



NORTH ATLANTIC COUNCIL
CONSEIL DE L'ATLANTIQUE NORD

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19 December 2024

**DOCUMENT
PO(2024)0423-AS1**

**IBAN AUDIT REPORTS ON THE 2023 FINANCIAL STATEMENTS OF IS, DCPS,
RMCF, MSIAC, DBPS AND NFO**

ACTION SHEET

On 19 December 2024, under the silence procedure, the Council noted the RPPB report and the IBAN Audit Reports attached to PO(2024)0423, approved the conclusions and recommendations in the RPPB report, and approved the public disclosure of the 2023 Financial Statements of IS, DCPS, RMCF, MSIAC, DBPS and NFO, and of the associated IBAN Audit Reports and the RPPB report.

(Signed) Mark Rutte
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to PO(2024)0423.

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16 December 2024

DOCUMENT
PO(2024)0423
Silence Procedure Ends:
19 Dec 2024 – 17.30

To: Permanent Representatives (Council)

From: Secretary General

IBAN AUDIT REPORT ON THE 2023 FINANCIAL STATEMENTS OF IS, DCPS, RMCF, MSIAC, DBPS AND NFO

1. I attach the Resource Policy and Planning Board (RPPB) report on the International Board of Auditors for NATO (IBAN) Audit Reports on the 2023 Financial Statements of the International Staff (IS), NATO Defined Contribution Pension Scheme (DCPS), Retirees Medical Claims Fund (RMCF), Munitions Safety Information Analysis Center (MSIAC), NATO Coordinated Pension Scheme (DBPS) and resubmitted 2023 Financial Statements of NATO Naval Forces Sensor and Weapons Accuracy Check Sites FORACS Office (NFO). The IBAN issued unqualified opinions on the Financial Statements and on compliance 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 Reports, approved the conclusions and recommendations in the RPPB report, and approved the public disclosure of the 2023 Financial Statements of IS, DCPS, RMCF, MSIAC, DBPS and NFO, and of the associated IBAN Audit Reports and RPPB report.

(Signed) Mark RUTTE

1 Annex
2 Enclosures

Original: English

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**IBAN AUDIT REPORT ON THE 2023 FINANCIAL STATEMENTS OF IS, DCPS, RMCF,
MSIAC, DBPS AND NFO**

Report by the Resource Policy and Planning Board

References:

A.	IBA-AR(2024)0021	IBAN Audit Report on the Financial Statements of the International Staff (IS) for the year ended 31 December 2023
B.	IBA-AR(2024)0014	IBAN Audit Report on the Financial Statements of the NATO Defined Contribution Pension Scheme (DCPS) for the year ended 31 December 2023
C.	IBA-AR(2024)0017	IBAN Audit Report on the Financial Statements of the Retirees Medical Claims Fund (RMCF) for the year ended 31 December 2023
D.	IBA-AR(2024)0011	IBAN Audit Report on the Financial Statements of the Munitions Safety Information Analysis Center (MSIAC) for the year ended 31 December 2023
E.	IBA-AR(2024)0012	IBAN Audit Report on the Financial Statements of the NATO Coordinated Pension Scheme (DBPS) for the year ended 31 December 2023
F.	IBA-AR(2024)0019	IBAN Audit Report on the Financial Statements of the NATO FORACS Office (NFO) for the year ended 31 December 2023
G.	C-M(2015)0025	NATO Financial Regulations (NFRs)
H.	BC-D(2015)0260-REV3 (INV)	NATO Financial Rules and Procedures (FRPs)
I.	ON(2020)0001	Directive on Duty Travel
J.	C-M(2016)0023	NATO Accounting Framework (NAF)
K.	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 Reports on the 2023 Financial Statements of the International Staff (IS), NATO Defined Contribution Pension Scheme (DCPS), Retirees Medical Claims Fund (RMCF), Munitions Safety Information Analysis Center (MSIAC), NATO Coordinated Pension Scheme (DBPS) and resubmitted 2023 Financial Statements of NATO Naval Forces Sensor and Weapons Accuracy Check Sites FORACS Office (NFO). IBAN issued unqualified opinions on the Financial Statements and on compliance for the year ended 31 December 2023 (references A to F).
2. In line with the Financial Controller (FC)'s responsibilities laid out in Article 35 (FRPXXXV) of the NATO Financial Regulations (NFRs) (reference G), the IS FC is accountable for signing and overseeing the preparation of the 2023 Financial Statements for all NATO reporting entities covered under this report.
3. To help NATO Nations distinguish among the six different NATO reporting entities, the main highlights for the IS, DCPS, RMCF, MSIAC, DBPS and NFO are covered in the respective sections below.

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

OBSERVATIONS AND RPPB VIEW

5. In 2023, IBAN made ten observations and recommendations in total for the IS, MSIAC, DBPS and NFO. These observations and recommendations did not impact the audit opinion on the Financial Statements and on compliance. IBAN made no new observations and recommendations for the DCPS and RMCF.

6. IBAN also followed up on the status of observations and recommendations from the previous years' audits and found that eight were in-progress, one was open and five were closed in total for six NATO entities. The observations are detailed in the documents at references A to F.

NATO IS

7. IBAN made five observations and recommendations for the IS. These observations and recommendations did not impact the audit opinion on the Financial Statements and on compliance.

7.1. Observation 1 Non-compliance with Article 25 of the NFRs for commitments entered into by self-booking tools and credit cards: The RPPB supports IBAN's recommendation that the IS comply with NFRs, FRPs (reference H) and the IS Directive on Duty Travel (reference I) by ensuring that all commitments are entered into, and all payments are made, subject to the concurrence of the FC. In its formal comments, the IS disagreed with the recommendation. According to the IS, they already established a system of internal financial and budgetary control to identify risks and manage them effectively and economically, which includes the usage of self-booking tool and credit cards. According to IBAN, the provisions of the NFRs and the FRPs on prior-approval of commitments require a verification in order to ensure that each commitment is within the appropriations available for the purposes concerned in the approved budget. This verification should be performed before a commitment is entered into and the prior (or coincident) approval of the commitment concerned can only be granted by the FC or a Finance and Accounting Officer with delegated authority from the FC.

7.1.1. The RPPB notes IS's current practice in terms of the usage of self-booking tools and credit cards and recalls that the upcoming revision of the NFRs will only take place in 2028. The RPPB also notes that the use of these self-booking tools and credit cards has been an accepted practice for several years in NATO entities because they are considered both effective and efficient. Therefore, the RPPB recommends that IS addresses this issue and

substantiates its circumstances via a request for a deviation to the NFRs to the BC next year.

7.2. Observation 2 Need to perform a detailed assessment on the International Staff's exercise of control over Extra-Budgetary Funds (EBF): The RPPB supports IBAN's recommendation that the IS (a) perform a detailed accounting assessment of all its Extra-Budgetary Funds activities on a case-by-case basis in order to determine whether it exercises control over the EBF, or whether it is merely collecting these funds on behalf of the EBF donors as an agent, and (b) to reflect the outcome of the assessment performed in response to sub-recommendation (a) in its Financial Statements.

7.2.1. In its reply, the IS partially agreed with the recommendations and highlighted that the lack of written analysis of the regulations does not represent a lack of audit trail and a written assessment would be beneficial. In addition, the OFC believes that the NATO Trust Funds and extra-budgetary funds Overarching Guidance (ref. PO(2020)0140)) already provides sufficient justification.

7.2.2. IBAN's position is that the IS was not able to provide a documented assessment in support of its assertion that it exercises control over its different EBF activities, and the IS Office of Financial Control (OFC) also confirmed that except for the ANA Trust Fund, no such assessment was formalised for EBF activities prior to the submission of the 2023 IS Financial Statements.

7.3. Observation 3 Need for clarification on the International Staff's role when providing administrative support services to NATO projects: The RPPB notes IBAN's recommendation that Council task the appropriate governing body to clarify, in consultation with the Steering Committees (SCs) of both NATO projects, whether the IS should act as a service provider that invoices both NATO projects for any expenses it incurred on behalf of both NATO projects in order to be reimbursed, or should act as a budget holder that collects project funds and executes project budgets in the name of the IS in accordance with instructions provided by the SCs and Project Managers of both NATO projects. In its formal comments, the IS disagreed with the recommendation. The IS disagreed with IBAN's observation and recommendation. The IS it considers that there is sufficient clarity of the regulations and existent agreements, already ratified by Council and the respective SCs and deems the current processes to be clear, with no further clarifications required. The IS delivers administrative support to the executive branches of NFO and MSIAC and buys, on behalf of both NFO and MSIAC whilst charging the costs to their approved budgets. According to IBAN, the fact that IS *"buys [...] on behalf of both NFO and MSIAC whilst charging the costs to their approved budgets"* and *"issues [...] purchase orders that are clearly linked to the NFO or MSIAC budget"* aligns with IBAN's position that the IS appears to be acting as a budget holder that executes the NFO and MSIAC budgets in its own name without a mechanism to get reimbursed for, or to recover, all the expenses that the IS incurs in its own name while providing administrative support to the executive branches of the NFO and MSIAC projects. The RPPB tasks the IS to assess and confirm with the NFO and MSIAC Steering Committees and Project Managers the two options included in IBAN's recommendation and determine, as well as document the appropriate way to address the IBAN recommendation and report back to the RPPB.

7.4. Observation 4 Instances of non-compliance with the NFRs when procuring air transportation services: The RPPB supports IBAN's recommendation that the IS fully comply with the NFRs by ensuring that (a) commitments are entered into subject to the concurrence of the FC, (b) regularisations of unauthorised commitments are approved in accordance with the procedures foreseen in the IS Procurement Manual in order to conform to the highest standards of accountability, and (c) acquisition of these services is done, wherever possible through a competitive bidding process. In its reply, the IS disagreed with sub-recommendations (a) and (b) and partially agreed with sub-recommendation (c).

7.4.1. The IS did not agree with recommendations a) and b) and partially agreed with recommendation c). According to the IS, by establishing the internal control system, the IS FC did concur a priori with the certain type of commitments and never recognised commitments listed as "unauthorised". Additionally, the FC recognises their authority to accept deviations from internally issued instructions (e.g. NATO IS Procurement manual), particularly if the FC recognises that the circumstances are clear, justified and do not further "encourage such commitments being made by unauthorized personnel". According to IBAN, the provisions of the NFRs and the FRPs on prior-approval of commitments require a verification in order to ensure that each commitment is within the appropriations available for the purposes concerned in the approved budget. This verification should be performed before a commitment is entered into and the prior approval of the commitment concerned can only be granted by the FC or a Finance and Accounting Officer with delegated authority from the FC.

7.5. Observation 5 Improvements needed in the presentation and disclosure of cash balances that are restricted from use: The RPPB supports IBAN's recommendation that the IS (a) reclassify the amount of restricted cash currently presented as a current asset to non-current assets and disclose the amount and nature of the restricted cash in the notes to the Statement of Financial Position, and (b) assess if there are any discrepancies between the funds presented in the financial statements as available for use against a specific budget or activity, and the funds that are actually available for use; and correct for any discrepancies identified. In its formal comments, the IS disagreed with the sub-recommendation (b), noting that it does not see any need for additional assessment as Nations receive true and complete information regarding availability of funds, cash holdings and expenses. Regarding sub-recommendation (b), IBAN considers that there is a need to assess if there are any discrepancies between the funds presented in the financial statements as available for use against a specific budget or activity, and the funds that are actually available for use; and correct for any discrepancies identified.

7.6. IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one remains open and three remain in-progress. The observations are detailed in document at reference A.

7.7. IBAN previous years' observations and recommendations in-progress or open for more than three years: The RPPB invites the IS to provide an action plan to Council with timelines on the implementation of the 2019 financial year observation and recommendation when submitting their response on the IBAN audit of the 2024 Financial Statements if it is

not closed during the course of the 2024 audit. The observation relates to the unreconciled cash and cash equivalents. The RPPB supports the IS's efforts to continue applying remedial actions with the aim to address IBAN's observations and recommendations in-progress for more than three years.

DCPS

8. In 2023, IBAN made no new observations and recommendations for the DCPS.

8.1. IBAN followed up on the status of observations and recommendations from the previous years' audits and found that the remaining one was closed. The closed observation is detailed in document at reference B.

RMCF

9. In 2023, IBAN made no new observations and recommendations for the RMCF.

9.1. IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one was closed and one remains in-progress. The RPPB welcomes the implementation of RMCF's more than three years outstanding recommendation. The observations are detailed in document at reference C.

9.2. IBAN previous years' observations and recommendations in-progress or open for more than three years: The RPPB invites the IS/RMCF to provide an action plan to Council with timelines on the implementation of the 2020 financial year observation and recommendation when submitting their response on the IBAN audit of the 2024 Financial Statements if it is not closed during the course of the 2024 audit. The observation relates to the on the disclosure of prior period errors in the estimation of the post-employment medical scheme obligation. The RPPB supports RMCF's efforts to continue applying remedial actions with the aim to address IBAN's observations and recommendations in-progress for more than three years.

MSIAC

10. In 2023, IBAN made one observation and recommendation for the MSIAC. This observation and recommendation did not impact the audit opinion on the Financial Statements and on compliance.

10.1. Observation 1 Need for clarifications on the content and presentation of the NATO MSIAC Financial Statements: The RPPB notes IBAN's recommendation that Council task the appropriate governing body to clarify, in consultation with the Steering Committee of MSIAC, whether the MSIAC Financial Statements should solely present the activities carried out by staff members from the IS in relation to the executive branch of the non-NATO multinational MSIAC at NATO Headquarters, or present the activities of the executive branch of the MSIAC project. In its formal comments, the MSIAC disagreed with the recommendation as it considers that there is no need for further clarifications on the content and presentation of the MSIAC financial statements as it has been a practice since its inception. MSIAC has been operating within NATO under the Memorandum of Understanding concerning the provisions of common Human Resource (HR) shared services and the Service Level Agreements that address NATO provided facilities, HR and financial shared services, audits to be conducted by IBAN, and security, as a "NATO Project" under the Conference of National Armaments Directors (CNAD). MSIAC believes that establishing documents provide clear definitions germane to roles, responsibilities and NATO oversight of MSIAC activities and their status of NATO Reporting Entity. This understanding has been confirmed during more than 30 years of MSIAC operations, also through IBAN's regular audits and recommendations. IBAN maintained its position. The RPPB tasks the IS to assess with the MSIAC Steering Committee and Project Manager the two options included in IBAN's recommendation and determine, as well as document the appropriate way to address the IBAN recommendation and report back to the RPPB.

10.2. IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one remains in-progress. Observations are detailed in document at reference D.

10.3. IBAN previous years' observations and recommendations in-progress or open for more than three years: Referring to IBAN's financial year 2015 recommendation on the efforts to achieve compliance with the revised NFRs, particularly with those articles on internal control, risk management and internal audit, in 2023 the RPPB considered that the MSIAC should implement this recommendation as soon as possible. The formal comments submitted by MSIAC as part of the 2023 IBAN Audit Report were similar to the previous years and as such, no progress has been made. Considering this, the RPPB recommends that MSIAC re-engage with the IS Internal Oversight Service (IOS) in order to have them included in their audit scope of future internal audit engagements.

DBPS

11. During the audit, IBAN made one observation and recommendation for the DBPS. This observation and recommendation did not impact the audit opinion on the Financial Statements and on compliance.

11.1. Observation 1 Improvements needed in the presentation and disclosure of cash balances that are restricted from use: The RPPB supports IBAN's recommends that the DBPS (a) reclassify the amount of restricted cash currently presented as a current asset to non-current assets on the statement of Financial Position for the DBPS, and disclose the amount and nature of the restricted cash in the notes to the Statement of Net Assets Available for Benefits, (b) assess if there are any discrepancies between the funds presented in the financial statements as available for use against future DBPS liabilities, and the funds that are actually available for use; and correct for any discrepancies identified. In its formal comments, the IS disagreed with the recommendation (b) as it does not see any need for additional assessment as Nations receive true and complete information regarding availability of funds, cash holdings and expenses. IBAN has amended its observation, but maintained its position.

11.2. IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one was closed and two remain in-progress. The observations are detailed in the document at reference E.

11.3. IBAN previous years' observations and recommendations in-progress or open for more than three years: The RPPB invites the IS/DBPS to provide an action plan to Council with timelines on the implementation of the DBPS 2019 financial year observation and recommendation when submitting their response on the IBAN audit of the 2024 Financial Statements if it is not closed during the course of the 2024 audit. The observation relates to the improvements required in the monitoring, presentation and disclosure or overdue accounts receivable and payable. The RPPB supports the IS's efforts to continue applying remedial actions with the aim to address IBAN's observations and recommendations in-progress for more than three years.

NFO

12. In 2023, IBAN made three observations and recommendations for the NFO. These observations and recommendations did not impact the audit opinion on the Financial Statements and on compliance.

12.1. Observation 1 Significant weaknesses identified in internal controls over the preparation of the financial statements: IBAN identified material misstatements in the 2023 NFO Financial Statements first submitted to IBAN on 28 March 2024. These misstatements were corrected in a resubmission of the Financial Statements on 5 July 2024. Without these corrections, the 2023 NFO Financial Statements would have included material errors leading to both a qualified audit opinion on the Financial Statements and on compliance. The RPPB supports IBAN's recommendation that the NFO ensure adequate internal control processes are in place for the preparation of the financial statements, and to provide a reasonable

basis for obtaining assurance that financial statements are prepared and presented in compliance with the NAF (reference J) and NFRs. The Head of Financial Reporting Policy (HFRP) raised the topic of the resubmissions of financial statements at the Working Group of Financial Controllers held in November 2024. Due to the increasing number of resubmissions in the last years, the HFRP emphasized the importance of strengthening internal controls NATO-wide in order to limit such cases.

12.2. Observation 2 Need for clarifications on the content and presentation of the NATO FORACS Office Financial Statements: The RPPB notes IBAN's recommendation that Council task the appropriate governing body to clarify, in consultation with the Steering Committee of NFO, whether the NFO Financial Statements should solely present the activities carried out by staff members from the IS in relation to the executive branch of the NATO FORACS project, or present the activities of the executive branch of the NATO FORACS project. In its formal comments, the NFO disagreed with the recommendation and considers that NFO's Financial Statements present the proper scope of NFO's activities. Founded as a multi-national, co-operative activity through a Memorandum of Understanding and established as a NATO Project by the CNAD, NFO has adhered to the same operating model for the past 50 years, including NFO's recognition as a NATO Reporting Entity. The RPPB tasks the IS to assess with the NFO Steering Committee and Project Manager the two options included in IBAN's recommendation and determine, as well as document the appropriate way to address the IBAN recommendation and report back to the RPPB.

12.3. Observation 3 Need for amendments to the terminology used in the handover document for assets purchased by NFO on behalf of NATO FORACS Ranges: The RPPB supports IBAN's recommendation that the NFO amend the terminology and conditions outlined in the document used to handover assets from the NFO to the NATO FORACS Ranges in order to align the document with the substance of the actual arrangements made with the NATO FORACS Ranges concerning the transfer of legal ownership and the decision-making authority over the sale, disposal and alternative use of the assets concerned.

12.4. IBAN followed up on the status of observations and recommendations from the previous years' audits and found that two were closed and one remains in-progress. The observations are detailed in document at reference F.

12.5. IBAN previous years' observations and recommendations in-progress or open for more than three years: Referring to IBAN's financial year 2015 recommendation on the efforts to achieve compliance with the revised NFRs, particularly with NFR Article 13 on Internal Audit, in 2023 the RPPB considered that the NFO should implement this recommendation as soon as possible. The formal comments submitted by the NFO as part of the 2023 IBAN Audit Report were similar to the previous years and as such, no progress has been made. Considering this, the RPPB recommends NFO to re-engage with the IS IOS in order to have them included in their audit scope of future internal audit engagements.

CONCLUSIONSNATO IS

13. IBAN issued an unqualified opinion on the Financial Statements and on compliance for the IS. Five observations and recommendations were raised for the IS. One previous years' observation remains open and three remain in-progress.

13.1. Regarding observation 1, the RPPB notes IS's current practice in terms of the usage of self-booking tools and credit cards and recalls that the upcoming revision of the NFRs will only take place in 2028. The RPPB recommends that IS addresses this issue and substantiates its circumstances via a request for a deviation to the NFRs to the BC next year. Concerning observation 3, the RPPB tasks the IS to assess and confirm with the NFO and MSIAC Steering Committees and Project Managers the two options included in IBAN's recommendation and determine, as well as document the appropriate way to address the IBAN recommendation and report back to the RPPB.

13.2. The RPPB recommends that Council invite the IS to provide an action plan to Council with timelines on the implementation of the 2019 financial year in-progress observation and recommendation when submitting their response on the IBAN audit of the 2024 Financial Statements.

DCPS

14. IBAN issued an unqualified opinion on the Financial Statements and on compliance for the DCPS. IBAN made no observations and recommendations for the DCPS and the remaining observation and recommendation was closed.

RMCF

15. IBAN issued an unqualified opinion on the Financial Statements and on compliance for the RMCF. IBAN made no observations and recommendations for the RMCF. One previous years' observation and recommendation was closed and one remains in-progress.

15.1. The RPPB recommends that Council invite the IS/RMCF to provide an action plan to Council with timelines on the implementation of 2020 financial year in-progress observation and recommendation when submitting their response on the IBAN audit of 2024 Financial Statements.

MSIAC

16. IBAN issued an unqualified opinion on the Financial Statements and on compliance for the MSIAC. One observation and recommendation was raised for the MSIAC. One previous years' observation remains in-progress.

16.1. The RPPB notes IBAN's recommendation that Council task the appropriate governing body to clarify, in consultation with the Steering Committee of MSIAC, whether

the MSIAC Financial Statements should solely present the activities carried out by staff members from the IS in relation to the executive branch of the non-NATO multi-national MSIAC at NATO Headquarters, or present the activities of the executive branch of the MSIAC project. The RPPB tasks the IS to assess with the MSIAC Steering Committee and Project Manager the two options included in IBAN's recommendation and determine, as well as document the appropriate way to address the IBAN recommendation and report back to the RPPB.

16.2. As per IBAN's financial year 2015 recommendation on the efforts to achieve compliance with the revised NFRs, the RPPB recommends MSIAC to re-engage with the IS IOS in order to have them included in their audit scope of future internal audit engagements.

DBPS

17. IBAN issued an unqualified opinion on the Financial Statements and on compliance for the DBPS. One observation and recommendation was raised for the DBPS. One previous years' observation for the DBPS was closed and two remain in-progress.

17.1. The RPPB supports IBAN's recommendation that the DBPS improve the presentation and disclosure of cash balances that are restricted from use.

17.2. The RPPB recommends that Council invite the IS/DBPS to provide an action plan to Council with timelines on the implementation of 2019 financial year in-progress observation and recommendation when submitting their response on the IBAN audit of 2024 Financial Statements.

NFO

18. IBAN issued an unqualified opinion on the Financial Statements and on compliance for the NFO. Three observations and recommendations were raised for the NFO. Two previous years' observations for the NFO were closed and one remains in-progress.

18.1. The RPPB supports IBAN's recommendations, except for observation 2 which the RPPB notes. The RPPB tasks the IS to assess with the NFO Steering Committee and Project Manager the two options included in IBAN's recommendation and determine, as well as document the appropriate way to address the IBAN recommendation and report back to the RPPB.

18.2. The RPPB notes that the HFRP raised the topic of the resubmissions of financial statements at the Working Group of Financial Controllers held in November 2024. Due to the increasing number of resubmissions in the last years, the HFRP emphasized the importance of strengthening internal controls NATO-wide in order to limit such cases.

18.3. As per IBAN's financial year 2015 recommendation on the efforts to achieve compliance with the revised NFRs, the RPPB recommends NFO to re-engage with the IS IOS in order to have them included in their audit scope of future internal audit engagements.

RECOMMENDATIONS

19. The Resource Policy and Planning Board recommend that the Council;
 - 19.1. note this report and the IBAN Audit Reports at reference A to F;
 - 19.2. approve the conclusions at paragraphs 13 to 18.3;
 - 19.3. invite the IS, RMCF and DBPS to provide an action plan to Council with timelines on the implementation of recommendations in-progress or open for more than three years when submitting their response on the IBAN audit of 2024 Financial Statements;
 - 19.4. invite the International Staff Internal Oversight Service to include the MSIAC and NFO in their audit scope of future internal audit engagements; and
 - 19.5. approve the public disclosure of the 2023 Financial Statements of IS, DCPS, RMCF, MSIAC, DBPS and NFO, the associated IBAN Audit Reports (reference A to F) and this report in line with agreed policy at reference K.



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

Brussels - Belgium



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IBA-A(2024)0098
29 August 2024

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

Cc: NATO Permanent Representatives
Assistant Secretary General, Executive Management Division
Financial Controller, International 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 Staff's (IS) Financial Statements for the year ended 31 December 2023 – IBA-AR(2024)0021***

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 Staff (IS) 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 Staff (IS)
for the year ended 31 December 2023**

The International Staff (IS) supports the work of the North Atlantic Council and its Committees. The total expenses disclosed in the 2023 Financial Statements amounted to EUR 430 million.

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

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

1. Non-compliance with Article 25 of the NFRs for commitments entered into by self-booking tools and credit cards.
2. Need to perform a detailed assessment on the International Staff's exercise of control over Extra-Budgetary Funds.
3. Need for clarification on the International Staff's role when providing administrative support services to NATO projects.
4. Instances of non-compliance with the NFRs when procuring air transportation services.
5. Improvements needed in the presentation and disclosure of cash balances that are restricted from use.

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

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

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IBA-AR(2024)0021

29 August 2024

INTERNATIONAL BOARD OF AUDITORS FOR NATO

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

(IS)

FOR THE YEAR ENDED 31 DECEMBER 2023

PUBLICLY DISCLOSED - PDN(2025)0018 - MIS EN LECTURE PUBLIQUE

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

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of International Staff (IS), for the 12 month period ended 31 December 2023, issued under document reference FC(2024)0048, and submitted to IBAN on 28 March 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 International Staff (IS) 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 International Staff (IS) 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 Secretary General 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 five observations and recommendations. These observations do not impact the audit opinion on the Financial Statements and on compliance:

1. Non-compliance with Article 25 of the NFRs for commitments entered into by self-booking tools and credit cards.
2. Need to perform a detailed assessment on the International Staff's exercise of control over Extra-Budgetary Funds.
3. Need for clarification on the International Staff's role when providing administrative support services to NATO projects.
4. Instances of non-compliance with the NFRs when procuring air transportation services.
5. Improvements needed in the presentation and disclosure of cash balances that are restricted from use.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that none were closed, one remains open and three remain in progress.

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

1. NON-COMPLIANCE WITH ARTICLE 25 OF THE NFRS FOR COMMITMENTS ENTERED INTO BY SELF-BOOKING TOOLS AND CREDIT CARDS

Reasoning

1.1 In accordance with Article 6 of the NFRs, *"The Secretary General, the Supreme Commanders and the other Heads of NATO bodies shall have a Financial Controller on their staffs to be their principal financial advisor and who exercises in their names responsibilities for, but not limited to: [...] (e) prior approval of commitments consistent with article 25."*

1.2 In accordance with Article 25.1 (a) of the NFRs, on approval of the annual and supplementary budget of IS, the Secretary General, subject to the concurrence of the Financial Controller, is:

"(a) authorized to enter into commitments for goods and services to be

*rendered during the financial year;
(b) authorized to make payments in relation to the appropriations which have been approved and within the limits of such appropriations;”*

1.3 With regard to Approval and Control of Commitments, the FRP XXV states the following:

“1) Liability to expend international funds shall not be incurred, nor shall such funds be expended, without the Financial Controller’s prior or coincident approval of the corresponding commitment of appropriation and contract authority.

2) The Financial Controller, who remains accountable at all times, may delegate authority to approve requests for commitment of appropriations and contract authorities, or amendment of commitments, to the Finance and Accounting Officer. Such delegation of authority may be general or specific and, when granted, shall be documented.

3) The Finance and Accounting Officer is responsible to the Financial Controller for ensuring that requested commitments are within the appropriations and contract authorities available for the purposes concerned in the approved budget, or, if the case arises, in the approved budget as amended by the transfers permissible and effected pursuant to Article 26 of the NFR, that they are in accordance with all relevant policies and regulations and that they are supported by complete and accurate justification.”

1.4 In the Glossary of the NFRs, a commitment is defined as follows:

“The advance acceptance and recording of legal obligations against:

- a) appropriations for the current financial year; and,*
- b) contract authority for future financial years.”*

1.5 The FRP XXV (13) defines a commitment of appropriations as *“the acceptance and recording of a legal liability to expend international funds.”*

1.6 In accordance with FRP XXXII (6), *“In making purchases through Simplified Procurement procedures, NATO Bodies may use the following methods: [...] (b) Purchase Cards (p-cards). Purchase cards are used to streamline the procurement process of low-value goods and services through the delegation of procurement authority to end-users and the implementation of effective internal control mechanisms to prevent fraud and abuse. In no case the single purchase limit will exceed 15 % of Level B of the EFL (€3,000).”*

1.7 In accordance with the IS Directive on Duty Travel (Ref. ON(2020)0001), Articles 3.3 to 3.5 on the ‘Decision to Authorize Duty Travel’ state the following:

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- Article 3.3 - *“Duty travel should be authorized only when it is in the interest of the Organization. In particular, it should comply with strategic guidance agreed by the Council in the framework of the Civil Budget. Divisions and Independent Offices (IO) are expected to manage their budgets and must bear in mind that current guidance by nations and the IS seeks to keep travel costs down.”*
- Article 3.4 - *“Duty travel should only be undertaken if other means of completing a task, including electronic means of communication, such as video-teleconferencing, etc. are not deemed suitable for meeting the work objective. Divisional/IO travel approvers are expected to take this into consideration before authorizing travel.”*
- Article 3.5 - *“All travel requests must have prior approval from the Financial Controller, or their delegate before any travel arrangements or financial commitments are made.”*

Observations

1.8 IBAN found a difference of understanding regarding two significant aspects for ensuring compliance with Article 25 of the NFRs:

- Timing of the concurrence by the Financial Controller;
- Timing of the existence of a commitment of IS appropriations.

Timing of the concurrence by the Financial Controller

1.9 According to the IS Financial Controller, *“NATO IS does not accept any legal obligation against appropriated or non-appropriated funds unless they have been subject of concurrence of Financial Controller or staff authorised by them.”* (Ref. FC(2024)0089)

1.10 With regard to the authorisation of IS staff to enter into commitments, the IS Financial Controller further states that *“One of the existing mechanisms allows staff (and staff only) to act in expectance of the future concurrence which will be granted upon verification whether staff assessment of eligibility and compliance of the purchase is confirmed by Financial Controller. In these cases, the risk of non-compliance lies on the side of staff who might bear financial and/or disciplinary consequences of their actions (e.g. their purchase will not be refunded or NATO will not accept the legal obligation they made or they will need to cover any financial damage they caused).* (Ref. FC(2024)0089)

1.11 This mechanism of acting in expectance of the future concurrence by the IS Financial Controller is used by IS, among others, in operations related to (Ref. FC(2024)0089):

- *“p-cards and credit cards”;*
- *“i-expenses and micro purchases”;*

- *“representation allowance expenses”;*
- *“business travel expenses (incl. with the use of various self-booking tools)”.*

1.12 We note the following for the above-mentioned types of operations:

- ‘P-cards’ (purchase cards): the use of purchase cards is regulated by FRP XXXII (6) as part of the simplified procurement procedures, which allows for delegating procurement authority to end-users for all purchases below EUR 3,000. The use of purchase cards is managed and authorised by the IS Head of Procurement;
- Credit cards: a number of designated staff members receive an IS credit card, which allows them to directly make and pay purchases with IS funds. The use of credit cards is managed by the IS Treasury division under the Financial Controller’s authority, and all credit card holders accept accountability for all transactions made through their signature of a warrant in which all applicable rules and limitations related to the use of their credit card are prescribed;
- I-expenses, micro purchases and representation allowance expenses: these are typically reimbursable expenses (unless paid for by an IS Credit Card) which were initially incurred privately in the name of the staff member concerned;
- Business travel expenses: these are either reimbursable expenses that were initially incurred privately in the name of the staff member concerned (unless paid for by an IS credit card), or expenses directly incurred and pre-paid in the name of IS in case the staff members made the travel bookings through a self-booking tool.

1.13 IBAN is not aware of any other type of IS operations or activities for which this mechanism is applied.

1.14 Allowing staff to *“act in expectance of the future concurrence by the IS Financial Controller”* implies that IS staff can enter into commitments, and as such legal obligations to expend funds, in the name of IS without the Financial Controller’s prior-approval since the Financial Controller’s concurrence will only follow in the future. In the case of purchases by credit cards, this also allows certain staff to make payments in the name of IS without prior-approval of commitment by the Financial Controller.

1.15 We note that the mechanisms of future concurrence (i.e. ex-post concurrence) by the IS Financial Controller is a detective control that allows IS to take corrective actions or to consider not to accept the existing liability. This approach does however not adhere to Articles 6 and 25 of the NFRs, which require the Financial Controller to introduce a process for prior-approval of commitments as a preventive control ensuring proper use of IS funds instead of applying the Financial Controller’s approval of commitments as a detective control.

1.16 In our view, for all commitments entered into in the name of IS by IS staff, the concurrence of the Financial Controller should be granted before, or at the moment, the commitment is entered into. This in order to ensure compliance with the Financial Controller's responsibility as per Article 6 of the NFRs to prior-approve commitments in accordance with the provisions of Article 25 of the NFRs.

Timing of the existence of a commitment of IS appropriations.

1.17 According to the IS Financial Controller, *"In line with NFR Article 25.1 NATO IS commits NATO funds only if the operation has been concurred by Financial Controller or staff authorised by them – prior to the commitment. Lack of concurrence prevents NATO from the recognition of legal obligation and/or commitment of funds. Until the moment of concurrence, no operation constitutes NATO commitment."* (Ref. FC(2024)0089)

1.18 In accordance with the reasoning presented by the IS Financial Controller in FC(2024)0089, any legal obligations to spend IS funds that are entered into by IS staff in the name of IS through the issuance of purchase orders, the signing of agreements, the bookings of travel arrangements through an IS self-booking tool, and credit card payments with IS credit cards do not result in a commitment of IS appropriations until the moment of concurrence by the Financial Controller (or the Financial Controller's delegates), even if the Financial Controller's concurrence only follows after the existence of these legal obligations.

1.19 This reasoning by the IS Financial Controller described in FC(2024)0089 implies that the Financial Controller's concurrence is a 'condicio sine qua non' for the existence of a commitment of IS appropriations. In accordance with this reasoning, a commitment can de facto not exist without the Financial Controller's concurrence. Following this reasoning would in our view make the timing of the Financial Controller's concurrence irrelevant and, as such, the requirement of prior-approval of commitments by the Financial Controller in accordance with Article 6 and 25 of the NFRs redundant.

1.20 In our view, a commitment of IS appropriations is entered into, and as such exists, at the moment that IS accepts, and records, a legal obligation to expend funds in the name of IS. In the above-mentioned cases, a legal obligation to expend IS funds is accepted by an IS staff member, and recorded through a purchase order, signed agreement, travel booking or credit card payment made in the name of IS.

Non-compliance with Article 25 of the NFRs when entering into commitments for hotel accommodation, train tickets and rental cars through a self-booking tool

1.21 In 2020, IS introduced a self-booking tool which allows staff members to pre-book, or book, travel independently themselves without intervention from the travel agency or other IS Staff. In practice, this self-booking tool is an electronic marketplace in which IS staff members pre-book air tickets, and self-book hotel accommodation, train tickets, and rental cars from an online catalogue with real-time prices. Once the staff members make these bookings, the booking details will be integrated into an

electronic form and submitted as part of a duty travel request for approval to their line manager, their budget officer and the Missions Unit within the Office of Financial Control.

1.22 For hotel accommodation, train tickets and rental cars, we noted that staff members can proceed with the actual booking using a self-booking tool without the approval of their duty travel request by their line manager, their budget officer and the Office of Financial Control. As a result, the staff members can enter into commitments with IS funds, and as such, incur a legal liability to expend IS funds without the Financial Controller's prior or coincident approval of the corresponding commitment of appropriation. This is not compliant with Article 25(a) of the NFRs, FRP XXV, and Article 3.5 of the IS Directive on Duty Travel.

1.23 It should also be noted that bookings of hotel accommodation and train tickets in particular are pre-paid bookings that will directly trigger a payment as well. This is not compliant with Article 25(b) of the NFRs, which requires the Financial Controller's concurrence before payments are made.

1.24 Although we are not in a position to test all individual travel bookings through this self-booking tool for compliance with Article 25 of the NFRs, we noted that the total amount of commitments entered into in 2023 by staff members through a self-booking tool amounts to EUR 452,313 for hotel accommodation, EUR 109,088 for train tickets and EUR 30,083 for rental cars. It should be noted that not all of these commitments were necessarily entered into without prior-approval by their line manager, their budget officer and/or the Office of Financial Control, as staff members always have the opportunity to reach out to these individuals outside of the self-booking tool for further guidance or for obtaining approvals. Records of these exchanges are not necessarily included in the duty travel request.

Non-compliance with Article 25 of the NFRs when entering into commitments through IS credit card purchases

1.25 Although we are not in a position to test all individual credit card transactions for compliance with Article 25 of the NFRs, we noted that 41 designated staff members were in the possession of an IS credit card in 2023, which allowed them to directly make and pay purchases in the name of IS with IS funds without the prior-approval of the Financial Controller to enter into these commitments in accordance with the mechanism described above. This resulted in commitments entered into, and payments made, for a total amount of EUR 396,889. Out of this EUR 396,889, we noted that EUR 215,002 related to single transactions for business travel expenses that exceeded the EUR 3,000 threshold stipulated in the FRP XXXII (6).

Conclusion

1.26 We conclude that the IS mechanism which allows staff to enter into commitments in expectance of the future concurrence (i.e. ex-post concurrence) from the IS Financial Controller is not compliant with Article 25(a) of the NFRs which

requires the Financial Controller's concurrence before the commitment is entered into. In applying this mechanism, the IS Financial Controller does not fully fulfil his/her role and responsibilities with regard to prior-approval of commitments in accordance with Article 6 of the NFRs.

1.27 In the case of credit card purchases and pre-paid travel bookings through IS self-booking tools by staff, the purchases made without the Financial Controller's concurrence will also directly result in payments of these purchases with IS funds. This is not compliant with Article 25(b) of the NFRs, which requires the Financial Controller's concurrence before payments are made.

Recommendations

1.28 With regard to staff members entering into commitments with International Staff's (IS) appropriations through self-booking tools and credit cards, we recommend IS to comply with Article 6, Article 25 of the NFRs, FRP XXV, and Article 3.5 of the IS Directive on Duty Travel by ensuring that all commitments are entered into, and all payments are made, subject to the concurrence of the Financial Controller.

2. NEED TO PERFORM A DETAILED ASSESSMENT ON THE INTERNATIONAL STAFF'S EXERCISE OF CONTROL OVER EXTRA-BUDGETARY FUNDS

Reasoning

2.1 The objective of NATO Accounting Framework (NAF) IPSAS 1 is to prescribe the manner in which general purpose financial statements should be presented to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. In accordance with IPSAS 1, *"Information in financial statements is comparable when users are able to identify similarities and differences between that information and information in other reports. Comparability applies to the:*

- (a) Comparison of financial statements of different entities; and*
- (b) Comparison of the financial statements of the same entity over periods of time."*

2.2 The NAF, IPSAS 1 on 'Presentation of Financial Statements' contains the following definitions:

- *"Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity;"*

- *“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.”*

2.3 In accordance with IPSAS 23 on ‘Revenue from non-exchange transactions’, *“Revenue comprises gross inflows of economic benefits or service potential received and receivable by the reporting entity, which represents an increase in net assets/equity, other than increases relating to contributions from owners. Amounts collected as an agent of the government or another government organization or other third parties will not give rise to an increase in net assets or revenue of the agent. This is because the agent entity cannot control the use of, or otherwise benefit from, the collected assets in the pursuit of its objectives.”*

2.4 The conceptual framework for general purpose financial reporting by public sector entities contains the following definitions:

- Control of the resource - *“An entity must have control of the resource. Control of the resources entails the ability of the entity to use the resource (or direct other parties on its use) so as to derive the benefit of the service potential or the economic resources embodies in the resource in the achievement of its service delivery or other objectives”;*
- Service potential - *“the capacity to provide services that contribute to achieving the entity’s objectives. Service potential enables an entity to achieve its objectives without necessarily generating net cash inflows.”*
- Economic benefits - *“are cash inflows or a reduction in cash outflows. Cash inflows (or reduced cash outflows) may be derived from, for example: An asset’s use in the production and sale of services; or the direct exchange of an asset for cash or other resources.*

2.5 In accordance with IPSAS 3, *“An entity shall select and apply its accounting policies consistently for similar transactions, other events, and conditions, unless an IPSAS specifically requires or permits categorization of items for which different policies may be appropriate”.*

2.6 Article 12.3 of the NFRs states that *“Internal control activities shall include, but not be limited to [...] (c) adequate audit trails”.*

NATO Extra-Budgetary Funds (including NATO Trust Funds)

2.7 The ‘NATO Trust Funds and EBF Overarching guidance’ (Ref. PO(2020)0140) defines EBF *“as any financial contributions that are provided to NATO and that are not part of the annual common funded budget process governed by Section IV of the NFR (e.g. Civil Budget). They fall under the NFR category of non-appropriated funds and consist of trust funds, including those managed by NATO Agencies, and accounts held in the OFC to supplement specific common funded activities. A NATO EBF may be*

established/run for a single programme or a single project or used for multiple related activities either as one off individual events or multiple events over multiple financial years.”

2.8 The EBF overarching guidance (Ref. PO(2020)0140) further states that *“For any EBF which is not considered to be a trust fund, the International Staff’s Office of Financial Control may determine whether or not to establish the EBF and whether it will require a steering group, a designation of a lead nation, or modalities”*.

2.9 IBAN issued a Special Report to Council on the need for strengthened accountability, oversight, and management of trust funds in 2019 (Ref. IBA-A(2019)0004). As stated in this Report, within NATO, donors make individual voluntary contributions to support partner countries in implementing cooperative security initiatives in the areas of demilitarisation, defence transformation or capacity building. These donors can be NATO Member States or non-NATO countries, and these types of projects are commonly referred to as Trust Funds in NATO. These funds are administered and managed outside the common funded framework, while the disbursement of funds are subject to the NFRs.

2.10 Within an organisation, a trust fund relationship consists of a contractual relationship between a donor and a trustee for the benefit of a recipient. If NATO is defined as the trustee, to manage and implement projects on behalf of the donors, it is entrusted to administer projects solely for the purposes specified (Ref. IBA-A(2019)0004).

2.11 However, there are instances where NATO bodies hold more roles than just trustee. In this regard, IBAN identified the following roles held by NATO Bodies with regard to trust funds (Ref. IBA-A(2019)0004):

- The role of a trustee in which NATO provides a set of agreed financial, administrative and operational guidance for the governance and management of Trust Funds.
- The role of executing agent in implementing Trust Fund projects.
- The role of secretariat to provide strategic advice, coordination, facilitation and fundraising activities.
- The role of treasurer to provide financial services such as receiving, holding, and transferring funds to internal and external stakeholders.

2.12 Based on the EBF overarching guidance (Ref. PO(2020)0140) and a case study of the Ukraine Comprehensive Assistance Package (UCAP) Trust Fund (Ref. PO(2021)0481), we noted that, among other roles, the following specific roles can be held by the IS with regard to its EBF activities:

- Parent Division - *“The IS parent division provides oversight of the EA’s [Executing Agent’s] implementation of trust fund projects, and is ultimately accountable for ensuring effective management of the trust fund projects by the EA. In the context of NATO trust funds, the NATO IS parent division that is designated in the trust fund modalities acts on behalf of Allies and donors for the benefit of prospective beneficiaries.”;*
- Project Coordinator - *“For the implementation of a project within the framework of the Ukraine CAP Trust Fund the Parent Division may delegate certain responsibilities to a Project Coordinator to manage the project and report on its progress to donors. The Project Coordinator, who can be drawn from NATO staff or nations, will manage the day-to-day project implementation, and monitor the use of contractors/agencies and payment requests to suppliers.”;*
- Treasurer - *“The NATO OFC will act as a treasurer for Ukraine CAP Trust Fund donations, and is responsible for the financial control activities related to Ukraine CAP Trust Fund and reporting duties specified in the Overarching Guidance and the NATO Financial Regulations, Rules and Procedures.”.*
- Executing Agent - *“An Executing Agent is responsible for the execution of the practical, technical, and financial aspects of a project under a trust fund. Accordingly, the EA is responsible for the overall programme management, including effective delivery of the projects outputs, the management of financial and human resources allocated to the project, and reporting to the IS parent division and steering group. The establishment of the EA’s responsibilities is defined by arrangement with the parent division. [...] the EA assumes all responsibility for the execution of a project and will take all necessary measures to mitigate any risks resulting from the execution of an assigned trust fund project. Mitigation measures that are adopted are reported to the steering group.”*

2.13 It should be noted that the EBF overarching guidance does not apply to the following trust funds managed by NATO Reporting Entities (Ref. PO(2020)0140):

- “a) The Afghanistan National Army Trust Fund (ANA TF) (due to the unique circumstances of its creation and execution);*
- b) Trust funds established by Allied Command Operations and Allied Command Transformation or by the International Military Staff (which are monitored by Allies via the procedures related to the Common Funded Budget).”*

Observations

2.14 The IS activities with regard to Extra-Budgetary Funds (EBF), especially trust funds, have significantly increased in 2023 compared to 2022, and are also expected to further increase in the upcoming years. In particular, we noted that the total assets and liabilities for EBF activities amount to EUR 605.5 million at 31 December 2023

compared to EUR 233.6 million at 31 December 2022; and that the total revenue and expenses recognised for EBF activities amount to EUR 84.2 million at 31 December 2023 compared to EUR 37.2 million at 31 December 2022.

2.15 The IS Financial Statements at 31 December 2023 contains the following disclosures with regard to its accounting treatment of EBF activities:

- *“NATO IS acts as an agent in its role related to the closure activities of the ANA Trust Fund, all administrative costs are fully borne by the ANA TF”.*
- *“Cash is also held for Extra Budgetary Funds (EBFs) for which the IS is the executing agent and therefore acts as the principal, or for which the IS acts as Treasurer. These projects are not financed by the common funding principle. These Extra Budgetary Funds managed on behalf of third parties are held in cash or as a receivable if they correspond to an unpaid non-budgetary contribution in relation to nationally funded elements. The corresponding amounts are presented as a current liability.”*
- *“Revenue from non-exchange transactions comprises contributions from Participating Nations when they are based on officially approved cost shares or on a voluntary basis that are not approximately equal to the proportion of value received. This applies to all budget driven segments or entities (e.g. Civil Budget) and to Extra Budgetary Funds.”*
- *“Voluntary contributions such as pledges in relation to Extra Budgetary Funds are accounted for as unearned revenue when confirmed by the donor; revenue is recognised and the liability is discharged when the conditions are fulfilled.”*

2.16 As an agent for trust fund activities, NATO Reporting Entities would present any amounts held in trust for trust funds on its own bank accounts as cash and cash equivalents in its Statement of Financial Position with a corresponding liability to this trust fund, and would not recognise any revenue or expenses in its Statement of Financial Performance. In the case of the ANA Trust Fund, IS does not hold any cash on its own bank accounts, and as such does not present any cash and cash equivalents for these activities in its Statement of Financial Position.

Consistency and Comparability of the IS Financial Statements

2.17 We noted that the financial statements of other NATO bodies that are managing trust funds, such as the International Military Staff (IMS) and Allied Command Operations (ACO), also do not include any revenue or expenses in relation to their trust fund activities since they do not consider themselves to control the trust funds. In this regard, their 2022 financial statements at 31 December 2022 disclose the following information:

- ACO - *“Trust Funds are not considered core activities of ACO. NATO recognises an asset when it controls access to the asset and gains economic benefit or service potential but matches this to an equal liability. ACO does not recognise any expenditure or revenue, in relation to the trust funds in its statement of financial performance which it does not control [...]”* (Ref. PO(2023)0469 (INV));
- IMS - *“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.”* (Ref. PO(2023)0468 (INV)).

2.18 The revenue and expenses of EBF activities (except for the ANA TF, for which IS acts as an agent) are included in the IS Financial Statements at 31 December 2023 and amount to EUR 84.2 million in total, which indicates that the IS considers that it acts as a principal for these activities. However, we found that the IS's Financial Statements do not disclose the reasons why the IS considers that it acts as a principal (rather than an agent), and as such, exercises control over the EBF (except for the ANA TF). It is therefore unclear whether there could be instances in which the IS does not exercise control over EBF activities based on the specific roles it performs.

2.19 The absence of these disclosures might create difficulties for the users of the IS Financial Statements to compare this information on trust funds with the information presented in its own financial statements in accordance with IPSAS 3, and those of other NATO Bodies in accordance with IPSAS 1, as it is unclear why the accounting treatment of the IS ANA TF and similar activities performed by other NATO Bodies differ from the other IS EBF activities.

Audit trail in support of disclosures made in the IS Financial Statements

2.20 With the exception of the assessment made for the ANA TF (Ref. FC(CAF)(2023)0002-REV1), the IS was not able to provide IBAN with an assessment in support of its assertion that it exercises control over all its different EBF activities. This is not compliant with Article 12.3 of the NFRs, which requires that the IS's internal control activities should ensure the existence of adequate audit trails, including audit trails in support of all information disclosed in the IS's Financial Statements. The IS's Office of Financial Control also confirmed that except for the ANA TF, no such assessment was made for EBF activities prior to the submission of the 2023 IS's Financial Statements.

2.21 IBAN considers that it is currently unclear if the IS applies its accounting policy for EBF in a consistent manner in accordance with IPSAS 3 across all its EBF activities and IPSAS 1 with other NATO bodies. This is because in the absence of a detailed case-by-case assessment of the IS EBF activities, it is not possible to fully determine whether it exercises control over the EBF, or whether it is merely collecting and

spending these funds on behalf of the EBF donors as an agent since it cannot control the use of, or otherwise benefit from, the collected assets in the pursuit of its own objectives. It is important to clarify this point, since the accounting treatment of a principal differs significantly from that of an agent, since agents do not include any revenue and expenses in their financial statements, except for those relating to their role as an agent

Recommendations

2.22 IBAN recommends that International Staff:

- a) Perform a detailed accounting assessment of all its Extra-Budgetary Funds (EBF) activities on a case-by-case basis in order to determine whether it exercises control over the EBF, or whether it is merely collecting these funds on behalf of the EBF donors as an agent, since it cannot control the use of, or otherwise benefit from, the collected assets in the pursuit of its own objectives.
- b) Reflect the outcome of the assessment performed in response to sub-recommendation (a) in its Financial Statements either by ensuring that any EBF activities performed as an agent do not give rise to revenue or expenses (except for those relating to their role as an agent), or by disclosing the reasons why it controls the EBF in order to improve the consistency of the IS's Financial Statements and their comparability with the financial statements of other NATO bodies that are managing similar types of funds.

3. NEED FOR CLARIFICATION ON THE INTERNATIONAL STAFF'S ROLE WHEN PROVIDING ADMINISTRATIVE SUPPORT SERVICES TO NATO PROJECTS

Reasoning

3.1 The IS provides administrative support services to the executive branches of the following two NATO projects: NATO FORACS and MSIAC. The executive branches of these two NATO projects are referred to as NATO FORACS Office (NFO) and NATO MSIAC, are located at NATO Headquarters; and their staff members are NATO international civilian staff. These posts are approved by Council as part of the 2023 Civil Budget, and are approved as personnel establishments of other NATO bodies which are financed by those participating in these activities.

3.2 The criteria for the attribution of the qualification 'NATO Project' are laid down in the document with reference C-M(66)33(2nd revise). These criteria, among other things, require "*the participation of two or more NATO Countries in the co-operative project*" and that it is "*politically desirable that such co-operation should take place in NATO or under the NATO aegis*".

Provision of administrative support services to NATO FORACS by International Staff

3.3 NATO FORACS is a NATO project operating under the NATO aegis, which is open to the whole Alliance, and established by a Memorandum of Understanding signed by eight NATO Countries in 1974.

3.4 In 1976, with document 'PO/76/140', the Secretary General informed Council of the creation of two multi-national activities by a number of Nations, one of which being NATO FORACS activities, which would be administered by staff located in the NATO Headquarters, and invited Council to endorse these activities and agree to a degree of administrative support from the International Staff.

3.5 In 1977, in the revised version of PO/76/140, Council was invited to approve the following with regard to the request for the International Staff's administrative support to these two multi-national activities:

- *"agree that the International Staff, against reimbursement, should provide administrative support for the executive branches of these activities to the extent determined by arrangement with the participating countries concerned";*
- *"agree to establish NATO international civilian posts as proposed by the participating countries and authorize by the appropriate financial or budgetary authority; such posts are to be identified as separate activity – reimbursed posts when added to the establishment of the International Staff";*
- *"agree [...] that the Financial Controller, International Staff, should receive and make payments for the NATO FORACS office based on instruction from the Project Manager, NFO".*

3.6 With regard to the provision of administrative support by the International Staff to the executive branch of NATO FORACS, the 2023 NFO (NFO) Financial Statements identify, among other activities, the following administrative support activities performed by the International Staff on behalf of NATO FORACS:

- *"NATO International Staff Office of Financial Control provides accounting and budgeting for the NFO and handles annual calls to Member Nations to fund operations for the Project.";*
- *"Funds are called from Member Nations; receivables are recorded; funds are transferred to the Ranges upon request of the Range Managers."*
- *"Cash and cash equivalents are held on separate bank accounts controlled by the IS Office of Financial Control."*

Provision of administrative support services to NATO MSIAC by International Staff

3.7 Munitions Safety Information Analysis Center (MSIAC) is a NATO project operating under the NATO aegis, which was initially established in 1991 as the NATO Insensitive Munitions Information Center (NIMIC) through a Memorandum of Understanding. In 2005, NIMIC was re-established as the MSIAC with an expansion of scope to consider other aspects of munitions safety.

