



NORTH ATLANTIC COUNCIL
CONSEIL DE L'ATLANTIQUE NORD

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19 December 2024

**DOCUMENT
PO(2024)0417-AS1**

**IBAN AUDIT REPORT ON THE 2023 FINANCIAL STATEMENTS OF
INTERNATIONAL MILITARY STAFF (IMS)**

ACTION SHEET

On 19 December 2024, under the silence procedure, the Council noted the RPPB report and the IBAN Audit Report attached to PO(2024)0417, approved the conclusions and recommendations in the RPPB report, and approved the public disclosure of the 2023 Financial Statements of IMS, the associated IBAN Audit Report and the RPPB report.

(Signed) Mark Rutte
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to PO(2024)0417.

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13 December 2024

DOCUMENT

PO(2024)0417

**Silence Procedure Ends:
19 Dec 2024 – 17.30**

To: Permanent Representatives (Council)

From: Secretary General

**IBAN AUDIT REPORT ON THE 2023 FINANCIAL STATEMENTS OF INTERNATIONAL
MILITARY STAFF (IMS)**

1. I attach the Resource Policy and Planning Board (RPPB) report on the International Board of Auditors for NATO (IBAN) Audit Report on the 2023 resubmitted Financial Statements of the International Military Staff (IMS). IBAN issued an unqualified opinion on the Financial Statements and on compliance for the IMS for the year ended 31 December 2023.

2. I do not believe this issue requires further discussion in Council. Therefore, **unless I hear to the contrary by 17.30 on Thursday, 19 December 2024**, I shall assume that Council has 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 IMS, the associated IBAN Audit Report and the RPPB report.

(Signed) Mark RUTTE

1 Annex
2 Enclosures

Original: English



IBAN AUDIT REPORT ON THE 2023 FINANCIAL STATEMENTS OF INTERNATIONAL MILITARY STAFF (IMS)

Report by the Resource Policy and Planning Board (RPPB)

References:

A.	IBA-AR(2024)0015	IBAN Audit Report on the Financial Statements of the International Military Staff (IMS) 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.	BC-D(2015)0260- REV3 (INV)	NATO Financial Rules and Procedures (FRPs)
E.	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 International Military Staff (IMS). 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 three observations and recommendations for the IMS. They relate to the need to strengthen internal controls over the preparation of the notes to the financial statements, overstatement of revenue and expenses related to the IMS Outreach budget execution and need to ensure compliance with the NATO Financial Regulations (NFR)'s (reference B) inter-budget transfer rules, as well as on the misstatements in the recognition of revenue and expenses related to financial and operational liabilities in the statement of financial performance. These observations and recommendations did not impact the audit opinion on the Financial Statements and on compliance.

3.1. Observation 1: IBAN recommends that the IMS strengthen internal controls over the preparation of the notes to the financial statements, to provide a reasonable basis for obtaining assurance that the financial statements are in compliance with the NATO Accounting Framework (NAF) (reference C) and NFRs. In its formal comments, the IMS disagreed with the recommendation underlining that an error in one figure in the text of a descriptive supporting note in an entire set of financial statements does not indicate a lack

of strength in internal controls. The IMS mentioned that it has a robust financial statement review process and strong internal controls in place which provide a reasonable basis for obtaining assurance that the financial statements are in compliance with the NAF and NFRs. This is also evidenced by the fact that IBAN had no observations on the 2021 and 2022 IMS Financial Statements. The RPPB notes that one materially misstated number¹ was found in the notes to the IMS Financial Statements. The RPPB recommends that the IMS ensure that its review process and internal controls are functioning as intended in order to prevent material misstatements in its financial statements issued for audit.

3.2. Observation 2: With regard to the overstatement of revenue and expenses related to the IMS Outreach budget execution, and need to ensure compliance with the NFR's inter-budget transfer rules, in the absence of any other mechanism provided for in the rules, the RPPB supports IBAN's recommendation that IMS: a) Limit the recognition of IMS Outreach revenue and expenses in the statement of financial performance to the portion IMS actually executed; b) Disclose in the Outreach budget execution statement, the IMS, STO-CSO and NDC's portions of the Outreach budget, showing impacts of inter-budget transfers and providing a reconciliation of IMS expenses in the Statement of Financial Performance against the Outreach Budget Execution Statement; c) Ensure compliance with the provisions of Article 26 of the NFRs and related FRPs concerning inter-budget transfers; d) Coordinate improved consistency in the presentation and disclosure of the Outreach budget execution in the financial statements with the other reporting entities of the IMS Budget Group. In its formal comments, the IMS disagreed that a transfer of appropriations was the only option to be pursued. As done in prior years, the IMS entered the Outreach expenses and corresponding revenue in its financial statements given that all costs have been paid by the IMS, either directly to suppliers or by reimbursement to the NDC. During Q3 2024, the IMS will analyse various options available to determine the best course of action for the future and implement one of them accordingly.

3.3. Observation 3: Concerning IBAN's recommendation on the misstatements in the recognition of revenue and expenses related to financial and operational liabilities in the statement of financial performance, the RPPB notes IBAN's recommendation that the IMS record revenue and expenses related to financial results, miscellaneous income and the reversal of accruals as revenue and expenses in the Statement of Financial Performance in accordance with the NAF (IPSAS 1 and IPSAS 3) and comply with Article 31.2 of the NFRs relating to disclosures of short-term investment income in the annual financial statements. In its reply, the IMS disagreed with the recording approach recommended by IBAN as this was the agreed methodology from the Accounting Working Group used in practice for many years. In this respect, IBAN acknowledged the need for a consistent treatment on this topic among NATO reporting entities. As a result, the IMS intends to reach out to the Accounting Working Group and Working Group of Financial Controllers in order to submit a request for clarification to the Head of Financial Reporting Policy for an agreed NATO-wide approach

¹ IBAN found that "the costs of general support expenses related to the Office of the Chief Information Officer programme of work and urgent and critical requirements disclosed in Note 11 were understated by EUR 3,8 Million. This was because the information initially included in the note was based on estimates made in the first quarter of 2024, which were not updated following the subsequent receipt of the corresponding invoices in that quarter."

on the recognition of revenue and expenses related to financial and operational liabilities in the statement of financial performance. The RPPB notes that the HFRP will look into this request for clarifications and provide the necessary guidance.

4. There were no observations and recommendations from previous years' audits.
5. The RPPB notes that IMS resubmitted its Financial Statements to correct a note that included one materially misstated number found by IBAN, and that IBAN would have issued a qualified audit opinion on the IMS 2023 Financial Statements without this correction.

CONCLUSIONS

6. IBAN issued an unqualified opinion on the 2023 resubmitted IMS Financial Statements and on compliance. Three observations and recommendations were raised for the IMS. There were no observations and recommendations from previous years' audits.
7. The RPPB notes that one materially misstated number was found in the notes to the IMS Financial Statements, which led to the resubmission of the 2023 IMS Financial Statements. The RPPB recommends that the IMS ensure that its review process and internal controls are functioning as intended in order to prevent material misstatements in its financial statements issued for audit.
8. With regard to the overstatement of revenue and expenses related to the IMS Outreach budget execution, and need to ensure compliance with the NFR's inter-budget transfer rules, in the absence of any other mechanism provided for in the rules, the RPPB supports IBAN's recommendations.
9. The RPPB notes that once received, the HFRP will look into the request for clarifications on the recognition of revenue and expenses related to financial and operational liabilities in the statement of financial performance and provide the necessary guidance.

