



NORTH ATLANTIC COUNCIL
CONSEIL DE L'ATLANTIQUE NORD

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10 March 2025

**DOCUMENT
PO(2025)0056-AS1**

**IBAN AUDIT REPORT ON THE 2023 FINANCIAL STATEMENTS OF DEFENCE
INNOVATION ACCELERATOR FOR THE NORTH ATLANTIC (DIANA)**

ACTION SHEET

On 10 March 2025, under the silence procedure, the Council noted the RPPB report and the IBAN Audit Report attached to PO(2025)0056, approved the conclusions and recommendations in the RPPB report, and approved the public disclosure of the 2023 Financial Statements of DIANA, the associated IBAN Audit Report and the RPPB report.

(Signed) Mark RUTTE
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to PO(2025)0056.

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24 February 2025

DOCUMENT
PO(2025)0056
Silence Procedure ends:
10 Mar 2025 – 17.30

To: Permanent Representatives (Council)

From: Secretary General

**IBAN AUDIT REPORT ON THE 2023 FINANCIAL STATEMENTS OF DEFENCE
INNOVATION ACCELERATOR FOR THE NORTH ATLANTIC (DIANA)**

1. I attach the Resource Policy and Planning Board (RPPB) report on the International Board of Auditors for NATO (IBAN) Audit Report on the resubmitted 2023 Financial Statements of the Defence Innovation Accelerator for the North Atlantic (DIANA).
2. I do not believe this issue requires further discussion in Council. Therefore, **unless I hear to the contrary by 17.30 on Monday, 10 March 2025** 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 2023 Financial Statements of DIANA, the associated IBAN Audit Report and the RPPB report.

(Signed) Mark RUTTE

1 Annex
2 Enclosures

Original: English

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IBAN AUDIT REPORT ON THE 2023 FINANCIAL STATEMENTS OF THE DEFENCE INNOVATION ACCELERATOR FOR THE NORTH ATLANTIC (DIANA)

Report by the Resource Policy and Planning Board (RPPB)

References:

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| A. | IBA-AR(2024)0029 | IBAN Audit Report on the Financial Statements of the Defence Innovation Accelerator for the North Atlantic (DIANA) for the year ended 31 December 2023 |
| B. | C-M(2015)0025 | NATO Financial Regulations (NFRs) |
| C. | C-M(2016)0023 | NATO Accounting Framework (NAF) |
| D. | PO(2015)0052 | Wales Summit tasker on transparency and accountability |

INTRODUCTION

1. This report by the Resource Policy and Planning Board (RPPB) addresses the IBAN Audit Report on the 2023 resubmitted Financial Statements of the Defence Innovation Accelerator for the North Atlantic (DIANA). IBAN issued an unqualified opinion on the resubmitted Financial Statements and on compliance for the year ended 31 December 2023 (reference A).

AIM

2. 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.

DISCUSSION

3. In 2023, IBAN made two observations and recommendations for DIANA. They relate to the need to strengthen internal controls over the preparation of the financial statements, and the need to ensure full compliance with the principles of procurement and contracting of the NATO Financial Regulations (reference B). These observations and recommendations did not impact the audit opinion on the Financial Statements and on compliance.

3.1. Observation 1: The RPPB supports IBAN's recommendation that DIANA strengthen internal controls over the preparation of financial statements to provide a reasonable basis for obtaining assurance that the financial statements are in compliance with the NATO Accounting Framework (reference C) and the NFRs.

3.2. Observation 2: The RPPB supports IBAN's recommendation that DIANA ensure full compliance with Article 32 of the NFRs regarding procurement and contracting principles, specifically concerning the approval of deviations from the strict application of competitive bidding rules.

4. In addition, IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one remains in-progress. The observations are detailed in document at reference A.

5. The RPPB notes that DIANA resubmitted its Financial Statements to correct material misstatements and one non-material error. These misstatements demonstrate the need to ensure adequate processes are in place for the preparation, review and reporting of the Financial Statements to avoid material misstatements or disclosure errors. The Head of Financial Reporting Policy (HFRP) raised the topic of the resubmissions of financial statements at the Working Group of Financial Controllers held in November 2024. Due to the increasing number of resubmissions in the last years, the HFRP emphasized the importance of strengthening internal controls NATO-wide in order to limit such cases.

CONCLUSIONS

6. IBAN issued an unqualified opinion on the 2023 resubmitted DIANA's Financial Statements and on compliance. Two observations and recommendations were raised for DIANA. One previous years' observation for DIANA remains in-progress.

7. The RPPB reminds that the resubmission of DIANA 2023 Financial Statements to correct material misstatements shows that progress is still needed in strengthening internal controls over the financial reporting process. The RPPB notes that the HFRP raised the topic of the resubmissions of financial statements at the Working Group of Financial Controllers, and also emphasized the importance of strengthening internal controls NATO-wide in order to limit such cases.

8. With regard to the need to strengthen internal controls over the preparation of financial statements, and the need to ensure full compliance with the principles of procurement and contracting of the NFRs, the RPPB supports IBAN's recommendations.

RECOMMENDATIONS

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

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

9.2. approve the conclusions at paragraphs 6 to 8;

9.3. approve the public disclosure of the 2023 Financial Statements for DIANA, its associated IBAN Audit Report and this report in line with agreed policy at reference D.



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

Brussels - Belgium



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IBA-A(2024)0141
11 December 2024

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

Cc: NATO Permanent Representatives
Chair, Board of Directors, Defence Innovation Accelerator for the North Atlantic
Managing Director, Defence Innovation Accelerator for the North Atlantic
Financial Controller, Defence Innovation Accelerator for the North Atlantic
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 Defence Innovation Accelerator for the North Atlantic's (DIANA) Financial Statements for the year ended 31 December 2023 – IBA-AR(2024)0029***

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 Defence Innovation Accelerator for the North Atlantic (DIANA) and on compliance for financial year 2023.

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
Defence Innovation Accelerator for the North Atlantic (DIANA)
for the year ended 31 December 2023**

The Defence Innovation Accelerator for the North Atlantic (DIANA) is instructed to accelerate civil-military emerging and disruptive technological solutions to critical transatlantic defence and security challenges, leveraging existing elements from NATO nations and NATO bodies and guided by relevant NATO Strategies and Frameworks. DIANA expenses in 2023 amounted to EUR 9.4 million.

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

IBAN made two observations and recommendations. These observations 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. Need to ensure full compliance with the principles of procurement and contracting of the NATO Financial Regulations.

IBAN followed up on the status of observations and recommendations from the previous years' audit and found that one remains in progress.