3.8 In accordance with the initial version of the Administrative Arrangements between NIMIC (predecessor of MSIAC) and NATO (Ref. A1(90)115), *“Services provided by NATO will be rendered against appropriate reimbursement of all charges and costs by NIMIC. To be defined in greater detail hereinafter, NATO will be providing personnel, financial, linguistic, security, administrative and other services to the NIMIC Project.”*

3.9 The current Memorandum of Agreement between the MSIAC and NATO regarding the provision of administrative services and facilities in support of the operation of MSIAC at NATO Headquarters (hereafter: the MoA between MSIAC and NATO), states the following in this regard:

- *“MSIAC pays for the annual cost of Administrative Support Services rendered by the NATO International Staff, in accordance with the extant policy for the recovery of the costs of administrative support services from NATO Agencies”*
- *“The system and procedures for Administrative Support Services provide for the recovery of personnel costs related to personnel recruitment, pay & allowances, privileges & immunities, HR records & information and special services) financial, linguistic, security and other administrative support services.”*
- *“The MSIAC MOU (formerly known as the NIMIC MOU, which became effective on 24 October 1990) gives the NATO IS Financial Controller authority to act on budgetary financial matters on behalf of Participating Nations. The MSIAC Steering Committee designates the individual having the authority to direct the NATO IS Financial Controller to make commitments and payments related to the authorised budget.”*

3.10 The MSIAC Steering Committee designated the MSIAC Project Manager as the individual that has the authority to direct the IS Financial Controller to make commitments and payments related to the authorised budget.

3.11 The administrative support services provided by the International Staff to MSIAC may include procurements activities for the acquisition of equipment, furniture and computer information systems on behalf of MSIAC. In this regard, the 'Memorandum of Understanding between all participating nations concerning a cooperative project for the establishment, operation, management and support of the NIMIC' (hereafter: MoU) states the following: *“It is recognized that assets, such as*

furniture and equipment, will be acquired by the NIMIC Project during the course of the Program through the use of joint funding. Such assets will be the common property of the Participants.”

Observations

Personnel expenses incurred in relation to posts established for NATO FORACS and MSIAC

3.12 With regard to personnel establishments of other NATO bodies that are financed by those participating in these activities, we noted that the 2023 Civil Budget contains four established international civilian posts for NATO FORACS and 10 established international civilian posts for MSIAC. These posts are filled with staff members employed by the International Staff, whose employment contracts are signed by delegates of the Secretary General as the Head of the International Staff.

3.13 Therefore, the personnel costs incurred in relation to these staff are initially incurred in the name of the International Staff, and should be reimbursed by NATO FORACS and recovered from MSIAC as envisaged by Council in the revised version of ‘PO/76/140’ for NATO FORACS and by the parties to the MoA between NATO MSIAC and NATO.

3.14 In practice, we noted that the personnel expenses incurred for NATO FORACS and NATO MSIAC established posts are directly paid for with NATO FORACS and MSIAC funds called, and held on a separate bank account, by the International Staff. Therefore, a mechanism of reimbursement by NATO FORACS and recovery from MSIAC for personnel expenses incurred by the International Staff currently does not exist.

Contractual supplies and services expenses incurred on behalf of NATO FORACS and NATO MSIAC

3.15 We noted that the International Staff performs procurement activities in its own name on behalf of NATO FORACS and MSIAC based on instructions from the Project Managers of the executive branches of these NATO Projects. Commitments are entered into in the name of International Staff with non-appropriated funds held on behalf of NATO FORACS and MSIAC. As a result, any liabilities resulting from these commitments will exist in the name of International Staff, as the purchase orders were made in the name of the International Staff.

3.16 When accounting for these purchase orders issued in the name of International Staff on behalf NATO projects, the International Staff will record these purchases orders, and as such the commitments entered into, on separate company codes created for each NATO project in its accounting software. Although these activities are clearly separated from a funding and accounting perspective, legally any future liabilities resulting from these commitments will exist in the name of the International Staff instead of in the name of the NATO FORACS and MSIAC projects.

This is also evidenced by the fact that all supplier invoices in relation to these purchase orders are addressed to the International Staff instead of the NATO projects or their projects offices.

3.17 In practice, we noted that expenses incurred for contractual supplies and services provided to the executive branches of NATO FORACS and MSIAC are directly paid for with NATO FORACS and MSIAC funds called, and held on a separate bank account, by the International Staff.

3.18 Given that the contractual supplies and services expenses incurred by the International Staff are directly paid for with NATO FORACS and MSIAC funds, the International Staff does not separately invoice NATO FORACS and MSIAC to get reimbursed for, or to recover, these expenses.

3.19 Therefore, a mechanism of reimbursement by NATO FORACS and recovery from MSIAC for costs initially incurred by the International Staff in relation to the International Staff's administrative support in the provision of contractual supplies and services, as initially envisaged by Council in the revised version of 'PO/76/140' for NATO FORACS or by the parties to the MoA between NATO MSIAC and NATO, currently does not exist.

3.20 In addition to the above, we also noted that no formal hand-over process exists to transfer the legal ownership of property, plant, equipment and intangible assets acquired in the name of the International Staff on behalf of the NATO projects.

3.21 As an example, we found that the International Staff procured equipment on behalf of a NATO FORACS Range, for which the purchase of the equipment was invoiced to the International Staff, directly paid by the International Staff with NATO FORACS funds, and directly shipped by the supplier to the NATO FORACS Range concerned. The International Staff did not re-invoice the purchase of the equipment to the NFO or the NATO FORACS Range concerned, nor did the International Staff prepare a document to transfer the legal ownership of the equipment to the NFO or the NATO FORACS Range concerned.

Conclusion

3.22 With regard to personnel expenses incurred in relation to posts established for NATO FORACS and MSIAC and expenses incurred for contractual supplies and services provided to the executive branches of NATO FORACS and MSIAC, the International Staff has currently not established a mechanism to get reimbursed for, or to recover, all the expenses that the International Staff incurs in its own name while performing its role as a provider of administrative support services to the executive branches of NATO FORACS (i.e. NATO FORACS Office) and MSIAC (i.e. NATO MSIAC) at NATO Headquarters in accordance with the revised version of 'PO/76/140' for NATO FORACS and the MoA between MSIAC and NATO.

3.23 Instead, for these expenses in particular, the International Staff rather appears to be acting as a budget holder that executes the NFO budget and the NATO MSIAC budget in its own name, as can be derived from the following:

- The International Staff issues, and collects, calls for funds for these NATO projects in accordance with the budget approvals made by the Steering Committees of both projects. These funds will be transferred to, and held on, separate bank accounts for both projects that are controlled by the International Staff's Office of Financial Control.
- The International Staff enters into commitments, and makes payments, in relation to the authorised budget of both NATO projects in accordance with instructions provided by the Project Managers. These commitments are entered into in the name of the International Staff, and payments are made from the above-mentioned bank accounts controlled by the International Staff's Office of Financial Control.
- Expenses incurred for commitments entered into in relation to the authorised budget of both NATO projects in accordance with instructions provided by the Project Managers are incurred in the name of the International Staff, and are not re-invoiced to the NATO projects as they were directly paid with funds held on behalf of the NATO projects by the International Staff

Recommendations

3.24 With regard to the provision of administrative support services by the International Staff to the executive branches of the NATO FORACS and MSIAC projects at NATO Headquarters, IBAN recommends that Council task the appropriate governing body to clarify, in consultation with the Steering Committees of both NATO projects, whether the International Staff should act as a service provider that invoices both NATO projects for any expenses it incurred on behalf of both NATO projects in order to be reimbursed, or should act as a budget holder that collects project funds and executes project budgets in the name of the International Staff in accordance with instructions provided by the Steering Committees and Project Managers of both NATO projects.

4. INSTANCES OF NON-COMPLIANCE WITH THE NFRS WHEN PROCURING AIR TRANSPORTATION SERVICES

Reasoning

4.1 In accordance with Article 25.1 (a) of the NFRs, on approval of the annual and supplementary budget of IS, the Secretary General is authorised to enter into commitments for goods and services to be rendered during the financial year, subject to the concurrence of the Financial Controller.

4.2 In accordance with Article 32 of the NFRs, “NATO Procurement and Contracting shall adhere to the following principles:

- (a) *The timely acquisition of goods and services to be achieved wherever possible through a competitive bidding process, using approved procurement procedures to achieve the most effective, efficient and economical solution;*
- (b) *Goods and services will be procured, in a transparent and fair manner built upon the principle of non-discrimination and fairness in which eligible suppliers are given the same opportunity and treated in the same fair manner;*
- (c) *Tendering documents shall contain a clear, precise and complete description to enhance full and open competition among eligible suppliers;*
- (d) *Every aspect of the procurement process must conform to the highest standards of integrity and accountability.”*

4.3 In accordance with FRP XXXII (5), subject to the provisions of FRP XXXII, the procurement of goods and services shall be governed by the following procedures:

- (a) *“[...] NATO bodies shall use Simplified Procurement procedures to the maximum extent practicable for all purchases of goods and services with an estimate cost below Level D of the EFL (€160,000). Procurement of goods and services under the simplified acquisition procedure shall be governed by the following minimum, competition requirements:*
 - i. *Goods and services estimated to costs less than the equivalent of Level B of the EFL (€20,000) may be procured from known suppliers without competitive bidding;*
 - ii. *Goods and services of which the cost is estimated to exceed the equivalent of Level B of the EFL (€20,000) but below twice Level B of the EFL (€40,000) shall be procured through soliciting offers from at least three suppliers known to meet the technical and commercial standards;*
 - iii. *Goods and services with an estimated cost exceeding twice Level B of the EFL (€40,000) but below Level D of the EFL (€160,000) shall be procured through soliciting offers from at least five suppliers known to meet the technical and commercial standards. [...]”*
- (b) *Formal procurement, consisting of International Competitive Bidding and Proposals for all procurement actions exceeding Level D of the EFL (€160,000).*
- (c) *Formal procurement actions shall be subject to a Contract Award Committee.*

4.4 With regard to waivers of procurement rules and procedures, FRP XXXII (13) states that “*Departures from the above requirements may only be authorized by the Financial Controller in the interests of security, urgency, standardisation of equipment, or in exceptional circumstances. When the total amount exceeds the equivalent of*

Level E of the EFL (€800,000), such cases shall be reported to the Budget Committee for decision.”

4.5 In order to implement FRP XXXII (13), the IS Procurement Manual states the following:

- Article 13.5 - *“The requisitioner and/or the Procurement Officer should provide a valid justification for the waiver. Such a waiver must remain an extraordinary procedure. The normal method of procuring goods and services is in accordance with the rules specified in the applicable regulations.”*
- Article 13.10 of the IS Procurement Manual, “[...] *The authorization for a deviation from the standard procurement method must be requested and obtained before any purchase or contract action can be initiated by the Procurement Service. Waivers are, by their nature, a preliminary step, and should thus be requested before any action has been initiated in respect of the procurement concerned.*”

4.6 The IS Procurement Manual contains a procedure for ‘Unauthorised Procurements and Regularization’ (Article 13.13), which states the following:

- *“The Procurement Service should take positive action to preclude, to the maximum extent possible, the need for ratification actions. Although procedures are provided herein for use in those cases where the ratification of an unauthorized commitment is necessary, these procedures may not be used in a manner that encourages such commitments being made by unauthorized personnel.”*
- *“The Financial Controller serves as ratifying official and in this capacity may authorize the ratification of an unauthorized commitment. Prior to ratifying an unauthorized act, the Procurement Officer will review the issue and submit it to the Financial Controller. The first action will be to formally notify both the individual and his/her Administrative Officer of the breach of procedure and resolving inquiry.”*
- *“The unauthorised commitment ratification process shall be documented through the standard ratification forms approved by the Head of Procurement. The Procurement Service will maintain an up-to-date register of all unauthorised commitments to monitor their incidence and status.”*

Observations

4.7 On 14 June 2023, the Office of Financial Control received a request for a waiver to deviate from standard procurement rules for a total of EUR 800,000 based on exceptional circumstances. This was in order to award sole source contracts concerning the provision of air transport services. On 10 July 2023, in response to this

request, the Office of Financial Control granted a waiver to award sole source contracts limited to EUR 300,000.

4.8 We noted that two contracts, each above Level B of the EFL and resulting in expenditure incurred for a total cumulative value of EUR 113,445, were signed based on a sole source contract award to one single contractor prior to the date of the waiver request (14 June 2023) and the date of the waiver approval (10 July 2023). This is not compliant with the provisions of:

- Article 25.1 of the NFRs due to the absence of the approval from the Financial Controller prior to entering into these commitments;
- Article 13.10 of the IS Procurement Manual which states that the authorization for a deviation from the standard procurement method must be requested and obtained before any purchase or contract action can be initiated by the Procurement Service.

4.9 As the contract award of these contracts was not in line with approved procurement procedures, the waiver request also included a request for “*regularization*” for those contracts already signed (i.e. the commitments already entered into). This regularisation was granted through approval of the waiver by the Office of Financial Control.

4.10 While a regularisation was requested by the Procurement Officer in the waiver request, we found that the procedure for the unauthorised commitment ratification process was not followed as no standard ratification forms was completed and no record was made of this unauthorised commitment in the register of all unauthorised commitments held by the Procurement Service. This is not compliant with Article 13.13 of the IS Procurement Manual and Article 32.1 of the NFRs which, among other procurement principles, states that every aspect of the procurement process must conform to the highest standards of accountability.

4.11 In addition to that, the reasoning presented in the waiver request was solely based on the specific circumstances that applied prior to awarding the first contract of EUR 85,945 sole source to the supplier concerned. These circumstances were considered to be exceptional given that the travel arrangements for this mission had to be made on very short notice, and that a different service provider with whom a Memorandum of Agreement exists was not able to accommodate the request of IS. The preferred service provider had also proven that it meets all necessary security specifications in the past.

4.12 As the IS division concerned expected that this situation would repeat itself afterwards, it requested a waiver for a sole source contract award up to EUR 800,000 “*when no other solution is available*”. The Office of Financial Control did not agree with the proposed waiver of EUR 800,000, but approved a waiver limited to EUR 300,000 instead. The approved limit of the waiver amount (EUR 300,000) exceeds the value of the services to which reference is made in the reasoning of the waiver request

(EUR 85,945), and as such, allows for sole source contract awards above Level B of the EFL to a single service provider without any further need to assess the specific circumstances of future missions requiring air transport services.

4.13 In practice, we noted that the circumstances of missions requiring air transport services vary, as we identified three sole source contract awards to this service provider for which the number of days between the actual contract signature and mission date ranged between 7 and 36 calendar days. In these circumstances, the lack of the necessary time and flexibility should not prevent IS from soliciting the required number of offers through a simplified procedure in accordance with FRP XXXII (5), or from requesting and granting a new waiver in accordance with FRP XXXII (13).

4.14 Considering that these services are potentially recurring and that the cumulative amount of the services provided might exceed Level D of the EFL (€160,000), IS could also award this contract through a formal procedure in accordance with FRP XXXII (5) instead of a simplified procedure.

4.15 We conclude that, based on the nature of the services provided (air transport services), the exceptionality of the specific circumstances for one particular mission does not imply that the circumstances of all future missions are exceptional. Therefore, the specific circumstances for one particular mission requiring air transport services cannot be used as a basis for concluding whether competition in accordance with FRP XXXII (5) can be achieved or not, and as such, whether a waiver from standard procurement rules should be requested and granted for all future missions. This in order to adhere to the principles of Article 32.1(a) of the NFRs, which states that the timely acquisition of goods and services is to be achieved wherever possible through a competitive bidding process, using approved procurement procedures to achieve the most effective, efficient and economical solution.

4.16 In case compliance with these Articles of the NFRs cannot be ensured due to the specific needs of IS when procuring air transport services, IS should consider bringing this to the attention of the Council in order to seek a deviation from the NFRs, where required.

Recommendations

4.17 With regard to procuring air transport services, IBAN recommends that IS fully complies with Article 25.1(a) and Article 32.1 of the NFRs by respectively ensuring that:

- a) Commitments are entered into subject to the concurrence of the Financial Controller;
- b) Regularisations of unauthorised commitments are approved in accordance with the procedures foreseen in the IS Procurement Manual (Article 13.13) in order to conform to the highest standards of accountability.

- c) Acquisition of these services is done, wherever possible through a competitive bidding process, in order to achieve the most effective, efficient and economical solution.

5. IMPROVEMENTS NEEDED IN THE PRESENTATION AND DISCLOSURE OF CASH BALANCES THAT ARE RESTRICTED FROM USE

Reasoning

5.1 The NATO Accounting Framework (NAF), International Public Sector Accounting Standards (IPSAS) 2 – Cash Flow Statements defines cash as *“cash on hand and demand deposits”* while cash equivalents are defined as *“short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.”*

5.2 IPSAS 2 describes the purpose of cash and cash equivalents as they appear on the Statement of Financial Position stating that *“cash and cash equivalents are held for the purpose of meeting short term cash commitments rather than for investment or other purposes.”*

5.3 IPSAS 1 on the ‘Presentation of Financial Statements’ provides the following guidance on the classification of current and non-current assets:

“An asset shall be classified as current when it satisfies any of the following criteria: [...] (d) It is cash or a cash equivalent (as defined in IPSAS 2), unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date. All other assets shall be classified as non-current”

5.4 IPSAS 2 on ‘Cash Flow’ offers the following guidance on the disclosure of cash balances which are restricted from use:

“An entity should disclose, together with a commentary by management in the notes to the financial statements, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the economic entity”

5.5 IPSAS 2 provides further guidance on the reason for disclosing such information as well as examples of possible balances to be disclosed:

“Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a description in the notes to the financial statements, is encouraged, and may include: [...] (c) The amount and nature of restricted cash balances.”

Observations

5.6 During the 2023 bank confirmation process, IBAN received a bank confirmation that included bank accounts along with their associated balances for which the bank concerned did not provide IBAN with confirmation of who are the IS authorised signatories for these accounts. Two of two of these bank accounts, which amount to EUR 94,750 in total, are presented as a cash and cash equivalent in the IS Financial Statements at 31 December 2023.

5.7 Through discussions held in combination with the IS Office of Financial Control and the Office of Legal Affairs (OLA), IBAN was made aware that currently, the IS is not authorised to make transactions to, or from, these two bank accounts, nor is it authorised to close them. As a result, the IS has no access to these funds and they are considered restricted balances.

5.8 According to the OLA, *“In 2013, these funds were restricted from use as the result of judicial proceedings in Belgium stemming from a dispute about the performance of a 1999 contract between the Kosovo Force (KFOR) and a private company to rent premises for housing and related services for KFOR troops in Pristina. The use of these funds was restricted in order to ensure their availability to pay legal fees incurred by the bank in the event that they become due at some point in the future. Payment is only due if the bank (and Host Nation Belgium)’s legal actions in support of NATO were to be dismissed.”* The OLA also added that *“NATO as such is not a party to the proceedings, which were initiated by Belgium at the request of NATO and to which the bank has associated itself.”*

5.9 As of 31 December 2023, the restricted cash balance has been presented as a current asset within the Cash and Cash Equivalents total on the Statement of Financial Position of the IS in the amount of EUR 94,750. Given that this grievance dates back to 1999, and remains open to date, it would seem reasonable to conclude that it is unlikely these funds will be used within the next 12 months. As such, they do not represent liquid cash on hand nor are they held with the expectation of settling short term cash commitments. Therefore, in accordance with the guidance presented above from IPSAS 1, these restricted cash balances do not meet the definition of a current asset. As a result, the balance should be presented on the Statement of Financial Position as a non-current asset.

5.10 As outlined in IPSAS 2 above, restricted funds that are not readily available for use should be disclosed as such in order to provide the users of the financial statements with sufficient information to understand the financial position and liquidity of the entity. Currently, no such disclosure exists in the IS Financial Statements.

5.11 From FC(2013)263, we understand that the IS Financial Controller agreed to make these funds available to the bank to cover any legal fees incurred by the bank in relation to the ongoing legal proceedings, and to make additional payments in case these funds are found to be insufficient to cover the actual legal fees incurred by the bank. It is unclear how this transaction was accounted for, and whether an expenditure

was incurred, in the year these funds were initially frozen in order to use these funds for the payment of legal fees incurred by the bank in relation to ongoing legal proceedings.

5.12 As it is uncertain whether an expenditure has already been incurred in relation to these legal fees in the year that these IS funds were initially frozen, there might currently be a discrepancy between what is presented in the financial statements as available for use against a specific budget or activity, and what is actually available for use.

Recommendations

5.13 IBAN recommends that IS:

- a) Reclassify the amount of restricted cash currently presented as a current asset to non-current assets on the Statement of Financial Position for the IS, and disclose the amount and nature of the restricted cash in the notes to the Statement of Financial Position;
- b) Assess if there any discrepancies between the funds presented in the financial statements as available for use against a specific budget or activity, and the funds that are actually available for use; and correct for any discrepancies identified.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

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

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

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(1) IS FY 2022 IBA-AR(2023)0015, paragraph 1.8 NEED TO STRENGTHEN INTERNAL CONTROLS CONCERNING DUAL SIGNATURE OBLIGATION AND RIGHTS FOR BANK TRANSFERS IBAN's Recommendation IBAN recommends that the IS strengthen internal controls concerning the principle of segregation of duties and specifically regarding the requirement of dual signature obligations and rights (hard copy and online) regarding bank transfers.	We noted that there is no online dual signature functionality available for payments to be made from the bank accounts concerned. However, dual signature is always required through offline approval flows. The implementation of an online dual signature process has been requested and is ongoing with the bank. In parallel, the IS is working on the introduction of a Treasury Management System (TMS) which will ensure a consistent electronic dual signature process for all bank accounts under the custody of the IS.	Observation In-Progress.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(2) IS FY 2021 IBA-AR(2022)0034, paragraph 2.9 EMPLOYEE NOTE DISCLOSURE CANNOT BE RECONCILED TO INFORMATION PROVIDED BY HUMAN RESOURCES IBAN's Recommendation IBAN recommends that the International Staff (IS) improve the effectiveness of internal controls over the preparation of the note of the financial statements on employee disclosure. This can be achieved by developing a quality control checklist to document the reconciliation exercise between the employee disclosures in the financial statements and supporting evidence provided by the Human Resources Division.	Action has been initiated in 2023 to address this audit recommendation. Nevertheless, the note on employee disclosure in the IS 2023 financial statements cannot be reconciled to information provided by Human Resources.	Observation In-Progress.
(3) IS FY 2021 IBA-AR(2022)0034, paragraph 3.9 STANDARDISATION OF THE OVERTIME PLANNING, RECORDING AND APPROVAL PROCESSES IBAN's Recommendation IBAN recommends that International Staff (IS) Human Resources to: a) Standardise the overtime planning, review and approval process across IS and establish overtime guidelines. b) Ensure that the planning, review and approval of overtime are performed in the ERP system. The ERP system should be adapted to accommodate the requirement to manage the overtime of all Divisions/Independent Offices and the HQ Security Force in the system. c) Ensure that the respective responsibilities of IS Human Resources and Divisions/Independent Offices be made clear in the overtime guidelines with regard to overtime being authorised in advance, and overtime hours worked entered into the ERP system on a weekly basis and matched to the overtime hours planned and approved. d) Review the current regulation in the	With regard to sub-recommendations a) to d), the IS informed us that these recommendations are still to be addressed. According to the IS, this work has not started yet due to staffing constraints in both the NATO Office of Security and the Executive Management Human Resources Division.	Observation Open.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
CPRs Article 17.2.2 in order to provide clarification in which exceptional circumstances and events a staff member can be allowed to work more than 15 hours overtime in any one week, or more than 30 hours in any one month, taking into consideration the health and safety aspects generated by the overtime.		
(4) IS FY 2019 IBA-AR(2020)0013, paragraph 3 UNRECONCILED CASH AND CASH EQUIVALENTS IBAN's Recommendation IBAN recommends that IS should: a) Verify the amounts reported by NATO Satellite Offices before the issuance of the financial statements. b) Ensure that the month-end petty cash balances of NATO Satellite Offices do not exceed the EUR 500 ceiling and are zero on 31 December each year. c) Write-off the loss in petty cash Account n° 570104, after a full investigation as required by article 17 of the NFRs.	a) As part of this year's audit, no errors were identified in the amounts reported by NATO Satellite Office. Closed. b) We found instances where the NATO Satellite Offices Petty Cash balances on 31 December 2023 was not zero. In-Progress. c) This sub-recommendation was closed in IBA-AR(2021)0034.	Observation In-Progress.

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

OBSERVATION 1:

NON-COMPLIANCE WITH ARTICLE 25 OF THE NFRS FOR COMMITMENTS ENTERED INTO BY SELF-BOOKING TOOLS AND CREDIT CARDS

IS's Formal Comments

Not agreed.

The IS Financial Controller, in line with NFR Article 12.1 established a system of internal financial and budgetary control to (as per FRP XII 2) identify risks and manage them effectively and economically. Self-booking tool and credit cards, accompanied by relevant set of controls and mitigation measures, are part of the implemented internal control system.

Neither the NFR 25.1 nor any other NATO regulation prescribe any particular way in which Financial Controllers should express their concurrence. The NATO IS argues that, by establishing the internal control system as it has been described in FC(2024)0089, partially quoted by IBAN in the report, the IS Financial Controller did concur a priori with the certain type of commitments (made through the self-booking tool and through credit cards if done in line within the limits of given authority and/or in line with clearly communicated limitations). In the same time the Financial Controller has a right and obligation to verify the compliance of the transactions at any time, which is done through the detective controls before the ultimate approval of liability.

NATO IS is also raising that NATO responsibility to cover the costs of business travel derives directly from the NATO Civilian Personnel Regulations and even purchase of tickets / hotels directly by the traveller (outside NATO IS provided channels) does not waive NATO liability.

IBAN's Position

With regard to approval and control of commitments, and in accordance with our reasoning presented in paragraph 1.3 of this audit report, the provisions of the NFRs and the FRPs on prior-approval of commitments require a verification in order to ensure that each commitment is within the appropriations available for the purposes concerned in the approved budget, is in accordance with all relevant policies and regulations and is supported by complete and accurate justification. This verification should be performed before a commitment is entered into (i.e. a preventive control instead of a detective control), and the prior (or coincident) approval of the commitment concerned can only be granted by the Financial Controller or a Finance and Accounting Officer with delegated authority from the Financial Controller.

In our view, the provisions of the CPRs on 'Travel on duty' do not require a change to our audit observation and recommendation. As a general rule, Article 40.1 of the CPRs states that *"All travel must be duly authorized according to a procedure to be established by the Head of each NATO body. Travel orders will only be issued after such authorization is given"*. As an exception to this rule, Article 40.4 of the CPRs states that *"In exceptional circumstances, and on duly justified grounds, the members of the staff may be authorized to make their own travel arrangements or to change those which have been made. To permit reimbursement, the members of the staff shall, on their return, provide a detailed justification of the conditions under which their journey was performed."*

OBSERVATION 2:

NEED TO PERFORM A DETAILED ASSESSMENT ON THE INTERNATIONAL STAFF'S EXERCISE OF CONTROL OVER EXTRA-BUDGETARY FUNDS

IS's Formal Comments

Partially agreed.

NATO IS has prepared the IS financial statements in line with their best knowledge, NATO Accounting Framework and other relevant regulations. Lack of written analysis of the regulations does not represent a lack of audit trail.

Nevertheless, NATO IS agrees that to address auditor's doubts a written assessment would be beneficial. This will be undertaken once the level of IS staffing supports superfluous workload.

IBAN's Position

The IS was not able to provide IBAN with a documented assessment in support of its assertion that it exercises control over all its different EBF activities, and the IS's Office of Financial Control also confirmed that except for the ANA TF, no such assessment was formalised for EBF activities prior to the submission of the 2023 IS's Financial Statement.

In the absence of a record or evidence in support of such an assessment, as we are not able to verify how the IS concluded on the information disclosed in the IS's Financial Statements, IBAN considers that no audit trail exists regarding this matter.

**OBSERVATION 3:
NEED FOR CLARIFICATION ON THE INTERNATIONAL STAFF'S ROLE WHEN
PROVIDING ADMINISTRATIVE SUPPORT SERVICES TO NATO PROJECTS**

IS's Formal Comments

Not agreed.

NATO IS considers there is sufficient clarity of the regulations and existent agreements, already ratified by NAC and the respective Steering Committees.

NATO IS deems the current processes to be clear, with no further clarifications required.

NATO IS delivers administrative support to the executive branches of the following two NATO projects: NATO FORACS and MSIAC. Administrative support constitutes IS costs incurred by the Civil Budget and entails services delivered by OFC and EM in support of the NATO FORACS and MSIAC (PO/76/140 and A1(90)115). The related cost is reimbursed on a yearly basis by NATO FORACS and MSIAC as per Service Level Agreement.

NATO IS buys, through the administrative support delivered to the executive branches, on behalf of both NFO and MSIAC whilst charging the costs to their approved budgets. Expenses for contractual supplies and services provided are not part of the envisaged administrative support (PO/76/140 and A1(90)115) and are therefore immediately charged to and registered by the NATO FORACS and MSIAC budget.

NATO IS issues, as part of the administrative support, purchase orders that are clearly linked to the NATO FORACS or MSIAC budget and not to NATO IS, so it is clear for which NATO body the purchase is being made.

Operations are processed in the ERP of NATO IS in line with the design of both NATO FORACS or MSIAC project offices, with appropriate authorizations; both for budget and eligibility.

IBAN's Position

The wording that NATO IS “buys [...] on behalf of both NFO and MSIAC whilst charging the costs to their approved budgets” and “issues [...] purchase orders that are clearly linked to the NATO FORACS or MSIAC budget” aligns with the IBAN position presented in paragraph 3.23. In this particular paragraph, we stated that the IS appears to be acting as a budget holder that executes the NFO budget and the NATO MSIAC budget in its own name without a mechanism to get reimbursed for, or to recover, all the expenses that the IS incurs in its own name while providing administrative support to the executive branches of NATO FORACS (i.e. NATO FORACS Office) and MSIAC.

IBAN therefore maintains its recommendation to clarify the role of the IS, as the existent agreements require NATO IS to act as a service provider of administrative support against reimbursement, or recovery, of expenses incurred by the IS.

OBSERVATION 4:

INSTANCES OF NON-COMPLIANCE WITH THE NFRS WHEN PROCURING AIR TRANSPORTATION SERVICES

IS's Formal Comments

Recommendation a) and b): Not agreed.

Neither the NFR 25.1 nor any other NATO regulation prescribe any particular way in which Financial Controllers should express their concurrence. The NATO IS argues that, by establishing the internal control system as it has been described in FC(2024)0089, partially quoted by IBAN in the report, the IS Financial Controller did concur a priori with the certain type of commitments. The Financial Controller never recognised the commitments listed as "unauthorised" in terms of concurrence as they been within the limits of the system to secure, in efficient way, missions of key management personnel.

Additionally, the Financial Controller recognises their authority to accept deviations from internally issued instructions (NATO IS Procurement manual), particularly if the FC recognises that the circumstances are clear, justified and do not further "encourage such commitments being made by unauthorized personnel".

Recommendation c): Partially Agreed.

The IS partially disagrees with the recommendation, as it is based on IBAN statement that the operation has not been in line with NFR Article 32.1.

IBAN's Position

With regard to approval and control of commitments, and in accordance with our reasoning presented in paragraph 1.3 of this audit report, the provisions of the NFRs and the FRPs on prior-approval of commitments require a verification in order to ensure that each commitment is within the appropriations available for the purposes concerned in the approved budget, is in accordance with all relevant policies and regulations and is supported by complete and accurate justification. This verification should be performed before a commitment is entered into (i.e. a preventive control instead of a detective control), and the prior (or coincident) approval of the commitment concerned can only be granted by the Financial Controller or a Finance and Accounting Officer with delegated authority from the Financial Controller.

Based on the information made available to us in support of this waiver from standard procurement rules, a request for regularisation of an unauthorised commitment was requested and approved while the internal procedures for processing an unauthorised commitment were not followed. In order to maintain a complete audit trail and to ensure the highest standards of accountability, in cases when a deviation from the IS Procurement Manual are made, IBAN considers that such decisions should be documented.

**OBSERVATION 5:
IMPROVEMENTS NEEDED IN THE PRESENTATION AND DISCLOSURE OF
CASH BALANCES THAT ARE RESTRICTED FROM USE**

IS's Formal Comments

*Recommendation a): Agreed.
NATO IS agrees with recommendation a.*

Recommendation b): Not agreed.

NATO IS does not see any need for additional assessment as Nations receive true and complete information regarding availability of funds, cash holdings and expenses.

IBAN's Position

Regarding sub-recommendation b), IBAN considers that there is a need to assess if there are any discrepancies between the funds presented in the financial statements as available for use against a specific budget or activity, and the funds that are actually available for use; and correct for any discrepancies identified. IBAN has amended the observation and sub-recommendation accordingly.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(1) IS 2022 FY

IBA-AR(2023)0015, paragraph 1.8

NEED TO STRENGTHEN INTERNAL CONTROLS CONCERNING DUAL SIGNATURE OBLIGATION AND RIGHTS FOR BANK TRANSFERS*IS's Formal Comments**Not agreed.**The IS disagrees with the observation and recommendation.**NATO IS applies the principle of segregation of duties; the creation and dual signature of a payment file is duly separated.**Nevertheless, as per the recommendation, investigations are currently underway with Wells Fargo to enforce payment dual signatures by using an additional web banking module at a cost.**NATO IS has a modus operandi that is in line with the Financial Rules and Procedures (FRP XXXI (2)). This modus operandi is established considering NFR Article 4 whereby the financial administration ensures the most efficient, cost effective and economic use of resources.***IBAN's Position**

IBAN acknowledges that the principle of segregation of duties is respected by IS based on the procedure in place in 2023, which requires a dual signature through offline approval flows. However, these offline approval flows do not prevent one individual from making an online bank transfer, and as such do not mitigate the risk of unauthorised payments by one individual due to the absence of a requirement for dual signature in the online banking tool.

(2) IS 2021 FY

IBA-AR(2022)0034, paragraph 2.9

EMPLOYEE NOTE DISCLOSURE CANNOT BE RECONCILED TO INFORMATION PROVIDED BY HUMAN RESOURCES*IS's Formal Comments**Not agreed.**EM proposes to change the status of this recommendation to "In progress" as steps have been taken to respond to the recommendation.*

EM established Data Analytics Unit which can provide data related to the IS. Improvement has been observed and continued effort will be put in to further improve HR data reporting while implementing good business practices and system improvements.

EM will need to assess the current resource allocation to determine additional workforce and time required to support this.

IBAN's Position

IBAN acknowledges that actions were initiated in 2023 as described above. Based on this, we changed the status from 'Open' to 'In-Progress'.

(3) IS 2021 FY

IBA-AR(2022)0034, paragraph 3.9

STANDARDISATION OF THE OVERTIME PLANNING, RECORDING AND APPROVAL PROCESSES

IS's Formal Comments

Agreed.

EM HR assess the most efficient process for overtime management across the IS.

(4) IS 2019 FY

IBA-AR(2020)0013, paragraph 3

UNRECONCILED CASH AND CASH EQUIVALENTS

IS's Formal Comments

Agreed.

As part of the year end closing process, NATO IS reminds and instructs the divisions and NASOs to bring the petty cash balances of the NATO Satellite Offices to zero at year end.

The situation in Ukraine prevented staff to deposit the cash holdings in the bank account.

Additionally, the OFC envisages to update of the NASO handbook in line with good business practices and the specificities of the different NASOs.

GLOSSARY OF TERMS

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

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

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

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



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

Brussels - Belgium



NATO UNCLASSIFIED

IBA-A(2024)0093
27 August 2024

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

Cc: NATO Permanent Representatives
Assistant Secretary General, Executive Management Division
Financial Controller, International 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 NATO Defined Contribution Pension Scheme's (DCPS) Financial Statements for the year ended 31 December 2023 – IBA-AR(2024)0014***

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

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO DCPS 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
NATO Defined Contribution Pension Scheme (DCPS)
for the year ended 31 December 2023**

The International Board of Auditors for NATO (IBAN) audited the NATO Defined Contribution Pension Scheme (DCPS), which is a money purchase pension scheme that includes contributions from staff recruited on or after 1 July 2005, as well as employer contributions from NATO.

The value of the NATO DCPS's net assets available for benefits at 31 December 2023 was EUR 795 million (at the end of 2022, EUR 680 million). The DCPS had 5,894 affiliates at 31 December 2023 (at the end of 2022, 5,483 affiliates).

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

IBAN made no new observations and recommendations.

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

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

NATO UNCLASSIFIED

IBA-AR(2024)0014

27 August 2024

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE
NATO DEFINED CONTRIBUTION PENSION SCHEME (DCPS)
FOR THE YEAR ENDED 31 DECEMBER 2023**

PUBLICLY DISCLOSED - PDN(2025)0018 - MIS EN LECTURE PUBLIQUE

NATO UNCLASSIFIED

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

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of the NATO Defined Contribution Pension Scheme (DCPS), for the 12 month period ended 31 December 2023, issued under document reference FC(2024)0052, and submitted to IBAN on 28 March 2024. These Financial Statements comprise, the Statement of Net Assets Available for Benefits as at 31 December 2023, the Statement of Changes in Net Assets Available for Benefits for the period ended 31 December 2023 including a summary of significant accounting policies and other explanatory notes.

In our opinion, the Financial Statements give a true and fair view of the Statement of Net Assets Available for Benefits of the NATO Defined Contribution Pension Scheme as at 31 December 2023, and of its Statement of Changes in Net Assets Available for Benefits for the 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 the NATO Defined Contribution Pension Scheme (DCPS) 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 Secretary General 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, 27 August 2024



Radek Visinger
Chair

OBSERVATIONS AND RECOMMENDATIONS

IBAN made no observations and recommendations.

IBAN followed up on the status of one observation and recommendation from the previous years’ audits and found that it was closed.

FOLLOW-UP OF PREVIOUS YEARS’ OBSERVATIONS

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

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

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(1) DCPS FY 2022 IBA-AR(2023)0021, paragraph 6 IMPROVEMENT NEEDED IN THE INTERNAL CONTROL PROCESS FOR THE PREPARATION OF FINANCIAL STATEMENTS IBAN’s Recommendation IBAN recommends that the OFC strengthen internal controls over the preparation of the financial statements when converting foreign currency balances into Euro.	The IS Office of the Financial Controller (OFC) strengthened its internal controls over the preparation of the DCPS Financial Statements when converting foreign currency balances into Euro. We noted that all foreign currency balances were correctly revalued at 31 December 2023.	Observation Closed.

**NATO DEFINED CONTRIBUTION PENSION SCHEME (DCPS) FORMAL
COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL BOARD OF
AUDITORS (IBAN) POSITIONS**

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(1) DCPS 2022 FY

IBA-AR(2023)0021, paragraph 6

**IMPROVEMENT NEEDED IN THE INTERNAL CONTROL PROCESS FOR THE
PREPARATION OF FINANCIAL STATEMENTS**

IS's Formal Comments

Agreed.

No comments.

GLOSSARY OF TERMS

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

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

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

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



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

Brussels - Belgium



NATO UNCLASSIFIED

IBA-A(2024)0094
27 August 2024

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

Cc: NATO Permanent Representatives
Assistant Secretary General, Executive Management Division
Financial Controller, International 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 NATO Retirees Medical Claim Fund's (RMCF) Financial Statements for the year ended 31 December 2023 – IBA-AR(2024)0017***

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

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO Retirees Medical Claim Fund (RMCF) and on compliance for financial year 2023.

Yours sincerely,

Radek Visinger
Chair

Attachments: As stated above.

NATO UNCLASSIFIED

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**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Financial Statements of the
NATO Retirees Medical Claims Fund (RMCF)
for the year ended 31 December 2023**

The NATO Retirees Medical Claims Fund (RMCF) was set up with effect from 1 January 2001 pursuant to Council approval of PO(2000)123. The purpose was to establish a reserve to ensure that sufficient funds are available for the years to come to enable NATO to meet its obligations to pay the medical expenses of eligible retired staff members and their recognised dependants.

The fund has a Supervisory Committee established to oversee the management of the fund. The Committee meets at least twice a year.

In 2023, contributions from NATO Reporting Entities and staff were EUR 37 million. Insurance premiums paid out of these receipts were EUR 37 million in 2023. At the end of 2023, the fund manager held EUR 413 million on behalf of NATO (EUR 366 million at the end of 2022).

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

IBAN made no new observations and recommendations.

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

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

NATO UNCLASSIFIED

IBA-AR(2024)0017

27 August 2024

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE
NATO RETIREES MEDICAL CLAIMS FUND (RMCF)
FOR THE YEAR ENDED 31 DECEMBER 2023**

PUBLICLY DISCLOSED - PDN(2025)0018 - MIS EN LECTURE PUBLIQUE

NATO UNCLASSIFIED

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

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of NATO Retirees Medical Claims Fund (RMCF), for the 12 month period ended 31 December 2023, issued under document reference FC(2024)0053, and submitted to IBAN on 28 March 2024. These Financial Statements comprise the Statement of Net Assets Available for Benefits as at 31 December 2023, the Statement of Changes in Net Assets Available for Benefits for the period ended 31 December 2023 and the Explanatory Notes, including a summary of significant accounting policies.

In our opinion, the Financial Statements give a true and fair view of the Statement of Net Assets Available for Benefits of the NATO Retirees Medical Claims Fund as at 31 December 2023, and of its Statement of Changes in Net Assets Available for Benefits for the 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 NATO Retirees Medical Claims Fund 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 Secretary General 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, 27 August 2024



Radek Visinger
Chair

OBSERVATIONS AND RECOMMENDATIONS

IBAN made no observations and recommendations.

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

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

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

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

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

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(1) RMC FY 2020 IBA-AR(2021)0035, paragraph 1 DISCLOSURE OF PRIOR PERIOD ERRORS IN THE ESTIMATION OF THE POST-EMPLOYMENT MEDICAL SCHEME OBLIGATION IBAN's Recommendation IBAN recommends the IS to strengthen internal controls over the reporting of Post-Employment Obligations by establishing and documenting a procedure which: a) Introduces specific internal controls over the completeness and accuracy of data provided to the ISRP for the annual actuarial report; b) Ensures the availability of a complete audit trail of all data received from NATO entities and sent to the ISRP as input for the	With regard to sub-recommendations a) and b), we found that the Human Resources Division is still working on a methodology to ensure the completeness and accuracy of the data provided by other NATO bodies on the	Observation In-Progress.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
preparation of the annual actuarial report; c) Strengthens existing internal controls over the financial reporting process in order to disclose key information included in the annual actuarial report prepared by the ISRP.	number of affiliates to the RMCF. This is in order to improve the quality of data provided to the International Service for Remunerations and Pensions (ISRP). To date, no formal information has been provided to IBAN or the Office of Financial Control on this matter. As a result, IBAN will review progress on the implementation of sub-recommendations a) and b) as part of its audit of the 2024 RMCF Financial Statements. In-progress. c) This sub-observation was closed in IBA-AR(2022)0025. Closed.	
(2) RMCF FY 2012 IBA-AR(2013)25, paragraph 5 RETIREES MEDICAL CLAIMS FUND (RMCF) NET ASSETS INADEQUATE TO FUND PROMISED FUTURE EXPECTED BENEFITS IBAN's Recommendation The Board draws the attention of the Council that there are currently not sufficient funds available to enable NATO to meet its promised future obligations as was the intention of the plan, and recommends that, as was proposed in SG(2009)0302, on the basis of the results of the asset and liability study presented in the December 2012 Supervisory Committee and the related final report issued dated 30 April 2013, that the IS provides an estimate of the minimum financial injection necessary to make the RMCF sustainable. The Board recommends also that the IS provides all necessary information and any remedial actions undertaken to limit the level of obligations. This should be presented to the nations as soon as possible in order to allow for appropriate remedial actions, where still feasible, to be	In response to a request to perform an update of the RMCF Asset and Liability Management study ('Estimated future expenses versus income and Investment Return'), the International Service for Remunerations and Pensions (ISRP) delivered a report with the result of its study to the RMCF Supervisory Committee in December 2022 (Ref. RMCF-N(2022)0006). Based on the ISRP report, the RMCF Supervisory Committee is in the process of investigating different options to further limit the level of obligations and to ensure the availability of sufficient funding.	Observation Closed.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
made.	In addition to that, and in the context of the modernisation of the medical plan that came into effect on 1 January 2023, the NATO Joint Consultative Board (JCB) continues to monitor the evolution of the fund and potential remedial actions that would need to be implemented. from 1 January 2023 onwards. As a result, based on the actions taken in 2023 and in previous years, sufficient information has been presented and remedial actions have been undertaken to limit the level of obligations. Closed.	

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IBA-AR(2024)0017

NATO RETIREES MEDICAL CLAIMS FUND (RMCF) FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(1) RMCF 2020 FY

IBA-AR(2021)0035, paragraph 1

DISCLOSURE OF PRIOR PERIOD ERRORS IN THE ESTIMATION OF THE POST-EMPLOYMENT MEDICAL SCHEME OBLIGATION

IS's Formal Comments

Agreed.

EM continues to improve its processes and systems to increase data quality, including through its Data Analytics Team.

To note: data integrity entered into the PMIS is under the responsibility of HR offices in NATO bodies. While IS can access and extract the information from PMIS, there is no background data nor resources available to scrutinize the local situation which is under the authority of each Head of NATO body and specific payroll center. Each payroll center closely administers individual data.

(2) RMCF 2012 FY

IBA-AR(2013)25, paragraph 5

RETIREES MEDICAL CLAIMS FUND (RMCF) NET ASSETS INADEQUATE TO FUND PROMISED FUTURE EXPECTED BENEFITS

IS's Formal Comments

Not agreed.

The Organization has implemented remedial actions (cost containment in medical reimbursement as of 1 Jan 2016), has increased the number of contributors (change in the NCPR, approved by the NAC, as of 1 Aug 2016), has monitored the evolution of the fund via an update of the ISRP study. The JCB, in the context of the Modernization of the medical plan (in effect since 1 Jan 2023), continues to monitor the evolution of the fund and potential remedial actions that would need to be implemented.

Therefore, it is recommended to close this observation.

IBAN's Position

IBAN acknowledges that the RMCF Supervisory Committee is in the process of investigating different options to further limit the level of obligations and to

ensure the availability of sufficient funding. Also, based on the actions taken in 2023 and in previous years, sufficient information has been presented and remedial actions have been undertaken to limit the level of obligations. IBAN therefore closed this observation based on additional information provided by IS in response to the draft Audit Report.

GLOSSARY OF TERMS

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

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

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

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



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

Brussels - Belgium



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IBA-A(2024)0099
29 August 2024

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

Cc: NATO Permanent Representatives
Chair, MSIAC Steering Committee
Project Manager, MSIAC
Financial Controller, International 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 Munitions Safety Information Analysis Center's (MSIAC) Financial Statements for the year ended 31 December 2023 – IBA-AR(2024)0011***

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 MSIAC 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
NATO Munitions Safety Information Analysis Center (NATO MSIAC)
for the year ended 31 December 2023**

The Munitions Safety Information Analysis Center (MSIAC) provides a focal point within NATO to assist national and NATO munitions development programmes. The MSIAC project is directed and administered by a Steering Committee and a Project Manager. Budget authorisations for the year 2023 (including amounts brought forward) amounted to EUR 2 million, while budget expenditure amounted to EUR 1.7 million.

IBAN made one observation and recommendation. This observation does not impact the audit opinion on the Financial Statements and on compliance:

1. Need for clarifications on the content and presentation of the NATO MSIAC Financial Statements.

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

NATO UNCLASSIFIED

IBA-AR(2024)0011

29 August 2024

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE
NATO MUNITIONS SAFETY INFORMATION ANALYSIS CENTER**

(NATO MSIAC)

FOR THE YEAR ENDED 31 DECEMBER 2023

PUBLICLY DISCLOSED - PDN(2025)0018 - MIS EN LECTURE PUBLIQUE

NATO UNCLASSIFIED

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

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of NATO MSIAC, for the 12 month period ended 31 December 2023, issued under document reference FC(2024)0050, and submitted to IBAN on 28 March 2023. 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 NATO MSIAC 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 NATO MSIAC 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 Project Manager 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 one observation and recommendation. This observation does not impact the audit opinion on the financial statements and on compliance:

1. Need for clarifications on the content and presentation of the NATO MSIAC Financial Statements.

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

1. NEED FOR CLARIFICATIONS ON THE CONTENT AND PRESENTATION OF THE NATO MSIAC FINANCIAL STATEMENTS

Reasoning

1.1 With regard to the follow-up of the in-progress audit observation and recommendation concerning 'Efforts to achieve compliance with the revised NATO Financial Regulations, particularly those articles on internal control, risk management and internal audit' (Ref. IBA-AR(2018)0001, paragraph 6), the NATO MSIAC considers this observation and recommendation to be fully closed at 31 December 2023 since the MSIAC participating nations agreed to accept the risks identified and not to implement IBAN's sub-recommendation (d) during the 38th MSIAC Steering Committee meeting held on 13 October 2023.

1.2 On 20 December 2023 (Ref. PO(2023)0472 (INV)), the RPPB noted that the above-mentioned observation and recommendation *"still remains in-progress and recalls the discussion in the RPPB on 17 November 2022 when the RPPB concluded the following: "taking into account that the NFRs requirements on internal audit are applicable for all NATO entities, the RPPB supports IBAN's recommendation that the MSIAC needs to comply with the NFRs Article 13 in relation to the internal audit and consequently recommend the MSIAC to continue with its efforts to achieve compliance with the NFRs" (reference H). As the MSIAC is not operating within the RPPB conclusions, the RPPB considers that the MSIAC should urgently apply remedial actions in order to implement this recommendation as soon as possible."*

1.3 On 12 January 2024, under the silence procedure, Council noted the RPPB report and the IBAN Audit Report attached to PO(2023)0472 (INV), and approved the conclusions in the RPPB report.

1.4 Although Council's decision opposes the decision made by the MSIAC Steering Committee, we noted that NATO MSIAC informed us that the in-progress audit observation and recommendation should be closed following the decision made by the MSIAC Steering Committee.

1.5 While updating its understanding of the legal and regulatory status of the MSIAC project operating under the NATO aegis, IBAN reviewed whether the NATO MSIAC as the executive branch of MSIAC is a NATO Reporting Entity operating under the juridical personality possessed by NATO by virtue of the Ottawa Agreement.

1.6 Historically, and to date, the NATO MSIAC as the executive branch of MSIAC at NATO Headquarters has been considered a NATO Reporting Entity since its NATO International Civilian posts are approved by Council as part of the 2023 Civil Budget submission under the category personnel establishments of “other NATO bodies”, its staff are employed by the International Staff under the NATO Civilian Personnel Regulations, and because the NATO MSIAC applies the NFRs. Therefore, IBAN audit reports on the NATO MSIAC Financial Statements are addressed to Council in accordance with the NATO Financial Regulations (NFRs) and its audit mandate.

1.7 According to Article 1 of the NFRs, *these Regulations shall govern the financial administration of all civilian and military headquarters and other organizations established pursuant to the North Atlantic Treaty (hereinafter referred to as “NATO bodies”)*. All NATO Reporting Entities therefore need to comply with the NFRs. Other financial regulations and rules, as defined and decided by the relevant governing body, may apply to entities and operations that do not fall within the scope of Article 1 of the NFRs.

1.8 The current Memorandum of Agreement between the MSIAC and NATO regarding the provision of administrative services and facilities in support of the operation of MSIAC at NATO Headquarters (hereafter: the MoA between MSIAC and NATO), states the following in this regard:

- *“MSIAC pays for the annual cost of Administrative Support Services rendered by the NATO International Staff, in accordance with the extant policy for the recovery of the costs of administrative support services from NATO Agencies”.*
- *“The system and procedures for Administrative Support Services provide for the recovery of personnel costs related to personnel recruitment, pay & allowances, privileges & immunities, HR records & information and special services) financial, linguistic, security and other administrative support services.”*
- *“The MSIAC MOU (formerly known as the NIMIC MOU, which became effective on 24 October 1990) gives the NATO IS Financial Controller authority to act on budgetary financial matters on behalf of Participating Nations. The MSIAC Steering Committee designates the individual having the authority to direct the NATO IS Financial Controller to make commitments and payments related to the authorised budget.”*

1.9 Article 1 of the Charter of the IBAN (Ref. C-M(2015)0012) defines the mandate of the IBAN as follows:

“The NATO bodies, as defined below and the NATO Security Investment Programme (NSIP) shall be audited on behalf of the North Atlantic Council (hereinafter referred to as the Council) and in accordance with Council Decisions by the International Board of Auditors (hereinafter referred to as the Board). The Council, in consultation with the Board as appropriate, may authorise the Board to audit other multi-national entities or operations in which NATO has a particular interest. The Board shall also audit non-appropriated funds.”

1.10 In accordance with Article 1 of its Charter, the IBAN mandate is to audit NATO Bodies on behalf of the North Atlantic Council (Council) and other NATO Reporting Entities in accordance with Council decisions. For the purposes of this audit mandate, the terms:

- *NATO Body denotes civilian or military headquarters and other organisations established pursuant to the North Atlantic Treaty, subject to the provisions of either the 1951 Ottawa Agreement or the 1952 Paris Protocol.*
- *NATO Reporting Entity refers to a NATO body or an identifiable budget or area of activity that prepares financial statements. A NATO Reporting Entity may comprise one or more NATO civilian and military bodies, entities, budgets, or activities.*

1.11 Article 15 of the NFRs states the following with regard to IBAN audit reports:

- *Article 15.1 – “The IBAN shall include in the audit report the response from management of the NATO body, normally endorsed by the relevant governing body, to the comments and observations in the audit findings, assuming that management has provided factual and formal comments to the IBAN’s draft report within the deadline set by the IBAN in their letter of engagement.”;*
- *Article 15.2 – “The IBAN shall present its final reports, including factual and formal comments, together with the audited Financial Statement, to the Council not later than 31 August, following the end of the Financial Year. The IBAN final report shall also be copied to the relevant governing body. Council shall refer the final audit report to the RPPB for examination, comments and recommendations. The RPPB shall then consult with stakeholders as appropriate and submit advice to Council consistent with the timelines set out in article 35”.*

1.12 The key differences between IBAN’s audits of NATO Reporting Entities (including NATO bodies) and other multi-national entities or operations in which NATO has a particular interest are the following:

- The audit mandate for NATO Reporting Entities follows from the IBAN Charter approved by Council, while Council need to approve a separate individual audit mandate for other multi-national entities and operations;

- The audit reports for NATO Reporting Entities are addressed to Council in accordance with Article 15 of the NFRs, while audit reports for multi-national entities and operations are addressed to the governing body of these multi-national entities and operations;
- The audit costs of NATO Reporting Entities are funded through the civil budget of NATO IS, while costs related to audits of multi-national entities and operations are charged to the multi-national entities and operations on a cost-reimbursable basis in line with Council decision, unless otherwise agreed by Council.

