

	NATO	NORTH ATLANTIC COUNCIL
	OTAN	CONSEIL DE L'ATLANTIQUE NORD

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Releasable to Sweden

12 January 2024

DOCUMENT
PO(2023)0470-AS1 (INV)

**IBAN AUDIT REPORT ON THE 2022 FINANCIAL STATEMENTS OF NATO
COMMUNICATIONS AND INFORMATION ORGANISATION (NCIO)**

ACTION SHEET

On 12 January 2024, under the silence procedure, the Council noted the RPPB report and the IBAN Audit Report attached to PO(2023)0470 (INV), approved the conclusions and recommendations in the RPPB report and approved the public disclosure of the RPPB report, the IBAN Audit Report and associated Financial statements of NCIO enclosed to PO(2023)0470 (INV).

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to PO(2023)0470 (INV).

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20 December 2023

DOCUMENT
PO(2023)0470 (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 NATO
COMMUNICATIONS AND INFORMATION ORGANISATION (NCIO)**

1. I attach the Resource Policy and Planning Board (RPPB) report on the International Board of Auditors for NATO (IBAN) Report on the 2022 Financial Statements of the NATO Communications and Information Organisation (NCIO). IBAN issued an unqualified opinion on the Financial Statements and on compliance of the NCIO for the year ended 31 December 2022.

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 Report, approved the conclusions and recommendations in the RPPB report and approved the public disclosure of the RPPB report, the IBAN Audit Report and associated Financial statements of NCIO.

(Signed) Jens Stoltenberg

1 Annex
2 Enclosures

Original: English

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**IBAN AUDIT REPORT ON THE 2022 FINANCIAL STATEMENTS OF NATO
COMMUNICATIONS AND INFORMATION ORGANISATION (NCIO)**

Report by the Resource Policy and Planning Board

References:

- | | | |
|----|-------------------|--|
| A. | IBA-AR(2023)0022 | IBAN Audit Report on the 2022 Financial Statements of NATO Communications and Information Organisation (NCIO) for the year ended on 31 December 2022 |
| B. | C-M(2015)0025 | NATO Financial Regulations (NFR) |
| C. | C-M(2016)0023 | NATO Accounting Framework (NAF) |
| D. | C-M(2015)0032-AS1 | Strengthening the external audit function at NATO |
| E. | 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 Report on the 2022 resubmitted Financial Statements of the NATO Communications and Information Organisation (NCIO). The IBAN issued an unqualified opinion on the resubmitted Financial Statements and on compliance for the year ended 31 December 2022 (reference A).

4. The RPPB acknowledges that the observations highlighted in the IBAN Audit Report have been discussed and dealt with by participating Nations, represented on the NCIO Agency Supervisory Board (ASB), which is the relevant governing body. The RPPB is mandated under Article 15 of the NFRs (reference B) to examine the IBAN Audit Report and to provide comments and recommendations to the Council as required.

AIM

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

OBSERVATIONS AND RPPB VIEW

6. During the audit, the IBAN made four observations and recommendations for the NCIO. One of them relates to the need to strengthen internal controls over the preparation of the Financial Statements while the other three relate to the non-disclosure of inventory held at third parties' locations, separate recognition of NATO Security Investment

Programme (NSIP) financial assets and financial liabilities in relation to NSIP contributions in NCIO's Statement of Financial Position, except when offsetting is compliant with the NATO Accounting Framework (NAF) (IPSAS 28) (reference C), and ensuring compliance with the NAF (IPSAS 18) Segment Reporting. These observations and recommendations did not affect the audit opinion on the Financial Statements, neither on compliance.

6.1. Observation 1: The RPPB supports IBAN's recommendation that the NCIO strengthen internal controls over the preparation of the Financial Statements, including by establishing compensatory internal controls when needed, to provide a reasonable basis for obtaining assurance that Financial Statements are in compliance with the NAF and NATO Financial Regulations (NFR) (reference B); and ensure compliance with the NFR and the IBAN Charter (reference D) by strengthening the audit trail, and by providing to IBAN in a timely manner complete supporting data relating to the Financial Statements including the notes, in a specific file prior to the commencement of the audit fieldwork. The RPPB notes that NCIO resubmitted its Financial Statements twice to correct material misstatements found by IBAN, and that without these corrections, the NCIO 2022 Financial Statements would have included material errors leading to a qualified audit opinion on the Financial Statements.

6.2. Observation 2: With regard to non-disclosure of inventory held at third parties' locations, the RPPB supports IBAN's recommendation that the NCIO disclose in the notes to the Financial Statements the inventory held at third parties in accordance with the NAF and ensure that the control over the quantities and valuation of inventory held at third parties is documented annually and reflected in the Financial Statements disclosure.

6.3. Observation 3: With regard to non-compliance of offsetting NSIP receivables and liabilities, the RPPB supports IBAN's recommendation that the NCIO recognise financial assets and financial liabilities in relation to NSIP contributions separately in its Statement of Financial Position, except for those situations in which offsetting financial assets and financial liabilities is compliant with IPSAS 28.

6.4. Observation 4: Regarding segment reporting, the RPPB supports IBAN's recommendation that the NCIO determine suitable operating segments and include a segment reporting disclosure note in its Financial Statements in accordance with the NAF, IPSAS 18.

6.5. Other Matter¹ on Compliance: The IBAN included an Other Matter paragraph to draw attention to internal controls weaknesses regarding the preparation of the NCIO 2022 Financial Statements. These weaknesses include the lack of compensatory internal controls, in addition to established internal control processes, in order to strengthen the audit

¹ Other Matter is used when the IBAN considers it necessary to communicate a matter other than those that are presented or disclosed in the Financial Statements that, in IBAN's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

trail with complete supporting information, relating to the Financial Statements including the notes (reference to observation no. 1).

7. Additionally, the IBAN followed up on the status of observations and recommendations from the previous years' audits and found that three were closed and three remain in-progress. In 2022, the IBAN closed observations on the improvements needed to the NCIO customer rates and overhead assumptions and disclosure of a provision of EUR 5.1 million related to NSIP receivables. Furthermore, the IBAN closed the observation on material incompleteness of Property, Plant and Equipment (PP&E) and Intangible Assets that was the basis for prior qualified opinion on the Financial Statements and on compliance.² The observations are detailed in document at reference A.

8. The RPPB welcomes the improvements made by the NCIO in implementing IBAN's observations and recommendations, especially the implementation of recommendation related to the IBAN qualified opinion and supports the NCIO's efforts to continue applying remedial actions with the aim to address remaining IBAN's recommendations.

CONCLUSIONS

9. The IBAN issued an unqualified opinion on the 2022 NCIO resubmitted Financial Statements and on compliance. Four observations and recommendations were raised for the NCIO. As of the date of the IBAN Audit Report, three previous years' observations for the NCIO were in-progress and three were closed.

10. The RPPB supports IBAN's recommendation that improvements are needed in strengthening internal controls over the preparation of the Financial Statements, non-disclosure of inventory held at third parties' locations, offsetting of NSIP receivables and liabilities and compliance with the NAF (IPSAS 18) Segment Reporting.

11. The RPPB notes the significant improvements made by the NCIO in implementing previous IBAN's observations and recommendations, especially the implementation of recommendation related to the IBAN qualified opinion and supports the NCIO's efforts to continue applying remedial actions with the aim to address remaining IBAN's recommendations. However, the resubmission of NCIO 2022 Financial Statements to correct material misstatements shows that progress is still needed in strengthening internal controls over the financial reporting process.

RECOMMENDATIONS

² On 3 August 2023, the North Atlantic Council approved amendments to the NAF with a date of application as of 1 January 2021 (PO(2023)0315-AS1 (INV)). With these amendments, NCIO may consider Communication Information System assets, including tangible Assets under Construction and intangible Assets under Development, prior to 1 January 2018 as fully expensed. Taking into account these amendments to the NAF, NCIO has recognised and disclosed all PP&E and Intangible Assets, including assets under construction, in the 2022 Financial Statements in accordance with the NAF.

12. The Resource Policy and Planning Board recommends that Council:
- 12.1. note this report and the IBAN Audit Report at reference A;
 - 12.2. approve the conclusions at paragraphs 7 to 9;
 - 12.3. approve the public disclosure of the 2022 Financial Statements for the NCIO, its associated IBAN Audit Report and this report in line with agreed policy at reference E.



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

Brussels - Belgium



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IBA-A(2023)0085
31 August 2023

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

Cc: NATO Permanent Representatives
Chair, Agency Supervisory Board, NATO Communications & Information Organisation (NCIO)
General Manager, NATO Communications & Information Agency (NCIA)
Financial Controller, NATO Communications & Information Agency (NCIA)
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 Communications and Information Organisation's (NCIO) Financial Statements for the year ended 31 December 2022 – IBA-AR(2023)0022***

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

IBAN's report sets out an unqualified opinion on the Financial Statements of the NCIO 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 Communications and Information Organisation (NCIO)
for the year ended 31 December 2022**

NCIO comprises an Agency Supervisory Board (ASB) and an Executive Body, the NCI Agency. The mission of the NCI Agency is to deliver to NATO secure, coherent, cost effective and interoperable communications and information systems and services in support of consultation, command and control (C3) and enabling intelligence, surveillance and reconnaissance capabilities. It includes information technology support to NATO Headquarters, the Command Structure and NATO Agencies. In 2022, NCIO generated revenues of EUR 709.4 million and incurred expenses of EUR 721.9 million, resulting in a deficit of EUR 12.5 million.

On 3 August 2023, the North Atlantic Council approved amendments to the NATO Accounting Framework with a date of application as of 1 January 2021 (PO(2023)0315-AS1 (INV)). With these amendments, NCIO may consider Communication Information System (CIS) assets, including tangible Assets under Construction (AuCs) and intangible Assets under Development (AuDs), prior to 1 January 2018 as fully expensed. Taking into account these amendments to the NATO Accounting Framework, NCIO has recognised and disclosed all PP&E and Intangible Assets, including assets under construction, in the 2022 Financial Statements in accordance with the NATO Accounting Framework.

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

IBAN raised an Other Matter on Compliance. We draw attention to internal controls weaknesses regarding the preparation of the NCIO 2022 Financial Statements. Such internal controls are required to provide a reasonable basis for obtaining assurance that financial statements are in compliance with the NATO Accounting Framework and NATO Financial Regulations (NFRs). These weaknesses include the lack of compensatory internal controls, in addition to established internal control processes, in order to strengthen the audit trail with complete supporting information, relating to the financial statements including the notes. Our opinion is not qualified with respect to this matter.

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

1. Need to strengthen internal controls over the preparation of the financial statements.
2. Non-disclosure of inventory held at third parties' locations.

3. Offsetting of NSIP receivables and liabilities not compliant with the NAF (IPSAS 1) Presentation of Financial Statements.
4. Ensure compliance with the NAF (IPSAS 18) Segment Reporting.

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

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

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IBA-AR(2023)0022

31 August 2023

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE
NATO COMMUNICATIONS AND INFORMATION ORGANISATION
(NCIO)**

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 resubmitted Financial Statements of NATO Communications and Information Organisation (NCIO), for the 12 month period ended 31 December 2022, issued under document reference NCIA/FC/2023/03533, and submitted to IBAN on 03 July 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 NCIO 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 NCIO are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31st March following the end of the financial year.

The Financial Statements are signed by the Head of the NATO reporting entity and the Financial Controller. In signing the Financial Statements, the Head of the NATO reporting entity and the Financial Controller confirm the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Compliance

Opinion on Compliance

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

Basis for Opinion on Compliance

We have conducted our compliance audit in accordance with the International Organisation of Supreme Audit Institutions (INTOSAI) Principles as per our Charter, and standards consistent with the International Standards of Supreme Audit Institutions (ISSAI 4000-4899).

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

Other Matter on Compliance

We draw attention to internal controls weaknesses regarding the preparation of the NCIO 2022 Financial Statements. Such internal controls are required to provide a reasonable basis for obtaining assurance that financial statements are in compliance with the NATO Accounting Framework and NATO Financial Regulations (NFRs). These weaknesses include the lack of compensatory internal controls, in addition to established internal control processes, in order to strengthen the audit trail with complete supporting information, relating to the financial statements including the notes. Our opinion is not qualified with respect to this matter.

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, 31 August 2023



Radek Visinger
Chair

OBSERVATIONS AND RECOMMENDATIONS

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

1. Need to strengthen internal controls over the preparation of the financial statements.
2. Non-disclosure of inventory held at third parties' locations.
3. Offsetting of NSIP receivables and liabilities not compliant with the NAF (IPSAS 1) Presentation of Financial Statements.
4. Ensure compliance with the NAF (IPSAS 18) Segment Reporting.

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

1. NEED TO STRENGTHEN INTERNAL CONTROLS OVER THE PREPARATION OF THE FINANCIAL STATEMENTS

Reasoning

1.1 According to Article 35.1 of the NATO Financial Regulations (NFRs) *"An annual financial statement for each NATO body, consolidated where applicable and appropriate, shall be submitted for audit to the International Board of Auditors for NATO by the Financial Controller not later than 31st March following the end of the financial year."*

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

1.3 Article 6 of the NFRs requires the Financial Controller to exercise the responsibility of budgeting, accounting and reporting activities of the NATO entity. This includes being responsible for the Financial internal control system established, and for the preparation of the Financial Statements in accordance with the NATO Accounting Framework.

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

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

1.6 Article 14.1 of the NFRs states that “*External audit of the NATO bodies subject to these Regulations [...] shall be performed by a Board of Auditors appointed by the Council.* According to Article 14.2 “*The Board, constituted as the International Board of Auditors for NATO (IBAN), shall operate in accordance with the Charter approved by the Council.*”

1.7 The responsibilities of NCIO include in line with Article 14.2 of the NFRs and Article 13 of the IBAN Charter (C-M(2015)0032), to provide IBAN Board Members and audit staff with “*Timely, unfettered, direct and free access to all NATO documents and information [...] for the proper discharge of their mandated responsibilities.*”

1.8 A key part of internal controls regarding the preparation of the financial statements relates to the audit trail. The responsibilities of NCIO include providing adequate audit trails in accordance with the NFRs Article 12.3, as follows:

- i. The trial balance needs to be reconciled to the primary statements and the underlying supporting data. If there is a difference, this needs to be documented.
- ii. All tables and other information in the notes to the financial statements need to reconcile with the primary statements and the underlying supporting data. If there is a difference this needs to be documented.
- iii. A separate folder with properly referenced supporting data related to the primary financial statements and notes should be made available to the auditors prior to the commencement of the fieldwork.

Observations

1.9 IBAN found misstatements in the NCIO Financial Statements first submitted to IBAN on 31 March 2023, as described below. These misstatements, some of which were material, were partly corrected in the first resubmission of the financial statements on 22 June 2023 and subsequently fully corrected in the second Resubmitted Financial Statements submitted to IBAN on 03 July 2023. Without these corrections, the NCIO 2022 Financial Statement would have included material errors leading to a qualified audit opinion on the financial statements.

- a) Material misclassification of deferred revenue liability

1.10 We found that NCIO recognised deferred revenue for PP&E and intangible assets relating to the CIS/AIS as a current liability (EUR 650 million in 2022 and

EUR 568 million in 2021) rather than recognising it as a non-current liability in accordance with the NAF IPSAS 1.

b) Material misstatement related to PP&E recognition and disclosure

1.11 We found that NCIO incorrectly capitalised and disclosed PP&E in its initial Financial Statements, resulting in an overstatement of the NCIO Statement of Financial Position by a total net book value of EUR 25 million.

c) Material misstatement of the classification and disclosure of the Satellite communications (SATCOM) Memorandum of Understanding (MoU)

1.12 IBAN found that NCIO did not make an appropriate classification and disclosure of the right to use a military SATCOM dedicated capacity in the 2022 NCIO Financial Statements in accordance with NAF IPSAS 13 paragraph 44. The NCIO future minimum lease payments based on its contractual commitments as a lessee, amount to a total amount of approximately EUR 771 million at 31 December 2022. This amount represents EUR 63 million of expenses expected not later than one year, EUR 244 million later than one year and not later than five years, and EUR 464 million later than five years.

1.13 In addition, the SATCOM MoU expenses were initially recognised and disclosed under the 'Contractors, general services and supplies for NSIP' expenses category of the first submitted 2022 NCIO Financial Statements Note 16 'Cost of Acquisitions' rather than being recognised and disclosed under the 'Lease expenses' category for an amount of approximately EUR 54 million in 2022 and EUR 50 million in 2021.

d) Incorrect presentation and disclosure of bad debt and provision liability

1.14 NCIO reported in its 2021 NCIO Financial Statements and disclosed in the 2022 Statement of Internal Control a provision to cover for EUR 5.1 million of unreconciled receivables relating to historical NSIP transactions dating from the period 2006-2014.

1.15 This unreconciled NSIP receivable should have been recognised as a bad debt and its value should have been offset to zero through an allowance for bad debt. The recognition of a provision was not appropriate in this case. Therefore, provisions and receivables were overstated by EUR 5.1 million.

f) Internal control weaknesses regarding accounting for PP&E and Intangible Assets

1.16 IBAN also found that the NCIO Finance Division accounted for PP&E and Intangible Assets based on direct confirmatory statements from NATO Communications and Information Agency (NCIA) project managers, combined with a decision tree. However, the Finance Division did not review the underlying supporting

documentation for these assets in a comprehensive manner. In addition, these documents were not made available in a centralised filing system to ensure an adequate audit trail and to demonstrate that the Finance Division maintained the appropriate level of internal control over the preparation of the financial statements.

1.17 This was the first year of capitalisation of constructed/developed CIS Assets, and project managers have not necessarily received sufficient training in the requirements of the NATO Accounting Framework. Therefore IBAN considers that the NCIO Finance Division should have established compensatory internal controls and not only rely on the established internal control process, which depends directly on information provided by NCIA project managers.

1.18 Our audit identified several misstatements, listed above, linked to the lack of compensatory internal controls over these source documents, which were then corrected in the resubmitted financial statements.

Recommendations

1.19 IBAN recommends that NCIO:

- a) Strengthen internal controls over the preparation of the financial statements, including by establishing compensatory internal controls when needed, to provide a reasonable basis for obtaining assurance that financial statements are in compliance with the NATO Accounting Framework and NATO Financial Regulations (NFRs);
- b) Ensure compliance with the NFRs and the IBAN Charter by strengthening the audit trail, and by providing to IBAN in a timely manner complete supporting data relating to the financial statements including the notes, in a specific file prior to the commencement of the audit fieldwork.

2. NON DISCLOSURE OF INVENTORY HELD AT THIRD PARTIES' LOCATIONS

Reasoning

2.1 As per the NATO Accounting Framework (NAF), paragraph 27 of IPSAS 1, *“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. The application of IPSASs, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.”*

2.2 According to paragraph 45 of IPSAS 1, *“Each material class of similar items shall be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately, unless they are immaterial.”*

2.3 As per paragraph 127 c) of IPSAS 1, *“The notes shall: [...] (c) Provide additional information that is not presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity, or cash flow statement, but that is relevant to an understanding of any of them.”*

2.4 According to the NAF, IPSAS 12 Adapted – Inventories, NATO Reporting Entities [...] *Shall, for inventory held prior to the 1 January 2013, and not previously recognized as an asset, provide a brief description of inventory held within their inventory recording systems in the notes to the financial statements. Such disclosure should include as a minimum the types of inventories held, locations where inventories are held and the approximate number of items held per asset category.*

2.5 As per Article 3.1 of the NATO Financial Regulations (NFRs), *the General Manager of NCIA is responsible and accountable for sound financial management and shall put in place the necessary governance arrangements to ensure and maintain this. This shall include, but is not limited to, the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources.*

2.6 Further the NCIO Financial Rules and Procedures (FRPs) III on Responsibility and Accountability states that the *General Manager, in consultation and agreement with the Financial Controller shall ensure that qualified officials are assigned to the following positions prescribed by the NFR and/ or FRPs:*

[...] a (v) the performance of periodic controls and ad-hoc reports about the property accounting register and other financial report in accordance with the requirements set by the Nations. [...]

f. Property Accounting Officers, to be responsible for receiving and maintaining physical custody of all international property.

2.7 Also, Agency Directive AD 06.00.12 on Asset Management under 8.3 states that the Property Accounting Officer (PAO) *will ensure that appropriate processes and procedures are in place to receive, issue, move, physically track and write-off assets throughout the lifecycle. This includes the physical accounting of material, recording and reporting of asset data for internal control and financial purposes.*

2.8 Finally, in Agency Directive 06.00.12 under 8.13, it is stated that:

Crypto Management ensures:

- *The procurement, distribution, accounting and control of crypto material for use within NCI Agency and other NATO activities [...], The Crypto Controlled Item (CCI) assets are controlled with the COMSEC Accounting, Reporting and Distribution System (CARDS);*
- *the maximum degree of protection for NATO crypto material is provided from the time of receipt within NATO until final disposition;*
- *Crypto Facility inspections are conducted to ensure that CCI Equipment is safeguarded and controlled with the AD 08.03 regulations.*

Observations

2.9 NCIA entered into a Service Level Agreement (SLA) with NSPA, the latter being responsible for providing logistical services and support for certain NATO cryptographic equipment acquired by NCIO under NSIP funding. The value of the inventory held by NSPA in Capellen on behalf of NCIO, reported for information purposes by NSPA, amounted to EUR 31.5 million as of December 2022.

2.10 In the SLA, it is stated that “NCIA as owner of NATO assets is responsible for CIS asset management and for their stock valuation using data provided by NSPA”. Therefore, these assets should be reported in the financial statements in accordance with the NAF. According to information provided by NCIO, we understand that these inventory items were purchased prior to 2013 and therefore would not have any impact on the Statement of Financial Position. However, we found that the 2022 NCIO Financial Statements do not include any note disclosure related to assets held on behalf of NCIO by third parties in accordance with the NAF.

Recommendations

2.11 IBAN recommends that NCIO:

- Disclose in the notes to the financial statements the inventory held at third parties in accordance with the NATO Accounting Framework;
- Ensure that the control over the quantities and valuation of inventory held at third parties is documented annually and reflected in the financial statements disclosure.

3. OFFSETTING OF NSIP RECEIVABLES AND LIABILITIES NOT COMPLIANT WITH THE NAF (IPSAS 1) PRESENTATION OF FINANCIAL STATEMENTS

Reasoning

3.1 According to the NATO Accounting Framework (NAF): “*The accounting framework for all NATO Reporting Entities is an adapted version of International Public Sector Accounting Standards (IPSAS) as issued by the International Public Sector*

Accounting Standards Board of the International Federation of Accountants. [...] This Accounting Framework is applicable for financial reporting periods beginning on 1 January 2013 or at the effective date as indicated in the NATO Accounting Framework. Early adoption of adaptations is prohibited.”

3.2 IPSAS 1 paragraphs 48 and 49 state that “*Assets and liabilities, and revenue and expenses, shall not be offset unless required or permitted by an IPSAS. It is important that assets and liabilities, and revenue and expenses, are reported separately. Offsetting in the statement of financial performance or the statement of financial position, except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events and conditions that have occurred and to assess the entity’s future cash flows.*” IPSAS 28 on ‘Financial Instruments: presentation’ permits to offset a financial asset and a financial liability, and as such, to present the net amount in the statement of financial position when, and only when, an entity:

- (a) *Currently has a legally enforceable right to set off the recognized amounts; and*
- (b) *Intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.’*

3.3 With regard to offsetting financial assets and financial liabilities, IPSAS 1 states that ‘*Assets and liabilities, and revenue and expenses, shall not be offset unless required or permitted by an IPSAS*’. IPSAS 28 on ‘Financial Instruments: presentation’ permits to offset a financial asset and a financial liability, and as such, to present the net amount in the statement of financial position when, and only when, an entity:

- (a) *Currently has a legally enforceable right to set off the recognized amounts; and*
- (b) *Intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.’*

3.4 Based on the quarterly reporting by the NSIP Host Nations (HN) in the Common Funded Integrated Resources Information System (CIRIS), International Staff (IS) prepares quarterly NSIP call for contributions for the Investment Committee (IC) approval. These NSIP calls for contribution determine the amounts to be paid by each contributing country, the amounts to be received, or returned by each HN, and the applicable payment guidelines. In order to reduce the number of payment transactions for NSIP contributions, IS will offset any payable by a given HN against the total of contributions payable to that HN (i.e. receivable for that HN).