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

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IBA-AR(2024)0029

11 December 2024

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE
DEFENCE INNOVATION ACCELERATOR FOR THE NORTH ATLANTIC**

(DIANA)

FOR THE YEAR ENDED 31 DECEMBER 2023

PUBLICLY DISCLOSED - PDN(2025)0024 - MIS EN LECTURE PUBLIQUE

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

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of DIANA, for the 12 month period ended 31 December 2023, issued on 23 May 2024 and resubmitted to IBAN on 26 July 2024. These Financial Statements comprise the Statement of Financial Position as at 31 December 2023, 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 2023, 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 2023.

In our opinion, the Financial Statements give a true and fair view of the financial position of DIANA as at 31 December 2023, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2023, 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 DIANA 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.

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, 11 December 2024



Radek Visinger
Chair

OBSERVATIONS AND RECOMMENDATIONS

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

1. Need to strengthen internal controls over the preparation of the financial statements.
2. Need to ensure full compliance with the principles of procurement and contracting of the NATO Financial Regulations.

IBAN followed up on the status of observations and recommendations from the previous years' audit and found that one remains in progress.

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

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

Reasoning

1.1 According to the NATO Accounting Framework (NAF) *“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.”*

1.2 According to the NATO Financial Regulations (NFRs) Article 34.1: *“NATO bodies shall adhere to the accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council.”*

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

Observations

1.4 IBAN identified material misstatements during the audit of the DIANA Financial Statements first submitted to IBAN on 23 May 2024, as described below. These misstatements were corrected in the resubmitted Financial Statements submitted to IBAN on 26 July 2024.

1.5 The 2023 DIANA Financial Statements, as initially submitted, contained the following material misstatements:

- a) The incorrect classification of loan proceeds from the interest-free loan issued by the Supreme Headquarters Allied Powers Europe (SHAPE), totaling EUR 22 million, as cash flow from operating activities instead of from financing activities in the DIANA Cash Flow Statement, in accordance with NAF IPSAS 2.
- b) The non-disclosure in Note 15 related to the Budget Execution regarding the amount of EUR 7.5 million, which will not lapse based on the DIANA Board of Directors' decision on 28 March 2024 to use these funds for the development of the DIANA Operating System.
- c) A disclosure error regarding total expenses for 2022 and 2023 in Note 11 on Net Assets and Note 16 on Contingent Assets. The correct figure should read EUR 17,484,720 instead of EUR 9,984,720.

1.6 IBAN also identified a non-material error in the presentation of the DIANA Statement of Financial Position and in the disclosure note regarding intangible assets related to DIANA's development of an Enterprise Resource Planning (ERP) system for its enterprise resource requirements, which was initially classified under the Property, Plant, and Equipment asset category for an amount of EUR 49,483.

1.7 The above misstatements demonstrate the need to ensure adequate processes are in place for the preparation, review and reporting of the Financial Statements to avoid material misstatements or disclosure errors.

Recommendations

1.8 IBAN recommends that DIANA strengthen internal controls over the preparation of the financial statements to provide a reasonable basis for obtaining assurance that the financial statements are in compliance with the NATO Accounting Framework and NATO Financial Regulations.

2. NEED TO ENSURE FULL COMPLIANCE WITH THE PRINCIPLES OF PROCUREMENT AND CONTRACTING OF THE NATO FINANCIAL REGULATIONS

Reasoning

2.1 According to Article 3 of the NFRs: *"The Secretary General, the Supreme Commanders and the other Heads of NATO bodies are responsible and accountable for sound financial management and shall put in place the necessary governance arrangements to ensure and maintain this. This shall include, but is not limited to, the establishment and maintenance of financial governance, resource management*

practices, internal controls and financial information systems to achieve the efficient and effective use of resources.”

2.2 According to Article 4.4 of the NFRs *“The finance committee (or the appropriate governing body) shall, as applicable, approve a set of Financial Rules and Procedures that provide additional guidance to ensure the effective implementation of these Financial Regulations. [...]”*.

2.3 On 15 September 2023, the IS Financial Controller, who acted as the DIANA Interim Financial Controller, informed DIANA that the interim duties as the DIANA Financial Controller had ended following the nomination of the DIANA Financial Controller:

“1. With PO (2002)0277 the Allies confirmed that the IS Financial Controller would fulfil the interim duties of the DIANA Financial Controller until the DIANA Financial Controller takes up their duties. Subsequently, on 11 July 2022 I issued the implementing directive setting up the basis of financial management of DIANA during the time when NATO International Staff provided administrative and organisational support.

2. DIANA Managing Director took up his duties in April 2023. DIANA Tiger Team has been dissolved at the end of June 2023.

3. The DIANA Financial Controller assumes his duties on 15 September 2023. Consequently, all my functions and responsibilities related to DIANA have ended. As it has been the last element of the IS engagement in DIANA financial management, my Implementing Directive has become redundant, and is therefore repealed.”

2.4 According to the DIANA Charter Section XI on Finance:

“DIANA shall be governed by the provisions of the NFRs, subject to such derogations there from as may be requested by the BoD [Board of Directors] and submitted to the Council for approval with advice provided by the Resource Policy and Planning Board (RPPB). The DIANA FRPs [Financial Rules and Procedures], which will be in conformity with the NFRs subject to any derogations approved by the NAC, will be approved by the BoD.

[...] A Finance Committee, with oversight of all DIANA financial matters, is part of the formal governance structure of DIANA to advise and assist the BoD in carrying out its duties”

2.5 On 9 November 2023, the DIANA Finance Committee approved that DIANA should continue to be governed by the Budget Committee's Financial Rules and Procedures on an interim basis until the DIANA Financial Rules and Procedures (FRPs) are developed and approved. As stated in the DIANA Finance Committee Summary Record of the meeting held on November 9, 2023 (AC/346(FC) SR(2023)0001 (INV)) :*“[...] As stipulated in the committee's Terms of Reference, final*

approval will only be sought at our next formal meeting which is yet to be scheduled. [...]

The Finance Committee:

3.3. Notes Finance Committee agreement with the Financial Controller's recommendation to adopt the Budget Committee's Financial Rules and Procedures (FRPs) on an interim basis until the DIANA FRPs are being developed and approved;

3.4. Notes Finance Committee agreement that the DIANA Finance Committee will serve as the decision-making body in lieu of the Budget Committee while the Budget Committee's FRPs are in use; [...]"

2.6 As of 31 December 2023, the agreement to adopt the Budget Committee's Financial Rules and Procedures (FRPs) on an interim basis until DIANA's FRPs are developed and approved was not approved by the DIANA BoD. According to DIANA, although the formal approval of the BoD to continue to use the Budget Committee's FRPs was not documented, it was reasonable for DIANA, during its initial operating year prior to the approval of the DIANA FRPs, to have the understanding that it should apply the Budget Committee's FRPs as a basis to operate. As a result, the Budget Committee's FRPs were applied on an interim basis throughout 2023, pending the development and approval of DIANA's own FRPs.