1.13 The criteria for the attribution of the qualification 'NATO Project' are laid down in the document with reference C-M(66)33(2nd revise). These criteria, among other things, require *"the participation of two or more NATO Countries in the co-operative project"* and that it is *"politically desirable that such co-operation should take place in NATO or under the NATO aegis"*.

1.14 With regard to responsibility and accountability, Article 3.2 of the NFRs states that Financial Statements and Statements of Internal Control should both be signed by the Head of the NATO body and the Financial Controller. The responsibilities of the Financial Controller are set out in Article 6 of the NFRs.

Observations

Legal status of the MSIAC and the NATO MSIAC

1.15 The Munitions Safety Information Analysis Center (MSIAC) is a NATO project operating under the NATO aegis, which was initially established in 1991 as the NATO Insensitive Munitions Information Center (NIMIC) through a Memorandum of Understanding. In 2005, NIMIC was re-established as the MSIAC with an expansion of scope to consider other aspects of munitions safety. The executive branch of this NATO project is the NATO MSIAC, and is located at NATO Headquarters.

1.16 On 12 October 1990, the Conference of National Armaments Directors agreed to the establishment of NATO Steering Committee on NIMIC (Ref. AC/259-D/1398). In particular, and among other things, the North Atlantic Council invited the National Armaments Directors to agree on the following:

- *"note the submission of NIMIC as a NATO Project"; and "agree that this Project meets the criteria laid down in C-M(66)33(2nd revise) for the attribution of the qualification "NATO Project"";*
- *"agree to the establishment of a NATO Steering Committee on the NIMIC which will submit annual progress reports to the CNAD";*

- *"note that participating nations recognize that the attribution of the qualification "NATO Project" is granted to this Steering Committee for the implementation of the programme as defined in its MOU";*
- *"note that the participating countries recognize that NATO and the other member countries not participating in this Project have no financial or other liabilities for the execution of this programme";*

1.17 The document with reference 'AC/259-D/1398' also further states that *"Detailed discussions were held with the Office of Management NATO Headquarters, confirming the status of and availability of accommodation, facilities, and administration support, for the proposed NIMIC".*

1.18 The Memorandum of Understanding between all participating Nations concerning a cooperative project for the establishment, operation, management and support of the NIMIC (hereafter: MoU) states the following:

- *"NIMIC will be located in Brussels, Belgium, at NATO Headquarters and will continue in operation until dissolved in accordance with Section XVI (Withdrawal and Termination).";*
- *"The NIMIC Project will consist of a Steering Committee (SC) and a Center (referred to as NIMIC) comprising a Project Manager (PM) and his staff. The NIMIC Project will be directed and administered by the SC and PM."*
- *"In accordance with specific arrangements agreed with NATO, NATO will provide the office accommodations and equipment, and administrative, financial and personnel services necessary to carry out the provisions of this MOU.";*
- *"NIMIC personnel will be employed by NATO and will have status under the terms of the Agreement on the Status of the North Atlantic Treaty Organization, National Representatives and International Staff, signed in Ottawa on 20 September 1951."*
- *"The NATO Financial Controller will perform the appropriate accounting services for the NIMIC Project and the NATO Board of Auditors will perform the appropriate auditing service. Accounts will be managed in accordance with the NATO Financial Regulations, Part III."*

1.19 Based on the above, we found that the NIMIC project, as the predecessor of MSIAC project, and its executive branch at NATO Headquarters does not appear to have been established as a NATO body pursuant to the North Atlantic Treaty by the North Atlantic Council, subject to the provisions of the 1951 Ottawa Agreement. Therefore, the MSIAC project and its executive branch at NATO Headquarters do not share in the international personality of NATO, or operate under the juridical personality possessed by NATO by virtue of Article IV of the Ottawa Agreement.

Presentation of the NATO MSIAC Financial Statements

1.20 While the MoU states that IBAN will perform the appropriate auditing services in relation to MSIAC, there is currently uncertainty about whether the NATO MSIAC Financial Statements, audited by IBAN, solely present the activities carried out by staff members from the International Staff in relation to providing administrative support to the NATO MSIAC (i.e. activities of a NATO Body in accordance with IBAN's audit mandate), or present the activities of the executive branch of the NATO MSIAC project (i.e. the executive branch of a NATO project that does not appear to meet the definition of a NATO body in accordance with IBAN's audit mandate).

1.21 Firstly, from the perspective of compliance with applicable rules and regulations, clarification is needed on whether the NATO MSIAC Financial Statements report on the activities of a NATO body or of a NATO project in order to:

- Ensure that the right officers are responsible for signing the NATO MSIAC Financial Statements and the Statement of Internal Control (i.e. the Secretary General as the Head of International Staff in case of the International Staff, or the Project Manager as the Head of the executive branch of the MSIAC project);
- Address the IBAN audit report to the right governing body (i.e. Council in case of a NATO body in accordance with Article 15 of the NFRs, or the Steering Committee of the MSIAC project) and in accordance with the agreed reporting deadline (i.e. 31 August in case of a NATO body, or a deadline jointly agreed with MSIAC);
- Ensure that the IBAN audit costs are funded through the right funding source (i.e. through the civil budget in case of a NATO body, or through the budget of MSIAC on a cost-reimbursable basis unless otherwise agreed by Council).

1.22 The importance of clarifying who is the right governing body to which the audit report should be addressed also became apparent when we followed up on the in-progress audit observation and recommendation on 'Efforts to achieve compliance with the revised NATO Financial Regulations, particularly those articles on internal control, risk management and internal audit' (Ref. IBA-AR(2018)0001, paragraph 6). The NATO MSIAC considers this observation and recommendation to be fully closed at 31 December 2023 since the MSIAC participating nations agreed to accept the risks identified and not to implement IBAN's sub-recommendation (d) during the 38th MSIAC Steering Committee meeting held on 13 October 2023. Contrary to NATO MSIAC, we consider this observation in-progress, as we currently consider that the decision not to implement an IBAN audit recommendation for NATO MSIAC can only be made by Council since IBAN audit reports on the NATO MSIAC Financial Statements are addressed to Council.

1.23 Secondly, from the perspective of financial reporting and compliance with the NATO Accounting Framework, clarification is needed on whether the NATO MSIAC

Financial Statements report on the activities of a NATO body or the executive branch of a NATO project since the current presentation of these financial statements present a mix of both activities.

1.24 With regard to the presentation of the NATO MSIAC Financial Statements, we note that the following disclosures are rather associated with the presentation of the activities carried out by the International Staff as a NATO body:

- Cash and Cash equivalents - Cash and cash equivalents are held on separate bank accounts controlled by the IS Office of Financial Control. The Financial Controller of the International Staff receives and makes payments for MSIAC based on the instructions from the Project Manager of the NATO MSIAC. In doing so, these MSIAC funds are held on separate bank accounts opened in the name of the International Staff that can only be accessed by staff from the International Staff's Office of Financial Control.
- Personnel expenses - The NATO International Civilian posts of the NATO MSIAC staff are approved by Council as part of the 2023 Civil Budget submission, and are approved as personnel establishments of other NATO bodies, which are financed by those participating in these activities. Their employment contracts are signed by delegates of the Secretary General as the Head of the International Staff. Therefore, the personnel costs incurred in relation to these staff are initially incurred in the name of the International Staff and should be recovered from MSIAC afterwards.
- Expenses for contractual supplies and services - The International Staff performs procurement activities in its own name on behalf of MSIAC based on instructions from the Project Manager of NATO MSIAC. Commitments are entered into in the name of International Staff with non-appropriated funds held on behalf of MSIAC. As a result, any liabilities resulting from these commitments will exist in the name of International Staff, as all agreements and purchase orders are made in the name of the International Staff. Therefore, the costs incurred in relation to these supplies and services are initially incurred in the name of the International Staff and should be recovered from MSIAC afterwards.
- The cash and cash equivalents, personnel expenses and expenses for contractual supplies and services are solely reported in the NATO MSIAC Financial Statements and are excluded from the International Staff's Financial Statements.

1.25 With regard to the presentation of the NATO MSIAC Financial Statements, we note that the following disclosures are rather associated with the presentation of the activities of the executive branch of the MSIAC project:

- Signature of Financial Statements and Statement of Internal Control - Signed by the Project Manager of the NATO MSIAC as the head of the executive

branch of the MSIAC project instead of the Secretary General as the Head of the International Staff.

- Budget Execution Statement - Reports on the execution of a budget approved by the Steering Committee of the MSIAC project instead of the civil budget of International Staff approved by the Budget Committee, and reports on commitments entered into with these appropriations for the activities of a NATO project instead of the activities of the International Staff.

1.26 In practice, we also noted that most of the MSIAC activities are directly paid for with MSIAC funds called, and held on a separate bank account, by the International Staff. Therefore, a mechanism of recovery from MSIAC for costs initially incurred by the International Staff, as initially envisaged in the MoA between MSIAC and NATO, does not currently exist for most of the administrative support activities performed by the International Staff on behalf of NATO MSIAC.

IBAN Mandate for the audit of the NATO MSIAC NATO Reporting Entity

1.27 We found that the NATO MSIAC, as the executive branch of MSIAC at NATO Headquarters, does not appear to fully meet the definition of a 'NATO body' in accordance with Article 1 of the NFRs and Article 1 of the Charter of the International Board of Auditors for NATO (Ref. C-M(2015)0012).

1.28 As stated above, the NATO MSIAC has been considered a NATO Reporting Entity since its NATO International Civilian posts are approved by Council as part of the 2023 Civil Budget submission under the category personnel establishments of "other NATO bodies", its staff are employed by the International Staff under the NATO Civilian Personnel Regulations, and because the NATO MSIAC applies the NFRs. In this regard, the Office of the IS Legal Advisor previously clarified to IBAN that the *"MSIAC office and [...] are NATO Reporting Entities only in respect of activities carried out by IS Staff in relation to MSIAC and [...]."*

1.29 This reasoning follows from the fact that Council agreed to establish NATO International Civilian posts to staff the NATO MSIAC for which the personnel is employed by the International Staff, and to let the International Staff provide administrative support to the NATO MSIAC against reimbursement. Therefore, all activities performed by staff members from the International Staff in relation to NATO MSIAC are considered to be activities of the International Staff as a NATO body that are separately reported in the NATO MSIAC Financial Statements.

Conclusion

1.30 Based on the above, we found that uncertainty currently exists about whether the NATO MSIAC Financial Statements solely present the activities carried out by staff members from the International Staff in relation to the executive branch of the MSIAC project at NATO Headquarters (i.e. activities of a NATO Body in accordance with IBAN's audit mandate), or present the activities of the executive branch of the MSIAC

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project at NATO Headquarters (i.e. the executive branch of a NATO project that does not appear to meet the definition of a NATO body in accordance with IBAN's audit mandate and is not subject to the NFRs). In the absence of clarity on this matter, it is unclear how the International Staff, the NATO MSIAC and IBAN should implement and assess full adherence with the NFRs and the NATO Accounting Framework.

Recommendations

1.31 IBAN recommends that Council task the appropriate governing body to clarify, in consultation with the Steering Committee of MSIAC, whether the NATO MSIAC Financial Statements should solely present the activities carried out by staff members from the International Staff in relation to the executive branch of the non-NATO multinational MSIAC at NATO Headquarters (i.e. activities of a NATO Body in accordance with IBAN's audit mandate), or present the activities of the executive branch of the MSIAC project (i.e. the executive branch of a NATO project that does not appear to meet the definition of a NATO body in accordance with IBAN's audit mandate and is not subject to the NFRs).

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

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

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

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(1) MSIAC FY 2015 IBA-AR(2018)0001, paragraph 6 EFFORTS TO ACHIEVE COMPLIANCE WITH THE REVISED NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT IBAN's Recommendation IBAN recommends that MSIAC:		Observation In-Progress.

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OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
a) Issues a risk management policy and that risk registers are developed and employed. b) As required by FRP XII 3) (e), chooses a specific internal control framework that it will use to assess its system of internal control. The assessment is required by Article 12 of the NFRs. Since other NATO entities, including ACT and NAPMA, have already adopted COSO as their internal control framework, and it is a framework that can be used by entities of all sizes, MSIAC should consider adopting COSO as their internal control framework. c) In coordination with the International Staff where applicable, begins the work of assessing and documenting the system of internal control and risk management procedures to support compliance with NFR Articles 11 and 12, FRPs XI and XII, and the internal control framework that it chooses. d) Through outsourcing if considered to be more cost effective, ensure internal audit activities are evaluating MSIAC risk management and internal control.	a) This sub-recommendation was closed in IBA-AR(2023)00. b) This sub-recommendation was closed in IBA-AR(2021)0025. c) This sub-recommendation was closed in IBA-AR(2022)0008. d) During the 38th MSIAC Steering Committee meeting held in October 2023, the MSIAC participating Nations agreed not to implement this sub-recommendation, as the participating Nations do not want to make more funding available for additional audit activities. In the past, the MSIAC Project Manager has engaged with the Head of NATO's Office of Internal Audit and Risk Management (OIARM) regarding an independent assessment of the COSO Internal Control framework adopted by MSIAC. As the OIARM's Audit Plan is determined on a risk-	

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
	based methodology, MSIAC will be included at an appropriate time. IBAN will reassess the progress made by MSIAC as part of the audit of the 2024 NATO MSIAC Financial Statements. In-progress.	

MUNITIONS SAFETY INFORMATION ANALYSIS CENTER (MSIAC) FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS**OBSERVATION 1:
NEED FOR CLARIFICATIONS ON THE CONTENT AND PRESENTATION OF THE NATO MSIAC FINANCIAL STATEMENTS*****MSIAC's Formal Comments***

Not agreed.

MSIAC notes the IBAN observation.

MSIAC considers there is no need for further clarifications on the content and presentation of the NATO MSIAC financial statements.

MSIAC has been operating within NATO under the MOU concerning the provisions of common Human Resource services and the Service Level Agreements (SLA's) that address NATO provided facilities, HR and financial services, audits to be conducted by NATO's board of Auditors, and security, as a "NATO Project" under the Conference of National Armaments Directors (CNAD). The MSIAC believes that the establishing documents provide clear definitions germane to roles, responsibilities and NATO oversight of MSIAC activities and their status of NATO Reporting Entity. This understanding has been confirmed during more than 30 years of MSIAC operations, also through the IBAN regular audits and recommendations.

IBAN's Position

IBAN considers that no further changes are needed based on MSIAC's formal comments, and IBAN maintains its position presented in observation 1 above.

Regarding IBAN's reference to NATO MSIAC as a non-NATO body, we are no longer referring to MSIAC as a 'non-NATO multinational entity' but have replaced these references by 'NATO project'. This in order to avoid any doubt on the status of MSIAC as a NATO project, as confirmed by the Conference of National Armament Directors on 12 October 1990 (Ref. AC/259-D/1398).

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(1) MSIAC 2015 FY

IBA-AR(2018)0001, paragraph 6

EFFORTS TO ACHIEVE COMPLIANCE WITH THE REVISED NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT

MSIAC's Formal Comments

Recommendation d): Not agreed.

As the IBAN does not consider the recommendation closed, the MSIAC PM will approach the Steering Committee once again to present the identified actions, in response to this finding, for consideration/approval at the October 2024 meeting.

IBAN's Position

We note that, despite the actions taken by the MSIAC Steering Committee, no internal audit activities have been performed to date that evaluate MSIAC's risk management and internal control. Therefore, we consider this sub-recommendation to be in-progress.

GLOSSARY OF TERMS

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

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

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

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



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

Brussels - Belgium



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IBA-A(2024)0092
27 August 2024

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

Cc: NATO Permanent Representatives
Assistant Secretary General, Executive Management Division
Financial Controller, International 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 NATO Coordinated Pension Scheme's (DBPS) Financial Statements for the year ended 31 December 2023 – IBA-AR(2024)0012***

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

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO Coordinated Pension Scheme 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
NATO Coordinated Pension Scheme (DBPS)
for the year ended 31 December 2023**

The NATO Coordinated Pension Scheme is an unfunded, defined benefit plan and applies to all NATO Staff recruited between 1 July 1974 and 30 June 2005. This Scheme is often referred to as the NATO Defined Benefit Pension Scheme (DBPS). Staff members recruited after 1 July 2005 are members of the Defined Contribution Pension Scheme (DCPS).

The NATO Member states jointly guarantee the payment of benefits. The total net decrease in net assets under the Pension Scheme for 2023 amounted to EUR 1.7 million (EUR 10.3 million for 2022).

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

IBAN made one observation and recommendation. This observation does not impact the audit opinion on the Financial Statements and on compliance:

1. Improvements needed in the presentation and disclosure of cash balances that are restricted from use.

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

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

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27 August 2024

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE
NATO COORDINATED PENSION SCHEME (DBPS)
FOR THE YEAR ENDED 31 DECEMBER 2023**

PUBLICLY DISCLOSED - PDN(2025)0018 - MIS EN LECTURE PUBLIQUE

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

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of NATO Coordinated Pension Scheme, for the 12 month period ended 31 December 2023, issued under document reference FC(2024)0051, and submitted to IBAN on 31 March 2024. These Financial Statements comprise the Statement of Net Assets Available for Benefits as at 31 December 2023, the Statement of Changes in Net Assets Available for Benefits for the period ended 31 December 2023 and the Explanatory Notes, including a summary of significant accounting policies.

In our opinion, the Financial Statements give a true and fair view of the Statement of Net Assets Available for Benefits of the NATO Coordinated Pension Scheme as at 31 December 2023, and of its Statement of Changes in Net Assets Available for Benefits for the 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 NATO Coordinated Pension Scheme 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 Secretary General 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, 27 August 2024



Radek Visinger
Chair

OBSERVATIONS AND RECOMMENDATIONS

IBAN made one observation and recommendation. This observation does not impact the audit opinion on the financial statements and on compliance:

1. Improvements needed in the presentation and disclosure of cash balances that are restricted from use.

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

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

1. IMPROVEMENTS NEEDED IN THE PRESENTATION AND DISCLOSURE OF CASH BALANCES THAT ARE RESTRICTED FROM USE

Reasoning

1.1 The NATO Accounting Framework (NAF), International Public Sector Accounting Standards (IPSAS) 2 – Cash Flow Statements defines cash as *“cash on hand and demand deposits”* while cash equivalents are defined as *“...short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.”*

1.2 IPSAS 2 describes the purpose of cash and cash equivalents as they appear on the Statement of Financial Position stating that *“cash and cash equivalents are held for the purpose of meeting short term cash commitments rather than for investment or other purposes.”*

1.3 IPSAS 1 on the ‘Presentation of Financial Statements’ provides the following guidance on the classification of current and non-current assets:

“An asset shall be classified as current when it satisfies any of the following criteria: [...] (d) It is cash or a cash equivalent (as defined in IPSAS 2), unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date. All other assets shall be classified as non-current”.

1.4 IPSAS 2 on ‘Cash Flow’ offers the following guidance on the disclosure of cash balances which are restricted from use:

“An entity should disclose, together with a commentary by management in the notes to the financial statements, the amount of significant cash and cash

equivalent balances held by the entity that are not available for use by the economic entity”.

1.5 IPSAS 2 provides further guidance on the reason for disclosing such information as well as examples of possible balances to be disclosed:

“Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a description in the notes to the financial statements, is encouraged, and may include: [...] (c) The amount and nature of restricted cash balances.”

Observations

1.6 During the 2023 bank confirmation process, IBAN received a bank confirmation that included bank accounts along with their associated balances for which the bank concerned did not provide IBAN with confirmation of who are the IS authorised signatories for these accounts. The balance of one of these bank accounts, which amounts to EUR 13,813 in total, is presented as a cash and cash equivalent in the DBPS Financial Statements at 31 December 2023.

1.7 Through discussions held in combination with the NATO IS Office of Financial Control and the Office of Legal Affairs (OLA), IBAN was made aware that currently, the NATO IS is not authorised to make transactions to, or from, this bank account, nor is it authorised to close it. As a result, the NATO IS has no access to these funds and they are considered restricted balances.

1.8 According to the OLA, *“In 2013, these funds were restricted from use as the result of judicial proceedings in Belgium stemming from a dispute about the performance of a 1999 contract between the Kosovo Force (KFOR) and a private company to rent premises for housing and related services for KFOR troops in Pristina. The use of these funds was restricted in order to ensure their availability to pay legal fees incurred by the bank in the event that they become due at some point in the future. Payment is only due if the bank (and Host Nation Belgium)’s legal actions in support of NATO were to be dismissed.”* The OLA also added that *“NATO as such is not a party to the proceedings, which were initiated by Belgium at the request of NATO and to which the bank has associated itself.”*

1.9 As of 31 December 2023, the restricted cash balance has been presented as a current asset within the Cash and Cash Equivalents total on the Statement of Net Assets Available for Benefits of the DBPS in the amount of EUR 13,813. Given that this grievance dates back to 1999, and remains open to date, it would seem reasonable to conclude that it is unlikely these funds will be used within the next 12 months. As such, they do not represent liquid cash on hand nor are they held with the expectation of settling short term cash commitments. Therefore, in accordance with the guidance presented above from IPSAS 1, these restricted cash balances do not meet the definition of a current asset. As a result, the balance should be presented on the Statement of Net Assets Available for Benefits as a non-current asset.

1.10 As outlined in IPSAS 2 above, restricted funds that are not readily available for use should be disclosed as such in order to provide the users of the financial statements with sufficient information to understand the financial position and liquidity of the entity. Currently, no such disclosure exists in the DBPS Financial Statements.

1.11 From FC(2013)263, we understand that the International Staff's Financial Controller agreed to make these funds available to the bank to cover any legal fees incurred by the bank in relation to the ongoing legal proceedings, and to make additional payments in case these funds are found to be insufficient to cover the actual legal fees incurred by the bank. It is unclear how this transaction was accounted for, and whether an expenditure was incurred, in the year these funds were initially frozen in order to use these funds for the payment of legal fees incurred by the bank in relation to ongoing legal proceedings.

1.12 As it is uncertain whether an expenditure has already been incurred in relation to these legal fees in the year that these DBPS funds were initially frozen, there might currently be a discrepancy between what is presented in the financial statements as available for use against future DBPS liabilities, and what is actually available for use.

Recommendations

1.13 IBAN recommends that the DBPS:

- a) Reclassify the amount of restricted cash currently presented as a current asset to non-current assets on the statement of Financial Position for the DBPS, and disclose the amount and nature of the restricted cash in the notes to the Statement of Net Assets Available for Benefits;
- b) Assess if there are any discrepancies between the funds presented in the financial statements as available for use against future DBPS liabilities, and the funds that are actually available for use; and correct for any discrepancies identified.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

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

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

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(1) DBPS FY 2021 IBA-A(2022)0023, paragraph 2 NEED TO STRENGTHEN INTERNAL CONTROLS OVER RECORD KEEPING OF PENSIONERS FILES IBAN's Recommendation IBAN recommends that the International Staff Pensions Unit strengthen internal controls over record keeping of pensioners' files. This can be achieved by maintaining an adequate audit trail ensuring that these files are complete, filed centrally and available on request in a timely manner.	The International Staff Pensions Unit maintained an adequate audit trail of DBPS pensioners' annual questionnaires files. Closed.	Observation Closed.
(2) DBPS FY 2021 IBA-A(2022)0023, paragraph 3 IMPROVEMENTS NEEDED IN THE DISCLOSURE OF THE NUMBER OF BENEFICIARIES IBAN's Recommendation IBAN recommends that the International Staff Pensions Unit in cooperation with the Office of Financial Control: a) Improve the effectiveness of internal controls over the preparation of financial statements, in order to avoid errors in the financial statements and its notes related to number of DBPS beneficiaries. This can be achieved by developing a quality control checklist to document the reconciliation	a) The International Staff Pensions Unit provided a reconciliation between the number of DBPS beneficiaries in the financial statements and the underlying database of pensioners. Closed.	Observation In-progress.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
exercise between the number of DBPS beneficiaries in the financial statements and the underlying database of pensioners by the Human Resources Division. b) Provide, in a timely manner, the breakdown of affiliate data by NATO entity to support financial statements disclosure.	b) A breakdown of affiliate data by NATO entity to support financial statements disclosure was not provided. Open.	
(3) DBPS FY 2019 IBA-A(2021)0036, paragraph 1 IMPROVEMENTS REQUIRED IN THE MONITORING, PRESENTATION AND DISCLOSURE OF OVERDUE ACCOUNTS RECEIVABLE AND PAYABLE IBAN's Recommendation IBAN recommends that the Office of the Financial Controller: a) Disclose the amount of overdue accounts receivable and payable in the notes to the financial statements for the amounts that are more than 1 year, more than 2 years and more than 5 years old. This will improve the fair disclosure of overdue accounts receivable and payable for the user of the Coordinated Pension Scheme's Financial Statements. b) Finalise the detailed analysis of the overdue accounts receivable and payable, jointly with the NATO Office of the Legal Advisor and determine the necessary actions to be taken.	a) No disclosure of overdue accounts receivables and payables were made in the notes to the DBPS Financial Statements. Open. b) The Office of the Financial Controller prepared an Action Memo providing a preliminary analysis of the overdue accounts, which has not been implemented prior to the issuance of the 2023 DBPS Financial Statements. As a result, IBAN will review progress on the implementation of this sub-recommendation as part of its audit of next year's DBPS Financial Statements. In-progress	Observation In-progress.

NATO COORDINATED PENSION SCHEME (DBPS) FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

**OBSERVATION 1:
IMPROVEMENTS NEEDED IN THE PRESENTATION AND DISCLOSURE OF CASH BALANCES THAT ARE RESTRICTED FROM USE**

IS's Formal Comments

Recommendation a): Agreed.

NATO IS agrees with recommendation a).

Recommendation b): Not agreed.

NATO IS does not see any need for additional assessment as Nations receive true and complete information regarding availability of funds, cash holdings and expenses.

IBAN's Position

Regarding sub-recommendation b), IBAN considers that there is a need to assess if there are any discrepancies between the funds presented in the financial statements as available for use against future DBPS liabilities, and the funds that are actually available for use; and correct for any discrepancies identified. IBAN has amended the observation and sub-recommendation accordingly.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(1) DBPS 2021 FY

IBA-A(2022)0023, paragraph 2

NEED TO STRENGTHEN INTERNAL CONTROLS OVER RECORD KEEPING OF PENSIONERS FILES

IS's Formal Comments

Agreed.

None.

(2) DBPS 2021 FY

IBA-A(2022)0023, paragraph 3

IMPROVEMENTS NEEDED IN THE DISCLOSURE OF THE NUMBER OF BENEFICIARIES

IS's Formal Comments

Agreed.

EM continues to improve its processes and systems to increase data quality, including through its Data Analytics Team.

To note: data integrity entered into the PMIS is under the responsibility of HR offices in NATO bodies. While IS can access and extract the information from PMIS, there is no background data nor resources available to scrutinize the local situation which is under the authority of each Head of NATO body and specific payroll centre. Each payroll centre closely administers individual data Data Analytics is continuing the deployment of enhanced facilities to NATO bodies to allow self-checking of their data. As stated above, the authority and 'ownership' of data rests with local NATO body.

(3) DBPS 2019 FY

IBA-A(2021)0036, paragraph 1

IMPROVEMENTS REQUIRED IN THE MONITORING, PRESENTATION AND DISCLOSURE OF OVERDUE ACCOUNTS RECEIVABLE AND PAYABLE

IS's Formal Comments

Agreed.

EM recognizes the importance of improving transparency and accuracy of the financial statements through detailed disclosures of overdue accounts receivable and payable.

EM will need to assess the current resource allocation to determine additional workforce, tools and time required to address this.

GLOSSARY OF TERMS

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

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

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

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



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

Brussels - Belgium



NATO UNCLASSIFIED

IBA-A(2024)0100
29 August 2024

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

Cc: NATO Permanent Representatives
Chair, NATO FORACS Office Steering Committee
Project Manager and Technical Director, NATO FORACS Office
Financial Controller, International 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 NATO Naval Forces Sensor and Weapons Accuracy Check Sites Office's (NATO FORACS Office (NFO)) Financial Statements for the year ended 31 December 2023 – IBA-AR(2024)0019***

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 NFO 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
NATO Naval Forces Sensor and Weapons Accuracy Check Sites Office
(NATO FORACS Office (NFO))
for the year ended 31 December 2023**

The International Board of Auditors for NATO (IBAN) audited the NATO Naval Forces Sensors and Weapon Accuracy Check Sites Office (NATO FORACS) Financial Statements for the year ended 31 December 2023. The NATO Naval Forces Sensors and Weapon Accuracy Check Sites Office (NATO FORACS) provide a comprehensive calibration of sensors associated with the weapon systems of NATO naval units such as surface ships, submarines and anti-submarines helicopters. These tests are conducted at three FORACS Ranges under the jurisdiction of Norway, Greece, and the United States of America.

The audit competence regarding the financial information related to the NATO FORACS Ranges (NATO FORACS Atlantic Undersea Test and Evaluation Center (AUTEC), NATO FORACS Greece (NFG) and NATO FORACS Norway (NFN)), falls under the responsibility of the competent national audit authorities.

The overall management of the project is under the responsibility of the FORACS Steering Committee. The NATO FORACS Office (NFO) is located at the NATO Headquarters in Brussels and serves as the executive staff of the Steering Committee. The NFO budget for 2023 (including brought forward credits) amounted to EUR 3.6 million while total budget expenses amounted to EUR 1.7 million.

Following a request of NFO to correct material misstatements identified by IBAN during the course of the audit, we agreed to audit the restated financial statements communicated to us on 5 July 2024. Without these corrections, the NFO 2023 Financial Statements would have included material errors leading to both a qualified audit opinion on the Financial Statements and on compliance.

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 observations do not impact the audit opinion on the Financial Statements and on compliance:

1. Significant weaknesses identified in internal controls over the preparation of the financial statements.
2. Need for clarifications on the content and presentation of the NATO FORACS Office Financial Statements.
3. Need for amendments to the terminology used in the handover document for assets purchased by NFO on behalf of NATO FORACS Ranges.

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

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

NATO UNCLASSIFIED

IBA-AR(2024)0019

29 August 2024

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE

**NATO NAVAL FORCES SENSOR AND WEAPONS
ACCURACY CHECK SITES OFFICE**

(NATO FORACS Office (NFO))

FOR THE YEAR ENDED 31 DECEMBER 2023

NATO UNCLASSIFIED

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

The International Board of Auditors for NATO (IBAN) has audited the Resubmitted Financial Statements of NATO FORACS Office (NFO), for the 12 month period ended 31 December 2023, issued under document reference FC(2024)0049-REV, and submitted to IBAN on 5 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 NFO 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 NFO 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 Project Manager 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. Significant weaknesses identified in internal controls over the preparation of the financial statements.
2. Need for clarifications on the content and presentation of the NATO FORACS Office Financial Statements.
3. Need for amendments to the terminology used in the handover document for assets purchased by NFO on behalf of NATO FORACS Ranges.

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

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

Reasoning

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

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

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

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

Observations

1.5 IBAN identified material misstatements in the 2023 NFO Financial Statements first submitted to IBAN on 28 March 2024, as described below. These misstatements were corrected in a resubmission of the Financial Statements on 5 July 2024 (Ref. FC(2024)0059-REV). Without these corrections, the 2023 NFO Financial Statements would have included material errors leading to both a qualified audit opinion on the Financial Statements and on compliance.

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

1.6 The 2023 Budget Execution Statement initially contained one column titled “Expenses” with total expenditure of EUR 1,240,608 and one column titled “Total spent” with total expenditure of EUR 1,427,575. We found that the column expenditure was redundant, as the figures reported in this column were not required in the calculation of lapsed appropriations and could not be reconciled with the Statement of Financial Performance. In response to this, the NFO removed this redundant column and renamed the column ‘Total Spent’ to ‘Expenses’ in its resubmitted Financial Statements.

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

1.7 We found that NFO failed to both recognise all the carrying costs related to an intangible asset, as well as to capitalise the intangible asset on the correct date based on the date on which the intangible asset was taken into operational use by the NFO. In particular, and prior to resubmission, we noted that NFO:

- Presented intangible assets under construction of EUR 1,685,582 at 31 December 2023, while the software tool concerned was available for NFO’s operational use on 1 September 2021, and, as such, should have been recognised on this date. As a result, no depreciations were made for this asset since 1 September 2021.
- Did not capitalise additional services provided, in the period of 2018 to 2023, of EUR 773,768, that led to an improvement of the software tool’s functionality and contributed to a solution that increased the life span of the software.

C. Remaining weaknesses in the resubmitted Financial Statements

1.8 Apart from the corrected misstatements listed above, IBAN identified one remaining weakness in the Financial Statements after resubmission. In regard to the designated useful life thresholds defined in the NATO Accounting Framework (NAF), the NAF states that, an entity “*Shall apply the depreciation lives as an upper ceiling. NATO Reporting entities may apply shorter depreciation lives based on the specific nature and use of the item of Intangible Assets. The useful [life] per asset category shall be disclosed in the Financial Statements of the NATO Reporting entity*”. After

resubmission, the intangible asset controlled by NFO is being depreciated over ten years with any subsequent additions being depreciated on a prorated basis distributed evenly over the remainder of the original useful life. This is done in order to align the life of subsequent additions with the original capitalisation date. However, the disclosure note regarding the useful life of the intangible asset has not been sufficiently updated to reflect and describe the rate of depreciation being applied.

Recommendation

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

2. NEED FOR CLARIFICATIONS ON THE CONTENT AND PRESENTATION OF THE NATO FORACS OFFICE FINANCIAL STATEMENTS

Reasoning

2.1 According to Article 1 of the NATO Financial Regulations (NFRs), *these Regulations shall govern the financial administration of all civilian and military headquarters and other organizations established pursuant to the North Atlantic Treaty (hereinafter referred to as "NATO bodies")*. All NATO Reporting Entities therefore need to comply with the NFRs. Other financial regulations and rules, as defined and decided by the relevant governing body, may apply to entities and operations that do not fall within the scope of Article 1 of the NFRs.

2.2 Historically, and to date, the NATO FORACS Office (NFO) has been considered a NATO Reporting Entity since its NATO International Civilian posts are approved by Council as part of the 2023 Civil Budget submission under the category personnel establishments of "other NATO bodies", its staff are employed by the International Staff under the NATO Civilian Personnel Regulations, and because the NFO applies the NFRs. Therefore, IBAN audit reports on the NFO financial statements are addressed to Council in accordance with the NFRs and its audit mandate.

2.3 On 24 July 2023, we received the following factual comments on the draft IBAN audit report on the 2022 NFO Financial Statements from the Project Manager of the NFO:

"As detailed in the NATO FORACS (NF) founding Memorandum of Understanding (MOU), although it operates under the wider NATO banner, the NF Project is an independent, self-funding entity governed by the NF Steering Committee (NFSC). Although aligned with the Defence Investment (DI) Division for ease of administration, the NF Project has no formal line management accountability for its Operations and Maintenance (O&M) to

wider NATO HQ entities. In order to provide a commonly understood framework for the administration of its O&M activities, the NF Office (NFO) as the Project's executive staff, utilises extant NATO policies and practices for inter alia its finances, procurement and personnel management.

In order to provide the NFSC with independent assurance that the NFO is conducting business in accordance with these policies, the MOU and NATO FORACS Standing Instructions (NFSI) direct that the NFO's accounts will be audited by the International Board of Auditors for NATO (IBAN). Separately, audits by the NATO Office of Audit and Risk Management's (NOIARM) of the NFO's Internal Control framework will provide independent assurance of compliance with wider NATO policies.

Consequently, the assurance provided by IBAN should be provided to the NFSC and to the NAC (as per NFR Article 15.2). It will be for the NFSC to consider any observations and recommendations made by IBAN. It will then be a decision for the NFSC whether to implement any actions associated with these observations and recommendations or to accept collectively any risk of not doing so. This is the NFSC's proper function as the independent governing body of the Project, overseeing the management of the O&M resources which its members have directly provided.

The IBAN report should therefore be retitled as the "Independent External Auditor's Report to the NATO FORACS Steering Committee" and accordingly be delivered directly to the Chair of the NF Steering Committee in alignment with NFR Article 15.1."

2.4 Article 1 of the Charter of the IBAN (Ref. C-M(2015)0012) defines the mandate of the IBAN as follows:

"The NATO bodies, as defined below and the NATO Security Investment Programme (NSIP) shall be audited on behalf of the North Atlantic Council (hereinafter referred to as the Council) and in accordance with Council Decisions by the International Board of Auditors (hereinafter referred to as the Board). The Council, in consultation with the Board as appropriate, may authorise the Board to audit other multi-national entities or operations in which NATO has a particular interest. The Board shall also audit non-appropriated funds."

2.5 In accordance with Article 1 of its Charter, the IBAN mandate is to audit NATO Bodies on behalf of the North Atlantic Council (Council) and other NATO Reporting Entities in accordance with Council decisions. For the purposes of this audit mandate, the terms:

- NATO Body denotes civilian or military headquarters and other organisations established pursuant to the North Atlantic Treaty, subject to the provisions of either the 1951 Ottawa Agreement or the 1952 Paris Protocol;

- NATO Reporting Entity refers to a NATO body or an identifiable budget or area of activity that prepares financial statements. A NATO Reporting Entity may comprise one or more NATO civilian and military bodies, entities, budgets, or activities.

2.6 Article 15 of the NFRs states the following with regard to IBAN audit reports:

- Article 15.1 - *“The IBAN shall include in the audit report the response from management of the NATO body, normally endorsed by the relevant governing body, to the comments and observations in the audit findings, assuming that management has provided factual and formal comments to the IBAN’s draft report within the deadline set by the IBAN in their letter of engagement.”;*
- Article 15.2 - *“The IBAN shall present its final reports, including factual and formal comments, together with the audited Financial Statement, to the Council not later than 31 August, following the end of the Financial Year. The IBAN final report shall also be copied to the relevant governing body. Council shall refer the final audit report to the RPPB for examination, comments and recommendations. The RPPB shall then consult with stakeholders as appropriate and submit advice to Council consistent with the timelines set out in article 35”.*

2.7 The key differences between IBAN’s audits of NATO Reporting Entities (including NATO bodies) and other multi-national entities or operations in which NATO has a particular interest are the following:

- The audit mandate for NATO Reporting Entities follows from the IBAN Charter approved by Council, while Council need to approve a separate individual audit mandate for other multi-national entities and operations;
- The audit reports for NATO Reporting Entities are addressed to Council in accordance with Article 15 of the NFRs, while audit reports for multi-national entities and operations are addressed to the governing body of these multi-national entities and operations;
- The audit costs of NATO Reporting Entities are funded through the civil budget of NATO IS, while costs related to audits of multi-national entities and operations are charged to the multi-national entities and operations on a cost-reimbursable basis in line with Council decision, unless otherwise agreed by Council.

2.8 The criteria for the attribution of the qualification ‘NATO Project’ are laid down in the document with reference C-M(66)33 (2nd revise). These criteria, among other things, require *“the participation of two or more NATO Countries in the co-operative project”* and that it is *“politically desirable that such co-operation should take place in NATO or under the NATO aegis”*.

2.9 With regard to responsibility and accountability, Article 3.2 of the NFRs states that Financial Statements and Statements of Internal Control should both be signed by the Head of the NATO body and the Financial Controller. The responsibilities of the Financial Controller are set out in Article 6 of the NFRs.

Observations

2.10 In response to the comments raised by the Project Manager of the NFO as cited in paragraph 1 of our reasoning, we further investigated the legal status of the NFO and verified to what extent the legal status impacts the presentation of the NFO Financial Statements and IBAN's audit mandate.

Legal status of NATO FORACS and the NATO FORACS Office

2.11 NATO FORACS is a NATO project operating under the NATO aegis (Ref. AC/259-N/152), which is open to the whole Alliance, and established by a Memorandum of Understanding signed by eight NATO Countries in 1974.

2.12 In 1976, with document 'PO/76/140', the Secretary General informed Council of the creation of two multi-national activities by a number of Nations, one of which being NATO FORACS activities, which would be administered by staff located in the NATO Headquarters, and invited Council to endorse these activities and agree to a degree of administrative support from the International Staff.

2.13 In 1977, in the revised version of PO/76/140, Council was invited to approve the following with regard to the request for the International Staff's administrative support to these two multi-national activities:

- *"agree that the International Staff, against reimbursement, should provide administrative support for the executive branches of these activities to the extent determined by arrangement with the participating countries concerned";*
- *"agree to establish NATO international civilian posts as proposed by the participating countries and authorize by the appropriate financial or budgetary authority; such posts are to be identified as separate activity – reimbursed posts when added to the establishment of the International Staff";*
- *"agree [...] that the Financial Controller, International Staff, should receive and make payments for the NATO FORACS office based on instruction from the Project Manager, NFO.";*
- *"agree that the International Board of Auditors for NATO should be invited to audit the accounts of the two executive branches."*

2.14 Based on the above, we found that NATO FORACS, as a NATO project and the 'NFO' as its executive branch, does not appear to have been established as a NATO body pursuant to the North Atlantic Treaty by the North Atlantic Council, subject

to the provisions of the 1951 Ottawa Agreement. Therefore, NATO FORACS and its executive branch (i.e. NFO) do not share in the international personality of NATO, or operate under the juridical personality possessed by NATO by virtue of Article IV of the Ottawa Agreement.

Presentation of the NATO FORACS Office Financial Statements

2.15 While Council agreed to invite IBAN to audit the accounts of NFO (i.e. the executive branch of NATO FORACS), there is currently uncertainty about whether these accounts, now referred to as the NFO Financial Statements, solely present the activities carried out by staff members from the International Staff in relation to providing administrative support to the executive branch of the NATO FORACS (i.e. activities of a NATO Body in accordance with IBAN's audit mandate), or present the activities of the executive branch of the NATO FORACS project (i.e. the executive branch of a NATO project that does not appear to meet the definition of a NATO body in accordance with IBAN's audit mandate).

2.16 Firstly, from the perspective of compliance with applicable rules and regulations, clarification is needed on whether the NATO FORACS Office Financial Statements report on the activities of a NATO body or the executive branch of a NATO project in order to:

- Ensure that the right officers are responsible for signing the NATO FORACS Office Financial Statements and the Statement of Internal Control (i.e. the Secretary General as the Head of International Staff, or the Project Manager as the Head of the executive branch of the NATO FORACS project);
- Address the IBAN audit report to the right governing body (i.e. Council in case of a NATO body in accordance with Article 15 of the NFRs, or the Steering Committee of NATO FORACS) and in accordance with the agreed reporting deadline (i.e. 31 August in case of a NATO body, or a deadline jointly agreed with NATO FORACS);
- Ensure that the IBAN audit costs are funded through the right funding source (i.e. through the civil budget in case of a NATO body, or through the budget of NATO FORACS on a cost-reimbursable basis unless otherwise agreed by Council).

2.17 Secondly, from the perspective of financial reporting and compliance with the NATO Accounting Framework, clarification is needed on whether the NATO FORACS Office Financial Statements report on the activities of a NATO body or the executive branch of a NATO project since the current presentation of these financial statements present a mix of both activities.

2.18 With regard to the presentation of the NATO FORACS Office Financial Statements, we note that the following disclosures are rather associated with the presentation of the activities carried out by the International Staff as a NATO body:

- Cash and Cash equivalents – According to the NFO Financial Statements, “*Cash and cash equivalents are held on separate bank accounts controlled by the IS Office of Financial Control*”. The Financial Controller of the International Staff receives and makes payments for the NFO based on the instructions from the Project Manager of NFO. In doing so, these NATO FORACS funds are held on separate bank accounts opened in the name of the International Staff that can only be accessed by staff from the International Staff’s Office of Financial Control.
- Personnel expenses - The NATO International Civilian posts of the NFO staff are approved by Council as part of the 2023 Civil Budget submission, and are approved as personnel establishments of other NATO bodies, which are financed by those participating in these activities. Their employment contracts are signed by delegates of the Secretary General as the Head of the International Staff. Therefore, the personnel costs incurred in relation to these staff are initially incurred in the name of the International Staff and should be reimbursed by NATO FORACS afterwards.
- Expenses for contractual supplies and services - The International Staff performs procurement activities in its own name on behalf of NFO based on instructions from the Project Manager of NFO. Commitments are entered into in the name of International Staff with non-appropriated funds held on behalf of NFO. As a result, any liabilities resulting from these commitments will exist in the name of International Staff, as all agreements and purchase orders are made in the name of the International Staff. Therefore, the costs incurred in relation to these supplies and services are initially incurred in the name of the International Staff and should be recovered from NATO FORACS afterwards.
- The cash and cash equivalents, personnel expenses and expenses for contractual supplies and services are solely reported in the NFO Financial Statements and are excluded from the International Staff’s Financial Statements.

2.19 With regard to the presentation of the NATO FORACS Office Financial Statements, we note that the following disclosures are rather associated with the presentation of the activities of the NFO as the executive branch of the NATO FORACS project:

- Basis of preparation - “*These financial statements relate to the NATO FORACS Office (NFO). They also include transactions with the Ranges only in as much as they relate to the calls for contribution process of their respective budgets and therefore concerns cash, short term investments, receivables, payables, advances, and the Ranges’ other current liabilities to the IS OFC [International Staff Office of Financial Control] on behalf of the NFO*”. From this disclosure, we understand that the financial statements report on more activities (e.g. receivables and payables existing in the name of the executive branch of the NATO FORACS project instead of the International Staff) than

just the activities performed by staff from the International Staff that will result in reimbursement by NATO FORACS.

- Signature of Financial Statements and Statement of Internal Control - Signed by the Project Manager of NFO as the head of the executive branch of the NATO FORACS project instead of the Secretary General as the Head of the International Staff.
- Budget Execution Statement – Reports on the execution of a budget approved by the Steering Committee of the NATO FORACS project instead of the civil budget of International Staff approved by the Budget Committee, and reports on commitments entered into with these appropriations for the activities of a NATO project instead of the activities of the International Staff.

2.20 In practice, we also noted that most of the NFO's activities are directly paid for with NATO FORACS funds called, and held on a separate bank account, by the International Staff. Therefore, a mechanism of reimbursement by NATO FORACS for costs initially incurred by the International Staff, as initially envisaged by Council in the revised version of 'PO/76/140', does not currently exist for most of the administrative support activities performed by International Staff on behalf of NFO.

IBAN Mandate for the audit of the NFO NATO Reporting Entity

2.21 We found that NFO, as the executive branch of NATO FORACS, does not appear to fully meet the definition of a 'NATO body' in accordance with Article 1 of the NFRs and Article 1 of the Charter of the International Board of Auditors for NATO (Ref. C-M(2015)0012).

2.22 As stated above, the NATO FORACS Office (NFO) has been considered a NATO Reporting Entity since its NATO International Civilian posts are approved by Council as part of the 2023 Civil Budget submission under the category personnel establishments of "other NATO bodies", its staff are employed by the International Staff under the NATO Civilian Personnel Regulations, and because the NFO applies the NFRs. In this regard, the Office of the IS Legal Advisor previously clarified to IBAN that the "[...] and NFORACS Office [NFO] are NATO Reporting Entities only in respect of activities carried out by IS Staff in relation to [...] NFORACS [NATO FORACS]."

2.23 This reasoning follows from the fact that Council agreed to establish NATO International Civilian posts to staff the NFO for which the personnel is employed by the International Staff, and to let the International Staff provide administrative support to the NATO FORACS Office against reimbursement. Therefore, all activities performed by staff members from the International Staff in relation to NATO FORACS are considered to be activities of the International Staff as a NATO body that are separately reported in the NFO Financial Statements.

Conclusion

2.24 Based on the above, we found that uncertainty currently exists about whether the NFO Financial Statements solely present the activities carried out by staff members from the International Staff in relation to the executive branch of the NATO FORACS project (i.e. activities of a NATO Body in accordance with IBAN's audit mandate), or present the activities of the executive branch of the NATO FORACS project (i.e. the executive branch of a NATO project that does not appear to meet the definition of a NATO body in accordance with IBAN's audit mandate and is not subject to the NFRs). In the absence of clarity on this matter, it is unclear how the International Staff, the NFO and the IBAN should implement and assess full adherence with the NFRs and the NATO Accounting Framework.

Recommendations

2.25 IBAN recommends that Council task the appropriate governing body to clarify, in consultation with the Steering Committee of NATO FORACS, whether the NATO FORACS Office Financial Statements should solely present the activities carried out by staff members from the International Staff in relation to the executive branch of the NATO FORACS project (i.e. activities of a NATO Body in accordance with IBAN's audit mandate), or present the activities of the executive branch of the NATO FORACS project (i.e. the executive branch of a NATO project that does not appear to meet the definition of a NATO body in accordance with IBAN's audit mandate and is not subject to the NFRs).

3. NEED FOR AMENDMENTS TO THE TERMINOLOGY USED IN THE HANDOVER DOCUMENT FOR ASSETS PURCHASED BY NFO ON BEHALF OF NATO FORACS RANGES

Reasoning

3.1 In accordance with the NATO Accounting Framework's (NAF) adaptations to IPSAS 17 on 'Property, Plant and Equipment' and IPSAS 31 on 'Intangible Assets', *"In addition to the standard assessment of "substance over form", the following criteria should be used to assist in assessing the level of control that any NATO Reporting Entity has for reporting assets in its financial statements [...]"*:

- *The act of purchasing the asset carried out (or resulted from instructions given) by the NATO Reporting Entity*
- *The Legal title is in the name of the NATO Reporting Entity*
- *The asset is physically located on the premises or locations used by the NATO Reporting Entity*

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- *The asset is physically used by staff employed by the NATO Reporting Entity or staff working under the NATO Reporting Entity's instructions*
- *The fact that the NATO Reporting Entity can decide on an alternative use of the asset*
- *The fact that the NATO Reporting Entity can decide to sell or to dispose the asset*
- *The fact that the NATO Reporting Entity, if it has to remove or destroy the asset, can take the decision to replace it"*
- *The fact that a representative of the NATO Reporting Entity regularly inspects the asset to determine its current condition*
- *The fact that the asset is used in achieving the objectives of the NATO Reporting Entity*
- *The fact that the asset will be retained by the NATO Reporting Entity at the end of the activity*

If the NATO Reporting Entity responds positively to six of the above criteria, it is likely that the asset is controlled by the NATO Reporting Entity. In this case, the reporting entity will need to capitalise the assets in its Financial Statements (if it is also above the capitalisation threshold)".

3.2 For financial year 2023, the FORACS Steering Committee approved NFO budget appropriations for, and instructed the NFO, to purchase equipment on behalf of the NATO FORACS Ranges (hereafter: Ranges).

3.3 Once these assets are purchased and considered ready for operational use by the Ranges, the NFO will perform a handover of equipment from the NFO to the Ranges. These handover documents contain the following terms of transfer for equipment purchased by the NFO:

"It is transferred on permanent loan to [NATO FORACS Range] for use within the scope of NATO FORACS activities as described in the Memorandum of Understanding and the NATO FORACS Standing Instructions (NFSI). The NFO reserves the right to recall the equipment, partially or as a whole, giving three-month's notice. In accordance with NFSI, the NFO may also authorize NFN to dispose of the equipment, partially or as a whole, or recall it to NFO for disposal"

Observations

3.4 We obtained from the International Staff's Office of Financial Control (IS OFC) an analysis performed on the concept of control over assets purchased by the NFO

which are to be subsequently handed over to the Ranges upon completion of the purchase and readiness of the asset for operational use.

3.5 This assessment was based on the ten control criteria included in the NAF IPSAS 17 and the NAF IPSAS 31. The IS OFC concluded that of the ten criteria listed above, one was fully satisfied, three were partially satisfied and the remaining six were not satisfied at all.

3.6 Of the partially satisfied criteria, from IBAN's perspective, all three appear to have been fully satisfied based on the provisions and wording of the document that hands over the asset from NFO to the Ranges. These three criteria are as follows:

- *"The fact that the NATO Reporting Entity can decide on an alternative use of the asset"*
- *"The fact that the NATO Reporting Entity can decide to sell or to dispose the asset"*
- *"The fact that the NATO Reporting Entity, if it has to remove or destroy the asset, can take the decision to replace it"*

3.7 In particular, and according to the terms outlined in the above-mentioned handover document included, *"The NFO reserves the right to recall the equipment, partially or as a whole, giving three-month's notice. In accordance with NFSI, the NFO may also authorize NFN to dispose of the equipment, partially or as a whole, or recall it to NFO for disposal"*. Based on these terms, it appears that the NFO retains the right to decide on alternative uses for the asset, decide to sell or dispose of the asset, or make the decision to replace it should the NFO so choose.

3.8 Additionally, the handover document stipulates that these assets are being handed over on 'permanent loan'. The term 'permanent loan' indicates that the legal ownership remains with NFO rather than being transferred to the Range receiving the asset. As such, IBAN has concluded that one additional criterion previously considered not satisfied by the IS OFC is, in fact, satisfied. The resulting impact of IBAN's assessment is that at least five criteria are fully satisfied while the remaining five are either not satisfied, or, are considered partially satisfied.

3.9 However, based on conversations held with the NFO, the terms and conditions of the asset handover document may not necessarily be indicative of the substance of the actual arrangements made with the Ranges. In particular, and in practice, the NFO considers that:

- Legal ownership is transferred to the Ranges since the transfer of the asset does not constitute a loan, and the budget approved by the FORACS Steering Committee indicates that these assets should be purchased by NFO on behalf of the Ranges;

- It only acts in accordance with instructions from the NATO FORACS Steering Committee and, as such, does not have any decision-making authority with regard to the sale, disposal or alternative use of the assets concerned.