Observations

3.5 In March 2010, IBAN issued an Audit Report on the financial statements of the NATO Consultation, Command and Control Agency (NC3A) for the year ended 31 December 2008 (C-M(2010)0020) where the Board recommended (Observation 5.1) that advances received from the NSIP be deducted from the amounts receivable from the same programme by NC3A. NC3A was one of NCIA’s legacy Agencies.

3.6 NC3A acknowledged the observation and adapted its accounting treatment since then. This recommendation was made at a time when IPSAS and the NAF did not apply to NATO reporting entities.

3.7 Notwithstanding the introduction of the NAF in 2013, which restricts the conditions for offsetting assets and liabilities, NCIO has still offset these assets and liabilities in the 2022 NCIO Financial Statements. In practice, the NSIP advance receivable, generally related to the next year, is offset with the balance of unused advances. Nonetheless, the financial statements also provide under Note 2 further details on the impact of the offset on receivables and payables.

3.8 In addition, although NSIP advances receivable funds have the same general purpose as NSIP unused funds, each call for fund is based on a specific assessment of the actual and expected progress of costs of NSIP projects at a given date.

3.9 Finally, without the authorisation of the IC, there is no legal basis for offsetting, which in this case would reflect the formal intention of the Nations to deduct advances due from unused NSIP funds and therefore would affect the cash flows.

3.10 We believe that the 2010 observation from IBAN has become obsolete since the implementation of the NAF. Therefore, NCIO should no longer offset the NSIP advance receivable against unused NSIP funds.

Recommendations

3.11 IBAN recommends that NCIO recognise financial assets and financial liabilities in relation to NSIP contributions separately in its Statement of Financial Position, except for those situations in which offsetting financial assets and financial liabilities is compliant with IPSAS 28.

4. ENSURE COMPLIANCE WITH THE NAF (IPSAS 18) SEGMENT REPORTING

Reasoning

4.1 The NATO Accounting Framework (NAF) IPSAS 18 requires entities to disclose information about their operating segments, which are components of an entity engaged in providing products or services, generating revenues, and incurring expenses that are regularly reviewed by the entity's governing structure. Segment reporting serves as a critical component of financial transparency, providing stakeholders with essential information about the entity's operating segments, their financial performance, risks, and opportunities. As per NAF IPSAS 18, segment reporting enables the governing board and senior managers to fulfil their managerial responsibilities and evaluate the entity's performance in achieving its objectives in the past. Additionally, segment reporting aids in making informed decisions regarding the allocation of resources by the entity in the future.

4.2 The NAF IPSAS 18 defines a segment as *“a distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of (a) evaluating the entity’s past performance in achieving its objectives, and (b) making decisions about the future allocation of resources.”*

4.3 The NAF IPSAS 18 paragraph 14 states: *“the major classifications of activities identified in budget documentation will reflect the segments for which information is reported to the governing body and the most senior manager of the entity. In most cases, the segments reported to the governing body and senior manager will also reflect the segments reported in the financial statements. This is because the governing board and senior manager will require information about segments to enable them (a) to discharge their managerial responsibilities and to evaluate the performance of the entity in achieving its objectives in the past, and (b) to make decisions about the allocation of resources by the entity in the future.”*

4.4 According to the NAF IPSAS 18 :

“15. Determining the activities that should be grouped as separate segments and reported in the financial statements for accountability and decision-making purposes involves judgment. In making that judgment, preparers of the financial statements will consider such matters as:

- (a) The objective of reporting financial information by segment as identified in paragraph 9 above;*
- (b) The expectations of members of the community and their elected or appointed representatives regarding the key activities of the entity;*
- (c) The qualitative characteristics of financial reporting as identified in Appendix A of IPSAS.”*

4.5 The NAF IPSAS 18 paragraphs 51 to 66 on the disclosure requirements state that :

“An entity shall disclose segment revenue and segment expense for each segment. Segment revenue from budget appropriation or similar allocation, segment revenue from other external sources, and segment revenue from transactions with other segments shall be separately reported.”

“An entity shall disclose the total carrying amount of segment assets for each segment.”

“An entity shall disclose the total carrying amount of segment liabilities for each segment.”

“An entity shall disclose the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period for each segment.”

4.6 The NCIO Charter provides indicators for the basis of segmentation based on the way the mission of the NCI Agency is described (i.e. C3 capability developer / CIS service provider / Other than C3/CIS capability/service provider) consistent with NAF

IPSAS 18.9 referring to the evaluation of *“the entity’s past performance in achieving its objectives.”*

4.7 According to the article 6 of the Customer Funding Framework *“A customer is defined as any Organisation or Nation which pays the NCI Agency to provide goods or services. Customers are sub-divided into two categories: internal customers which are NATO entities or Nations which use NATO common funds to purchase the services of the NCI Agency (“Internal Customers”). External customers are Nations or Organisations, public or private, purchasing NCI Agency services with other than NATO common funds (“External Customers”).”*

4.8 The NCIO Charter in conjunction with the Customer Funding Framework, establishes a foundation for segmentation based on NCIA missions, and/or budget documentation indirectly considering Internal Customers and NATO External Customers in relation to the appropriate Resource Committees (Budget Committee or IC), consistent with the expectations outlined in NAF IPSAS 18.14.

Observations

4.9 IBAN found that the NCIO 2022 Financial Statements do not include a disclosure note on segment reporting in accordance with NAF IPSAS 18. NCIO had applied segment reporting in its 2013 financial statements, based on its three legacy entities for their respective activities. Since 2014, although NCIO has disclosed segmented information to governing bodies in its business and financial plans, NCIO did not determine and report segments in its financial statements for evaluating its past performance in achieving its objectives under the new business model.

4.10 Not providing segment reporting in the financial statements significantly diminishes the transparency and completeness of the NCIO financial statements, hindering Resource Committees and Governing Bodies' ability to make informed decisions and evaluations based on the financial statements. NCIO should ensure full compliance with NAF IPSAS 18 regarding segment reporting in order to enhance the usefulness and reliability of the financial information provided in the financial statements. By doing so, NCIO Financial Statements would provide users of the financial statements, including NCIO governance, a more comprehensive understanding of its operations and past performance. This will also enable NCIO governance to make informed decisions based on reliable financial information, while also facilitating meaningful comparisons with NCIO's Business and Financial plans, which provide segmented information.

Recommendations

4.11 IBAN recommends that NCIO:

- a) Determine suitable operating segments;

- b) Include a segment reporting disclosure note in its financial statements in accordance with the NATO Accounting Framework, IPSAS 18.

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
(1) NCIA FY 2021, Ref. IBA-AR(2022)0015 Observation 1 MATERIAL INCOMPLETENESS OF PROPERTY, PLANT AND EQUIPMENT (PP&E) AND INTANGIBLE ASSETS IBAN's Recommendation IBAN recommends that NCIO: a) Recognises and discloses all PP&E and Intangible Assets, including assets under construction, in the financial statements in accordance with the NAF.	On 3 August 2023, the North Atlantic Council approved amendments to the NATO Accounting Framework with a date of application as of 1 January 2021 (PO(2023)0315-AS1 (INV)). With these amendments, NCIO may consider Communication Information System (CIS) assets, including tangible Assets under Construction (AuCs) and intangible Assets under Development (AuDs), prior to 1 January 2018 as fully expensed. a) Taking into account these amendments to the NATO Accounting Framework, NCIO has recognised and disclosed all PP&E and Intangible Assets, including assets under construction, in the 2022 Financial Statements in	Observation Closed.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
b) Establishes and maintains comprehensive accounting records of all PP&E, Intangible Assets, and assets under construction in accordance with Article 12 of the NFRs.	accordance with the NATO Accounting Framework. Closed. b) NCIO has established and maintained comprehensive accounting records of all PP&E, Intangible Assets, and assets under construction in accordance with Article 12 of the NFRs. Closed.	
(2) NCIA FY 2021, Ref. IBA-AR(2022)0015 Observation 2 STRENGTHENING INTERNAL CONTROLS RELATED TO CASH MANAGEMENT IBAN's Recommendation IBAN recommends that NCIO: a) Comply with AC/4-D/2663, Annex paragraph 3 by including bank interests received on NSIP funds ('IC' bank deposits) and any profit and loss in a special Miscellaneous Account, and by regularly introducing the result of this operation in the NSIP Call for Contribution, in coordination with the NATO Office of Resources; b) Ensure that the treasury procedures approved by the NCIA Financial Controller cover the management of 'IC' and 'BC' related bank accounts, associated transfers between these accounts and sharing of interests received; c) Implement the Treasury Management System (TMS) in order to fully integrate treasury management into the Enterprise Business Application (EBA).	a) The 'Investment Committee (IC)' bank account balances were calculated as of end of 2022. The net amount that needs to be transferred between 'IC' and 'Budget Committee (BC)' bank account balances has been captured in 'Cash-in-transit' accounts at 31 December 2022. The interest calculation was completed for 2022. Observation: closed b) The Treasury Policy was revised including the management of 'IC' and 'BC' related bank accounts, associated transfers between these accounts and sharing of interests received. Observation: Closed c) The TMS project is defined as an internal project and is under review due to safety restrictions. Observation: In-progress	Observation In-Progress.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(3) NCIA FY 2021, Ref. IBA-AR(2022)0015 Observation 3 DISCLOSURE OF A PROVISION OF EUR 5.1 MILLION RELATED TO NSIP RECEIVABLES IBAN's Recommendation IBAN recommends that NCIO: a) Complete its review of the unreconciled NSIP receivable, agree amounts with the NOR, and take corrective action as necessary prior to publishing the 2022 Financial Statements; and b) Ensure, in future, that unreconciled receivables/provisions or other doubtful balances or balances/transactions under review are clearly disclosed in the notes to the financial statements. In addition, such amounts should be formally brought to the attention of IBAN and the appropriate governing body once known by the Agency.	a) NCIO Internal Audit (IA) performed a review of the balance. Based on the IA report, NCIO requested the Agency Supervisory Board (ASB)'s Finance Committee to authorise, as part of the preparation of the 2022 NCIO Financial Statements, the write-off of a receivable balance related to NSIP (AC/337(FC)D(2022)0025-REV1-COR1 (INV)). This request was approved under silence procedure by the ASB on 27 January 2023 (AC/337(FC)D(2022)0025-REV1-COR1-AS1 (INV)). Observation: Closed b) Relevant disclosures have been made in the notes to the Financial Statements. All items have been formally brought to the attention of IBAN and the appropriate governing body. Observation: Closed	Observation Closed.
(4) NCIA FY 2021, Ref. IBA-AR(2022)0015 Observation 4 WEAKNESS REGARDING EBA USER ACCESS RIGHTS AND SEGREGATION OF DUTIES IBAN's Recommendation IBAN recommends that NCIO:		Observation In-Progress.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
a) Systematically develop and maintain a detailed action plan with regard to recommendations expressed in internal audit reports. b) Enhance segregation of duties by creating: i. appropriate documentation on all roles and responsibilities in EBA and ii. a Segregation of Duties matrix identifying all conflicting roles and responsibilities. c) Revoke roles and responsibilities for leavers at the time of departure. d) Perform, for staff members changing positions or departments within the Agency, an analysis in order to ensure that the new roles and responsibilities comply with the segregation of duties principle.	a) NCIO noted the requirement to develop and maintain a detailed action plan and committed to having a plan in place in 2023. The Enterprise Business Applications (EBA) Programme manager is coordinating this activity. Observation: In-progress b) Progress regarding the enhancement of segregation of duties was made as follows: i. NCIO aims to complete the documentation on roles and responsibilities in EBA by the end of 2023. ii. An NCIA Segregation of Duties matrix identifying all conflicting roles and responsibilities has been defined by the Internal Control Officer. The user access review for EBA in 2022 includes a review of the segregation of duties conflicts identified. Observation: In-progress c) Revocation of roles for leavers. An Information Technology service ticket was raised to automate part of this function. A short-term solution is being investigated and NCIO aims to have a longer term solution in place by the end of 2023. Observation: In-progress d) Processes and procedures are being developed to analyse segregation of duties implications of moves and to act accordingly. A short-term solution is being investigated and NCIO aims to have a longer term solution in place by the end of 2023. Observation: In-progress	

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(5) NCIA FY 2020, Ref. IBA-AR(2021)0016 Observation 5 IMPROVEMENT NEEDED TO THE NCIO COST TO COMPLETE (CTC) MODEL FOR REVENUE RECOGNITION IBAN's Recommendation While IBAN acknowledges the improvement in the cost to complete (CTC) revenue recognition model since 2018 through the implementation of the EBA and that, at a high level, no material inconsistencies were found, IBAN recommends that NCIO: a) Replaces the Excel based process with an EBA model tailored to NCIO's operations, which should guarantee the traceability, integrity and security of data; b) Strengthens internal controls to ensure the completeness and integrity of the actual costs allocated to each project in the CTC calculation; c) Establishes a sign-off on the responsibility and validation of the final cost at completion estimates embedded within the EPM-EBA interface and integrates the project management document in support hereof.	a) NCIO has improved the traceability, integrity and security of data but the process is still Excel-based and performed outside EBA without any automation. Observation: In-Progress. b) NCIO has implemented key internal controls over the actual costs in the CTC calculation to ensure consistency with EBA. Observation: Closed. c) NCIO is in the process of implementing an integrated sign-off process for the validation of the cost completion estimates. Observation In-Progress.	Observation In-Progress.
(6) NCIA FY 2019, Ref. IBA-AR(2020)0021 Observation 3 IMPROVEMENTS NEEDED TO THE NCIO CUSTOMER RATES AND OVERHEAD ASSUMPTIONS IBAN's Recommendation IBAN recommends that NCIO improves the accuracy and transparency of assumptions underlying customer rates, including overheads. This can be achieved by:		Observation Closed.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
a) Clarifying roles, responsibilities and accountabilities of internal stakeholders involved in the business assumptions that influence customer rates and overhead calculations; b) Providing detailed qualitative information supporting the rationale of each business assumption taken by Management; c) Applying a fair and consistent approach regarding travel costs for services delivered, that should be directly charged to customers and not be included in the Agency overheads; d) Using the Time Accounting System to compare prior year's assumptions and actuals in	a) IBAN notes that the 2022 Customer Rates (CR) document clarified roles, responsibilities and accountabilities of internal stakeholders involved in the business assumptions that influence customer rates and overhead calculations. In addition, IBAN notes that NCIO has also included a matrix describing the roles, responsibilities and accountabilities of internal stakeholders involved in the CR and overhead calculations in the latest Customer Rates Principles and Methodology (AC/337(FC)WP(2023)0011 (INV)) issued in March 2023. This new CR Principles and Methodology document was approved by the NCIO Finance Committee on the 7 April 2023. Observation: Closed. b) NCIA provided information supporting the rationale of each business assumption in the 2023 CR (AC/337(FC)D(2022)001 and in the document entitled "Cost Accounting Study-2023 Customer Rates Simulation" (AC/337(FC)D(2022)0015. These documents provide information supporting the rationale of business assumptions taken by Management. Observation: Closed. c) IBAN notes that the 2022 CR was developed excluding travel costs for services delivered. Based on the 2022 NCIO Financial Statements, IBAN notes that the travel expenses were effectively excluded in the calculation of the 2022 CR. Observation: Closed. d) IBAN notes that the 2022 CR and 2023 CR include a variance analysis based on the Time	

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
order to support, assess and improve the accuracy of business assumptions (i.e. activity ratios per staff category, resource classification billable or non-billable information, FTE projections, etc.). e) Reporting significant variances between approved customer and overhead rates and actuals to the ASB Finance Committee.	Accounting System to compare prior year assumptions and actuals (i.e. activity ratios per staff category, resource classification billable or non-billable information, full time equivalent (FTE) projections, etc.). Observation Closed. e) This sub-observation was closed in IBA-AR(2022)0015. Observation: Closed.	

**NATO COMMUNICATIONS AND INFORMATION ORGANISATION (NCIO)
FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL
BOARD OF AUDITORS (IBAN) POSITIONS**

**DRAFT OBSERVATION ON MATERIAL INCOMPLETENESS OF PROPERTY,
PLANT AND EQUIPMENT (PP&E) AND INTANGIBLE ASSETS**

IBAN recommended in its draft audit report that NCIO recognise and disclose all Communication Information System (CIS) Assets in the financial statements in accordance with the NATO Accounting Framework. This impacted the draft audit opinion on the financial statements. The following comment from NCIO refers to this recommendation in the draft audit report, which was removed in this final version.

NCIO's Formal Comments

Not agreed.

NCI Organization appreciates that the International Board of Auditor for NATO (IBAN) recognises the improvements in addressing PPE qualification in the notes of 2022 Financial Statements.

The NCI Organization acknowledges the IBAN opinion regarding the Material Incompleteness of Property, Plant and Equipment (PP&E) and Intangible based on the NATO Accounting Framework (NAF).

However in view of the latest NAC decision on the amendments to the NATO Accounting Framework to rectify misalignments between the accounting standards, NAF and accounting policies we believe that an update to the current stated observation and recommendation is required.

On 3 August 2023, the North Atlantic Council approved the amendments (PO(2023)0315-AS1 (INV)) to the NATO Accounting Framework with a date of application as of 1 January 2021.

IBAN's Position

IBAN notes that on 3 August 2023, the North Atlantic Council approved amendments to the NATO Accounting Framework with a date of application as of 1 January 2021 (PO(2023)0315-AS1 (INV)). With these amendments, NCIO may consider Communication Information System (CIS) assets, including tangible Assets under Construction (AuCs) and intangible Assets under Development (AuDs), prior to 1 January 2018 as fully expensed. Taking into account these amendments to the NATO Accounting Framework, NCIO has recognised and disclosed all PP&E and Intangible Assets, including assets under construction, in the 2022 Financial Statements in accordance with the NATO Accounting Framework. IBAN has amended accordingly the basis of opinion on the Financial Statements and its Audit Report observations and recommendations, including the follow-up of previous years' observations.

**OBSERVATION 1:
NEED TO STRENGTHEN INTERNAL CONTROLS OVER THE PREPARATION OF
THE FINANCIAL STATEMENTS**

NCIO's Formal Comments

Agreed.

The NCI Organization recognises the importance of correcting material misstatements that may affect understanding of the Financial Statements readers and therefore resubmitted the 2022 Financial Statement.

The Office of Financial Controller (OFC) has developed a comprehensive set of end of year internal control procedures, however recognises that especially in the area of Asset under Construction, those controls will need to be reinforced. The OFC will continue to strengthen internal controls over the preparation of the financial statements.

**OBSERVATION 2:
NON DISCLOSURE OF INVENTORY HELD AT THIRD PARTIES' LOCATIONS**

NCIO's Formal Comments

Agreed.

NCIO will add the required disclosure note in Financial Statements.

NCIO recognises the importance of inventories held at third parties and in particular applies annual controls on holdings at NSPA. The Agency CARDS system tracks the Crypto items from cradle to grave. Crypto holdings are 100% accounted for each year during the Crypto Facility Inspection performed in line with Agency Directive AD 08.03. Agency will continue further improving robustness of the annual processes.

**OBSERVATION 3:
OFFSETTING OF NSIP RECEIVABLES AND LIABILITIES NOT COMPLIANT WITH
THE NAF (IPSAS 1) PRESENTATION OF FINANCIAL STATEMENTS**

NCIO's Formal Comments

Agreed.

NCI Organization remained consistent in its reporting of netted position in line with the IBAN recommendation reported in 2010 and in line with IPSAS 28. Agency understands the proposed change and will consider applying it from 2023.

**OBSERVATION 4:
ENSURE COMPLIANCE WITH THE NAF (IPSAS 18) SEGMENT REPORTING**

NCIO's Formal Comments

Agreed.

Implementing Segment reporting represents a valuable change but requires significant efforts, resources and system adaptation. OFC is currently assessing the feasibility to implement the changes with Financial Statements 2023. Depending on the assessment and resources, the implementation might go beyond end 2023.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(1) NCIA FY 2021

IBA-AR(2022)0015, Observation 1

MATERIAL INCOMPLETENESS OF PROPERTY, PLANT AND EQUIPMENT (PP&E) AND INTANGIBLE ASSETS

NCIO's Formal Comments

Agreed.

No further comments.

(2) NCIA FY 2021

IBA-AR(2022)0015, Observation 2

STRENGTHENING INTERNAL CONTROLS RELATED TO CASH MANAGEMENT

NCIO's Formal Comments

Agreed.

No further comments.

(3) NCIA FY 2021

IBA-AR(2022)0015, Observation 3

DISCLOSURE OF A PROVISION OF EUR 5.1 MILLION RELATED TO NSIP RECEIVABLES

NCIO's Formal Comments

Agreed.

No further comments. NCI Organization acknowledges that this observation has been fully closed.

(4) NCIA FY 2021

IBA-AR(2022)0015, Observation 4

WEAKNESS REGARDING EBA USER ACCESS RIGHTS AND SEGREGATION OF DUTIES

NCIO's Formal Comments

Agreed.

No further comments.

(5) NCIA FY 2020

IBA-AR(2021)0016, Observation 5

IMPROVEMENT NEEDED TO THE NCIO COST TO COMPLETE (CTC) MODEL FOR REVENUE RECOGNITION

NCIO's Formal Comments

Agreed.

No further comments.

(6) NCIA FY 2019

IBA-AR(2020)0021, Observation 3

IMPROVEMENTS NEEDED TO THE NCIO CUSTOMER RATES AND OVERHEAD ASSUMPTIONS

NCIO's Formal Comments

Agreed.

No further comments. NCI Organization acknowledges that this observation has been fully closed.

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.



Enclosure 2 to
PO(2023)0470 (INV)

NATO Communications and Information Agency
Agence OTAN d'Information et de Communication



Enclosure to
NCIA/FC/2023/03533

NATO Communications and Information Organisation

Financial Statements for the year ended 31 December 2022

NATO UNCLASSIFIED
Releasable to Sweden

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Foreword by General Manager NATO Communication and Information (NCI) Agency

I am pleased to present the Financial Statements for the NATO Communications and Information Organisation for the financial year 2022.

At the outset of our financial planning for 2022, the NCI Agency looked forward with a sense of optimism for continuous adaptation and strategic change. The landmark decisions anticipated for the Madrid Summit under the NATO 2030 agenda would indeed reinvigorate ambitions in maintaining our technological edge, bolstered by increased resources and appetite for innovation.

Yet at the same time, 2022 brought shock and sadness. The launch of Russia's brutal and unprovoked war of aggression against Ukraine placed the importance of our purpose in sober clarity: standing firm as a defensive alliance whose members are committed to safeguarding the freedom and security of each other, against all threats, from all directions. Beyond the direct operational implications, the effects of the war against Ukraine also reverberated throughout our financial context. 2022 was marked with high inflation (including an exceptional in-year salary adjustment), high energy costs, and exacerbated ongoing disruptions to global supply chains, all of which further complicated the environment in which the NCI Agency operates.

While the war has driven us to adapt our posture and support to the Alliance – such as through heightened vigilance and an accelerated exercise programme – it is, at the same time, a test of the readiness and robustness of the functions, projects, and services that we offer in support and enablement of NATO's core tasks. From this perspective, I believe that the NCI Agency's transformation agenda, structured through the new Strategic Direction and Guidance from our Agency Supervisory Board and my new Strategic Plan, has placed us on an accelerated trajectory to deliver excellence.