RECOMMENDATIONS

10. The Resource Policy and Planning Board recommends that Council:
 - 10.1. note this report and the IBAN Audit Report at reference A;
 - 10.2. approve the conclusions at paragraphs 6 to 9;
 - 10.3. approve to the public disclosure of the 2023 Financial Statements for the IMS, 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(2024)0095
29 August 2024

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

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

Subject: ***International Board of Auditors for NATO (IBAN) Audit Report on the audit of the International Military Staff's (IMS) Financial Statements for the year ended 31 December 2023 – IBA-AR(2024)0015***

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

IBAN's report sets out an unqualified opinion on the Financial Statements of the International Military Staff and on compliance for financial year 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
International Military Staff (IMS)
for the year ended 31 December 2023**

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

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

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

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

The total expenses of the IMS, the NSO and Outreach Activities for the year ended 31 December 2023 were EUR 53.1 million (EUR 38.7 million for the year ended 31 December 2022).

Following a request of IMS to correct a material misstatement identified by IBAN during the course of the audit, we agreed to audit the restated financial statements communicated to us on 1st July 2024. Without this correction, the IMS 2023 Financial Statements would have included a material error leading to a qualified audit opinion on the Financial Statements.

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

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

1. Need to strengthen internal controls over the preparation of the notes to the financial statements.
2. Overstatement of revenue and expenses related to the IMS Outreach budget execution, and need to ensure compliance with the NFR's inter-budget transfer rules.
3. Misstatements in the recognition of revenue and expenses related to financial and operational liabilities in the statement of financial performance.

There were no observations and recommendations from previous year' audits.

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

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

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IBA-AR(2024)0015

29 August 2024

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE

INTERNATIONAL MILITARY STAFF

(IMS)

FOR THE YEAR ENDED 31 DECEMBER 2023

PUBLICLY DISCLOSED - PDN(2025)0012 - 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 the International Military Staff (IMS), for the 12 month period ended 31 December 2023, issued under document reference IMSTAM-(FC)-0038-2024, and submitted to IBAN on 1st 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 IMS 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 IMS are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31st March following the end of the financial year.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 authorised 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, 29 August 2024



Radek Visinger
Chair

OBSERVATIONS AND RECOMMENDATIONS

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

1. Need to strengthen internal controls over the preparation of the notes to the financial statements.
2. Overstatement of revenue and expenses related to the IMS Outreach budget execution, and need to ensure compliance with the NFR's inter-budget transfer rules.
3. Misstatements in the recognition of revenue and expenses related to financial and operational liabilities in the statement of financial performance.

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

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

1. NEED TO STRENGTHEN INTERNAL CONTROLS OVER THE PREPARATION OF THE NOTES TO 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.

Observations

1.6 IBAN found one material misstatement in the notes of the IMS Financial Statements first submitted to IBAN on 31 March 2024, as described below. The misstatement was corrected in the resubmission of the financial statements on 01 July 2024. Without this correction, the IMS 2023 Financial Statement would have included a material error leading to a qualified audit opinion on the financial statements.

1.7 The costs of general support expenses related to the OCIO programme of work and urgent and critical requirements (UCRs) disclosed in Note 11 were understated by EUR 3,8 Million. This was because the information initially included in the note was based on estimates made in the first quarter of 2024, which were not updated following the subsequent receipt of the corresponding invoices in that quarter. This disclosure containing a material error was removed from the resubmitted financial statements.

Recommendations

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

2. OVERSTATEMENT OF REVENUE AND EXPENSES RELATED TO THE IMS OUTREACH BUDGET EXECUTION AND NEED TO ENSURE COMPLIANCE WITH THE NFR'S INTER-BUDGET TRANSFER RULES

Reasoning

2.1 The IMS 2023 Financial Statements 2023 are prepared in accordance with the NATO Accounting Framework (NAF). This accounting framework is based on International Public Sector Accounting Standards (IPSAS), as adapted by NATO.

2.2 As part of its mission, IMS provides support for the execution of NATO's Partnership Cooperation activities through its Outreach budget authorised by the Budget Committee in the amount of EUR 1,564,000 for the year 2023. This resource enables partner Nations to participate in a wide range of education, training and consultancy activities.

2.3 While the IMS is the sole budget holder for the Outreach budget vis-à-vis the Budget Committee (BC), available budget appropriations are in fact, by a decision of the DGIMS (IMSTAM(CS)-0012-2023), allocated between the three reporting entities that make up the IMS Budget Group (IMS BG). For the year 2023 the allocation of the Outreach programme budget was as follows:

Outreach budget	EUR	% Share
IMS (Divisions and Independent Offices)	484,500	31%
NATO Defense College (NDC)	1,066,500	68%
Science and Technology Organisation – Collaboration Support Office (STO-CSO)	13,000	1%
	1,564,000	100%

2.4 This allocation is not included in a framework service delegation contract between IMS, NDC and STO. Therefore, NDC and STO are not service providers procured by IMS and, as such, IMS does not issue Purchase Orders (PO) with them. However, NDC and STO-CSO themselves commit the appropriations entrusted to them.

2.5 The process of execution of the portion of the Outreach budget allocated to NDC and STO-CSO differs as described below.

2.6 The execution of the portion of the Outreach budget allocated to NDC, complies with the NDC's institutional activities, set out in the NDC's Policy Guidance, which instructs the College to “*conduct engagement activities within NATO's strategic partnership framework [...]*”. In this respect, funds are mainly used to pay subsidies for entitled partner nations' course members, and for field studies-related expenses (collective transportation, accommodation).

2.7 IMS reimburses the NDC costs they have incurred within the budget appropriation they have been allocated, on the basis of a statement of costs submitted periodically. IMS does not issue a PO to release the funds it holds for NDC reimbursement, confirming de facto that this part of the budget is not committed by IMS and that the operation is purely a cash-flow one.

2.8 In this context, the NDC is primarily responsible for committing the funds associated with its share of the Outreach budget. It is responsible for the execution of

services from procurement to payment, and is therefore exposed to the associated risks and rewards.

2.9 In contrast to NDC's process, the STO-CSO creates purchase requests and enters supplier invoices for payment directly. IMS generates the POs and makes payments directly to the suppliers.

2.10 Guidelines for the financing of NATO's Partnerships Activities (C-M(2011)0101), paragraph 6.1 states that: *"Allocation of financial resources will be authorised by the Budget Committee as programme funds at the disposal of the respective NATO Action Authorities in the framework of the approved annual NATO budgets and administered in accordance with NATO financial regulation"*.

2.11 IMSTAM(FC)-0027-2022 related Outreach budget estimates for the year 2023 reported for submission to the BC indicates that: *"More than 75% of the Outreach funds are executed through the NDC"*.

2.12 The NATO Financial Regulations (NFRs) article 6.2 states that: *"The Financial Controller shall be responsible to the Head of the NATO body and shall be accountable to the relevant finance committee on the management of appropriated and non-appropriated funds."*

2.13 Article 26.1 of the NFRs states that: *"Transfers of approved appropriations shall not be made without general or specific prior approval of the relevant finance committee or the Financial Controller within any delegated authority."*

2.14 As per the Financial Rules and Procedures (FRPs) XXVI, paragraph 6 related to Inter-budget Transfer Authority:

"6) The Financial Controller may authorise, between the budget and that of any other NATO body under his/her functional authority, and between the budgets of such bodies, transfers of appropriations for:

(a). the correction of cost over-runs on approved requirements and

(b). new requirements of an item value not exceeding Level B of the EFL (€20,000), on the following conditions:

(i) no transfer shall be authorised between budgets subjected to different cost-sharing formulae;

(ii) total inter-budget transfers may not exceed 10% of the authorized value of the beneficiary budget, or 10% of the authorised donor budget, or an amount equivalent to level E of the EFL (€800,000), whichever is the lower."