2.7 According to Article 32.1 of the NATO Financial Regulations "NATO Procurement and Contracting shall adhere to the following principles:

(a) The timely acquisition of goods and services to be achieved wherever possible through a competitive bidding process, using approved procurement procedures to achieve the most effective, efficient and economical solution;

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

(c) Tendering documents shall contain a clear, precise and complete description to enhance full and open competition among eligible suppliers;

(d) Every aspect of the procurement process must conform to the highest standards of integrity and accountability."

2.8 According to Article 32.2 of the NFRs "The Financial Controller shall ensure and verify that procurement and contracting principles are adhered to and are in line with the principles of sound financial management as laid down in article 3. In exercise of these fiduciary responsibilities the Financial Controller shall be part of the contract approvals process to ensure that funds are used for their intended purposes. The relevant finance committee/governing body will provide appropriate levels of delegated powers to deviate from the strict application of competitive bidding where justified for operational, efficiency, economic or technical reasons. After risk

assessment and taking into account internal control procedures, the Financial Controller may chair the Contracts Awards Committee for contracts to be issued above levels to be defined by the relevant finance committee/governing body.”

2.9 Considering that DIANA applied the Budget Committee's FRPs in 2023, the delegated levels of authority to deviate from the strict application of competitive bidding are prescribed by Article 13 of the FRP XXXII.

2.10 Article 2 of the FRP XXXII on Procurement General Principles states that:

“NATO bodies shall establish appropriate contract files containing the records of all procurement actions. The documentation in the files shall be sufficient to constitute a complete history of the transaction for the purpose of:

(a). Supporting actions taken at each step in the acquisition process, including clearly outlining the basis on which the final award decision was based;

(b). Providing information for audits, reviews, and investigations;

(c). Furnishing essential facts in the event of protests, disputes, or litigation.”

2.11 Article 5 of the FRP XXXII on Bidding award procedures states that:

“Bidding and award procedures

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

[...]

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

(c). Formal procurement actions shall be subject to a Contract Award Committee.”

2.12 Article 13 of FRP XXXII on waivers of procurement rules and procedures states that:

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

2.13 According to DIANA Board Internal Rules and Operating Procedures (AC/346-D(2023)0013-FINAL (INV)):

“5.11. Record of Formal Meetings

5.11.1. Upon conclusion of each agenda item, the Chair or the Secretary will summarize any decision, as appropriate.

5.11.2. The Secretary shall present a Summary of decisions taken at the conclusion of formal meetings, noting any written statements or other references to be added to the Decision Sheet, and any follow-on actions required.

5.11.3. The Decision Sheet shall be issued within one week following the meeting for BoD approval under a short silence procedure.”

2.14 According to the Decision Sheet from the DIANA BoD meeting during which an accelerator consortium made a pitch presentation (AC/346-DS(2023)0004 (INV)) :

“[...]3.15 The MD announced that he is requesting to extend the contract with the accelerator consortium to allow the consortium to deliver the accelerator curriculum. [...]”

2.15 According to the Decision Sheet from the DIANA BoD meeting during which the DIANA Managing Director introduced a consulting contractor (AC/346-DS(2023)0005 (INV)):

“[...] 4.6. The MD noted that it offered challenge manager positions to 3 candidates, but all 3 candidates rejected the offers due to salary and cost of living. The MD added that the DX is in touch with MITRE to provide consultancy to DIANA. [...]”

2.16 According to DIANA, the BoD did not raise any concerns or questions regarding the above procurement actions, which in their view provides a legitimate basis on which to understand that agreement through silence by the Nations was reached.

Observations

2.17 IBAN found, during the course of the audit fieldwork, that DIANA deviated from the strict application of competitive bidding without formal prior approval from the DIANA Board of Directors and/or Finance Committee for the following contracts which were awarded on a sole source basis in the context of DIANA Challenge and Accelerator Programme Implementation:

- a) An accelerator consortium, was awarded a contract to provide curriculum under two agreements: a 3-month contract (#DX(2023)0123) titled "*DIANA Accelerator Program Curriculum Preparation Services Contract*", signed in October 2023 for EUR 640,000 and executed in 2023; and a 12-month contract (#DX(2023)0127) titled "*Curriculum Delivery*", signed in November 2023 for EUR 2,340,000 to be executed in 2024.

- b) A not-for-profit corporation, operating on behalf of U.S. government sponsors, providing consulting services, was awarded a contract (#DX(2023)0165) titled *"Framework Agreement for Support in Provisioning Technical and Programmatic Assistance, Providing Technical Subject Matter Experts, and Providing Systems Engineering Support to Establish a Functional Collaboration Infrastructure and Software Tools"*. This framework contract was awarded in 2023, signed on 19 January 2024, and issued as a Fixed Firm Price type with a ceiling price of EUR 1,900,000 to be mainly executed in 2024.

2.18 Since DIANA continued to apply the Budget Committee's FRPs throughout 2023, the situations identified above were not in compliance with Article 32 of the NFRs, as operationalised by Articles 5 and 13 of the Budget Committee's FRP XXXII. These Articles respectively require that formal procurement through International Competitive Bidding for all procurement actions exceeding Level D of the EFL (€160,000), be conducted, and that any waiver of procurement rules and procedures, when the total amount exceeds Level E (€800,000), be reported to the Budget Committee for a decision. In the context of DIANA, the DIANA BoD or the Finance Committee serve as the relevant committee in place of the Budget Committee.

2.19 During the audit fieldwork, DIANA explained that the DIANA BoD Decision Sheets, although not explicitly documenting formal approval of waivers for procurement rules and procedures, should be construed as constituting formal BoD approval. DIANA explained that this perspective is based on the fact that, while the Decision Sheets do not explicitly record formal approval for deviations from strict competitive bidding, the contractual details related to these awards were thoroughly discussed and transparently presented during the DIANA BoD meetings. Nonetheless, this situation does not comply with the DIANA Board Internal Rules and Operating Procedures (AC/346-D(2023)0013-FINAL), which stipulate that *"Upon conclusion of each agenda item, the Chair or the Secretary will summarize any decision, as appropriate [...]"* and Article 2 of FRP XXXII, which mandates that *"NATO Bodies shall establish appropriate contract files containing the records of all procurement actions. The documentation in the files shall be sufficient to constitute a complete history of the transaction [...]"*.