In my push towards organizational maturity, each NCI Agency Functional Area has articulated an Operational Plan, i.e. their approach for 'changing the business' in support of the Strategic Plan while continuing to 'run the business.' Among other things, our Operational Plans provide a structured way of planning and prioritizing internal effort in support of transformation, and capture the actions necessary to resolve observations from the International Board of Auditors of NATO or NCI Agency Internal Audit.

Under our Financial Controller's Operational Plan, we are investing effort in becoming data-driven and developing end-to-end coherence and alignment of our corporate plans and processes. This work is in continuation of Finance transformation started in 2020, for which initial aims were to:

- 1) secure resilience of transactions and accounting in the context of the newly implemented EBA system
- 2) set up through the reorganization of Finance the conditions to address structural deficiencies in addressing policy, procedures and process documentation;
- 3) securing Agency continuous improvements and a stronger internal control system of all financial aspects. This Operational Plan contributes to Excellence in Delivery of financial planning, transactions processing, reporting and monitoring processes.

Of course, the value of these plans should be judged by their results. On that basis, the enclosed Financial Statements are important evidence of our progress, and I believe they demonstrate steady evolution in alignment with accounting requirements and reporting standards.

In particular – and directly targeting prior observations issued by the International Board of Auditors of NATO – Financial Statements 2022 reinforce the material completeness of Property, Plant and Equipment and Intangible Assets. This reflects progress made under the Asset Management programme, and our reporting includes – for the first time – disclosure of Assets under Construction, encapsulating some 344 projects resulting in 770 MEUR net increase on the balance sheet total, in addition Agency has strengthened its recording and controls of inventory items.

Key for resourcing the Agency's transformation agenda through the Multi-Year Investment Plan is the Agency Internal Investment Reserve, its balance is reported under the Net Asset of the Financial Statements.

Nevertheless, there remains significant work to be done against our transformation agenda, and we are committed to continue strengthening and maturing our financial management and internal controls.

I strongly believe that improved prudence of our financial management and increased fidelity of our corporate planning processes have navigated us through an unusually volatile performance period, including, not least of all, the return of war to Europe.

Looking forward, the reinvigorated appetite for digital transformation will challenge our capacity to support the Alliance's needs. Improved effectiveness and efficiency will help make better use of our existing capacity. Nevertheless, our current year-by-year planning cycle against confirmed demand requires a careful examination to ensure we have the agility and proactivity to anticipate the emerging large-scale demands stemming from our leaders' commitments. With support of the ASB and as a follow up of the Workforce review led in 2022, I will look at reinforcing the Agency readiness.

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The current crisis remains with us at the start of the New Year. How long these conditions will endure may be uncertain; what remains unambiguous is our unbreakable commitment to supporting and enabling the readiness of NATO in the face of any and all threats. I remain convinced in the importance of our transformation agenda to ensure our continued relevance alongside a changing Alliance.



Ludwig Decamps
General Manager

NATO Communications and Information Agency

Overview of the NATO Communication and Information Organisation (NCIO) and Agency (NCI Agency)

The NATO Communications and Information Agency – or NCI Agency – acts as NATO's principal Consultation, Command and Control (C3) deliverer and Communications and Information Systems (CIS) provider. It also provides IT-support to NATO Headquarters, the NATO Command Structure and NATO Agencies.

The NCI Agency acquire, deploy and defend communications systems for NATO's political decision-makers and Commands.

The Agency is on the frontlines against cyber-attacks and work closely with governments and industry to prevent future debilitating attacks. The Agency is working to deliver a secure, modern digital infrastructure to NATO – wherever the Alliance is working.

In addition, the Agency conducts the central planning, system engineering, implementation and configuration management for the NATO Air Command and Control System (ACCS) Programme.

The NCI Agency, led by a General Manager, is headquartered at Boulevard Leopold III, 1140 Brussels, Belgium. It has major locations in The Hague, the Netherlands, Braine-l'Alleud and Mons, Belgium.

The Agency is the executive arm of the NATO Communication and Information Organisation (NCIO), which aims to achieve maximum effectiveness in delivering C3 capabilities to stakeholders, while ensuring their coherence and interoperability, and ensuring the provision of secure CIS services at minimum cost to Allies – individually and collectively.

NCIO is managed by an Agency Supervisory Board (ASB) composed of representative from each NATO nation. The ASB oversees the work of the NCIO. After consulting with the NATO Secretary General, NCIO's ASB appoints the General Manager of the Agency. All NATO nations are members of the NCIO.

The ASB, which reports to the North Atlantic Council (NAC), issues directives and makes general policy decisions to enable NCIO to carry out its work. Its decisions on fundamental issues such as policy, finance, organization and establishment require unanimous agreement by all member countries.

At the Lisbon Summit in November 2010, NATO Heads of State and Government agreed to reform the 14 existing NATO Agencies, located in seven member states.

In particular, Allies agreed to streamline the agencies into three major programmatic themes: procurement, support, and communications and information. The reform aims to enhance efficiency and effectiveness in the delivery of capabilities and services, to achieve greater synergy between similar functions and to increase transparency and accountability.

As part of the reform process, the NCI Agency was created on 1 July 2012 through the merger of the NATO C3 Organisation, NATO Communication and Information Systems Services Agency (NCSA), NATO Consultation, Command and Control Agency (NC3A), NATO Air Command and Control System Management Agency (NACMA), and NATO Headquarters Information and Communication Technology Service (ICTM).

For 65 years, the NATO Communications and Information Organisation and Agency and their predecessors have worked tirelessly in providing the means that enable the connectedness and togetherness that keep our Alliance strong. There is a long legacy of dedication to our mission and commitment to our customers. Our fundamental role as enshrined in the NCIO Charter is to act as NATO's principal C3 capability deliverer and CIS service provide for the full range of its entitled requirements holders and customers.

As established by the NCIO Charter in mid-2012, the NCI Agency is customer funded for delivering ICT to NATO and nations. The principles of Customer Funding are based on the NCIO Charter:

- Customers shall be charged the direct costs plus overhead to cover general administrative expenditures, recuperation of capital investments, and Agency operating and running costs;
- Charges to customers shall be subject to customer agreement prior to being incurred;
- Customer Rates and Service Rates are set in such a way to ensure balance between planned income (revenue) and expenditure (expenses) to achieve breakeven over the planning period; and are submitted, after review by the ASB Finance Committee (FINCOM), to the Agency Supervisory Board (ASB) for endorsement and finally to the Budget Committee (BC) for approval on behalf of all Customers.

The Customer Funding Regulatory Framework (CFRF) forms the basis of the Agency's financial operations. A key aspect of this framework covers the issues contained within the overarching principles for funding eligibility:

- Definition of customers, internal and external and their roles and responsibilities;
- Coordination with existing programming and planning mechanisms;
- Recapitalization of ICT assets and equipment;
- Roles of the Agency Supervisory Board (ASB), Resource Policy and Planning Board (RPPB), Budget Committee (BC), and Investment Committee (IC);
- Service demand and requirements validation;
- Pricing of Agency services;
- Provision of independent advice to the NATO resource community;
- Roles of other stakeholders in the governance of the NCI Agency;
- Requirement for ICT Services and Capabilities;
- Procedures governing the use of the Operating Fund.

Governed by the Nations, the Operating Fund, in this context, performs the function of a repository for Accumulated Surpluses or Deficits and is a risk management reserve. A process has been put in place to return Operating Fund surpluses over the target level back to customers through Customer Rates rebates.

The main aim of the Customer Funding financial model is to empower the customer who can define requirements and/or volume of services and thus secure the best value for money in obtaining the services it requires. The concept also aims to ensure that the beneficiaries of the goods and services are those who pay the full costs of the benefits they receive. The customer states their requirements; generally in the context of the draft Service Level Agreement (SLA), Service Support Packages (SSP), Service Support Training Packages (SST), Capability Package (CP) or by submitting a Task Order (TO) or a Customer Request Form (CRF). The Agency confirms its ability to fulfil the requirements, and following internal staffing and coordination, proposes a cost for each service or capability requested based on approved Customer Rates and/or the CCSC. Operating as an integral part of NATO, the Agency must remain attentive to NATO's funding constraints and in close coordination with its customers to tailor its service levels to the requirements and priorities set by its customers.

By being Customer Funded, the Agency must recover all of its costs from the work and services it provides its customers. In line with the BC's guidance, the Customer Rates or professional labour fees are used to determine Service Rates and Agency charges to its customers, respectively by Project Service Costs (PSCs) for capability

development and Service Support Costs (SSCs) for ICT services, with the aim to achieve financial breakeven over time.

The Agency's Customer Rates are based on the actual costs as disclosed in the Annual Financial Statements Year-1, or from the latest and most accurate possible execution data from Year-1. Following the Nations approval, since 2017, the Customer Rates used are a single set of rates. This is offering more transparency and traceability of the Agency's cost structure, and allows for a more stable calculation methodology and comparison over the years.

Consistent with the CFRF, the Agency predominantly provides customers with CIS services based on Firm Fixed Price (FFP) agreements whereby the Agency delivers a specified set of goods or services for a fixed price. The use of FFP agreements reduce administration costs and provides customers with more stability and less risk as the Agency manages associated risks with delivering the goods or services within the agreed price unless otherwise agreed with the customer. The Agency's obligation is the delivery of goods and services in accordance with the agreed customer specifications, and the customers' obligation is the payment of the agreed amount. The Agency relies on the customer provided funding via advance payments and the timely payment of invoices to provide the cash flow for daily Agency business operations.

As part of the approved 2022 Business Plan and Financial Plan, the Agency has a Multi-Year Investment Plan covering Agency Internal Investments. In 2021, a sustainable funding via Customer Rates and reserve¹ mechanism was defined and approved by Nations. The 2022 funding portion of the plan was screened by the WGNT and approved by the Finance Committee in February 2022. The monitoring of 2022 investment projects are strengthened and reported regularly to the governance.

Asset Management initiated in 2021 is the highest priority programme within those included within Agency Internal Investments. The programme objectives are to increase maturity of NCI Agency Asset Management processes, support the Agency's ability to account correctly for its assets in Financial Statements, support services and operations, inform the Asset, Configuration, Patch and Vulnerability management (ACPV) process as part of cyber defence, and inform our asset replacement initiatives. A key objective was to ensure compliance with NATO

¹ AC/337-D(2021)0054 dated 10 December 2021 and AC/337-D(2021)0054-AS1 dated 17 December 2021

accounting standards in the area of Assets under Constructions, hence assets under construction data/balances are reported for the first time in the NCIO 2022 financial statements.

The Enterprise Business Applications (EBA) system, which is an essential component to support Agency management and financial internal control system, continues its roadmap of functionality releases. The programme went live with a portion of Release 2 (R2) Asset management, HR, and Acquisition, and made preparations for the subsequent releases contract award and implementation: Release 3 (R3) to provide Advanced HR functionality, and EBA Release 4 (R4) Enterprise Project Management which replaces the MS-EPM toolset. Throughout 2022, EBA release 4 was implemented with go live 01 January 2023.

Financial Statements Overview

Basis of Preparation

The NCIO Financial Statements are a formal record of the financial activities and position of the NCI Agency and the ASB Secretariat. These include an extensive set of notes to the financial statements describing each item on the statement of financial position, performance, cash flow and budget execution statement in further detail.

The NCIO Financial Statements are a standalone document and undergo a specific approval process as well as an audit by the International Board of Auditors for NATO (IBAN). For full visibility of the Agency's operating performance and strategic alignment to the NATO mission, readers should also consult the NCIO Annual Report.

In respect to the 2022 NCIO Financial Statements, these were prepared:

- for public disclosure
- on a going-concern principle
- on the basis of a single entity
- on an accrual basis and a historical cost convention, except as disclosed in the accounting policies and detailed notes

Amounts in the financial statements are stated in euro.

Compliance with Financial Regulations

The NCIO Financial Statements are submitted to the Agency Supervisory Board (ASB) and the International Board for Auditors of NATO (IBAN) in accordance with NAC approved standards, including the International Public Accounting Standards (IPSAS) as adopted through the NATO Accounting Framework and the NATO Financial Regulations (NFR). This is consistent with Article 53 of the Charter: "The General Manager shall submit to the ASB and the International Board of Auditors for NATO annual financial statements in accordance with NAC approved standards, including the International Public Sector Accounting Standards (IPSAS) as adopted by NATO, and the provisions of the NATO Financial Regulations".

The Financial Regulations that are applicable to NCIO are described in the Charter under Article 50: "The NCIO shall be governed by the provisions of the NATO Financial Regulations, subject to such derogations as may be approved by the NAC upon recommendation by the Resource Policy and Planning Board".

Article 35 of the NATO Financial Regulations: "An annual financial statement for each NATO body, consolidated where applicable and appropriate, shall be submitted for audit to the International Board of Auditors for NATO by the Financial

Controller not later than 31st March following the end of the financial year. The IBAN audit report, together with the associated financial statements, shall be finally noted or approved by the Council not later than 31 December."

Article 27 of the NATO Financial Regulations specifically relates to the Agency as a Customer Funded entity: "Customer-Funded bodies make agreements with customers to provide goods and services in accordance with Customer requirements. Customers' agreement will describe the requirements for how funds are to be made available to the Customer-Funded bodies and how the funds will be committed and carried forward; these requirements may be different from common-funded NATO bodies".

The NATO Communications & Information Agency Customer Funding Regulatory Framework is a fundamental part of the governance of the Agency, along with the NCIO Charter provisions. It's designed to deliver effective and efficient C&I service provision by NCI Agency by establishing mechanisms for validating Agency costs and for validation of all requirements, including ICT services, while future C&I capability requirements will continue to be provided through the Capability Package process with greater emphasis on ICT asset renewal which will be on a biennial schedule to ensure that technology upgrades and replacement of obsolescent equipment keeps up with the military requirement.

Financial Performance and Position Highlights

Total revenues for 2022 amount to 709.4 MEUR, a decrease of 23.5 MEUR or 3% from 2021, and include:

- 168.6 MEUR of acquisition revenue earned as Host Nation and procurement principal for NSIP, NATO Entities and Nations, an increase of 6.4 MEUR or 4% from previous year;
- 341.5 MEUR of operating, services and project support revenue contracted, using BC approved Customer Rates, for the provision and acquisition of CIS capabilities and services, an increase of 15.9 MEUR or 5% from previous year which reflects the higher demand for services and projects;
- 191 MEUR of operating and external CIS revenue earned in direct support of the delivery of services, a decrease of 35.9 MEUR or 16% from previous year ;
- 4.9 MEUR of other operating revenue earned in the provision of other support services provided to hosted entities as well as contribution revenue from Nations for the execution of the NCIO Independent Secretariat budget

- 3.3 MEUR earned from favourable foreign exchange rate variances and, to a minor extent interest earned.

Total expenses for 2022 amount to 721.9 MEUR, an increase of 25 MEUR or 3.6% from 2021 and include:

- 98.3 MEUR of acquisition costs incurred in the procurement, on behalf of the Investment Committee (IC), other NATO entities and Nations, of CIS capabilities and services from industry, increase of 14.1 MEUR or 16.7% from previous year;
- 282.9 MEUR of costs related with the civilian personnel employed during the year (in compliance with NATO Civilian Personnel Regulations, NAC approved salary scales and allowances), and Interim Workforce Contractors, temporary staff and consultants, increase of 15.2 MEUR or 6% from previous year;
- 236.3 MEUR of costs for Contractual Supplies and Services, a decrease of 9.9 MEUR or 4% from previous year, which include operating and external CIS costs in direct support of the delivery of services, costs related to the execution of capabilities' projects as well as running costs of the Agency facilities and equipment, largely due to the end of the Resolute Support mission and some delays in deliveries due to the distortion of the global supply chain.
- 7.2 MEUR cost from an in-year provisions mainly on active projects and services the Agency is delivering.
- 94.3 MEUR of depreciation expense for Property Plant and Equipment and intangible assets, increase of 3.6 MEUR from previous year mainly triggered by the inclusion of in-services assets of completed AuC;
- 2.7 MEUR of expenses from unfavourable foreign exchange rate variances, including revaluation impact of foreign exchange positions and bank transaction fees related to conversion of currencies.

Net result for the year is a deficit of 12.4 MEUR compared to a surplus of 36 MEUR in prior year.

Total assets amount to 1.25 BEUR an increase of 114.2 MEUR or 10% from previous year. Total Liabilities amount to 1.12 BEUR, an increase of 126.7 MEUR or 12.8% from previous year.

Total Net Equity and Operating Fund

In line with the NFRs applicable to the Agency Customer Funding regime and the Customer Funding Regulatory Framework, the Agency maintains, as part of its Total Net Equity, an Operating Fund. This serves as a limited source of working capital and acts as buffer to absorb the surpluses or deficits from Agency's operating

results. The use and level of the Agency Operating Fund is fully governed by Nations and distinguished separately governed components.

At 31 December 2022, the Agency Total Net Equity amounts to 133 MEUR broken-down as follows:

- 88.4 MEUR of Reserved Earnings, composed of (1) the remaining Transition Reserve of 2.1 MEUR; (2) Internal Investment reserve(A2I) of 6.5 MEUR; (3) the Depreciation Reserve, amounting to 17.1 MEUR, related to assets not yet fully depreciated, and (4) the Inventory Reserves amounting to 62.7 MEUR
- 44.6 MEUR of Retained Earnings, which equal the Operating Fund (as per the IBAN guidance and ASB Finance Committee decision, depreciation reserve is no longer considered as part of the Operating Fund).

Internal Control Framework

Internal control helps entities to achieve objectives and sustain and improve performance. NCIO has an Internal Control Framework (ICF) that has been designed considering the components and associated principles of the COSO's Internal Control - Integrated Framework'. It enables NCIO to effectively and efficiently reinforce the system of internal control that adapts to changing business and operating environment, mitigate risks to acceptable levels, and support sound decision making and governance of the organization. The NCIO ICF is subject to continuous improvements, under the supervision of NCI Agency Internal Control Panel and the Financial Controller. This panel meets regularly to: oversee the implementation of the ICF across the Agency, oversee development & deployment of related policies and procedures, recommend priorities and objectives to the GM and identify opportunities, risks, control weaknesses, and correcting measures to the GM.

Risk Management

The Agency operates an Enterprise Risk Management (ERM) system with Corporate, Programme and Project level risk registers.

The Agency's top risk landscape is dynamic and is made up of risks that can be Agency-wide and/or systemic in nature.

The Agency regularly reviews its top risks at the Executive level taking account of the context in which the Agency operates, its risk appetite, as well as the probability of the risk occurring and its impact.

Such Executive level review takes place a minimum of once per year with regular quarterly monitoring and reporting.

All Agency top risks are assigned to an accountable Risk Owner (usually an Executive) to manage. Other lower level (in terms of probability and impact) risks are managed and documented in the business and service areas risk registers.

Besides the thirteen risks the Agency is reporting as key Agency-level risks, some other risks have been identified as relevant to the financial perspective and could result in either a Provision, Contingent liability or Event after reporting date. More information on Provisions, Contingent Liabilities and Event after reporting date can be found within the Financial Statements detailed notes.

The Agency continues to mature its ERM, through a documented process, trainings, workshops, presentations and communications to staff as well as reinforcing the activities to review, mitigate and regularly report on risks. The Agency also separately tracks the issues it faces.

External and Internal Audit

As a chartered NATO Organisation, the Agency financial statements, performance and underlying transactions are audited by the IBAN upon mandate from the NAC. The Agency also has its own body of Internal Auditors, whom, under the direct authority of the Agency Supervisory Board, perform internal audits for assurance and consulting activities related to governance, risk management and internal control.

External Audit

In 2022, the International Board of Auditors for NATO (IBAN) led an external audit activity into the 2021 NCI Organisation Financial Statements. IBAN issued a qualified opinion on the financial statements and compliance.

The Agency, under the remit of its supervisory board, is undertaking the necessary actions to remediate all outstanding observations. For the first observation on the Material incompleteness of PPE and intangible assets that has led to the IBAN qualified opinion, the Agency has taken actions to address the observation. Within these financial statements Assets under Construction and the related in-service PPE and intangible assets have been included for the first time.

IBAN has already initiated the interim audit of the 2022 Financial Statements at the time of the publication of these statements. As per the NFR the NCIO Financial Statements are submitted to IBAN and ASB by 31 March. In accordance with the NCIO Charter, the ASB will approve the Financial Statements once IBAN audit results are published, taking in consideration the advice of the ASB Audit Committee.

Internal Audit

The Agency's internal audit activities are a significant part of its overall control structure, and directly impacted its performance in 2022.

Over the year, Internal Audit completed 1 advisory and 7 compliance engagements; it also provided consultancy services to management in various areas. The completed engagements spanned several thematic areas and covered reviews of project management activities, operational processes, corporate and administrative processes and information technology areas.

The Agency continues to improve its methods and processes used to monitor the implementation of audit recommendations and realized significant improvement throughout the year.

Over 2022, management successfully closed 12 internal audit and 6 IBAN observations.

Internal Audit will continue performing follow up missions and will report on the status of the implementation of the recommended actions during 2023 to Agency management and the ASB Audit Committee.

Finally, IA continued to support the implementation of the NATO Financial Regulations and the NCIO Financial Rules and Procedures and also contributed to the review and implementation of the NCIO Internal Control Framework as well as to the development of the NCIO Risk Appetite Framework. The Agency's internal audit activities are a significant part of its overall control structure, and directly impacted its performance in 2022.