2.15 In addition, according to paragraphs 7 to 9 concerning transfers between NATO budget holders:

- “7) For the sole purpose of effecting adjustment of appropriation allocations as may minimise the administrative effort and cost of reimbursement of services rendered by one NATO body to another in execution of approved budgets, Financial Controllers may, by mutual consent, authorise transfers of appropriations between their own budgets and between those of any other NATO bodies.
- 8) Transfers between NATO bodies affected pursuant to paragraph 6 shall be reported in the submissions for in-year reviews of budget execution and in the annual financial statements.
- 9) The Financial Controllers of NATO bodies may authorise transfers between NATO bodies subject to the following condition: total transfer may not exceed 10% of the authorized value of the beneficiary budget, or 10% of the authorised donor budget, or an amount equivalent to level E of the established financial limits (EFL), whichever is the lower.”

2.16 In view of the above, it may reasonably be construed that the allocation of the Outreach budget between IMS, NDC and STO is governed by the rules and procedures for inter-budget transfers as set out in Article 26 of the NFRs and the corresponding FRPs. This is because NATO rules do not specifically authorise any other mechanism for transferring appropriations between reporting entities.

2.17 It should also be noted that NDC's and STO's accounting policies for deferred revenue and advances in their respective financial statements specify that: “Funds are called in advance of their need because the entity has no capital that would allow it to pre-finance any of its activities”

2.18 For 2023, the total commitment on the overall Outreach budget amounts to 1,308,394 euros, broken down as follows:

Commitments on the Outreach budget	EUR
NDC	928,798
STO-CSO	3,577
IMS	376,019
	1,308,394

Observations

2.19 We found that IMS recognised in revenue and expenses of its Statement of Financial Performance the overall execution of the Outreach budget, whereas part of

this budget had been allocated and executed by the NDC under the conditions described above.

2.20 Given the above reasoning, and considering the absence of a framework contract and formal commitment of appropriation by IMS for the portion of the Outreach budget allocated to NDC, IBAN considers that IMS should adhere to the inter-budgetary transfer rules outlined in Article 26 of the NFRs in order to allocate this portion of the budget to NDC, and in the absence of any other mechanism provided for in the rules.

2.21 By treating this budget allocation as an inter-budget transfer, it follows that this portion of the budget should have been considered as held by the NDC, and that its execution was the sole responsibility of NDC. In practice, the corresponding risks and rewards are exclusively attributable to them. This portion of the budget and its execution should be only accounted for in the NDC Financial Statements revenue and expenses, and therefore not reported also in the IMS Statement of Financial Performance.

2.22 Therefore, IBAN considers that revenue and expenses of IMS are overstated by an amount of EUR 928,798 in the 2023 Statement of Financial Performance as this amount corresponds to actual expenses incurred by NDC on their portion of the Outreach budget.

2.23 Furthermore, the IMS Budget Execution Statement (BES) of the Outreach Budget reflects a consolidated Outreach budget execution including the IMS, STO and NDC portions. IBAN considers that it should clearly segregate IMS, STO and NDC's portions of the Outreach budget, show impacts of inter-budget transfers and provide a reconciliation of IMS expenses in the Statement of Financial Performance against the Outreach Budget Execution Statement, thereby showing a reconciling difference related to NDC's and STO-CSOs expenses.

2.24 Furthermore, as the allocation of the IMS Outreach budget to the NDC was not considered to be an inter-budget transfer, IMS did not make a formal request for authorisation to the BC, which is required for a transfer exceeding the limits and delegations set out in Article XXVI of the FRPs.

Recommendations

2.25 In the absence of any other mechanism provided for in the rules, IBAN recommends that IMS:

- a) Limit the recognition of IMS Outreach revenue and expenses in the statement of financial performance to the portion IMS actually executed. IMS should exclude the portion of the Outreach budget transferred to and executed by NDC and avoid duplication of revenue and expenses across the IMS Budget Group financial statements;

- b) Disclose in the Outreach budget execution statement, the IMS, STO-CSO and NDC's portions of the Outreach budget, showing impacts of inter-budget transfers and providing a reconciliation of IMS expenses in the Statement of Financial Performance against the Outreach Budget Execution Statement;
- c) Ensure compliance with the provisions of Article 26 of the NFRs and related FRPs concerning inter-budget transfers, in particular if required, by formally requesting governance authorisation when exceeding the limit and delegation set out in the rules;
- d) Coordinate improved consistency in the presentation and disclosure of the Outreach budget execution in the financial statements with the other reporting entities of the IMS Budget Group.

3. MISSTATEMENTS IN THE RECOGNITION OF REVENUE AND EXPENSES RELATED TO FINANCIAL AND OPERATIONAL LIABILITIES IN THE STATEMENT OF FINANCIAL PERFORMANCE

Reasoning

3.1 The IMS 2023 Financial Statements were prepared in accordance with the NAF. This accounting framework is based on IPSAS, as adapted by NATO.

3.2 According to the 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 3."*

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

3.4 Financial Statements shall be free of misstatements, mathematical errors, non-reconciling items, or any other errors or omissions caused by lack of control during preparation. Entities should have proper internal controls, including reviews and reconciliations in place to ensure the consistency and the accuracy of information presented in the Financial Statements (FS).

3.5 Article 31.2 of the NFRs on deposit and investment of funds states that: *"The Heads of NATO bodies are authorised to make short-term low risk investments of funds not immediately required according to the basic principles of sound financial management. They shall declare to the relevant finance committee the income on such investments as miscellaneous income in the annual financial statements."*

3.6 IPSAS 1 shall be applied to all general-purpose financial statements prepared and presented under the accrual basis of accounting in accordance with IPSASs. It specifies that:

- a) Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.
- b) Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.
- c) Assets and liabilities, and revenue and expenses, shall not be offset unless required or permitted by an IPSAS.

3.7 All items of revenue and expense recognised in a period shall be included in surplus or deficit, and therefore recognised as flows in the Statement of Financial Performance.

3.8 Foreign exchange gains and losses on transaction, as well as interest costs, capital gains on investments or bank charges constitute various categories of financial expense and revenue as defined by IPSAS.

3.9 IPSAS 1, Consistency of Presentation also states that: *"The presentation and classification of items in the financial statements shall be retained from one period to the next [...]."*

3.10 IPSAS 3 related to Changes in Accounting Estimates states that: *"The effect of a change in an accounting estimate, [...], shall be recognized prospectively by including it in surplus or deficit in:*

- a) The period of the change, if the change affects the period only; or*
- b) The period of the change and future periods, if the change affects both."*

3.11 Due to the need for consistency in presentation as required by IPSAS 1, and because accruals are estimates for which changes are recognised prospectively in surplus or deficit as provided by IPSAS 3, the following applies:

- a) Reversal of accruals must be treated in the current year in the same manner as the initial accrued expenses of the previous year to which they relate, and must therefore be considered a decrease in expenses or, incidentally, a decrease in revenue.
- b) Consequently, the impact of reversing overestimated or underestimated accruals from the previous year is recognised on the face of the Statement of Financial Performance for the current year.

3.12 NATO common-funded entities do not retain net assets/equity as they need to be returned to Nations in accordance with Article 29 of the NFRs and FRPs XXIX. Therefore, the net surplus or loss from the above expenses and revenues of the reporting entities are reported in the net balance of liabilities due to Nations. Note 7 of the IMS 2023 Financial Statements states: *“Payables to nations are surplus funds to be returned to the nations. They include lapsed appropriations and miscellaneous income from operational and financial results.”*

Observation

3.13 We found that revenue and expenses recognised in the Statement of Financial Performance were incorrect because they did not include the following items:

- a) The net financial revenue of EUR 822,220 mainly relating to short term investments was accounted for as Cash and cash equivalents in the Statement of Financial Position against Payables – Payables to Nations, whereas under IPSAS, financial revenue and expenses should be recognised on the face of the Statement of Financial Performance.

In addition, IMS, did not declare the income from these investments as miscellaneous income in the annual financial statements as required by Article 31.2 of the NFRs.