2.20 IBAN noted that, following the audit fieldwork, DIANA presented to its BoD on 4 October 2024, a notification on the Challenge and Accelerator Programme Implementation Framework Award, as a follow-up to the Future Business Opportunity notification issued to the Board on 03 June 2024 (AC/346-D(2024)0047). This notification describes that services in 2024 were provided by these two contractors. Reference to the sole-source awards for the provision of services by the two above mentioned contractors are only mentioned as part of the document's references.

2.21 On 11 October 2024, under a silence procedure, the DIANA BoD noted the Challenge and Accelerator Programme Implementation Framework Award, including the reference about the previous sole-source awards mentioned above. Although the DIANA BoD was informed for notation, this does not constitute formal approval for the

waiver of procurement rules and procedures. Additionally, it does not fully clarify whether such a waiver was appropriately granted but not properly documented, as explained by DIANA.

2.22 DIANA was not governed by FRPs formally approved by its BoD from 15 September 2023 until 31 December 2023. In this context, the situations described above, which occurred during this regulatory transition period, demonstrate the need to strengthen the overall procurement process and documentation to fully comply with the provisions of Article 32 of the NFRs and to avoid in the future potential material non-compliance issues.

Recommendations

2.23 IBAN recommends that DIANA ensure full compliance with Article 32 of the NATO Financial Regulations regarding procurement and contracting principles, specifically concerning the approval of deviations from the strict application of competitive bidding rules by:

- a) Conducting, when appropriate, formal procurement consisting of International Competitive Bidding for all procurement actions exceeding Level D of the EFL in accordance with Article 5 of FRP XXXII;
- b) Requesting in a timely manner, when appropriate, formal approval from the relevant governing body or finance committee of waivers to deviate from the strict application of competitive bidding rules in accordance with Article 13 of FRP XXXII. Such request should include relevant information, such as the contractual amount, period, method of procurement, and a clear rationale for the deviation, referencing relevant operational, efficiency, economic, or technical reasons;
- c) Properly documenting the approval of deviations from the strict application of competitive bidding by the relevant governing body, ensuring such approvals are recorded in the DIANA Board of Directors and/or Finance Committee Decision Sheets as appropriate in accordance with Article 2 of FRP XXXII.

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) DIANA FY 2022 IBA-AR(2023)0023, paragraph 1.9 NEED TO STRENGTHEN INTERNAL CONTROLS OVER THE PREPARATION OF THE FINANCIAL STATEMENTS IBAN’s Recommendation IBAN recommends that DIANA establish internal controls over the preparation of the financial statements to provide a reasonable basis for obtaining assurance that financial statements are free from material misstatements by ensuring compliance with the NATO Accounting Framework and NATO Financial Regulations.	IBAN identified material misstatements in the 2023 DIANA Financial Statements first submitted to IBAN for audit. In-Progress.	Observation In-Progress.

**DEFENCE INNOVATION ACCELERATOR FOR THE NORTH ATLANTIC (DIANA)
FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL
BOARD OF AUDITORS (IBAN) POSITIONS**

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

DIANA's Formal Comments

Agreed.

DIANA agrees with the IBAN recommendation to strengthen the internal controls over the preparation of the financial statements.

DIANA recognises the importance of correcting material misstatements that may affect understanding of the Financial Statements readers and therefore resubmitted the 2023 Financial Statement.

The Office of Financial Controller (OFC) is developing a comprehensive set of end of year internal control procedures.

The OFC will continue to strengthen internal controls over the preparation of the financial statements.

**OBSERVATION 2:
NEED TO ENSURE FULL COMPLIANCE WITH THE PRINCIPLES OF
PROCUREMENT AND CONTRACTING OF THE NATO FINANCIAL
REGULATIONS**

DIANA's Formal Comments

Agreed.

- a) All procurement actions exceeding Level D of the EFL in accordance with Article 8 of DIANA FRP XXXII will be conducted via formal procurement consisting of International Competitive Bidding.*
- b) A formal approval from the DIANA Financial Committee of waivers to deviate from the strict application of competitive bidding will be requested in accordance with Article 17 of DIANA FRP XXXII.*
- c) The approval of deviations will be properly documented via approvals in the DIANA Board of Directors and/or Finance Committee Decision Sheets in accordance with Article 4 of DIANA FRP XXXII.*

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(1) DIANA 2022 FY

IBA-AR(2023)0023, paragraph 1.9

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

DIANA's Formal Comments

Agreed.

DIANA agrees with the IBAN recommendation to strengthen the internal controls over the preparation of the financial statements.

DIANA recognises the importance of correcting material misstatements that may affect understanding of the Financial Statements readers and therefore resubmitted the 2023 Financial Statement.

The Office of Financial Controller (OFC) is developing a comprehensive set of end of year internal control procedures.

The OFC will continue to strengthen internal controls over the preparation of the financial statements.

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.

DIANA Financial Statements 2023



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Foreword

2023 was a significant year of growth and change for DIANA as it transitioned from the stand-up phase led by a transition team housed in the International Staff to a new NATO Agency as well as the operationalisation of DIANA activities through the launch of DIANA's first Challenge Programmes.

With the opening of DIANA's European Regional Office in London and the appointment of the first Managing Director recruitment for NATO International Civilians to the DIANA Executive stepped up in 2023, in line with Board of Directors guidance.

In addition, DIANA reached Initial Operating Capability with the launch of the pilot Challenge Programmes; three challenges drawn from the technical priorities derived from the Strategic Direction yielded 1300 applicants from across the Alliance. 44 innovative companies formed DIANA's first cohort to enter the accelerator programme, receiving 4.4 million EUR in grant funding, access to mentors and experts, introductions to end user and investors, and a targeted bootcamp programme beginning in 2024.

The high level of interest from across the Alliance in DIANA's first year of operations is encouraging and confirms the need for an organisation dedicated to deep technological dual-use innovation. After a challenging and rewarding year, DIANA continues to implement the mandate to foster and accelerate innovations in dual-use, deep technologies promoting security and peace for NATO's one billion citizens.

DIANA

Statement of Internal Control

This statement of internal control applies to the Financial Statements of DIANA Executive (DX), as the executive body of DIANA, for the year ended 31 December 2023.

Scope of responsibility

- The Managing Director acknowledges responsibility to maintain a sound system of internal control that supports the achievement of DX's mandate under its NATO Charter.
- The Financial Controller acknowledges responsibility for the correct use of funds made available to DX and for maintaining a sound system of internal control that supports the achievement of DX's goals and objectives, whilst safeguarding the public funds and assets.
- Funds received are recorded, accounted, and managed through the NATO IS ERP as data repository & DX's ERP.

During the period until 16 September 2023, DTT and DX respectively were governed by the NATO IS FRPs under supervision of the IS Financial Controller acting as interim Financial Controller. The following period is governed by the NFRs and pertinent Board of Directors decisions and the DIANA Charter.