NCIO Statement of Financial Position

For the year ended 31 December 2022

(all figures are in Euro)

		NCIO		
	Note	2022	2021 Restated	2021
ASSETS				
Current Assets				
Cash and Cash Equivalents	1	253,752,900	186,715,840	186,715,840
Receivables	2	172,590,401	219,308,517	224,437,665
Prepayments and Miscellaneous Assets	3	7,328,355	9,531,413	9,531,413
Inventory	4	64,250,453	76,028,938	39,683,824
Work in Progress	5	4,303,859	2,444,034	2,444,034
Other Current Assets		-	-	-
Total Current Assets		502,225,968	494,028,742	462,812,776
Non-Current Assets				
Financial Assets		-	-	-
Non-current Receivables	6	547,854	547,885	547,885
Property, Plant and Equipment	7	389,547,403	319,380,734	1,771,289
Intangible Assets	7	357,507,797	321,635,558	-
Other Non-Current Assets		-	-	-
Total Non-Current Assets		747,603,054	641,564,177	2,319,174
TOTAL ASSETS		1,249,829,022	1,135,592,919	465,131,950
LIABILITIES				
Current Liabilities				
Payables	8	102,347,377	104,945,774	104,945,774
Deferred Revenue and Advances	9	331,578,390	295,793,094	233,052,242
Other Current Liabilities	10	23,098,895	13,709,518	13,526,827
Total Current Liabilities		457,024,662	414,448,386	351,524,843
Non-Current Liabilities				
Non-Current Payables		-	-	-
Non-Current Deferred Revenue and Advances	9	650,484,401	567,770,247	-
Non-Current Borrowings		-	-	-
Provisions	11	9,275,991	7,853,511	12,982,657
Total Non-Current Liabilities		659,760,392	575,623,758	12,982,657
TOTAL LIABILITIES		1,116,785,054	990,072,144	364,507,500
NET ASSETS/EQUITY				
Retained Earnings	28	44,644,724	52,263,345	49,373,895
Reserved Earnings	27	88,399,244	93,257,430	51,250,555
TOTAL NET ASSETS/EQUITY		133,043,968	145,520,775	100,624,450
TOTAL LIABILITIES AND NET ASSETS/EQUITY		1,249,829,022	1,135,592,919	465,131,950

NCIO Statement of Financial Performance

For the year ended 31 December 2022

(all figures are in Euro)

		NCIO		
	Note	2022	2021 Restated	2021
REVENUE				
Project and Support Services Revenue	12	341,510,524	325,626,507	356,874,301
External Services Revenue	13	191,023,356	227,018,189	213,978,904
Acquisition Revenue	14	168,609,341	162,236,196	227,669,511
Other Revenue	15	4,923,171	14,421,931	14,421,931
Financial Revenue	24	3,334,994	3,595,331	3,605,970
TOTAL REVENUE		709,401,386	732,898,154	816,550,617
EXPENSES				
Cost of Acquisition	16	(98,274,356)	(84,157,627)	(225,463,767)
Personnel Costs	17	(282,957,486)	(267,719,712)	(314,713,795)
Contractual Supplies and Services	20	(236,312,994)	(246,259,699)	(241,294,065)
Depreciation and Amortisation	21	(94,303,786)	(90,699,916)	(1,491,773)
Provisions Expenses	22	(7,277,874)	(7,147,704)	(7,147,704)
Financial Expenses	24	(2,751,697)	(912,270)	(916,672)
Other Expenses		-	-	-
TOTAL EXPENSES		(721,878,193)	(696,896,928)	(791,027,776)
SURPLUS/(DEFICIT)		(12,476,807)	36,001,226	25,522,841
Distributed(net) to Retained Earnings	28	(7,618,621)	22,818,511	21,200,056
Distrubuted(net) to Reserved Earnings	28	(4,858,186)	13,182,715	4,322,785

NCIO Statement of Cash Flows

For the year ended 31 December 2022

(all figures are in Euro)

CASH FLOWS FROM OPERATING ACTIVITIES

Surplus/(Deficit) for the Period
Depreciation and Amortisation
Revaluation of Assets
Decr./((Incr.) Receivables
Decr./((Incr.) Prepayments and Miscellaneous Assets
Decr./((Incr.) Inventory
Decr./((Incr.) Work in Progress
Decr./((Incr.) Other Current Assets
Incr./((Decr.) Payables
Incr./((Decr.) Deferred Revenue and Advances
Incr./((Decr.) Non-Current Deferred Revenue and Advances
Incr./((Decr.) Borrowings
Incr./((Decr.) Other Current Liabilities
Incr./((Decr.) Provisions
NET CASH FLOWS FROM OPERATING ACTIVITIES

CASH FLOWS FROM INVESTING ACTIVITIES

Decr./((Incr.) Financial Assets
Decr./((Incr.) Non-current Receivables
Decr./((Incr.) PP&E and Intangible Assets
Decr./((Incr.) Other Non-Current Assets
NET CASH FLOWS FROM INVESTING ACTIVITIES

CASH FLOWS FROM FINANCING ACTIVITIES

Incr./((Decr.) Non-Current Payables
Incr./((Decr.) Non-Current Borrowings
Incr./((Decr.) Other Non-Current Liabilities
NET CASH FLOWS FROM FINANCING ACTIVITIES

NET INCR./((DECR.) CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD

Incr./((Decr.) Cash and Cash Equivalents
--

CASH AND CASH EQUIVALENTS AT END OF PERIOD

NCIO

2022 2021 Restated 2021

(12,476,807)	36,001,226	25,522,841
92,852,739	62,517,644	1,483,743
-	-	-
46,718,117	(9,675,372)	(14,804,517)
2,203,058	(3,048,684)	(3,048,684)
11,778,484	9,105,655	3,077,925
(1,859,825)	3,313,677	3,313,677
-	-	-
(2,598,397)	(10,174,697)	(10,174,697)
35,785,296	(477,585,002)	15,894,714
82,714,154	577,143,050	-
-	-	-
9,389,376	1,200,528	1,194,291
1,422,480	(11,782,227)	(6,653,081)
265,928,676	177,015,800	15,806,212
-	-	-
31	653,745	653,745
(198,891,647)	(162,666,154)	(1,456,566)
-	-	-
(198,891,616)	(162,012,409)	(802,821)
-	-	-
-	-	-
-	-	-
-	-	-
67,037,060	15,003,391	15,003,391
186,715,840	171,712,449	171,712,449
67,037,060	15,003,391	15,003,391
253,752,900	186,715,840	186,715,840

NCIO Statement of Change in Net Assets/Equity

For the year ended 31 December 2022

(all figures are in Euro)

BALANCE AT BEGINNING OF PERIOD
Net surplus/(deficit) for the period
BALANCE AT END OF PERIOD
RESERVES AT BEGINNING OF PERIOD
Net increase/(decrease) of bookvalue of property, plant and equipment
Net increase/(decrease) of Internal Investments reserves
Net increase/(decrease) of Transition reserves
Net increase/(decrease) of Inventory reserves
Net increase/(decrease) of currency translation differences
RESERVES AT END OF PERIOD
RETAINED EARNINGS AT END OF PERIOD (OF)
NET ASSETS/EQUITY AT END OF PERIOD

NCIO Statement of Change in Net Asset/Equity detail can be found under note C.

NCIO		
2022	2021 Restated	2021
145,520,775	109,519,549	75,101,609
(12,476,807)	36,001,226	25,522,841
133,043,968	145,520,775	100,624,450
93,257,430	46,927,772	46,927,772
6,369,748	8,944,197	(1,324,818)
647,751	5,820,000	5,820,000
(74,278)	(172,399)	(172,399)
(11,801,407)	31,737,860	-
-	-	-
88,399,244	93,257,430	51,250,555
44,644,724	52,263,345	49,373,895
133,043,968	145,520,775	100,624,450

NCIO Budget Execution Statement

For the year ended 31 December 2022

(all figures are in Euro)

BUDGET

Chapter 1 - Personnel	
Chapter 2 - Contractual supplies and services	
Chapter 3 - Investments	
Total Fiscal Year 2022	
Chapter 1 - Personnel	
Chapter 2 - Contractual supplies and services	
Chapter 3 - Investments	
Total Fiscal Year 2021	
Chapter 1 - Personnel	
Chapter 2 - Contractual supplies and services	
Chapter 3 - Investments	
Total Fiscal Year 2020	
TOTAL	

NCIO Budget Execution Statement detail can be found under note D.

NCIO									
Initial Budget	Transfers	Budget Revision	Transfers	Final Budget	Net Commitment	Expenses	Total Spent	Carry Forward	Lapsed
1,124,006	-	57,633	-	1,181,639	-	1,172,662	1,172,662	-	8,977
234,841	-	-	-	234,841	-	166,233	166,233	-	68,608
-	-	-	-	-	-	-	-	-	-
1,358,847	-	57,633	-	1,416,480	-	1,338,895	1,338,895	-	77,585
167,787	-	-	-	167,787	-	167,787	167,787	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
167,787	-	-	-	167,787	-	167,787	167,787	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
1,526,634	-	57,633	-	1,584,267	-	1,506,682	1,506,682	-	77,585

Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with the NATO Accounting Framework (NAF) which is based upon International Public Sector Accounting Standards (IPSAS). IPSAS 6 – Consolidated financial statements and accounting for controlled entities, IPSAS 12 – Inventories, IPSAS 17 - Property, Plant and Equipment and IPSAS 31 - Intangible Assets were adapted by the Council in August 2013 and IPSAS 1 – Presentation of Financial Statements, was adapted by the Council in April 2016.

In addition, where certain financial reporting requirements are required by the NATO Financial Regulations (NFR), these are also met.

The Financial Statements are prepared on the going-concern basis which means that those charged with governance of NCIO consider that they believe NCIO will continue in existence for at least a year from the date the financial statements are issued.

The preparation of financial statements in compliance with the NAF requires the use of certain critical accounting estimates and requires that those responsible for preparing and presenting the financial statements of NCIO use judgement in applying these accounting policies. The areas where significant judgements and estimates have been made in preparing the financial statements and their effect are disclosed in the notes to the financial statements.

The policies have been consistently applied to all the years presented.

Changes in Accounting Policies/Standards

IPSAS 3 – Accounting Policies, changes in accounting estimates and errors requires that “A change in the accounting treatment, recognition, or measurement of a transaction, event, or condition within a basis of accounting is regarded as a change in accounting policy”.

The Agency has changed at the start of FY2022:

- Revenue derived from CIS/AIS assets for which NCIO is acting as a service provider to NATO Commands, NATO IS and IMS as per the NATO Accounting Framework, the revenue recognition is consistent with the depreciation or amortization pattern/economic lifetime of the related assets that are controlled and capitalized by NCIO.
- The practice of depreciating or amortising of assets on a full year basis, i.e. regardless of whether an item was available for use at the beginning of the year or at the end into the new practice, the depreciation method of straight-line on a pro-rata basis.

- PPE items below capitalisation thresholds that are kept at the warehouse as stockable items are part of the inventory holding/balances

Restatements/Reclassification

The Agency has restated and or reclassified the comparative numbers of the Statement of Financial Position, Financial Performance and Cash Flow Statement and updated detailed notes (where applicable) as a result of

- an accounting error by not disclosing the self-constructed assets (assets under construction/development) for Property, Plant, and Equipment and Intangibles assets
- an accounting error in the statement of position Liabilities/Provision and Assets/Receivables (Impairment)
- and the aforementioned changes in the accounting policy/standards.
- An accounting error by not disclosing the operational leases.

From the start of Year 2022, the Agency corrected prior year errors by disclosing the Assets under construction/development and self-constructed assets for Property, Plant, and Equipment and Intangibles assets in compliance with the NATO Accounting Framework and additional policies on PPE and Intangible assets approved by the NAC.

The Agency followed the approach as stated in the Report by the Resource Policy and Planning Board on the NAF; “NCIO requires a transition period to allow the application of this significant and constructive improvement in accounting for CIS assets. It is therefore proposed that this change take effect for the reporting period starting as of 1 January 2018. This represents an adaptation that would apply to all new development programmes after this date but also to existing CIS construction and development programmes that continue after 1 January 2018. NCIO shall, from 1 January 2018, provide in the notes to the financial statements further disclosure on types and the locations of assets that were under construction and development prior to 1 January 2018”.

Upcoming changes in accounting Standards;

- IPSAS 41 – Financial Instruments (effective 1 January 2023)

This standard will replace part of IPSAS 29 - Financial Instruments: Recognition and Measurement. NCIO's Financial Instruments are considered low risk. Its financial assets are considered to be at very low risk because the Agency can only make low risk investments and its Accounts Receivable are essentially backed by government guarantees. Its Financial Liabilities are also low risk and are made up of accounts payable and advances provided by customers. The Agency does not engage with complex financial instruments such as hedges or derivatives, neither does it purchase

and hold equity instruments. The nature of the financial instruments held by NCIO means that IPSAS 41 is unlikely to impact upon its Financial Reporting.

- IPSAS 42 – Social Benefits (effective 1 January 2023)

This standard relates to the financial reporting of social benefits such as cash transfers to individuals in the form of state pensions, unemployment benefits and income support; as such, it will not impact upon the financial reporting of NCIO.

- IPSAS 43 – Leases (effective 1 January 2025)

This standard will replace IPSAS 13.

This standard, released in January 2022, will align IPSAS to International Financial Reporting Standard 16, which relates to Leases. The standard will remove the distinction between finance and operating lease and require the recognition of assets and liabilities created by all leases. NCIO is analyzing the implications of IPSAS 43 in its financial reporting.

Revenues and Revenue Recognition

NCIO operates under Customer Funding Regulatory Framework and the vast majority of NCIO's revenue is Customer Funded revenue which is subdivided into:

- Project and Support Services Revenue (e.g. Scientific Programme of Work (POW) and Infrastructure Committee project service costs, SLA External CIS and service support costs).
- External Services Revenue (e.g. Services Level Agreement External CIS)
- Acquisition revenue, for which NCIO considers it is the procurement principal on behalf of sponsors, NATO entities or Member Nations.
- Other revenue mainly represents reversal of 'unused' provisions and contributions income from the NCIO's Independent Secretariat budget which is common funded and the ASB approves the structure and its annual budget, which is based on the Budget committee cost share model.

Revenue recognition; measurement and timing

Provided the amount of revenue can be measured reliably and it is probable that NCIO will receive payment, revenue for goods and services delivered is recognised when NCIO has transferred the significant risks and rewards of ownership and it is probable that NCIO will receive payment for delivering goods and services. These criteria are considered to be met when the goods or services are delivered to the customers' satisfaction.

For all Customer Funded revenue, revenue is recognised by reference to the stage of completion or the cost burn rate, depending on the type of funding agreement; firm fixed price or cost reimbursable. For the budget revenue, income is recognised at the moment an expense is incurred as the revenue is guaranteed to be funded by member Nations.

With respect to revenue derived from CIS/AIS assets for which NCIO is acting as a service provider to NATO Commands, NATO IS and IMS as per the NATO Accounting Framework, the revenue recognition is consistent with the depreciation or amortization pattern of the related assets that are controlled and capitalized by NCIO. As it cannot be identified separately from other sources of revenue and reliably measured, the corresponding amount of revenue is estimated by reference to the costs capitalized in accordance with IPSAS 17 – Property, Plant and Equipment or IPSAS 31 – Intangible Assets (see above section "Assets under Construction").

Revenue from transactions in the scope of IPSAS 11 – Construction Contracts is also recognized by reference to the stage of completion when the outcome of the construction contract can be estimated reliably. When this is not the case, revenue is

recognized only to the extent of contract costs incurred that it is probable will be recoverable.

Expenses Recognition

NCIO has the following main categories of costs:

- Acquisition: costs relating to goods and services procured as a principal on behalf of sponsors, NATO entities or Member Nations.
- Personnel: costs derived from the employment of civilian personnel, as per NATO regulations, including salaries, allowances, pension contributions, recruitment and moving costs, but also training, medical and Interim Workforce Contractors, temporary staff and consultants.
- Contractual supplies and services: costs pertaining to goods and services procured from industry either directly in support of the delivery of services and capabilities or required for the normal functioning of the Agency's facilities and equipment.
- Depreciation, amortisation and provisions: costs related to usage of capitalised Agency assets, spread on a straight-line over their economic life, and costs related to the variance of Agency reserves (e.g. reserve for future losses, reserve for untaken leave).
- Foreign currency exchange and financial gains/losses: payments by NATO Bodies and Host Nations may be made in a variety of currencies. Gains/losses on foreign currency exchanges occasionally occur between the time of assessment and the time of payment. These differences are assessed and either refunded, charged or absorbed by the NCI Agency, depending on the agreement with the Customers. Gains or losses are recognised in the accounts in the period in which they occur.

Expenses are recognised when an invoice is posted or accrued, which reflects the point at which a good or service is received to the NCIO's satisfaction.

Financial Plan Execution

IPSAS 24 - Presentation of Budget Information in Financial Statements applies to public sector entities which are required or elect to make their approved budgets publically available.

NCIO, under full Customer Funding, has no budget but an Annual Financial Plan which is approved by the ASB under the NCIO Charter, and which includes a statement of planned income (revenue) and expenditure (expenses).

Per above however, NCIO still has some budget elements for which specific individual budget execution statements have been prepared and disclosed.

Cash Flow Statements

IPSAS 2 – Cash Flow Statements allows the choice between presenting the cash flow based on the direct method or indirect method. NCIO has elected to use the indirect method of presentation in these financial statements.

Foreign Currency

Transactions entered into by NCIO in a currency other than the currency of the primary economic environment in which they operate (their "functional currency"; which is Euro for NCIO) are recorded at the exchange rates in effect when the transactions occur. The use of exchange rates does not materially impact the financial statements.

Foreign currency transactions are recorded by converting the foreign currency amount at the BC conversion rates valid at the date of the transaction. NSIP and Third Party acquisition transactions are converted using the quarterly exchange rates issued by the IC. This rate is imposed by the IC and allows the NCI Agency to get reimbursed for all exchange, bank and miscellaneous financial results.

NCIO applied the following principles for reporting foreign currency items at each reporting date: foreign currency monetary items have been translated using the closing rate. Items that are measured in terms of historical cost in a foreign currency have been translated using the exchange rate at the date of the transaction.

The Agency recognises all exchange differences as revenues or as expenses in the Statement of Financial Performance in the period in which they arise.

Financial Assets

The financial assets of NCIO are cash and cash equivalents, accounts receivable and prepayments. They are measured at fair value. Changes in fair value are recognised in the Statement of Financial Performance.

Financial Liabilities

The financial liabilities of NCIO are accounts payable, accruals, customer advances, unearned revenues, provisions for costs and contingencies and miscellaneous items. They are measured at fair value. Changes in fair value are recognised in the Statement of Financial Performance.

Receivables

Receivables are measured at Net Realisable Value after taking bad and doubtful debts into account. As a general rule, the Agency considers that as it works with customers which are funded through national governments, that debts are considered to be "good"; only on rare occasions provisions are made for bad or doubtful debts.

Accounts Payable

Accounts Payable represent amounts for which goods and services, supported by a vendor invoice, have been received at the year-end but which remain unpaid. Accounts payable includes, services and goods received supported by an unpaid invoice and estimates of accrued obligations for goods and services received but not yet invoiced by the vendors.

Advances and/or Unearned Revenue

In order to ensure that Customer and budget requirements can be met, NCIO can call for money in advance of need to provide adequate cash flow. The advance is shown as an asset but is matched by a liability because until the funds are used, they are owed back to the Customer who provided the funding.

Prepayments

When NCIO makes advance payments to vendors these are reflected as prepayments in the Statement of Financial Position.

Retirement Benefits: Provident Fund and Defined Contribution Pension Scheme

Contributions to Provident Fund and DCPS are charged to the Statement of Financial Performance in the year to which they relate. NCIO is not exposed directly to any liabilities that may arise on the scheme and have no control over the assets of the scheme which is accounted for centrally at NATO Headquarters.

Retirement Benefits: Defined Benefit Pension Scheme Contributions to the NATO Defined Benefit Pension Scheme are charged to the Statement of Financial Performance in the year to which they relate. NCIO is not exposed directly to any liabilities that may arise on the scheme and has no control over the assets of the scheme which is accounted for centrally at NATO Headquarters.

Other Long-Term Service Benefits

Employment of NATO civilian staff is governed by the NATO Civilian Personnel Regulations. Different rules apply depending on the circumstances of employment. Where there is a liability for potential long-term service benefits at the year-end, they are described and disclosed in the notes to the Financial Statements.

Leased Assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to NCIO (a "finance lease"), the asset is treated as if it had been purchased outright. NCIO has no finance leases.

Where substantially all of the risks and rewards incidental to ownership are not transferred to NCIO (an "operating lease"), the total rentals payable under the lease are charged to the Statement of Financial Performance on a straight-line basis over the lease term. Examples of operating leases can include photocopiers and cars.

Property, Plant and Equipment (PPE) and Intangible Assets

PPE and intangible assets are recognised when it is an asset controlled by NCI Agency. Assets, of which PPE is a type, are defined by IPSAS as "Resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity". Control of an asset is defined by IPSAS as arising "when the entity can use or otherwise benefit from the asset in pursuit of its objectives, and can exclude or otherwise regulate the access of others to that benefit." In addition, the NATO Accounting Framework has established criteria as to assist in assessing the level of control that any NATO Reporting Entity has for reporting assets in its financial statements

Per the NATO Accounting Framework (NAF) – adapted IPSAS 17, NCIO has adapted its accounting for 2012 and 2013 in considering all PPE acquired prior to 1 Jan 2013 as fully expensed, per the NAF, a brief description of such PPE is presented as an Annex to this document (NAF disclosures).

Furthermore the NAF clarifies that the NATO Communication and Information Organisation (NCIO) acts as a service provider for CIS and/or Automated Information Systems (AIS) assets (including the construction of these assets) for the NATO Military Commands (Allied Command Operations (ACO) and Allied Command Transformation (ACT)) as well as for the International Staff (IS) and the International Military Staff (IMS). NCIO has control over these assets because it uses them to provide goods and services to its customers and has to report them in its Financial Statements. As per the NAF NCIO shall capitalise all CIS Assets under Construction (AuC) starting as of 1 January 2018. This shall apply for all new CIS AuC after 1 January 2018, but also for existing AuC that continue after 1 January 2018.

NCIO may consider CIS AuC prior to 1 January 2018 as fully expensed.

NCIO shall from, 1 January 2018, provide in the notes to the financial statements further disclosure on types and the locations of CIS assets that were under construction prior to 1 January 2018.

The Agency consider Assets under Construction(AuC)/Constructed and Assets under Development(AuD)/Developed prior to 01 January 2018 as fully expensed, a brief description of such AuC and AuD is presented as an Annex to this document (NAF disclosures).

Also per the NCIO Charter, NCIO is to assume ownership of all IT assets and IT infrastructure from the NATO commands.

Property, Plant and Equipment (PPE) and intangible assets.

NCIO controlled PPE and intangible assets are recognised at cost. Cost includes the purchase price, (including import duties, non-refundable purchase taxes, and deducting trade discounts and rebates) and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating, such as costs of site preparation, initial delivery and handling costs and installation costs. For each category of PPE/intangible assets capitalisation threshold values per item are defined. Items with a value below the applicable threshold will be expensed.

Depreciation is provided on all items of PPE so as to reduce its carrying value over the expected useful economic lives. The NATO Accounting Framework (NAF) and their associated capitalisation thresholds per item are:

SUB CATEGORIES	PP&E Thresholds	Economic Life Time	Annual Deprec. %
CLASS 1: PLAND AND EQUIPMENT			
CATEGORY 1.1: AUTOMATIC DATA PROCESSING EQUIPMENT (NAF: AUTOMATED INFORMATION SYSTEMS)	50,000	3	33.33%
CATEGORY 1.2: COMMUNICATION SYSTEMS (NAF: COMMUNICATIONS)	50,000	3	33.33%
CATEGORY 1.3: MACHINERY (NAF: MACHINERY)	30,000	10	10.00%
CATEGORY 1.4: INSTALLED EQUIPMENT (NAF: INSTALLED EQUIPMENT)	30,000	10	10.00%
CATEGORY 1.5: FURNITURE (NAF: FURNITURE)	30,000	10	10.00%
CATEGORY 1.6: TRANSPORT EQUIPMENT (NAF: VEHICLES)	10,000	5	20.00%
CATEGORY 1.7: MISSION EQUIPMENT (NAF: MISSION EQUIPMENT)	50,000	3	33.33%
CLASS 2: LAND AND BUILDINGS			
CATEGORY 2.1: LAND (NAF: LAND)	200,000	N/A	N/A
CATEGORY 2.2: BUILDINGS (NAF: BUILDINGS)	200,000	40	2.50%
CATEGORY 2.3: INFRASTRUCTURE (NAF: OTHER INFRASTRUCTURE)	200,000	40	2.50%

CLASS 3: INTANGIBLE ASSETS			
CATEGORY 3.1: SOFTWARE (NAF: COMPUTER SOFTWARE(COMMERCIAL OF THE SHELF); COMPUTER DATABASE, INTEGRATED SYSTEM)	50,000	4	25.00%
CATEGORY 3.2: RIGHTS OF WAY, INTELLECTUAL PROPERTY RIGHTS (IPR'S), ADMINISTRATIVE CONCESSION RIGHTS (NAF: COPYRIGHTS, INTELLECTUAL PROPERTY RIGHTS)	50,000	N/A	N/A
CATEGORY 3.3: INVESTMENTS IN RESEARCH AND DEVELOPMENT (R&D) (NAF: SOFTWARE DEVELOPMENT)	50,000	N/A – Tested annually for impairment	N/A
CATEGORY 3.4: SOFTWARE (NAF: COMPUTER SOFTWARE (BESPOKE))	50,000	10	10.00%

The Agency re-aligned Property Plant and Equipment (PPE) and Intangible Asset capitalization thresholds with the NATO Accounting Framework upper ceilings as from Financial Year 2019.

Assets under Construction/Development (AuC) is presented as an additional line to the existing PPE subcategories (PPE Table) as long the development phase is not finalised and/or the tangible or intangible asset produced is not put in service.