- b) The reversal of previous year's net overestimate of accruals amounting to EUR 270,186 was not recognised as a deduction from expenses against a deduction from revenue of the current year in the Statement of Financial Performance, but was directly accounted for in Payables – Payables to Nations.
- c) Miscellaneous income amounting to EUR 22,544 mainly linked to various sales of vehicles initially booked in revenue, were reversed and included under Payables – Payables to Nations.

3.14 Although the IMS surplus, in line with Article 29 of the NFRs and FRP XXIX, is returned to Nations and does not remain in net assets/equity, IMS is still required to apply IPSAS 1 and IPSAS 3 for the recognition of revenue and expenses in the Statement of Financial Performance.

Recommendations

3.15 IBAN recommends that IMS:

- a) Record revenue and expenses related to financial results, miscellaneous income and the reversal of accruals as revenue and expenses in the Statement of Financial Performance in accordance with the NAF (IPSAS 1 and IPSAS 3).

- b) Comply with Article 31.2 of the NFRs relating to disclosures of short-term investment income in the annual financial statements.

INTERNATIONAL MILITARY STAF (IMS) 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

IMS's Formal Comments

Not agreed.

IMS disagrees there is a need to strengthen internal controls over the preparation of the financial statements. An error in one figure in the text of a descriptive supporting note in an entire set of financial statements does not indicate a lack of strength in internal controls. IMS has a robust financial statement review process and strong internal controls in place which provide a reasonable basis for obtaining assurance that the financial statements are in compliance with the NATO Accounting Framework (NAF) and NATO Financial Regulations (NFRs). This is evidenced by the fact that IBAN had no observations on the 2021 and 2022 IMS Financial Statements.

IBAN's Position

IBAN acknowledges that the misstatement identified related to a disclosure note and has amended the title of the observation, the observation and the recommendation accordingly.

OBSERVATION 2:

OVERSTATEMENT OF REVENUE AND EXPENSES RELATED TO THE IMS OUTREACH BUDGET EXECUTION AND NEED TO ENSURE COMPLIANCE WITH THE NFR'S INTER-BUDGET TRANSFER RULES

IMS's Formal Comments

Not agreed.

IMS disagrees that a Transfer of Appropriations is the only option to be pursued.

As in prior years, IMS has entered the Outreach expenses and corresponding revenue in its financial statements given that all costs have been paid by the IMS, either directly to suppliers or by reimbursement to the NDC.

IBAN's report states '...considering the absence of a framework contract and formal commitment of appropriation by IMS for the portion of the Outreach budget allocated to NDC, IBAN considers that IMS must adhere to the inter-

budgetary transfer rules outlined in Article 26 of the NFRs...’. Indeed, this sentence implies there are other possible mechanisms to address this observation.

During Q3 2024, IMS will analyse the various options available to determine the best course of action for the future, and implement one of them accordingly.

IBAN’s Position

IBAN acknowledges that the recommendations apply in the absence of any other mechanism provided for in the rules, and has amended the observation and recommendations for this specific matter, without changing their core substance.

OBSERVATION 3: MISSTATEMENTS IN THE RECOGNITION OF REVENUE AND EXPENSES RELATED TO FINANCIAL AND OPERATIONAL LIABILITIES IN THE STATEMENT OF FINANCIAL PERFORMANCE

IMS’s Formal Comments

Not agreed.

IMS does not agree with the recording approach recommended by IBAN as this is the agreed methodology from the Accounting Working Group which has been used in practice for many years.

The IMS will reach out to the Accounting Working Group and Working Group of Financial Controllers in consultation with the NATO Office of Resources to determine an agreed NATO-wide approach given the current change in direction from IBAN.

In 2024, the IMS will follow the recommendations that flow from the discussions above, which ideally will be incorporated into the NAF.

The IPSAS 1 definition of accrual accounting states, “...the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate...”. The IPSAS 1 definition of revenue is “an inflow that results in an increase in net assets/equity, other than those relating to distributions to owners”.

IMS revenue and expenses related to financial results, miscellaneous revenue, and the settling of prior year accruals do not meet the definition of revenue as they relate to contributions from/to owners. They do not increase the IMS consolidated net assets/equity as their annual contribution to the net

assets/equity is nil.

Remainders due to a reversal of accrual estimates from a prior period (which does not relate to the current period but rather to the prior period), as per the definition of accrual accounting, should not flow through the current period revenue and expense shown on the IMS statement of financial performance. To follow this practice could reduce the current year's expense and revenue totals, effectively enabling the use of a prior period budget for current year purposes. As these transactions do not increase the IMS consolidated net assets/equity, and given the requirement to return unused funds to the nations, the correct account to use is the "payable to nations" account.

IBAN's Position

IBAN acknowledges the need for a consistent treatment on this topic among NATO reporting entities. We encourage IMS to ensure that revenue and expenses related to financial results, miscellaneous income and the reversal of accruals are recognised in accordance with the NAF (IPSAS 1 and IPSAS 3). We note the comments provided by IMS, but have found no substantial reason to amend the observation and recommendation, which are maintained.

GLOSSARY OF TERMS

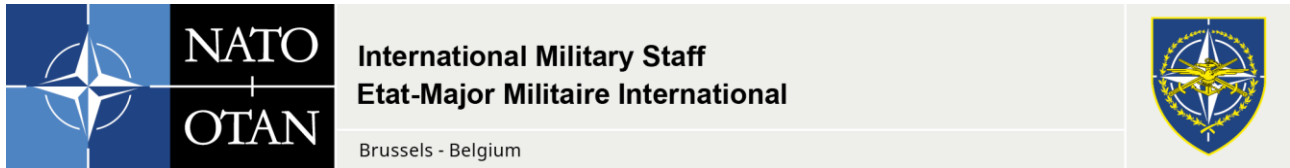
In accordance with International Standards of Supreme Audit Institutions (ISSAI 2705), audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

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

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

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

NATO UNCLASSIFIED



1 July 2024

IMSTAM(FC)-0038-2024

Major General (GRC A) Iordanis Chatzigiannakis

BOARD MEMBER, INTERNATIONAL BOARD OF AUDITORS FOR NATO (IBAN)

INTERNATIONAL MILITARY STAFF (IMS) FINANCIAL STATEMENTS 2023 – RESUBMISSION OF FINANCIAL STATEMENTS

Further to IMS' request to IBAN to restate the IMS Financial Statements 2023 (IMSTAM(FC)-0027-2024 dated 14 June 2024) and IBAN's subsequent approval (IBA-A(2024)0057 dated 25 June 2024), I hereby submit restated IMS Financial Statements for 2023.

A handwritten signature in black ink, appearing to read 'V. Kaye'.

Vivien Kaye
CAN CV
Financial Controller (Acting)
International Military Staff &
Science and Technology Organisation

Enclosure:

1. IMS-FC 20240701- IMS Financial Statements 2023, 1 July 24

Copy to: IMS-EXCO, MA DGIMS, IS IBAN, IMS-FC, IMS-RECORDSOriginating Office: FCAction Officer: Mrs Vivien KAYE, Finance & Accounting Officer, (2607)Taxonomy: Organisation and Management Support (ORG) - ORG - Finance and Accounting

NATO UNCLASSIFIED

INTERNATIONAL MILITARY STAFF (IMS) FINANCIAL STATEMENTS 2023



PUBLICLY DISCLOSED - PDN(2025)0012 - MIS EN LECTURE PUBLIQUE



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Introduction

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

- Intelligence: Strategic analysis of all-source defence intelligence on Alliance security policy and strategy, crisis management and operations;
- Policy and Capabilities: Development of strategic military policy;
- Operations and Planning: The focal point for military issues including those related to ongoing and unfolding military operations;
- Logistic and Resources: The management of logistics, medical, armaments, research and technology, personnel, infrastructure and financial resources;
- Cooperative Security: Sustain relationships and nurture a robust partnership and relationships network amongst current and prospective partners;
- SITCEN: Liaise with similar facilities of member nations and NATO's Strategic Commands.