Recommendations

3.10 IBAN recommends that the NFO amend the terminology and conditions outlined in the document used to handover assets from the NFO to the NATO FORACS Ranges in order to align the document with the substance of the actual arrangements made with the NATO FORACS Ranges concerning the transfer of legal ownership and the decision-making authority over the sale, disposal and alternative use of the assets concerned.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

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

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

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(1) FORACS FY 2021 IBA-AR(2022)0007, paragraph 1 IMPROVEMENT NEEDED IN YEAR-END CONFIRMATIONS OF BUDGETARY SURPLUSES OF THE RANGES. IBAN's Recommendation IBAN recommends that NFO: a) Requests the NATO FORACS Steering Committee to consider amending the FORACS MOU to reflect the NATO FORACS Standing Instructions and current practices regarding accounting and audit. b) Requests national authorities responsible for the Ranges to confirm directly to IBAN that the budgetary accounts presented to the Steering	Sub-recommendation a) was closed in IBA-AR(2023)0010. With regard to sub-recommendations b) and c), we noted that the NFO in 2023 introduced the concept of a	Observation Closed.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
Committee and surpluses to be included in Other Liabilities in the NFO financial statements, were subject to independent external audit in accordance with national rules and that no audit findings were raised regarding these accounts. c) Ensures with the IS OFC that all account balances and disclosures in the financial statements and notes are supported by sufficient and appropriate documentation	Standard Range Account Confirmation Report (SRACR) that provides a confirmation of independent external audit by Range Host Nation authorities, a confirmation that the Range surpluses agree with those provided in the NFO FS and contains details of any audit findings made. Additionally, the NATO FORACS Standing Instructions were amended during 2023 to provide guidance to the Ranges on submitting written confirmation of an independent audit to IBAN each year. For financial year 2023, IBAN received the SRACR for all three NATO FORACS Ranges. Closed.	
(2) FORACS FY 2019 IBA-AR(2021)0012, paragraph 2 INSUFFICIENT DOCUMENTATION IN SUPPORT OF THE NOTE TO THE FINANCIAL STATEMENTS ON RELATED PARTIES IBAN's Recommendation IBAN recommends that NFO: a) Implements a procedure for identifying related party transactions and monitor the absence of conflicts of interest in support of the disclosure notes to the financial statements. b) Complies with the NATO Accounting Framework (IPSAS 20) by ensuring that all members of key management personnel, including Steering committee members, complete and sign declarations concerning related party relationships or transactions that could affect the operation of the reporting entity.	a) During financial year 2023, NATO FORACS established the NATO FORACS Policy for Key Management Personnel Regarding the Management of Conflicts of Interest and Related Party Disclosures. Closed. b) NFO has incorporated a permanent agenda item for the spring Steering Committee during which National Representatives are requested to sign their conflict of interest declaration for the current year. In 2023, all members of key management including the NFO Steering Committee signed declarations. Closed	Observation Closed.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(3) FORACS FY 2015 IBA-AR(2017)22, paragraph 7 EFFORT TO ACHIEVE COMPLIANCE WITH THE REVISED NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT IBAN's Recommendation IBAN recommends that NFO: a) Ensures its risk management policy and risk registers include financial reporting and compliance risks. b) As required by FRP XII 3) (e), choose a specific internal control framework that it will use to assess its system of internal control. The assessment is required by Article 12 of the NFRs. Since other NATO entities have already adopted COSO as their internal control framework, and it is a framework that can be used by entities of all sizes, the NFO should consider adopting COSO as their internal control framework. c) In coordination with the IS where applicable, begin the work of assessing and documenting the system of internal control and risk management procedures to support compliance with NFR Articles 11 and 12, FRPs XI and XII, and the internal control framework that it chooses. d) Through outsourcing if considered to be more cost effective, ensure internal audit activities are evaluating NFO risk management and internal control. e) Ensures that the supplementary budget credits are only used to enter into commitments for goods and services to be	Sub-recommendation a) was closed in IBA-AR(2022)0007. Sub-recommendation b) was closed in IBA-AR(2021)0012. Sub-recommendation c) was closed in IBA-AR(2022)0007. d) The NFO Project Manager engaged with the Head of NATO's Office of Internal Audit and Risk Management (OIARM) regarding an independent assessment of the COSO Internal Control framework adopted by NFO in 2019. As the OIARM's Audit Plan is determined on a risk-based methodology, NFO will be included at an appropriate time. Outsourcing is not considered as an option by NFO. In-Progress. Sub-recommendation e) was closed in IBA-AR(2019)0022	Observation In-Progress.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
rendered during the financial year. Contract authority should be used for goods and services to be received in future years.		

NATO FORACS OFFICE (NFO) FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

**OBSERVATION 1:
SIGNIFICANT WEAKNESSES IDENTIFIED IN INTERNAL CONTROLS OVER THE PREPARATION OF THE FINANCIAL STATEMENTS**

NFO's Formal Comments

Agreed.

NATO IS will continue to improve measures and strengthen internal controls.

**OBSERVATION 2:
NEED FOR CLARIFICATIONS ON THE CONTENT AND PRESENTATION OF THE NATO FORACS OFFICE FINANCIAL STATEMENTS**

NFO's Formal Comments

Not agreed.

NATO FORACS notes the IBAN observation but considers that NATO FORACS Office's Financial Statements present the proper scope of NATO FORACS' activities.

Founded as a multi-national, co-operative activity through a Memorandum of Understanding (May 1974) and established as a NATO Project by the CNAD (Aug 1974), NATO FORACS has adhered to the same operating model for the past 50 years, including NFO's recognition as a NATO Reporting Entity. This has been confirmed during more than 46 years of IBAN audits.

IBAN's Position

In response to a factual comment raised by NFO regarding IBAN's reference to NATO FORACS as a non-NATO body, we are no longer referring to NATO FORACS as a 'non-NATO multinational entity' but have replaced these references by 'NATO project'. This in order to avoid any doubt on the status of NATO FORACS as a NATO project, as confirmed by the Conference of National Armament Directors on 8 August 1974 (Ref. AC/259-N/152).

IBAN considers that no further changes are needed based on NFO's formal comments, IBAN maintains its position presented in observation 2 above.

**OBSERVATION 3:
NEED FOR AMENDMENTS TO THE TERMINOLOGY USED IN THE HANDOVER
DOCUMENT FOR ASSETS PURCHASED BY NFO ON BEHALF OF NATO
FORACS RANGES**

NFO's Formal Comments

Agreed.

NFO has already published revised direction within NATO FORACS Standing Instructions (Issue 19) regarding the status of assets procured for the Ranges using Project funds, as well as a revised "Record of Receipt" which clarifies Range asset ownership and associated authority.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(1) FORACS 2021 FY

IBA-AR(2022)0007, paragraph 1

**IMPROVEMENT NEEDED IN YEAR-END CONFIRMATIONS OF BUDGETARY
SURPLUSES OF THE RANGES**

NFO's Formal Comments

Recommendation b): Not agreed.

The Ranges have complied with the updated guidance on SRACRs, therefore NFO proposes to close this finding.

IBAN's Position

IBAN acknowledges receiving the two outstanding SRACRs on 27 June 2024 and 9 July 2024 and updated the status of sub-recommendation b) and closed this previous year observation and recommendation accordingly.

(3) FORACS 2015 FY

IBA-AR(2017)22, paragraph 7

**EFFORT TO ACHIEVE COMPLIANCE WITH THE REVISED NATO FINANCIAL
REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL,
RISK MANAGEMENT AND INTERNAL AUDIT**

NFO's Formal Comments

Recommendation d): Not agreed.

As previously reported, the project's Governing Body, the NATO FORACS

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Steering Committee (NFSC) has been pursuing Internal Audit of NATO FORACS' risk management and internal control via the NATO Internal Oversight Office (formerly NATO Office of Internal Audit & Risk Management) since this organisation's creation in 2020.

However, the NATO IOS (NIOS) audit plan is determined on a risk-based methodology and with only 4 NFO staff and an EUR 8M NFO budget, the risk has not been considered sufficient to merit inclusion in the NIOS audit plan to date.

Noting that:

- A.) All of NFO business is controlled within extant NATO regulations, with all associated transactions independently reviewed and actioned outside the NFO team;*
- B.) All of NFO business is controlled within extant NATO regulations, with all associated transactions independently reviewed and actioned outside the NFO team;*
- C.) The OFC Internal Control Officer conducts an independent annual review of the NFO Internal Control Framework;*
- D.) The NFSC reviews the Project's Risk Register/Process every 6 months;*
- E.) The NFSC reviews the Project's Performance Management Framework (Balanced Score Card) every 6 months and*
- F.) That NFO is included within NATO IOS audits of wider IS activity (e.g. missions and travel), the NFSC is content that any risk of noncompliance is small.*

Therefore, it considers outsourcing any internal audit activity, beyond NIOS, would not be justifiable or cost-effective, given that this resource could be applied to maximising the operational effectiveness of the Alliance's maritime units.

While the NFSC will continue to pursue NIOS audit support, it considers this action closed.

IBAN's Position

IBAN notes that, despite the actions taken by the NATO FORACS Steering Committee, no internal audit activities have been performed to date that evaluate the NFO's risk management and internal control. Therefore, we consider this sub-recommendation to be in-progress.

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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.

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**NATO INTERNATIONAL STAFF
FINANCIAL STATEMENTS**

For the year ended
31 December 2023

Annexes

- | | |
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| 6 | Explanatory Notes to the Financial Statements |


Jens STOLTENBERG
Secretary General


Mirosława BORYCZKA
Financial Controller

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ANNEX 1 to
FC(2024)0048**NATO INTERNATIONAL STAFF
Statement of Financial Position**

As at 31 December 2023

(All amounts in EUR)

	Notes	2023	2022
Assets			
Current assets			
Cash and cash equivalents	3	360,000,990.29	219,098,955.24
Short term investments	4	365,000,000.00	100,000,000.00
Receivables	5	55,795,509.94	49,458,535.20
Prepayments	6	7,299,353.29	2,379,838.83
Other current assets	7	2,037,537.02	2,223,406.06
Inventories	8	564,942.76	523,072.96
		790,698,333.30	373,683,808.29
Non-current assets			
Receivables	9	0.00	0.00
Property, plant & equipment	10	733,943,382.85	774,646,331.86
Intangible assets	11	2,517,996.03	3,035,151.88
Non-current financial assets	12	0.00	0.00
Other non-current assets	12	3,548,651.00	6,637,770.40
		740,010,029.88	784,319,254.14
Total Assets		1,530,708,363.18	1,158,003,062.43
Liabilities			
Current liabilities			
Payables	13	42,918,199.65	42,980,225.15
Deferred revenue	14	618,959,883.13	228,077,035.16
Advances	15	98,295,997.80	90,209,409.79
Short term provisions	16	138,620.90	193,173.96
Other current liabilities	17	30,267,590.88	13,393,042.69
		790,578,292.36	374,852,886.75
Non-current liabilities			
Payables	18	0.00	0.00
Long term provisions	18	500,000.00	500,000.00
Deferred revenue	19	736,461,376.88	777,681,483.74
Other non-current liabilities	20	2,039,831.00	3,839,831.00
		739,001,209.88	782,021,314.74
Total Liabilities		1,529,579,502.24	1,156,874,201.49
Net assets			
Capital assets	21	0.00	0.00
Reserves		0.00	0.00
Current year Surplus / (Deficits)		0.00	0.00
Accumulated surpluses / (deficits) prior year		1,128,860.94	1,128,860.94
Total net Assets / Equity		1,128,860.94	1,128,860.94

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ANNEX 2 to
FC(2024)0048**NATO INTERNATIONAL STAFF
Statement of Financial Performance**

As at 31 December 2023

(All amounts in EUR)

	<u>Notes</u>	<u>2023</u>	<u>2022</u>
Revenue			
Non exchange revenue	22	393,520,224.01	317,721,319.12
Exchange revenue	23	18,417,775.59	17,645,555.09
Other revenue	24	3,501,654.58	2,062,206.17
Financial revenue	25	14,676,990.07	834,981.87
Total Revenue		430,116,644.25	338,264,062.25
Expenses			
Personnel	26	152,179,652.54	145,786,635.57
Contractual supplies and services	26	227,939,874.21	143,906,909.50
Depreciation and amortization	26	48,291,871.43	48,266,951.66
Impairment	26	48,410.41	0.00
Provisions	26	-56,553.06	-227,786.13
Long Term Provisions	26	0.00	0.00
Other expenses	26	173.55	0.00
Finance costs	26	1,713,215.17	531,351.65
Total Expenses		430,116,644.25	338,264,062.25
Surplus/(Deficit) for the period	27	0.00	0.00

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ANNEX 3 to
FC(2024)0048

NATO INTERNATIONAL STAFF **Statement of Cash Flow**

As at 31 December 2023

(All amounts in EUR)

	Notes	2023	2022
Cash Flow from Operating Activities	28		
Surplus/(Deficit)		-	-
Non-cash movements		-	-
Depreciation/ Amortisation		48,291,871.43	48,266,951.66
Impairment			
Increase/(decrease) in payables, deferred revenue and advances		398,907,410.48	194,873,295.98
Increase/(decrease) in other current and non current liabilities		(26,145,556.67)	(161,873,652.67)
Increase/(decrease) in provisions		(56,563.06)	(236,230.02)
(Gains)/losses on sale of property plant and equipment			
Decrease/(increase) in other current assets		(40,926,830.67)	(45,436,700.19)
Decrease/(increase) in receivables, prepayments and inventories		(11,298,359.00)	(5,239,373.69)
Decrease/(increase) in other non current assets		44,309,224.26	85,917,021.36
Net Cash Flow from Operating Activities		413,081,206.87	116,271,312.43
Cash Flow from Investing Activities			
Purchase of property plant and equipment / intangible assets		(7,179,171.82)	(2,928,621.88)
Proceeds from sale of property plant and equipment			
Net Cash Flow from Investing Activities		(7,179,171.82)	(2,928,621.88)
Cash Flow from Financing Activities		-	-
Net Cash Flow from Financing Activities			
Net Increase/(Decrease) in Cash and Cash Equivalents		406,902,035.05	113,342,690.55
Cash and Cash Equivalent at the Beginning of the Period		319,098,955.24	205,756,264.69
Cash and Cash Equivalent at the End of the Period		725,000,990.29	319,098,955.24

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ANNEX 4 to
FC(2024)0048

NATO INTERNATIONAL STAFF
Statement of Changes in Net Assets/Equity
 As at 31 December 2023
 (All amounts in EUR)

Balance at the beginning of the period 2022	<u>1,329,333.64</u>
Reclassification	-200,472.70
Restated balance	
Net (gains)/losses recognised directly in net assets/equity	
Exchange difference on translating foreign operations	
Gain on property revaluation	
Surplus/(deficit) for the period	0.00
Change in net assets/equity for the year ended 2022	-200,472.70
Balance at the end of the period 2022	<u>1,128,860.94</u>
Balance at the beginning of the period 2023	<u>1,128,860.94</u>
Changes in accounting policy	
Restated balance	
Net (gains)/losses recognised directly in net assets/equity	
Exchange difference on translating foreign operations	
Gain on property revaluation	
Surplus/(deficit) for the period	0.00
Change in net assets/equity for the year ended 2023	0.00
Balance at the end of the period 2023	<u>1,128,860.94</u>

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ANNEX 5 to
FC(2024)0048INTERNATIONAL STAFF
Statement of Budget Execution as at 31 December 2023

(amounts in euro)	Initial Budget	Increase / Decrease	Revised Budget	Transfers	Frozen Budget	Final Budget	Commitments	Expenses	Total spent	Carry forward	Special carry forward	Lapsed
CIVIL BUDGET												
Chapter 1	176,238,384.70	(8,182,815.11)	168,075,569.59	(241,220.00)	3,599,373.87	167,834,349.58	544,928.84	158,533,231.67	159,078,160.51	544,828.84	152,256.00	8,503,933.08
Chapter 2	91,287,338.35	9,159,804.66	100,467,243.01	895,817.00	500,000.00	101,364,060.01	3,092,667.52	94,350,249.09	97,442,916.61	3,092,567.52	427,236.00	3,493,907.40
Chapter 3	16,558,205.00	671,806.33	17,230,010.33	(568,342.00)		16,661,668.33	1,018,947.95	11,033,618.77	12,062,866.72	1,018,947.95	3,677,170.00	931,631.61
Chapter 4	34,610,798.88	(510,383.01)	34,000,415.88	(87,255.00)	150,000.00	33,813,160.88	8,013,386.28	22,623,698.81	31,937,093.09	8,013,386.28		1,976,067.79
Total FY 2023	318,704,726.94	1,068,511.87	319,773,238.80	-	4,249,373.87	319,773,238.80	13,669,940.59	285,841,096.34	300,511,036.93	13,669,940.59	4,256,662.00	15,005,539.87
CIVIL BUDGET												
Chapter 1	763,398.81	-	763,398.81	-	-	763,398.81	133,672.28	296,807.57	430,579.85	133,672.28	-	332,815.56
Chapter 2	1,966,121.87	-	1,966,121.87	-	-	1,966,121.87	738,486.31	862,602.09	1,601,093.40	738,486.31	-	385,023.47
Chapter 3	168,254.24	-	168,254.24	-	-	168,254.24	44,922.00	119,151.81	164,073.81	44,922.00	-	2,180.43
Chapter 4	7,022,465.30	-	7,022,465.30	-	-	7,022,465.30	1,493,138.72	3,854,343.26	5,347,481.98	1,493,138.72	-	1,674,983.32
Total FY 2022	9,916,240.22	-	9,916,240.22	-	-	9,916,240.22	2,410,229.31	5,133,004.73	7,543,234.04	2,410,229.31	-	2,375,006.18
CIVIL BUDGET												
Chapter 1	156,565.47	-	156,565.47	-	-	156,565.47	-	10,300.00	10,300.00	-	-	146,265.47
Chapter 2	409,086.14	-	409,086.14	-	-	409,086.14	-	46,165.36	46,165.36	-	-	362,900.78
Chapter 3	31,029.55	-	31,029.55	-	-	31,029.55	-	6,500.00	6,500.00	-	-	24,529.55
Chapter 4	1,548,021.27	-	1,548,021.27	-	-	1,548,021.27	-	1,115,922.54	1,115,922.54	-	-	432,098.73
Total FY 2021	2,144,702.43	-	2,144,702.43	-	-	2,144,702.43	-	1,178,907.90	1,178,907.90	-	-	965,794.53
SPECIAL CARRY FORWARDS												
Chapter 1	28,904.10	-	28,904.10	-	-	28,904.10	-	16,476.10	16,476.10	-	-	12,428.00
Chapter 2	358,645.73	-	358,645.73	-	-	358,645.73	-	350,000.00	350,000.00	-	-	8,645.73
Chapter 3	193,804.75	-	193,804.75	-	-	193,804.75	1,708.06	4,782.54	6,470.60	1,708.06	-	187,334.16
Chapter 4	10,556.04	-	10,556.04	-	-	10,556.04	10,556.04	-	10,556.04	10,556.04	-	-
Total SPECIAL CARRY FORWARDS	591,910.62	-	591,910.62	-	-	591,910.62	12,264.10	371,238.64	363,502.74	12,264.10	-	208,407.88
	331,358,580.21	1,068,511.87	332,428,092.07	-	4,249,373.87	332,428,092.07	16,092,434.00	293,524,247.61	309,616,681.61	16,092,434.00	4,256,662.00	18,554,748.48

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ANNEX 6 to
FC(2024)0048INTERNATIONAL STAFF
Statement of Budget Execution as at 31 December 2022

(amounts in euro)	Initial Budget	Increase / Decrease	Revised Budget	Transfers	Frozen Budget	Final budget	Commitments	Expenses	Total spent	Carry forward	Special carry forward	Lapsed
CIVIL BUDGET												
Chapter 1	145,324,809.00	4 019,393.00	149,344,202.00	1,085,273.00	-	150,429,475.00	763,388.81	149,528,765.64	150,292,164.45	783,398.81		137,310.55
Chapter 2	68,450,576.00	3 637,802.00	72,088,378.00	(1 137 491.00)	-	70 950 887 00	1,966,121.87	67,900,256.05	69,866,377.92	1,966,121.87	350 000.00	734,509.08
Chapter 3	6,857,707.00	(2,132 937.00)	4,824,770.00	(80,000.00)	-	4,744,770.00	166,254.24	4,509,283.14	4,676,537.38	166,254.24		69,212.62
Chapter 4	25,083,380.00	(460,843.00)	24,622,537.00	132,216.00	-	24,734,766.00	7,022,466.30	16,582,385.87	23,584,851.17	7,022,466.30		1,149,803.83
Total FY 2022	245,796,472.00	5,063,415.00	250,859,887.00	-	-	250,859,887.00	9,918,240.22	238,500,690.70	248,418,930.92	9,918,240.22	350,000.00	2,090,956.08
CIVIL BUDGET												
Chapter 1	691,315.55	-	691,315.55	-	-	691,315.55	156,585.47	307,101.53	463,667.00	156,565.47	-	227,648.55
Chapter 2	1,878,595.69	-	1,878,595.69	-	-	1,878,595.69	409,086.14	800,242.16	1,208,328.30	409,086.14	-	687,267.39
Chapter 3	267,194.24	-	267,194.24	-	-	267,194.24	31,029.55	165,567.87	216,597.42	31,029.55	-	50,596.82
Chapter 4	4,256,131.80	-	4,256,131.80	-	-	4,256,131.80	1,548,021.27	2,381,080.80	3,929,082.17	1,548,021.27	-	328,049.63
Total FY 2021	7,090,237.28	-	7,090,237.28	-	-	7,090,237.28	2,144,702.43	3,673,972.46	5,818,674.69	2,144,702.43	-	1,271,562.39
CIVIL BUDGET												
Chapter 1	131,243.63	-	131,243.63	-	-	131,243.63	-	123,887.65	123,887.65	-	-	7,355.88
Chapter 2	140,288.46	-	140,288.46	-	-	140,288.46	-	92,868.34	92,868.34	-	-	47,420.12
Chapter 3	47,965.55	-	47,965.55	-	-	47,965.55	-	41,734.54	41,734.54	-	-	6,231.01
Chapter 4	1,172,250.27	-	1,172,250.27	-	-	1,172,250.27	-	1,040,234.20	1,040,234.20	-	-	132,016.07
Total FY 2020	1,491,747.91	-	1,491,747.91	-	-	1,491,747.91	-	1,298,724.73	1,298,724.73	-	-	193,023.18
SPECIAL CARRY FORWARDS												
Chapter 1	486,422.10	-	486,422.10	-	-	486,422.10	28 904.10	450,037.67	478 941.77	28 904.10		7,480.33
Chapter 2	10,046.98	-	10,046.98	-	-	10,046.98	8 645.73	741.26	9,386.99	8,645.73		659.99
Chapter 3	451,073.68	-	451,073.68	-	-	451,073.68	193,804.75	256,893.93	450,698.68	193,804.75		375.00
Chapter 4	10,556.04	-	10,556.04	-	-	10,556.04	10,556.04	-	10,556.04	10,556.04	-	-
Total SPECIAL CARRY FORWARDS	958,098.80	-	958,098.80	-	-	958,098.80	241,910.62	707,672.86	949,583.48	241,910.62	-	8,516.32
	255,336,555.99	5,063,415.00	260,399,970.99	-	-	260,399,970.99	12,304,853.27	244,181,050.75	256,485,814.02	12,304,853.27	350,000.00	3,564,056.97

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ANNEX 5 to
FC(2024)0048

NATO HR Shared Services
Statement of Budget Execution as at 31 December 2023

	Initial budget	Increase	BA2	Transfers	BA3	Transfers	Final budget	Actuals	Carry forward	Lapsed
(amounts in euro)										
HRSS										
Chapter 1	2,821,473	-	2,821,473	-	2,821,473	-	2,821,473	2,427,677	77,869	315,927
Chapter 2	345,615	-	345,615	-	345,615	-	345,615	251,935	11,286	82,394
Chapter 3	-	-	-	-	-	-	-	-	-	-
Total FY 2023	3,167,088	-	3,167,088	-	3,167,088	-	3,167,088	2,679,611	89,155	398,321
HRSS										
Chapter 1	4,259	-	4,259	-	4,259	-	4,259	-	-	4,259
Chapter 2	760	-	760	-	760	-	760	1	-	759
Chapter 3	-	-	-	-	-	-	-	-	-	-
Total FY 2022	5,019	-	5,019	-	5,019	-	5,019	1	-	5,018
HRSS										
Chapter 1	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-
Total FY 2021	-	-	-	-	-	-	-	-	-	-
Total All Budgets	3,172,107	-	3,172,107	-	3,172,107	-	3,172,107	2,679,612	89,155	403,339

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ANNEX 5 to
FC(2024)0048

NATO HR Shared Services
Statement of Budget Execution as at 31 December 2022

(amounts in euro)	Initial budget	Increase	BA2	Transfers	BA3	Transfers	Final budget	Actuals	Carry forward	Lapsed
HRSS										
Chapter 1	2,412,622	-	2,412,622	-	2,412,622	-	2,412,622	2,180,134	4,259	228,229
Chapter 2	184,695	86,473	271,168	-	271,168	-	271,168	200,724	760	69,685
Chapter 3	-	-	-	-	-	-	-	-	-	-
Total FY 2022	2,597,317	86,473	2,683,790	-	2,683,790	-	2,683,790	2,380,858	5,019	297,913
HRSS										
Chapter 1	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-
Total FY 2021	-	-	-	-	-	-	-	-	-	-
HRSS										
Chapter 1	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-
Total FY 2020	-	-	-	-	-	-	-	-	-	-
Total All Budgets	2,597,317	86,473	2,683,790	-	2,683,790	-	2,683,790	2,380,858	5,019	297,913

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ANNEX 6 to
FC(2024)0048EXPLANATORY NOTES TO NATO INTERNATIONAL STAFF
2023 FINANCIAL STATEMENTS

NOTE 1: GENERAL INFORMATION

NATO's essential purpose is to safeguard the freedom and security of its members through political and military means. Politically, NATO promotes democratic values and encourages consultation and cooperation on defense and security issues to build trust and, in the long run, prevent conflict. Militarily, NATO is committed to the peaceful resolution of disputes. If diplomatic efforts fail, it has the military capacity needed to undertake crisis-management operations. These are carried out under Article 5 of the Washington Treaty - NATO's founding treaty - or under a United Nations mandate, alone or in cooperation with other countries and international organizations.

The International Staff (IS) was created in 1951 to support the North Atlantic Council (NAC) (Council resolution D-D(51)30). The "Agreement on the Status of the North Atlantic Treaty Organization" defined its status, which National Representative and International Staff negotiated and signed in September of 1951.

The IS is an advisory and administrative body whose primary role is to support the national delegations of the 31 member states at NATO Headquarters. It produces policy papers, background notes and reports on issues relevant to NATO's political and military agenda and, in doing so, supports the process of consensus building and decision-making in the Alliance. The IS then helps to implement the decisions taken in NATO's committees and liaises closely with the nations and NATO's International Military Staff (IMS).

Headed by the Secretary General, the IS includes eight divisions, each headed by an Assistant Secretary General and a number of Independent Offices headed by Directors. Some 1,000 civilians work within the IS at NATO Headquarters in Brussels, Belgium. They owe their allegiance to the Alliance throughout the period of their appointment. They are either recruited directly by the Organization or seconded by their governments and each appointment is approved by the Secretary General.

The financial statements cover the budgetary and financial operations relating to the NATO International Staff (IS) budgeted and non-budgeted functions and programs.

NOTE 2: ACCOUNTING POLICIES

The IS applies the NATO IS Accounting Policies which have been published through ON(2021)0079 and updated through FC(CAF)(2023)0001.

Declaration of conformity

The IS financial statements have been prepared in accordance with the NATO Accounting Framework which adapts a small number of IPSAS standards to better suit the specific requirements of the Alliance (as originally approved by nations under C-M(2013)0039 on 26 July 2013 and revised under C-M(2016)0023 on 29 April 2016) and with the NATO Financial Regulations (NFR) and respective Financial Rules and Procedures (FRP).

Basis of preparation

The financial statements have been prepared on a going-concern basis: the IS will continue in operation for the foreseeable future.

The amounts shown in these financial statements are presented in EUR.

The financial year begins on 1 January and ends on 31 December of the same year.

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The following IPSAS have no material effect on the 2023 financial statements of the IS:

- IPSAS 5: Borrowing Costs
- IPSAS 7: Investments in Associates.
- IPSAS 8: Interests in Joint Ventures
- IPSAS 10: Financial Reporting in Hyperinflationary Economies
- IPSAS 11: Construction Contracts
- IPSAS 16: Investment Property
- IPSAS 21: Impairment of non-cash generating assets
- IPSAS 26: Impairment of Cash-Generating Assets
- IPSAS 27: Agriculture
- IPSAS 32: Service Concession Arrangements. Grantor

Segment Reporting

A segment is a distinguishable activity or group of activities for which it is appropriate to separately report financial information. For the IS the segment information is based on principal activities and different sources of financing for different categories of activities of the organisation. To this end, the following segments have been adopted. Civil Budget, Reimbursable Expenses, Human Resources Shared Services (which includes inter alia the Personnel Management Information System and the NATO Talent Acquisition Platform), Extra-Budgetary Funds, Partners' Accommodation, Refurbishment of the Manfred Wörner Building (formerly known as Building Z), the Morale, Welfare and Recreational Activities (MWR), the Long Term Programme Budget (LTPB) under closure and the Office of the Senior Civilian Representative (OSCR) Security and Real-Life Support Services (SRLS) Suspense Account.

Manfred Wörner Building Project Financing Model

The Manfred Wörner Building project was initiated in 2012 through DPRC-DS(2012)0012, whereby nations agreed to offer space to partner missions in the Building Z. The projects comprises two strains of works: the Standard and Reinvestment works (refurbishment and security enhancements) and the individual partners missions Optional works. The funding of the latter are a responsibility of the respective partner nations and thus paid upfront. As for the Standard and Reinvestment works, Allies decided through DPRC-DS(2014)0084-REV3 and DPRC-N(2014)0070-REV1, that these will be pre-financed by IS cash liquidity and later reimbursed by Partner Nations

Morale, Welfare and Recreation

The financial closure of the former NATO Staff Centre took place on 31 December 2018 and as of 1 January 2019 all its assets and liabilities were transferred to the NATO International Staff accounts. The new management model adopted by Nations (PO(2018)0329), and the prevailing regulations (C-M(2019)0026) concerning Morale, Welfare and Recreation (MWR) activities, requires the consolidation of MWR accounts into the NATO International Staff financial statements.

MWR activities are financed from various sources deriving from commercial activities (sport facilities, concessionaires/retailers), special contributions from MWR stakeholder entities (incl. NATO IS, IMS, NCIA) and tax-free fuel operations. The surplus/deficit on the MWR activities is a liability towards the stakeholders.

In 2023, through DPRC-D(2023)0021 (INV), a new mandate for governing Morale and Welfare Activities (MWA) in the NATO Headquarters was established and will be fully implemented in 2024.

Long Term Programme Budget (LTPB) under closure

The LTPB Project budget was established in 2000 following the 1999 Washington Summit where Heads of State of the NATO member countries decided to build a new NATO Headquarters. In November 2020, the Budget Committee (BC) decided through BC-D(2020)0198-AS1 to discontinue the LTPB per 31 December 2020.

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As stated in C-M(2020)0058, with the closure of the NNHQ project financial books on 31 December 2020, the open balances and net assets of the LTPB were transferred to earmarked IS accounts on 31 December 2020 to allow proper accounting and reporting during the period needed for its final closure.

The LTPB under closure operations are reported in the IS 2023 Financial Statements as a separate segment.

In 2023, the Budget Committee approved through BC-D(2023)0094 (INV) the repurposing of EUR 2.400,000 LTPB remaining funds to support the 2023 Headquarters Adaptation Programme Costs.

Office of the Senior Civilian Representative (OSCR) Security and Real-Life Support Services (SRLS) Suspense Account

The Budget Committee (BC) authorized through BC-DS(2021)0022 and BC-DS(2021)0026 the creation of the Office of the NATO Senior Civilian Representative (OSCR) Security and Real-Life Support Services (SRLS) Suspense Account to charge the costs incurred until the end of 2021 by IS for the provision of security and real life support services to the Senior Civilian Representative Office in Kabul and contracts intended to be taken over from the NATO Military Authorities (NMA).

The IS has registered all operations covered by the OSCR SRLS Suspense Account in line with the prevailing regulations and the NATO IS Accounting Policy.

All incurred expenses have been reimbursed by the Alliance Operations and Missions (AOM) budget. For one claim a settlement was reached during 2022, no other formal claims have been received.

The closure of the OSCR SRLS Suspense Account will be addressed in 2024.

Changes in Accounting Policy

In 2020 Partner Nations moved into the Manfred Wörner Building. Until then, the surplus of the Partner Accommodation has been recognized as accumulated surplus. From 2020 onwards the excess, or shortfall, for Partner Accommodation is regularized in the following financial year. Therefore, this is a Partner Nations' liability towards the Organization and recognized as such under Other Current Liabilities.

This change was implemented to align with other segments within NATO International Staff.

Restatement of Financial Statements of Previous Years

In 2020 Partner Nations moved to the Manfred Wörner Building. Since then, Occupants are billed annually for services rendered by the Organization during the financial year and includes personnel costs and other related costs to provide the services but excludes depreciation costs for Organization owned assets. The cost estimates are based on budgetary appropriations. Any shortfalls or excesses resulting from the actual incurred costs are billed, or credited, to Occupants during next year's billing cycle.

The accumulated surplus until 2019 amounts to EUR 1,128,860.94. The excess or shortfall for the financial years 2020 until 2022 have been regularized.

As a consequence, EUR 681,290.77 has been reclassified from Previous year's Surplus and Current Year Deficit to Other Current Liabilities.

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Below tables provide an overview of the impact on the 2022 restated Statement of Financial Position and Statement of Financial Performance for comparative purposes:

	Notes	2022 REPORTED	2022 RESTATED	IMPACT
Assets				
Current assets				
Cash and cash equivalents	3	219,098,955.24	219,098,955.24	0.00
Short term investments	4	100,000,000.00	100,000,000.00	0.00
Receivables	5	49,458,535.20	49,458,535.20	0.00
Prepayments	6	2,379,838.83	2,379,838.83	0.00
Other current assets	7	2,223,406.06	2,223,406.06	0.00
Inventories	8	523,072.96	523,072.96	0.00
		<u>373,683,808.29</u>	<u>373,683,808.29</u>	<u>0.00</u>
Non-current assets				
Receivables	9	0.00	0.00	0.00
Property, plant & equipment	10	774,646,331.86	774,646,331.86	0.00
Intangible assets	11	3,035,151.88	3,035,151.88	0.00
Non-current financial assets	12	0.00	0.00	0.00
Other non-current assets	12	6,637,770.40	6,637,770.40	0.00
		<u>784,319,254.14</u>	<u>784,319,254.14</u>	<u>0.00</u>
Total Assets		<u>1,158,003,062.43</u>	<u>1,158,003,062.43</u>	<u>0.00</u>
Liabilities				
Current liabilities				
Payables	13	42,980,225.15	42,980,225.15	0.00
Deferred revenue	14	228,077,035.16	228,077,035.16	0.00
Advances	15	90,209,409.79	90,209,409.79	0.00
Short term provisions	16	193,173.96	193,173.96	0.00
Other current liabilities	17	14,074,333.46	13,393,042.69	-681,290.77
		<u>375,534,177.52</u>	<u>374,852,886.75</u>	<u>681,290.77</u>
Non-current liabilities				
Payables	18	0.00	0.00	0.00
Long term provisions	18	500,000.00	500,000.00	0.00
Deferred revenue	19	777,681,483.74	777,681,483.74	0.00
Other non-current liabilities	20	3,839,831.00	3,839,831.00	0.00
		<u>782,021,314.74</u>	<u>782,021,314.74</u>	<u>0.00</u>
Total Liabilities		<u>1,157,555,492.26</u>	<u>1,156,874,201.49</u>	<u>681,290.77</u>
Net assets				
Capital assets	21	0.00	0.00	0.00
Reserves		0.00	0.00	0.00
Current year Surplus / (Deficits)		-881,763.47	0.00	881,763.47
Accumulated surpluses / (deficits) prior year		1,329,333.64	1,128,860.94	-200,472.70
				<u>0.00</u>
Total net Assets / Equity		<u>447,570.17</u>	<u>1,128,860.94</u>	<u>-681,290.77</u>

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	Notes	2022 REPORTED	2022 RESTATED	IMPACT
Revenue				
Non exchange revenue	22	317,721,319.12	317,721,319.12	0.00
Exchange revenue	23	16,763,791.62	17,645,555.09	881,763.47
Other revenue	24	2,062,206.17	2,062,206.17	0.00
Financial revenue	25	834,981.87	834,981.87	0.00
Total Revenue		337,382,298.78	338,264,062.25	881,763.47
Expenses				
Personnel	26	145,786,635.57	145,786,635.57	0.00
Contractual supplies and services	26	143,905,909.50	143,906,909.50	0.00
Depreciation and amortization	26	48,266,951.66	48,266,951.66	0.00
Impairment	26	0.00	0.00	0.00
Provisions	26	-227,786.13	-227,786.13	0.00
Long Term Provisions	26	0.00	0.00	0.00
Other expenses	28	0.00	0.00	0.00
Finance costs	26	531,351.65	531,351.65	0.00
Total Expenses		338,264,062.25	338,264,062.25	0.00
Surplus/(Deficit) for the period	27	-881,763.47	0.00	881,763.47

Use of estimates

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

The IS estimates the value of provisions for bad debts and is notionally posted for the long outstanding receivables at year-end, however it is reversed in the beginning of the following year. Debts from Member Nations in lieu with Common Funded calls are excluded, since in case of default they shall be collectively covered (by all Allies) as per NATO's charter. The percentages applicable for provision for bad debts have been reviewed as part of the formalization of the NATO IS accounting policies.

Foreign currency transactions

The IS budget is authorized and managed in EUR so contributions are called in EUR. The same situation prevails for the other segments which are budget driven such as the Human Resources Shared Services (HRSS). Foreign currency transactions as required are accounted for at the NATO exchange rates prevailing on the date of the transaction. Monetary assets and liabilities at year-end which were denominated in foreign currencies were converted into EUR using the NATO exchange rates applicable at 31 December of the fiscal year.

Realised and unrealised profit and loss 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 recognised in the Statement of Financial Performance.

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Financial risks

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

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

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

a. Foreign currency exchange risk

The exposure to foreign currency risk is limited as the majority of the NATO-IS's expenditures are made in EUR. The current bank accounts are held in EUR, CAD, CHF, DKK, GBP, NOK and USD. There are transactions in foreign currencies for the NATO Satellite Offices. The currency risk associated with these holdings is considered limited in consideration of the level of the aggregated amount held in these accounts.

The maximum exposure as at year end is equal to the total amount of bank balances, short term deposits and receivables. There is very limited credit risk associated with the realization of these elements.

b. Credit risk

Concerning cash and cash equivalent, the IS credit risk is managed by holding current bank accounts and short term highly liquid deposits that are readily convertible to a known amount of cash held with accredited banking institutions.

Table below presents the short term credit ratings, for every banking institutions in which IS holds cash and cash equivalents at 2022 year-end:

BANK NAME	COUNTRY OF HQ	SHORT TERM RATINGS					
		FITCH		S&P GLOBAL		MOODY'S	
		Rating	Last review date	Rating	Last review date	Rating	Last review date
ING BANK	NE	F1+	13-Jul-23	A-1	23-Jun-23	P-1	28-Nov-23
BNPP FORTIS	Belgium	F1	03-Jul-23	A-1	24-Apr-23	P-1	30-Nov-23
Credit Agricole	France	F1	04-Oct-23	A-1	26-Oct-23	P-1	15-Dec-23
Credit Mutuel ARKEA	France	F1	18-Sep-23	A-1	13-Oct-23	P-1	31-Jul-23
Wells Fargo	US	F1+	01-Jun-23	A-1	29-Sep-23	P-1	23-Oct-23
Intesa SanPaolo	Luxembourg	F2	17-Nov-23	A-2	25-Oct-23	P-2	21-Nov-23

The IS holds also a current bank account with AION but without significant cash holdings.

c. Liquidity risk

The liquidity risk, also referred to as funding risk, is based on the assessment as to whether the Organisation will encounter difficulties in meeting its obligations associated with financial liabilities. A liquidity risk could arise from a short term liquidity requirement. There is a very limited exposure to liquidity risk because of the funding mechanism which guarantees contributions in relation to the approved budgets. Some limited risk could be due to the accuracy of budget forecasts. However, past history shows that this process results in surpluses, and the budgetary rules provide for revised budgets. Segments relying on revenue from their commercial operations (i.e. MWR) have proven to be more exposed to liquidity risk.

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d. Interest rate risk

Except for certain cash and cash equivalent balances, the IS financial assets and liabilities do not have associated interest rates. The IS is restricted from entering into borrowings and investments, and, therefore, there is an insignificant interest rate risk. Interest earned is not a budgetary resource but contributes to the surplus owed to Nations.

Current Assets

a. Cash and cash equivalents

Cash and cash equivalents are defined as short-term assets. They include cash in hand, deposits held with banks, other short term highly liquid investments. This includes funds managed on behalf of third parties which are held in cash and are presented as a liability. They are accounted for when cash is effectively received. Funds held by NATO IS on behalf of the reporting entities served by the NATO IS Office of Financial Control are included.

b. Receivables

Receivables are stated at net realisable value. Contributions receivable are recognised when a call for contribution, based on the approved budget, has been issued to the funding Nations. These receivables represent the uncollected contributions from Member Nations. No allowance for loss is recorded with respect to Member countries assessed contributions receivable.

c. Prepayments

A prepayment is a payment in advance of the period to which it pertains and is mainly in respect of advance payments made to third parties. This item may include advances made to NATO staff in accordance with NATO Civilian Personnel Regulations (such as advances on salaries or on education allowance).

d. Other Current Assets

Other Current Assets correspond to miscellaneous amounts due to NATO IS such as accrued income, rent related deposits, and other assets that do not result from the standard order to cash process, such as miscellaneous transactions to be regularized, including between entities managed by the IS Office of Financial Control, and advances made to non-consolidated NATO entities, generally in order to ease their treasury situation.

e. Inventories

As mentioned above, NATO's adaptations of IPSAS are spelled out in C-M(2016)0023 of April 2016, which included IPSAS 12 Inventories. Furthermore, C-M(2017)0043 of September 2017 approved the NATO Accounting Policy for Inventory.

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

Criteria that may indicate control of an asset:

- The act of purchasing the asset carried out (or resulted from instructions given) by the NATO Reporting Entity.
- The legal title is in the name of the NATO Reporting Entity.
- The asset is physically located on the premises or locations used by the NATO Reporting Entity.
- The asset is physically used by staff employed by the NATO Reporting Entity or staff working under the NATO Reporting Entity's instructions.

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- The fact that the NATO Reporting Entity can decide on an alternative use of the asset.
- The fact that the NATO Reporting Entity can decide to sell or to dispose the asset.
- The fact that the NATO Reporting Entity, if it has to remove or destroy the asset, can take the decision to replace it.
- The fact that a representative of the NATO Reporting Entity regularly inspects the asset to determine its current condition.
- The fact that the asset is used in achieving the objectives of the NATO Reporting Entity.
- The fact that the asset will be retained by the NATO Reporting Entity at the end of the activity.

Capitalization thresholds relevant to the financial statement are as follow:

Category	Threshold	Basis
Consumables	€50,000	Per location/warehouse
Spare Parts	€50,000	Per location/warehouse
Ammunition	€50,000	Per location/warehouse
Strategic stocks	€50,000	Per location/warehouse

Slow moving inventory – Assuming turnover of stock is over a 12 month period, any items not used over a 36 month period will be deemed to be slow moving.

Strategic stock – Some complex elements of slow moving stock can be identified as strategic if they are deemed essential to the effective operation of an asset and cannot be readily replaced by commercial off the shelf items or cannot be purchased due to market decisions to close production lines of key inventory items due to the advanced age of the strategic asset to which the stock relates.

The IS capitalizes inventory which it controls in its financial statements. Where there is a conflict between more than one NATO Reporting Entity as to the control of inventory, only the end-user entity will report the inventory in its financial statements, based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities.

The IS will include transportation costs involved in bringing the inventories to their present location and condition in the initial valuation of inventory. These costs will be measured on the actual cost of transportation per item of inventory or by using an apportionment of the global transportation costs of bringing the inventories to their present location and condition across all inventory items in the period. Transportation costs involved in the subsequent movement of inventory which brings them into operational use will not be included in the value of inventory.

The IS considered inventory acquired prior to 1 January 2013 as fully expensed.

Where this adaptation conflicts with another requirement of IPSAS this adaptation shall apply. For the remainder, IPSAS 12 shall apply.

At year end, the IS assesses its inventories under IPSAS 12, against the materiality thresholds defined by the NATO policy, based on this assessment the IS decides whether to capitalize or fully expense its inventories.

The materiality will be assessed each year in relation to the inventories held across the IS HQ. Inventories in external offices abroad are not considered to be material.

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ANNEX 6 to
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NATO's adaptation of IPSAS are spelled out in C-M(2016)0023 of April 2016 among which were specific items addressing IPSAS 17 PPE. Furthermore, C-M(2017)0022(INV) approved the NATO accounting policy for Property, Plant and Equipment.

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

Capitalization thresholds relevant to the financial statement are as follow:

Category	Threshold	Depreciation Life	Method
Land	€200,000	N/A	N/A
Buildings	€200,000	40 years	Straight line
Other infrastructure	€200,000	40 years	Straight line
Installed equipment	€ 30,000	10 years	Straight line
Machinery	€ 30,000	10 years	Straight line
Vehicles	€ 10,000	5 years	Straight line
Aircraft	€200,000	Dependent on type	Straight line
Vessels	€200,000	Dependent on type	Straight line
Mission equipment	€ 50,000	3 years	Straight line
Furniture	€ 30,000	10 years	Straight line
Communications	€ 50,000	3 years	Straight line
Automated information Systems	€ 50,000	3 years	Straight line

In light of the move to the New NATO HQ in 2018, it was decided, that core PPE relating to the previous HQ and the Manfred Wörner Building will be fully expensed as will any fixed equipment and furniture that is not to be transferred to the current HQ. Only movable items purchased with a view to being used again in the current HQ/ the Manfred Wörner Building environment would continue to be capitalized.

Where and as appropriate, the value of specific pieces of PPE (for example buildings), will be broken down into component parts to allow depreciation of different parts of the asset at different rates. The IS has considered PP&E acquired prior to 1 January 2013 as fully expensed. For PPE held prior to 1 January 2013 and not previously recognized as an asset, the IS provides a brief description under Note 10.

b. Intangible Assets

As mentioned above, NATO's adaptations of IPSAS are spelled out in C-M(2017)0023 of April 2013, which included IPSAS 31 Intangible Assets. Furthermore, C-M(2017)0044 approved the NATO accounting policy for intangible assets.

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

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NATO Intangible Assets Capitalization Thresholds – the IS will capitalize each intangible asset item that is above the following agreed NATO thresholds:

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

The IS capitalizes all controlled intangible assets above the NATO Intangible Asset Capitalization Threshold. For anything below the threshold, the IS has the flexibility to expense specific items. NATO-IS capitalizes integrated systems and include research, development and implementation, and can include both software and hardware elements. But the IS does not capitalize the following types of intangible assets in its financial statements:

- rights of use (air, land and water);
- landing rights;
- airport gates and slots;
- historical documents; and,
- publications

The IS capitalizes other types of intangible assets acquired after 1 January 2013 including:

- Copyright
- Intellectual Property Rights
- Software development

The IS considers intangible assets acquired prior to 1 January 2013 as fully expensed.

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

For intangible assets held prior to the 1 January 2013 and not previously recognized as an asset, the IS should provide a brief description of intangible assets held in its intangible asset recording systems in the notes to the financial statements. Such disclosure will include as a minimum the types of intangible assets held, locations where they are held, and the approximate number of items held per asset category. However NATO does not possess any such items.

If an intangible asset is upgraded after 1 January 2013, only the portion related to the modification will be capitalized.

Where this adaptation conflicts with another requirement of IPSAS, this adaptation will apply. For the remainder, IPSAS 31 shall apply. This adaptation is effective for financial reporting periods beginning on 1 January 2013.

Non-Current Financial Assets

This item includes financial investments held by NATO IS for a period of more than 1 year on behalf of the reporting entities served by the NATO IS Office of Financial Control.

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ANNEX 6 to
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Payables are amounts due to Nations in relation with budget rules or to third parties for goods received and services provided that remain unpaid. This includes an estimate of accrued obligations to third parties for goods and services received but not yet invoiced.

b. Advances and Unearned revenue

Funds are always called in advance of need because the IS has no capital that would allow it to pre-finance any of its activities.

Unearned revenue represents participating Nations' contributions which have been called for current budgets but that have not yet been recognised as revenue in the absence of matching expenses.

Advances are recognised when calls in relation to future year budgets are issued. Advances made by contributing nations outside of the call for contributions process are recorded when cash is received.

c. Provisions

Estimates of present obligations resulting of a past event if resulting of a possible payment or loss of a foreseeable value are presented under Provisions. This item includes, inter alia, a Bad Debts Provision.

d. Other Current Liabilities

Amounts corresponding to the current year budgetary surplus, i.e. lapsed credits, net interest and miscellaneous income, are considered a liability towards the contributing nations. The settlement does not follow the normal accounts payable process, since the standard approach is to return them to contributing nations via a deduction of the following year's call for budget contributions. This liability is therefore classified under Other Current Liabilities.

This item includes financial liability resulting from the funds held by NATO IS for maximum one year on behalf of the reporting entities served by the NATO IS Office of Financial Control as the current IS assets.

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

Non-Current Liabilities

The long term unearned revenue is unearned revenue in relation to net carrying amounts of Property, Plant and Equipment and Intangible Assets. Revenue is recognised over the estimated life cycle of the Property, Plant and Equipment and the Intangible Assets.

This item also includes financial liability resulting from the funds held by the NATO IS for more than one year on behalf of the reporting entities served by the NATO IS Office of Financial Control as the IS non-current asset.

Net Assets

Net Assets correspond to cumulative surpluses/deficits of non-budgetary activities such as Partner Accommodation where income follows a process that is relatively independent from the actual level of expenses, and does not automatically balance expenses as in the standard NATO budget process. For such activities, the yearly execution results in a surplus or a deficit.

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Leases

IS does not enter into financial leases. All IS leases are operational leases. Lease contracts are in place for vehicles, office equipment, etc.

Revenue and expense recognition**a. Revenue from non-exchange transactions**

Revenue from non-exchange transactions comprises contributions from Participating Nations when they are based on officially approved cost shares or on a voluntary basis that are not approximately equal to the proportion of value received. This applies to all budget driven segments or entities (e.g. Civil Budget) and to Extra Budgetary Funds.

Civil Budget contributions to be called from Member Nations, based on the budget approved by the North Atlantic Council, are initially recorded as unearned revenue liabilities. Because contributions are subject to conditions that, if unfulfilled, require the return of the transferred resources, the entity recognises a liability until the condition is fulfilled.

Assessed contributions for the IS Civil Budget are accounted for as unearned revenue when called, revenue is recognised and the liability is discharged when the conditions are fulfilled. Revenue is recognised in that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. The balance of unspent contributions and other revenues which relate to future periods are deferred accordingly.

Voluntary contributions such as pledges in relation to Extra Budgetary Funds are accounted for as unearned revenue when confirmed by the donor; revenue is recognised and the liability is discharged when the conditions are fulfilled.

In-kind contributions of services or goods are currently not recognised in the Statement of Financial Performance. The number of Voluntary National Contributions (VNCs) staff is disclosed under note 36 "Employee Disclosure".

b. Revenue from exchange transactions

Resources of revenue from exchange transactions are measured at fair value of the consideration received or receivable and are recognised when goods and services are delivered. This is revenue in relation to the reimbursement of administrative support and common operating costs, Refundable Expenses, Human Resources Shared Services (HRSS) and Partners' Accommodation costs. It also includes revenue from audits performed by IBAN on Multi-nationally funded entities and MWR activities.

c. Long term unearned revenue

The budget resources provided by Nations for the funding of capital expenditure are recognised as a liability in the Statement of Financial Position as long term unearned revenue. Earned revenue will be progressively recognised from long term unearned revenue, in an amount equal to annual depreciation of the related non-current assets, as future economic benefits and service potential will flow to IS when the asset is operational.

NOTE 3: CASH AND CASH EQUIVALENTS

The current bank accounts at NATO HQ are held in EUR, CAD, CHF, DKK, GBP, NOK and USD. Deposits are held in bank current accounts that are immediately available.

The IS has satellite offices for Moldova, Ukraine, and Georgia which hold bank accounts with their local banks.

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Cash is also held for Extra Budgetary Funds (EBFs) for which the IS is the executing agent and therefore acts as the principal, or for which the IS acts as Treasurer. These projects are not financed by the common funding principle. These Extra Budgetary Funds managed on behalf of third parties are held in cash or as a receivable if they correspond to an unpaid non-budgetary contribution in relation to nationally funded elements. The corresponding amounts are presented as a current liability. Cash holdings have increased significantly during 2023 mainly because of pledges to the Ukraine Comprehensive Assistance Package trust fund.

Since 1 January 2021, the IS manages also LTPB under closure bank accounts, until its final closure.

NATO Reimbursable Expenses, Partners' Accommodation, HRSS, the Manfred Wörner Building Refurbishment Project and the OSCR SRLS Suspense Account use the same bank account as the IS.

While the consolidated IS cash position is positive, the implicit position of some segments may be negative, in case they find themselves in a cash shortage position such as Reimbursable Expenses and the Manfred Wörner Building Project.

The table below presents a breakdown of all Cash and Cash equivalents under the control of the IS.

Amounts in EUR

	2023	2022
NATO-IS	90,536,049.09	62,244,259.56
NATO Satellite Offices	722,008.64	641,712.79
NATO Petty Cash	-	700.00
NATO Reimbursable Expenses	551,504.03	(551,423.60)
HR Shared Services	136,840.23	(455,414.67)
Office of Shared Services	829,632.37	829,632.37
Extra Budgetary Funds	262,772,099.89	153,146,285.09
Partners Accomodation	1,660,328.65	425,020.73
Manfred Wörner Building	(1,441,644.03)	(2,495,073.63)
LTPB under closure	3,177,585.99	3,591,483.35
OSCR SRLS	-	-
Morale and Welfare Recreational Activities (Staff Centre)	1,056,585.43	1,721,773.25
Total	360,000,990.29	219,098,955.24

Negative balance of the Manfred Wörner Building in 2023 is the result of the pre-financing operations with the use of IS cash liquidity. During 2023, there were no transactions on the OSCR SRLS Suspense Account.