Following cost Elements are eligible for capitalization towards the AuC; Cost of Material, Site preparation costs, Installation and assembly costs, Project management costs, Project service costs, Internal engineering service costs, Professional fees (Architecture and Engineering fees), Direct Attributable labour cost and any other direct attributable cost.

Land and Buildings

The NCIO occupies buildings and facilities at various locations NATO wide (and in the locations of NATO operations) and all provided for free by the Host Nation or the hosting Organisation.

As of 2013, even though some buildings were previously valued and recognised as assets, under the NAF the NCIO elected to show these as expensed when acquired prior to 1 Jan 2013.

Depreciation

Depreciation is calculated on a straight-line pro-rata basis on all PP&E. Land and Assets under Construction are not subject to depreciation.

According to the NATO Accounting Framework, costs related to capabilities in support of Allied Operation Missions (AOM) must be capitalised and depreciated over 12 months.

Inventories

Inventories are assets in the form of materials or supplies to be consumed or distributed in the production process or in the rendering of services or held for sale or distribution in the ordinary course of operations or in the process of production for sale or distribution. Inventories are measured at the lower of cost or current replacement cost. The cost of standard items of inventories is measured by using the weighted average cost formula.

Under the full Customer Funding regime as of 2014, and per its Charter, NCIO is now considered as procurement principal for the inventories and as a result, now accounts for all inventories.

NCIO is applying the NATO Accounting Framework – adapted IPSAS 12 – except for the element of adjusting the inventory balances for all inventory acquired prior to 1 Jan 2013. NCIO CIS/AIS inventories are deemed strategic in nature and are required to assure the delivery of services by NCIO to our customers and is in line with Service Level Agreements, Service Support Projects and Operational Level Agreements. These items are often, due to their nature, slow moving. These items cannot be readily replaced by commercial off the shelf items or cannot be purchased due to market decisions to close production lines of key inventory items due to the advanced age of the strategic asset to which the stock relates.

The NATO Accounting Framework clarifies that the acts as a service provider for inventory of CIS and/or Automated Information Systems (AIS) for the NATO Military Commands (Allied Command Operations (ACO) and Allied Command Transformation (ACT)) as well as for International Staff (IS) and International Military Staff (IMS). NCIO has control over these inventories because it uses them to provide goods and services to its customers and has to report them as inventories in its financial statements.

NCIO has not applied capitalisation thresholds towards the Inventory holdings..

Provisions

NCIO recognises provisions for liabilities of uncertain timing or amount including those for legal disputes. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date. The reversal of the unused provision is recognized under 'Other Revenue' in the Statement of Financial Performance.

Contingent Liabilities

NCIO discloses in the notes to the Financial Statements contingent liabilities where:

- the NCIO is exposed to possible financial liabilities that arose from events which occurred before the year-end, and where the confirmation of the existence of the liability will only be known through the occurrence or non-occurrence of one or more uncertain future events not wholly within the organisations control, or,
- The NCIO is exposed to a current financial liability which arose from events which occurred before the year-end where NCIO does not believe it will be required to pay for the financial liability, or the amount of the financial liability cannot be measured with sufficient reliability.

- The definition of Operating Fund as the accumulated surplus or deficit fund equalling the sum of retained earnings, but no longer comprising of depreciation reserve.

Per the above and as of the 2019 Financial Statements the Operating Fund, per Nations guidance, is considered equal to the cumulated Retained Earnings hence excluding reserves.

Oversight of the performance and use of the Operating Fund is the responsibility of the Nations.

Net Assets/Equity including Operating Fund

Net Equity is, per the NAF/IPSAS, reflected in the Agency's Annual Financial Statements under the Statement of Financial Position, equalling the balance between total Assets and total Liabilities.

Net Assets/Equity are subdivided into:

- Retained Earnings, considered as accumulated surplus and deficit available for distribution
- Reserves, considered as accumulated surplus and deficit that are reserved for a specific purpose, and thus not available for distribution

NCI Agency operates under Customer Funding Regulatory Framework, approved by Council. The approved policies and procedures of this Customer Funding financial regime that authorise and regulate the use of the NCI Agency Operating Fund during this reporting period are;

- NFRs (C-M(2015)0025 dated 4 May 2015) and the
- FRPs (AC/337-D(2016)0014-REV1 dated 24 October 2018), and
- Customer Funding Regulatory Framework approved by the Council in 2015 (PO(2015)0394-AS1 dated 16 July 2015).

The Agency Supervisory Board (ASB) Finance Committee decided in 2017 AC/337(FC)DS(2017)0004 :

- The need for an Operating Fund as a risk management tool.

NOTES TO THE FINANCIAL STATEMENTS

Critical Accounting Estimates and Judgements

NCIO makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. Some balances such as accruals and unbilled sales need to be assessed at the year-end to estimate the value of work and services delivered at the year-end. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Legal proceedings both real and possible

In accordance with IPSAS, NCIO recognises a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Obligations arising in respect of contingent liabilities that have been disclosed, or those which are not currently recognised or disclosed in the financial statements could have a material effect on NCIO's financial position.

Application of these accounting principles to legal cases requires NCI Agency's management to make determinations about various factual and legal matters beyond its control. The Agency reviews outstanding legal cases following developments in the legal proceedings and at each reporting date, in order to assess the need for provisions and disclosures in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisors, experience on similar cases.

A. Notes to the NCIO Statement of Financial Position

1. Cash and Cash Equivalents

		2022	2021 Restated	2021
Cash and Cash Equivalents				
100	Cash in hand	26,376	9,051	9,051
102	Current bank accounts - Euro	196,776,470	89,497,631	89,497,631
104	Current bank accounts - Non-Euro	19,708,050	58,010,149	58,010,149
106	Current investments accounts - Euro	10,025,212	10,001,458	10,001,458
108	Current investments accounts - Non-Euro	27,216,792	29,197,551	29,197,551
		253,752,900	186,715,840	186,715,840

Cash in hand is mainly related to cash that is held by the approved Agency business credit card users and the advance account in Izmir. It represents the cash withdrawn from the ATMs for the procurement of low value, urgent items but not yet spent.

Current bank accounts are considered to be cash that can be accessed at very short notice (e.g. 1 working day) while Current investments represents short-term deposits with a duration of typically one to three months. Non-Euro bank accounts are held in USD, GBP and NOK currencies to pay Agency liabilities in these currencies.

Cash and Cash equivalents Current bank accounts and investments are spread among a number of banks that have “A grade” credit ratings to optimise the bank charges and interest cost as well as to manage the counterparty risk. The only exception to a grade rated bank is an advance account in Türkiye with a total value of 20 KEUR to facilitate local operations.

Cash and cash equivalents includes amounts advanced by Customers for future usage. Given the limitations on the size and use of the Operating Fund, the NCI Agency relies on the Customer provided funding via advance payments and timely payment of invoices to provide the cash flow for daily operations.

2. Accounts Receivable

		2022	2021 Restated	2021
Receivables				
11001	Customer receivables (A/R) - Common funded - NATO and NATO entities	20,296,762	77,813,315	165,018,381
11002	Customer receivables (A/R) - Not common funded	10,091,947	16,007,163	16,007,163
1107	Customer receivables - Bad debts	1,156,562	144,380	144,380
11000	Customer receivables (A/R) - Common funded - NSIP	0	0	(87,205,065)
113	Customer receivables - Recoverable expenses	(155,502)	17,540	17,540
114	Customer receivables - Impairments	(1,157,302)	(5,321,255)	(192,108)
115	Current receivables - Tax or personnel related	3,964,560	3,567,004	3,567,004
116	Current receivables - Accrued, unbilled revenue	138,393,374	127,080,182	127,080,182
119	Current receivables - Other	0	188	188
		172,590,401	219,308,517	224,437,665

At the end of FY 2022, the NCI Agency has classified 5.9 MEUR as doubtful debtors within Accounts receivables. Receivable transactions are classified as doubtful transactions once outstanding for more than 180 days in line with the NCIO AR Dunning instruction.

NCI Agency has adapted its accounting treatment in line with prior years IBAN observation, so that advances received from the NSIP Programme are netted against the amounts to be received from the same programme and therefore, the Accounts Receivables are impacted by the NSIP Quarterly Accounting Financial Report (QAFR) bookings, which is composed of

- 97.6 MEUR of unpaid call for contributions (2021: 65.1 MEUR);
- (172.7 MEUR) of advances on approved forecast (2021: (152.3 MEUR)).

By excluding the QAFR advances impact of (172.7 MEUR); the Accounts Receivables would sum up to 345.4 MEUR (2021 Restated: 371.6 MEUR), including 207 MEUR of outstanding billing (2021: 244.5 MEUR) and accrued billing of 138.4 MEUR (2021: 127.1 MEUR).

The amount of 75.1 MEUR (2021: 87.2 MEUR) related to Customer receivable (A/R) – Common funded – NSIP has been aggregated within the Customer receivables (A/R) – Common Funded – NATO and NATO entities in restated 2021 and 2022 column, excluding impairments.

The restated 2021 Impairments shows an increase of (5.1 MEUR) in comparison to the 2021 published Financial Statements, replacing the 2021 Provision liability with an impairment of a NSIP receivable in 2021.

The Agency considered the authorisation provided by the ASB to write off a NSIP receivable as an adjusting event after the reporting date which effect has been recognised in the 2022 financial statements.

3. Prepayments and Miscellaneous Assets

		2022	2021 Restated	2021
Prepayments and Miscellaneous Assets				
13	Prepayments	7,328,355	9,531,413	9,531,413
		7,328,355	9,531,413	9,531,413

This amount represents advances and prepayments made to vendors (including prepaid expenses) required to maintain continuity in service provision toward the Agency customers.

4. Inventories

		2022	2021 Restated	2021
Inventory				
14000	Inventory - Consumables	22,959,370	33,332,608	15,274,505
14001	Inventory - Spare parts	1,464,655	1,830,184	24,409,319
14005	Inventory - Minor Equipment	39,826,428	40,866,146	0
		64,250,453	76,028,938	39,683,824

The NATO Accounting Framework clarifies that the NCI Agency on behalf of the NCI Organisation acts as a service provider for inventory of CIS and/or Automated Information Systems (AIS) for the NATO Military Commands (Allied Command Operations (ACO) and Allied Command Transformation (ACT)) as well as for International Staff (IS) and International Military Staff (IMS). NCIO has control over these inventories in order to provide goods and services to its customers and, therefore, reports them as inventories in its financial statements.

Since the NCI Agency became fully Customer Funded as of 1 Jan 2014 inventories are fully disclosed, as the NCI Agency is no longer acting as an agent on behalf of a third party but rather as a principal in rendering services to its Customers.

The regular inventory variance of the year is reflected within the statement of performance.

CSSC conducts regularly a count of the inventories, and where necessary, CSSC updates the Items on stock that requires WAC price adjustments based at the best fair value.

The majority of the inventory balances consist of strategic stock as explained within the accounting policies on inventories. At the end of Fiscal Year 2022, the inventory ending balance amounts to 64.3 MEUR and its restated closing balance is at 76MEUR.

The 2021 restated balance of 76 MEUR increased by 36.3 MEUR in comparison with the 2021 audited Financial Statements (2021: 39.7 MEUR).

This restatement is composed of:

- accounting for items below PPE thresholds stored at the Agency warehouses for 37.3 MEUR and;
- adjustment of Inventory asset values (WAC) reducing for 1 MEUR the stock value.

The below table shows the movement of stock in value, between the opening and closing balance:

- the 2022 movement shows a reduction of stock of 11.8 MEUR and;
- the 2021 movement (restated) shows a reduction of stock of 9.1 MEUR.

	Inventories Closing balance 2022	Period Activity 2022 Increase (+)/Decrease (-)	Inventories Closing Balance restated 2021	Period Activity 2021 restated Increase (+)/Decrease (-)	Inventories Opening Balance restated 2021
14000 Inventory - Consumables	22,959,371	(10,373,237)	33,332,608	(2,415,858)	35,748,465
14001 Inventory - Spare parts	1,464,655	(365,529)	1,830,184	(395,177)	2,225,361
14005 Inventory - Minor Equipment	39,826,428	(1,039,719)	40,866,146	(6,294,620)	47,160,766
Total	64,250,453	(11,778,484)	76,028,938	(9,101,345)	85,130,283

Based on the NATO Asset Group class, a further breakdown between Consumables, Spare parts and Minor Equipment has been disclosed in the 2022 Financial Statements and its 2021 restated balances.

5. Work In Progress

		2022	2021 Restated	2021
Work in Progress				
145	Work in progress	4,303,859	2,444,034	2,444,034
		4,303,859	2,444,034	2,444,034

The work in progress consists of capitalised expenses for pre-financed projects, for cost overruns on Advance Planning Funds (APF) and for recoverable exceptions.

Pre-financed projects totalling 0.4 MEUR are governed by existing binding arrangements (overarching framework agreements such as Memorandum of Understanding – MOU) between the Agency and its main sponsors. All existing pre-finance authorisations are granted as per the terms and conditions prescribed in the FRPs specifically developed for

the Agency operating under its Customer Funding Regime. The decision to pre-finance projects is assessed by the Chief Operating Officer (COO), Production Directors and the Financial Controller prior to being approved on a case-by-case basis by the Financial Controller. Accordingly this not considered as a technical contingent asset.

For projects sponsored by NSIP, APFs may be authorised to cover the initial cost for writing the full project price proposal (TBCE). In some cases the APFs are insufficient to cover this initial effort in which case the NCI Agency capitalises the shortfall pending approval of the Project Service Cost (PSC). Funds expended during this stage are capitalised as work in progress for a total amount of 0.1 MEUR.

In the course of executing projects, sometimes the Customer requests changes in specifications, scope, or duration that results in the costs exceeding the contracted revenue. Similarly to APF over-runs, for these recoverable exceptions, costs are capitalised until the exceptions are contractually regularised. The total capitalised amount of recoverable exceptions is 3.8 MEUR.

6. Non-current Receivables

		2022	2021 Restated	2021
Non-current Receivables				
160	Non-current financial assets	547,854	547,885	547,885
		547,854	547,885	547,885

These are outstanding prepayments on long term (> 1 year) to suppliers.

7. Property, Plant and Equipment (PP&E) and Intangible Assets

The NCI Agency has applied the NATO Accounting Framework (NAF), adapting IPSAS 17 on Property Plant and Equipment (PP&E) and IPSAS 31 on Intangible Fixed Assets, in that respect all Tangible and Intangible (PPE and Intangible Assets) acquired prior to 1 Jan 2013 are considered expensed.

According to the NATO Accounting Framework and in accordance with IPSAS 17 Property, Plant and Equipment and IPSAS 31 Intangible Assets, NCIO shall capitalise all CIS Assets including under Construction or Development for the NATO Command Structure as well as for IS and IMS as of 1 January 2018.

This shall apply for all new CIS assets with construction starting on or after 1 January 2018 but also, for existing assets partially under Construction or Development that continue after 1 January 2018. The costs as of 1 January 2018 have to be capitalised and the cost of assets under construction prior to 1 January 2018 shall be expensed as per the NATO Accounting Framework – Note by the Deputy Secretary General reference C-M(2016)0023.

The restatement is the result of first time disclosure of CIS Assets Under Construction or Under Development, and CIS In-Service Assets including Tangible and Intangible Assets where NCIO acts as a service provider toward the NATO Command Structure as well as for IS and IMS within the Financial Statements 2022 and its Restated Financial Statement 2021.

In comparison with 2021 published Financial statements, the Property Plant and Equipment and Intangible Assets increased for a total Net Book Value of 639,2 MEUR that can be further broken-down by an historical cost increase of 796 MEUR, an accumulated depreciation increase of (128,7 MEUR) and Write-Offs increase of (28,1 MEUR). Additional details and comparative analysis by Asset Category can be found in the below 2021, 2021Restated and 2021 published Note tables.

In accordance to NCIO Financial Rules and Procedures, the 2021 (restated) and 2022 Write Offs related to CIS PPEs and Asset Under Constructions is disclosed on Note 26.

In 2021, the Agency submitted the request of the write-off of NSIP funded assets to the Investment Committee for approval in accordance with the NFRs and the Procedure on Property Accountability and write-off Authority for NATO Infrastructure for which NATO MNCs or Agencies are Responsible (Annex II to Addendum to AC/4-D/1058 (Final)).

With the implementation and disclosure of the Asset Under Construction and Self-constructed Assets in 2022 Financial Statement, the Agency is able to provide additional disclosures of the financial impact for the withdrawing forces from the Resolute Support mission in Afghanistan that happened in early 2021. Therefore, the Agency was not in a position to provide such reliable values on assets/write off to be reported as an event after reporting date within the 2021 Financial Statements.

For the disposals and adjustments it includes assets in operations where the Agency does not have future economic benefit or service potential from an accounting perspective, write off requests are approved and or submitted/pending approval at the relevant Finance committee and some constitute events after reporting date.

NCIO Statement of Property, Plant and Equipment and Intangible Assets

As of 31 December 2022 (all figures are in Euro)	ACQUISITION					DEPRECIATION					BOOK VALUE
	31-Dec-21 Restated	Current Year	Transfers / Reversals	Disposals / Adjustm.	Revaluation	31-Dec-22	31-Dec-21 Restated	Current Year	Disposals / Adjustm.	31-Dec-22	31-Dec-22
PLANT, PROPERTY AND EQUIPMENT											
Automated Data Processing (ADP) Equipment	180,804,485	1,613,668	102,948,228	0	0	285,366,382	(102,713,953)	(68,701,255)	0	(171,415,208)	113,951,173
Communications Equipment	993,708	120,000	3,178,597	0	0	4,292,305	(623,167)	(1,110,051)	0	(1,733,219)	2,559,087
Mission Equipment	3,061,595	0	1,074,111	0	0	4,135,707	(2,126,571)	(912,325)	0	(3,038,896)	1,096,811
Machinery	139,944	179,302	64,874	0	0	384,120	(31,932)	(28,678)	0	(60,610)	323,510
Installed Equipment	3,292,901	0	812,160	0	0	4,105,061	(806,792)	(337,269)	0	(1,144,061)	2,961,000
Office Furniture	9,250,332	0	0	0	0	9,250,332	(685,410)	(925,033)	0	(1,610,443)	7,639,889
Passenger Vehicles	451,337	0	0	0	0	451,337	(369,288)	(19,325)	0	(388,614)	62,723
Buildings	1,556,761	0	2,947,117	0	0	4,503,878	(55,819)	(69,302)	0	(125,121)	4,378,757
Other Infrastructure	2,665,323	0	9,773,202	0	0	12,438,525	(65,250)	(131,812)	0	(197,061)	12,241,464
Assets under construction - Tangible	224,642,508	141,884,781	(120,798,290)	(1,396,010)	0	244,332,989	0	0	0	0	244,332,989
TOTAL PLANT, PROPERTY AND EQUIPMENT	426,858,895	143,797,752	0	(1,396,010)	0	569,260,636	(107,478,182)	(72,235,051)	0	(179,713,233)	389,547,403
INTANGIBLE ASSETS											
Software Licences - COTS	24,843,089	0	953,209	0	0	25,796,297	(9,786,120)	(6,726,172)	0	(16,512,291)	9,284,006
Software Licences - Bespoke	111,175,504	0	36,335,376	0	0	147,510,880	(15,757,539)	(13,891,493)	0	(29,649,031)	117,861,849
Assets under construction - Intangible	211,160,621	56,489,906	(37,288,585)	0	0	230,361,943	0	0	0	0	230,361,943
TOTAL INTANGIBLE ASSETS	347,179,214	56,489,906	0	0	0	403,669,120	(25,543,658)	(20,617,665)	0	(46,161,323)	357,507,797
TOTAL PLANT, PROPERTY AND EQUIPMENT & INTANGIBLE	774,038,109	200,287,657	0	(1,396,010)	0	972,929,756	(133,021,840)	(92,852,715)	0	(225,874,555)	747,055,201
DEPRECIATION RESERVE	13,673,795	8,243,030	0	0	0	21,916,824	(2,931,127)	(1,873,282)	0	(4,804,409)	17,112,416
INCREASE/(DECREASE) DEPRECIATION RESERVE	0	8,243,030	0	0	0	8,243,030	0	(1,873,282)	0	(1,873,282)	6,369,748
DEFERRED REVENUE	760,364,314	192,044,628	0	(1,396,010)	0	951,012,931	(130,090,713)	(90,979,433)	0	(221,070,146)	729,942,785
INCREASE/(DECREASE) DEFERRED REVENUE	0	192,044,628	0	(1,396,010)	0	190,648,617	0	(90,979,433)	0	(90,979,433)	99,669,184

NCIO Restated Statement of Property, Plant and Equipment and Intangible Assets

As of 31 December 2021 Restated (all figures are in Euro)	ACQUISITION					DEPRECIATION					BOOK VALUE	
	31-Dec-20 Restated	Current Year	Transfers / Reversals	Disposals / Adjustm.	Revaluation	31-Dec-21	31-Dec-20 Restated	Current Year	Disposals / Adjustm.	###	Restated	31-Dec-21 Restated
PLANT, PROPERTY AND EQUIPMENT												
Automated Data Processing (ADP) Equipment	111,133,546	1,006,122	76,153,394	(7,488,576)	0	180,804,485	(54,733,295)	(49,087,740)	1,107,103		(102,713,932)	78,090,553
Communications Equipment	752,795	0	404,645	(163,732)	0	993,708	(535,689)	(251,210)	163,732		(623,167)	370,541
Mission Equipment	2,517,323	352,293	191,979	0	0	3,061,595	(1,211,370)	(936,713)	21,512		(2,126,571)	935,025
Machinery	140,343	31,150	3,451	(35,000)	0	139,944	(56,040)	(10,892)	35,000		(31,932)	108,012
Installed Equipment	1,540,938	0	1,751,963	0	0	3,292,901	(584,019)	(222,773)	0		(806,792)	2,486,110
Office Furniture	2,179,879	0	7,070,453	0	0	9,250,332	(290,661)	(394,749)	0		(685,410)	8,564,922
Passenger Vehicles	409,234	67,000	21,554	(46,451)	0	451,337	(405,449)	(10,290)	46,451		(369,288)	82,049
Buildings	961,872	0	594,889	0	0	1,556,761	(28,055)	(27,765)	0		(55,819)	1,500,941
Other Infrastructure	641,248	0	2,024,075	0	0	2,665,323	(18,703)	(46,546)	0		(65,250)	2,600,073
Assets under construction - Tangible	217,216,239	117,435,440	(88,216,403)	(21,792,768)	0	224,642,508	0	0	0		0	224,642,508
TOTAL PLANT, PROPERTY AND EQUIPMENT	337,493,416	118,892,005	0	(29,526,526)	0	426,858,895	(57,863,280)	(50,988,678)	1,373,798		(107,478,161)	319,380,734
INTANGIBLE ASSETS												
Software Licences - COTS	11,316,052	0	13,527,037	0	0	24,843,089	(4,884,677)	(4,901,442)	0		(9,786,119)	15,056,970
Software Licences - Bespoke	53,650,008	0	57,525,496	0	0	111,175,504	(9,130,007)	(6,627,531)	0		(15,757,538)	95,417,966
Assets under construction - Intangible	210,286,277	71,926,877	(71,052,532)	0	0	211,160,621	0	0	0		0	211,160,621
TOTAL INTANGIBLE ASSETS	275,252,337	71,926,877	0	0	0	347,179,214	(14,014,684)	(11,528,972)	0		(25,543,656)	321,635,558
TOTAL PLANT, PROPERTY AND EQUIPMENT & INTANGIBLE	612,745,753	190,818,882	0	(29,526,526)	0	774,038,109	(71,877,964)	(62,517,651)	1,373,798		(133,021,817)	641,016,292
DEPRECIATION RESERVE	10,962,100	3,460,951	0	(749,257)	0	13,673,795	(3,009,376)	(671,008)	749,257		(2,931,127)	10,742,668
INCREASE/(DECREASE) DEPRECIATION RESERVE	0	3,460,951	0	(749,257)	0	2,711,695	0	(671,008)	749,257		78,249	2,789,943
DEFERRED REVENUE	601,783,653	187,357,931	0	(28,777,270)	0	760,364,314	(68,868,589)	(61,846,643)	624,541		(130,090,690)	630,273,624
INCREASE/(DECREASE) DEFERRED REVENUE	0	187,357,931	0	(28,777,270)	0	158,580,661	0	(61,846,643)	624,541		(61,222,102)	97,358,560