In delivering these outputs, the Director General of the International Military Staff is also assisted by a number of supporting offices, including those of the Executive Coordinator, Legal Advisor, Public Affairs Advisor and Financial Controller.

The ongoing war in Ukraine energised the Alliance's ongoing efforts to reinforce its collective deterrence and defence. Thanks to the extensive preparations done by SHAPE and various IMS divisions, allied Heads of State and government were able to approve, at the Vilnius Summit in July 2023, a new Family of Plans, with the centrepiece being a series of new regional plans. These are the most comprehensive plans NATO has had since the Cold War, designed to counter, across domains, the two main threats to our Alliance: Russia and terror groups. Never before have NATO and national defence plans been so closely interlinked, as such, they will shape allied armed forces for decades to come.

At the Vilnius Summit, allied leaders reiterated their desire for NATO to work more closely with like-minded Partners across the world. Under the auspices of the IMS Cooperative Security Division, NATO's military side has reinforced its cooperation with Partners, including the EU, Indo-Pacific and Mediterranean-Dialogue Partners, with special topical meetings in areas such as maritime security, energy security and climate change. NATO's Military Committee also hosted its first meeting in the new NATO-Ukraine Council format.

The IMS formalised and initiated the Joint Air/Space Staff Element Trial Structure that will serve as proof of concept for future changes, as well as assisted in the design, and initiation of the NATO Digital Staff (NDS) trial structure impacting the roles and responsibilities of IMS digital capacity as NATO positions itself for emerging domain demands.

The IMS was heavily involved in Peacetime Establishment (PE) change work strands including the development of a PE Change submission of the NATO Standardization Office and an entire review of the IMS PE, the most comprehensive proposed personnel refinement in the last 10 years.

The IMS 2023 Financial Statements have been prepared in accordance with the NATO Accounting Framework, based on the International Public Sector Accounting Standards (IPSAS) as adapted by NATO and the NATO Financial Regulations. They are presented in a commonly adopted layout. The expenses are charged over three budgets covering the IMS (including the programmes of work (PoW) for the NDS and the NATO Office of the Chief Information Officer (OCIO)), the NATO Standardization Office (NSO) and Outreach Programme. The budgetary expenses are recorded on an accrual basis, i.e. in the period in which the goods or services are delivered. Any exception to that principle is outlined in Annex A to the financial statements, which provides a comparison between the Budget Execution and IPSAS.

In 2023, the IMS PoW allowed the NDS to provide the Alliance with digital strategic military and political advice in a number of areas, including cyber defence, digital operation and transformation, digital capability, interoperability, standardisation and data management.

The OCIO, with limited workforce capacity, has delivered against the mandates agreed by the Council:

- The continuous cyber adaptation of the NATO Enterprise and in particular the adequate cybersecurity of the NATO networks;
- The coherence of Information and Communication Technology capabilities and services across the NATO Enterprise.

The main OCIO efforts were related to:

- The implementation of the Cyber Adaptation Roadmap;
- The strengthening of the cyber risk management function and incident response mechanisms;
- The ramp-up of Defensive Cyberspace Operations across Enterprise civil and military networks (from 1 in 2022 to 8 in 2023);
- The successful completion of a trial for a new agile procurement process ("Dynamic Sourcing") for Asset Configuration, Patching, Vulnerability (ACPV) management;
- Running a pilot project for Cloud Acceleration.

The NSO continued to initiate, co-ordinate, support and administer standardisation activities as agreed by Allies.

The 2023 IMS Outreach Programme budget supported 76 Partnership Cooperation Menu events whereby 357 participants were subsidized (compared to the 74 events and 439 partner participants in 2022). Partner nations can participate in a broad menu of education, training and consultation events through the Partnership Cooperation Menu

Overall throughout 2023, the IMS continued to provide unconditional support to the NATO Military Committee, IS divisions and to joint work-strands, across all domains – demonstrating its continued drive to contribute to the Alliance's overall objectives, its three core tasks and its strengthened Deterrence and Defence Posture.



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



Mike Horgan
GBRCV - Financial Controller
International Military Staff

Statement of Internal Control

for the year ended 31 December 2023

1. Scope of responsibility

The Director General, International Military Staff (DGIMS), exercises overall responsibility for IMS risk management and the system of internal control, in accordance with the NATO Financial Regulations (NFRs). The NFRs also state that the Financial Controller is responsible for the organisation and administration of the internal control system, which includes a responsibility to DGIMS for financial risk management and for establishing financial risk management standards according to Financial Rules and Practices (FRPs) as well as establishing a system of internal financial and budgetary control.

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

2. The purpose of the system of internal control

The systems of risk management and internal control are based on an on-going process designed to identify the principal risks to the achievement of IMS policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. They are designed to manage and minimize rather than eliminate risk at the IMS. Risk management and internal controls can therefore provide only a reasonable, but not absolute, assurance of effectiveness. The risks addressed at the IMS include: risks to IMS operational aims and objectives; compliance with the NFRs; the accuracy and reliability of financial information; and the safeguarding of assets.

3. The risk and control frameworks

An IMS Internal Control Framework (ICF) was adopted by the Audit Advisory Panel (AAP) on 8 December 2020 and approved by DGIMS on 14 January 2021. The ICF is based on COSO's Internal Control – Integrated Framework (2013). Risk management and internal control is organised following the principles of the Institute of Internal Auditors Three Lines Model.

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

As per the IMS Risk Management Policy and in accordance with NFRs, DGIMS has appointed a risk management coordinator. The IMS Risk Management Board (RMB) prepares documentation for risk decision-making at the EMB while ensuring that risk management is conducted thoroughly and consistently across all IMS divisions. Fraud risk is on the IMS risk register and is considered at the RMB.

DGIMS and the Financial Controller have a collective responsibility for periodically assessing and reviewing the adequacy and effectiveness of the system of internal control as stipulated in the NFRs. Their review is informed by the five COSO components and by the work of IMS senior managers, the AAP, the RMB, internal audit recommendations, as well as external audits performed by IBAN.

4. Capacity to manage risks and establish effective internal controls

In a governing capacity, the IMS senior leaders ensure that appropriate structures are in place for effective governance and that the organisation is aligned to successfully achieve its objectives. The Senior Leadership Meeting sits weekly to discuss routine business, and the EMB convenes biannually for a more in depth review of management controls, structures, issues and risks. The RMB provides strategic oversight to both the risk register and the risk management process. The findings and principal risks from the RMB are reported to the EMB. The RMB is chaired by Deputy EXCO and includes participation from all IMS divisions and independent offices. Within each division, a risk manager oversees the divisional risks, facilitates risk workshops, proposes new risks and attends the RMB. Risk management training is also provided on an annual basis where needed. Culture and ethical values of the overall control environment are established by senior management. Measures for the promotion of ethical values include: IMS participation in the NATO-wide 'Building Integrity' initiative; the promulgation of the NATO Code of Conduct to all IMS staff; and disclosures of any senior management related party transactions in our annual financial statements.

IMS financial requirements comprising the yearly budget submissions are screened and reviewed by Budget Committee twice per year. The AAP makes periodic assessments as to whether internal audit is properly resourced and has the appropriate standing. It reviews, provides input to, and endorses internal audit planning. It reviews the findings and recommendations of internal audit and IBAN, and reviews management responses and follow-up actions. The AAP provides DGIMS with an annual report which includes an assessment on the effectiveness of risk management, internal control, and external financial reporting, along with advice and recommendations.