At the time of writing, the DX has drafted the DIANA Financial Rules and Procedures (FRPs) tailored to meet the operational mission of the DX that will be submitted to the DIANA Board of Directors to provide guidance on the proper handling and reporting of public funds.

The DX internal control system is designed to manage rather than eliminate the risk of failure to achieve the Organization's mission; it can therefore only provide reasonable and not absolute assurance of effectiveness.

Purpose of the System of Internal Control

The system of internal control is designed to ensure that NATO assets are used for the purposes intended and that the transactions relating to their usage reflect the highest standards of integrity to justify continued confidence of the DIANA Nations.

The system of internal control is designed to support the DX mission by providing reasonable assurance of the achievement of objectives in terms of: the effectiveness and efficiency operations, the reliability of financial information, and compliance with applicable rules and regulations. This includes safeguarding the Organization's funds and assets.

The system of internal control is an ongoing process designed to identify the principal risks to the achievement of the DX mission, to evaluate the nature and extent of those risks, and to manage them efficiently, effectively and economically. DX is a new NATO body and as such, many internal control processes are under development and a continuous improvement cycle is applied in order to strengthen the internal controls and ensure correct expense of public funds. The process within DX accords with the NATO Financial Regulations and has been in place for the year ending 31 December 2023 and up to the date of approval of the Financial Statements.

Risk and Control Framework

The DX system of internal control is based on an ongoing process designed to identify the key risks to the achievement of DX goals and objectives, to evaluate the nature and extent of those risks and to manage them efficiently and effectively.

DX is committed to a process of continuous development and improvement: developing systems in response to any relevant reviews and developments in best practice in this area.

Internal control framework

The key elements of the internal control system include:

- NATO Financial Regulations and the Financial Rules and Procedures
- Civilian Personnel Regulations,
- the NATO Code of Conduct,
- the DX financial and budgeting systems
- segregation of duties between the functions of budget holder, approving officer, and between requestors and procurement officers,
- management supervision,
- an internal audit function,
- annual accounts and budget reporting.

Review of Effectiveness

The Financial Controller has responsibility for reviewing the effectiveness of the system of internal control. The review is informed by:

- The executive managers within the organization who have responsibility for the development and maintenance of the internal control framework;
- Periodic Internal Audits performed on selected areas of activity within DX; and
- Comments made by the external auditors in their management letters and other reports.
- Decisions and recommendations of the Finance Committee, as well as the Board of Directors.

Appropriate action is in place to address any weaknesses identified and to ensure the continuous improvement of the system. During 2023, no material instances of failure to the internal control system were reported that should be brought to your attention.

The internal control system still relies greatly on the control environment, in particular on knowledge acquired and values shared by the staff.

In our opinion these financial statements provide a true and fair view of the financial activities of DX for 2023.

Deeph Chana

Managing Director

Konstantinos Gouras

Financial Controller

DIANA

Statement of Financial Position

As at 31 December 2023

	Notes	Current Year	Prior Year
		2023	2022
Assets			
Current assets			
Cash and cash equivalents	3	24,682,076.47	3,071,299.74
Receivables	4	22,993,270.00	0.00
Prepayments	5	88,203.26	0.00
Other current assets		0.00	0.00
		47,763,549.73	3,071,299.74
Non-current assets			
Non-Current Receivables		0.00	0.00
Property, plant & equipment		0.00	0.00
Intangible assets	6	49,482.84	0.00
Other non-current assets		0.00	0.00
		0.00	0.00
Total assets		47,813,032.57	3,071,299.74
Liabilities			
Current liabilities			
Payables	7	2,469,616.07	304,089.38
Deferred revenue		0.00	17,030.00
Advances	8	7,042,051.81	0.00
Provisions		0.00	0.00
Other current liabilities	9	22,993,270.00	75,501.95
		32,504,937.88	396,621.33
Non-current liabilities			
Payables		0.00	0.00
Non-current Deferred revenue		0.00	0.00
Other non-current liabilities	10	25,292,815.00	3,292,815.00
		25,292,815.00	3,292,815.00
Total liabilities		57,780,722.88	3,689,436.33
Net assets			
Capital assets			
Reserves			
Accumulated surplus / (deficit)		-618,136.59	0.00
Current year surplus / (deficit)		-9,366,583.72	-618,136.59
Total net assets/ equity	11	-9,984,720.31	-618,136.59

DIANA

Statement of Financial Performance

As at 31 December 2023

	Notes	Current Year 2023	Prior Year 2022
Revenue	12		
Non exchange revenue		0.00	0.00
Exchange revenue		0.00	0.00
Other revenue		0.00	0.00
Financial revenue		13.69	344.97
Total revenue		13.69	344.97
Expenses	13		
Personnel	13.1	2,135,364.47	232,575.99
Contractual supplies and services	13.2	7,219,278.25	368,452.56
Depreciation and amortization		0.00	0.00
Impairment		0.00	0.00
Provisions		0.00	0.00
Other expenses		0.00	0.00
Finance costs	13.3	11,954.98	423.01
Total expenses		9,366,597.40	601,451.56
Surplus/(Deficit) for the period		-9,366,583.72	-601,106.59

DIANA

Statement of Cash Flow

As at 31 December 2023

Note 14

	<u>2023</u>	<u>2022</u>
Cash flow from operating activities		
Surplus/(Deficit)	-9,366,583.72	-601,106.59
Non-cash movements		
Depreciation/Amortization	0.00	0.00
Impairment	0.00	0.00
Use of Cash Reserves	0.00	0.00
Increase/(Decrease) in payables	2,165,526.69	304,089.38
Increase/(Decrease) in other current liabilities	22,917,768.05	75,501.95
Increase/(Decrease) in advances & deferred revenue	7,025,021.81	0.00
Decrease/(Increase) in prepayments	-88,203.26	0.00
Decrease/(Increase) in receivables	-22,993,270.00	0.00
Net cash flow from operating activities	<u>-339,740.43</u>	<u>-221,515.26</u>
Cash flow from investing activities		
Purchase of property plant and equipment / Intangible assets	-49.82.84	0.00
Proceeds from sale of property plant and equipment	0.00	0.00
Net cash flow from investing activities	<u>-49,482.84</u>	<u>0.00</u>
Cash flow from financing activities		
Proceeds from loans	22,000,000.00	3,292,815.00
Net cash flow from financing activities	<u>22,000,000.00</u>	<u>3,292,815.00</u>
Net increase/(decrease) in cash and cash equivalents	<u>21,610,776.73</u>	<u>3,071,299.74</u>
Cash and cash equivalent at the beginning of the period	<u>3,071,299.74</u>	<u>0.00</u>
Cash and cash equivalent at the end of the period	<u>24,682,076.47</u>	<u>3,071,299.74</u>