NCIO Statement of Property, Plant and Equipment and Intangible Assets

As of 31 December 2021
(all figures are in Euro)

	ACQUISITION					DEPRECIATION				BOOK VALUE	
	31-Dec-20	Current Year	Transfers / Reversals	Disposals / Adjustm.	Revaluation	31-Dec-21	31-Dec-20 Restated	Current Year	Disposals / Adjustm.	31-Dec-21	31-Dec-21
PLANT, PROPERTY AND EQUIPMENT											
Automated Data Processing (ADP) Equipment	3,552,634	1,006,122	0	0	0	4,558,756	(2,267,504)	(1,006,913)	0	(3,274,417)	1,284,339
Communications Equipment	599,940	0	0	0	0	599,940	(492,591)	(62,488)	0	(555,079)	44,861
Mission Equipment	870,119	352,293	0	0	0	1,222,412	(568,039)	(379,270)	0	(947,309)	275,103
Machinery	140,000	31,150	0	0	0	171,150	(56,000)	(13,615)	0	(69,615)	101,535
Installed Equipment	357,705	0	0	0	0	357,705	(357,705)	0	0	(357,705)	0
Office Furniture	0	0	0	0	0	0	0	0	0	0	0
Passenger Vehicles	409,234	67,000	0	0	0	476,234	(389,326)	(21,457)	0	(410,783)	65,451
Buildings	0	0	0	0	0	0	0	0	0	0	0
Other Infrastructure	0	0	0	0	0	0	0	0	0	0	0
Assets under construction - Tangible	0	0	0	0	0	0	0	0	0	0	0
TOTAL PLANT, PROPERTY AND EQUIPMENT	5,929,632	1,456,565	0	0	0	7,386,197	(4,131,165)	(1,483,743)	0	(5,614,908)	1,771,289
INTANGIBLE ASSETS											
Software Licences - COTS	0	0	0	0	0	0	0	0	0	0	0
Software Licences - Bespoke	0	0	0	0	0	0	0	0	0	0	0
Assets under construction - Intangible	0	0	0	0	0	0	0	0	0	0	0
TOTAL INTANGIBLE ASSETS	0	0	0	0	0	0	0	0	0	0	0
TOTAL PLANT, PROPERTY AND EQUIPMENT & INTANGIBLE	5,929,632	1,456,565	0	0	0	7,386,197	(4,131,165)	(1,483,743)	0	(5,614,908)	1,771,289
DEPRECIATION RESERVE	5,929,631	(2,874,383)	0	0	0	3,055,248	(4,131,164)	1,549,567	0	(2,581,597)	473,651
INCREASE/(DECREASE) DEPRECIATION RESERVE	0	(2,874,383)	0	0	0	(2,874,383)	0	1,549,567	0	1,549,567	(1,324,816)
DEFERRED REVENUE	3,260,292	1,070,657	0	0	0	4,330,949	(1,865,388)	(1,167,923)	0	(3,033,311)	1,297,638
INCREASE/(DECREASE) DEFERRED REVENUE	0	1,070,657	0	0	0	1,070,657	0	(1,167,923)	0	(1,167,923)	(97,266)

8. Payables

		2022	2021 Restated	2021
Payables				
2000	Supplier payables - Accounts payable	31,337,009	25,661,777	25,661,777
2004	Supplier payables - Accrued supplier invoices	69,931,472	77,840,646	77,840,646
2006	Supplier payables - Warranties received	1,078,896	1,443,351	1,443,351
		102,347,377	104,945,774	104,945,774

Trade payables are short-term (< 1 year) liabilities to Vendors; directly related to the activities and operations of the Agency.

9. Deferred Revenue and Advances

		2022	2021 Restated	2021
Deferred Revenue and Advances				
Current Liabilities		331,578,390	295,793,094	174,385,082
211	Deferred Revenue	286,714,298	253,784,850	132,376,839
215	Advances	44,864,092	42,008,244	42,008,244
Non-Current Liabilities		650,484,401	567,770,247	0
271	Deferred Revenue (NC*)	650,484,401	567,770,247	0
		982,062,791	863,563,341	174,385,082

*Non-Current

The Current and Non Current Deferred/Unearned Revenue and Advances are composed of:

- Revenue billed for ongoing projects and services, however revenue earned is determined through the stage of completion resulting in 962.7 MEUR of revenue billed but not yet recognised as earned.
- Advances and prepayments of 44.9 MEUR refer to deposits from customers and nations for projects and services that will be delivered by the agency.

For comparative reasons, the 2021 note was restated disclosing the Current and Non-Current revenue deferral related to Tangible and Intangible Assets, resulting of an increase of 647.5 MEUR in the restated 2021 in comparison with the 2021 published note.

10. Other Current Liabilities

		2022	2021 Restated	2021
Other Current Liabilities				
250	Current tax and personnel related liabilities	12,988,062	13,462,533	13,462,532
254	Current other liabilities	10,110,833	246,985	64,295
		23,098,895	13,709,518	13,526,827

The Other Current Liabilities is composed of:

- The current Tax and personnel related liabilities of 13MEUR which includes:
 - The NCI Agency estimated liability for the untaken leave days outstanding at year end, in accordance with IPSAS 25 Employee benefits, constitutes a liability towards the future for 12.8 MEUR (2020: 11.3 MEUR). This liability is calculated on a rolling basis, i.e. the prior year liability is reversed at the beginning of the year and a new estimate calculated, thus charging the change for the year to the personnel costs in the Statement of Financial Performance. The costs of these untaken leaves days has been absorbed during the year through the monthly salaries whereas the loss of production of capacity when the leave to be taken is pushed forward to the next year. This constitutes an Agency liability towards the future which is recognized.
 - The liability made of 0.1 MEUR (2020: 0.1 MEUR for JFC Naples for “Trattamento di Fine Rapporto (TFR)” in application of the Italian Law and of IPSAS 19. TFR is a vested benefit payable to the employee for a part of his / her salary deferred in time to the moment when termination of the contract takes place. The calculation of the value of this liability takes place annually and includes interests for the loan forcedly made by the employee to the employer given the fact that payment is deferred to a later time. In view of the foregoing, TFR has to be considered as one extra monthly instalment of the annual pay.
- The current other liabilities of 10.1 MEUR mainly represent NSIP annual gains and losses

The restatement results from a recalculated refundable position toward the NOR, in respect with Interest Earning for the IC cash holdings. The interest related to IC bank balances for 2022 and prior years (total 0.4 MEUR) will be settled with the NOR during 2023 Fiscal Year.

11. Provisions

		2022	2021 Restated	2021
Provisions				
2901	Provisions - Major risks and costs	9,275,991	7,853,511	12,982,657
		9,275,991	7,853,511	12,982,657

Provisions are liabilities and obligations, which are known to exist but for which the amount is not certain yet and the probability of occurrence is not fully known at the time of the disclosure.

Provisions - Major risks and costs 2022	Beginning Balance	Additions	Used	Reversal	Ending Balance
Provisions for future/expected loss on active Project/Service contracts	2,281,755	581,735	(1,926,336)	0	937,154
Provisions for litigations	5,571,756	5,538,838	(493,756)	(2,278,000)	8,338,838
Total 2022	7,853,511	6,120,573	(2,420,092)	(2,278,000)	9,275,992

Provisions - Major risks and costs 2021 Restated	Beginning Balance	Additions	Used	Reversal	Ending Balance
Provisions for future/expected loss on active Project/Service contracts	2,342,982	454,052	(515,279)	0	2,281,755
Provisions for litigations	16,292,756	2,278,00	(540,771)	(12,458,229)	5,571,756
Total 2021	18,635,738	2,732,052	(1,056,050)	(12,458,229)	7,853,511

Major risks and Costs:

- Projects are constantly monitored and deviations from the original cost estimates and authorised budgets are reported and analysed. At year-end closing a thorough cost-to-complete exercise is carried out to determine what the current status is in terms of costs and revenue to date, and to estimate what the cost-to-complete will be for multiple year projects. If, as a result of this process, the project management together with the NCI Agency Capability Development's financial management come to the conclusion that the project is likely to generate a loss at completion, then a provision will be made to cover that potential future loss. Analysis conducted at a later stage may result in a change of estimates which translates in an increase or decrease of the provision built up in prior years. The total provision for the Customer Funded projects amounts to 0.9 MEUR that results in a reduction of 1.3 MEUR.
- Provision related to litigations (contractual) and other major risks for an amount of 8.3 MEUR that results in an increase of 2.7 MEUR.

The restated 2021 Provision shows a decrease of 5.1 MEUR in comparison to the 2021 published Financial Statements, replacing the 2021 Provision liability with an impairment of a NSIP receivable in 2021.

B. Notes to the NCIO Statement of Financial Performance

12. Projects and Support Service Revenue

		2022	2021 Restated	2021
Project and Support Services Revenue				
5000	Project services revenue - Billed	129,359,341	124,910,463	124,910,463
5005-5009	Project services revenue - Accrued/(Deferred)	(32,927,954)	(35,353,570)	(4,105,776)
5010	Support services revenue - Billed	245,758,552	237,720,967	237,720,967
5015-5019	Support services revenue - Accrued/(Deferred)	(679,415)	(1,651,353)	(1,651,353)
		341,510,524	325,626,507	356,874,301

With the introduction of full Customer Funding as of 1 Jan 2014, the 2022 operations revenue can be categorised as either Project Services Revenue for 96.4 MEUR and Support Services Revenue for 245.1 MEUR, coming from signed Service Level Agreements (Service Support Costs) and other Service Agreements, all agreed and calculated at approved Customer Rates.

For all Customer Funded revenue, revenue is recognised, in accordance with IPSAS 9 and 11, by reference to the stage of completion or the cost burn rate, depending on the type of funding agreement; firm fixed price or cost reimbursable. In applying this revenue recognition a “cost to complete” is calculated based on either inputs from the project manager as to the resources required to complete the project/deliverables or either based on information from the financial system as to the legal liabilities incurred per the end of 2022, but not yet accrued or expended, and which nevertheless form part of the 2021 services signed with the Customers through the Service Level Agreements.

For comparative reasons, the 2021 numbers were restated disclosing the Projects and Support Service Revenue related to Tangible and Intangible Assets, resulting a decrease of 31.3 MEUR due to additional deferred/accrued revenues.

13. External Service Revenue

		2022	2021 Restated	2021
External Services Revenue				
5100	External CIS revenue – Billed	184,029,630	220,630,485	220,630,485
5105-5109	External CIS revenue – Accrued/(Deferred)	6,993,726	6,387,704	(6,651,581)
		191,023,356	227,018,189	213,978,904

The total revenue per service as specified in the Service Level agreements have two revenue components. There is the Service Support Revenue element that is based on effort charged at approved customer rates and the External CIS Revenue of 191 MEUR in 2022 that represents the revenue charged to customers to cover the contractual supplies and services delivered by industry required by the NCI Agency to provide its CIS services.

For comparative reasons, the 2021 numbers were restated disclosing the External Service Revenue related to Tangible and Intangible Assets, resulting an increase of 13 MEUR due to additional deferred/accrued revenues.

14. Acquisition Revenue

		2022	2021 Restated	2021
Acquisition Revenue				
5110	Acquisition revenue - Billed	246,443,048	262,426,642	262,426,643
5115-5119	Acquisition revenue – Accrued/(Deferred)	(77,833,707)	(100,190,446)	(34,757,132)
		168,609,341	162,236,196	227,669,511

Acquisition Revenue is earned as Host Nation for the NSIP, and for other NATO entities and Nations.

Revenue is recognised by reference to the stage of completion or the cost burn rate, depending on the type of funding agreement; firm fixed price or cost reimbursable. All of NSIP and, most other agreements as well, are through cost reimbursable funding agreements, and thus at cost burn rate.

For comparative reasons, the 2021 numbers were restated disclosing the Acquisition Revenue related to Tangible and Intangible Assets, resulting a decreased of 65.5 MEUR due to additional deferred/accrued revenues.

15. Other Revenue

		2022	2021 Restated	2021
Other Revenue				
52	Other operations revenue	2,531,602	1,963,702	1,963,702
546	Reversal of unused Provisions	2,391,569	12,458,229	12,458,229
		4,923,171	14,421,931	14,421,931

Other Revenue consists of elements such as:

- Revenue from the support to and hosting of Agencies such as NAGSMOIL;
- Revenue from 2022 budget for the ASB Independent Secretariat for a total of 1.5 MEUR. Details and their Budget Execution Statement can be found under section D of the Notes to the Financial Statements.
- Positive outcome of contractual risks from the prior years, for a total of value of 2.4 MEUR for 2022 Fiscal Year.

16. Cost of Acquisitions

		2022	2021 Restated	2021
Cost of Acquisition				
727560	Contractors, general services and supplies for NSIP	114,704,623	136,718,156	186,942,990
727560	Contractors, general services and supplies for Third Parties	79,417,340	39,064,724	38,881,673
727561	Lease Expenses for NSIP	54,223,161	50,041,783	0
7291	Capitalized costs - Acquisition costs	(150,070,768)	(141,667,036)	(360,896)
		98,274,356	84,157,627	225,463,767

The NCI Agency procures significant amounts of goods and services using funds provided by all its customers but principally the IC.

As for the revenue, the cost of acquisitions does not include the Project Service Costs (PSCs) of the NCI Agency to enact the procurements on behalf of customers. These professional fees are accounted for through the Project and Service Support Revenue as they relate to the NCI Agency work across the C4ISR lifecycle. It must be noted that there is not a direct relationship for any financial year between the PSCs with the specific acquisition payments and costs associated with major acquisitions. This is due to the

fact that PSCs are recognisable when the service is provided and not when the actual acquisition transactions occur, particularly as the subsequent receipt of goods and payment to Vendors can occur over many years when downstream activity is minimal.

The increase of capitalized Acquisition costs of (141.7 MEUR) in the 2021 restated column in comparison with the 2021 column is the result of first time disclosure of capitalized costs related to the construction of CIS Assets for which NCIO acts as a service provider toward the NATO Command Structure as well as for IS and IMS, including Asset Under Construction or Under Development, and In-Service Tangible or Intangible Assets.

Operating Lease Commitments:

At 31 December 2022 the Agency was party in an operating lease agreement related to its activities that expires within the contractual terms agreed. The minimum future non-cancellable operating lease payments under the agreement are as follows:

	2022	2021 Restated	2021
Operating Lease - Future Commitments			
Less than 1 year	62,571,910	54,223,152	0
More than 1 year and less than 5 years	243,982,430	245,308,260	0
More than 5 years	464,427,130	525,673,210	0
	770,981,470	825,204,622	0

The rent expense under such lease for the period ended 31 December 2022 amounted to 54.2 M EUR (2021: 50 M EUR) and is included in the surplus/deficit of the year. In some particular cases, NCIA recognizes operating lease expenses on accrual basis when the services are obtained, that represents more correctly the time when the benefits are received.

17. Personnel Costs

		2022	2021 Restated	2021
Personnel Costs				
710	Salaries, allowances and other remunerations	220,177,300	193,843,627	193,843,627
711	Interim Workforce Capacity (IWC)	66,570,784	75,809,715	75,809,715
712	Recruitment costs and installation and separation allowances	2,112,005	4,648,557	4,648,557
713	Clothing costs and allowances	93,350	96,018	96,018
715	Medical examinations and general personnel related insurances	21,046,302	19,065,816	19,065,816
716	Education and training	5,047,332	4,193,816	4,193,816
717	Employer contributions to pensions; loss of job and other personnel contracts related indemnities	250,771	295,697	295,697
718	NATO Pensions (Pension funds)	16,534,596	13,814,667	13,814,667
719	Capitalized personnel Costs	(46,454,860)	(43,532,922)	3,461,161
7191	Usage of Provision	(2,420,094)	(515,279)	(515,279)
		282,957,486	267,719,712	314,713,795

Personnel costs in this category are for staff members hired under the NATO Civilian Personnel Regulations (CPRs) and contractors. The figures represent the costs of personnel working on activities required to operate the NCI Agency and deliver services to Customers.

LOJI paid in 2022 was for 0.529 MEUR from which 0.465 MEUR was covered by a 2021 provision.

The significant increase of capitalized costs of (40 MEUR) in the 2021 Restated column in comparison with the 2021 column is the result of first time disclosure of capitalized labour costs related to the construction of CIS Assets for which NCIO acts as a service provider toward the NATO Command Structure as well as for IS and IMS, including Asset Under Construction or Under Development, and In-Service Tangible or Intangible Assets.

18. Employee Disclosures

Staff Numbers

At 31 December 2022 - 690 (2021: 753) military posts and 2038 (2021: 1917) NATO civilian posts were filled.

Retirement benefits

NCI Agency NICs and temporary personnel (not contractors), past and present, are enrolled in various NATO pension schemes. The NCI Agency contributes to the schemes for existing employees at amounts laid out in the CPR.

The NCI Agency does not control or manage any of the schemes or scheme assets and is not exposed to the risks and rewards of the schemes and hence does not record any assets or liabilities of the schemes on its Statement of Financial Position. In 2022 the NCI Agency contributed 16.5 MEUR (2021: 13.8 MEUR) to the various NATO pension schemes, this is displayed within disclosure note 'Personnel Costs' – 718 NATO Pensions (Pension funds).

19. Related Party Transactions

NCIO has no related party relationships where significant influence or control of the related party exists from a financial reporting perspective. The NCIO is providing CIS support and C3 capabilities and which exists for its Member Nations and partners. Many Member nations and partner countries have financial and operating control, or, significant influence over suppliers based in their territories; as such the NCIO can trade with suppliers which may be controlled or influenced by its Member Nations. However, NCIO trades with such suppliers at "arms-length" and under transparent procurement regulations; while it aims to get the best value for money for its Customers it does not do this through exerting control or significant influence over its suppliers.

The NCIO is an integral part of NATO and it transacts in its normal business activities with other NATO bodies and these transactions occur at cost or under a firm fixed price.

Related Party Transactions of Members of Boards and Committees

The NCIO reports to a number of Boards and Committees which form part of its governance. With the exception of the ASB, those charged with governance may also have potential related party transactions with NCIO this has not been validated.

Representative Allowance of the General Manager

The General Manager (GM), in addition to other allowances to which all staff are entitled, receives a representation allowance due to the requirements to represent the NCI Agency.

Since 2013, management of the GM representation allowance moved, per the BC guidance, from a situation where recipients receive the representation allowance as an advance and return the unspent amount to the NATO body, to a situation where all recipients are reimbursed permitted expenses within the limits of their individual representation allowance allocation.

The total entitlement to representation allowance for the NCI Agency GM was 10,000 EUR. The actual expenses during 2022: 279.80 EUR (2021: 551 EUR) were as follows:

- Rental supplement: € 0.00
- Functions: € 279.80

- Total representation allowance: € 279.80

Key Management Personnel

Key Management Personnel hold positions of responsibility within NCI Agency. They are responsible for implementing the strategic direction and carrying out the operational management of NCI Agency; they are entrusted with significant authority. Procedures are in place to ensure Key Management Personnel carry out their responsibilities impartially and in compliance with the Code of Conduct (applicable to all staff) and the Agency discloses:

- the remuneration of Key Management Personnel,
- related parties,
- loans made, and
- payments provided for services provided to the entity other than as an employee.

Euro (G24/A7 - G23/A6)
Basic salaries
Allowances
Post-employment benefits
Employer's contribution to Insurance
Employer's contribution to Pension
Total

2022
1,004,019
191,251
0
110,961
82,641
1,388,872

2021
922,629
235,816
0
106,565
68,396
1,333,406

FTE
General Manager
Directors (A6/OF6/OF7)

2022
1
7.23

2021
1
6.35

Name	Nationality	Role	Loans received from NCI Agency	Family members receiving income from NCI Agency	Other revenue from NCI Agency or NATO
Ludwig Julien DECAMPS	BEL	General Manager	Nil	Nil	Nil
Johannes Martinus FOLMER (app 21 Feb 2022)	NLD	Chief of Staff	Nil	Nil	Nil
Goksel SEVINDIK	TUR	Chief of Staff	Nil	Nil	Nil

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<i>(left 03 Mar 2022)</i>					
Michael STOLTZ	DEU	Director Air and Missile Defence Command & Control	Nil	Nil	Nil
Garry HARGREAVES	GBR	Director of the Academy	Nil	Nil	Nil
Antonio Jose CALDERON PEREZ <i>(app 24 Oct 2022)</i>	ESP	Chief Technology Officer	Nil	Nil	Nil
Su Jin CHAN	CAN	Legal Adviser	Nil	Nil	Nil
Antoine Pierre Jean PAILHES	FRA	Financial Controller	Nil	Nil	Nil
Jennifer Colleen UPTON	USA	Chief of Acquisition	Nil	Nil	Nil
Ralf HOFFMANN	DEU	Director of Service Operations	Nil	Nil	Nil

All Key Management Personnel of the NCI Agency must sign a declaration statement that supports the disclosure requirements of IPSAS 20.

20. Contractual Supplies and Services

		2022	2021 Restated	2021
Contractual Supplies and Services				
720	Rent and operational leasing costs	27,099,267	36,606,595	70,158,718
721	Maintenance and repair (Services)	115,416,836	135,617,888	102,047,408
722	Consumables and spare parts (Supplies)	4,662,290	4,842,954	4,589,135
723	Minor equipment (Investments below threshold)	29,483,866	16,941,859	11,223,397
724	Utilities, postal and courier services, travel and transportation	15,900,499	8,936,530	8,936,530
725	Facilities management, environment, safety and security	10,579,209	10,153,644	10,153,644
726	Public relations, representation, hospitality and moral and welfare	185,807	59,509	59,509
727	Contractors, general services and supplies	27,524,132	24,473,608	24,436,516
730-738	Investment costs	11,082,942	10,932,361	9,475,796
7290/7390	Capitalized Costs	(5,621,854)	(2,305,249)	213,412
		236,312,994	246,259,699	241,294,065

Rent and leasing costs only concern either rental costs or operating leases per IPSAS 13; the NCI Agency does not have finance leases.

The 2021 restated balance was increased by a total of 4.9 MEUR, which is explained by:

- The increase of capitalized costs of (1.1 MEUR) in the 2021 Restated column in comparison with the 2021 column is the result of first time disclosure of capitalized Contractual Supplies and Services costs related to the construction of CIS Assets where NCIO acts as a service provider toward the NATO Command Structure as well as for IS and IMS, including Asset Under Construction or Under Development, and In-Service Tangible or Intangible Assets.
- The increase of the Contractual Supplies Services costs for a total of 6 MEUR mainly due to additional stock consumption.

21. Depreciation and Amortisation

		2022	2021 Restated	2021
Depreciation and Amortisation				
740	Amortisation and depreciation	92,852,739	62,517,645	1,483,743
741	Write-offs	1,451,047	28,182,271	8,030
		94,303,786	90,699,916	1,491,773

For Fixed Assets, the NCI Agency takes into account the current year depreciation as a cost which amounts to 92.9 MEUR (2021 restated: 62.5 MEUR) and write-offs for 1.4 MEUR in 2021 and, for 28.2 MEUR in 2021 Restated, mainly due to the Resolute Support Mission termination.