An internal review is under way to assess the necessary changes required to the personnel structure to achieve the IMS goals and objectives. The overall structure of the IMS incorporates clearly defined responsibilities and authorities in the pursuit of operational objectives.

5. Review of the adequacy and effectiveness of the system of internal control

An evaluation of the adequacy and effectiveness of the IMS system of internal control for FY 2023 was assessed by means of an internal control survey targeted at all levels of management within the IMS hierarchy. The internal control survey was designed around the five components of the COSO Internal Control Framework and drilled down into its guiding principles and points of focus.

In addition to self-assessment of internal controls, in recent years, an outsourced service provider has been engaged to undertake internal audit assignments. The IMS is also subject to annual external audit from IBAN. Recommendations and observations arising from both internal and external audits are assessed by the AAP and reported to DGIMS.

6. Outcome of the review of adequacy and effectiveness of the system of internal control

The IMS completed the recruitment of the Internal Control Officer who is now in post. The Internal Auditor recruitment was partially complete as at 31 Dec 2023 and this post is expected to be filled during 2024.

For 2023, the IMS Internal Control Officer conducted the third iteration of the formal internal control self-assessment survey, which yielded a higher response rate and surveyed a larger population. The results showed that 80% of staff surveyed from across the full range of management levels in the IMS stated that in their area of responsibility all necessary internal controls were in place and effective. The survey also provided useful insight and statistical evidence that will contribute to the following year's plan of internal control activities.

No significant issues regarding financial or operational matters were raised in 2023 during the IBAN external audit of the IMS Financial Statements 2022, resulting in an unqualified audit opinion. In addition, all outstanding prior year observations were closed.

Continuous Improvements to the System of Internal Control

The system of internal control enables recommendations for continuous improvement to be assessed and incorporated to improve the overall maturity level of the IMS. Principally, this is through the means of the internal control survey, which has been aligned to the COSO Internal Control Framework. The population surveyed has increased from 22 to 62 staff between 2022 and 2023 to enable opinions from the entire managerial hierarchy and across all areas of the IMS to be included.

The IMS Risk Register will be partially automated through migration from a manual PowerPoint based system onto a SharePoint tool. In cooperation with the International Staff, the SharePoint tool will improve collaboration and management of shared cross-boundary risks.

7. Annual confirmation by the Head of NATO Body and the Financial Controller

Overall, we confirm that an effective system of internal control is maintained and operated by the IMS in financial year 2023 and up to the date of these financial statements. We confirm that the system of internal control provides reasonable assurance of the achievement of the following objectives: effectiveness and efficiency operations, reliability of financial information, and compliance with applicable rules and regulations; and with regard to safeguarding of assets.



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



Mike Horgan
GBRCV - Financial Controller
International Military Staff

IMS
Statement of Financial Position
as at 31 December 2023
(in EUR)

		<u>2023</u>	<u>2022</u>
Assets			
Current Assets	Notes		
Cash and cash equivalents	2	80,208,957	35,553,035
Receivables	3	171,705	16,973
Prepayments	4	1,072,706	882,084
		<u>81,453,368</u>	<u>36,452,091</u>
Non-current Assets			
Property, plant and equipment	5	111,998	89,161
Intangible assets	6	-	11,095
		<u>111,998</u>	<u>100,256</u>
Total Assets		<u>81,565,367</u>	<u>36,552,347</u>
Liabilities			
Current Liabilities			
Payables	7	35,404,217	13,650,402
Deferred revenue	8	46,049,151	22,801,689
		<u>81,453,368</u>	<u>36,452,091</u>
Non-current Liabilities			
Deferred revenue	8	111,998	100,256
Total Liabilities		<u>81,565,367</u>	<u>36,552,347</u>


Janusz Adamczak
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International Military Staff

The notes on pages 13 to 24 form an integral part of these financial statements.

The financial statements were issued to the International Board of Auditors for NATO on 28 March 2023.

IMS
Statement of Financial Performance
for the year ended 31 December 2023
(in EUR)

		<u>2023</u>	<u>2022</u>
	Notes		
Revenue			
Revenue	9	53,141,807	38,711,322
Total Revenue		<u>53,141,807</u>	<u>38,711,322</u>
Expenses			
Personnel	10	13,051,318	12,338,025
Contractual supplies and services	11	40,049,569	26,335,410
Depreciation and amortization	5,6	40,920	37,887
Total Expenses		<u>53,141,807</u>	<u>38,711,322</u>
Surplus/(Deficit) for the period		<u>-</u>	<u>-</u>

IMS
Cash Flow Statement
for the year ended 31 December 2023
(in EUR)

		<u>2023</u>	<u>2022</u>
Cash Flows from operating activities	Notes		
Surplus/(Deficit) for the period		-	-
Non-cash movements			
Depreciation and amortization	5,6	40,920	37,887
(Decrease)/Increase in payables		21,753,815	5,711,430
(Decrease)/Increase in other current liabilities		23,247,462	10,943,120
(Increase)/Decrease in receivables		(154,732)	(6,545)
(Increase)/Decrease in other current assets		(190,623)	(28,731)
(Decrease)/Increase in long-term provisions		11,743	73
Net cash flows from operating activities		<u>44,708,585</u>	<u>16,657,234</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(52,662)	(37,960)
Net cash flows from investing activities		<u>(52,662)</u>	<u>(37,960)</u>
Cash flows from financing activities			
Cash out from IMS BG transfer	2	(3,200,000)	(1,000,000)
Cash in from IMS BG transfer		3,200,000	1,000,000
Net cash flows from financing activities		<u>-</u>	<u>-</u>
Net increase/(decrease) in cash and cash equivalents		<u>44,655,923</u>	<u>16,619,274</u>
Cash and cash equivalents at the beginning of the period		35,553,035	18,933,761
Cash and cash equivalents at the end of the period	2	80,208,957	35,553,035

IMS
Statement of Changes in Net Assets
for the year ended 31 December 2023
(in EUR)

Balance at 31 December 2021	-
Surplus/(Deficit) for the period	-
Change in net assets/equity for the year ended 2022	-
Balance at 31 December 2022	-
Surplus/(Deficit) for the period	-
Change in net assets/equity for the year ended 2023	-
Balance at 31 December 2023	-

**IMS
Notes
for the year ended 31 December 2023**

1 Significant accounting policies

1.1 Basis of preparation

The IMS Financial Statements 2023 have been prepared in accordance with the NATO Accounting Framework. This accounting framework is based on International Public Sector Accounting Standards (IPSAS) as adapted by NATO. The financial statements comply with the financial requirements of the NATO Financial Regulations (NFRs) and the associated Financial Rules and Procedures (FRPs) as well as with IMS directives and policies.

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

In accordance with Article 2 of the NFRs, the financial year covered by these financial statements is 1 January 2023 to 31 December 2023.

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

1.2 Accounting estimates and judgements

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

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

1.3 Changes in accounting policy and standards

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set in IPSAS 3. For the 2023 financial statements, the accounting policies have been applied consistently throughout the reporting period.

1.4 Changes in pronouncements

The IMS has not applied the following IPSAS that has been issued but is not yet effective. The IMS will continue to assess the impact of this new standard to be prepared for the implementation, if required.

<i>IPSAS</i>	<i>Name</i>	<i>Issue date</i>	<i>Effective date for periods beginning on or after</i>
<i>IPSAS 43</i>	<i>Leases</i>	<i>January 2022</i>	<i>01 January 2025</i>

For the following IPSAS that have been issued but are not yet effective, currently, it is not expected that the adoption of or updates to these standards will have a material impact on the financial statements of the IMS in future periods.