NOTE 4: SHORT TERM INVESTMENTS

Short term investments are made in highly liquid deposits in consideration of the situation of interest rates. These include cash from the IS and also from other segments over which the IS exerts control.

The table below provides comparative data on this item over two consecutive years:

Amounts in EUR

	2023	2022
NATO-IS	35,400,000.00	40,000,000.00
EBF funds invested through IS	329,600,000.00	60,000,000.00
Total	365,000,000.00	100,000,000.00

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NOTE 5: CURRENT ASSETS: ACCOUNTS RECEIVABLE

Accounts receivable are mainly outstanding contributions for the IS Civil Budget related to the call issued at the end of the year and amounts due by other bodies and member Nations for services rendered by the International Staff (Accommodation costs and Administrative Support).

Contributions receivable from NATO Member Nations are essentially funds requested from the Nations to finance the Civil Budget and the advances called in relation to the following year Civil Budget that remain unpaid at year end. In accordance with the standard procedure, one advance for the following year's budget is called at the end of the current year and two calls for contributions are issued during year, usually in February and in November. Other receivables from NATO Member Nations correspond mainly to amounts due in relation to common operating costs, administrative support and rental of office accommodation.

Receivables from Member or Partner Nations and others correspond to amounts due in relation to accommodation costs, administrative support, accommodation fees of Partner buildings, items procured on behalf of third parties, contributions to the Von Karman Institute etc. They also correspond to outstanding amounts in relation to the funding of specific requirements concerning the refurbishment of the Manfred Wörner Building and the Moral, Welfare and Recreation activities. Extra-Budgetary Funds receivables are pledged funds not yet received.

The table below provides comparative data of the Receivables balances, taking into account the eliminations, at year-end, for two consecutive years:

Amounts in EUR

	2023	2022
International Staff	44,194,849.05	45,284,364.15
Refundable Expenses	793,855.67	1,128,852.52
HR Shared Services	244,470.39	880,639.54
Extra Budgetary Funds	7,929,045.82	355,034.63
Partner Accommodation	824,560.39	322,711.39
Manfred Wörner Building	788,268.23	904,955.00
Moral, Welfare and Recreation	1,020,460.39	581,977.97
TOTAL	55,795,509.94	49,458,535.20

NOTE 6: PREPAYMENTS

Prepayments to suppliers relate to expenses paid in advance.

Prepayments to staff members correspond to advances to be regularised (mainly education allowances for the following year but also travel on duty, advances and loans, as provided by the CPRs).

A prepayment of EUR 5,000,000 is made from the Ukraine Comprehensive Assistance Package (UCAP) to the United Kingdom Ministry of Defence to support Op RENOVATOR Phase 1.

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The table below provide comparative data of the Prepayment balances at year-end, for two consecutive years:

Amounts in EUR

	2023	2022
International Staff	2,291,521.29	2,273,367.16
Refundable Expenses	0.00	0.00
Extra Budgetary Funds	5,004,900.00	52,280.45
LTPB Under closure	2,932.00	54,191.22
TOTAL	7,299,353.29	2,379,838.83

NOTE 7: OTHER CURRENT ASSETS

These consist essentially of cash advances to the DCPS, inter-entity regularizations and pending litigations receivables that were passed on to the IS after the closure of the old site Staff Centre entity.

At the end of 2023 NATO IS held 5,807.1 green certificates; 4,087.70 belonging to 2022 which will be sold through the negotiated contract with the electricity provider at a unit price of EUR 94 (EUR 384,243.80) while for the remaining green certificates it remains unclear to who those will be sold. As a prudent approach, this remaining amount of green certificates are valued at the guaranteed prices offered by the Belgian's Electricity System Operator, Elia, at a unit prices of EUR 65 (EUR 111,761.00). This brings the total to EUR 496,004.80.

The deferred expense relate to the invoices received late 2023 but for expenses of the next fiscal year.

The Budget Committee approved through BC-D(2023)0094 (INV) the repurposing of EUR 2,400,000 LTPB remaining funds. Those funds have been recognized as Other Current Assets in the IS segment.

The below table provides a breakdown of the year-balances for the segment IS, for two consecutive years:

Amounts in EUR

	2023	2022
Inter-entity cash advances	1,213,390.92	975,867.86
Green certificates to realize in 2024	384,243.80	597,285.40
Deferred expenses	9,946.49	368,056.85
Litigation Receivable	284,236.86	284,236.86
Receivable towards NATO Body	21,978.27	18,092.97
Warranty	2,896.03	2,896.03
Repurpose of LTPB Funds	2,400,000.00	0.00
Total	4,316,692.37	2,246,435.97

NOTE 8: INVENTORIES

The table below provides insight on the movements as well as the balances of Inventories at year-end:

Amounts in EUR

Description	Stock Value per 31 Dec 22	2023 Yearly Issues	2023 Yearly Purchases	Stock Value per 31 Dec 23
Office Supplies	229,611.90	55,804.66	71,856.88	245,664.12
Buildings & Infrastructure Supplies	240,410.34	84,232.01	103,564.99	259,743.32
NOS Consumables	53,050.67	34,110.75	40,377.40	59,317.32
Total				564,924.76

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NOTE 9: NON-CURRENT ASSETS: RECEIVABLES

Nothing to report.

NOTE 10: PROPERTY, PLANT AND EQUIPMENT

The following principles have been applied.

Property, Plant and Equipment (PPE)

Infrastructure, plant and equipment are stated under the accounting principles mentioned in Note 2 above.

Land and buildings

Land and buildings are shown at fair value, based on internal valuation and judgment on each reporting date.

During the first half of 2018, NATO moved to its new premises, the current NATO HQ, further to the handover from the Host Nations (Belgium and NCIA) to NATO of all of the main elements of the projects that enabled operations in the new building. As a consequence, and as per the provisions of the NATO Accounting Framework (C-M(2016)0023), all assets that were recorded as work in progress in the "New NATO HQ" financial statements have been transferred to the NATO International Staff, or the NCIA (for the IT assets).

The value of the current HQ building includes items considered as Common Funded and items considered as Nationally Funded. The reasoning stems from a number of factors. The current HQ building constitutes a coherent and global building whose purpose is to bring together member nations in order to enable an efficient and effective consultation process. This situation whereby dedicated National Representations are present on site is very specific to NATO and does not always exist in other comparable international organizations. The member nations are not considered, from a legal perspective, as having direct property rights on the parts of the building corresponding to their own delegation premises, but rather having an exclusive right of use. In this respect the different funding mechanisms cannot be deemed a factor justifying a specific accounting treatment. The situation also carries certain restrictions, such as the inability to execute works affecting or altering the basic structure of the building, or to use the premises for purposes different than housing their national delegation to NATO, or to independently sell their premises. Additionally, it is difficult to accurately distinguish the value between these common and nationally funded elements. Their inclusion provides useful and clear information which contributes to financial transparency. Common funded and nationally funded construction works were managed as a single project. The economic benefit or the service potential is measured by the contribution to consensus building and therefore it cannot be separated from NATO's purpose. Therefore, this would not justify a separate accounting treatment.

It should be noted that this approach does not apply to the national fit-out segment, for which four nations decided to act separately.

Items purchased prior to 1 January 2013.

Material and non-recorded items purchased prior to 1 January 2013 are the fourth wing of the Manfred Wörner Building, assessed at the historical cost of EUR 2.566 million, and the Secretary General's residence with an assessed market value of EUR 12,000,000 as at October 2020.

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ANNEX 6 to
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The table below shows the status of the PPE and Land and Buildings in the IS segment at year-end:

(amounts in EUR)	Carrying Amount end 2022	Additions	Disposals	Depreciation	Reclass	Impairment	Carrying Amount end 2023
COMMON FUNDED							
Land & Building	591,440,939.66	329,549.07		(16,700,329.72)			575,070,159.01
Installed equipment	160,777,212.66	995,607.15		(29,895,533.26)			132,077,286.55
Machinery	227,811.17	-		(54,452.65)			173,158.62
Transportation Equipment	313,678.78	222,273.98		(118,760.52)			417,192.24
Communications	294,806.83	-		(122,160.81)			172,656.02
Furniture and Office Equipment	293,835.00	-		(30,930.00)			262,905.00
IT Equipment	230,383.91	5,000,000.00		(420,817.10)			4,809,566.81
TOTAL	763,678,468.01	6,547,430.20	-	(47,142,973.86)	-	-	712,982,924.25

As for the Manfred Wörner Building, all expenditures are accrued under a "Fixed Assets Under Construction" account until the finalization of the project when the project accumulated cost will be finally recognized as Land & Buildings.

The table below shows the status of the PPE and Land and Buildings in the Manfred Wörner Building segment at year-end:

Amounts in EUR

Manfred Wörner Building	2023	2022
Assets under construction	20,960,458.60	21,067,863.85

Total Warranty Contract

In December 2018 the IS signed with COFELY (currently: EQUANS SERVICES) a nine years contract (expires in 30/11/2027) for the maintenance of the IS HQ equipment's and technical installations. This contract is referred to as a Total Warranty Contract.

The below table disclose the items that were replaced by EQUANS SERVICES during 2023, as part of the contract execution:

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EQUANS SERVICES TOTAL WARRANTY REPLACEMENTS 2023	
ITEMS REPLACED	COST
RPL ECHANGEUR GP	44,316.98
REPLACEMENT ADOUCISSEUR MVB	5,842.27
REPLACEMENT BATTERIES UPS 2022	143,683.09
REPLACEMENT BATTERIES UPS GHS	5,388.29
REPLACEMENT BATTERIES UPS MWB	13,865.50
RPL CLAPET MOTORISE GF3	3,298.22
RPL COMMANDE POMPES BACHE L8	16,694.50
REPLACEMENT PLANCHES DE WC	7,921.48
REPL BATTERIES UPS L5	9,948.39
REPARATION TUYAUTERIE CHAUFFAGE DE LA GHN	17,820.18
RPL MENBRANNE PISCINE	1,931.17
REPLACEMENT SERVOMOTEUR GF3	3,298.22
REPLACEMENT POMPE DOSEUSE	1,882.78
REPLACEMENT PC TABLEAUX POMPIERS	14,150.75
REPLACEMENT ECRANS TABLEAUX POMPIERS	7,120.80
REPLACEMENT DISJONCTEUR COGEN 3	27,237.25
REPL MOTEUR PRV GF 3	6,044.98
UPGRADE DES 9 NIE85	155,708.85
REPLACEMENT BATTERIES UPS C1 ET ICT2	82,757.28
TOTAL	568,910.98

After an analysis, the OFC decided that since all acquired items falls under the consumable/spare part category, in 2023 the IS shall not recognize EQUANS SERVICES's replaced items as PP&E.

The contract also stipulates that the difference between the costs paid by EQUANS SERVICES and the contractual annual replacements ceilings are captured under a "Solde du Fonds de Réserve" and that at the end of the ninth year of contract, the IS will get back one half of the funds not spent. However, if the balance is negative, NATO will not pay EQUANS SERVICES any compensatory payment.

As per NFR's when and if this income realizes, it shall be returned to Nations as Miscellaneous Income of the year concerned.

The balance of the "Solde du Fonds de Réserve" at 31 December 2023, shows a positive balance of EUR 1,291,051.78.

However, since the settlement of the "Solde du Fonds de Réserve" is receivable only at the end of the contract (30/11/2027), the OFC does not recognize any related asset/liability in lieu with the Total Warranty Contract.

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ANNEX 6 to
FC(2024)0048**NOTE 11: INTANGIBLE ASSETS**

Intangible assets are stated at historical cost minus accumulated depreciation and any recognized impairment loss.

The table below shows the status of Intangible Assets in the IS segment at year-end.

(amounts in EUR)	Carrying Amount end 2022	Additions	Disposals	Depreciation	Reclass	Impairment	Carrying Amount end 2023
COMMON FUNDED							
Intangible assets							
ILS RELATED COSTS IMPLEMENTATION SW PROJECT STAFF	5,896.69			(5,896.69)			-
PPM RELATED COSTS IMPLEMENTATION SW PROJECT STAFF	199,261.45	478,376.52		(97,499.16)			580,128.81
EIM RELATED COSTS IMPLEMENTATION SW PROJECT STAFF	884,412.88	16,826.50	-	(233,605.84)	-	-	677,433.50
ERP RELEASE II (+ OBI)	0.36						0.36
ERP RELEASE III (HR Programs, SharePoint)	352,140.66		-	(352,051.40)		-	89.26
ERP RELEASE IV (Travel)	233,440.21			(116,720.09)			116,720.12
ERP UPGRADE	832,024.12	16,476.10		(256,295.33)			588,204.89
TASK TRACKER	261,748.59	81,662.50		(27,381.72)			316,029.37
OTHER ASSETS	256,236.61	38,400.00	-	(56,242.01)		-	238,394.60
TOTAL	3,035,151.89	631,741.62	0	(1,146,897.47)	-	0	2,517,996.03

During 2023, the Load and Recalculate Financials interface of the Project Portfolio Management System (CIRIS) went live, resulting in an additional capitalization of EUR 478,376.52 investment costs.

The implementation of Task Tracker (HYDI) (EUR 81,662.50) has been recognized as an asset during 2023.

Depreciation

Straight-line depreciation method is used for all categories, with the life cycles in keeping with those stated in the accounting policy.

Impairment of fixed assets

The carrying amounts of fixed assets are reviewed for impairment if events or changes of circumstances indicate that they may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the impairment loss. Any provision for impairment losses is charged against the Statement of Financial Performance in the year concerned.

NOTE 12: NON-CURRENT FINANCIAL ASSETS AND OTHER NON-CURRENT ASSETS

Other non-current assets covers the amount of MEUR 1.397 and is the balance of pre-financing the cost of refurbishment and re-investment works in the Manfred Wörner Building Occupancy fees to be charged to future occupants including the NATO International Staff will offset this amount.

By the end of 2023 the IS has been awarded 5,807.10 green certificates, for the production of eco-friendly or green energy (see note 7).

In 2022 the IS negotiated a contract for electricity supply which includes the sale of the granted green certificates at a unit price of EUR 94. Assumption is that the certificates granted by the end of 2022 (4,087.70 units) will be sold during 2024, the remainder (1,719.40 units) in 2025. As a consequence, EUR 384,243.80 is recognized under Other Current Assets while EUR 111,761 under Other Non-Current Assets.

In 2021, during the yearly calculation of the NATO social contributions for active staff (medical premiums for fiscal year 2020) a surplus of premiums over the medical costs amounting to EUR 3,839,831.00 was observed.

In line with the NATO Civilian Personnel Regulations (NCPRs) Chapter X, by way of an exception, the 2020 surplus was used to create a "Stability Fund" within the NATO-wide Medical Scheme. This "Stability Fund" will prevent unforeseen increases in social contributions (medical premiums) for active

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staff. This fund is kept by Allianz on behalf of NATO and is therefore recognized as Non-Current Assets under HRSS.

In 2023, EUR 1,800,000 of the "Stability Fund" has been used bringing the remaining balance of the fund to EUR 2,039,831.

NOTE 13: PAYABLES

Payables and accrued expenses may be to commercial suppliers, staff, Member Nations, other NATO bodies and Partner Nations.

Payable to suppliers

Payable to suppliers relates to goods and services for which an invoice has been received, checked, and queued for payment but for which payment was still pending at year-end.

Payable to personnel

Payable to personnel relates to amounts due to staff in relation to travel expenses and hospitalities.

Payable to Nations

There is a payable in relation to the reimbursable salaries due to certain countries (United States, Norway and the Netherlands) for civilian staff members who are paid directly by their governments. This amount payable can be used by the nations in question applying it against any calls for contributions.

Payable to other NATO bodies

This includes amounts received from NATO bodies in support of projects funded by the Civil Budget.

Accruals

Accrued expenses correspond to the estimated obligation to third parties for goods and services received but not yet invoiced.

The table below presents detailed breakdown of payables at year-end for the IS segment for two consecutive years:

Amount in EUR

	2023	2022
Suppliers	14,780,743.98	12,323,735.26
Personnel Related	23,974.04	388,581.52
Member Nations	1,240,307.95	2,356,932.40
Accruals	17,813,115.48	8,008,089.38
Total	33,858,141.45	23,077,338.56

Morale, Welfare and Recreation

At the end of 2023, the MWR showed a payable position to NATO International Staff amounting to EUR 2,472,260.19.

Extra-Budgetary Funds

Payables in this segment relate to invoices due mainly to the NATO Support and Procurement Agency (MEUR 5.3) within the Ukrainian Comprehensive Assistance Package trust fund.

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ANNEX 6 to
FC(2024)0048**NOTE 14: DEFERRED/UNEARNED REVENUE**

Civil Budget:

Unearned revenue corresponds to contributions called for the current or previous years that NATO IS plans to use as originally intended, but for which corresponding expenses will be incurred after the reporting date.

Unearned revenue includes principally those amounts of contributions which will be spent in subsequent years on the NATO Civil Budget as credits carried-forward resulting from the budget execution in accordance with the NATO Financial Regulations. If the funds are not spent by the end of the second year following the year for which they were approved, these funds will lapse unless a specific decision is taken by member nations for a further carry-forward.

Extra Budgetary Funds:

Unearned Revenue corresponds essentially to contributions received in relation to Trust Funds for which the related project activities are not yet completed. These amounts should be spent in future years as the projects evolve. It also includes contributions for the funding of the trust fund management costs as described in the interim funding solution document with reference PO(2021)0478. These amounts will be regularized in 2024.

Other segments:

Other segments that also present Unearned Revenue balances are the Manfred Wörner Building project (Assets under Construction) and LTPB under closure.

The table below presents a breakdown of the Deferred/Unearned Revenue balances at 2023 year-end

Amounts in EUR

	2023	2022
NATO IS	20,361,803.45	12,648,011.06
Extra Budgetary Funds	597,884,325.50	214,724,981.88
Manfred Wörner Building	668,283.18	603,539.15
LTPB under closure	45,471.00	100,503.07
Total	618,959,883.13	228,077,035.16

NOTE 15: ADVANCES

The standard call for budget contributions process includes an advance on the following year's budget. In addition, some Nations may make ad hoc voluntary advances for budget contributions, ahead of the call issue. Under the new MWR mandate there are advances received in lieu with services.

The IS provides administrative personnel services to the NATO Communications and Information Organisation (NCIO) including the payments to staff and third parties. NATO Communications and Information Agency (NCIA) placed, on behalf of NCIO, an advance to cover for the expenditures that are regularized ex-post and on a monthly basis.

The table below discloses detailed breakdown of the advances at the year-end for the IS segment for two consecutive years:

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Amounts in EUR

	2023	2022
Advances called on next year Budget	95,000,000.00	80,000,000.00
Voluntary Advances from nations	1,899,295.17	9,607,486.85
Advance NCIA for NCIO	100,000.00	94,604.00
Total	96,999,295.17	89,702,090.85

NOTE 16: SHORT TERM PROVISIONS

At year end 2023, Bad Debts Impairments in the IS segment amount to EUR 21,441.98 (EUR 125,481.09 in 2022) (which has no impact on the current budgets).

NOTE 17: OTHER CURRENT LIABILITIES**Other Current Liabilities Linked to the Budget Process**

Amounts corresponding to the current year budgetary surplus, i.e. lapsed credits, net interest and miscellaneous income, are considered a liability towards the contributing nations. The settlement does not follow the normal accounts payable process, since the standard approach is to return them to contributing nations via a deduction of the following year's call for budget contributions. Nations may also decide that part or all of the budgetary surplus is made available for use in future years (see Note on Budget Information).

Lapsed credits are budget funds for which no legal liability exists. They cannot be spent in subsequent years. Lapsed credits are deducted from the contributions due from Nations to fund the Civil Budget in the second call of the following year. For the HRSS, lapsed credits are deducted from the amounts due by the NATO participating entities while shortfalls are added to the amounts due by the NATO participating entities for the following year. The other activities do not follow the standard budget process.

For the Civil Budget, receipts linked to interest, realized foreign exchange difference gains or losses and bank charges are deducted from the contributions due by Nations to fund the Civil Budget in the following year; the deduction is made in the second call.

Miscellaneous receipts correspond to amounts collected by the IS for services rendered to staff or services rendered to and works performed for entities, including Delegations, present on the HQ site (e.g. telephone, refurbishment works, cabling). They also include amounts related to Science for Peace and Security (SPS) grants returned to the IS. These receipts come as a deduction in the calculation of the contributions due from nations to fund the Civil Budget in the following year; the deduction is made in the second call.

There can occasionally be an under-call or over-call of contributions. This was the case in 2018 since the information related to operations and maintenance amounts to be called from occupants of the HQ building was not complete or available at the moment of the issuance of the last call for budget contributions. The 2021 over-call of contributions was related to the newly introduced Asset Replacement Plan ring-fenced account concept.

In 2023, the LTPB under closure recognized a liability towards NATO IS of EUR 2,400,000 LTPB remaining funds to support the 2023 Headquarters Adaptation Programme Costs. The budget Committee approved this repurposing of funds through BC-D(2023)0094 (INV).

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The table below discloses year-end comparative data for the IS segment (materiality concern), for two consecutive years:

Amounts in EUR

	2023	2022
Lapsed Appropriations	19,579,929.39	6,647,726.54
Miscellaneous Income	3,417,067.20	2,482,165.09
Net Financial Income	2,347,593.01	(14,754.79)
Total	25,344,589.60	9,115,136.84

The lapsed appropriations amounting to EUR 19,579,929.39 stem from previous year retained lapses (EUR 1,025,180.56) combined with current year lapses (EUR 18,554,748.83). These lapses are retained in line with PO(2022)0513 (INV) and PO(2023)0453 (INV).

Miscellaneous income is mainly the valuation of the green certificates, the impact of over-accruals stemming from previous year(s) and amounts returned related to grants.

The increase in financial income is caused by accrued interest from short term investments.

Other Current Liabilities linked to closed or ad-hoc projects

Other Current Liabilities consist of funds initially contributed by Nations relating to balances of closed Extra Budgetary Funds for which NATO-IS is awaiting instructions on the redistribution of funds and to the settlement of the closure of former NATO entities and projects: HAWK Agency, Office of Shared Services and to ad-hoc contributions by some Nations to specific projects.

Hawk Management Office

In 2019 the OFC issued to IBAN a report on the financial closure of the former NATO Hawk Management Office (FC(2019)00133). The report discloses an asset of EUR 1,028,655.59, and a breakdown of the individual amounts to be returned to the former members of the HAWK Agency.

In 2021, formal closure of the NATO Hawk Management Office took place (FC(2021)0162). All assets were offset against calls for contribution or returned to Participating Nations.

Office of Shared Services

After the closure of the Office of Shared Services (OSS) in 2016, some residual actions continued to take place, namely under the General Procurement Shared Services initiative under the aegis of NSPA. However, since 2018 there was no further funding requirements to be covered by the OSS budget. Since 2018, EUR 942,678.71 are kept under IS control and remain as such at 2019 year-end.

As per C-M(2017)0063 the BC noted that the OSS pre-financing was put in place with the expectation it would not be required beyond 2018. And in 2018 (BC-D(2018)0197) the BC noted the proposal not to return amounts concerned until further guidance is issued. As a consequence, the funds are held by the IS and reported as a liability.

No payments have taken place in 2023, leaving the balance of EUR 829,632.37 unchanged.

Stikker Fund

The Stikker Fund originates from a donation made by former Secretary General D.U. Stikker in the 1960s. In accordance with the conditions laid down by the donor, the Fund is used for special financial aid to NATO staff in exceptional and distressing circumstances (EUR 43,447.22).

No use was made of the Stikker Fund during 2023, leaving the balance unchanged.

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Global overview

The table below presents detailed breakdown of Other Current Liabilities at for the IS segment only, for two consecutive years.

Amounts in EUR

	2023	2022
Current Year Surplus	25,344,589.60	9,115,136.84
Closed Operations (Trust Funds, Projects or Entities)	1,664,589.92	1,665,804.34
Stikker Fund	43,447.22	43,447.22
Funds held by IS on behalf of other entities	-	60,096,993.42
Inter-entity Liability	59,233.71	42,997.01
Repurposing funds LTPB	2,400,000.00	-
Other	759,912.23	840,866.89
Total	30,271,772.68	71,805,245.72

The EUR 759,912.23 ("Other") refers mainly to stock inventory (EUR 564,942.71).

NOTE 18: NON-CURRENT LIABILITIES: LONG TERM PROVISIONS

The LTPB under closure held at the end of 2022 a provision for soil decontamination of the previous NATO Headquarters and was estimated at EUR 500,000. Payment is expected in the future and is therefore maintained in these financial statements.

NOTE 19: NON-CURRENT LIABILITIES: DEFERRED REVENUE

Long term unearned revenue is unearned revenue in relation to net carrying amounts of PP&E and intangible assets. Revenue is recognised over the estimated life cycle of the PP&E and the intangible assets when PP&E and intangible assets are recognized.

NOTE 20: OTHER NON-CURRENT LIABILITIES

Note 12 describes the "Stability Fund" that is held by Allianz on behalf of NATO. If this "Stability Fund" was to be dissolved and returned to NATO it would become a payable to the contributors of this social contribution. This liability is recognized under Other Non-Current Liabilities under the HRSS segment.

NOTE 21: NET ASSETS

Corresponds to miscellaneous accumulated surpluses/deficits generated outside of the budget execution context, essentially Partners Accommodation.

When the funding policy for Partners Accommodation (referred to as "Annex IV") was established in 1997 (BC-DS(97)18 Revised), Annex IV had budgetary credits authorised to provide for Partner accommodation on site. These were expanded to create offices in the previous Manfred Wörner Building. The Civil Budget Committee then decided to have the Partners reimburse the total rent and operational costs in proportion to the space they occupied. Further, Nations agreed that financing of Annex IV should be treated separately from the Civil Budget. They also agreed that Annex IV would, in future, be funded by Partners' rental payments, therefore Annex IV is not subject to the lapse rules foreseen in NATO's Financial Regulations. Over time, this process resulted in surpluses.

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In 2020 Partner Nations moved to the Manfred Wörner Building. Since then, Occupants are billed annually for services rendered by the Organization during the financial year and includes personnel costs and other related costs to provide the services but excludes depreciation costs for Organization owned assets. The cost estimates are based on budgetary appropriations. Any shortfalls or excesses resulting from the actual incurred costs are billed, or credited, to Occupants during next year's billing cycle.

The accumulated surplus until 2019 amounts to EUR 1,128,860.94. The excess or shortfall for the financial years 2020 until 2022 have been regularized.

NOTE 22: REVENUE FROM NON-EXCHANGE TRANSACTIONS

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the result can be measured reliably.

The total revenue from non-exchange transactions is essentially related to budget (or equivalent) driven segments and the contributions. For MWR segment non-exchange revenue derives from: contributions from the MWR stake holders (NATO entities) and the revenue from Gym membership and tax-free fuel operations.

Budget contributions, when called, are booked as unearned revenue and subsequently recognised as revenue when earned. The revenue recognition is matched with the recognition of expenses against the budgets. For Extra Budgetary Funds: revenue is matched to the costs of activities undertaken.

NOTE 23: REVENUE FROM EXCHANGE TRANSACTIONS

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the result can be measured reliably.

The total revenue from exchange transactions is broken down as follows.

- For the IS: revenue in relation to the reimbursement to the Civil Budget of administrative support and common operating costs, revenue received from concessions, miscellaneous income;
- For the Reimbursable Expenses and the OSCR SRLS Suspense Account; revenue in relation of reimbursement of expenses;
- For the HRSS: contributions from other NATO bodies to cover the expenses of the HRSS operations according to their proportion of established posts;
- For Partners' Accommodation: rent charged principally to Partner Countries for office space; and
- For MWR: rents from concessionaires and retailers and other miscellaneous operations.

NOTE 24: OTHER REVENUE

In the case of the Manfred Wörner Building, Other Revenue is the balancing element in order to capitalize all expenses related to this project.

In 2023, this item consists also of over-accruals and other miscellaneous revenue from previous years e.g. return of grants.

An amount of EUR 496,004.80 has been recognized for the number of green certificates awarded by the end of 2023 at the negotiated price in the contract with the electricity provider (see: note 12).

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NOTE 25: FINANCIAL REVENUE

Financial revenue (principally from the Civil Budget) is measured at fair value received or receivable for interest and foreign exchange gains.

In 2023 the major sources of financial income came from the IS (EUR 3,094,615.51) and Extra-Budgetary Funds (EUR 11,579,461.93) segments due to increased, positive, interest rates set by ECB.

These amounts include EUR 272,974.68 of Unrealized Profit originating from the year-end revaluation of cash and cash equivalents held in foreign currency and EUR 30,897.00 that is charged to Partner Nations who have opted to pay back the IS for the Manfred Wörner Building refurbishment works over multiple years.

NOTE 26: EXPENSES**Wages, salaries and employee benefits**

The personnel related costs include all staff expenses, as well as other non-salary related expenses in support of common funded activities. The amounts include expenses for salaries and emoluments for approved NATO-IS positions and temporary personnel, for other salary related and non-related allowances including overtime, medical exams, recruitment, installation and removal and for contracted consultants and training in accordance with Civilian Personnel Regulations.

Operating costs: rents, supplies and consumables used

The operating costs relate primarily to costs necessary to the day to day operation of the HQ, as well as travel expenses. This item includes expenses classified as Capital expenditure from a budget perspective (to include items such as IT, security, television and radio studios etc.) but that did not qualify as capital according to IPSAS or NATO Accounting Framework.

Programmes and grants

The majority of grants are considered expended upon notification to the beneficiary of the decision to attribute the grant/award. Programmes and grants is a broad term that covers activities with Partners and NATO nations ranging from funding seminars and conferences through NGOs, to bringing groups of experts to NATO HQ for briefings and attributing grants in the framework of the Science for Peace Security Programme (the latter being the main component).

Programmes and grants expenses include advances paid to beneficiaries of grants.

Depreciation and amortization

Depreciation and amortization expenses are not budgeted for

Impairment

Impairment relates to the write off of unrecoverable receivable balances.

Financial costs

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

Other expenses

Are miscellaneous expenses that do not fall under any of the above categories.

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FC(2024)0048**NOTE 27: RESULT OF THE PERIOD (SURPLUS/DEFICIT)**

Nothing to report. (see also Note 21)

NOTE 28: CASH FLOW STATEMENT

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

NOTE 29: BUDGET INFORMATION**Presentation of budget information in the financial statements**

For the purposes of these financial statements, the term "budget" is understood as corresponding to a formal approval of expense limits by the North Atlantic Council or the Budget Committee. It does not correspond to situations where the term "budget" may be used for more managerial purposes and/or is used to forecast expenditure rather than limit its allocations.

From a budget perspective, the International Staff Financial Statements include the budget transactions of the following budget entities: the NATO Civil Budget and the HRSS.

Presently, none of these budgets is publicly available.

The actual amounts referred to by IPSAS 24 ("amounts that result from execution of the budget") are considered to be the actuals and the commitment of appropriations when the corresponding services or goods could not be received in the course of the year.

Budget Execution Rules and Principles

The following comments relate to the Civil Budget since it is the most important entity. The analysis and processes apply to a very large extent to the other two budget entities.

The initial approved budget corresponds to total appropriations authorised by the North Atlantic Council, normally at the end of the previous financial year. During the year the budget is adjusted as required. The final authorisation is the approved appropriations' situation as reported at the end of the financial year including budgetary increases/decreases approved by the Budget Committee and transfers approved by the Budget Committee or by the Financial Controller, depending on established thresholds.

The budgets are prepared for the same period (1 January to 31 December) and encompass the NATO International Staff and the HRSS.

The NATO Financial Regulations have in particular instilled an accruals based approach to budget preparation and budget execution.

Despite a stronger emphasis on the principle of annual budgets, the approved and executed budget cannot be considered as fully accruals-based, since the regulations allow for a number of exceptions, such as carrying forward commitments for goods and services that were expected to be delivered in the course of the year but for various reasons were not, or authority given to the member Nations to allow for special carry forward of appropriations unused at year-end or a further carry-forward of commitments not expended after having been carried-forward twice.

The Civil Budget is prepared and executed as follows:

- 1) The commitment of appropriations is the advance acceptance and recording of the financial consequence resulting from a legal obligation incurred during the financial year. As a consequence appropriations are allocated, and commitments are approved, for goods, services

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and works to be delivered at a later stage. Commitments are settled when the service is rendered or goods delivered as is the case for expenses under accrual accounting.

- 2) Unliquidated commitments are carried forward and added to the budget of the following financial year in relation to an existing legal commitment or if a special agreement is given by the Budget Committee. Under the new regulations they correspond to services not received or goods not delivered, at year-end, for specific circumstances. Outstanding commitments can be carried forward for two years. As a consequence, the services or goods received may relate to a commitment of appropriations from previous years' budgets. The carry-forward should be justified by a reason for which the services or goods could not be received in the course of the year. In addition, in accordance with Financial Regulations, member Nations may agree to a further carry-forward of commitments that were already carried forward twice.
- 3) Commitments, because they are an advance acceptance, and because payments cannot be made above approved credit levels, typically include an estimation factor and are (if only slightly) higher than the actual amount eventually paid. This results in commitments being higher than the actual expenses and in appropriations eventually lapsing.
- 4) Commitments are only made in respect of expenses relating to the initial purpose of the commitment. Commitments for capital expenditures are normally made in the year during which the purchase order is issued. In accrual accounting, the related costs would not appear in the Statement of Financial Performance but in the Balance Sheet and only upon reception of the works, goods or services. Conversely, there is no budgetary commitment of appropriations for non-cash transactions such as capital depreciation or provisions which would normally appear in the Statement of Financial Performance under accrual accounting.
- 5) On an exceptional basis, the NATO Member Nations may approve the special carry-forward of appropriations without any prior legal commitment, for instance for projects at their initiation stage or planned expenditures. In accrual accounting there would be no expense recorded.
- 6) The balance of unused budgetary appropriations (not committed) lapses and is returned to Member Nations at year-end, unless differently agreed by Member Nations. Lapses may include cases where a project was eventually not completed or started, and therefore led to no expense.

The NATO Civil Budget

The Civil Budget is based on an Objective Based Budgeting (OBB) system which links financial and human resources to Global Objectives. Contributions to these Global Objectives by IS Divisions and Independent Offices are broken down into Operational Objectives. The OBB system is based on eight Global Objectives which are defined at a political and strategic level of the Organization.

The eight objectives are set out below:

- Crisis Management & Operations
- Collective Defense
- Cooperative Security
- Public Relations
- Consultation Process
- Operational Environment of the Headquarters Site
- Governance and Regulation
- Headquarters Security

The budget classification is also based on the economic nature of the expenses broken down into four Resource Pools as follows:

Resource Pool 1	Personnel
Resource Pool 2	Operations and Maintenance

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Resource Pool 3	Capital
Resource Pool 4	Programmes

All budget transactions, commitments and expenses are tracked according to a classification by Objective and by Resource Pool.

Initial Civil Budget – Revised Civil Budget

In December 2022, Council approved the 2023 Civil Budget of EUR 318,404,727 (PO(2022)0513 (INV)), including the Defined Contribution Pensions Scheme (DCPS) and excluding the Defined Benefit Pension Scheme (DBPS), the latter reported outside the IS Financial Statements. In addition, with the 2023 Civil Budget approval, the Budget Committee, under the authority delegated by the Council, agreed to use EUR 300,000 to partially cover the 2022 MWR and Commercial Activities shortfall¹ bringing the total initial 2023 Civil Budget to EUR 318,704,727.

With the approval of the 2023 Council empowered the Budget Committee to adjust as necessary the budget authorisations within the ceilings agreed by Council during the course of budget execution. Using this authority, in 2023, the Budget Committee agreed to use available funding from 2022 and prior year lapses of EUR 1.6M to fund the replacement of the Athena and Magellan servers for the NHQ (BC-D(2023)0067 (INV)) and EUR 415,678 to fund remaining balance of 2022 MWR and Commercial Activities shortfall². This resulted in the 2023 civil budget in-year change of EUR 2,015,678.

With the revision of the 2023 Civil Budget (BC-D(2023)0184 (INV)), the Budget Committee noted the budget transfers and revisions done within the 2023 Secretary General's delegate authority, including a transfer of EUR 947,166 from DCPS to DBPS resulting in an overall change of the 2023 budget by EUR 1,068,512 and the revised budget of EUR 319,773,239.

With the approval of the 2023 Civil Budget, Council noted the Budget Committee freezes of a total of EUR 7,737,374. During 2023, the Budget Committee unfroze (1) EUR 1,000,000 (BC-D(2023)0092 (INV)) of operating and capital-related appropriations in resource pools 2 and 3, (2) EUR 318,000 (BC-D(2023)0095(INV)) in RP2 for maintenance services for the additional workspace, and (3) EUR 2,170,000 in RP3 for temporary facilities to fund the implementation of the NATO Headquarters Adaptation Programme. The International Staff did not request the Budget Committee to unfreeze the remaining EUR 4,249,374.

The 2023 Civil Budget at year-end remained at EUR 319,773,239, with an overall execution rate (excluding DBPS) of 94.0%. A lower than expected pace of on-boarding for already existing and newly created posts to implement the NATO 2030 Agenda and mainstream requirements led to a lower level of execution than in the previous years, resulting in EUR 15.0M of lapses.

Automatic carry forwards into 2023 included EUR 9.9M from 2022 and EUR 2.1M from 2021, showing an execution rate at year-end of 2023 of 76% and 55%, respectively.

The special carry forward into 2023 of EUR 591,911 comprised the Budget Committee-approved special carry forward of EUR 350,000 and an automatic carry forward of previous years approved special carry forward of EUR 241,911. The special carry forward show an execution rate at the end of 2023 of 65%.

The execution of the automatic and special carry forwards resulted in further lapses of EUR 3.5M at the end of 2023, bringing overall lapse to a total of EUR 18.5M.

An analysis of budget execution for the NATO Civil Budget is provided at Annex 5.

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Civil Budget reconciliation between Budget Execution and Statement of Financial Performance

The tables below provide an overview of the reconciliation of for the two last consecutive years:

2023

EXPENSES RECONCILIATION		
		Amounts
Budget Execution Statement Total Costs		293,524,247.61
Depreciation & Amotisation Charges + PP&E Recognition	+	41,112,699.61
Impairments PP&E, Intangible Assets and Stock	+	
Impairments Receivables	+	4,390.76
Stock Variation	-	41,869.80
NBV Fixed Assets Losses	+	
Financial Costs	+	819,255.18
Non-Budgetary Provisions	-	116,828.81
Statement of Financial Performance Costs		335,301,894.55

2022

EXPENSES RECONCILIATION		
		Amounts
Budget Execution Statement Total Costs		244,181,060.75
Depreciation & Amotisation Charges + PP&E Recognition	+	45,338,329.78
Impairments PP&E, Intangible Assets and Stock	+	
Impairments Receivables	+	
Stock Variation	+	-14,450.63
NBV Fixed Assets Losses	+	
Financial Costs	+	338,251.12
Non-Budgetary Provisions	+	55,410.57
Advance LTPB Summit 2021	+	0.00
Statement of Financial Performance Costs		289,898,601.59

Human Resources Shared Services

The Human Resources Directorate within Executive Management was appointed as the provider of NATO-wide Human Resources Shared Services (HRSS). In this context, a wide variety of services will be provided over time. Until 2021, the scope of the HRSS covered the extant services related to the Integrated Payroll Personnel Management Information System (PMIS), operations related to the NATO Talent Acquisition Platform (NTAP) and the Young Professionals Programme (YPP). In terms of financial reporting, those categories of services are recorded in this HR Shared Services segment.

Through BC-D(2021)0024 + Addenda the BC agreed to use the HRSS fund for all shared systems and programmes developed in the context of HRSS. The BC also agreed that as of 2022, the IS will submit the expenditure limits in one single request.

Through BC-D(2022)0227 (INV) the BC approved the 2023 HRSS expenditure limits.

Funding is provided through contributions by the NATO bodies that participate in the programme. Invoices are adjusted by the amount of previous year's surplus or deficit.

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A budget execution statement is provided at Annex 5. The lapsed amounts correspond to the difference between the approved budget or expenditure limit and the actual expenses.

Manfred Wörner Building Refurbishment Project

In 2023, NATO continued the refurbishment works in the Manfred Wörner Building in conjunction with the move to the current NATO Headquarters. Partner Nations have been asked to pay in advance for the works corresponding to their specific requests (called Optional Programme) in addition to the basic refurbishment. NATO Members agreed that the rest of the works would be pre-financed by the IS treasury. During 2023 KEUR 503 has been paid back by Partner Nations.

All expenses are capitalized.

The table below provides information about the evolution of the Manfred Wörner Building budget (DPRC-N(2019)0021-REV3 (INV)) which hasn't changed since 2020:

Manfred Wörner Budgetary Ceilings * (EUR)		
	2023	2022
Optional Programme	3,801,939	3,801,939
NATO Pre-Financed	17,868,149	17,868,149

Budgetary ceiling for the totality of the refurbishment project (irrespective of the execution in previous financial years).

NOTE 30: SEGMENTS

The tables below provide segment information for financial performance and financial position statements for two consecutive years. The following segments have been adopted: Civil Budget, the Summit Cash Advance, Reimbursable Expenses, HRSS, Extra-Budgetary Funds, Partners' Accommodation, Refurbishment of Manfred Wörner Building, the Morale, Welfare and Recreational Activities (MWR), the LTPB (under closure) and the OSCR SRLS Suspense Account.

In the below Statements of Financial Position and Performance, eliminations or neutralizations correspond essentially to movements between segments.

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Statement of Financial Position segment based:

												2023	2022
		IS	Refundable Expenses	HR Shared Services	Extra Budgetary Funds	PARTNER ACCOMMODATION	MW Building	MWR	LTPB under closure	OSCR 5RLS	Elimination		
Assets													
Current assets													
Cash and cash equivalents	3	52,067,680.10	551,504.03	136,840.23	262,772,098.89	1,560,328.65	-1,441,844.03	1,058,585.43	3,177,585.59			360,000,980.29	218,096,855.24
Short term investments	4	35,400,000.00			329,500,000.00							385,000,000.00	100,000,000.00
Receivables	5	46,739,847.21	703,655.87	244,470.39	7,020,045.82	824,560.39	794,268.23	1,020,460.39		0.00	2,544,699.16	55,795,509.94	49,458,535.20
Prepayments	6	3,251,521.29			5,604,900.00				2,932.00			7,299,353.29	2,379,838.83
Other current assets	7	4,318,592.37	14,236.61		213,120.82			774.08			2,507,284.26	2,037,537.02	2,223,406.06
Inventories	8	564,942.76										564,942.76	523,072.96
		<u>181,400,883.73</u>	<u>1,369,596.31</u>	<u>381,310.62</u>	<u>605,518,165.93</u>	<u>2,484,889.04</u>	<u>-653,375.80</u>	<u>2,077,819.90</u>	<u>3,180,517.99</u>	<u>0.00</u>	<u>5,052,284.42</u>	<u>790,898,333.30</u>	<u>373,883,808.28</u>
Non-current assets													
Receivables	9											0.00	0.00
Property, plant & equipment	10	712,982,024.25					20,980,458.60					733,943,382.85	774,848,331.86
Intangible assets	11	2,517,996.03										2,517,996.03	3,035,151.88
Non-current financial assets	12	0.00										0.00	0.00
Other non-current assets	12	1,500,820.00		2,039,831.00			1,397,059.00				1,367,059.00	3,548,651.00	8,637,770.40
		<u>717,000,740.28</u>	<u>0.00</u>	<u>2,039,831.00</u>	<u>0.00</u>	<u>0.00</u>	<u>21,377,517.60</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>1,367,059.00</u>	<u>740,010,028.88</u>	<u>784,319,854.14</u>
Total Assets		<u>898,410,434.01</u>	<u>1,369,596.31</u>	<u>2,421,141.62</u>	<u>605,518,165.93</u>	<u>2,484,889.04</u>	<u>21,704,141.80</u>	<u>2,077,819.90</u>	<u>3,180,517.99</u>	<u>0.00</u>	<u>6,449,343.42</u>	<u>1,530,708,363.18</u>	<u>1,158,003,662.43</u>
Liabilities													
Current liabilities													
Payables	13	33,858,141.45	255,325.20	222,977.25	7,174,175.69	1,316,304.61	0.00	2,630,743.57	5,530.00	0.00	2,544,998.16	42,918,196.65	42,980,225.15
Deferred revenue	14	30,361,803.45			597,684,325.50		688,263.18	0.00	45,471.00			618,950,483.13	228,077,035.16
Advances	15	96,899,295.17	1,104,034.50		19,873.05			172,547.08	248.00			98,295,997.80	90,208,409.78
Short term provisions	16	21,441.98	236.51	694.00		38,848.28	75,460.02	0.00	0.00			138,620.90	193,173.96
Other current liabilities	17	30,271,772.58	0.00	157,639.33	440,791.99	875.20	-725,470.75	2,829,298.99			2,507,284.26	30,287,590.88	13,393,042.68
		<u>181,512,484.73</u>	<u>1,359,596.31</u>	<u>381,310.62</u>	<u>605,518,165.93</u>	<u>1,396,028.10</u>	<u>743,843.20</u>	<u>2,077,819.90</u>	<u>2,660,517.99</u>	<u>0.00</u>	<u>5,052,284.42</u>	<u>790,578,292.36</u>	<u>374,852,866.75</u>
Non-current liabilities													
Payables	18								500,000.00			0.00	0.00
Long term provisions	18											500,000.00	500,000.00
Deferred revenue	19	715,500,920.28					20,980,458.60					736,481,378.88	777,681,483.74
Other non-current liabilities	20	1,367,059.00		2,039,831.00							1,367,059.00	2,039,831.00	3,836,831.00
		<u>716,867,979.28</u>	<u>0.00</u>	<u>2,039,831.00</u>	<u>0.00</u>	<u>0.00</u>	<u>20,980,458.60</u>	<u>0.00</u>	<u>500,000.00</u>	<u>0.00</u>	<u>1,367,059.00</u>	<u>738,001,209.88</u>	<u>782,021,314.74</u>
Total Liabilities		<u>898,410,434.01</u>	<u>1,369,596.31</u>	<u>2,421,141.62</u>	<u>605,518,165.93</u>	<u>1,396,028.10</u>	<u>21,704,141.80</u>	<u>2,077,819.90</u>	<u>3,180,517.99</u>	<u>0.00</u>	<u>6,449,343.42</u>	<u>1,529,578,502.24</u>	<u>1,156,874,201.49</u>
Net assets													
Capital assets	21											0.00	0.00
Reserves												0.00	0.00
Current year Surplus / (Deficits)												0.00	0.00
Accumulated surpluses / (deficits) prior year							1,128,860.94					1,128,860.94	1,128,860.94
Total net Assets / Equity		<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>1,128,860.94</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>1,128,860.94</u>	<u>1,128,860.94</u>

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Notes												2022	2021
	IS	Refundable Expenses	HR Shared Services	Extra Budgetary Funds	PARTNER ACCOMMODATION	MW Building	MWR	LTPB under closure	OSCR SRLS	Elimination			
Assets													
Current assets													
Cash and cash equivalents	3	63,716,304.72	-551,423.60	-455,414.67	153,146,285.09	425,020.73	-2,485,073.63	1,721,773.26	3,591,483.35	0.00		219,086,955.24	170,756,254.69
Short term investments	4	60,000,000.00			20,000,000.00				0.00			100,000,000.00	35,000,000.00
Receivables	5	48,129,588.07	1,128,852.52	880,838.54	355,034.63	322,711.39	994,655.00	581,977.97	0.00	0.00	2,845,223.92	49,458,535.20	42,221,939.96
Prepayments	6	2,273,387.18	0.00		52,286.46				54,191.82			2,379,636.63	4,301,511.01
Other current assets	7	2,246,435.87	0.00		60,087,468.28			774.08		60,111,302.25		2,223,406.06	7,126,993.31
Inventories	8	523,072.98										523,072.98	508,822.33
		<u>196,884,708.88</u>	<u>577,428.92</u>	<u>425,224.87</u>	<u>233,641,098.43</u>	<u>747,732.12</u>	<u>-1,590,118.63</u>	<u>2,304,525.30</u>	<u>3,645,674.57</u>	<u>0.00</u>	<u>62,958,526.17</u>	<u>373,643,806.39</u>	<u>280,003,831.30</u>
Non-current assets													
Receivables	9											0.00	0.00
Property, plant & equipment	10	753,578,489.01				21,067,863.85						774,646,351.86	820,032,931.88
Intangible assets	11	3,035,151.88										3,035,151.88	2,634,505.32
Non-current financial assets	12	0.00										0.00	40,000,000.00
Other non-current assets	12	2,787,939.40		3,839,831.00			2,328,541.00			2,328,541.00		6,627,779.40	7,506,378.50
		<u>759,411,559.29</u>	<u>0.00</u>	<u>3,839,831.00</u>	<u>0.00</u>	<u>0.00</u>	<u>23,396,404.85</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>2,328,541.00</u>	<u>784,519,254.14</u>	<u>870,239,275.25</u>
Total Assets		<u>956,300,328.17</u>	<u>577,428.92</u>	<u>4,265,055.87</u>	<u>233,641,098.43</u>	<u>747,732.12</u>	<u>21,806,286.22</u>	<u>2,304,525.30</u>	<u>3,645,674.57</u>	<u>0.00</u>	<u>65,285,067.17</u>	<u>1,158,003,062.43</u>	<u>1,130,240,208.80</u>
Liabilities													
Current liabilities													
Payables	13	23,077,338.56	281,739.33	336,605.72	18,485,543.08	291,477.01	102,144.42	2,725,622.43	514,577.92	0.00	2,845,223.92	42,980,225.15	32,312,382.28
Deferred revenue	14	12,648,011.06			214,724,961.88		603,539.15	0.00	100,503.07			228,077,035.18	61,706,465.40
Advances	15	89,702,090.85	282,809.80		18,873.05			163,909.94	40,636.06			90,209,409.79	72,374,516.43
Short term provisions	16	125,481.08	12,789.70	694.00		8,684.34	32,739.80	12,786.03	0.00			183,173.86	5,428,761.64
Other current liabilities	17	71,805,245.72	0.00	87,725.15	400,700.42	-681,280.77	-597,993.10	2,449,957.52		60,111,302.25		13,393,042.69	90,220,942.10
		<u>197,356,167.28</u>	<u>577,428.92</u>	<u>425,224.87</u>	<u>233,641,098.43</u>	<u>-381,128.82</u>	<u>738,422.37</u>	<u>2,304,525.30</u>	<u>3,145,674.57</u>	<u>0.00</u>	<u>62,958,526.17</u>	<u>374,852,846.75</u>	<u>262,044,077.86</u>
Non-current liabilities													
Payables	18											0.00	0.00
Long term provisions	18								500,000.00			500,000.00	500,000.00
Deferred revenue	19	756,613,619.89				21,067,863.85						777,681,483.74	822,727,437.00
Other non-current liabilities	20	2,328,541.00		3,839,831.00						2,328,541.00		3,839,831.00	43,839,831.00
		<u>759,842,180.88</u>	<u>0.00</u>	<u>3,839,831.00</u>	<u>0.00</u>	<u>0.00</u>	<u>21,067,863.85</u>	<u>0.00</u>	<u>508,000.00</u>	<u>0.00</u>	<u>2,328,541.00</u>	<u>782,021,214.74</u>	<u>847,087,268.50</u>
Total Liabilities		<u>956,300,328.17</u>	<u>577,428.92</u>	<u>4,265,055.87</u>	<u>233,641,098.43</u>	<u>-381,128.82</u>	<u>21,806,286.22</u>	<u>2,304,525.30</u>	<u>3,645,674.57</u>	<u>0.00</u>	<u>65,285,067.17</u>	<u>1,158,074,201.49</u>	<u>1,129,111,345.86</u>
Net assets													
Capital assets	21											0.00	0.00
Reserves												0.00	0.00
Current year Surplus / (Deficits)							0.00					0.00	0.00
Accumulated surpluses / (deficits) prior year							1,128,860.94					1,128,860.94	1,128,860.94
Total net Assets / Equity		<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>1,128,860.94</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>1,128,860.94</u>	<u>1,128,860.94</u>

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Statement of Financial Performance segment based.