Full detail on the 2022, 2021 restated and 2021 annual depreciation and retirement by asset category can be found within note: Property, Plant and Equipment (PP&E) and Intangible Assets. The 2021 Restated column is the result of first time disclosure of capitalized costs related to the construction of CIS Assets for which NCIO acts as a service provider toward the NATO Command Structure as well as for IS and IMS, including Asset Under Construction or Under Development, and In-Service Tangible or Intangible Assets.

22. Provisions Expenses

		2022	2021 Restated	2021
Provisions Expenses				
7461	Provisions Expenses - Major risks and costs	7,277,874	7,147,704	7,147,704
		7,277,874	7,147,704	7,147,704

NCIO has made the following provisions:

- Major risks and costs, provisions were made for future losses for active projects/services. The expected loss was recognised as an expense immediately (IPSAS 9 and 11);
- Provision for bad debt related to outstanding receivables.

For reasons of commercial confidentiality, details of which programmes/projects/customers are not disclosed. The net effect is an increase of 7.3 MEUR (2021: 7.1 MEUR). Further details can also be found under note 11, Provisions. IPSAS defines a provision as “a liability of uncertain timing or amount”.

23. Contingent Liabilities

IPSAS defines a contingent liability as “A possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or, a present obligation that arises from past events, but is not recognised because: 1) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or 2) The amount of the obligation cannot be measured with sufficient reliability”. The Agency has a process to capture information on provisions and contingent liabilities at year-end from all the organisational elements, and is implementing a process to capture that information throughout the year.

No contingent liabilities to be reported.

24. Financial Revenue and Expenses

		2022	2021 Restated	2021
Financial Revenue and Expenses				
550	Foreign exchange surpluses	2,641,444	3,509,971	3,509,970
555	Other financial surpluses	693,550	85,360	96,000
750	Foreign exchange deficits	(2,583,553)	(745,697)	(745,697)
7550	Financial costs - Current liabilities	(168,112)	(171,308)	(175,710)
7555	Financial costs - Other	(32)	4,735	4,735
		583,297	2,683,061	2,689,298

The total result from financial revenue and expenses is a gain of 0.6 MEUR. This amount is primarily composed of a net realised foreign exchange gain of 2.64 MEUR and foreign exchange deficits 2.58 MEUR. For IC acquisition activity the financial result is borne by NSIP and is thus not included here.

The 2021 Restated column results from a recalculated refundable position toward the NOR, in respect with Interest Earning for the IC cash holdings. The interest related to IC bank balances for prior years will be settled with the NOR during with the 2023 reimbursement.

25. Financial Instruments

NCIO's financial obligations are financed by payments and advances from its Customers, who are either NATO Nations or Partners. NCIO does not borrow money and only invests on short term bank deposits. No other financial instruments are held other than financial assets and liabilities which are generated by day-to-day operational activities.

Liquidity risk

NCIO's financial requirements and capital expenditure are met by its Customers and are typically funded in advance. NCIO is therefore not exposed to material liquidity risks. Nevertheless, to ensure business continuity, Treasury holds around 3 months payroll costs equivalent of cash as a security buffer. Based on agreed procedures, Treasury may request additional advance payments to NATO bodies if the cash levels approach to the security buffer or cash forecasts indicate any potential liquidity problems.

Credit risk

NCIO's Customers are member and partner Nations of NATO and hence NCIO is therefore not exposed to material credit risks.

Foreign currency risk

Agency aims to have natural hedge in its transactions to avoid foreign currency risk exposure. Agency operates mainly in EUR, USD, GBP and NOK currencies. Treasury may request calls for contributions in these currencies, in line with expected outflows, based on either cash projections or previous business experiences.

Treasury holds currency bank accounts in those currencies to pay and receive funds.

In addition to the main currencies, there are fewer transactions in other currencies; PLN, TRY, RON and CAD. Agency holds a TRY bank account in Türkiye as an advance account to facilitate direct debit payments in Türkiye. Aligned with NFR, Treasury does not take any speculative positions nor makes any speculative transactions. All foreign currency transactions are related to current or future business needs.

26. Write-offs

Per the applicable NCIO Financial Rules and Procedures (document AC/337-D(2017)0014-AS1);

FRP XVII 8) On write-offs, information will be provided to the NATO budget Committee and the Finance Committee on an aggregated level in the Financial Statements as audited by IBAN.

For the period between 01 January 2022 and 31 December 2022 the NCI Agency has written off:

- CIS assets with total net book value of 1.4 M EUR (Restated 2021: 18 MEUR)
- Accounts receivable with a total value of 391,707.83 EUR, only 55,036.38 EUR generated an impact on the Statement of Performance.
- Pre-Fin write off with total value of 62,161.03 EUR.

Write-off requests submitted/pending approval at Infrastructure Committee;

- CIS assets with total net book value of 10.2 MEUR

C. Notes to the NCIO Statement of Changes in Net Assets/Equity

Under its Charter and its Customer Funding model, the NCIO is allowed to have an Operating Fund (OF) which represents its retained earnings accumulated over the years. The use of the OF is regulated by the Customer Funding Regulatory Framework approved by Council in 2015 (PO(2015)0394-AS1) and are part of the NCIO Financial Rules and Procedures (FRPs) that were approved by the Agency Supervisory Board (ASB) in 2018 (AC/337-D(2016)0014-REV1).

The OF is not the NCI Agency's only source of working capital, because the NCI Agency benefits from significant advance payments from its main customers for purposes of the execution of its programmes and services. In addition all the work performed by the Agency in its role as Host Nation under the NSIP and acquisition projects for Third Parties is funded in advance respectively by the Investment Committee and by NATO Nations & Organisations.

When implementing IPSAS 17, a portion of these earnings were partially encumbered for the value of fixed assets not yet fully depreciated, reported separately as a depreciation reserve. The categories of assets and the breakdown of the remaining book value per category is reported in the Statement of Property Plant and Equipment (PPE).

27. Reserved Earnings

		2022	2021 Restated	2021
Reserved Earnings				
3100, 3101	Reserves - Tangible and Intangible Assets	17,112,414	10,742,666	473,651
311	Reserves - Internal Investments	6,467,751	5,820,000	5,820,000
311	Reserves - Special programmes	2,126,683	2,200,961	2,200,961
3102	Reserves - Inventory Assets	62,692,396	74,493,803	42,755,943
		88,399,244	93,257,430	51,250,555

The reserved earning is composed of:

- 17.1 MEUR of earnings remain reserved for the assets not yet fully depreciated, thus increasing the depreciation reserve in 2021 restated with 10.3 MEUR and in 2022 with 6.4 MEUR due to the first time disclosure of CIS/AIS assets;
- In 2022, the Internal Investment Reserve was increased by 5.7 MEUR to fund Agency Internal Investments. 5.5 MEUR of expenses were spent during this Fiscal Year against the Reserve and, therefore resulting of a net increase of 0.6 MEUR in comparison with 2021 restated note.
- 6.4MEUR of accumulated transition expenses are booked against the Transition Reserve thus decreasing from a total 8.6 MEUR at 31 December 2013 to 2.1 MEUR at 31 December 2022;
- 62.7 MEUR of Inventory Assets Reserve at end of 2022.'

The 2021 restated Inventory Assets reserve balance (74.5 MEUR) increased by 31.7 MEUR in comparison with the 2021 audited Financial Statements (2021: 42.8 MEUR).

This reserve increase is composed of earnings on:

- accounting for low value PPEs (below thresholds) stored at the CSSC and CSU warehouses as global or dedicated stocks and;
- adjustment of Inventory asset values (WAC).

		2022	2021 Restated	2021
Special Programmes Reserves				
311000	Special programmes reserves - Transition projects - Approved and authorised	801,407	875,685	875,685
311001	Special programmes reserves - Transition projects - Approved, not authorised	1,325,276	1,325,276	1,325,276
		2,126,683	2,200,961	2,200,961

Transition Expenses

	Authorised	Spent < 2022	Spent 2022	Total Spent	Remaining
Transition OF funded	7,244,724	6,369,038	74,279	6,443,317	801,407

In order to fund its transition activities between 2014 and 2018, the Agency requested 8.6 MEUR of the Operating Fund (OF) and 18.9 MEUR of common funding. The subsequent IC/BC decision sheet (AC/4 (PP) D/27275 – ADD1 and BC-D(2013)0214) authorised 17 MEUR of common funding and 7.2 MEUR from the Agency OF. The latter has been reserved to pay for backfill consultancy cost and travel of the NCI Agency personnel involved in activities related to the Transition Programme as per the decision sheet. The difference between the RPPB approved amount (8.6 MEUR) and the detailed amount approved by the IC/BC (7.2 MEUR), has also been reserved for future possible use.

NCI Agency Internal Investment Reserve (A2I)

		2022	2021 Restated	2021
Internal Investements Reserves				
311131	Special programmes reserves - A2I - EBA R4	2,554,175	3,723,000	3,723,000
311132	Special programmes reserves - A2I - Interim Facility (IF)/Braine L'Alleud (BLL)	830,000	2,097,000	2,097,000
311133	Special programmes reserves - A2I - Multi Year Investment Plan (MYIP)	3,083,577	0	0
		6,467,752	5,820,000	5,820,000

As per the AC/337(FC)D(2021)0054 - NCI Agency Internal Investment Reserve - Mechanism and Governance Framework paragraph 20; In the Financial Statements, the A2I reserve will be accounted for separately within Reserved Earnings, considered as the accumulated surplus and deficit that is reserved for a specific purpose. Furthermore, the A2I is under the control of the ASB with authority over the fund delegated to the ASB Finance Committee.

EBA R4

The RPPB approved 4 MEUR from the Operating Fund (AC/335-D(2021)0036 dated 21 May 2021) to fund for the EBA release 4 program. The Operating Fund evolution is elaborated in detail at section 2.6 of Financial Plan 2022-2024 (AC/337-D(2021)0050 dated 10 December 2021). The remaining funds at the year-end of FY2022 are 2.5 MEUR.

Interim Facility (IF)/Braine L'Alleud (BLL)

The 0.8 MEUR of unspent investment funding have been carried over into 2023 as part of internal investment reserve in line with Nations decision. Other any unspent investment at end of year 2022 will be used in 2023 to cover for the remaining investments.

Multi Year Investment Plan (MYIP)

In 2022, a new reserve was created for 5.7 MEUR funding new Agency Investments, on which a total of 2.6 MEUR of expenses were used against this reserve, resulting in an ending balance of 3.1 MEUR on 31 December 2022.

28. Retained Earnings

		2022	2021 Restated	2021
Retained Earnings				
5	Revenue	709,401,386	740,777,425	816,550,617
7	Expenses	(721,878,193)	(704,776,199)	(791,027,776)
	Surplus (Deficits) Current Year	(12,476,807)	36,001,226	25,522,841
	Distributed(net) to Retained Earnings	(7,618,621)	22,818,512	21,200,056
	Distributed(net) to Reserved Earnings	(4,858,186)	13,182,715	4,322,785
30, 301	Surplus (Deficits) carried forward - Prior Years	52,263,345	29,444,833	28,173,839
	Retained Earnings (OF)	44,644,724	52,263,345	49,373,895

The 2021 Restated column is the result of:

- first time disclosure of CIS Assets Under Construction or Under Development, and CIS In-Service Assets including Tangible and Intangible Assets where NCIO acts as a service provider toward the NATO Command Structure as well as for IS and IMS;
- accounting for low value PPEs (below thresholds) stored at the CSSC and CSU warehouses as global or dedicated stocks;
- adjusting Inventory asset values (WAC);
- a recalculated refundable position toward the NOR, in respect with Interest Earning for the IC cash holdings.

NCIO Reconciliation of Net Assets/Equity

For the year ended 31 December 2022

(all figures are in Euro) (OF=Operating Fund)

	Property, Plant and Equipment (PP&E) & Intangible Assets		Reserves - Special Purpose	Reserves - Special Progr.	Reserves - Internal Invest.	Reserves - Inventory	RESERVED EARNINGS	RETAINED EARNINGS OF	NET ASSETS/EQUITY	
	Acq. Value	Depreciation	Book Value						Surpl./ (Def.) Yr	Yr-end Balance
2018 as Published	16,174,964	(12,974,730)	3,200,234	2,873,854			6,074,088	18,482,932	(476,473)	(476,473)
31-Dec-18	16,174,964	(12,974,730)	3,200,234	2,873,854			6,074,088	18,482,932		24,557,020
2018 as Published Restated	16,174,964	(12,974,730)	3,200,234	2,873,854		42,755,943	48,830,031	18,482,932	(476,473)	(476,473)
31-Dec-18	16,174,964	(12,974,730)	3,200,234	2,873,854		42,755,943	48,830,031	18,482,932		67,312,963
2019 as Published	21,056,598	(16,777,873)	4,278,724	2,501,144		42,755,943	49,535,811	21,057,428	3,280,277	3,280,277
31-Dec-19	21,056,598	(16,777,873)	4,278,724	2,501,144		42,755,943	49,535,811	21,057,428		70,593,240
2019 Restated	3,769,013	(2,970,388)	798,625	2,501,144		42,755,943	46,055,712	25,813,856	4,556,607	4,556,607
31-Dec-19	3,769,013	(2,970,388)	798,625	2,501,144		42,755,943	46,055,712	25,813,856		71,869,571
2020 as Published	5,929,631	(4,131,164)	1,798,467	2,373,359		42,755,943	46,055,712	28,173,839	3,232,038	3,232,038
31-Dec-20	5,929,631	(4,131,164)	1,798,467	2,373,359		42,755,943	46,927,772	28,173,839		75,101,611
2020 as Published Restated	5,929,631	(4,131,164)	1,798,467	2,373,359		42,755,943	46,927,772	28,173,839	3,232,038	3,232,038
31-Dec-20	5,929,631	(4,131,164)	1,798,467	2,373,359		42,755,943	46,927,772	28,173,839		75,101,611
2021 Published	2,874,383	(1,549,567)	473,651	2,200,961	5,820,000	42,755,943	51,250,555	49,373,897	25,522,840	25,522,840
31-Dec-21	3,055,248	(2,581,597)	473,651	2,200,961	5,820,000	42,755,943	51,250,555	49,250,555		100,624,450
2021 Published Restated (Unaudited)	13,673,795	(2,931,127)	10,742,668	10,742,668	5,820,000	74,493,803	93,257,430	52,263,345	36,001,226	36,001,226
31-Dec-21	13,673,795	(2,931,127)	10,742,668	10,742,668	5,820,000	74,493,803	93,257,430	52,263,345		145,520,775
2022 (Unaudited)	21,916,825	(4,804,411)	17,112,414	2,126,683	6,467,751	62,692,396	88,399,244	44,644,724	(12,476,807)	(12,476,807)
31-Dec-22	21,916,825	(4,804,411)	17,112,414	2,126,683	6,467,751	62,692,396	88,399,244	44,644,724	(12,476,807)	133,043,968

YEAR-END BALANCES	Year-end Balance	Destination								NET ASSETS/EQUITY
		Property, Plant and Equipment (PP&E) & Intangible Assets		Reserves - Special Purpose	Reserves - Special Progr.	Reserves - Internal Invest.	Reserves - Inventory	RESERVED EARNINGS	RETAINED EARNINGS OF	
		Acq. Value	Acc. Deprec.	Book Value						
										Yr-end Balance
31-Dec-05	5,064,289	6,352,418	(1,746,915)	4,605,503				4,605,503	458,786	5,064,289
31-Dec-06	6,780,419	11,440,622	(3,721,092)	7,719,530				7,719,530	(939,111)	6,780,419
31-Dec-07	15,448,855	13,272,399	(6,289,891)	6,982,508				6,982,508	8,466,347	15,448,855
31-Dec-08	16,813,862	16,337,520	(9,760,847)	6,576,673				6,576,673	10,237,189	16,813,862
31-Dec-09	11,869,058	20,011,958	(13,481,609)	6,530,349				6,530,349	5,338,709	11,869,058
31-Dec-10	4,183,086	23,524,061	(18,064,656)	5,459,406				5,459,406	(1,276,320)	4,183,086
31-Dec-11	9,913,025	24,356,808	(20,925,008)	3,431,799				3,431,799	6,481,225	9,913,025
31-Dec-12	15,770,863	43,368	0	43,368				43,368	15,727,495	15,770,863
31-Dec-13	18,350,285	1,043,893	(227,169)	816,725	8,570,000			9,386,725	8,963,561	18,350,285
31-Dec-14	20,280,170	8,276,385	(3,906,195)	4,370,190	7,817,315			12,187,505	8,092,665	20,280,170
31-Dec-15	26,122,091	11,373,573	(7,445,917)	3,927,656	6,217,986			10,145,642	15,976,449	26,122,091
31-Dec-16	23,945,958	9,493,472	(5,229,501)	4,263,972	5,532,909			9,796,881	14,149,077	23,945,958
31-Dec-17	25,033,493	12,869,784	(9,340,075)	3,529,709	4,187,407			7,717,116	17,316,377	25,033,493
31-Dec-18	24,557,020	16,174,964	(12,974,730)	3,200,234	2,873,854			6,074,088	18,482,932	24,557,020
31-Dec-18 Restated	67,312,963	16,174,964	(12,974,730)	3,200,234	2,873,854		42,755,943	48,830,031	18,482,932	67,312,963
31-Dec-19	70,593,240	21,056,598	(16,777,873)	4,278,724	2,501,144		42,755,943	49,535,811	21,057,428	70,593,239
31-Dec-19 Restated	71,869,571	3,769,013	(2,970,388)	798,625	2,501,144		42,755,943	46,055,712	25,813,856	71,869,568
31-Dec-20	75,101,609	5,929,631	(4,131,164)	1,798,467	2,373,359		42,755,943	46,927,772	28,173,839	75,101,611
31-Dec-20 Restated	75,101,607	5,929,631	(4,131,164)	1,798,467	2,373,359		42,755,943	46,927,772	28,173,839	75,101,611
31-Dec-21	100,624,451	3,055,248	(2,581,597)	473,651	2,200,961	5,820,000	42,755,943	51,250,555	49,373,895	100,624,450
31-Dec-21 Restated	145,520,775	13,673,795	(2,931,127)	10,742,668	2,200,961	5,820,000	74,493,803	93,257,430	52,263,345	145,520,775
31-Dec-22	133,043,968	21,916,825	(4,804,411)	17,112,414	2,126,683	6,467,751	62,692,396	88,399,244	44,644,724	133,043,969

INCR./((DECR.) FOR THE YEAR			Destination							
Surplus/((Def.) for the Year		Property, Plant and Equipment (PP&E) & Intangible Assets		Reserves - Special Purpose	Reserves - Special Progr.	Reserves - Internal Invest.	Reserves - Inventory	RESERVED EARNINGS	RETAINED EARNINGS OF	NET ASSETS/EQUITY
		Acq. Value Yr	Deprec. Yr	Δ Book Value						Surpl./((Def.) Yr
31-Dec-05	5,064,289	6,352,418	(1,746,915)	4,605,503				4,605,503	458,786	5,064,289
31-Dec-06	1,716,130	5,088,204	(1,974,177)	3,114,027				3,114,027	(1,397,897)	1,716,130
31-Dec-07	8,668,436	1,831,777	(2,568,799)	(737,022)				(737,022)	9,405,457	8,668,436
31-Dec-08	1,365,007	3,065,121	(3,470,956)	(405,835)				(405,835)	1,770,842	1,365,007
31-Dec-09	(4,944,804)	3,674,438	(3,720,762)	(46,324)				(46,324)	(4,898,480)	(4,944,804)
31-Dec-10	(7,685,972)	3,512,104	(4,583,047)	(1,070,943)				(1,070,943)	(6,615,029)	(7,685,972)
31-Dec-11	5,729,939	832,746	(2,860,353)	(2,027,606)				(2,027,606)	7,757,545	5,729,939
31-Dec-12	5,857,838	(24,313,440)	20,925,008	(3,388,431)				(3,388,431)	9,246,270	5,857,838
31-Dec-13	2,579,422	1,000,525	(227,169)	773,357	8,570,000			9,343,357	(6,763,934)	2,579,422
31-Dec-14	1,929,885	7,232,492	(3,679,027)	3,553,465	(752,685)			2,800,780	(870,895)	1,929,885
31-Dec-15	5,841,921	3,097,188	(3,539,722)	(442,534)	(1,599,329)			(2,041,863)	7,883,783	5,841,921
31-Dec-16	(2,176,133)	(1,880,101)	2,216,417	336,316	(685,077)			(348,762)	(1,827,371)	(2,176,133)
31-Dec-17	1,087,535	3,376,312	(4,110,574)	(734,262)	(1,345,502)			(2,079,764)	3,167,299	1,087,535
31-Dec-18	(476,473)	3,305,179	(3,635,230)	(329,475)	(1,313,553)			(1,643,028)	1,166,555	(476,473)
31-Dec-18 Restated	42,279,470	3,305,179	(3,635,230)	(329,475)	(1,313,553)	42,279,470		41,112,915	1,166,555	42,279,470
31-Dec-19	3,280,277	4,881,634	(3,803,143)	1,078,490	(372,710)			705,780	2,574,497	3,280,277
31-Dec-19 Restated	4,556,608	(12,405,951)	10,004,342	(2,401,609)	(372,710)			(2,774,319)	7,330,924	4,556,605
31-Dec-20	3,232,038	2,160,618	(1,160,776)	999,842	(127,785)			872,057	2,359,981	3,232,038
31-Dec-20 Restated	3,232,038	2,160,618	(1,160,776)	999,842	(127,785)			872,057	2,359,981	3,232,038
31-Dec-21	25,522,842	(2,874,383)	1,549,567	(1,324,816)	(172,398)	5,820,000		4,322,783	21,200,058	25,522,841
31-Dec-21 Restated	36,001,226	7,744,164	1,200,037	8,944,201	(172,398)	5,820,000	31,737,860	46,329,658	(10,328,432)	36,001,226
31-Dec-22	(12,476,807)	8,243,031	(1,873,284)	6,369,746	(74,278)	647,751	(11,801,407)	(4,858,186)	(7,618,621)	(12,476,807)

29. Events after the financial reporting date of 31 December 2022

NCIO is required to disclose events, both favourable and unfavourable, that occurred between the reporting date of 31 December 2022 and the date when these Financial Statements were authorised for issue by the General Manager. IPSAS requires two types of events which should be identified:

- (a) Those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- (b) Those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

1. At the end of the Fiscal Year 2022, NCIO requested the Agency Supervisory Board's Finance Committee to authorise, as part of the preparation of 2022 NCIO Financial Statements, the write-off of an receivable balance related to NSIP (AC/337(FC)D(2022)0025-REV1-COR1 (INV)). This request was approved under silence procedure by the ASB on 27 January 2023 (AC/337(FC)D(2022)0025-REV1-COR1-AS1 (INV)).
2. In 2022, the NCIO requested the authorisation to remove an asset from its NATO Inventory (NCIA/COO/2022/01645/TT-0640), this request was authorized by the Investment Committee on the 24th of January 2023 (AC/4-DS(2023)0002 (INV)).

These authorisations constitute adjusting events after the reporting date and therefore, this receivable and asset was written-off on the face of the 2022 Financial Statements accordingly.

30. MWA disclosure

NCIO also has some Morale and Welfare Activities (MWA) which are not consolidated into the Financial Statements as per the NAF adapted IPSAS 6, even if they are considered to be under the control, from a financial reporting perspective of the NCI Agency.

Revenue generated throughout the year for MWA activities amounted at 42,232 EUR (2021: 0 EUR), originated primarily from contributions from external parties (29,822 EUR) and tickets sale for two major Christmas events with additional contribution funds (12,410 EUR).

Total expenses for the MWA activities related to 2022 amounted 48,298 EUR (2021: 761 EUR).

Main assets of the MWA consists of cash and cash equivalents balance of 44,717 EUR and receivables of 52,362 EUR. Provision was accounted for these receivables in Fiscal Year 2020 because there would be a risk that settlement of these receivables would not happen. While liabilities of 51,189 EUR relate mainly to the provision for doubtful debts raised in Fiscal Year 2020.