<i>IPSAS</i>	<i>Name</i>	<i>Issue date</i>	<i>Effective date for periods beginning on or after</i>
<i>IPSAS 44</i>	<i>Non-current Assets Held for Sale and Discontinued Operations</i>	<i>May 2022</i>	<i>01 January 2025</i>
<i>IPSAS 45</i>	<i>Property, Plant & Equipment</i>	<i>May 2023</i>	<i>01 January 2025</i>
<i>IPSAS 46</i>	<i>Measurement</i>	<i>May 2023</i>	<i>01 January 2025</i>
<i>IPSAS 47</i>	<i>Revenue</i>	<i>May 2023</i>	<i>01 January 2026</i>
<i>IPSAS 48</i>	<i>Transfer Expenses</i>	<i>May 2023</i>	<i>01 January 2026</i>
<i>IPSAS 49</i>	<i>Retirement Benefit Plans</i>	<i>November 2023</i>	<i>01 January 2026</i>

1.5 Foreign currency transactions

These financial statements are prepared in euro, which is the functional and reporting currency of the IMS. Foreign currency transactions are accounted for at the NATO exchange rates prevailing on the transaction date in the general ledger. Monetary assets and liabilities at year-end which were denominated in foreign currencies are assessed for materiality and if material are translated into euro using the applicable NATO exchange rates as at 31 December 2023. Realized and unrealized gains and losses resulting from the settlement of such transactions and from the revaluation at the reporting dates of monetary assets and liabilities denominated in foreign currencies are recognized in the Statements of Financial Position and Financial Performance. An assessment was made of all assets and liabilities in foreign currencies as at 31 December 2023. The amount of unrealized gains is deemed immaterial.

1.6 Consolidation

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

While Morale and Welfare activities are under the control of the head of the NATO body, in accordance with the NATO Accounting Framework departure from IPSAS 6, they have not been consolidated into these financial statements. A separate activity report is submitted to the Budget Committee as required by the NFRs, and summary information is presented in Note 15.

1.7 Services in-kind

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

1.8 Financial instruments

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

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

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

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

The maximum exposure as at 31 December 2023 is equal to the total amount of bank balances, short-term deposits, and receivables disclosed in the statement of financial position. Receivables considered uncollectible are adequately provided for. There is a very limited credit risk associated with the realization of these instruments.

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

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

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

1.9 Leases

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

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

1.10 Cash and cash equivalents

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

1.11 Receivables

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

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

1.12 Prepayments

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

1.13 Property, plant and equipment

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

1.14 Intangible assets

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

1.15 Impairment of tangible and intangible assets

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

1.16 Payables

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

1.17 Deferred revenue and advances

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

1.18 Employee benefits – Post-employment benefits

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

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

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

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

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

1.19 Revenue recognition

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

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

1.20 Financial result

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

1.21 Trust funds

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

2 Cash and cash equivalents

	(in EUR)	2023	2022
Current bank accounts IMS		49,212,875	34,536,126
Cash equivalents		30,996,082	993,804
Current bank accounts NATO-Iraq Trust		-	21,391
Advances		-	1,714
Total Cash and Cash Equivalents		80,208,957	35,553,035

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

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

During the year, cash transfers totalling 3,200,000 EUR (2022: 1,000,000 EUR) were provided to other entities in the IMS Budget Group in order to cover temporary shortfalls of funds related to the timing of the receipt of the calls for contributions. As at 31 December 2023 all of these cash transfers have been repaid.

3 Receivables

(in EUR)	2023	2022
Accrued revenue	151,271	-
Receivables from third parties	15,263	16,973
Receivables from Staff Members	5,171	-
Total Receivables	171,705	16,973

The average credit period on receivables is 30 days.

Accrued revenue consists of interest receivable on short-term deposits in the amount of 30MEUR. The receivables balance in the amount of 15,263 EUR primarily consists of a reimbursements related to travel. All receivables are current as at 31 December.

4 Prepayments

(in EUR)	2023	2022
Advances and prepayments to suppliers	663,000	682,711
Prepaid expenses	409,706	199,373
Total Prepayments	1,072,706	882,084

The advances relate to the provision of contractually agreed working capital for the NDS and OCIO PoWs. The prepaid expenses are mainly related to the OCIO Programme of Work and the 2024 portion of the education allowance entitlements for the school year 2023-2024.

5 Property, plant and equipment

(in EUR)	2023	2022
Cost opening balance	367,486	360,150
Additions	52,662	37,960
Disposals	(103,932)	(30,624)
Cost closing balance	316,216	367,486
Accumulated depreciation opening balance	278,325	283,165
Current year depreciation	29,825	25,784
Retired depreciation	(103,932)	(30,624)
Accumulated depreciation closing balance	204,218	278,325
Net Carrying Amount	111,998	89,161

The useful life of the vehicles used in the calculation of depreciation is 5 years. The depreciation charge for the year is 29,825 EUR (2022: 25,784 EUR).

In 2023, the IMS disposed of four vehicles as shown in the above table and software as shown in the table in Note 7. Proceeds of sale of property plant and equipment amounting to 16,614 EUR were realised in the year (2022: 5,400 EUR). These proceeds are included under payables to nations to be reimbursed as miscellaneous income in the following year.

In accordance with the NATO Financial Regulations (art. 17) an annual summary of property written-off or transferred is provided in the following table. In 2023, all transactions were under the authority of the Financial Controller with the exception of one vehicle which was donated under the authority of the Budget Committee:

Items	Date purchased	Cost in EUR	NBV in EUR	Write-off or transfer	Reason	Disposal date	Revenue in EUR
Vehicle 1	2009	22,954	Nil	Write-off	Obsolete	2023	1,500
Vehicle 2	2012	30,624	Nil	Write-off	Obsolete	2023	6,000
Vehicle 3 *	2014	32,496	Nil	Write-off	Obsolete	2023	9,114
Vehicle 4 *	2009	17,858	Nil	Donation	Obsolete	2023	N/A
Software	2015	121,880	Nil	Write-off	Obsolete	2023	Nil

* Previously reported in the 2022 FS with disposal date 2023 and Revenue TBD

6 Intangible assets

(in EUR)	Software	
	2023	2022
Cost opening balance	409,043	409,043
Additions	-	-
Disposals	(121,880)	-
Cost closing balance	287,163	409,043
Accumulated amortization opening balance	397,949	385,846
Current year amortization	11,094	12,103
Retired Amortization	(121,880)	-
Accumulated amortization closing balance	287,163	397,949
Net Carrying Amount	-	11,094

The useful life of software systems used in the calculation of amortization is 4 years. The amortization charge for the year is 11,094 EUR (2022: 12,103 EUR). In 2023, the IMS disposed of software as shown in the tables above and in Note 5.

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

7 Payables

(in EUR)	2023	2022
Payables to nations	20,076,078	6,381,683
Payables to suppliers	10,761,325	3,784,351
Accruals	4,520,993	3,433,500
Other payables	45,821	50,868
Total Payables	35,404,217	13,650,402

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

Accruals are mainly related to goods and services received on the OCIO and NDS PoWs and the OCIO UCRs.

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

8 Deferred revenue

(in EUR)	2023	2022
Advanced contributions for next year	23,500,000	22,000,000
Deferred revenue - carry forwards	22,549,151	801,689
Total current deferred revenue	46,049,151	22,801,689
Investment in PPE and intangible assets	111,998	100,256
Total non-current deferred revenue	111,998	100,256
Total deferred revenue	46,161,149	22,901,945

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

The deferred revenue for carry forwards relates primarily to the OCIO and the NDS PoWs. Included in the 22,549,151 euro carried forward are special carry forwards totalling 19,710,000 euro approved by the Budget Committee with BC-DS(2023)0056 (INV).

Non-current deferred revenue represents the net carrying amount of property, plant and equipment and intangible assets as at 31 December 2023. The revenue will be recognized in the year when the depreciation and amortization expense will be recognized.