DIANA**Statement of Changes in Net Assets/Equity**

As at 31 December 2023

Balance at 31 December 2022	-618,136.59
Net deficit for the period	<u>-9,366,583.72</u>
Balance at 31 December 2023	-9,984,720.31
Net change in assets/equity for the year ended 31 December 2023	<u>-9,366,583.72</u>

DIANA

Budget Execution Statement

As at 31 December 2023

	Note 15	Authorisation ¹	Expenditure	Carry Forward	Lapsed
Personnel		6,311,000	2,135,364	0	4,175,636
Operations & Maintenance		3,980,000	1,087,560	0	2,892,440
Operational		11,159,000	6,131,719	0	5,027,281
Contingency		1,000,000	0	0	1,000,000.00
Performance Subtotal		22,450,000	9,354,643	0	13,083,417
Capital Expense	Note 6	550,000	49,483	0	500,517
Total		23,000,000	9,404,126	0	13,595,874

¹ 2023 DIANA Operational & Administrative Budgets

Explanatory notes to the DIANA Financial Statements

NOTE 1: General Information

In June 2021, Allied Heads of State and Government endorsed the launch of the civil-military Defense Innovation Accelerator for the North Atlantic (DIANA). DIANA will accelerate emerging and disruptive technologic solutions to critical transatlantic defense and security challenges, leveraging existing elements from NATO Nations and NATO Bodies.

The Charter of DIANA was approved in March 2022 through PO(2022)0147.

DIANA is an independent, subsidiary NATO Body that helps Allies and NATO meet security and defense needs by fostering, testing, validating, and demonstrating cutting-edge technological solutions. DIANA strengthens NATO's ability to foster technological cooperation among Allies, promote interoperability and encourage the development and adoption of technological solutions to address the military needs.

All NATO Nations are members of DIANA. DIANA is under the overall authority of the North Atlantic Council.

DIANA has a Board of Directors made up of representatives from all Allies to provide organizational governance. The Board will determine the strategic direction for DIANA's activities.

The DIANA Executive (DX), led by the DIANA's Managing Director, manages DIANA activities to achieve its mandate, executing the Allied-approved Strategic Direction through Challenge Programs.

DIANA is funded by all Allies with the same cost share arrangements for NATO common funding as set out in PO(2020)0146. Nations are committed to jointly fund the costs for DIANA's core activities.

In 2023 DIANA faced many changes, transitioning from the stand-up phase to the Agency DIANA Executive with the appointment of the Managing Director. As part of the transition, the first regional office was established and day-to-day operations moved from Brussels, Belgium to London, UK. Recruitment of NATO International Civilian Staff is ongoing in line with DIANA Board of Directors instructions and relevant directives, filling the Post Establishment. Crucially, as part of the Initial Operating Capability, the first three Challenge Programs were launched in line with the DIANA Board of Directors Strategic Direction. As a result of these, 44 grants were given to innovators across the Alliance in the amount of 4.4M EUR, confirming the mandate given to the DIANA Executive by the nations to foster and accelerate innovation in dual-use technology for the safety of all.

In line with PO(2022)0277 and PO(2022)0398, DIANA operations during its stand-up phase and in 2023 are pre-financed from Military Budget funds.

NOTE 2: Accounting Policies

DIANA applies the NATO IS Accounting Policies which have been published through ON(2021)0079 and updated through FC(CAF)(2023)0001 and supplemented by the "Implementing directive on financial management during the stand-up phase" (FC(DIA)(2022)0001).

In line with the accounting policy, advance payments in the context of programs and grants are immediately expensed. Excess advance is regularized at the time the program or grant is closed. If the excess advance is returned in a different fiscal year, this is booked as miscellaneous revenue while if the excess is returned during the same fiscal year, the initial expenditure is reduced.

Declaration of Conformity

The DIANA financial statements have been prepared in accordance with NATO Financial Regulations (NFR) and the NATO Accounting Framework (NAF), which is an adapted version of the International Public Sector Accounting Standards (IPSAS).

Information on the 2022 & 2023 pre-funding requirements (PO(2022)0277) & (PO(2022)0398) are disclosed.

Basis of Preparation

These financial statements have been prepared on a going-concern basis. The assumption is that DIANA is a going concern and will continue in operation and meet its objectives and obligations for the foreseeable future.

In line with the NFR, the financial year is from 1 January to 31 December. The amounts shown in these financial statements are presented in EUR.

Use of Estimates

In accordance with generally accepted accounting principles, the financial statements include amounts based on estimates and assumptions by management, according to the most reliable information available, judgement and assumptions. Estimates include accrued revenue and expenses. Actual results could differ from those estimates. Changes in estimates are reflected in the period in which they become known.

Foreign Currency Transactions

The DIANA budget is approved in EUR and the operations are managed in EUR. Foreign currency transactions as required are accounted for at the NATO exchange rates prevailing on the date of the transactions.

Realized and unrealized gains and losses resulting from the settlement of such transactions and from the revaluation of monetary assets at the reporting dates, and liabilities denominated in foreign currencies are recognized in the Statement of Financial Performance.

DIANA does not have any unrealized gains and losses resulting from the translation of foreign currency transactions.

Financial Risks

DIANA uses only non-derivative financial instruments as part of its normal operations. These financial instruments include cash, bank accounts and deposit accounts.

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

The organization is exposed to a variety of financial risks, including foreign exchange risk, credit risk, currency risk, liquidity risk and interest rate risk.

a. Foreign currency exchange risk

The exposure to foreign currency risk is limited as the majority of the DIANA's expenditures are made in EUR. The current bank account is held in EURO and a limited amount of funds is held in GBP.

b. Credit risk

DIANA incurs credit risks from cash and cash equivalent held with banks.

The maximum exposure as of year-end is equal to the total amount of bank. The associated credit risk is very limited.

Concerning cash and cash equivalent, DIANA's credit risk is managed by holding a current bank account with ING Bank (Belgium) which has the following short-term credit ratings:

BANK NAME	COUNTRY OF HQ	SHORT TERM RATINGS AS AT 31/12/2022					
		FITCH		S&P GLOBAL		MOODY'S	
		Rating	Last review date	Rating	Last review date	Rating	Last review date
ING BANK	Netherlands	F1+	15/11/2022	A-1	28/06/2022	P-1	02/10/2022

c. Liquidity risk

The liquidity risk, also referred to as funding risk, is based on the assessment as to whether DIANA will encounter difficulties in meeting its obligations associated with financial liabilities. A liquidity risk could arise from a short-term liquidity requirement. The exposure to liquidity risk is estimated as limited since DIANA has a transitional arrangement in place to fund the 2022 DIANA transition costs (PO(2022)0277) and an alternative funding arrangement for the 2023 joint-funded budget (PO(2022)0398). The DIANA Board of Directors is tasked to address the reimbursement of the DIANA related pre-financed amounts from Military Budget funds as soon as possible and by 2024 at the latest.

d. Interest rate risk

Except for certain cash and cash equivalent balances, DIANA's financial assets and liabilities do not have associated interest rates. The pre-financed amounts are to be returned interest-free.