		IS	Refundable Expenses	HR Shared Services	Extra Budgetary Funds	Partner Accommodation	MW Building	MWR	LTPB under closure	OSCR SRLS	Elimination	2023	2022
	Notes												
Revenue													
Non exchange revenue	22	318,573,924.99			72,674,405.18			2,470,448.13	-84,656.26			393,520,224.01	317,721,319.12
Exchange revenue	23	17,762,285.34	1,663,439.67	2,679,611.40	31,852.28	3,386,006.03		533,090.29		1,658,509.34		18,417,775.59	17,645,556.08
Other revenue	24	1,451,064.71					-64,744.03	1,623,498.39	91,860.52			3,501,654.14	2,052,208.17
Financial revenue	25	3,094,615.51			11,579,481.93			0.00	2,912.65			14,676,990.07	834,981.67
Total Revenue		335,301,694.55	1,663,439.67	2,679,611.40	84,181,719.37	3,386,006.03	-64,744.03	4,627,008.82	217.78	0.00	1,658,509.34	430,116,644.25	338,264,062.25
Expenses													
Personnel	26	149,683,717.45	374,801.73	1,188,495.23	613,060.06			109,577.67				152,179,652.54	146,786,635.67
Contractual supplies and services	26	136,408,488.14	1,283,401.23	1,491,116.17	82,678,037.86	3,355,842.88	-107,405.25	4,492,503.22		1,658,509.34		227,039,874.21	143,906,986.50
Depreciation and amortization	26	46,291,471.43										46,291,471.43	48,266,931.68
Impairment	26	4,389.76						45,019.65				49,410.41	0.00
Provisions	26	-116,828.81	236.61	0.00		30,163.95	42,661.22	-12,786.93	0.00			-56,553.08	-227,784.13
Long Term Provisions	26											0.00	0.00
Other expenses	26							173.56				173.56	0.00
Finance costs	26	819,255.18			990,621.45			3,320.78	217.78			1,713,215.17	531,353.65
Total Expenses		335,301,694.55	1,663,439.67	2,679,611.40	84,181,719.37	3,386,006.03	-64,744.03	4,627,008.82	217.78	0.00	1,658,509.34	430,116,644.25	338,264,062.25
Surplus/(Deficit) for the period	27	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

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		IS	Refundable Expenses	HR Shared Services	Extra Budgetary Funds	Partner Accommodation	MW Building	MWR	LTPB under closure	OSCR SRLS	Elimination		
	Notes											2022	2021
Revenue													
Non exchange revenue	23	278,758,424.84			36,810,919.69			2,170,246.65	18,272.06			317,721,219.12	273,747,844.20
Exchange revenue	23	8,871,658.52	2,913,262.03	2,391,671.65	44,225.31	3,146,554.47		258,113.11		20,000.00		17,645,555.08	18,561,297.24
Other revenue	24	1,833,055.08					282,382.91	944,069.69	0.00		1,007,301.52	2,062,704.17	8,374,132.23
Financial revenue	25	435,463.14			109,518.73				0.00			834,081.87	490,147.76
Total Revenue		<u>289,898,601.59</u>	<u>2,913,262.03</u>	<u>2,391,671.65</u>	<u>37,254,733.73</u>	<u>3,146,554.47</u>	<u>282,382.91</u>	<u>3,372,429.45</u>	<u>-18,272.06</u>	<u>20,000.00</u>	<u>1,007,301.52</u>	<u>338,264,062.25</u>	<u>299,182,421.43</u>
Expenses													
Personnel	26	143,338,901.52	534,280.97	1,189,060.18	609,427.45			104,355.45				145,786,935.57	133,610,111.33
Contractual supplies and services	26	97,899,068.72	2,378,971.06	1,192,011.47	36,455,073.56	3,182,028.36	282,382.91	3,514,163.86	-19,508.76	20,000.00	1,007,301.52	143,006,009.50	116,513,686.82
Depreciation and amortization	26	46,266,951.66										46,266,951.66	48,228,816.26
Impairment	26											0.00	0.00
Provisions	26	55,410.57				-35,473.89		-247,732.81	0.00			-227,786.13	409,524.09
Long Term Provisions	26											0.00	0.00
Other expenses	26											0.00	0.00
Finance costs	26	138,251.12			190,212.70			1,633.13	1,234.70			531,351.65	319,282.83
Total Expenses		<u>289,898,601.59</u>	<u>2,913,262.03</u>	<u>2,391,671.65</u>	<u>37,254,733.73</u>	<u>3,146,554.47</u>	<u>282,382.91</u>	<u>3,372,429.45</u>	<u>-18,272.06</u>	<u>20,000.00</u>	<u>1,007,301.52</u>	<u>338,264,062.25</u>	<u>299,182,421.43</u>
Surplus/(Deficit) for the period	27	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>

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NOTE 31: LEASES

All leases in IS are classified as operating leases. Fees payable under these lease agreements are accounted as expenses in the Statement of Financial Performance on a straight-line basis over the relevant lease term.

Host Nation Belgium has granted to NATO by way of concession a plot of land on which NATO has been authorized to erect all necessary buildings and facilities related to the NATO Headquarters. The annual fee is EUR 250. NATO is the full owner of all constructions made. Host Nation Belgium remains the sole and full owner of the land, which is military public domain. The concession ends 160 days after NATO has left the buildings and facilities. In such case, if Host Nation Belgium would decide to use the building and facilities, it shall pay a fair indemnity to NATO. If Host Nation Belgium should decide to demolish them, it will not be obliged to pay an indemnity to NATO neither will NATO have to contribute to the demolition cost. At the end of the concession, there would be no property rights transferred to NATO. As a consequence, given the indefinite economic life of land and the specific nature of concessions, the use of the land is classified as an operational lease.

The operating leases at the reporting date can be classified into three main categories: transport equipment, building and photocopiers.

The table below provides an overview of the existing operational lease contracts as of 31 December 2023:

Contract No (CPA)	ASSET LEASED	AMOUNT PAID IN 2023	AMOUNT TO PAY FOR 2024	AMOUNT TO PAY IN 2025-2028	AMOUNT TO PAY AFTER 2028	RENEWAL OR PURCHASE OPTION/RESTRICTION
12331	Printing machines	129,831.37	128,889.88	257,777.76	-	
17271	Vehicle (CPA no. 43419)	0.00	0.00	0.00	-	
17272	Vehicle (CPA no. 43420)	0.00	0.00	0.00	-	
17273	Vehicle (CPA no. 43421)	0.00	0.00	0.00	-	
41061	Vehicle	8,477.64	8,477.64	4,827.54	-	
41062	Vehicle	8,071.20	8,071.20	7,702.37	-	
41063	Vehicle	8,641.92	8,641.92	2,664.58	-	
46648	Vehicle	65,745.24	65,745.24	47,482.67	-	
49717	Vehicle	95,880.00	95,880.00	55,930.00	-	
49718	Vehicle	95,880.00	95,880.00	55,930.00	-	
60653	Temporary Building	215,332.27	585,295.15	1,452,127.14	-	

NOTE 32: RESTRICTIONS ON FIXED ASSETS

There are no restrictions on fixed assets.

NOTE 33: CONTINGENT LIABILITIES

An assessment was made on the possible provisions, contingent liabilities that could impend over IS.

NOTE 34: WRITE OFF

The Budget Committee approved through document BC-DS(2023)0010 (INV) the write off of the unrecoverable debt of Diamantica for a total amount of EUR 44,019.65. This amount has been recognized in the Statement of Financial Performance under the segment MWR.

The Financial Controller approved the write off of irrecoverable debts for a total amount of EUR 4,390.76 (FC)(CAF)(2023)0008). This amount is recognized in the Statement of Financial Performance under the segment IS.

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ANNEX 6 to
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In addition to the potential income generated through the Total Warranty Contract with Equans Services (Note 10), NATO IS was informed about interest allocation, for reporting purposes, on amounts prepaid to NATO Support and Procurement Agency for the period between 2012 and 2018.

Finland joined NATO in 2023 and costs related to the office space allocation and subsequent reallocation are to be paid by the Ally after the reporting date.

NOTE 36: EMPLOYEE DISCLOSURE**Employee status**

There are 5 different hire categories: NATO Civilians, Voluntary National Contributions (VNC), Temporary Staff, Interns and Consultants.

VNC's represent "in kind" services provided by nationally funded personnel. VNCs may work for the IS in the HQ but also at the NATO Satellite Offices. At the end of 2023 there were 131 VNCs that worked for NATO IS, including the NATO Satellite Offices.

The tables below provide comparative data for two consecutive years for NATO Civilians, Temporary Staff, Interns and Consultants:

Position by HQ	NATO Civilians	
	31/12/2023	31/12/2022
Total Approved PE	1350	1215
Total Filled Positions	1119	1063
Arrivals in the year	144	93
Departures in the year	96	114

Position by HQ	Total Approved PE	Total Filled Positions
Civilian (PE)	1350	1119
Short term (Temps)		230
Interns		60
Others – explain (consultant)	-	4

The approved establishment contains the Afghan National Army Trust Fund (ANA TF) under closure projects posts that are fully funded by the ANA TF for which NATO-IS acts as agent (Note 38).

Pension Schemes

The NATO-IS manages centrally three pension schemes, namely the Defined Benefit Pension Scheme (DBPS), the Defined Contribution Pension Scheme (DCPS), as well as the Retirees Medical Claims Fund (RMCF), covering staff employed by all NATO bodies.

As for the DBPS, a deduction of 11.8% of staff salaries is made and contributed to the annual financing of this plan. The funding mechanism of the DBPS provides that Nations contribute, in the course of a given year, for the difference between amounts due to pensioners and staff contributions received.

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

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NATO wide financial statements are issued by the IS Office of Financial Control for the two remaining pension schemes and the RMCF; therefore, no related assets or liabilities are recognised in IS financial statements.

The table below provide comparative data about the staff affiliation to the different pension schemes for two consecutive years:

IS Staff Pension Scheme Affiliation Statistics		
Pension Scheme	2023	2022
DBPS	238	271
DCPS	878	789

The table below indicates the contributions made by IS to the two pension schemes:

Amounts in EUR

		2023	2022
DBPS	Staff	3,033,936.81	3,347,163.76
	Employer		
	Total	3,033,936.81	3,347,163.76
DCPS	Staff	5,945,984.44	5,689,709.50
	Employer	8,673,194.28	7,846,681.53
	Total	14,619,178.72	13,536,391.03
TOTAL	Staff	8,979,921.25	9,036,873.26
	Employer	8,673,194.28	7,846,681.53
	Total	17,653,115.53	16,883,554.79

Reimbursable Staff

Reimbursable staff are employees that are paid by their own nations on a reimbursable basis. Their salary is paid directly by their national governments using national salary scales and accruing pension rights under their national pension systems, in return the IS reimburses their countries in an amount corresponding to the grade of the post occupied by the staff member in the IS establishment.

Currently the IS has active agreements with the US and Norway.

The table below provide comparative data about this type of staff for two consecutive years:

Statistics on number of IS Reimbursable Staff		
Country	2023	2022
US	4	3
Norway	3	3

Leave

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

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FC(2024)0048**NOTE 37: KEY MANAGEMENT PERSONNEL**

The North Atlantic Council is the governing body of NATO. It approves the Civil Budget further to screening and recommendation by the Budget Committee (BC) and the Resource Policy and Planning Board (RPPB). Members of the North Atlantic Council, the BC and the RPPB are nominated by their respective national authorities. They are paid on the basis of applicable national pay scales. They do not receive from NATO any additional remuneration for their responsibilities or access to benefits.

For the purposes of IPSAS 20 implementation, key management personnel of the International Staff are the Secretary General, the Deputy Secretary General, the Director of the Private Office, the eight Assistant Secretary Generals and the three Directors of Independent Offices (Security, Resources and Financial Control). The aggregated remuneration of the 13 staff members considered as Key Managers was EUR 3,417,582.43 (EUR 3,593,393.87 in 2022).

The Secretary General (SG) is provided with accommodation at no cost in premises belonging to the Organisation. The SG Residence is serviced by three established posts. The cost of operations and maintenance of the SG Residence (including renovations), suffer annual variations derived from the residence annual work plan.

The Deputy Secretary General is provided with an approved special allowance to contribute towards the lease of accommodation suitable for representation at the Ministerial and distinguished visitor level.

The Secretary General is entitled upon departure to a special leaving allowance, equal to one year's basic salary if a full four year term was served.

On 1 June, 2013, the NAC approved changes to the Representation Allowance system. A key element was that in lieu of monthly allowances being paid out and then reimbursed by the recipients if unused, recipients now submit receipts and are then reimbursed up to the allocated ceiling. The OFC is responsible for the day to day verification, with IBAN able to disallow expenses if deemed necessary. Unused funds and disallowed expenses are returned to the Organization.

Several senior staff positions are entitled to a Representation Allowance, the use of which is subject to a specific control by the OFC. This includes: the Secretary General, Deputy Secretary General, Director of the Private Office, Eight Assistant Secretary Generals, PASP Deputy Assistant Secretary General and the NATO Spokesperson. The amount of Representation Allowance paid in 2023 was EUR 93,616.22 (EUR 60,810.99 in 2022).

Key management staff have access to a pool of vehicles and drivers for official business.

There is no other remuneration or benefit to key management personnel and their family members. Key management personnel is entitled to receive loans which are also available to other members of the NATO International Staff.

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NOTE 38: RELATED PARTIES

There have been the following related party relations

Member Nations and NATO bodies

The IS performs certain administrative support and provides charge back common operating costs for which it is reimbursed by National delegations and other NATO entities that share the use of the NHQ compound.

The IS also charges back the Morale, Welfare and Recreational Activities (MWR), Operational and Maintenance (O&M) costs, attributable to the Staff Center and commercial retailers and concessions that operate within the HQ compound.

These amounts represent a deduction to the budget contributions due from Nations to fund the Civil Budget and as such are a non-common funded source of income of the Civil Budget.

In 2023 the IS has invoiced under these income categories, the following amounts.

Amount in EUR

Type of Income	2023	2022
Accommodation Costs	13,699,509	8,425,807
Admin and HR Shared Services	2,887,306	2,753,605
Moral Welfare and Recreation	1,240,086	813,751
Commercial Entities	418,424	193,551

Host Nation Belgium

Host Nation Belgium provides military personnel in support of activities related to security (Delegation Militaire de la Sécurité Technique), that are charged by the Belgian Ministry of Defence and paid by the Civil Budget. Below there is comparative data of the associated costs for two consecutive years:

Belgium – Delegation Militaire de la Sécurité Technique		
Amounts in EUR	2023	2022
Costs	646,920.08	644,323.25

There are also personnel provided by nations under a reimbursable basis or as VNCs. (see note 36)

Extra Budgetary Funds

The OFC is the Treasurer for the operations related to a number of Extra Budgetary Funds. Trust Funds were authorized under NATO's Partnership for Peace Programme, the Mediterranean Dialogue Programme, the NATO-Russia Council, the NATO-Ukraine Commission and the NATO-Georgia Commission. The OFC also received financial resources on a bilateral ad-hoc basis from nations in support of specific activities conducted by the IS or as a complement to the Civil Budget funding for certain activities. For Extra Budgetary Funds, including Trust Funds, a Lead Nation (NATO member) is normally designated. Partner Nations can also participate in such additional funding.

Council approved, through PO(2021)0477 and PO(2021)0478, the transition of cooperative security trust funds into compliance with the NATO Trust Fund and Extra-Budgetary Funds overarching guidance (PO(2020)0140), together with an interim solution to fund Extra-Budgetary Funds management costs. Both the transition package and funding solution have been implemented in 2022 and its purpose ceased to exist as per 31 December 2024 with the approval of the 2024 Civil Budget (PO(2023)0453 (INV)) in December 2023.

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Appendix 1 presents a breakdown of the Statements of Financial Position and of Financial Performance for the Extra Budgetary Funds.

Afghan National Army Trust Fund (ANA TF)

In 2022, a memorandum of understanding between NATO IS, Supreme Headquarters Allied Powers Europe (SHAPE) and Department of Defense (DoD) of the United States of America was established regarding the implementation of the closure and disestablishment of the ANA TF (PO(2022)-REV1) following the collapse of the Government of the Islamic Republic of Afghanistan.

NATO IS is responsible for coordinating the closure of the Trust Fund and in particular the closure and financial reconciliation of the all projects implemented by NATO Support and Procurement Agency (NSPA), United Nations Office for Project Services (UNOPS) and Asian Development Bank (ADB).

NATO IS acts as an agent in its role related to the closure activities of the ANA Trust Fund, all administrative costs are fully borne by the ANA TF.

The ANA TF is governed by the ANA TF Board and meets regularly, an annual report is issued.

Employee Benefits

The IS is responsible for the management at the NATO-wide level for the two pension systems (Defined Benefit Pension Scheme, Defined Contribution Pension Scheme) and the Retirees Medical Claims Fund. Separate financial statements are issued by the OFC. No management fees corresponding to the related costs incurred by the IS are charged to these entities.

Under the HRSS segment, NATO supports legal proceedings of one ongoing precedential court case of a former DCPS affiliate.

Staff Centre

The previous NATO HQ Staff Centre, which was a separate NATO entity issuing separate financial statements, was officially closed in September 2018 and therefore it is no longer a going concern. Further to its financial closure on 31 December 2018 its net assets were transferred to the IS. All former Staff Centre pending assets/liabilities in 31 December 2018, were settled during 2019 and the remaining receivables related with an old litigation with Grand Optical and Carrefour, were transferred to the IS (see Note 7).

Office of the DIANA Chair (ODC)

With AC/346-D(2023)0003-REV2-AS1 (INV) the Office of the DIANA Chair has been established within the NATO International Staff at NATO Headquarters and consists out of three posts and are fully funded by DIANA.

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Statement of Financial Position as at 31 December 2023, EBFs.

(All amounts in EUR)	Von Karman Institute	US Tramil	EW Trial Ar	EW Trial Nav	Audit of Multi- Nationally Funded Bodies	TF Moldova III	TF Azerbaijan (PEP Proj JCP)	TF CNAD VNCF	TF Jordan III	Global NAF&Managem nt fees	TF Ukraine II SALW Mun. Destr.	TF Mauritani a II	TF Building Integrity	TF SPS- DEXTER	TF UKRAIN EMCT
Assets															
Current assets															
Cash and cash equivalents	0.00	351,863.33	1,851,836.18	314,592.21	279,221.76	23,615.34	4,086.89	3,389,309.01	82,569.77	-332,311,584.61	813.16	63,715.56	82,984.73	40,370.71	120.41
Short term investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	329,600,000.00	0.00	0.00	0.00	0.00	0.00
Receivables	445,467.25	18,789.49	15,000.00	46,017.00	0.00	0.00	0.00	0.00	0.00	1,908,266.33	0.00	0.00	0.00	0.00	0.00
Prepayments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4,000.00	0.00	0.00	0.00	0.00	0.00
Other current assets	0.00	0.00	0.00	0.00	0.00	0.00	137,402.30	0.00	0.00	16,765,305.30	0.00	0.00	0.00	0.00	0.00
Inventories	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	445,467.25	370,452.82	1,866,836.16	360,609.21	279,221.76	23,615.34	141,488.99	3,389,309.01	82,569.77	15,965,977.82	813.16	63,715.56	82,984.73	40,370.71	120.41
Non-current assets															
Receivables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Property, plant & equipment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Intangible assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other non-current assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total assets	445,467.25	370,452.82	1,866,836.16	360,609.21	279,221.76	23,615.34	141,488.99	3,389,309.01	82,569.77	15,965,977.82	813.16	63,715.56	82,984.73	40,370.71	120.41
Liabilities															
Current liabilities															
Payables	0.00	415,668.94	2,240.01	7.44	-245.45	0.00	137,402.30	125,636.41	0.00	89,431.06	0.00	0.00	0.00	0.00	0.00
Deferred revenue	445,467.25	-4,095.37	1,834,830.88	358,409.34	0.00	23,615.34	4,086.89	3,250,044.66	82,569.77	15,807,973.87	813.16	63,715.56	82,984.73	39,892.68	120.41
Advances	0.00	0.00	19,873.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Short term provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other current liabilities	0.00	-41,120.80	9,892.12	2,192.43	279,467.21	0.00	0.00	13,625.84	0.00	68,572.63	0.00	0.00	0.00	478.12	0.00
	445,467.25	370,452.82	1,866,836.16	360,609.21	279,221.76	23,615.34	141,488.99	3,389,309.01	82,569.77	15,965,977.82	813.16	63,715.56	82,984.73	40,370.71	120.41
Non-current liabilities															
Payables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Long term provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other non-current liabilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total liabilities	445,467.25	370,452.82	1,866,836.16	360,609.21	279,221.76	23,615.34	141,488.99	3,389,309.01	82,569.77	15,965,977.82	813.16	63,715.56	82,984.73	40,370.71	120.41
Net assets															
Capital assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reserves	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Current year Surplus / (Deficits)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Accumulated surpluses / (deficits) prior year	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total net assets/ equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

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APPENDIX 1 to
ANNEX 6 to
FC(2024)0048

(All amounts in EUR)	TF UKRAINE L&S	TF NATO Defense & Security Campaign -Pilot phase	TF Communication Activities in W- Balkans	TF Ukraine Disposal of Radioactive Waste II	Pandemic Relief TF	3SAS	NATO Innovation Fund	TF MRC CAN W	TF Montenegro	TF UK Statcom	Women, Peace and Security	Ukraine TF	Partnership TF	OCB TF	Neutralisation of Internal Transactions	2023	2022
Assets																	
Current assets																	
Cash and cash equivalents	20,493.08	0.50	14,770.95	600,000.00	2,165,365.01	5,368,100.51	1,752,849.19	4.14	0.16	3,854.31	103,945.31	519,724,241.11	4,273,374.73	54,771,796.06		262,772,059.89	153,146,285.09
Short term investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		329,600,000.00	20,000,000.00
Receivables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5,442,261.99	0.00	43,243.76		7,929,045.82	355,034.63
Prepayments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5,000,000.00	900.00	0.00		5,004,900.00	52,230.45
Other current assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	42,265.63	39,472.56	16,771,326.57	213,120.22	60,087,493.26
Inventories	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00	0.00
	20,493.08	0.50	14,770.95	600,000.00	2,165,365.01	5,368,100.51	1,752,849.19	4.14	0.16	3,854.31	103,945.31	530,171,503.10	4,316,540.36	54,859,513.18	16,771,326.57	605,519,165.93	233,641,098.43
Non-current assets																	
Receivables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00	0.00
Property, plant & equipment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00	0.00
Intangible assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00	0.00
Other non-current assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00	0.00
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total assets	20,493.08	0.50	14,770.95	600,000.00	2,165,365.01	5,368,100.51	1,752,849.19	4.14	0.16	3,854.31	103,945.31	530,171,503.10	4,316,540.36	54,859,513.18	16,771,326.57	605,519,165.93	233,641,098.43
Liabilities																	
Current liabilities																	
Payables	150.16	0.00	1,077.00	0.00	823,791.77	20,126.115	2,726.78	0.00	0.00	0.00	0.00	5,461,015.63	41,309.33	53,254.11		7,174,175.69	18,495,543.08
Deferred revenue	20,342.92	0.50	13,620.63	600,000.00	1,324,726.46	5,310,878.64	1,713,096.24	4.14	0.16	3,725.41	101,340.60	509,534,279.50	4,072,476.97	53,399,394.25		597,884,325.50	214,724,981.88
Advances	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		19,873.05	19,873.05
Short term provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00	0.00
Other current liabilities	0.00	0.00	73.32	0.00	16,836.78	37,093.72	37,026.17	0.00	0.00	126.30	2,604.71	15,176,207.87	202,174.06	1,406,694.82	16,771,326.57	440,791.69	400,700.42
	20,493.08	0.50	14,770.95	600,000.00	2,165,365.01	5,368,100.51	1,752,849.19	4.14	0.16	3,854.31	103,945.31	530,171,503.10	4,316,540.36	54,859,513.18	16,771,326.57	605,519,165.93	233,641,098.43
Non-current liabilities																	
Payables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00	0.00
Long term provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00	0.00
Deferred revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00	0.00
Other non-current liabilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00	0.00
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total liabilities	20,493.08	0.50	14,770.95	600,000.00	2,165,365.01	5,368,100.51	1,752,849.19	4.14	0.16	3,854.31	103,945.31	530,171,503.10	4,316,540.36	54,859,513.18	16,771,326.57	605,519,165.93	233,641,098.43
Net assets																	
Capital assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reserves	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Current year Surplus / (Deficits)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Accumulated surpluses / (deficits) prior year	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total net assets/ equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

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Statement of Financial Performance as at 31 December 2023, EBFs.

(All amounts in EUR)	Von Karman Institute	US Transl	EW Trial Air	EW Trial Nav	Audit of Multi- Nationally Funded Bodies	TF Moldova II	TF Azerbaijan (PFP Proj JCP)	TF CNAD VNCF	TF Jordan II	Global NAF&Management fees	TF Ukraine II SALW Mun. Destr.	TF Mauritania II	TF Building Integrity	TF SPS- DEXTER
Revenue														
Non exchange revenue	0.00	1,989,810.99	299,985.86	308.09	-536.18	0.00	0.00	696,067.90	0.00	647,651.68	0.00	0.00	0.00	12,103.11
Exchange revenue	0.00	0.00	0.00	0.00	31,852.26	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Financial revenue	0.00	66,373.29	0.00	0.00	0.00	0.00	0.00	87,987.02	0.00	289,877.48	0.00	0.00	0.00	1,084.65
Total revenue	0.00	2,036,184.28	299,985.86	308.09	31,316.08	0.00	0.00	784,054.92	0.00	937,529.17	0.00	0.00	0.00	13,197.76
Expenses														
Personnel	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Contractual supplies and services	0.00	1,958,182.25	299,970.98	293.21	31,316.08	0.00	0.00	773,349.89	0.00	638,636.52	0.00	0.00	0.00	13,197.76
Depreciation and amortization	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Impairment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other expenses	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Finance costs	0.00	80,002.03	14.88	14.88	0.00	0.00	0.00	10,705.03	0.00	298,892.65	0.00	0.00	0.00	0.00
Total expenses	0.00	2,036,184.28	299,985.86	308.09	31,316.08	0.00	0.00	784,054.92	0.00	937,529.17	0.00	0.00	0.00	13,197.76
Surplus/(Deficit) for the period	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

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APPENDIX 1 to
ANNEX 6 to
FC(2024)0048

(All amounts in EUR)	TF UKRAINE MCT	TF UKRAINE LAS	TF NATO Defense & Security Campaign -Pilot phase	TF Communic- ation Activities in W- Balkans	TF Ukraine Disposal of Radioactive Waste II	Pandemic Relief TF	OSAS	NATO Innovation Fund	TF NRC CAN IV	TF Montenegro	TF UK Stratcom	Women, Peace and Security	Ukraine TF	Partnership TF	DCB TF	Neutralisation of Internal Transactions	2023
Revenue																	
Non-exchange revenue	0.00	0.00	0.00	716.85	0.00	3,353,344.74	180,701.37	4,313,027.87	0.00	162,949.38	-63.19	202,874.60	58,249,534.45	778,519.89	1,690,436.83		72,570,405.18
Exchange revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	31,852.26
Other revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Financial revenue	0.00	0.00	0.00	360.06	0.00	77,271.81	127,921.16	86,325.36	0.00	0.00	141.25	5,032.56	9,787,846.67	129,185.54	1,000,945.10		11,529,461.93
Total revenue	0.00	0.00	0.00	1,077.00	0.00	2,430,516.55	317,722.53	4,399,353.23	0.00	162,949.38	49.06	207,907.18	68,957,381.12	907,705.23	2,694,381.93		84,181,719.37
Expenses																	
Personnel	0.00	0.00	0.00	0.00	0.00	16,435.79	42,116.69	736,084.72	0.00	0.00	0.00	207,375.01	0.00	208,236.41	1,909.54		613,060.06
Contractual supplies and services	0.00	0.00	0.00	1,077.00	0.00	2,413,554.05	276,603.84	4,246,268.84	0.00	162,949.38	0.00	522.17	68,542,736.11	687,540.14	2,651,811.34		82,678,037.06
Depreciation and amortization	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Impairment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other expenses	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Finance costs	0.00	0.00	0.00	0.00	0.00	626.51	0.00	13,181.67	0.00	0.00	49.06	0.00	434,645.01	11,028.78	40,661.05		590,621.45
Total expenses	0.00	0.00	0.00	1,077.00	0.00	2,430,516.55	317,722.53	4,399,353.23	0.00	162,949.38	49.06	207,907.18	68,957,381.12	907,705.23	2,694,381.93		84,181,719.37
Surplus/(Deficit) for the period	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

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NATO UNCLASSIFIED

FC(2024)0052

**NATO DEFINED CONTRIBUTION PENSION SCHEME
FINANCIAL STATEMENTS**

For the year ended 31 December 2023

Annexes

- | | |
|---|---|
| 1 | Statement of Net Assets Available for Benefits |
| 2 | Statement of Changes in Net Assets Available for Benefits |
| 3 | Notes to the Financial Statements |


Jens STOLTENBERG
Secretary General


Mirosława BORYCZKA
Financial Controller

NATO UNCLASSIFIED



NATO DEFINED CONTRIBUTION PENSION SCHEME
Statement of Net Assets Available for Benefits

(all amounts in EUR)

	Notes	Current Year			Prior Year		
		31-Dec-23			31-Dec-22		
		Investments	Benefits	Total	Investments	Benefits	Total
Assets							
Cash and cash equivalents	3	9,721,947.84	629,635.69	10,351,583.53	9,657,500.02	534,390.74	10,191,890.76
Funds held by investment manager	4	784,123,707.54	-	784,123,707.54	669,969,628.44	-	669,969,628.44
Accounts receivable	5	39,704.70	230,613.50	270,318.20	9,849.19	201,310.24	211,159.43
Total Assets		793,885,360.08	860,249.19	794,745,609.27	679,636,977.65	735,700.98	680,372,678.63
Liabilities							
Accounts payable	6	(369,626.01)	(882,211.57)	(1,251,837.58)	(420,093.26)	(744,791.68)	(1,164,884.94)
Other payables	6	(16,329.28)	-	(16,329.28)	(16,329.28)	-	(16,329.28)
Surplus investment/desinvestment	7	(80,016.59)	-	(80,016.59)	(80,016.59)	-	(80,016.59)
Cumulated surplus unrealized financial results	8	1,224,841.51	-	1,224,841.51	857,057.42	-	857,057.42
Total Liabilities		758,869.63	(882,211.57)	(123,341.94)	340,618.29	(744,791.68)	(404,173.39)
Net Assets Available for Benefits		794,644,229.71	(21,962.38)	794,622,267.33	679,977,595.94	(9,090.70)	679,968,505.24

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ANNEX 2 to
FC(2024)0052

NATO DEFINED CONTRIBUTION PENSION SCHEME
Statement of Changes in Net Assets Available for Benefits

(all amounts in EUR)

	Notes	Current Year			Prior Year		
		31-Dec-23			31-Dec-22		
		Investments	Benefits	Total	Investments	Benefits	Total
Increase in Net Assets							
Net unrealized profit in market value of investments	9	74,544,822.82	-	74,544,822.82	-	-	-
Contributions	10	104,643,725.67	-	104,643,725.67	94,184,461.62	-	94,184,461.62
Inward transfers of pension rights	11	2,363,372.12	-	2,363,372.12	1,979,517.25	-	1,979,517.25
Transfers from insurer	12	-	2,406,851.45	2,406,851.45	-	1,702,483.24	1,702,483.24
Transfers from annuity provider	12	-	125,992.49	125,992.49	-	121,490.16	121,490.16
Contributions for tax adjustments due	16	-	188,504.66	188,504.66	-	189,539.09	189,539.09
Miscellaneous receipts (realized financial gains)	17	70,399.42	342.03	70,741.45	45,341.66	562.13	45,903.79
Total Increase in Net Assets Available for Benefits		181,622,320.03	2,721,690.63	184,344,010.66	96,209,320.53	2,014,054.62	98,223,375.15
Decrease in Net Assets							
Net unrealized loss in market value of investments	9	-	-	-	86,854,531.56	-	86,854,531.56
Accounts closed (staff)	13	32,844,930.41	-	32,844,930.41	38,255,222.86	-	38,255,222.86
Housing withdrawals	13	33,946,800.05	-	33,946,800.05	33,300,662.95	-	33,300,662.95
Outward transfers of pension rights	13	145,647.81	-	145,647.81	652,065.62	-	652,065.62
Transfers to insurer and annuity providers	14	-	-	-	-	-	-
Pension benefits	15	-	123,938.44	123,938.44	-	122,838.95	122,838.95
Invalidity, survivor and dependant benefits	16	-	2,197,798.48	2,197,798.48	-	1,559,036.80	1,559,036.80
Tax adjustments paid to beneficiaries	16	-	188,504.66	188,504.66	-	189,539.09	189,539.09
Employer contributions to DCPS	16	-	211,107.03	211,107.03	-	142,077.65	142,077.65
Miscellaneous expenses (realized financial losses)	17	18,307.99	13,213.70	31,521.69	20,203.56	7,250.21	27,453.77
Total Decrease in Net Assets Available for Benefits		66,955,686.26	2,734,562.31	69,690,248.57	159,082,686.55	2,020,742.70	161,103,429.25
Net Increase for the Year		114,666,633.77	(12,871.68)	114,653,762.09	(62,873,366.02)	(6,688.08)	(62,880,054.10)
Net Assets Available for Benefits, Beginning of Year		679,977,595.95	(9,090.70)	679,968,505.25	742,850,961.96	(2,402.62)	742,848,559.34
Net Assets Available for Benefits, End of Year		794,644,229.71	(21,962.38)	794,622,267.33	679,977,595.95	(9,090.70)	679,968,505.25

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EXPLANATORY NOTES

NATO DEFINED CONTRIBUTION PENSION SCHEME

NOTE 1: GENERAL INFORMATION

Description of the Fund

The NATO Defined Contribution Pension Scheme (DCPS) was implemented with effect from 1 July 2005 based on Council's approval of C-M(2000)53 and C-M(2005)0057. The DCPS aims to provide retirement benefits for NATO staff who are employed for the minimum six-year vesting period and to make cash payments to staff who leave before satisfying the vesting requirement. All new entrants recruited on or after 1 July 2005 are compulsorily affiliated to the NATO DCPS.

The DCPS is a cash purchase pension scheme. Both staff and NATO contribute to the Scheme. There is no long-term liability for NATO related to the DCPS.

An account is opened for each member of the Scheme. Contributions are invested according to the member's instructions within the eleven funds currently available, described below. Members can check the status of their accounts and give instructions via a secure web portal.

Upon departure, the member's account is disinvested. Until 20 December 2012, the effective date of changes to related NATO Civilian Personnel Regulations (CPR), if the member had vested in the Scheme and was at least 50 years old, the member could take up to 25% of the proceeds as a cash lump sum and the balance had to be applied to the purchase of a retirement pension from a commercial provider. In 2009, the vesting period was five years; in 2010 the vesting period was increased to six years. Members who leave the NATO employer prior to vesting withdraw the entire proceeds as a cash lump sum.

On 20 December 2012 the NATO Council approved the current disinvestment rules which provide choice and flexibility for affiliates regarding their retirement benefits. There is no upper or lower limits on ages at which affiliates can take benefits. Affiliates leaving the DCPS may take any percentage of their holdings in cash. Affiliates' accounts no longer have to be closed when they reach 65. Affiliates may remain indefinitely as passive investors, with no further investments or switches until full disinvestment, beyond the age of 65.

As at 31 December 2023, there were 5894 NATO DCPS affiliates (members). Note 21 provides a summary of the evolution of the membership since inception.

Financing

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

Scheme members may, under certain circumstances, transfer into their DCPS account any amounts corresponding to pension rights accrued under the pension scheme to which they were previously affiliated.

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Governance

The DCPS is administered in accordance with NATO Civilian Personnel Regulations (CPRs), Annex VI, governing the DCPS approved by the Council under C-M(2005)0057.

The Secretary General is responsible for the administration and management of the Scheme, assisted by a consultative committee, the DCPS Management Board, whose Chairman is appointed by the Secretary General.

The committee also includes: seven representatives of the Administrative Services for the International Staff, the International Military Staff, the NATO Standardization Agency and the NATO Defense College, the Assistant Secretary General (ASG) Executive Management and the Financial Controller of the International Staff or their representatives; two representatives of the Administrative Services for the NATO Production and Logistics Organizations and other bodies not listed above; a representative from SHAPE J1 Manpower and Personnel, and the Financial Controller, Allied Command Operations, or their representatives; one representative from the Administrative Services of a NATO military body in Allied Command Transformation; six representatives nominated by the Confederation of NATO Civilian Staff Committees from among the members of the Scheme. At least one representative shall be a member of the NATO International Staff; one representative of retired NATO staff nominated by the Confederation of NATO Retired Civilian Staff Associations.

The Assistant Secretary General for Executive Management was appointed permanent Chairperson of the DCPS Management Board in late 2010 and remains as such since then.

The members of the DCPS Management Board, who are also NATO staff members, receive no additional remuneration or benefits in return for their participation.

Investments

The Management Board oversees the investment options of the Scheme.

Members of the NATO DCPS invest in their choice of several funds, consisting of equity, bond and cash funds. Investments are made in units in the respective funds; the unit price fluctuates according to its market value. Four additional investment funds, passively-managed (indexed) funds offered by Vanguard were selected by the NATO Contract Awards Committee in consultation with the DCPS Management Board in November 2013 and became available to DCPS affiliates in February 2014.

Affiliates of the DCPS can move their investments between the available funds. Such transfers between funds are known as switches. Until 2020 switches were executed on a bi-weekly basis. From 2021 onwards, switches are effected on a weekly basis.

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The funds are available in EUR and/or in USD, as presented in the table below:

	ISIN*
Equity Funds:	
Mellon Global Equity Portfolio EUR C	IE00B82M6789
Mellon Global Equity Portfolio USD C	IE00B7X4LZ98
Vanguard Global Stock Index Fund EUR	IE00B03HD191
Vanguard Global Stock Index Fund USD	IE00B03HD209
Bond Funds:	
Mellon Global Bond Portfolio EUR C	IE0003932385
Mellon Global Bond Portfolio USD C	IE0003932492
Mellon Euroland Bond Portfolio EUR C	IE00BF8HK850
Vanguard Global Bond Index Fund USD	IE00B18GCB14
Vanguard Euro Government Bond Index Fund EUR	IE0007472990
Cash Funds:	
Mellon Universal Liquidity Funds – Liquidity Plus USD	IE0032713202
BNP Paribas InstiCash Fund – EUR	LU0094219127

* International Securities Identification Number

NATO shall not be held responsible for any losses on investments incurred by movement in the investment markets (Annex VI, Article 10.3 of the NATO Civilian Personnel Regulations).

Benefits

Upon retirement of a staff member, transfers are made to the pension provider in order to purchase the annuity for members who leave the DCPS and choose to take a DCPS retirement pension.

Until 30 June 2017 the insurer's company was responsible for annuity payments in cases of death in service and had a claim on the proceeds of the redemption of the affected deceased staff member's holdings. Nowadays the redemption proceedings are paid to the person(s) designated by the deceased staff member and the survivors' benefits, in cases of eligibility, are covered by the insurance. Since July 2020 the benefits paid to orphans have increased.

Contributions, in the case of invalidity, are made to the DCPS and invested, until the beneficiary reaches retirement age. In the case of invalidity, contributions for medical insurance are also paid as required.

Retirement annuities received from commercial pension providers pending augmentation by the adjustment related to income tax and further transfer to the retired beneficiary are held in a separate bank account separate from that of the Investment element of the DCPS. The benefits received from the insurer pending augmentation plus the adjustment related to income tax are subject to a follow-on transfer to the survivor or disabled beneficiary.

Benefits are paid for retirement, survivor and invalidity pensions. They are paid at the end of each month. Note 15 provides information about the number of beneficiaries per category of benefits.

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Housing Withdrawals

Since 2021 active members of the DCPS may, up to two times during their NATO employment, withdraw not more than 95% of from their DCPS holdings to finance a primary residence or to reduce the amount owing on an existing property.

In 2023, a total amount of EUR 30,865,431.76 and USD 3,395,766.70 has been processed for active staff members as housing withdrawals.

Pension Tax Adjustment

The Scheme is not subject to income tax under the terms of Articles IX and X of the Agreement on the Status of the North Atlantic Treaty Organization signed in Ottawa on 20 September 1951 (the Ottawa Treaty).

In accordance with Annex VI, Article 15 of the CPRs, beneficiaries are subject to tax by national authorities on their annuity receipts and receive an adjustment equivalent to 50% of the amount by which the recipient's pension would theoretically need to be increased, were the balance remaining after deduction of the amount of national income tax or taxes on the total to correspond to the amount of the pension calculated in accordance with the CPRs. This adjustment is paid out of the DCPS Retirement Pensions and Invalidity accounts and is funded by specific calls for contributions handled in the NATO Coordinated Pension Scheme accounts. Related information is disclosed in the Financial Statements of the NATO Coordinated Pension Scheme.

Amounts paid are disclosed in the Statement of Change in Net Assets.

Management of the DCPS

Prevynet SPA (Italy) was selected as the Third Party Administrator of the DCPS at the introduction of the Scheme in July 2005, and has been administering the scheme on behalf of NATO since that date. Preynet is responsible for the individual accounts administration, benefit administration, reporting, customer services and maintenance of the DCPS web site with on-line facilities for the scheme members.

Prevynet tracks contributions and individual holdings of scheme members. It also provides aggregated accounting data and investment instructions destined for NATO-IS and the Investment Managers.

NATO-IS Office of Financial Control (OFC) receives the monthly contributions from the various NATO body payroll centers in a custodial bank account and its bank converts the funds, based on the instructions prepared by the Scheme Administrator, into EUR or USD, as required, for the investment accounts. The OFC is responsible for transfer of the funds from the relevant bank account to the appropriate accounts with the Investment Managers, BNY Mellon, Vanguard and BNP Paribas, based on the Scheme Administrator's reconciliation of the global amount and validation of the amounts to be invested for each staff member.

NATO-IS Executive Management Human Resources Pensions Unit reconciles the number of units per member received from the Scheme Administrator against the accounts of the staff members leaving the scheme. OFC then transfers the redemption/lump sum amounts as per the bank account instructions provided by the leaving scheme members.

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DCPS amounts redeemed for the purchase of pension annuities and amounts due from an outside insurer for invalidity pensions of former DCPS members are administered by the OFC. The member's holdings are transferred to the relevant pension provider when a leaving DCPS member has instructed NATO to purchase an annuity. OFC also transfers monthly invalidity pensions and the adjustments related to income tax to former DCPS members who qualify.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The DCPS applies the NATO IS Accounting Policies which have been published through ON(2021)0079 and updated through FC(CAF)(2023)0001.

Declaration of conformity

The financial statements of the NATO DCPS have been prepared in accordance with the NATO Financial Regulations and International Accounting Standard 26, "Accounting and Reporting by Retirement Benefit Plans". The NATO Accounting Framework, which is an adapted version of the International Public Sector Accounting Standards (IPSAS), does not have a specific standard for accounting and reporting by retirement benefit plans.

The accounting system used by the NATO DCPS is accrual based.

Basis of presentation

The financial statements have been prepared on a going-concern basis: the DCPS will continue in operation for the foreseeable future.

The amounts shown in these financial statements are presented in EUR.

Changes in accounting policy

None in 2023.

Use of estimates

In the application of accounting policies, described below, management is required to make judgments, estimates and assumptions about carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Foreign currency transactions

Contributions are made in the currency of the respective payroll center. Investments are made in USD and in EUR as chosen by the scheme member. NATO Parity Rates do not apply to purchases or sales in the DCPS. All bank transactions are processed at the market rate. Contributions received in currencies other than EUR and USD are converted in the latter at investment dates and payments to the Investment Managers are made in EUR and USD. Balance sheet amounts at year-end are reported using the NATO Parity Rates in effect on 31 December.

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Cash and Cash Equivalents

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

Investments

Investments reported under these DCPS financial statements consist of equity funds, bond funds and cash funds. These investments are non-current assets with respect to the purpose of the DCPS.

Investments are recorded at market value on the reporting date.

Receivables

Receivables are stated at net realizable value. No allowance for loss is recorded for receivables relating to NATO bodies' statutory contributions.

Payables

Payables are amounts due to third parties based on services provided that remain unpaid. This includes, as required, an estimate of accrued obligation for services provided but not yet invoiced.

Net Assets Available for Benefits

The net assets available for benefits at year-end correspond to investments at market value plus receivables and contributions awaiting investment less payables. Also included are interest earned on the custodial bank accounts, surpluses gained on transactions with the insurance company, bank charges and exchange rate differences resulting from annuities..

Financial Risks

The DCPS uses only non-derivative financial instruments as part of its normal operations. These financial elements include cash, investment funds, bank accounts and accounts receivable.

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

The DCPS is exposed to a variety of financial risks, including credit risk, market (price) risk and liquidity risk. The maximum exposure as at year end is equal to the total amount of bank balances and receivables. NATO shall not be held responsible for any losses on investments incurred by movement in the investment markets (Annex VI, Article 10.3 of the NATO Civilian Personnel Regulations).

Credit risk

The DCPS incurs credit risks from cash and cash equivalent held with banks and receivables. There is very limited credit risk associated with the realization of these elements.

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Concerning cash and cash equivalent the DCPS credit risk is managed by holding current bank accounts and short term liquid deposits that are readily convertible to a known amount of cash held with ING Bank (Belgium) which has the following short-term credit ratings:

BANK NAME	COUNTRY OF HQ	SHORT TERM RATINGS					
		FITCH		S&P GLOBAL		MOODY'S	
		Rating	Last review date	Rating	Last review date	Rating	Last review date
ING BANK	BE	F1+	13-Jul-23	A-1	23-Jun-23	P-1	28-Nov-23

Concerning receivables, the credit risk is managed by maintaining control procedures over receivables. These consist essentially of contributions due by NATO bodies' payroll centers. This risk is considered limited since these bodies are primarily funded by member nations which are considered creditworthy.

Price risk

The DCPS individual member holdings are exposed to equity and bond securities market risk. NATO shall not be held responsible for any losses on investments incurred by movement in the investment markets (Annex VI, Article 10.3 of the NATO Civilian Personnel Regulations).

Currency risk

The DCPS is exposed to a limited foreign currency exchange risk arising from fluctuations in currency rates. The contributions received in various currencies are converted into EUR or USD as required by the members' investment decisions. The converted amounts are invested in funds held in EUR or USD accordingly. With regards to benefits there is a limited currency risk since payments are sometimes made in another currency than the amounts received from the insurer or the annuity provider. However, so far, such costs have been immaterial.

Liquidity risk

A liquidity risk could arise from a short term liquidity requirement in relation to amounts due to departing staff. There is a very limited exposure to liquidity risk because the amounts due to departing staff are equal to their holdings, and because amounts transferred to the investment manager are equal to the contributions received from the payroll centers of NATO bodies which receive resources from member states funding the related budgets, or income from their customers which generally are other NATO bodies funded through their approved budgets.

However, there is a limited liquidity risk in relation to the payment of annuities to eligible members. These transactions are handled on bank accounts separate from those used for investments and disinvestments. Amounts due by the insurers arrive later than when annuities are due to members. Pension Adjustment is paid in advance from contributions due by the Coordinated Pension Scheme. This situation is managed through cash advances from the NATO International Staff (IS).

Below table provides the evolution on the standing advances DCPS has received from IS at year-end for the last 3 years.

End of Year	Cash Advance in EUR
2021	550,000.00
2022	720,000.00
2023	870,000.00

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The level of cash advances, used to manage the liquidity risk during the year, has increased by EUR 150,000 in 2023.

Interest rate risk

The DCPS is restricted from entering into borrowings.

A portion of DCPS is invested in bond funds. The market value of bonds fluctuates according to market perception of the issuer's creditworthiness and to projected interest rates. The value of DCPS individual member accounts is therefore subject to some interest rate risk.

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Statement of Net Assets Available for Benefits

NOTE 3: CASH AND CASH EQUIVALENTS

The various NATO entities pay their contributions into custodial bank accounts. Those accounts serve to effect the transfer of funds to be invested by the Investment Manager and to receive redemptions for departing staff or housing withdrawals. The total presented in the financial statements corresponds mainly to contributions received in December and awaiting transfer to the Investment Managers.

Separate bank accounts are held for transactions relating to the payment of pension and invalidity benefits.

NOTE 4: FUNDS HELD BY THE INVESTMENT MANAGER

Investments at Market Value

BNY Mellon is the Investment Manager for six of the funds listed below; BNP Paribas Investment Partners manages the BNP Paribas InstiCash Fund in Euro, while Vanguard Asset Management manages the four index funds.

Table below provides comparative data on the Investments at Market Value for two consecutive years:

	ISIN	2023		2022	
		EUR or EUR equivalent of USD	USD	EUR or EUR equivalent of USD	USD
Equity Funds:					
Mellon Global Equity Portfolio EUR C	IE00882M6789	305,713,793.09		277,947,939.77	
Mellon Global Equity Portfolio USD C	IE0087X4L298	29,767,160.06	32,693,271.88	23,800,614.73	25,223,891.48
Vanguard Global Stock Index Fund EUR	IE00803HD191	140,147,588.74		94,122,867.48	
Vanguard Global Stock Index Fund USD	IE00803HD209	36,218,715.61	39,779,015.36	24,581,322.33	26,051,285.41
Bond Funds:					
Mellon Global Bond Portfolio EUR C	IE0003932385	41,412,806.68		42,720,490.78	
Mellon Global Bond Portfolio USD C	IE0003932492	5,915,774.39	6,497,295.01	5,368,062.96	5,689,073.14
Mellon Eurobond Bond Portfolio EUR C	IE008F84K850	14,128,871.46		12,081,343.60	
Vanguard Global Bond Index Fund USD	IE00818GCB14	8,239,754.57	9,049,722.46	7,484,475.10	7,932,046.77
Vanguard Euro Government Bond Index Fund EUR	IE0007472990	17,551,958.78		14,920,145.45	
Cash Funds:					
Mellon Universal Liquidity Funds – Liquidity Plus USD	IE0032713202	14,054,513.69	15,436,072.42	17,941,314.43	19,014,205.07
BNP Paribas InstiCash Fund – EUR	LU0094219127	170,972,770.47		149,001,051.81	
TOTAL		784,123,707.54		669,969,628.44	

Dividends stemming from BNY Mellon investments funds are received the following year. For 2023, the dividends amount respectively to EUR 1,299,173.51 and USD 228,959.13, the dividends will be reflected in the price of the accumulated share class at distribution date of 9 February 2024.

Unit Price per Fund

New investments and redemptions take place between the funds and the unit price for each fund fluctuates continuously. Income is therefore not reported by fund in absolute terms. The appropriate performance measure per fund is the unit price. The unit prices for each of the funds at year-end and the resulting annualized income per unit were as follows:

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	ISIN	2023	2022	Annualized Income per Unit
Equity Funds:				
Mellon Global Equity Portfolio EUR C	IE00882M6789	1.8185	1.5979	0.2206
Mellon Global Equity Portfolio USD C	IE0087X4L298	1.7923	1.5179	0.2744
Vanguard Global Stock Index Fund EUR	IE00B03HD191	41.0417	34.3320	6.7097
Vanguard Global Stock Index Fund USD	IE00B03HD209	45.5478	36.8115	8.7363
Bond Funds:				
Mellon Global Bond Portfolio EUR C	IE0003932385	1.8122	1.8239	-0.0117
Mellon Global Bond Portfolio USD C	IE0003932492	2.2373	2.1691	0.0682
Mellon Euroland Bond Portfolio EUR C	IE00BF8HK850	1.1027	1.0183	0.0844
Vanguard Global Bond Index Fund USD	IE00B18GCB14	154.8913	144.5954	10.2959
Vanguard Euro Government Bond Index Fund EUR	IE0007472990	209.9816	196.1477	13.8339
Cash Funds:				
Mellon Universal Liquidity Funds – Liquidity Plus USD	IE0032713202	1.351548	1.2850	0.0665
BNP Paribas InstiCash Fund – EUR	LU0094219127	141.6695	137.1109	4.5586

NOTE 5: RECEIVABLES

(amounts in EUR)	2023			2022		
	Investments	Benefits	Total	Investments	Benefits	Total
Contributions from NATO bodies	12,961.03	-	12,961.03	1,617.70	-	1,617.70
Reimbursement of Tax Adjustment Paid	-	188,504.66	188,504.66	-	189,539.09	189,539.09
Insurer	-	40,543.84	40,543.84	-	50.00	50.00
Beneficiaries	-	1,478.00	1,478.00	-	11,721.15	11,721.15
Other Receivables	26,743.67	87.00	26,830.67	8,231.49	-	8,231.49
Total	39,704.70	230,613.50	270,318.20	9,849.19	201,310.24	211,159.43

Contributions for further investment are paid on a monthly basis by NATO bodies to the DCPS account. The process normally results in no such contributions receivable, or of limited amount, at year-end. Some transactions may still be pending regularization.

Tax adjustment payments are made to beneficiaries from the DCPS Benefits (Retirement, Invalidity and Survivor) accounts as an advance to be settled by the NATO Coordinated Pension Scheme budget which handles all tax adjustment operations NATO-wide and calls the related contributions by the nations concerned (i.e. in which the beneficiaries paid their income taxes). This resulted in amounts receivable from the NATO Coordinated Pension Scheme.

Amounts receivable from the insurer and the pension provider relate to individual cases to be settled.

Amounts receivable from beneficiaries relate to overpayment of specific allowances attached to their monthly benefits.

Other receivables are mainly interests gained on bank accounts held in USD and GBP.

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NOTE 6: PAYABLES AND OTHER PAYABLES

Accounts payable in EUR	2023			2022		
	Investments	Benefits	Total	Investments	Benefits	Total
NATO International Staff	-	870,000.00	870,000.00	-	720,000.00	720,000.00
Departing Staff	281,042.12	-	281,042.12	309,506.49	-	309,506.49
Housing Withdrawals	-	-	-	20,900.77	-	20,900.77
Beneficiaries	-	8,667.05	8,667.05	-	-	-
Allianz Refund & Payables 3rd Parties	88,593.89	3,544.52	92,128.41	89,695.99	24,791.68	114,477.67
Total	369,626.01	882,211.57	1,251,837.58	420,093.25	744,791.68	1,164,884.93

Payables to NATO International Staff (IS) correspond to cash advances made by IS to allow for the timely payment of pension and invalidity benefits, as well as of tax adjustments.

Payables to Departing Staff and Housing Withdrawals to be paid to Staff are transactions pending final payment.

Payables to Beneficiaries are amounts paid by the insurer to paid out or to be regularized following investigation.

Allianz Refund and Payables 3rd parties correspond mainly to the payments to former DCPS affiliates for the compensatory payment received from Allianz, accruals and unpaid invoices to suppliers. In 2023 the distribution of the Allianz compensatory payment to NATO staff who were members of the DCPS during the period 2012-2015 continued. As per 31 December, the not yet distributed amount was EUR 86,637.79. This amount corresponds to the dues towards non active DCPS members whereby the NATO Pensions Unit has to reach out to each individual to obtain correct data in order to proceed with the payment. The latter has proven to be a cumbersome, lengthy and time-consuming process and will continue in 2024.

Other payables in EUR	2023			2022		
	Investments	Benefits	Total	Investments	Benefits	Total
Insurer	-	-	-	-	-	-
NATO International Staff	16,329.28	-	16,329.28	16,329.28	-	16,329.28
Total	16,329.28	-	16,329.28	16,329.28	-	16,329.28

Other payables to the NATO-IS relate to the IS Wells Fargo funds used to refund the Allianz compensatory payment to non-active DCPS members and retirement benefits in the US.

NOTE 7: SURPLUS INVESTMENT/DESINVESTMENT

Until 1 July 2017, in cases of death in service, the insurance company providing the survivor's annuity had a claim on the proceeds of the redemption of the affected member's holdings in an amount equal to the lesser of the member's holdings on 31 October of the previous year or the insurer's previously established cost of that annuity. Until that date no shortfalls have occurred and the accumulated excess, amounting to EUR 80,016.59, has been kept on a suspense account.

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NOTE 8: CUMULATED UNREALIZED FINANCIAL RESULT

The DCPS cumulated unrealized financial result stems from the mandatory foreign currency assets/liabilities revaluation at 31 December 2023.

