        | (21,636)  | 4,999,033        | 4,850,271        | -              | 148,762        |
| Chapter 2                     | 1,963,500        | 1,963,500        | 105,774   | 2,069,274        | 21,636    | 2,090,910        | 1,887,455        | 203,455        | -              |
| Chapter 3                     | 100,000          | 100,000          | -         | 100,000          | -         | 100,000          | 45,172           | 38,898         | 15,930         |
| <b>TOTAL</b>                  | <b>7,189,943</b> | <b>7,189,943</b> | <b>-</b>  | <b>7,189,943</b> | <b>-</b>  | <b>7,189,943</b> | <b>6,782,898</b> | <b>242,353</b> | <b>164,692</b> |
| <b>BUDGET 908 (CSO) 2021</b>  |                  |                  |           |                  |           |                  |                  |                |                |
| Chapter 1                     | 9,975            | 9,975            | -         | 9,975            | -         | 9,975            | 9,975            | -              | -              |
| Chapter 2                     | 408,901          | 408,901          | -         | 408,901          | -         | 408,901          | 344,901          | 14,915         | 49,085         |
| Chapter 3                     | 216,947          | 216,947          | -         | 216,947          | -         | 216,947          | 129,639          | 76,283         | 11,025         |
| <b>TOTAL</b>                  | <b>635,823</b>   | <b>635,823</b>   | <b>-</b>  | <b>635,823</b>   | <b>-</b>  | <b>635,823</b>   | <b>484,515</b>   | <b>91,198</b>  | <b>60,110</b>  |
| <b>TOTAL BUDGET 908 (CSO)</b> | <b>7,825,766</b> | <b>7,825,766</b> | <b>-</b>  | <b>7,825,766</b> | <b>-</b>  | <b>7,825,766</b> | <b>7,267,413</b> | <b>333,551</b> | <b>224,802</b> |

The lapses are related to activities of the 2022 S&T Collaborative Program of Work, which were scheduled for 2022 but eventually postponed due to high workload from post-COVID recovery and other priorities by Nations. In 2021, the BC authorised a 'Special Carry-Forward' of the 2021 CSO budget for an amount of EUR 120,000 (Chapter 3) for the replacement of the Fire Detection System at the CSO (BC-D(2021)0232-FINAL). In 2022, a contract was awarded for EUR 108,976 but due to delays in delivery by the supplier, the outstanding work related amount of EUR 76,283 was carried forward in 2023. The following table is a reconciliation of actual budget execution amounts as per the CSO budget execution statement to actual expenses as per the CSO segment reporting (see note 16).

|                                                                                        | (in EUR)         |
|----------------------------------------------------------------------------------------|------------------|
| <b>Expenses</b>                                                                        | <b>Actuals</b>   |
| <b>Total Expenses as per Budget Execution Statement</b>                                | <b>7,267,413</b> |
| Property Plant and Equipment capitalized<br>(Recognition from Capital and Investments) | (32,693)         |
| Depreciation                                                                           | 113,339          |
| <b>Total Expenses as per Statement of Financial Performance</b>                        | <b>7,348,059</b> |