Current Assets

a. Cash and cash equivalents

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

b. Receivables

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

Contributions receivable are recognized when a call for contribution has been issued to the funding nations. No allowance for loss is recorded with respect to Member countries' assessed contributions receivable.

c. Prepayments

A prepayment is a payment in advance of the period to which it pertains and is mainly in respect of an advance payment made to a third party. This item may include advances made to staff in accordance with Civilian Personnel Regulations (such as advances on salary or on education allowance in consideration of the fact that these are the advances on future staff benefits).

Non-current assets - Fixed assets (Property, Plant & Equipment and Intangible Assets)

a. Property, Plant & Equipment

NATO's adaptation of IPSAS are spelled out in C-M(2016)0023 of April 2016 among which are specific items addressing IPSAS 17 PPE. Furthermore, C-M(2017)0022 (INV) approved the NATO Accounting Policy for Property, Plant and Equipment.

When it comes to assessing the control of NATO over PPE, these documents define a set of 10 criteria to be used in assessing the level of control of a tangible asset. A positive response on six of the criteria will lead to the asset being capitalized in the Financial Statements if it is above the capitalization threshold. This is applied from January 2013 under the initial NATO Accounting Framework C-M(2013)0039 of July 2013.

Capitalization thresholds relevant to the financial statement are as follows:

Category	Threshold	Depreciation Life	Method
Land	€200,000	N/A	N/A
Buildings	€200,000	40 years	Straight line
Other infrastructure	€200,000	40 years	Straight line
Installed equipment	€ 30,000	10 years	Straight line
Machinery	€ 30,000	10 years	Straight line

Vehicles	€ 10,000	5 years	Straight line
Aircraft	€200,000	Dependent on type	Straight line
Vessels	€200,000	Dependent on type	Straight line
Mission equipment	€ 50,000	3 years	Straight line
Furniture	€ 30,000	10 years	Straight line
Communications	€ 50,000	3 years	Straight line
Automated information systems	€ 50,000	3 years	Straight line

In consideration of the above thresholds, DIANA currently has no PPE.

b. Intangible Assets

NATO's adaptations of IPSAS are spelled out in C-M(2017)0023 of April 2013, which includes IPSAS 31 Intangible Assets. Furthermore, C-M(2017)0044 approved the NATO Accounting Policy for Intangible Assets.

When it comes to assessing the control of NATO over Intangible Assets, these documents define a set of 10 criteria to be used in assessing the level of control of an Intangible Asset – they are the same as mentioned above under Inventory. A positive response on six of the criteria will lead to the asset being capitalized in the Financial Statements if it is above the capitalization threshold. This is applied from January, 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 2013.

DIANA will capitalize each intangible asset item above the following agreed NATO thresholds:

Category	Threshold	Depreciation Life	Method
Computer software (commercial off the shelf)	€50,000	4 years	Straight line
Computer software (bespoke)	€50,000	10 years	Straight line
Computer database	€50,000	4 years	Straight line
Integrated system	€50,000	4 years	Straight line

For anything below the threshold, DIANA will have the flexibility to expense specific items.

DIANA will report controlled Intangible assets in its financial statements. Where there is a conflict between more than one NATO Reporting Entity as to the control of intangible assets, only the end-use entity will capitalize the intangible asset in its financial statements based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities.

In consideration of the above thresholds, DIANA has no Intangible Assets, however, is adopting a commercial off the shelf Computer Software that will exceed the threshold once fully in service. This is disclosed as intangible in the Statement of Financial Position.

Non-Current Assets other than PPE

In case there are any non-current assets, these will be disclosed in the Statement of Financial Position.

Current Liabilities

a. Payables

Payables are amounts due to third parties, including Member Nations, based on goods received or services provided that remain unpaid. These include estimates of accrued obligations to third parties for goods and services received but not yet invoiced. Amounts due to Member Nations in the context of their budget contributions are booked under Other Current Liabilities.

b. Other Current Liabilities

This item concerns other liabilities that do not result from the standard procure-to-pay process, such as miscellaneous transactions to be regularized between entities managed by the IS Office of Financial Control.

Non-Current Liabilities

The transitional funding arrangements from the Military budget, reimbursement of which will need to be addressed by 2024, is reported under other non-current Liabilities (PO(2022)0277) & (PO(2022)0398).

Notes to the Statement of Financial Position

NOTE 3: Cash and Cash Equivalents

The current bank account is held in EUR and GBP. Cash deposited is immediately available. There are no short-term investments.

DIANA's cash and cash equivalents at the year-end are EUR 24,664,956.72 and GBP 14,860.80.

NOTE 4: Accounts Receivable

At year end, receivables related to the approved 2024 budget calls for contribution are open in the amount of 22,993,270.00 EUR.

NOTE 5: Prepayments

At year end, prepayments related to licenses required for operational use in 2024 were made in the total sum of 88,203.26 EUR.

Licenses are not aligned with the financial year. Efforts are on the way to align these to the financial year and adjustments to the budget execution and P&L statements have been made to correctly reflect the costs for the fiscal year.

NOTE 6: Property, Plant and Equipment & Intangibles

DIANA does not hold any property, plant and equipment. DIANA is currently developing an Enterprise Resource Planning (ERP) system for its enterprise resourcing requirements. This is an asset going into first use in January 2024, valued at cost of EUR 49,482.84 at 31 December 2023. This is below the capitalization threshold of intangible assets for Computer Software (commercial of the shelf), however the total cost value is above the capitalization threshold and as such it is already identified.

NOTE 7: Payables

Payables and accrued expenses relate to commercial suppliers, staff or other NATO bodies. Payable to suppliers relates to goods and services for which an invoice has been received, checked, and queued for payment but for which payment was still pending at year-end.

Accrued expenses correspond to EUR 2,469,616.07 and is the estimated accrued obligation to third parties for goods and services received but not yet invoiced.

Below is a snapshot of DIANA's payables at the year-end:

Amounts in EUR	
	2023
Payables	1,533,000.00
Accruals	936,616.07
Total	2,469,616.07

NOTE 8: Advances

At year end, DIANA had received the total sum of 7,006,730.00 EUR in advances for the contributions to the 2024 approved budget. A 2022 carry forward provision was unused and lapsed, this amount of 17,030.00 EUR has been added to the advances. Additionally, the DIANA 2022 Financial Statements over accrued in the amount of 18,291.81 EUR, which has been added to the advances.