Below we present a table with comparative figures for the unrealized result:

(amounts in EUR)	31/12/2023	31/12/2022
Investments	1,224,841.51	857,057.42
Benefits	0.00	0.00
Total	1,224,841.51	857,057.42

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Statement of Changes in Net Assets Available for Benefits

NOTE 9: NET UNREALIZED PROFIT OR LOSS IN MARKET VALUE OF INVESTMENTS

Unrealized profit or loss in the market value of investments vary according to the volume of contributions invested, redemptions, currency fluctuations, and changes in the unit prices of the investment funds.

Below we present a table with comparative figures for the end 2022 and end 2023.

(amounts in EUR)	2023	2022
Net unrealized result in market value investments	74,544,822.82	-86,854,531.56

The below table indicates the origin of this significant increase in unrealized profit: the all over growth in share prices of the investments funds.

	2023		2022		Share Price Fluctuation in 2023	Portfolio Share at 31/12/2023
	Share Price	Number of Shares	Share Price	Number of Shares		
Equity Funds:						78.78%
Mellon Global Equity Portfolio EUR C	1.8185	168,113,166.40	1.5979	173,945,766.17	13.81%	69.47%
Mellon Global Equity Portfolio USD C	1.7923	18,240,953.59	1.5179	16,617,624.01	18.08%	7.54%
Vanguard Global Stock Index Fund EUR	41.0417	3,414,760.81	34.3320	2,741,549.21	19.54%	1.41%
Vanguard Global Stock Index Fund USD	45.5478	873,346.58	36.8115	707,694.21	23.73%	0.36%
Bond Funds:						16.00%
Mellon Global Bond Portfolio EUR C	1.8122	22,857,227.50	1.8238	23,422,605.83	-0.64%	9.44%
Mellon Global Bond Portfolio USD C	2.2373	2,904,078.58	2.1691	2,622,780.48	3.14%	1.20%
Mellon Eurobond Bond Portfolio EUR C	1.1027	12,812,978.58	1.0183	11,864,228.22	8.29%	5.30%
Vanguard Global Bond Index Fund USD	154.6913	58,426.28	144.5954	54,856.84	7.17%	0.02%
Vanguard Euro Government Bond Index Fund EUR	209.9816	83,588.08	196.1477	76,065.87	7.05%	0.03%
Cash Funds:						5.22%
Mellon Universal Liquidity Funds - Liquidity Plus USD	1.3515	11,421,031.60	1.2850	14,797,046.75	5.18%	4.72%
BNP Paribas InstiCash Fund - EUR	141.6695	1,206,842.48	137.1109	1,086,719.23	3.32%	0.50%

NOTE 10: CONTRIBUTIONS

A minimum of 8% is deducted from staff emoluments monthly and transferred to DCPS together with the NATO employers' contributions of 12% of emoluments. Staff may make additional voluntary contributions up to 5%, therefore bringing to 13% the maximum contribution that a staff member can pay into its DCPS account (8% mandatory + 5% voluntary).

There is also an employer contribution to the DCPS, paid by the insurance company, for the cases of invalidity benefits.

The normal trend is that both contributions increase every year due to the combined effect of increased membership and annual salary adjustments.

NOTE 11: INWARD TRANSFERS OF PENSION RIGHTS

The NATO Civilian Personnel Regulations (Annex VI, Article 6) provide that staff may, under certain circumstances, arrange for payment to the Organization of any amounts corresponding to the retirement pension rights accrued under the pension scheme to which the staff member was previously affiliated in so far as that scheme allows such a transfer. These payments are called inward transfers.

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NOTE 12: TRANSFERS FROM INSURER AND ANNUITY PROVIDER

Transfers are received from the insurer in relation to amounts due to staff entitled to invalidity and survivors' benefits (spouses and dependent children of serving staff who are DCPS members who died in service) together with funds received from the annuity provider to pay retirement benefits.

NOTE 13: ACCOUNTS CLOSED (STAFF), HOUSING WITHDRAWALS AND OUTWARD TRANSFERS OF THE PENSION RIGHTS

These correspond to accounts of former staff members leaving DCPS that are closed and the proceeds paid in whole or in part either to the former staff member.

Housing withdrawals are amounts withdrawn by active members of the DCPS from their holdings to finance a primary residence or to reduce the amount owing on an existing property (CPR Annex VI, Article 21).

Outward transfers are also allowed, in which cases the proceeds of ex-DCPS member's closed account are paid to the eligible pension scheme (CPR Annex VI, Article 11).

NOTE 14: TRANSFERS TO INSURER OR ANNUITY PROVIDER

These correspond to staff holdings transferred to the pension provider in order to purchase the annuity for members who leave the DCPS and take a DCPS retirement pension.

When these transactions occur, they are duly disclosed in the Statement of Changes in Net Assets Available for Benefits.

NOTE 15: PENSION, INVALIDITY, SURVIVOR AND DEPENDANT BENEFITS

Benefits are paid for retirement, survivor and invalidity pensions. They are paid at the end of each month. The following table gives the number of beneficiaries per category of benefits.

As per end	Retirement	Survivor & Orphan	Invalidity	Total
2013	4	3	3	10
2014	8	4	6	18
2015	8	5	7	20
2016	9	12	9	30
2017	10	12	10	32
2018	10	12	12	34
2019	12	11	11	34
2020	12	20	20	52
2021	12	24	21	57
2022	12	29	23	64
2023	12	36	32	80

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In case of invalidity, for eligible staff, an employer contribution is made to the DCPS holdings of the individual concerned.

NOTE 16: PENSION TAX ADJUSTMENT

More information on this item is provided under Note 1 (Pension Tax Adjustment).

NOTE 17: REALIZED FINANCIAL RESULT

The item presents the interest earned on the custodial bank accounts, bank charges and exchange rate differences resulting from payments of annuities.

NOTE 18: CONTINGENT LIABILITIES

There are no material contingent liabilities arising from legal actions and claims that are likely to result in significant liability to the DCPS.

Adjustments related to income tax may be due to certain annuity recipients. The amounts are yet to be determined but the total of possible obligations relating to this item is not expected to be material.

NOTE 19: CONTINGENT ASSETS

None to report.

NOTE 20: RELATED PARTY TRANSACTIONS

Members of the DCPS Management Board receive no additional remuneration or benefits in return for their participation. The Chairperson of the DCPS Management Board is the Assistant Secretary General for Executive Management. The NATO International Staff (IS) Financial Controller is a member of the DCPS Management Board.

NATO International Staff, in particular Executive Management and the Office of Financial Control, are responsible for the day-to-day management of the DCPS. No management fees corresponding to the related costs are charged to the DCPS. In the global framework of the Administrative Support process, the NATO bodies are charged by the IS on a pro rata basis for these costs, including the fees paid to the Third Party Administrator. The related income reduces the contributions due from Nations to fund the NATO Civil Budget.

NATO International Staff, under Human Resources Shared Services (HRSS), supports legal proceedings of one ongoing precedential court case of a former DCPS affiliate whose lump sum payment, received upon departure, has been taxed.

Since DCPS does not have its own cash holdings to pay the benefits, advances are made by NATO IS, to allow the timely payment of annuities for Pensioners, Invalids and Survivors.

The table below provides an overview of the extant Cash advances at year-end, for the last 3 years.

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End of Year	Cash Advance in EUR
2021	550,000.00
2022	720,000.00
2023	870,000.00

Conversely, tax adjustment payments are made to beneficiaries from the DCPS Retirement and Invalidity accounts as an advance to be settled by the Defined Benefit Pension Scheme budget, which handles all tax adjustment operations NATO-wide. This resulted in amounts receivable from the latter.

As provided for by the CPRs (Annex VI, articles 13 and 14), survivors' benefits for the surviving spouses and dependent children of serving staff who die in service and invalidity benefits to serving staff are funded (partially for survivor benefits, totally for invalidity benefits) through the payment of insurance premiums which are paid directly by the NATO bodies to the insurance company and are not accounted for in the present financial statements. The table below provides comparative data on the insurance premiums paid for Death and Invalidity, over last two years:

Death and Invalidity Premiums in EUR		
	2023	2022
Death	5,914,515.84	5,415,737.33
Invalidity	6,512,110.65	5,962,941.69

NOTE 21: KEY MANAGEMENT PERSONNEL

For the purposes of these financial statements, Key Management Personnel are considered to be the NATO International Staff (IS) Assistant Secretary General for Executive Management and the Financial Controller. Their remuneration is totally covered by the NATO International Staff.

Members of the DCPS Management Board do not receive any additional remuneration or benefits in return for their responsibilities. The DCPS Management Board is chaired by the Assistant Secretary General for Executive Management. The IS Financial Controller is a member of the Board.

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ANNEX 3 to
FC(2024)0052**NOTE 22: STATISTICAL INFORMATION**

Evolution of DCPS memberships (number of affiliates)				
Year	Members Joined	Members Departed	Members Cancelled	Total
2005	274	0	0	274
2006	527	6	0	795
2007	501	23	0	1,273
2008	511	43	0	1,741
2009	443	71	0	2,113
2010	477	208	0	2,382
2011	454	260	0	2,576
2012	274	188	0	2,662
2013	310	190	0	2,782
2014	433	214	0	3,001
2015	345	174	0	3,172
2016	454	207	0	3,419
2017	469	220	0	3,668
2018	547	241	0	3,974
2019	618	240	0	4,352
2020	644	200	1	4,795
2021	642	275	0	5,162
2022	600	279	0	5,483
2023	682	270	1	5,894

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**NATO RETIREES MEDICAL CLAIMS FUND
FINANCIAL STATEMENTS**

For the year ended
31 December 2023

Annexes

- | | |
|---|---|
| 1 | Statement of Net Assets Available for Benefits |
| 2 | Statement of Changes in Net Assets Available for Benefits |
| 3 | Notes to the Financial Statements |


Jens STOLTENBERG
Secretary General


Mirosława BORYCZKA
Financial Controller

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ANNEX 1 to
FC(2024)0053NATO RETIREES MEDICAL CLAIMS FUND
Statement of Net Assets Available for Benefits

(All amounts in EUR)		Notes	Current Year 31-Dec-23	Prior Year 31-Dec-22
Assets				
	Cash and cash equivalents	(4)	13,490,404.97	7,383,256.06
	Investments at market value	(5)	413,160,770.87	365,990,132.66
	Accounts receivable	(6)	700,497.66	785,292.18
Total Assets			427,351,673.50	374,158,680.90
Liabilities				
	Accounts payable	(7)	14,724,615.82	7,190,222.32
	Other current liabilities	(12)	18,081.00	0.00
Total Liabilities			14,742,696.82	7,190,222.32
Net Assets Available for Benefits			412,608,976.68	366,968,458.58

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NATO RETIREES MEDICAL CLAIMS FUND
Statement of Changes in Net Assets Available for Benefits

(All amounts in EUR)	Notes	Current Year	Prior Year
		31-Dec-23	31-Dec-22
Increase in net assets			
Net unrealized gain in market value of investments	(5)	46,953,148.71	0.00
Contributions for current year	(8)	37,163,913.30	34,764,713.97
Fund rebates	(5)	217,489.50	220,126.06
Interest income	(10)	64,441.67	0.00
Miscellaneous	(12)	4,185.08	3,349.85
Total Increase in Net Assets Available for Benefits		84,403,178.27	34,988,189.88
Decrease in net assets			
Net unrealized loss in market value of investments	(5)	0.00	62,353,976.48
Insurance premiums	(11)	37,011,476.57	31,952,030.00
Insurance management fee	(11)	1,710,914.40	1,623,175.20
Fund purchase fees/financial costs	(12)	22,040.20	20,156.52
Miscellaneous	(12)	18,229.00	15,143.16
Total Decrease in Net Assets Available for Benefits		38,762,660.17	95,964,481.36
Net Increase for the Year		45,640,518.10	-60,976,291.48
Net Assets Available for Benefits, Beginning of Year		366,968,458.58	427,944,750.06
Net Assets Available for Benefits, End of Year		412,608,976.68	366,968,458.58

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ANNEX 3 to
FC(2024)0053EXPLANATORY NOTES TO THE
2023 FINANCIAL STATEMENTS OF THE
NATO RETIREES' MEDICAL CLAIMS FUND

NOTE 1: GENERAL INFORMATION

The Retirees' Medical Claims Fund (RMCF) was set up with effect from 1 January 2001 pursuant to Council approval of PO(2000)123. The purpose was to establish a reserve to ensure that sufficient funds are available for the years to come to enable NATO to meet its obligations to pay the medical expenses of eligible retired staff members and their recognised dependants.

Description of the Fund

Staff leaving the Organization after 10 consecutive years of service and having reached the age of 55 are eligible to reimbursement of medical costs for themselves and their recognized dependants (Article 51.2 of the Civilian Personnel Regulations (CPR)).

Until 31 December 2000, any staff who had at least 10 years consecutive service and reached the age of 65, was covered for life for their medical expenses through Organization's insurers. However, with the rise in the number of retirees and the increasing medical costs, the insurers were no longer able to cover the expenses. Accordingly, the Organization assumed this responsibility as from 1 January 2001.

For this purpose, the Retirees' Medical Claims Fund was set up with effect from 1 January 2001 pursuant to Council approval of PO(2000)123. The Council agreed to the establishment of a reserve to ensure that sufficient funds are available for the years to come to enable NATO to meet its obligations.

However, on the date of the creation of the RMCF there existed a potential liability towards staff who filled the age and service conditions mentioned above but had not yet retired. No asset was provided to fund this initial liability; therefore, from its inception the RMCF was underfunded.

The Fund only finances retirees from the age of 65. Former staff between the ages of 55 and 65 are insured under a different financing scheme.

The RMCF is maintained primarily by the annual premiums paid as continuing insurance. The surplus funds collected are invested with the Investment Manager. Funds are disinvested when the due premiums exceed the collected funds.

Financing

The Fund receives the following contributions:

- 4.5% of the active agents' emoluments (1/3 borne by the staff, 2/3 by NATO).
- 5% of the last basic salary of the retirees who are required to contribute (1/3 borne by the staff, 2/3 by NATO).

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Only staff who were recruited before 1 January 2001 and who have contributed to the group insurance scheme for a minimum of 25 years and have retired from service by 3 August 2016 does not pay the contribution after the age of 65.

Governance

The rules and principles governing the RMCF are provided at Annex XIII of the NATO CPRs. A consultative committee, called the Supervisory Committee, oversees the management of the RMCF with the object of ensuring that sufficient funds will always be available to cover medical costs until the last NATO pensioner or his/her dependants die. It acts as advisor to the NATO Secretary General.

The composition of the Supervisory Committee is as follows: a Chair appointed by the Secretary General (Director of Economics or Financial Controller, NATO-IS - the Chair shall be neutral); one representative of the International Staff (Director of Economics or Financial Controller, NATO-IS); two representatives for the NATO Production and Logistics Organisations; one representative for bodies governed by the Paris Protocol; two staff representatives appointed by the Confederation of NATO Civilian Staff Committees and two representatives appointed by the Confederation of NATO Retired Civilian Staff Associations.

The Fund, held in the name of NATO, is entrusted to an independent Investment Manager.

The Supervisory Committee determines the investment strategy and decides in which funds to invest. The Investment Manager executes purchases and sells according to instructions received from NATO-IS Treasury within the Office of Financial Control, which are in accordance with Supervisory Committee decisions.

The Investment Manager keeps the Supervisory Committee informed of all matters relating to the composition and performance of the funds through regular meetings with the Committee members.

Members of the RMCF Supervisory Committee do not receive any additional remuneration or benefits in return for their responsibilities.

Investment strategy

In October 2023, the Supervisory Committee approved the revised investment strategy (RMCF-N(2023)0008-REV1) and is as follows:

- 30-50% in European government (sovereign) bonds instead of the previous 50%
- 20-35% in global equities instead of the previous 25%
- 20-35% in European equities instead of the previous 25%

The investments shall be rebalanced in case fund values have grown beyond the upper or fallen below the lower limits.

Any rebalancing between Bond and Equity funds will be considered gradually and variations of portfolio shares between equities and bonds, as a result of rebalancing, should be limited to a 2%

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share variation per fund and per quarter. Exemptions to this rule can be approved by the RMCF Supervisory Committee.

Any rebalancing between Equity funds can be considered on a yearly basis and when market conditions are favorable, rather than when exceeding the limits.

Until the approval of the revised investment strategy, the previous strategy of investing in index funds and maintaining holdings approximately was as follows:

- 50% in European government (sovereign) bonds
- 25% in global equities
- 25% in European equities

With a tolerance of 3% for equities (22-28%) and 5% for bonds (45-55%).

Vanguard Investment Series plc, a prominent index-fund manager, known as the Investment Manager, buys and sells bonds and equities on behalf of the Fund within the objectives and restrictions set out in the contract signed with the Organization. Investments are in Euro.

Management of the RMCF

NATO International Staff, in particular Executive Management – Human Resources and the Office of Financial Control, are responsible for the day-to-day management of the RMCF. Financial services are provided by the Office of Financial Control, NATO-IS. Administrative services and secretarial support are provided by Human Resources, Staff Services.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

RMCF applies the NATO IS Accounting Policies which have been published through ON(2021)0079 and updated through FC(CAF)(2023)0001.

Declaration of conformity

The financial statements of the NATO RMCF have been prepared in accordance with the NATO Financial Regulations and International Accounting Standard 26 (IAS 26), "Accounting and Reporting by Retirement Benefit Plans". The NATO Accounting Framework, which is an adapted version of the International Public Sector Accounting Standards (IPSAS), does not have a specific standard for accounting and reporting for post-employment benefits.

The accounting system used by the NATO RMCF is accrual based.

The financial statements summarize the transactions and net assets of the Fund. The statements do not take into account the liability to pay benefits that fall due after the year end of the reporting period. The actuarial position of the NATO RMCF, which takes these liabilities into account, is disclosed in Note 3.

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Basis of presentation

The financial statements have been prepared on a going-concern basis: the RMCF will continue in operation for the foreseeable future.

The amounts shown in these financial statements are presented in EUR.

Changes in accounting policy

There are no changes to report.

Use of estimates

In the application of accounting policies, which are described below, management is required to make judgments, estimates and assumptions about carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Estimates include, but are not limited to: the long term obligation of the continued medical coverage and contingent assets.

Foreign currency transactions

The insurance premiums are calculated and paid in EUR and the accounting is in EUR. Since mid-2009, contributions are made in EUR; consequently, foreign currency transactions are not material. Realized profit and loss resulting from such transactions appear in the Statement of Changes in Net Assets Available for Benefits.

Cash and Cash Equivalents

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

Investments

Investments reported under these RMCF financial statements consist of equities and government bonds in indexed investment funds. These investments are reported as non-current assets reflecting the long term financial strategy of the RMCF.

An index fund is a collective investment scheme that aims to replicate the movements of an index of a specific financial market, regardless of market conditions. It does not aim to out-perform the market. Index funds are commonly composed of a representative sample rather than all the securities in a given market, in appropriate weights. They are subject to a form of passive management rather than active management.

At the end of each reporting period a valuation is made by the Investment Manager at fair value by reference to official prices quoted on the day of valuation. The Account Statement received from Vanguard's transfer agent uses the Generally Accepted Accounting Principles (GAAP)

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methodology to calculate the Daily Net Asset Value (Daily NAV), a tradable, realisable value on the last trading day of the month. These are the values generally reported in financial statements by fund investors.

Amounts are net of purchase costs and increased by rebates.

Receivables

Receivables are stated at net realisable value. No allowance for loss is recorded for receivables relating to NATO bodies' statutory contributions.

Payables

Payables are amounts due to third parties based on goods received or services provided that remain unpaid. This includes, as required, an estimate of accrued obligation for goods received or services provided but not yet invoiced.

Net Assets

The net assets available at year-end correspond essentially to the surplus contributions that were not used to pay the insurance premiums and were invested with the Investment Manager or awaiting transfer.

Financial Risks

The RMCF uses only non-derivative financial instruments as part as its normal operations. These financial elements include cash, indexed investment funds, bank accounts, deposit accounts and accounts receivable.

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

The RMCF is exposed to a variety of financial risks, including credit risk, market (price) risk and liquidity risk. The maximum exposure as at 31 December 2022 is equal to the total amount of bank balances, short term deposits, investment funds, and receivables.

Credit risk

The RMCF incurs credit risks from cash and cash equivalent held with banks and receivables. There is very limited credit risk associated with the realization of these elements.

Concerning cash and cash equivalent the RMCF credit risk is managed by holding current bank accounts and short term highly liquid deposits that are readily convertible to a known amount of cash held with ING Bank (Belgium) which has the following short term credit ratings:

BANK NAME	COUNTRY OF HQ	SHORT TERM RATINGS					
		FITCH		S&P GLOBAL		MOODY'S	
		Rating	Last review date	Rating	Last review date	Rating	Last review date
ING BANK	Netherlands	F1+	31/10/2023	A-1	05/07/2023	P-1	13/09/2023

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Concerning receivables, the credit risk is managed by maintaining control procedures over receivables. These consist essentially of contributions due by NATO payroll centers and the NATO Coordinated Pension Scheme. This risk is considered limited since these entities are funded by member nations which are considered credit worthy.

Price risk

The RMCF is exposed to equity securities market risk.

The two index equity funds in which RMCF funds are invested are not rated. The European Government Bond Index Fund is comprised of bonds with ratings as indicated below:

Rating	AAA	AA	A	BBB	<BBB	Not rated	Cash
At 31.12.2023	25.86%	37.23%	15.85%	20.15%	0.00%	0.90%	0.00%

Credit ratings are derived from Moody's, S&P and Fitch. When ratings from all three are available, the median rating is used. When ratings are available from two of the agencies, the lower rating is used. When one rating is available, that rating is used.

Currency risk

Since mid-2009, RMCF is not exposed to foreign currency exchange risk arising from fluctuations in currency rates. The scheme receives contributions only in EUR. As explained above, funds are invested in EUR and insurance premiums are due in EUR.

Liquidity risk

A liquidity risk could arise from a short term liquidity requirement. There is a very limited exposure to liquidity risk in short and medium term. Contributions from NATO payroll centers are received on a monthly basis, are still higher than the insurance premiums and are paid by NATO bodies; the NATO bodies receive either contributions from their member states or income from their customers, generally other NATO bodies funded through their approved budgets. The excess funds (after payment of insurance premiums) that are invested with Vanguard Investment Series plc, the Investment Manager, are to be disinvested to cover the liquidity needs if required.

In 2023 the RMCF did not make any investments nor disinvestments.

Interest rate risk

The RMCF is restricted from entering into borrowings.

A portion of RMCF is invested in bonds. The market value of bonds fluctuates according to market perception of the issuer's creditworthiness and to projected interest rates. The value of assets available for benefits is therefore subject to some interest rate risk.

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ANNEX 3 to
FC(2024)0053**NOTE 3: ACTUARIAL VALUATION****The ISRP Actuarial Study Introduction**

The International Service for Remunerations and Pensions (ISRP) is an organization that provides statistical, mathematical and actuarial support to the following organizations:

- North Atlantic Treaty Organization (NATO)
- Council of Europe (CoE)
- Organization for Economic Cooperation and Development (OECD)
- European Space Agency (ESA)
- European Centre for Medium-Range Weather Forecast (ECMWF)
- European Organization for the Exploitation of Meteorological Satellites (EUMETSAT)

In accordance with the requirements of the Letter of Mission (SIRP/EOL/NATO/2021/08) signed by NATO and the ISRP, the later performed an actuarial study aiming at:

- Estimating the accrued pension and medical coverage liabilities at 31 December 2023 according to the International Public Sector Accounting Standards (IPSAS); and
- Producing the IPSAS accounting disclosures related to these liabilities.

The study is based on comprehensive data of the affiliated population at the end of 2023 provided to ISRP by NATO.

NATO has also supplied data regarding RMCF cash flows over 2023 and asset information for the RMCF up to 31 December 2023.

NATO believes that the results of this report represent a reasonable measure of the RMCF underlying liabilities.

The previous full valuation was performed as at 31 December 2022.

The study has been conducted in accordance with generally accepted actuarial practices, in close collaboration with NATO. Whilst the report complies with IPSAS 39, RMCF financial statements are prepared under IAS 26.

Actuarial Valuation Method

ISRP used the Projected Unit Credit approach.

Only the rights accrued up to the valuation date have been taken into account. The rights of employees with less than 10 years of service are taken into account proportionally.

For the calculation of NATO's medical liabilities, the expected post-retirement reimbursements of the current DBPS and DCPS population have been estimated, and the expected post-retirement contributions from current and future pensioners have been subtracted.

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Actuarial Assumptions

Actuarial assumptions can be classified as either financial or demographic assumptions. Financial assumptions impact the amount of benefits to be paid over time and the net present value whilst demographic assumptions reflect the likelihood of payment and factors internal to NATO.

Financial Assumptions

The below financial assumptions were considered:

Assumption	Assumption as at 31 December 2022	Assumption as at 31 December 2023
Discount Rate		
- Post-Employment Medical Scheme	2.48%	2.34%
Price Inflation	2.00%	2.00%
- Medical Inflation	4.00%	4.00%

The discount rate used was the Euro area AAA Government Yield Curve, expressed in euros, as published by the European Central Bank, as at 31 December 2023.

In accordance with past practice, as a long-term inflation rate, the European Central Bank's long-term inflation rate target of 2.0% is used.

Medical inflation is calculated as a 2.0% increase to the derived rate of inflation.

Demographic Assumptions

The demographics at this year-end are the same as those used for the previous year end.

Mortality tables are a set of probabilities of a person dying within the year at a specific age and are an important assumption for the calculation of pension obligations. The ISRP, have produced mortality tables specific to international civil servants based in Europe since 2008 in order to have more appropriate results, compared to national or regional tables, on the life expectancy of the relevant population. This series of tables is known as the International Civil Servants Life Table (ICSLT).

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Set out below is a comparison of life expectancies based on the ICSLT 2018 mortality table projected from 202022 and the ICSLT 2023 projected from 2023:

	ICSLT 2018 (2022 Projection)	ICSLT 2023 (2023 Projection)
Males		
60 year old	28.6	28.1
40 year old now at 60	29.0	28.8
Females		
60 year old	31.2	30.5
40 year old now at 60	31.5	31.0

RMCF Specific Assumptions

The medical inflation assumption remains at 4.0%, like previous year.

The administrative costs is estimated at 5.4%, the same percentage as in 2022, of medical reimbursements paid to pensioners.

100% of the current active staff, who become vested deferred members after age 55, are assumed to return to claim medical benefits during their retirement.

Results for RMCF current obligation

The RMCF obligation as estimated at the end year 2023 is KEUR 2,932,930 or approximately an increase of 8% compared to last year valuation.

The estimation of the present value of the Post-Employment Medical Scheme Obligation at the end of 2022 was KEUR 2,712,648. The change in the liability during 2023 can be summarized as follows:

(amount in KEUR)	2023
Obligation at 1 January 2023	2,712,648
Interest Cost	66,896
Current Service Cost	115,311
Benefits Paid	-30,491
Actuarial (Gains)/Losses	68,566
Obligation at 31 December 2023	2,932,930

Overall, the currently estimated medical obligation has increased by KEUR 220,282 than estimated last year. This is principally due to expected development (interest cost, current service cost, and benefits paid), a decrease in the discount rate and an actuarial loss due to membership experience. These impacts were partially offset by the introduction of the new ICSLT 2023 mortality table.

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An actuarial loss of KEUR 68,567 on the liabilities occurred during 2023. This is primarily due to the increased discount rate.

An analysis of the impact of the actuarial gain is included below:

Impact of change in ...	Type of Loss/(Gain)	Amount KEUR	% of 2022 YE Liability
Population	Experience	103,594	3.5%
Mortality table	Demographic	-125,865	-4.3%
Financial Assumptions	Financial	90,838	3.1%
Total actuarial loss/(gain)		68,567	2.3%

NOTE 4: CASH AND CASH EQUIVALENTS

The various NATO entities and pensioners pay their contributions into the RMCf account. This account serves to pay insurance premiums and effect the transfers of funds to be invested by the Investment Manager. Short term investments are made as required.

NOTE 5: FUNDS HELD BY THE INVESTMENT MANAGER

Distribution of Assets as of 31 December:

	2023		2022	
	EUR	%	EUR	%
Vanguard Euro Government Bond Index Fund - EUR Acc - IE0007472990	181,922,961.99	44.03%	169,869,855.40	46.41%
Vanguard European Stock Index Fund - EUR Acc - IE0007987708	115,557,391.30	27.97%	99,447,557.04	27.17%
Vanguard Global Stock Index Fund - EUR Acc - IE00B03HD181	115,680,417.58	28.00%	96,672,720.22	26.41%
TOTAL	413,160,770.87	100.00%	365,990,132.66	100.00%

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Details of the changes in investment fund balances available for benefits over the past two years are as follows:

in EUR	Euro Govt Bond Index Fund	Europe Stock Index Fund	Global Stock Index Fund	TOTAL
31 Dec 2021 balance	207,772,894.20	109,538,182.13	110,812,906.75	428,123,983.08
Purchases before purchase fees	0.00	0.00	0.00	0.00
Withdrawals	0.00	0.00	0.00	0.00
Distributions	0.00	0.00	0.00	0.00
Rebates received	75,501.75	40,435.12	104,189.19	220,126.06
Purchase Fees	0.00	0.00	0.00	0.00
2022 net transactions	75,501.75	40,435.12	104,189.19	220,126.06
Sum of 31 Dec 2021 balance and 2022 net transactions	207,848,395.95	109,578,617.25	110,917,095.94	428,344,109.14
Increase/decrease in market value excluding 2022 net transactions	-37,978,540.55	-10,131,080.21	-14,244,375.72	-62,353,976.48
31 Dec 2022 balance	169,869,855.40	99,447,537.04	96,672,720.22	365,990,112.66
Purchases before purchase fees	0.00	0.00	0.00	0.00
Withdrawals	0.00	0.00	0.00	0.00
Distributions	0.00	0.00	0.00	0.00
Rebates received	69,253.05	43,203.23	105,033.22	217,489.50
Purchase Fees	0.00	0.00	0.00	0.00
2023 net transactions	69,253.05	43,203.23	105,033.22	217,489.50
Sum of 31 Dec 2022 balance and 2023 net transactions	169,939,108.45	99,490,760.27	96,777,753.44	366,207,622.16
Increase/decrease in market value excluding 2023 net transactions	11,983,853.54	16,066,831.04	18,902,664.13	46,953,148.71
31 Dec 2023 balance	181,922,961.99	115,557,391.30	115,680,417.58	413,160,770.87

Fund's Overall Performance

In 2023, Vanguard Investment Series plc index funds tracked their respective benchmarks during the period. Their returns, net of expenses and including the effect of reinvested dividends, are compared below to that of the corresponding benchmarks for the past two years:

		Returns			
Vanguard index fund				Benchmark	
ISIN*	Fund name	2023	2022		
IE0007472990	Euro Gov't Bond Index Fund EUR Institutional Shares	7.05%	-18.28%	Bloomberg Euro Government Float Adjusted Bond Index	7.09% -18.22%
IE0007987708	European Stock index Fund EUR Institutional Shares	16.15%	-9.25%	MSCI Europe	15.83% -9.49%
IE00803HD191	Global Stock index Fund EUR Institutional Shares	19.54%	-12.85%	MSCI World	19.60% -12.78%

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ANNEX 3 to
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The number of units and daily NAV per unit for the RMCF at year end, together with the resulting year-end market values, were as follows:

	2023			2022		
	Units	NAV in EUR	Market Value in EUR	Units	NAV in EUR	Market Value in EUR
Vanguard Euro Government Bond Index Fund - EUR Acc - IE0007472990	866,375.73	209.9816	181,922,961.99	866,030.32	196.1477	169,869,859.40
Vanguard European Stock Index Fund - EUR Acc - IE0007987708	3,959,424.52	29.1854	115,557,391.30	3,957,859.68	25.1266	99,447,557.04
Vanguard Global Stock Index Fund - EUR Acc - IE00B03HD191	2,818,606.87	41.0417	115,680,417.58	2,815,819.65	34.332	96,672,720.22
TOTAL			413,160,770.87			365,990,132.66

The below table provides comparative data of the movement in market value for the last two consecutive years:

All amounts in EUR

	2023	2022
Increase/(Decrease) in Market Value	46,953,148.71	-62,353,976.48
Investments/(Redemptions)	0.00	0.00

In 2022, the financial markets were heavily impacted by the war in Ukraine, the risks to Europe's energy supply, and rising inflation. Despite the ongoing conflict in Ukraine in 2023, the financial markets have recovered substantially which resulted in an increase in unrealized profit.

NOTE 6: ACCOUNTS RECEIVABLE

Receivables at year-end were as follows:

(amounts in EUR)	2023	2022
Contributions	700,497.66	785,292.18
Receivable from insurer	0.00	0.00
Total accounts receivable	700,497.66	785,292.18

Contributions are paid on a monthly basis. At the date of issuance of these financial statements, no contributions were a year or more past due.

There are profit sharing agreements in place for the periods 2012-2016, 2017-2021 and 2022-2026 (see note 9). The RMCF is not entitled to a profit share for 2023.

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ANNEX 3 to
FC(2024)0053**NOTE 7: ACCOUNTS PAYABLE**

The table below provides comparative data of the amounts payable at year-end for the last two consecutive years:

(amounts in EUR)	2023	2022
Insurance Premiums	14,411,476.57	6,992,030.00
Insurer Management Fee	310,914.40	183,175.20
Miscellaneous	2,224.85	15,017.12
Total accounts payable	14,724,615.82	7,190,222.32

For 2023, the RMCF has net payable position of EUR 14,724,615.82 to the insurer. This equals to the final 2023 settlement whereby the advances paid to the insurer are regularized against the 2023 actual insurance premium and management cost.

Miscellaneous amounts correspond to the outstanding supplier invoices and accrued bank fees.

NOTE 8: CONTRIBUTIONS RECEIVED

Contributions received in the course of the year were as follows:

Contributions (in EUR)	2023	2022
Active Staff and NATO Employer	35,453,202.61	33,389,758.00
Retired Staff from DBPS (Defined Benefit Pension Scheme)	1,490,522.94	1,221,781.92
Retired Staff from DCPS (Defined Contribution Pension Scheme)	33,641.38	25,042.59
Other Retired Staff	186,546.37	128,131.46
Total	37,163,913.30	34,764,713.97

NOTE 9: PROFIT SHARING AGREEMENT WITH INSURER

A profit-sharing arrangement has been entered into, covering the period 2017-2021, whereby NATO would be refunded the totality of the difference Premiums X 97% – Reimbursements, if it is positive.

A similar arrangement is in place covering the period 2022-2026, being tacitly renewed annually.

No profit share has been awarded for 2023.

NOTE 10: INTEREST

Interest is earned on the bank account for the period during which cash holdings are pending investment.

In 2023, the fund earned EUR 64,441.67 of interest.

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NOTE 11: INSURANCE PREMIUMS AND MANAGEMENT FEES

The insurance premium to cover the medical expenses of the retirees is subject to the NATO Group Insurance Policy agreement.

The value of the insurance premium paid to the insurance company is essentially based on the number and age of the beneficiaries.

The Management Fee is payable annually to the third party administrator, i.e. Allianz.

In accordance with the group insurance contract, NATO IS pays a monthly advance to the third party administrator. Around February of the following year, when the final costs are known, these are offset against the advances paid during the year.

The below table provides comparative data on the insurance premiums and management fee costs over the last two consecutive years:

(amounts in EUR)	2023	2022
Contributions	37,168,222.50	34,764,713.97
Insurance Premiums	37,011,476.57	31,952,030.00

The increase in insurance premiums and management fees between 2022 and 2023 is caused by increased number of affiliates, the aging factor and inflation that impacted the cost of medical treatments.

The table below provides comparative data for the two last consecutive years of the net result:

(amounts in EUR)	2023	2022
Contributions	37,168,222.50	34,764,713.97
Insurance Premiums	37,011,476.57	31,952,030.00
Management Fees	1,710,914.40	1,623,175.20
Net Result	-1,554,168.47	1,189,508.77

For 2023 the contributions were not sufficient to cover the insurance premium and management fee for the year.

NOTE 12: MISCELLANEOUS

Corresponds to miscellaneous transactions essentially the cost of the ALM study by the ISRP and the net financial results including foreign exchange results.

NOTE 13: CONTINGENT ASSETS

None to report.

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ANNEX 3 to
FC(2024)0053**NOTE 14: CONTINGENT LIABILITIES**

There are no material contingent liabilities arising from legal actions and claims that are likely to result in significant liability to the RMCF.

NOTE 15: RELATED PARTY TRANSACTIONS

The following related party transactions took place during the year ended 31 December 2023.

NATO International Staff, in particular Executive Management – Human Resources and the Office of Financial Control, are responsible for the day-to-day management of the RMCF. None of the costs related to the administrative services provided by NATO International Staff are charged to the RMCF.

NOTE 16: KEY MANAGEMENT PERSONNEL

For the purpose of these financial statements, key management personnel are considered to be the Assistant Secretary General for Executive Management and the Financial Controller of the International Staff. Their remuneration is entirely covered by the International Staff.

Members of the RMCF Supervisory Committee do not receive any additional remuneration or benefits in return for their responsibilities. The International Staff Financial Controller is the Chairperson of the Supervisory Committee.

The Fund does not hold any securities of the employer sponsor or, directly, of its related parties.

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NOTE 17: STATISTICAL INFORMATION

Evolution of RMCF (number of beneficiaries)			
Year	Joined	Departed	Total
2001	166	0	166
2002	250	1	415
2003	229	4	640
2004	242	14	868
2005	328	15	1,181
2006	258	27	1,412
2007	259	25	1,646
2008	333	37	1,942
2009	330	32	2,240
2010	316	37	2,519
2011	401	39	2,881
2012	265	27	3,119
2013	268	63	3,324
2014	533	62	3,795
2015	386	163	4,018
2016	729	136	4,611
2017	286	211	4,686
2018	305	146	4,845
2019	350	214	4,981
2020	392	227	5,146
2021	347	123	5,370
2022	347	35	5,682
2023	436	231	5,887

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NATO MSIAC
FINANCIAL STATEMENTS
Financial Year 2023

Annexes:

- 1 Statement of Financial Position
- 2 Statement of Financial Performance
- 3 Cash Flow Statement
- 4 Statement of Changes in Net Assets
- 5 Statement of Budget Execution
- 6 Explanatory notes to the financial statements

**CHARLES
DENHAM 22893**

C. DENHAM
Project Manager MSIAC

Digitally signed by CHARLES
DENHAM 22893
Date: 2024.03.21 13:47:08 +01'00'



M. BORYCZKA
Financial Controller NATO-IS

Digitally signed by MIROSLAWA
BORYCZKA 37467
Date: 2024.03.27 12:09:57
+01'00'

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ANNEX 1 to
FC(2024)0050

NATO MSIAC
Statement of Financial Position
As at 31 December 2023

	Notes	Current Year 2023	Prior Year 2022
Assets			
Current assets			
Cash and cash equivalents	3	740,547.99	793,772.60
Short term investments	3	0.00	0.00
Receivables	4	335.73	127,382.53
Prepayments	5	29,010.00	13,963.73
Other current assets	5	0.00	0.00
Inventories	6		
		769,893.72	935,118.86
Non-current assets			
Receivables	8	0.00	0.00
Property, plant & equipment	7	0.00	0.00
Intangible assets	7	0.00	0.00
Other non-current assets	8	0.00	0.00
		0.00	0.00
Total assets		769,893.72	935,118.86
Liabilities			
Current liabilities			
Payables	9	33,104.34	141,798.09
Deferred revenue	10	17,856.19	15,504.30
Advances	11	0.00	9,976.22
Provisions	12	0.00	0.00
Other current liabilities	13	296,206.66	243,588.52
		347,167.19	410,867.13
Non-current liabilities			
Payables	14	0.00	0.00
Long term provisions	14	0.00	0.00
Non Current Deferred revenue	14	0.00	0.00
Other non-current liabilities	14	0.00	0.00
		0.00	0.00
Total liabilities		347,167.19	410,867.13
Net assets			
Capital assets			
Reserves			
Accumulated surplus / (deficit)		419,726.53	513,251.73
Current year surplus / (deficit)		3,000.00	11,000.00
Total net assets/ equity	15	422,726.53	524,251.73

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ANNEX 2 to
FC(2024)0050NATO MSIAC
Statement of Financial Performance

As at 31 December 2023

	Notes	Current Year 2023	Prior Year 2022
Revenue	16		
Non exchange revenue		1,746,654.20	1,900,295.87
Services, Joining Fees and Early Access Contributions		3,000.00	11,000.00
Exchange revenue		0.00	0.00
Other revenue		3,750.00	5,381.06
Financial revenue		183.84	196.62
Total revenue		1,753,588.04	1,916,873.55
Expenses	17		
Personnel		1,270,332.79	1,467,574.41
Contractual supplies and services		479,135.23	437,915.77
Depreciation and amortization		0.00	0.00
Impairment		0.00	0.00
Provisions		0.00	-120.00
Other expenses		0.00	0.00
Finance costs		1,120.02	503.37
Total expenses		1,750,588.04	1,905,873.55
Surplus/(Deficit) for the period		3,000.00	11,000.00

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ANNEX 3 to
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NATO MSIAC Cash Flow Statement

As at 31 December 2023

	(in EUR)	
	2023	2022
Cash flow from operating activities		
Surplus/(Deficit)	3,000.00	11,000.00
Non-cash movements		
Depreciation/ Amortisation	0.00	0.00
Impairment	0.00	0.00
Use of Cash Reserves	-104,525.20	-133,838.65
Increase/(decrease) in Payables	-108,693.75	-153,882.98
Increase/ (decrease) in Other current liabilities	52,618.14	189,974.61
Increase/ (decrease) in Advances and Deferred Revenue	-7,624.33	-17,894.45
Increase/ (decrease) in Provisions	0.00	-120.00
(Gains)/losses on sale of Property, plant and equipment	0.00	0.00
Decrease/ (Increase) in Other current assets	-15,046.27	206.90
Decrease/ (Increase) in Receivables	127,046.80	-126,582.53
Decrease/ (Increase) in Other non-current assets		
Net cash flow from operating activities	-53,224.61	-231,137.10
Cash flow from investing activities		
Purchase of Property plant and equipment / Intangible assets	0.00	0.00
Proceeds from sale of Property plant and equipment	0.00	0.00
Net cash flow from investing activities	0.00	0.00
Cash flow from financing activities		
Net cash flow from financing activities	0.00	0.00
Net increase/(decrease) in cash and cash equivalents	-53,224.61	-231,137.10
Cash and cash equivalent at the beginning of the period	793,772.60	1,024,909.70
Cash and cash equivalent at the end of the period	740,547.99	793,772.60

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ANNEX 4 to
FC(2024)0050NATO MSIAC
Statement of Change in Net Assets/Equity

As at 31 December 2023

	(in EUR)
Balance at the beginning of the period 2022	647,090.38
Changes in accounting policy	0.00
Restated balance	
Net gains/(losses) recognised directly in net assets/equity	0.00
Exchange difference on translating foreign operations	0.00
Gain on property revaluation	0.00
Use of Cash Reserves	-133,838.65
Surplus/(deficit) for the period	11,000.00
Change in net assets/equity for the year ended 2022	524,251.73
Balance at the beginning of the period 2023	524,251.73
Changes in accounting policy	0.00
Restated balance	
Exchange difference on translating foreign operations	0.00
Gain on property revaluation	0.00
Use of Cash Reserves	-104,525.20
Surplus/(deficit) for the period	3,000.00
Change in net assets/equity for the year ended 2023	422,726.53
Balance at the end of the period 2023	422,726.53

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ANNEX 5 to
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NATO MSIAC
Statement of Budget Execution
As at 31 December 2023

	Initial budget	Transfers	BA2	Transfers	BA3	Increase/ Decrease	Final budget	Actuals	Carry forward	Lapsed
(Amounts in euro)										
Budget 2023										
Chapter 1	1,456,400	0	1,456,400	0	1,456,400	0	1,456,400	1,270,333	0	186,067
Chapter 2	545,700	0	545,700	0	545,700	0	545,700	464,422	17,856	63,421
Chapter 3	0	0	0	0	0	0	0	0	0	0
Chapter 4	0	0	0	0	0	0	0	0	0	0
Total FY 2023	2,002,100	0	2,002,100	0	2,002,100	0	2,002,100	1,734,755	17,856	249,489
Budget 2022										
Chapter 1	0	0	0	0	0	0	0	0	0	0
Chapter 2	15,504	0	15,504	0	15,504	0	15,504	14,962	0	542
Chapter 3	0	0	0	0	0	0	0	0	0	0
Chapter 4	0	0	0	0	0	0	0	0	0	0
Total FY 2022	15,504	0	15,504	0	15,504	0	15,504	14,962	0	542
Budget 2021										
Chapter 1	0	0	0	0	0	0	0	0	0	0
Chapter 2	0	0	0	0	0	0	0	0	0	0
Chapter 3	0	0	0	0	0	0	0	0	0	0
Total FY 2021	0	0	0	0	0	0	0	0	0	0
Total all budgets	2,017,604	0	2,017,604	0	2,017,604	0	2,017,604	1,749,717	17,856	250,031

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ANNEX 6 to
FC(2024)0050**EXPLANATORY NOTES TO MSIAC
2023 FINANCIAL STATEMENTS****NOTE 1: GENERAL INFORMATION**

At the October 1990 Conference of National Armaments Directors (CNAD) meeting, the MOU establishing NATO Insensitive Munitions Information Centre (NIMIC) as a Project Office under CNAD was signed. The project transitioned to cover the wider aspects of Munition Safety in 2004 becoming the Munitions Safety Information Analysis Centre (MSIAC)

MSIAC is a member nations' funded and directed NATO Project office. Its goal is to help nations reduce and eliminate the risk to personnel and materiel from explosive incidents associated with own munitions. To help nations realise this goal, the project exchanges and analyses information and technology related to munition safety. MSIAC plays a central role in facilitating member nation's efforts to safely store, design, develop, procure and use safer munitions.

At the end of 2023, MSIAC had sixteen participating countries: Australia, Belgium, Canada, Finland, France, Germany, Italy, the Netherlands, Norway, Spain, Sweden, Switzerland, the United Kingdom, the United States, Poland and the Republic of Korea.

MSIAC allows other nations to participate in selected MSIAC sponsored courses or training events. These are called MSIAC Partner Nations.

The MSIAC Steering Committee (one representative per member nation) is the governing body of the MSIAC. Steering Committee members are nominated by their respective national authorities.

For administrative purposes only, MSIAC is attached to the Defence Investment Division of the IS. The member countries pay all operational and administrative costs relating to the Project office, in accordance with an agreed cost-sharing formula which is based on a share value. During the 36th Steering Committee, the share price for 2023 was set at €92.000 and €184.000 for 2.

In 2023, there were 12 nations paying 1 share and 4 nations paying 2 shares. In total there are 20 shares from official members.

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ANNEX 6 to
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NOTE 2: ACCOUNTING POLICIES

MSIAC applies the NATO IS Accounting Policies which have been published through ON(2021)0079 and updated through document FC(CAF)(2023)0001.

Declaration of Conformity

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

Basis of Preparation

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

The financial year is from 1 January to 31 December.

The amounts shown in these financial statements are presented in EUR.

MSIAC applied IPSAS 9 Revenue from exchange transactions and IPSAS 23 Revenue from non-exchange transactions.

The following IPSAS have no material effect on the 2022 MSIAC financial statements:

- IPSAS 5: Borrowing Costs
- IPSAS 6: Consolidated and Separate Financial
- IPSAS 7: Investments in Associates.
- IPSAS 8: Interests in Joint Ventures
- IPSAS 10: Financial Reporting in Hyperinflationary Economies
- IPSAS 11: Construction Contracts
- IPSAS 16: Investment Property
- IPSAS 21: Impairment of non-cash generating assets
- IPSAS 26: Impairment of Cash-Generating Assets
- IPSAS 27: Agriculture
- IPSAS 32: Service Concession Arrangements: Grantor

Changes in accounting policy

None.

Reclassification of Financial Statements of Previous Years

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ANNEX 6 to
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None.

Restatement of Financial Statements of Previous Years

None.

Use of Estimates

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

Foreign Currency Transactions

The MSIAC budget is authorized and managed in EUR so contributions called are made in EUR. Foreign currency transactions as required are accounted for at the NATO exchange rates prevailing on the date of the transactions. Monetary assets and liabilities at year-end which were denominated in foreign currencies were converted into EUR using the NATO rates of exchange applicable at year end.

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

MSIAC does not have any unrealised gains and losses resulting from the translation of statements.

Financial Risks

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

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

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

a. Foreign currency exchange risk

The exposure to foreign currency risk is limited as the majority of the NATO-MSIAC's expenditures are made in EUR, the currency of its budget. The current bank accounts are held in EURO.

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ANNEX 6 to
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b. Credit risk

NATO MSIAC incurs credit risks from cash and cash equivalent held with banks and from receivables. The maximum exposure as of year-end is equal to the total amount of bank balances, short-term deposits and receivables. There is very limited credit risk associated with the realization of these elements.

Concerning cash and cash equivalent NATO MSIAC credit risk is managed by holding current bank accounts and short-term, highly liquid deposits that are readily convertible to a known amount of cash held with ING Bank (Belgium) which has the following short-term credit ratings:

BANK NAME	COUNTRY OF HQ	SHORT TERM RATINGS					
		FITCH		S&P GLOBAL		MOODY'S	
		Rating	Last review date	Rating	Last review date	Rating	Last review date
ING BANK	Netherlands	F1+	13/07/2023	A-1	23/06/2023	P-1	28/11/2023

The MSIAC outstanding accounts receivable are managed by maintaining control procedures over receivables. Most cash receivables are due from Member Nations, which are considered credit worthy.

c. Liquidity risk

The liquidity risk, also referred to as funding risk, is based on the assessment as to whether the Organisation will encounter difficulties in meeting its obligations associated with financial liabilities. A liquidity risk could arise from a short-term liquidity requirement. There is a very limited exposure to liquidity risk since MSIAC funding mechanism guarantees contributions in relation to approved budgets. Some limited risk could be due to the accuracy of budget forecasts. However, history shows that the budgetary process results in surpluses and, in any case, the applicable rules allow the revision of budgets.

d. Interest rate risk

Except for certain cash and cash equivalent balances, MSIAC's financial assets and liabilities do not have associated interest rates. MSIAC is restricted from entering into borrowings and investments, and, therefore, there is an insignificant interest rate risk. Interest earned is not a budgetary resource but contributes to the surplus owed to Nations. In case of negative interest rates, these are added to the amounts called from Member Nations.

Current Assets

a. Cash and cash equivalents

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

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ANNEX 6 to
FC(2024)0050**b. Receivables**

Receivables are stated at net realisable value, after provision for doubtful and uncollectible debts. Contributions receivable are recognised when a call for contribution has been issued to the funding nations. No allowance for loss is recorded with respect to Member countries' assessed contributions receivable.

c. Prepayments

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

d. Inventories

NATO's adaptations of IPSAS are spelled out in C-M(2016)0023 of April 2016, which includes IPSAS 12 Inventories. Furthermore, C-M(2017)0043 of September 2017, approved the NATO Accounting Policy for Inventory.

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

Criteria that may indicate control of an asset:

- The act of purchasing the asset carried out (or resulted from instructions given) by the NATO Reporting Entity.
- The legal title is in the name of the NATO Reporting Entity.
- The asset is physically located on the premises or locations used by the NATO Reporting Entity.
- The asset is physically used by staff employed by the NATO Reporting Entity or staff working under the NATO Reporting Entity's instructions.
- The fact that the NATO Reporting Entity can decide on an alternative use of the asset.
- The fact that the NATO Reporting Entity can decide to sell or to dispose the asset.
- The fact that the NATO Reporting Entity, if it has to remove or destroy the asset, can take the decision to replace it.
- The fact that a representative of the NATO Reporting Entity regularly inspects the asset to determine its current condition.

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- The fact that the asset is used in achieving the objectives of the NATO Reporting Entity.
- The fact that the asset will be retained by the NATO Reporting Entity at the end of the activity.

Capitalization thresholds relevant to the financial statement are as follows

Category	Threshold	Basis
Consumables	€50,000	Per location/warehouse
Spare Parts	€50,000	Per location/warehouse
Ammunition	€50,000	Per location/warehouse
Strategic stocks	€50,000	Per location/warehouse

The MSIAC will capitalize inventory which it controls in its financial statements. Where there is a conflict between more than one NATO Reporting Entity as to the control of inventory, only the end-user entity will report the inventory in its financial statements, based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities.

The MSIAC will include transportation costs involved in bringing the inventories to their present location and condition in the initial valuation of inventory. These costs will be measured on the actual cost of transportation per item of inventory or by using an apportionment of the global transportation costs of bringing the inventories to their present location and condition across all inventory items in the period. Transportation costs involved in the subsequent movement of inventory which brings them into operational use will not be included in the value of inventory. The method of measuring these costs will be disclosed.

The MSIAC considers inventory acquired prior to 1 January 2013 as fully expensed.

For inventory held prior to 1 January 2013, and not previously recognized as an asset, the MSIAC will provide a brief description of inventory held within their inventory recording systems in the notes to the financial statements. Such disclosure will include as a minimum the types of inventories held, locations where inventories are held and the approximate number of items held per asset category.

Where this adaptation conflicts with another requirement of IPSAS this adaptation shall apply. For the remainder, IPSAS 12 shall apply.

The MSIAC assesses inventories under IPSAS 12. The outcome of this assessment is that the value of the inventories is immaterial both in value and in terms of the nature of the items held. Consequently, inventory is fully expensed on receipt. The materiality will be assessed each year.

In consideration of all the above, MSIAC currently has no inventory.

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ANNEX 6 to
FC(2024)0050**Non-current assets - Fixed assets (Property, Plant & Equipment and Intangible Assets)****a. Property, Plant & Equipment**

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

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

Capitalization thresholds relevant to the financial statement are as follows:

Category	Threshold	Depreciation Life	Method
Land	€200,000	N/A	N/A
Buildings	€200,000	40 years	Straight line
Other infrastructure	€200,000	40 years	Straight line
Installed equipment	€ 30,000	10 years	Straight line
Machinery	€ 30,000	10 years	Straight line
Vehicles	€ 10,000	5 years	Straight line
Aircraft	€200,000	Dependent on type	Straight line
Vessels	€200,000	Dependent on type	Straight line
Mission equipment	€ 50,000	3 years	Straight line
Furniture	€ 30,000	10 years	Straight line
Communications	€ 50,000	3 years	Straight line
Automated information systems	€ 50,000	3 years	Straight line

The MSIAC considers PPE acquired prior to 1 January 2013 as fully expensed. However, existing accounting policies will continue to be applied for any PPE assets already capitalized prior to 1 January 2013. For PPE upgraded after 1 January 2013, only the portion related to the modification will be capitalized.