9 Revenue

(in EUR)	2023	2022
Revenue from contributions	53,100,887	38,673,435
Revenue released from deferred revenue	40,920	37,887
Total Revenue	53,141,807	38,711,322

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

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

10 Personnel expenses

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

Peacetime Establishment (PE)

	Approved PE - IMS	Filled IMS	Approved PE - NSO	Filled NSO	Approved PE - IMS and NSO	Filled IMS and NSO
Services paid by NATO budgets:						
Civilians (paid by Military Budget)*	86	74	16	16	102	90
Civilians (paid by Civil Budget)	16	7	-	-	16	7
Local Wage Rate	1	-	-	-	1	-
Services-in-kind provided by the nations:						
Military	317	297	26	22	343	319
Voluntary National Contribution (paid by Military Budget)	36	18	-	-	36	18
Voluntary National Contribution (paid by Civil Budget)	25	21	-	-	25	21
Partnership Staff Posts	11	7	2	2	13	9
Other	27	28	2	2	29	30
Total Ceiling posts	402	371	42	38	444	409
Total Posts	519	452	46	42	565	494

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

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

(in EUR)	2023	2022
Employment of personnel	12,313,698	11,614,396
Post-employment benefits	598,859	578,092
Training	79,285	111,563
Recruitment and separation	57,717	32,883
Miscellaneous	1,758	1,090
Total expenses	13,051,318	12,338,025

Untaken leave: The balance of untaken leave at the end of 2023 was 642 days (2022: 696 days) for IMS and 68 days (2022: 65 days) for NSO. The associated cost is recognized as an accrual.

11 Contractual supplies and services

Contractual supplies and services are expenses required for administrative support to the Military Committee and programme of work expenses. General support expenses mainly include costs for the OCIO programme of work and UCRs and HQ support SLAs with IS. Mission support is mainly related to costs for CIS and the NDS programme of work. The expenses are further categorised as follows:

(in EUR)	2023	2022
General support	22,167,793	12,050,161
Mission support	16,060,036	12,548,894
Grants and subsidies	1,055,586	1,082,061
Travel transportation	758,934	638,158
Miscellaneous costs	7,220	16,137
Total expenses	40,049,569	26,335,410

The IMS has one contract for the lease of a vehicle with an annual cost of 95,880 EUR. The contract was entered into in 2022 for a term of 3-years and is cancellable. In 2022, vehicle lease costs were 115,160 EUR.

12 Related parties

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

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

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

13 Representation allowance

Representation allowance is available to certain designated NATO high-level officials whose position entails responsibility for maintaining relationships of value to NATO. In 2023, three senior IMS officials received representation allowances.

The total entitlement was 39,000 EUR (2022: 39,000 EUR) and the actual expenses were 30,637 EUR (2022: 30,020 EUR).

14 Contingent Liabilities

The IMS Financial Statements 2022 referenced an appeal lodged with the NATO Administrative Tribunal against the IMS related to a recruitment process. In May 2023, the NATO Administrative Tribunal issued its ruling. The Tribunal found the appeal to be without merit, ruled in favour of the IMS, and denied the appeal and the appellant's requests for compensation. The appellant has no further legal recourse, and the matter is final and closed.

IMS is aware that an appeal may be lodged with the NATO Administrative Tribunal against the IMS related to the reimbursement of certain expenses. The probability of any outcome is assessed as not likely to result in any liability for the IMS.

15 Morale and Welfare Activities

The IMS carried out Morale and Welfare Activities (MWA) in 2023 for which a detailed annual special purpose report is presented to the Budget Committee. Morale and Welfare Activity is an activity of a NATO body that enhances the quality of life, promotes cohesion and integrity, and/or contributes to the physical and mental wellbeing of eligible individuals. At the IMS, the MWA mainly relate to the sale of petrol products and the language training centre.

The position of MWA at year-end is:

(in EUR)	2023	2022
Cash and cash equivalents	81,206	96,157
Total liabilities including provisions and contingent liabilities	47,154	71,143

As of year-end, no full-time equivalent staff (2022: nil) directly support the MWA.

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

16 Events after reporting date

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

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ANNEX A
IMS
Budget Execution Statement
for the year ended 31 December 2023
(in EUR)

	Initial Budget	BA2	Transfers	BA3	Transfers	Final Budget	Expenses	Special Carry Forward	Carry Forward	Lapsed
BUDGET 301 (IMS) 2023										
Chapter 1	13,395,952	13,395,952	-	13,395,952	-	13,395,952	10,965,202	-		2,430,750
Chapter 2	74,971,062	74,971,062	(2,662)	74,968,400	-	74,968,400	36,350,702	19,710,000	2,839,151	16,068,547
Chapter 3	50,000	50,000	2,662	52,662	-	52,662	52,662	-		-
TOTAL	88,417,014	88,417,014	-	88,417,014	-	88,417,014	47,368,566	19,710,000	2,839,151	18,499,297
BUDGET 302 (NSO) 2023										
Chapter 1	2,333,965	2,333,965	(72,000)	2,261,965	(75,717)	2,186,248	2,032,116	-	-	154,132
Chapter 2	1,547,160	1,547,160	72,000	1,619,160	75,717	1,694,877	1,645,888	-	-	48,989
TOTAL	3,881,125	3,881,125	-	3,881,125	-	3,881,125	3,678,004	-	-	203,121
BUDGET 501 (OTRCH) 2023										
Chapter 1	54,000	54,000	-	54,000	-	54,000	54,000	-	-	-
Chapter 2	1,510,000	1,510,000	-	1,510,000	-	1,510,000	1,254,394	-	-	255,606
TOTAL	1,564,000	1,564,000	-	1,564,000	-	1,564,000	1,308,394	-	-	255,606
TOTAL FY2023	93,862,139	93,862,139	-	93,862,139	-	93,862,139	52,354,964	19,710,000	2,839,151	18,958,024
BUDGET 301 (IMS) 2022										
Chapter 2	779,048	779,048	-	779,048	-	779,048	775,945	-	-	3,103
TOTAL	779,048	779,048	-	779,048	-	779,048	775,945	-	-	3,103
BUDGET 302 (NSO)2022										
Chapter 2	22,641	22,641	-	22,641	-	22,641	22,641	-	-	-
TOTAL	22,641	22,641	-	22,641	-	22,641	22,641	-	-	-
TOTAL FY2022	801,689	801,689	-	801,689	-	801,689	798,586	-	-	3,103
TOTAL ALL BUDGETS	94,663,828	94,663,828	-	94,663,828	-	94,663,828	53,153,549	19,710,000	2,839,151	18,961,128

The budget covers the financial year from 1 January 2023 to 31 December 2023 and includes the following budgets: 301 (IMS), 302 (NSO) and 501 (Outreach). The initial budget and subsequent revisions are reviewed, approved and issued by the Budget Committee.

In accordance with the NFRs, all changes between the initial and the final budget due to transfers of appropriations were either authorized by the Budget Committee, or were within the authority of the IMS Financial Controller. These changes are presented in the Budget Execution Statement. The lapses are mainly due to delays in the execution of the Office of the Chief Information Officer (OCIO) and NDS programmes of work and OCIO UCRs, and delays in recruitment.

The credits carried forward (total 22,549,151 euro) are presented in the Budget Execution Statement as required by the NATO Financial Regulations and the FRPs. They represent the unexpended balances at year-end for which there is a legal liability or a Budget Committee decision and are equal to the deferred revenue – carry forwards (see Note 8).

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

(in EUR)	<u>2023</u>
Total expenses, Statement of Financial Performance	53,141,807
Capital and investments (see notes 5 and 6)	52,662
Depreciation and amortization (see notes 5 and 6)	<u>(40,920)</u>
Total expenses, Budget Execution Statement	<u>53,153,549</u>