NOTE 9: Other Current Liabilities

Other Current Liabilities represents the unpaid calls for the 2024 approved DIANA budget in the total amount of 22,993,720.00 EUR.

NOTE 10: Non-Current Liabilities and Long-term Unearned Revenue

Council approved transitional arrangements for the DIANA 2022 transition costs (PO(2022)0277) and for the 2023 DIANA budget (PO(2022)0398)). These decisions were operationalized through the Memorandum of Working Arrangement between the Supreme Headquarters Allied Powers Europe (SHAPE) and DIANA (FC(DIA)(2022)0002 REV1), providing DIANA with transitional funding in the amount of EUR 25,292,815.

The non-current liabilities represent the amount of funds provided by SHAPE and transferred to the DIANA bank account (EUR 25,292,815) during fiscal year 2022 & 2023.

The DIANA Board of Directors will address the reimbursement of this loan facility by 2024.

DX requested approval by the DIANA Board of Directors for the use of EUR 7,500,000 of uncommitted loan funds for the capital investment of DIANA Operating System (OS). This request was approved through AC/346-D(2024)0007-AS1 on the 28th of March 2024 and is included in the total sum of non-current liabilities.

NOTE 11: Net Assets

The transition costs and the DX expenditure for 2022 & 2023, transitionally financed through the Military Budget funds, amount to EUR 9,984,720.31.

Notes to the Statement of Financial Performance

NOTE 12: Revenue

Financial Revenue

Financial revenue includes revenue from foreign exchange gains. In 2023, an exchange gain of EUR 13.69 has been recognized.

NOTE 13: Expenses

13.1 Personnel

The personnel costs include expenses for salaries and emoluments for approved DIANA permanent civilian positions and temporary personnel, for other salary related and non-related allowances including overtime, medical examinations, recruitment, installation, and removal. In line with PO(2022)0277, those do not include VNC support and support from existing members of International Staff.

13.2 Contractual Supplies and Services

Contractual Supplies and Services include travel expenses, contracted consultants, training and other services and supplies.

13.3 Finance Costs

Financial costs include expenses for banking costs and foreign exchange losses.

NOTE 14: Cash Flow

In accordance with the NATO Accounting Framework, the cash flow statement is presented based on the indirect method.

NOTE 15: 2023 Budget Execution

The DIANA 2023 Budget Execution is based on the nature of the expenses and broken down into four chapters aligned with the approved budget as follows:

Chapter 1	: Personnel Expenses
Chapter 2	: Operations & Maintenance
Chapter 3	: Capital Expenses
Chapter 4	: Operational Expenses

The 2023 budget included a 1M EUR contingency shield amount, this amount was unused.

The DIANA Board of Directors approved the increase of the cohort and the related travel costs for innovators through AC/346-D(2023)0020-AS1 on the 20th of October 2023. In 2023, 4.4M EUR worth of grants and 418k EUR travel costs were awarded to innovators across the Alliance, comprising 51% of the overall budgetary expenditure of the DX.

DX requested approval by the DIANA Board of Directors for the use of EUR 7,500,000 of uncommitted loan funds for the capital investment of DIANA OS. This request was approved through AC/346-D(2024)0007-AS1 on the 28th of March 2024 and will reduce the lapsed amount by this value.

NOTE 16: Contingent Assets

The DIANA Board of Directors is tasked to address the reimbursement of the DIANA related pre-financed amounts from Military Budget funds as soon as possible and by 2024 at the latest. These financial statements disclose a contingent asset (Nation's contributions) to cover the 2022 & 2023 transition costs, amounting to the EUR 9,984,720.31 and pending the recommendation of the DIANA Board of Directors.

NOTE 17: Employee Disclosure

The DX is composed of NATO International Civilians (NIC) (9 staff members), temporary staff (16 staff members), Voluntary National Contributions (2 staff members), Consultants (1 staff member), and Commercial Contractors (4 staff members). VNC represent "in kind" services provided by nationally funded personnel, at the end of 2023, DX had 2 VNCs.

Pension scheme

The DX NIC staff are affiliated with the Defined Contribution Pension Scheme (DCPS), which is centrally managed by NATO IS.

The DCPS affiliated staff make a compulsory contribution of 8% of basic salary to the Scheme. Staff may make additional voluntary contributions to the Scheme up to 5% of basic salary. NATO pays employer contributions of 12% of the basic salary of each active scheme member. Contributions to the DCPS are part of the payroll and are made monthly.

Leave

Paid leave is an employee benefit and as such part of overall personnel expenses. In accordance with personnel regulations, the remaining balance at year end may be carried forward but must be taken before 30 April of the following year. It can be exceptionally extended to 31 October in accordance with Civilian Personnel Regulations art. 42.3.5 and 42.3.6. After this date it lapses and is not paid to staff. Consequently, no provision for untaken leave is recorded.

NOTE 18: Key Management Personnel

For IPSAS 20, key management personnel of the DX are considered staff at grade G22 and above. As of 31 December 2023, in line with the approved staffing plan, these consist of the Managing Director, Financial Controller, and General Counsel.

There are no other remunerations or benefits to key management personnel or their family members.

NOTE 19: Related Parties

In 2023, DIANA Initial Operational Capability was reached, and the DIANA Tiger Team (DTT) was replaced by DIANA Executive as the executive agent of DIANA. The DX is composed of NATO International Civilians (9 staff members), temporary staff (16 staff members), Voluntary National Contributions (2 staff members), Consultants (1 staff members), and Commercial Contractors (4 staff members). Administrative and logistic support was provided by the International Staff. NATO Communication and Information Agency provided necessary ICTM equipment.

The Supreme Headquarters Allied Powers Europe (SHAPE) provided DIANA with an interest free loan facility, formalized via Memorandum of Working Arrangement (FC(DIA)(2022)0002 REV1) in order to fund the 2022 transition costs (PO(2022)0277) and the 2023 joint-funded budget (PO(2022)0398)).

NOTE 20: NATO Transactions*Transactions with NATO bodies*

	Current Year
	2023
	EUR
NATO International Staff	423,003
NATO Communications and Information Agency	365,241
NATO Support and Procurement Agency	1,659
	789,903

NOTE 21: Legal Proceedings

The Office of the General Counsel has conducted a review of its records, and it is not aware of any current or potential legal proceedings the organization should disclose as part of its 2023 Financial Statements.

NOTE 22: Write-offs

There are no write-offs to be disclosed as part of the 2023 Financial Statements.