D. Notes to the NCIO Budget Execution Statement

Although NCIO is fully Customer Funded as of 2014, the NCIO Independent Secretariat Budget, as per the Charter of the NCIO, approved by Council on 19 June 2012 under C-M(2012)0049, the NCIO is composed of an ASB and an executive body composed of a General Manager and his/her staff (the NCI Agency). Per Article 26 (e) of the Charter, the chairperson of the ASB is supported by an Independent Secretariat that is only responsible to the chairperson. Per Article 50 (c) and per AC/337-D(2014)0007-AS1 dated 9 May 2014, the ASB approved core funding (distinct and separate from NATO common funding) for the NCIO Independent Secretariat. The ASB approved the structure and an annual budget based on the Military Budget cost share model.

Expenses amount include accrued expenses as reported in the Statement of Financial Performance; budget execution/financial statement are thus presented on a comparable basis and in compliance with IPSAS24. Lapsed amounts represent budget funds that were not used (unspent) during the course of the financial year. Carry forward amounts are the net Commitments at the end of the financial year that have not been converted into expenses at the end of the financial year. Chapter 1 represents – Personnel cost, Chapter 2 represents Contractual Supplies and Services and Chapter 3 represents Investments.

NATO Accounting Framework (NAF) additional disclosures

NAF Impact prior 1 January 2013 Expensed PPE/Inventory and prior 1 January 2018 Assets under Construction

NATO assets are composed of Property Plant and Equipment and Intangible Elements. The classification of the different assets is done in accordance with the requirements set forth by the NAF. If multiple categories were applicable the assignment was done on the intended use of the asset involved. The NCI Agency was established July 1st 2012, following the merger of three legacy NATO Agencies (NACMA, NC3A and NCSA).

1. Property Plant and Equipment and Intangible Assets

In accordance with the NATO Accounting Framework (C-M(2016)0023) the NCIO shall, for PPE and intangible assets held prior to 1 January 2013, and not previously recognized as an asset, provide a brief description of the assets in the notes to the financial statements.

The projects were funded by the Infrastructure Committee, and are summarised as follows.

Infrastructure Assets put in Service prior to 01 January 2013

Location of Project ⁽¹⁾	Type of Project	Number ⁽²⁾
ACO and former ACE area	Networking and Command and Control Capabilities for Military Commands.	48
ACT and former Aclant area	Networking and Command and Control Capabilities for Military Commands.	33
Former Yugoslavia	Communication networks and installations in theatre.	98
Peace Support Operations	CIS support for Peace Support Operations located in Former Yugoslavia.	32
SATCOM	Military Satellite Communications projects.	23
Various Networking Projects	NATO-wide networking infrastructure.	186
TOTAL		420

⁽¹⁾ Project defined as Infrastructure Committee slice serials.

⁽²⁾ Table does not include infrastructure completed by the legacy agencies prior to the year 2000.

It should be noted that almost all of these projects were delivered to legacy military commands, prior to NATO military reorganisation in 2012. Many of the projects were installed 'in theatre' (former Yugoslavia). All the items are largely or completely obsolescent, and due to their age, should be considered as fully depreciated.

2. Inventory

For the reporting year 2022 Inventory balances have been fully disclosed in the Statement of Position and within the notes hence special disclosure as stipulated in the NATO Accounting Framework for inventory is not applicable.

3. Assets under Construction/Development

In accordance with the NATO Accounting Framework, the NATO ACCOUNTING POLICY FOR PROPERTY, PLANT AND EQUIPMENT (C-M(2017)0022 APPENDIX 1 ANNEX 1) and the NATO ACCOUNTING POLICY FOR INTANGIBLE ASSETS (C-M(2017)0044 APPENDIX 1 ANNEX 1); the NCIO shall for the NCIO controlled CIS Assets under construction/development before 1 January 2018 provide a brief description on the types and locations of CIS assets that were under construction prior to 1 January 2018 for the NATO Command Structure as well as for IS and IMS. At the time of the publication of the unaudited 2022 NCIO Financial Statements, the below assets were still under construction/development.

The assets are grouped by geographical region, if multiple locations are involved no specific region was assigned but kept general. (e.g. ACCS, NATO wide location was assigned as this asset is located in the different NATO member countries)

Asset Location ⁽²⁾	NATO Asset Category	Asset Type	Number of Assets ⁽¹⁾
Eastern Europe	Automated Information Systems	Various Networking Projects	3
NATO-WIDE	Automated Information Systems	Networking and Command and Control Capabilities for Military Commands	8
	Automated Information Systems	Various Networking Projects	75
	Communications	SATCOM	9
	Vehicles	Peace Support Operations	2
	Mission Equipment	Peace Support Operations	5
North America	Automated Information Systems	Networking and Command and Control Capabilities for Military Commands	1
Northern Europe	Automated Information Systems	VARIOUS Networking Projects	1
Southern Europe	Automated Information Systems	Networking and Command and Control Capabilities for Military Commands	4
	Automated Information Systems	Various Networking Projects	2
Theatre	Automated Information Systems	Various Networking Projects	3
Western Europe	Automated Information Systems	Various Networking Projects	3
	Automated Information Systems	Networking and Command and Control Capabilities for Military Commands	2
	Communications	SATCOM	1
TOTAL			119

⁽¹⁾ Asset defined as Infrastructure Committee slice serials.

⁽²⁾ Countries by Geographic Locations:

Eastern Europe: Czech Republic, Lithuania, Montenegro, Poland, North Macedonia, Slovakia, Hungary, Romania

NATO-Wide: Albania, Belgium, Bulgaria, Canada, Croatia, Czech Republic, Denmark, Estonia, France, Germany, Greece, Hungary, Iceland, Italy, Latvia, Lithuania, Luxembourg, Montenegro, Netherlands, North Macedonia, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Türkiye, United Kingdom, United States

North America: United States

Southern Europe: Italy, Portugal, Türkiye

Theatre: Balkans

Western Europe: Belgium, France, Germany, Netherlands

4. Assets under Construction/Development completed during the period of 2013-2017

In accordance the NAF and related accounting policies for CIS Assets constructed and developed for the NCS, IMS and IS which were completed during the period Jan 2013 and Dec 2017 the NCIO discloses the number assets that were completed by Asset location, Asset Category and Asset Type.

The assets are grouped similar to the disclosure under paragraph 3.

Asset Location ⁽²⁾	NATO Asset Category	Asset Type	Number of Assets ⁽¹⁾
Eastern Europe	Automated Information Systems	Networking and Command and Control Capabilities for Military Commands	2
	Automated Information Systems	VARIOUS Networking Projects	2
NATO-WIDE	Automated Information Systems	Networking and Command and Control Capabilities for Military Commands	11
	Automated Information Systems	VARIOUS Networking Projects	4
	Software Bespoke	Command and Control Capabilities for Military Commands	2
	Software COTS	Command and Control Capabilities for Military Commands	1
	Communications	Networking and Command and Control Capabilities for Military Commands	1
North America	Automated Information Systems	Command and Control Capabilities for Military Commands	1
Southern Europe	Automated Information Systems	Networking and Command and Control Capabilities for Military Commands	1
	Automated Information Systems	VARIOUS Networking Projects	4
	Communications	Networking and Command and Control Capabilities for Military Commands	1
Theatre	Automated Information Systems	Networking and Command and Control Capabilities for Military Commands	1
	Automated Information Systems	VARIOUS Networking Projects	1
Western Europe	Automated Information Systems	Networking and Command and Control Capabilities for Military Commands	1
	Automated Information Systems	VARIOUS Networking Projects	2
	Software COTS	Command and Control Capabilities for Military Commands	1
	Communications	SATCOM	1
TOTAL			37

⁽¹⁾ Asset defined as Infrastructure Committee slice serials.

⁽²⁾ Countries by Geographic Locations:

Eastern Europe: Czech Republic, Lithuania, Montenegro, Poland, North Macedonia, Slovakia, Hungary, Romania

NATO-Wide: Albania, Belgium, Bulgaria, Canada, Croatia, Czech Republic, Denmark, Estonia, France, Germany, Greece, Hungary, Iceland, Italy, Latvia, Lithuania, Luxembourg, Montenegro, Netherlands, North Macedonia, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Türkiye, United Kingdom, United States

North America: United States

Southern Europe: Italy, Portugal, Türkiye

Theatre: Balkans

Western Europe: Belgium, France, Germany, Netherlands

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oversight responsibilities in the areas of internal controls, risk management, internal and external audits, financial reporting, and regulatory compliance. In 2022, the AC carried out four meetings in plenary session.

- c. The Chairman of the ASB is responsible to maintain a sound system of internal control that supports the ASB Secretariat and ensures it delivers on its mandate;
- d. The General Manager (GM) is responsible to maintain a sound system of internal control that supports the NCI Agency and ensures it delivers on its Chartered mandate;
- e. The Chief Operating Officer (COO) is responsible to maintain a sound system of internal control for business planning together with the related business intake and capacity management, as well as monitoring programme/project exceptions;
- f. The Chief of Acquisition is responsible to maintain a sound system of internal control that ensures the integrity of the procurement process;
- g. The Chief People Officer is responsible to maintain a sound system of internal control relating to the recruitment and departure of staff and associated payment of salaries and allowances;
- h. The Financial Controller is responsible for maintaining a sound system of internal financial controls, for the correct use and accounting of funds made available to the NCI Agency and the ASB Independent Secretariat.

The control environment continues to be strengthened in the Agency with the ongoing stabilisation and roll out of Agency's ERP (EBA). Reporting tools and their standardisation across the Agency is improving. Agency continues improving business planning and resource allocation with change of practices and the roll out of modern resources planning tools (EBA R4 went live January 2023). The Asset Management Program (AM) phase 1 has valuable progress to reinforce asset inventories and controls. This program will continue in 2023 to secure those progresses and further mature the core AM processes.

Subject : **Statement of Internal Control**
NATO Communications and Information Organisation (NCIO)
Financial Statements for the period 01 January 2022 to
31 December 2022

1. This Statement of Internal Control applies to the NCIO Financial Statements for the year ended 31 December 2022. Internal control is driven by the requirement of the NATO Financial Regulations, the NCIO Financial Rules and Procedures, the NATO Accounting Framework, the NCIO Internal Control Framework and good business practices. Internal control is to ensure that NATO assets are utilized for the purposes intended and that the transactions relating to their usage reflect the highest standards of integrity to justify continued confidence of the NATO Member Nations.
2. The NCIO system of internal control is based on an ongoing process effected by the Board, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance. As part of the process, identified risks to the achievement of NCI Organisation goals and objectives, are managed efficiently, effectively and economically. In detail:
 - a. The ASB has the responsibility to: (1) ensure that effective risk management measures are in place and monitor performance execution on that basis; (2) exercise management control by comparison of the NCI Agency activities with applicable ASB directives; (3) oversee the delivery of results against targets; (4) evaluate the performance against objectives of the NCI Agency; (5) benchmark the NCI Agency against comparable organisations;
 - b. The ASB has established an Audit Committee (AC) comprising 30 members of NATO nations. The AC assists the Board in fulfilling its

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Considering the statements above, senior management and the Financial Controller can provide confirmation that, except for the aspects related to assets management, the system of internal control of the Agency is effective.

3. The main aspects of the NCIO's system of internal control for 2022 are as follows:

- a. All funds received are recorded, accounted and managed through a set of information systems, which include: enterprise-wide project management; a time accounting system and the Oracle R 12 based tool Enterprise Business Applications (EBA)¹. Controls are in place at transactional level to control use and disbursement of funds.
- b. The Independent Secretariat has its budget approved and funded by ASB Member Nations.
- c. The NCI Agency annually updates its Customer Rates based on the ASB approved Customer Rates Principles and Methodology². These are endorsed by the ASB, and approved by the NATO Budget Committee on behalf of all Customers.
- d. The NCI Agency also annually updates its Services Rates (based on Customer Rates for the Agency's professional services element) and these are validated by the ASB and NATO Budget Committee.
- e. The NCI Agency has an integrated planning process comprising the Strategic Plan; Business Plan; the Multi-Year Investment Plan; and Financial Plan. It prepares annually a Financial Plan (three years planning horizon) covering revenue and expenses related to Customer Funding, which is signed-off by the Executive Management Board, chaired by the GM. The Financial Plan is approved by the ASB.
- f. Agreements with Customers are in writing and are usually concluded on a Firm Fixed Price and/or Cost Reimbursable basis.

¹ Go-Live' was in Q1 2019 for EBA Release 1

g. Procurement activities are under the responsibility of the Chief of Acquisition with the specific involvement of the GM. For some deviations from normal competition the Agency has a designated Competition Advocate – Chief Independent Verification and Validation who advises the GM.

h. Through its Service Lifecycle Management Board (SLMB) chaired by the COO, the Agency oversees the operational environment with a focus on early identification and quantification of risks which affect services and projects to allow for timely management oversight and/or assistance to mitigate.

i. The Agency has an Enterprise-wide Risk Management Policy and Framework which sets out the risk management processes in place and details the roles and responsibilities of staff in relation to risk. This policy has been issued to all staff who are expected to work within the Agency's risk management policies, to alert management on emerging risks and control weaknesses and assume responsibility for risks and controls within their own area of work. There are regular reviews by senior management of key risks and related controls.

The Agency has adopted the Three Lines Model for its internal governance. This model, published on 20 June 2020 by the Institute of Internal Auditors as an update of the Three Lines of Defense Model, is based on an assurance system combined around three lines, providing a comprehensive view of how the different parts of the Agency interact in an effective and coordinated manner, increasing the efficiency of the processes for management and internal control of the entity's significant risks. Its purpose is to improve the operational efficiency of the Agency.

j. The Agency has an Internal Audit Function, compliant with internationally accepted Internal Auditing standards and with an approved risk-based three years audit plan, which reviews, amongst other areas, internal control and risk mitigation. The Head

² AC/337(FC)D(2018)0003-REV1

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- of Internal Audit reports functionally to the ASB and administratively to the GM.
- k. The Agency has Fraud Prevention and Detection function. It reports to the Investigative Authority delegated by the GM and provides regular updates on lessons learned at the Internal Control Panel. The Agency has established procedures for managing risks of fraud, including fraud prevention, detection and response in line with the NATO wide Strategy on the prevention, detection and response to Fraud and Corruption. In 2022, the Agency was not exposed to material fraudulent activities.
 - l. In order to support the NCI Agency Management and the ASB in undertaking internal control responsibilities, an Internal Control Questionnaire and Assessment (ICQA) is used to serve as a management self-assessment and evaluation tool. This questionnaire is in line with the provisions of the NCIO Internal Control Framework which was developed based on the guidance issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) approved by ASB in November 2016. On 10 June 2022, the ASB approved the updated version of the NCIO Internal Control Framework (ICF), to address organizational and operational changes introduced over time. Management has continued work on developing the internal control framework within the Finance Directorate by employing a risk based methodology to design process controls in line with the COSO guidance.
 - m. With this Internal Control Statement, GM and FC certify that no work was done that was not specifically requested and paid for by a customer, beyond what could be absorbed as part of a reasonable overhead envelope as approved by the ASB. This certification is based on internal reassurance mechanism whereby each manager entrusted with business responsibility has to provide in writing reinsurance to the GM and FC. As part of this reassurance process, Agency is willing to make transparent that the PMO of Polaris ITM remained funded from Agency overheads in 2022, significant engagement with governance has taken place to make the PMO a customer funded activity .
 - n. Currently new joiners to the Agency receive information about Agency procedures and behaviour standards. Moreover, the

Agency has a Code of Conduct for all staff, as well as an Anti-Fraud Directive, and staff must undergo training in ethical behaviour and appropriate use of resources.

4. During its last Financial Statements audit, the International Board of Auditors for NATO (IBAN) made five observations and recommendations related to the 2021 NCIO Financial Statements. These findings are listed in the Letter of Observations and Recommendations. One observation and recommendation impacts the audit opinion on both the Financial Statements and on compliance: (1) Material incompleteness of Property, Plant and Equipment (PP&E) and Intangible Assets. The other three observations and recommendations do not impact the audit opinion on the Financial Statements and compliance: (2) Strengthening Internal Controls related to Cash Management, (3) Disclosure of a provision of EUR 5.1 million related to NSIP receivables and (4) Weakness regarding EBA User Access Rights and Segregation of Duties. IBAN followed up on the status of observations and recommendations from the previous years' audits and found that four were closed and one is open.

 Ludwig Decamps
2023.07.01
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Ludwig Decamps
General Manager

 Antoine Pailhès
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by Antoine
Pailhès
Date: 2023.06.30
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Antoine Pailhès
Financial Controller

Distribution:

External

Chairman Board of Auditors for NATO
Chairman NCIO Agency Supervisory Board

Internal

Members Executive Management Board

NATO UNCLASSIFIED
Releasable to Sweden



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- f. C-M(2017)0044, NATO Accounting Policy for Intangible Assets, approved by Council, dated 08 September 2017
- g. C-M(2017)0043, NATO Accounting Policy for Inventory, approved by Council, dated 08 September 2017;
- h. AC/337-D(2016)0014-REV1, NCIO Financial Rules and Procedures, approved by the ASB, dated 20 November 2018;

Subject: **Financial Controller's Certification -
NATO Communications and Information Organisation (NCIO)
Financial Statements for the year ended 31 December 2022**

I certify that the NCIO 2022 Financial Statements present fairly the NCIO's financial position, financial performance, cash flows and changes in net assets/equity during the period.

At the Wales Summit of 2014, the nations tasked NATO bodies to increase their financial transparency. While I am content for all the information in the financial statements to be publically disclosed, the decision on what to make publically available rests with the North Atlantic Council.

1. The 2022 Financial Statements for the NCIO are submitted to the International Board of Auditors for NATO (IBAN) and the Agency Supervisory Board (ASB) as required by the NATO Financial Regulations and the NCIO Charter.
2. The Financial Statements were prepared in accordance with the following Reference documents:
 - a. C-M(2012)0049, Charter of the NATO Communications and Information Organisation, approved by Council, dated 14 June 2012.
 - b. C-M(2015)0025), NATO Financial Regulations, approved by Council, dated 4 May 2015;
 - c. PO(2015)0394, NATO Communications & Information Agency Customer Funding Regulatory Framework, approved by Council, dated 16 July 2015;
 - d. C-M(2016)0023, revised NATO Accounting Framework (IPSAS adaptation), approved by Council, dated 29 April 2016;
 - e. C-M(2017)0022(INV), NATO Accounting policy for Property Plant and Equipment, approved by Council, dated 31 May 2017;

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Antoine Pailhès
Financial Controller

ACRONYMS

AAS	ADVISORY AND ASSISTANCE SERVICES
ACCS	NATO AIR COMMAND AND CONTROL SYSTEM
ACO	ALLIED COMMAND OPERATIONS
ACPV	ASSET, CONFIGURATION, PATCH AND VULNERABILITY
ACT	ALLIED COMMAND TRANSFORMATION
AIR C2	AIR COMMAND AND CONTROL
AIS	AUTOMATED INFORMATION SYSTEM
APF	ADVANCE PLANNING FUNDS
ASB	AGENCY SUPERVISORY BOARD
AuC	ASSET UNDER CONSTRUCTION/DEVELOPMENT
FinCom	AGENCY SUPERVISORY BOARD FINANCE COMMITTEE
BC	NATO BUDGET COMMITTEE
BEUR	BILLION EUR
BMD	BALLISTIC MISSILE DEFENCE
C4ISR	CONSULTATION, COMMAND, CONTROL, COMMUNICATIONS, INTELLIGENCE, SURVEILLANCE AND RECONNAISSANCE
C3	CONSULTATION, COMMAND AND CONTROL
CCSC	AGENCY'S COSTED CUSTOMER SERVICE CATALOGUE
CFRF	CUSTOMER FUNDING REGULATORY FRAMEWORK
CIS	COMMUNICATION INFORMATION SYSTEMS
CMBC	THE CRISIS MANAGEMENT AND BUSINESS CONTINUITY OFFICE
COO	CHIEF OPERATING OFFICER
CP	CAPABILITY PACKAGE
CPR	NATO CIVILIAN PERSONNEL REGULATIONS
CRF	CUSTOMER REQUEST FORM
CSSC	CIS SUSTAINMENT SUPPORT CENTRE
EBA	ENTERPRISE BUSINESS APPLICATIONS
EPM	ENTERPRISE PROJECT MANAGEMENT
ERM	ENTERPRISE RISK MANAGEMENT
ESPE	END STATE PEACETIME ESTABLISHMENT
FFP	FIRM FIXED PRICE
FRP	FINANCIAL RULES AND PROCEDURES
FS	FINANCIAL STATEMENTS
GM	GENERAL MANAGER
HN	HOST NATION

HO/TO	HANDOVER/TAKEOVER
IA	INTERNAL AUDIT
IBAN	INTERNATIONAL BOARD OF AUDIT FOR NATO
IC	NATO INVESTMENT COMMITTEE
ICF	INTERNAL CONTROL FRAMEWORK
ICTM	INFORMATION COMMUNICATIONS TECHNOLOGY MANAGEMENT
IMS	INTERNATIONAL MILITARY STAFF
IS	INTERNATIONAL STAFF
ISAF	INTERNATIONAL SECURITY ASSISTANCE FORCE
ISMERLO	THE INTERNATIONAL SUBMARINE ESCAPE AND RESCUE LIAISON OFFICE
ISPAS	INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS
ITM	IT MODERNIZATION (PROGRAM)
KEUR	THOUSAND EURO
KFOR	KOSOVO FORCES
LC2IS	LAND COMMAND AND INFORMATION SYSTEM
MC	MILITARY COMMITTEE
MEUR	MILLION EURO
MYIP	MULTI YEAR INVESTMENT PLAN
MWA	MORALE AND WELFARE ACTIVITIES
IWC	INTERIM WORKFORCE CAPACITY
NAC	NORTH ATLANTIC COUNCIL
NAF	NATO ACCOUNTING FRAMEWORK
NAGSMOIL	NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT ORGANISATION IN LIQUIDATION
NATO	NORTH ATLANTIC TREATY ORGANISATION
NCI Agency	NATO COMMUNICATIONS AND INFORMATION AGENCY
NCIO	NATO COMMUNICATIONS AND INFORMATION ORGANISATION
NCS	NATO COMMAND STRUCTURE
NDEC	NCI Agency DIGITAL ENTERPRISE CENTRE
NFR	NATO FINANCIAL REGULATIONS
NIC	NATO INTERNATIONAL CIVILIAN
NITEC	NATO INDUSTRY CONFERENCE AND TECHNET INTERNATIONAL
NSIP	NATO SECURITY INVESTMENT PROGRAMME

OF	OPERATING FUND
PE	PEACETIME ESTABLISHMENT/PERSONNEL ESTABLISHMENT
PP&E	PROPERTY PLANT and EQUIPMENT
PSC	PROJECT SERVICE COSTS
QAFR	QUARTERLY ACCOUNTING FINANCIAL REPORT
RPPB	NATO RESOURCE POLICY AND PLANNING BOARD
RS	RESOLUTE SUPPORT
SATCOM	SATELLITE COMMUNICATION
SATCOM MOU	SATELLITE COMMUNICATION MEMORANDUM OF UNDERSTANDING
SLA	SERVICE LEVEL AGREEMENT

SLMB	SERVICE LIFECYCLE MANAGEMENT BOARD
SSC	SERVICE SUPPORT COST
SSP	SERVICE SUPPORT PACKAGES
SST	SERVICE SUPPORT TRAINING PACKAGES
TFR	'TRATTAMENTI DI FINE RAPPORTO'
TO	TASK ORDER
TOPFAS	TOOLS FOR OPERATIONS PLANNING FUNCTIONAL AREA SERVICE
WAC	WEIGHTED AVERAGE COST
WGNT	WORKING GROUP OF NATIONAL TECHNICAL EXPERTS