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

b. Intangible Assets

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

When it comes to assessing the control of NATO over Intangible Assets, these documents define a set of 10 criteria to be used in assessing the level of control of an Intangible Asset – they are the same as

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mentioned above under Inventory. A positive response on six of the criteria will lead to the asset being capitalized in the Financial Statements if it is above the capitalization threshold. This is applied from January, 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 2013.

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

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

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

MSIAC will capitalize integrated systems and include research, development, implementation and can include both software and hardware elements. But the MSIAC will not capitalize the following types of intangible assets in their financial statements:

- rights of use (air, land and water);
- landing rights;
- airport gates and slots;
- historical documents; and,
- publications

MSIAC will capitalize other types of intangible assets acquired after 1 January 2013 including:

- Copyright
- Intellectual Property Rights
- Software development

MSIAC considers Intangible Assets acquired prior to 1 January 2013 as fully expensed.

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

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For intangible assets held prior to the 1 January 2013, and not previously recognized as an asset, MSIAC will provide a brief description of intangible assets held in its intangible asset recording systems in the notes to the financial statements. Such disclosure will include as a minimum the types of intangible held, locations where intangible assets are held and the approximate number of items held per asset category.

If an intangible asset is upgraded after 1 January 2013, only the portion related to the modification will be capitalized.

Where this adaptation conflicts with another requirement of IPSAS this adaptation will apply. For the remainder, IPSAS 31 shall apply. This adaptation is effective for financial reporting periods beginning on 1 January 2013.

In consideration of the above thresholds, MSIAC has no Intangible Assets.

Non-Current Assets other than PPE

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

Current Liabilities**a. Payables**

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

b. Advances and Unearned revenue

Advances are contributions received related to future year's budgets. Funds are called in advance of their need because MSIAC has no capital that would allow it to pre-finance any of its activities.

Unearned revenue represents Member Nations contributions which have been called for current budgets but that have not yet been recognised as revenue in the absence of any related budgetary expenditure.

c. Other Current Liabilities

Amounts corresponding to the current budgetary surplus (lapsed credits + net interests + miscellaneous income) are considered a liability towards the Member Nations. The settlement does not follow the normal accounts payable process, since the standard approach is to return them to Member Nations via a deduction of the following year's call for budget contributions. This liability is therefore classified under Other Current Liabilities.

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

Non-Current Liabilities

The MSIAC has no non-current liabilities.

Net Assets

Net Assets correspond to MSIAC's Project Accumulated Surplus. Project Accumulated Surplus relates to funds resulting from past years' contributions by MSIAC member Nations in excess of budget execution that the Steering Committee decided not to redistribute to the member nations but keep for the needs of MSIAC. It is held at the direction of the Steering Committee.

Revenue Recognition

Revenue comprises contributions from Member Nations, pro-rated contributions (partial calls), joining fees from new Member Nations and services, such as training sessions, provided.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. The balance of unspent contributions and other revenues that relate to future periods are deferred accordingly.

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

Contributions to be called from Member Nations, based on the budget they approved, are initially recorded as unearned revenue liabilities. They are recognised as revenue in the statement of financial performance when such contributions are used for their intended purpose as envisioned in the approved Budget.

On the other hand, calls related to non-budgeted contributions (new membership early access, access during the year, and Joining Fees from new Member Nations) are recognized when they are issued and as Non-Exchange revenue in the Statement of Financial Performance, considering that it is not possible to directly identify and value the consideration provided by MSIAC directly in return for the resources received. There are no expenses to be matched against these resources which are not refundable to nations.

Segment Reporting

A segment is a distinguishable activity or group of activities for which it is appropriate to separately report financial information. There is no segment in MSIAC.

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Statement of Financial Position

NOTE 3: CASH AND CASH EQUIVALENTS – SHORT TERM INVESTMENTS

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

Below is a snapshot of MSIAC's cash and cash equivalents at the year-end:

Amounts in EUR		
	2023	2022
Cash at bank	740,547.99	793,772.60
Total	740,547.99	793,772.60

NOTE 4: ACCOUNTS RECEIVABLE

Below is a snapshot of MSIAC's receivables at the year-end:

Amounts in EUR		
	2023	2022
Others	335.73	127,382.53
Total	335.73	127,382.53

At 2023 year end, there was an outstanding contribution receivable from the United States.

NOTE 5: PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and Other Current Assets relate to miscellaneous amounts due to the Project Office in relation to services to be received in the following years and advances made to staff in relation to benefits of the following year (essentially advances to staff for education allowances or for travel, etc.).

Following table presents a snapshot of MSIAC's Prepayments at the year-end:

Amounts in EUR		
	2023	2022
Prepayments to Staff	29,010.00	13,963.73
Total	29,010.00	13,963.73

Prepayments to staff correspond to Education Allowance advances for an amount of EUR 29,010.00

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NOTE 6: INVENTORIES

Nothing to report, inventories are not considered material.

NOTE 7: PROPERTY, PLANT AND EQUIPEMENT AND INTANGIBLE ASSETS

MSIAC does not hold any property, plant and equipment. Nor does MSIAC hold any intangible assets.

NOTE 8: NON-CURRENT RECEIVABLES AND OTHER NON-CURRENT ASSETS

MSIAC has registered no non-current receivables or other non-current assets.

NOTE 9: PAYABLES

Payables and accrued expenses may relate to commercial suppliers, staff, other NATO bodies or MSIAC Member Nations.

Payable to suppliers relates to goods and services for which an invoice has been received, checked and queued for payment but for which payment was still pending at year-end.

Accrued expenses correspond to EUR 16,984.96 and is the estimated accrual obligation to third parties for goods and services received but not yet invoiced.

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

Amounts in EUR		
	2023	2022
Suppliers	16,119.38	117,397.91
Accruals	16,984.96	24,400.18
Total	33,104.34	141,798.09

NOTE 10: DEFERRED REVENUE

Deferred revenue corresponds to contributions called for the current year or before (received or receivable) that MSIAC intends to use for its initial purpose, but for which corresponding goods or services could not be received in the course of the current budget year but will be incurred after the end of the reporting period. If these amounts carried forward are not spent by the end of the second year following the year for which they were approved, these funds lapse, unless a specific decision is taken by Member Nations for a further carry-forward. At the end of 2023 there were no appropriations subject to a special carry-forward.

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FC(2024)0050**NOTE 11: ADVANCES**

The voluntary advance of EUR 9,976.22 paid in 2022 by the United States has been offset in 2023 against their call for contributions.

NOTE 12: PROVISIONS

None.

NOTE 13: OTHER CURRENT LIABILITIES

Other Current Liabilities include the Current Year Budget Surplus. Amounts corresponding to the current year budgetary surplus of MSIAC, i.e. lapsed credits, net interests, miscellaneous income, are considered a liability towards the Member Nations. The settlement does not follow the standard accounts payable process, since the surplus is to be returned to Member Nations via a deduction of the following year's call for budget contributions. To date, the agreed practice of the MSIAC Steering Committee has been to add these amounts to the Project Accumulated Surplus (see note on Net Assets).

An advance is received from the United States Department of Defense Explosives Safety Board to solicit the services of a consultant to support the activities related to Explosive Safety Munitions Risk Management. The amount available at the end of 2023 is EUR 43,112.75.

Below is a snapshot of MSIAC's other current liabilities at the year-end:

Amounts in EUR

	2023	2022
Lapsed Appropriations	250,030.65	52,380.47
Net Financial Result	- 686.74	- 306.75
Miscellaneous Result	3,750.00	5,501.06
Cash Advance Received from US DoD ESB	43,112.75	185,625.97
Others	-	387.75
Total	296,206.66	243,588.50

NOTE 14: NON-CURRENT LIABILITIES AND LONG TERM UNEARNED REVENUE

The long term unearned revenue is unearned revenue in relation to net carrying amounts of Property, Plant and Equipment and intangible assets. Revenue is recognised over the estimated life cycle of the Property, plant and equipment and the intangible assets.

There are no non-current liabilities.

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NOTE 15: TOTAL NET ASSETS / EQUITY

Net Assets correspond to MSIAC's Project Accumulated Surplus from previous years and the surplus (deficit) from the current year.

Project Accumulated Surplus relates to funds resulting from past contributions by MSIAC Member Nations in excess of budget execution that the Steering Committee decided not to redistribute to the Member Nations but keep for the needs of MSIAC. This reserve also includes the former surpluses originating, for instance, from non-budgeted new membership contributions and joining fees paid by incoming Member Nations to contribute to the products and services developed over the entire lifespan of MSIAC operations. It is held at the direction of the Steering Committee. The Steering Committee may use these funds to contribute to future costs associated with MSIAC operations, or in case of emergency funding needs for the Project. The growth in accumulated surplus over previous years reflects more Nations entering the Project but zero growth in Project staff. A five-year plan is agreed yearly and incrementally reduces this fund to target levels agreed by the MSIAC Steering Committee.

In May 2020 a deviation from Articles 24.2 and 29.3 of the NATO Financial Regulations has been approved by Council. As per C-M(2020)0012 the decision entails the use of MSIAC accumulated surpluses in an emergency fund and as an operational reserve up to a limit of EUR 650,000.00.

Amounts in EUR

	2023	2022
Cumulated Surplus beginning of the year	524,251.73	647,090.38
+ Lapses from previous year	52,380.49	30,614.02
+ Net Financial Result (Interest, Bank Fees) previous year	- 306.75	- 3,030.00
+ Miscellaneous Result previous year	5,501.06	8,577.33
- Surplus allocated to current year budget	- 162,100.00	- 170,000.00
Cumulated Surplus end of the year	419,726.53	513,251.73
Current Year Surplus	3,000.00	11,000.00
Net Assets as off 01 Jan 2024	422,726.53	524,251.73

Statement of Financial Performance**NOTE 16: REVENUE****Non-Exchange Revenue**

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.

Revenue from Member Nations' budgetary contributions is considered as non-exchange revenue in consideration of the fact that the contributions by Member Nations are based on the number of shares and not in proportion of the service they receive. Non-exchange revenue is matched with expenses stemming from budget execution.

Below a snapshot of the 2023 non-exchange revenue breakdown:

amounts in EUR

		2023	2022
Budget Execution		1,749,717.46	1,905,490.20
	Current Year Budget	2,002,100.00	1,930,000.00
	Automatic carry forward from previous year	15,504.30	43,374.97
	Lapses at year end	-250,030.65	-52,380.47
	Automatic carry forward into next year	-17,856.19	-15,504.30
Financial Result		-686.74	-306.75
	Financial result	-686.74	-306.75
Miscellaneous Result		3,750.00	5,501.06
	Overaccrual	3,750.00	5,381.06
	Provision Bad Debt	0.00	120.00
Non Exchange Revenue		1,746,654.20	1,900,295.89

Services, Joining Fees and Early Access Contributions

Services, Joining Fees and Early Access Contributions are non-budgeted contributions (new membership early access, access during the year, training fees, and Joining Fees from new Member Nations) whilst being also recognized as Non-exchange revenue, do not follow the matching principle since it is not possible to directly identify and value the consideration provided by MSIAC directly in return for the resources received. There are no expenses to be matched against this revenue and thus is not refundable to nations. Therefore, this is not recognized as non-exchange revenue.

In 2023, MSIAC collected EUR 3,000 of training fees, which is recognized as a period surplus.

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Exchange Revenue

Nothing to report.

Other Revenue

This includes the regularization of overestimated accruals from previous years.

Financial Revenue

This includes exchange rate differences.

NOTE 17: EXPENSES**Wages, Salaries and Employee Benefits**

The personnel costs include all civilian personnel expenses as well as other non-salary related expenses in support of funded activities. They also include expenses for salaries and emoluments for approved NATO permanent civilian positions and temporary personnel, for other salary related and non-related allowances including overtime, medical examinations, recruitment, installation and removal, and for contracted consultants and training.

Services rendered, Supplies and Consumables Used

This item may also include expenses attributed to Capital Expenses (Property, Plant and Equipment) from a budget perspective, if they do not meet the criteria of PPE or Intangible Assets.

Provisions

There are no expenses for provisions in 2023.

Other Expenses

There are no such expenses in 2023.

Finance Costs

This item comprises miscellaneous financial costs like bank charges, exchange rates losses, etc.

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ANNEX 6 to
FC(2024)0050**NOTE 18: BUDGET INFORMATION****NATO MSIAC Budget**

Presently, the NATO MSIAC Budget is not publicly available.

The actual amounts referred to by IPSAS 24 ("amounts that result from execution of the budget") are expenses incurred during the execution of the budget and appearing under the heading "Actuals" in the Budget Execution Statement.

Presentation of budget information in the financial statements

An analysis of the budget execution for the current and the previous year carry-forward amounts is provided in Annex 5. The MSIAC budget execution compares the budget's authorized credits against the amounts committed and expended.

The MSIAC budget classification is based on the economic nature of the expenses broken down into three chapters as follows:

Chapter I	Personnel Expenses
Chapter II	Operating Expenses
Chapter III	Capital Costs

The MSIAC Budget is prepared for the same period (1 January to 31 December) and encompasses the same entity as these financial statements.

Changes to the budgetary regulations were introduced by the North Atlantic Council in 2015 in approving a new set of NATO Financial Regulations. They have in particular instilled an accruals based approach to budget preparation and budget execution, whereas before the approach was largely commitment and cash based.

Despite a stronger emphasis on this principle in annual budgets, the approved and executed budget cannot be considered as fully accruals-based, since the new regulations allow for a number of exceptions, such as carrying forward commitments for goods and services that were expected to be delivered in the course of the year but for various reasons were not, or authority given to the member Nations to allow for special carry forward of appropriations unused at year-end.

The MSIAC budget is prepared and executed as follows:

- 1) The commitment of appropriations is the advance acceptance and recording of the financial consequence resulting from a legal obligation incurred during the financial year. Therefore, appropriations are allocated, and commitments are approved, for goods, services and works to be

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delivered at a later stage. Commitments are settled when the service is rendered or goods delivered as is the case for expenses under accrual accounting.

- 2) Approved Commitments for which no goods could be received or services rendered at year-end will normally lapse. However, if they are supported by a legal obligation and correspond to goods or services that could not be received during the course of the year for specific reasons, they may be carried forward and added to the budget of the following financial year. Uncommitted appropriations may be subject of a special carry forward to the following year if a specific agreement is given by the Steering Committee. Outstanding commitments can be carried forward for two years. As a consequence, the services or goods received may relate to a commitment of appropriations from previous years' budgets. The carry-forward should be justified by a reason for which the services or goods could not be received in the course of the year. In addition, in accordance with Financial Regulations, Member Nations may agree to a further carry-forward of commitments that were already carried forward twice.
- 3) Commitments, because they are an advance acceptance, and because payments cannot be made above approved appropriations levels, typically include an estimation factor and are (if only slightly) higher than the actual amount eventually paid. This results in commitments being higher than the actual expenses and in appropriations eventually lapsing.
- 4) Commitments are only made in respect of expenses relating to the initial purpose of the commitment. Commitments for capital expenditures are normally made in the year during which the purchase order is issued. In accrual accounting, the related costs would not appear in the Statement of Financial Performance but in the Balance Sheet and only upon reception of the works, goods or services. Conversely, there is no budgetary commitment of appropriations for non-cash flow transactions such as capital depreciation or provisions which would normally appear in the Statement of Financial Performance under accrual accounting.
- 5) On an exceptional basis, the Steering Committee may approve the special carry-forward of credits without any prior legal commitment, for instance for projects at their initiation stage or planned expenditures. In accrual accounting there would be no expense recorded.
- 6) The balance of unused budgetary appropriations (not committed) lapses and is returned to Member Nations at year-end. Lapses may include cases where a project was eventually not completed or started, and therefore lead to no expense.
- 7) As per Council decision, C-M(2020)0012, surpluses can be accumulated in an emergency fund and as an operational reserve up to a limit of EUR 650,000.00.

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ANNEX 6 to
FC(2024)0050**Reconciliation between Budget Execution and Statement of Financial Performance**

BUDGET EXECUTION			
Total Budget (including carried-forward from previous year)	(a)		2,017,604
Credits Carried Forward in Following Year	(b)		17,856
Lapsed Appropriations	(c)		250,031
Budget Execution Expenses	(d) = (a-b-c)		1,749,717
RECONCILIATION			
Financial Performance Expenses (Excluding Exchange Losses)	(e)		1,749,717
Increase in Non-Current Assets	(f)		-
Provisions	(g)		-
Other Expenses	(h)		-
Sub-Total	(i) = (e+f+g+h)		1,749,717
Difference to Budget Expenses	(d-i)		-

Budget execution

The MSIAC budget execution for the current year appropriations and previous year carry-forwards is shown at Annex 5, which compares the budget's authorized appropriations against the amounts committed and expended.

Credits are transferred under the authority delegated to the NATO-IS Financial Controller by the NATO Financial Regulations and Financial Rules and Procedures.

Reconciliation between Budget and Calls for Contributions

The funding of the budget is made of a call for contributions, carried over credits and a part of previous years' surplus. There is one call for contributions per year, which is usually issued at the beginning of the year. No advances are called for the following financial year.

Member Nations' contributions are assessed based on a share value of EUR 92,000. In 2023, twelve nations paid 1 share and four nations paid 2 shares.

As directed by the Steering Committee, the calls covered EUR 1,840,000 in 2023. The remainder of the budget, EUR 162,100 is financed from the refundable surplus reported for financial year 2022.

During 2023, MSIAC also collected 3,000 EUR of training fees, due to training provided to staff of a partner nation.

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These proceedings are considered non-budgetary revenue, recognizable directly as a period surplus and will be moved to equity, see also note 16.

The below table details the MSIAC 2023 contributions and other revenue (including Services, Joining Fees and Early Access Contributions):

Amounts in EUR

	Contributions	Other Revenue	Total
1 - Member Nations	1,380,000.00	0.00	1,380,000.00
Belgium	92,000.00		92,000.00
Canada	92,000.00		92,000.00
France	184,000.00		184,000.00
Germany	184,000.00		184,000.00
Italy	92,000.00		92,000.00
Netherlands	92,000.00		92,000.00
Norway	92,000.00		92,000.00
Poland	92,000.00		92,000.00
Spain	92,000.00		92,000.00
United Kingdom	184,000.00		184,000.00
United States	184,000.00		184,000.00
2 - Partner Nations and Participants in training services	460,000.00	3,000.00	463,000.00
Australia	92,000.00		92,000.00
Finland	92,000.00		92,000.00
Republic of Korea	92,000.00		92,000.00
Sweden	92,000.00		92,000.00
Switzerland	92,000.00		92,000.00
Danish Acquisition and Logistics Organisation		3,000.00	3,000.00
Grand Total	1,840,000.00	3,000.00	1,843,000.00

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The table below reconciles the approved budget by the Steering Committee and the sources of funding:

Amounts in EUR

	2023	2022
Initial Budget	2,002,100.00	1,908,000.00
Revised Budget		22,000.00
Total Annual Budget	2,002,100.00	1,930,000.00
Advance called previous year	-	-
Call in current year	1,840,000.00	1,760,000.00
Total Cash Calls	1,840,000.00	1,760,000.00
Use of Previous Year's Surplus	-	-
Use of Project Accumulated Surplus	162,100.00	170,000.00
Other Funding Sources	162,100.00	170,000.00
Total Funding	2,002,100.00	1,930,000.00

NOTE 19: WRITE-OFFS

There are no write-offs to report in 2023.

NOTE 20: LEASES

MSIAC does not have any financial leases.

NOTE 21: RESTRICTIONS ON FIXED ASSETS

There are no restrictions on fixed assets.

NOTE 22: CONTINGENT LIABILITIES

There have been no contingent liabilities identified that would be expected to result in a material obligation.

NOTE 23: CONTINGENT ASSETS

Nothing to report in 2023.

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NOTE 24: EMPLOYEE DISCLOSURE

MSIAC's employee breakdown as of 31 December 2023, is shown below:

	Total Approved PE	Total Filled Positions
Civilian (PE)	10	9
VNC	0	0
Short term	0	0
Interns	0	3
Others - explain	0	0

For 2023, MSIAC had an approved Personnel Establishment of 10 positions funded by the MSIAC budget. It should be noted that the NATO-IS is managing centrally two pension programmes, namely the Defined Benefit Pension Scheme (DBPS) and the Defined Contribution Pension Scheme (DCPS) as well as the Retirees Medical Claims Fund (RMCF), covering staff employed by all NATO bodies. NATO-wide financial statements are issued by NATO-IS Office of Financial Control for the two Pension Schemes and the RMCF, therefore, no post-employment benefit related assets or liabilities are recognised in the MSIAC financial statements.

End 2023, all 9 staff members (8 in 2022) participated in the Defined Contribution Pension Scheme (DCPS) administered by NATO. The DCPS provides that the MSIAC budget makes a 12 percent monthly matching contribution to the staff members' contributions for current service.

The table below presents a list of contributions paid to the different Pension Schemes:

Amounts in EUR

		2023	2022
Defined Contribution Pension Scheme	Staff	73,571.36	85,585.04
	Employer	105,335.07	116,536.43
	Total	178,906.43	202,121.47
TOTAL	Staff	73,571.36	85,585.04
	Employer	105,335.07	116,536.43
	Total	178,906.43	202,121.47

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NOTE 25: KEY MANAGEMENT PERSONNEL

The MSIAC Steering Committee (one representative per Member Nation) is the governing body of the MSIAC. Steering Committee members are nominated by their respective national authorities. They are paid on the basis of applicable national pay scales. The Steering Committee members do not receive from MSIAC or NATO any additional remuneration for Steering Committee responsibilities or access to benefits. The key management personnel of the MSIAC Office consists of the Project Manager established post (A5). The Project Manager is responsible for the overall operational management of MSIAC. There are no other remunerations or benefits to key management personnel or their family members.

NOTE 26: RELATED PARTIES

Key management personnel have no significant party relationships that could affect the operation of the MSIAC Office.

In 2023, NATO International Staff charged MSIAC for the following burden sharing costs:

Amounts in EUR

	Burden Sharing Charges	
	2023	2022
COMOPS	59,171.00	34,656.00
Administrative Costs	62,679.49	47,650.46

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List of acronyms:

CNAD	Conference of National Armaments Directors
DBPS	Defined Benefit Pension Scheme
DCPS	Defined Contribution Pension Scheme
IPSAS	International Public Sector Accounting Standards
IS	International Staff
MOU	Memorandum of Understanding
MSIAC	Munitions Safety Information Analysis Centre
NIMIC	NATO Insensitive Munitions Information Centre
OFC	Office of Financial Control
PPE	Property, Plant and Equipment
RPPB	Resource Planning and Prioritization Board
NAC	North Atlantic Council
RMCF	Retirees Medical Claims Fund

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**NATO COORDINATED PENSION SCHEME
FINANCIAL STATEMENTS**

For the year ended
31 December 2023

Annexes

- | | |
|---|---|
| 1 | Statement of Net Assets Available for Benefits |
| 2 | Statement of Changes in Net Assets Available for Benefits |
| 3 | Notes to the Financial Statements |


Jens STOLTENBERG
Secretary General


Mirosława BORYCZKA
Financial Controller

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Annex 1 to
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NATO COORDINATED PENSION SCHEME
Statement of Net Assets Available for Benefits

(All amounts in EUR)	Notes	Current Year	Previous Year
		31-Dec-23	31-Dec-22
Assets			
Cash and cash equivalents	4	116,590,879.52	141,465,121.71
Staff member contributions receivable	5	36,571.45	306,256.33
Employer contributions receivable	6	4,298.30	4,246.72
Nation contributions receivable	7	150,905,779.15	109,080,258.96
Pension tax adjustment contributions receivable	8	43,255,545.54	31,437,413.81
Credit for past service to be refunded by staff	9	11,200.33	22,152.85
Advance cash interfunds receivable	10	0.00	51,718.05
Other	10	948,143.83	824,880.96
Total assets		311,752,418.12	283,192,049.39
Liabilities			
Contributions called for y+1	7	229,307,000.04	202,625,400.00
Voluntary advances	7	0.00	0.00
Pension tax adjustments called for y+1	8	40,920,200.00	37,033,100.00
Other	11	1,759,649.17	2,104,448.35
Total Liabilities		271,986,849.21	241,762,948.35
Net Assets Available for Benefits		39,765,568.91	41,429,101.04

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THE NATO COORDINATED PENSION SCHEME
Statement of Changes in Net Assets Available for Benefits

(All amounts in EUR)	Notes	Current Year	Previous Year
		31-Dec-23	31-Dec-22
Increase in net assets		2,547,596.45	157,354.09
Interest income	2,13	2,514,813.55	118,459.23
Transfers from other pension funds	14	0.00	0.00
Other	15	32,782.90	38,894.86
Contributions		222,090,970.39	199,868,592.25
Staff members	5	14,760,456.89	15,823,308.62
Employers	6	286,640.50	312,229.92
Nations	7	207,043,873.00	183,733,053.71
Regularizations		0.00	0.00
Tax adjustments	8	40,867,298.35	37,404,540.70
Total increase in net assets available for benefits		265,505,865.19	237,430,487.04
Decrease in net assets		226,302,098.97	210,367,431.50
Pension benefits	17	225,794,376.92	209,677,328.39
Other costs	2,16	371,763.60	529,921.15
Bank costs	2,13	135,958.45	160,181.96
Tax adjustments	8	40,867,298.35	37,404,540.70
Total decrease in net assets available for benefits		267,169,397.32	247,771,972.20
Net change for the year		-1,663,532.13	-10,341,485.16
Net assets available for benefits, beginning of year		41,429,101.04	51,770,586.20
Net assets available for benefits, end of year		39,765,568.91	41,429,101.04

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ANNEX 3 to
FC(2024)0051**EXPLANATORY NOTES TO THE
2023 FINANCIAL STATEMENTS OF THE
NATO COORDINATED PENSION SCHEME****NOTE 1: GENERAL INFORMATION****Description**

The NATO Coordinated Pension Scheme is a defined benefit retirement plan that applies to NATO staff recruited between 1 July 1974 and 30 June 2005. NATO staff recruited before 1 July 1974 participated in the NATO Provident Fund, a defined contribution retirement plan. NATO staff recruited after 30 June 2005 are participants in the NATO Defined Contribution Pension Scheme (DCPS), also a defined contribution retirement plan.

NATO IS operates the Coordinated Pension Scheme for all NATO staff. This Scheme is often referred to as the NATO Defined Benefit Pension Scheme, and is hereafter referred to as the NATO DBPS.

The NATO DBPS is coordinated with five other international organizations, namely:

- The Organization for Economic Co-operation and Development (OECD)
- The Council of Europe (CoE)
- The European Space Agency (ESA)
- The European Centre for Medium-Range Weather Forecasts (ECMWF)
- The European Organization for the Exploitation of Meteorological Satellites (EUMETSAT)

These Coordinated Organizations apply a common set of rules concerning the present defined benefit retirement plan. These rules are initiated and recommended by the Coordinating Committee on Remuneration and are approved by the North Atlantic Council. They are embedded in the NATO Civilian Personnel Regulations (CPRs), Annex IV.

The scheme includes provisions for retirement, invalidity, survivor, orphan and dependent's pensions. Benefits paid are usually calculated as a proportion of the staff member's final salary, based on the number of reckonable years of service. NATO civilian staff recruited between 1 July 1974 and 30 June 2005 become eligible for a retirement pension after 10 years of service; those who depart before 10 years of service receive a leaving allowance. The details of the conditions and entitlements of each component of the NATO DBPS are laid down in Annex IV of the CPRs.

Financing Policy

The benefits of the NATO DBPS are paid from annual budgets approved by the North Atlantic Council. Funding sources consist of compulsory contributions from active staff, employer contributions of certain NATO bodies, and, as a balancing resource, budgetary contributions by NATO member Nations. Contrary to most, if not all, of the other Co-ordinated Organizations, NATO has not set aside funds to be invested to fund future costs and, therefore, NATO's funding of the Coordinated Pension Scheme is on a pay-as-you-go basis.

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Staff Contributions

The rate of the staff contribution is set in order to represent the cost, in the long term, of one-third of the benefits provided at the coordinated level. Therefore, this rate is not specific to NATO; it is the same for all the Coordinated Organizations.

The staff contribution rate is adjusted in accordance with the result of an actuarial study, which is carried out every 5 years. This rate has been increasing over time. It was 7.0% from the inception of the scheme until it was brought to 8.0% in 1995. The rate was further increased to 8.3% in 2000 and to 8.9% in 2005.

As of 1 January 2010, contributions to the NATO DBPS from serving staff increased from 8.9% to 9% of their basic salary, further to a change in the method used to calculate such rates in order to take account of the closure of the pension scheme in certain Coordinated Organizations. The rate was further increased to 9.5% as from 1 January 2015.

From January 2020 the staff contribution rate is 11.8%. At the same time the annual pension payment adjustments are no longer connected to the serving staff salary increase, which has been the rule since the inception of the scheme. Instead, the DBPS annual pension payments shall be adjusted in accordance with revaluation coefficients based on the consumer price index for the country of the scale used.

Employer contributions

In specific cases, and in particular for a few NATO activities, limited either in time or in numbers of personnel, or with a specific financial basis, Nations decided that the pension liability is best discharged through a contribution equal to twice the staff contribution rate from the annual budget of the concerned activity or NATO entity (BC-WP(83)3(Revised) paragraph 5(1) and C-M(83)34). This contribution is considered as an employer's contribution. This contribution, together with the staff's, is deemed to provide the necessary funds for the subsequent pensions liability of the entities concerned. Employer contributions are due from the following NATO bodies: the Munitions Safety Information Analysis Centre (MSIAC), the NATO Naval Forces Sensor and Weapon Accuracy Check Sites (FORACS), the NATO Battlefield Information Collection and Exploitation Systems (BICES) Agency and the NATO Alliance Ground Surveillance Management Organization in Liquidation (NAGSMOIL).

Nations' contributions

The member states jointly guarantee the payment of benefits. Should a country, being a member or ex-member of the Organization, fail to comply with its obligations, the other countries shall meet the cost thereof in proportion to their contributions to the budget of the Organization as fixed annually from and after the said country's default (article 40.4 of Civilian Personnel Regulations, Annex IV).

Contributions from member states are called once a year based on the authorized annual budgets. They are calculated as the difference between the anticipated benefits due for the year under review and the main sources of funding, primarily staff contributions and employer's contributions. The NATO DBPS is funded through two separate budgets approved by the North Atlantic Council, one for the International Staff and the other for the Military Budget, which includes NATO agencies.

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The related calls for contributions are issued in advance, usually towards the end of the preceding year. Costs are shared among NATO member countries based on the cost-shares applicable to the NATO body for which the staff member worked before he/she became a beneficiary of the scheme. In practice, the annual call is based on a weighted average of each NATO body's cost-share weighted by the related pension costs as per the latest available financial statements.

Management of the DBPS

Administrative services and secretarial support are provided by the Pensions Unit of NATO-IS Human Resources. The Pensions Unit assesses the entitlement to benefits payable under the DBPS for the whole NATO community. Financial services are provided by the NATO-IS Office of Financial Control (OFC). The OECD's International Service for Remunerations and Pensions (ISRP) provides overall support concerning the global NATO DBPS (actuarial studies, adjustment calculations, etc.).

An Administrative Committee on Pensions of the Coordinated Organizations (CAPOC) was set up to ensure that provisions of the Pension Scheme Rules are uniformly applied at the coordinated level. Copies of the meeting minutes can be found in the IS/EM-HR Pensions Unit.

None of the above-mentioned management services provided by NATO and the ISRP is charged to the NATO DBPS (see note on Related Parties).

Pension Tax Adjustment

The recipient of a pension is entitled to an adjustment applying to the member country of the organization in which the pension and adjustment relating thereto are chargeable to income taxes under the tax regulations in force in that country. This adjustment (sometimes referred to as "tax adjustment") concerns members of the NATO DBPS and of the DCPS. The adjustment equals 50% of the amount by which the recipient's pension would theoretically need to be increased, so that the net pension balance remaining after deduction of the amount of national income tax (or taxes) would correspond to the amount of the pension calculated in accordance with the rules of the NATO DBPS or of the DCPS.

The adjustment is borne by the country in which the recipient is subject to taxes on income for the period considered and, therefore, separate accounts are drawn up for each individual country.

For practical reasons, the operations relating to the adjustment of pensions are included in the present financial statements rather than in a separate set of financial statements.

A specific call for contributions is issued to the countries concerned.

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NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

DBPS applies the NATO IS Accounting Policies which have been published through ON(2021)0079 and updated through FC(CAF)(2023)0001.

Declaration of conformity

The financial statements of the NATO DBPS have been prepared in accordance with the NATO Financial Regulations and International Accounting Standard 26 (IAS 26), "Accounting and Reporting by Retirement Benefit Plans". The NATO Accounting Framework, which is an adapted version of the International Public Sector Accounting Standards (IPSAS), does not have a specific standard for accounting and reporting by retirement benefit plans.

The accounting system used by the NATO DBPS is accrual based.

The financial statements summarize the transactions, net assets available for benefits and the changes in net assets available for benefits. In accordance with IAS 26, the actuarial present value of promised retirement benefits of the NATO DBPS is presented in Note 3.

Basis of presentation

The financial statements have been prepared on a going-concern basis: the NATO DBPS will continue in operation for the foreseeable future.

The amounts shown in these financial statements are presented in EUR.

Changes in accounting policy

None in 2023.

Restatement of financial statements of previous year

None in 2023.

Use of estimates

In the application of accounting policies judgments, estimates and assumptions are made about carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Estimates include, but are not limited to, the long term obligation of the NATO DBPS and receivables.

Foreign currency transactions

NATO entities pay their staff's contributions in various currencies (EUR mostly, GBP, USD, NOK, PLN and HUF) normally in the bank accounts denominated in the same currency. Contributions from the Nations to the pension budget and for the pension tax adjustment are exclusively called in EUR at the year-end for the following year and received in the EUR bank account.

Benefits are paid in various currencies. Benefits are calculated by reference to salary scales applicable to the country of the staff member's last posting. However the staff member may opt

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for the scale applicable to another country if the former staff member settles subsequently: in a member country of one of the Coordinated Organizations of which he is a national, or in a member country of one of the Coordinated Organizations of which his spouse is a national, or in a country where he/she has served at least five years in one of the organizations of the Coordinated Organizations. Consequently, payments are made in a variety of currencies such as EUR, AUD, CAD, CHF, DKK, GBP, NOK, NZD, SEK, THB, TRY and USD.

Foreign currency transactions are accounted for at the NATO exchange rates prevailing on the date of transactions. The monetary assets and liabilities at year-end are reported in EUR using the NATO rates of exchange that were applicable at year-end. Profit and loss 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 as expenses and revenues.

Cash and Cash Equivalents

Cash and cash equivalents are defined as short-term assets. They include cash in banks, term deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash.

Financial Investments

Financial investments with a fixed redemption value, acquired with the intention to be held to maturity, matching DBPS obligations or parts thereof, are recognized at ultimate redemption value.

Receivables

Receivables are stated at their book value. No allowance for loss is recorded for receivables relating to NATO bodies' statutory contributions or to national contributions.

Payables

Payables are amounts due to third parties based on rights acquired by staff or pensioners, or services provided that remain unpaid. This includes, as required, an estimate of the related accrued obligation for rights not liquidated, or services provided but not yet invoiced.

Financial instruments

The NATO DBPS uses non-derivative financial instruments as part of its normal operations. These financial elements include current bank accounts and deposit accounts.

Credit risk

The NATO DBPS incurs credit risks from cash, cash equivalents, and receivables.

Credit risk on cash and cash equivalents is managed by holding current accounts and short term highly liquid deposits that are readily convertible to a known amount of cash held with registered banking institutions with the following ratings (short term).

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BANK NAME	COUNTRY OF HQ	SHORT TERM RATINGS					
		FITCH		S&P GLOBAL		MOODY'S	
		Rating	Last review date	Rating	Last review date	Rating	Last review date
ING BANK	NE	F1+	13-Jul-23	A-1	23-Jun-23	P-1	28-Nov-23
BNPP FORTIS	Belgium	F1	03-Jul-23	A-1	24-Apr-23	P-1	30-Nov-23
Credit Agricole	France	F1	04-Oct-23	A-1	26-Oct-23	P-1	15-Dec-23
Credit Mutuel ARKEA	France	F1	18-Sep-23	A-1	13-Oct-23	P-1	31-Jul-23
Wells Fargo	US	F1+	01-Jun-23	A-1	29-Sep-23	P-1	23-Oct-23
Intesa SanPaolo	Luxembourg	F2	17-Nov-23	A-2	25-Oct-23	P-2	21-Nov-23

Credit risk is also managed by maintaining control procedures over receivables. These consist essentially of contributions due from NATO member countries. This risk is considered limited since these countries are generally considered creditworthy. Similarly, the risk linked to employer or staff contributions due from NATO bodies is considered limited since these bodies are directly funded by member Nations or indirectly in the case of customer funding.

The NATO Coordinated Pension Scheme holds a bank account with AION but without significant cash holdings.

Currency risk

The NATO DBPS is exposed to foreign currency exchange risk arising from fluctuations in currency rates. The scheme receives contributions in EUR from member Nations. It receives mostly EUR but also GBP, USD, NOK, PLN and DKK from NATO bodies. As explained above, benefits due to participants in the scheme are in various currencies. Payments are made mainly in EUR. Foreign currencies are purchased as needed on a monthly basis keeping foreign currency holdings at a minimum. There is therefore very little currency risk because cash and cash equivalent balances on bank accounts in foreign currencies are always a small percentage of the cash and cash equivalents.

The table below provides a breakdown of the DBPS pension related payments by currency during 2023.

Currency	Percentage/EUR
EUR	84.75%
GBP	7.97%
USD	3.62%
CAD	1.09%
DKK	1.05%
NOK	0.91%
TRY	0.30%
CHF	0.09%
AUD	0.06%
THB	0.05%
MXN	0.04%
NZD	0.03%
SEK	0.03%
CZK	0.02%
PLN	0.01%
Total	100.00%

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The calls for contributions from Nations related to Pension Adjustments are in EUR. Pension Adjustments paid to pensioners are primarily in EUR. There is therefore very little currency risk.

Liquidity risk

A liquidity risk could arise from an unforeseen short-term liquidity requirement. There is a very limited exposure to liquidity risk because contributions ensure funding commensurate with budgeted benefit disbursements and are called in advance, and because member states jointly guarantee the funding of this pension scheme. Some limited risk could be due to the validity of forecasts used for the NATO DBPS budget formulation. However, history shows that this process results in surpluses.

The outflows of cash follow fairly regular paths and so do the staff and employer contributions but the latter are of a smaller amount. While the timing of member Nations' contributions is not entirely predictable, staff and employer contributions as well as benefit outflows are very stable. The budgetary surplus shields NATO DBPS from liquidity risk.

Cash, cash equivalents, and capital-guaranteed financial investments (if any) are managed to avoid liquidity risk.

The calls for contributions related to the Pension Tax Adjustments tend to be lower than the actual requirement due to difficulties in making accurate forecasts. This situation generates a liquidity risk that is managed through the excess cash on the DBPS side.

Interest rate risk

The scheme is restricted from entering into borrowings and therefore, there is no related interest rate risk.

Market risk

At the end of 2023, DBPS was not exposed to market risks.

NOTE 3: ACTUARIAL VALUATION

The ISRP Actuarial Study Introduction

The International Service for Remunerations and Pensions (ISRP) is an organization that provides statistical, mathematical and actuarial support to the following organizations:

- North Atlantic Treaty Organization (NATO)
- Council of Europe (CoE)
- Organization for Economic Cooperation and Development (OECD)
- European Space Agency (ESA)
- European Centre for Medium-Range Weather Forecast (ECMWF)
- European Organization for the Exploitation of Meteorological Satellites (EUMETSAT)

In accordance with the requirements of the Letter of Mission (LM/SIRP/NATO(2012)35) signed by NATO and the ISRP, the latter performed an actuarial study aiming at:

- Estimating the accrued pension and medical coverage liabilities at 31 December 2023 according to the International Public Sector Accounting Standards (IPSAS); and

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- Producing the IPSAS accounting disclosures related to these liabilities.

The study is based on comprehensive data of the affiliated population at the end of 2023 provided to ISRP by NATO.

NATO has also supplied data regarding DBPS cash flows over 2023.

NATO believes that the results of this report represent a reasonable measure of the DBPS underlying liabilities.

The previous full valuation was performed as at 31 December 2022.

The study has been conducted in accordance with generally accepted actuarial practices, in close collaboration with NATO. Whilst the report complies with IPSAS 39, NATO DBPS financial statements are prepared under IAS 26.

Actuarial Valuation Method

ISRP used the Projected Unit Credit approach. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. In addition, where the amount of a benefit is a constant proportion of final salary for each accrued unit of rights, future salary increases will affect the amount required to settle the obligation, therefore the method requires projecting a member's salary.

Only the rights accrued up to the valuation date have been taken into account. The rights of employees with less than 10 years of service are taken into account proportionally.

Actuarial Assumptions

Actuarial assumptions can be classified as either financial or demographic assumptions. Financial assumptions impact the amount of benefits to be paid over time and the net present value whilst demographic assumptions reflect the likelihood of payment and factors internal to NATO.

The below financial assumptions were considered:

Assumption	Assumption as at 31 December 2022	Assumption as at 31 December 2023
Discount Rate		
- Pension Schemes	2.51%	2.31%
Price Inflation	2.00%	2.00%
- Salary Inflation	2.24%	2.24%
Pension Increase Rate	2.00%	2.00%

The discount rate used was the Euro area AAA Government Yield Curve, expressed in euros, as published by the European Central bank, as at 31 December 2023. The change in discount rate is due to the change in financial market conditions over 2023.

In accordance with past practice, as a long-term inflation rate, the European Central Bank's long-term inflation rate target of 2.0% is used.

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Salary inflation is calculated as a 0.24% increase to the derived rate of inflation as used in the most recent actuarial study of the contribution rate for the Co-Ordinated Organizations.

The pension increase rate is in line with price inflation. As at 31 December 2023, the pension increase rate assumption is set equal to the inflation assumption of 2.0%.

Demographic Assumptions

The demographics at this year-end are the same as those used for the previous year-end.

Mortality tables are a set of probabilities of a person dying within the year at a specific age and are an important assumption for the calculation of pension obligations. The ISRP, have produced mortality tables specific to international civil servants based in Europe since 2008 in order to have more appropriate results, compared to national or regional tables, on the life expectancy of the relevant population. This series of tables is known as the International Civil Servants Life Table (ICSLT).

Set out below is a comparison of life expectancies based on the ICSLT 2018 mortality table projected from 2022 and the ICSLT 2023 projected from 2023:

	ICSLT 2018 (2022 Projection)	ICSLT 2023 (2023 Projection)
Males		
60 year old	28.6	28.1
40 year old now at 60	29.0	28.8
Females		
60 year old	31.2	30.5
40 year old now at 60	31.5	31.0

Other demographic assumptions taken into consideration are:

- Turnover
- Probability to retire
- Probability of becoming invalid
- Career progression
- Probability of being married
- Age difference in couples
- Age of pension suspension for Orphans
- Family allowances

Results for DBPS current obligation.

The DBPS obligation as estimated at the end year 2023 is KEUR 6,423,791. It has increased by approximately 3% compared to the 2022 year-end.

The change in the liability during 2023 can be summarized as follows:

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(amount in KEUR)	2023
Obligation at 1 January 2023	6,254,767
Interest Cost	154,161
Current Service Cost	96,265
Benefits Paid	-225,798
Actuarial (Gains)/Losses	144,396
Obligation at 31 December 2023	6,423,791

Overall, the pension obligation has increased by KEUR 169,024 during 2023. This is principally due to a decrease in the discount rate, actuarial losses due to membership experience, and an increase in the family allowance assumption. These impacts were partially offset by the impact of the new ICSLT2023 mortality table.

The breakdown of the pension obligation by member status at 31 December 2023 is shown below:

(amount in KEUR)	2023
Actives	1,761,300
Deferreds	78,582
Pensioners	4,583,909
Obligation at 31 December 2023	6,423,791

An actuarial loss of KEUR 144,396 occurred during 2023. This is explained by a number of factors, including the updated population, change in the discount rate, and change in demographic assumptions (mortality table and family allowance loading rate).

The analysis of the impact of the actuarial loss is as follows:

Impact of change in ...	Type of Loss/(Gain)	Amount KEUR	% of 2023 YE Liability
Population	Experience	94,701	1.5%
Family Allowance rate	Demographic	61,285	1.0%
Mortality table	Demographic	-201,416	-3.1%
Discount rate	Financial	189,826	3.0%
Total actuarial loss/(gain)		144,396	2.2%

NOTE 4: CASH AND CASH EQUIVALENTS

Separate bank accounts are held in various currencies (AUD, CAD, CHF, DKK, EUR, GBP, NOK and USD), namely for those currencies that represent most of the pensions paid, in order to ensure the recurring foreign currency payments. However, payments are also made in other currencies (e.g. NZD, SEK, TRY), but these are usually made from the EUR bank account.

Some cash is also held on account of third parties. These funds belong to Nations, members of former NAMSA (now NSPA), who decided that amounts credited to them further to the transfer of staff from the Provident Fund to the DBPS (validation costs) would be kept at their disposal. (see Note 11).

The below table provides an overview of DBPS's cash holdings (incl. short-term deposits) as of 31 December 2023.

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(amounts in EUR)	
2023	2022
116,590,879.52	141,465,121.71

In the table below, we provide comparative data for the short-time deposits held over two consecutive years:

(amounts in EUR)	
2023	2022
30,000,000.00	0.00

NOTE 5: STAFF MEMBER CONTRIBUTIONS

Staff member contributions are paid monthly by the NATO payroll centers. Since 1 January 2020 the staff contribution rate is 11.8% of basic salary while this was 9.0% until the end of 2019. Since 2022, staff contributions resume the downward trend due to reduced staff contributing to the DBPS and newly recruited staff joining only the DCPS.

Outstanding amounts at year-end (Receivables) are linked to contributions due on staff salaries for December from several NATO entities, which were all received in early 2024.

The below chart provides an overview of the staff contributions over the last two consecutive years:

(amounts in EUR)	2023	2022
CIVIL	3,082,967.16	3,404,292.86
MILITARY	11,677,489.73	12,419,015.76
Total	14,760,456.89	15,823,308.62

NOTE 6: EMPLOYER CONTRIBUTIONS

Employer contributions are due from the following NATO bodies: FORACS, NAGSMOIL and the NATO BICES Agency. The Employer contributions are paid monthly.

The below chart provides an overview of the employer's contributions over the last two consecutive years:

(amounts in EUR)	2023	2022
CIVIL	51,579.60	49,950.46
MILITARY	235,060.90	262,279.46
Total	286,640.50	312,229.92

The reduction in contributions stems from the continued decrease in active contributors of FORACS, NAGSMOIL and the NATO BICES Agency.

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NOTE 7: NATION CONTRIBUTIONS

Contributions due from NATO Member Nations to fund the NATO DBPS of a given budget year are called once per year, towards the end of the preceding year. In accordance with Article XXIX 8) of the NATO Financial Rules and Procedures, amounts called are to be paid in principle within a period of one month after receipt of the request. Amounts recognized are those amounts called.

The DBPS call for contributions is a single call issued towards the end of the year. It includes an advance on next year's pension budget and takes into account the previous year's surplus or deficit, and it also regularizes any adjustments done in the course of the budget year such as budget revisions.

The amounts called at year-end as advances for the following year (Liabilities) are:

Budget called in Y-1 (EUR)			
2024		2023	
CIVIL	MILITARY	CIVIL	MILITARY
58,284,000.00	171,023,000.00	49,775,400.00	152,850,000.00
229,307,000.00		202,625,400.00	

In terms of execution (Statements of Changes in Net Assets Available for Benefits), below a reconciliation is provided between the calls and the costs recognized against nations contributions

(amounts in EUR)		2023	2022
CIVIL	Call Y	49,775,400.00	45,215,700.00
	Regul revised call Y	3,551,036.00	3,158,300.00
	Regul call Y-1	-38,158.04	-5,724.74
	Total	53,288,277.96	48,368,275.26
MILITARY	Call Y	152,850,000.00	144,670,000.00
	Regul revised call Y	0.00	0.00
	Regul call Y-1	905,595.04	-9,305,221.55
	Total	153,755,595.04	135,364,778.45
TOTAL		207,043,873.00	183,733,053.71

Uncollected budgetary contributions from Nations (Receivables) relate mainly to the call for the 2024 pension budget.

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Hereunder is a breakdown of such outstanding contributions as at 31 December 2023:

Country	Amount (EUR)
ALBANIA	158,771.46
BELGIUM	6,014,354.05
FINLAND	886,579.62
FRANCE	21,768,550.10
GERMANY	32,457,623.94
HUNGARY	462,583.69
ICELAND	112,573.75
ITALY	17,997,698.49
LITHUANIA	582,516.66
LUXEMBOURG	744,523.41
MONTENEGRO	20.00
NAMFI	20,976.08
NETHERLANDS	8,322,437.98
NORWAY	3,978,745.76
PORTUGAL	2,071,382.63
ROMANIA	3,400,849.11
SPAIN	3,648,900.80
SWEDEN	-6,688.25
TÜRKIYE	5,777,374.60
UNITED STATES	42,506,005.27
Total	150,905,779.15

NOTE 8: PENSION TAX ADJUSTMENT

For practical reasons, the operations relating to the adjustment of pensions for national taxation on NATO pensions income are included in the present financial statements. Members of the DCPS are also entitled to such an adjustment. DCPS related payments are a fraction and therefore are included on DBPS's Tax adjustment call and advanced by the DBPS.

The adjustment is paid monthly by way of advance at the same time as the pension.

The following table provides the breakdown of actual payments by country for Pension Tax Adjustments as disclosed under the Statement of Changes of Net Assets Available for Benefits:

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Country (amounts in EUR)	2023	2022
BELGIUM	19,389,325.16	17,732,309.53
CANADA	387,869.76	342,151.52
CZECHIA	1,840.98	1,788.33
DENMARK	655,639.45	718,503.83
FRANCE	1,705,072.00	1,680,730.00
GERMANY	3,388,141.00	3,118,476.00
GREECE	331,333.00	286,095.00
ICELAND	71,482.00	25,273.00
ITALY	3,265,665.00	3,054,086.00
LUXEMBOURG	2,726,079.00	2,394,636.00
NETHERLANDS	4,093,266.00	3,951,267.00
NORWAY	408,196.17	454,598.19
POLAND	18,456.11	22,340.63
PORTUGAL	304,515.00	284,332.00
SPAIN	668,170.00	630,955.10
UNITED KINGDOM	2,648,035.79	2,004,215.80
UNITED STATES	615,707.27	513,243.68
DCPS transfers	188,504.66	189,539.09
Total	40,867,298.35	37,404,540.70

The DCPS tax adjustments, as mentioned in the table above, can be broken down per country as follows:

Country (amounts in EUR)	2023	2022
BELGIUM	44,294.00	56,744.00
CANADA	29,966.76	24,526.34
GERMANY	28,202.00	32,066.00
SPAIN	5,326.00	8,919.00
FRANCE	1,200.00	1,200.00
UNITED KINGDOM	13,601.69	10,267.36
GREECE	7,380.00	7,800.00
ITALY	12,952.00	8,052.00
LUXEMBOURG	9,112.00	907.00
NETHERLANDS	24,933.00	28,793.00
NORWAY	6,734.45	8,858.49
POLAND	1,214.02	0.00
UNITED STATES	3,588.74	1,405.90
Total	188,504.66	189,539.09

Pension Adjustment amounts paid to pensioners as reported in euro in the tables above are impacted by a variety of factors, among which: exchange rates, number of pensioners having their tax residence in a given country (which may be different from their country of origin or the country in which the NATO entity for which staff worked is located), household/family situation, level of the pension itself, national taxation policies, etc. As a consequence, amounts due by individual Nations may vary from one year to the other and are not related to their cost shares of the NATO entity for which staff worked.

Contributions due by Nations concerned to fund the Pension Adjustment of a given budget year are called towards the end of the preceding year. In accordance with Article XXIX 8) of the NATO Financial Rules and Procedures, amounts called are to be paid in principle within one month after receipt of the request. Amounts recognized are those amounts called.

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Advances on the next year's payments of the pension adjustment are called towards the end of the current year. At year end the balance of advances (Liabilities) were:

DBPS budget called in Y-1 (EUR)			
2024		2023	
CIVIL	MILITARY	CIVIL	MILITARY
14,737,000.00	26,183,200.00	12,238,500.00	24,794,600.00
40,920,200.00		37,033,100.00	

The table below provides an overview of Nations' amounts due (Assets) in terms of tax adjustments at year-end.

Country	Amount (EUR)
BELGIUM	22,540,984.00
FRANCE	2,870,283.00
HUNGARY	1,400.00
ICELAND	29,973.00
ITALY	3,945,780.00
LUXEMBOURG	3,178,990.00
NETHERLANDS	4,795,506.00
NORWAY	547,860.09
POLAND	13,462.35
PORTUGAL	414,937.00
UNITED KINGDOM	404,062.70
UNITED STATES	744,075.91
Total	39,487,314.05

By the end of 2023 the difference between what is called from nations and what is paid to pensioners induced an accumulated deficit of EUR 3,768,231.49.

Nations' amount due in terms of tax adjustments at year-end, classified in the Statement of Net Assets Available for Benefits as Pension Tax Adjustment Contributions Receivable, amounts to EUR 39,487,314.05.

Consequently, the total of Nations' amounts due in terms of tax adjustments at year-end totals to EUR 43,255,545.54.

NOTE 9: CREDIT FOR PAST SERVICE TO BE REFUNDED BY STAFF

This relates to amounts due from staff who had left the Organization and were paid a leaving allowance but who were later re-employed by the Organization or to staff who retroactively became members of the Coordinated Scheme further to NATO Administrative Tribunal decisions.

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The table below provides an overview of such receivables in EUR for the last two consecutive years:

(amounts in EUR)

2023	2022
11,200.33	22,152.85

NOTE 10: OTHER ASSETS

Other Assets include for 743,829.40 EUR pending claims from pensioners and 188,504.66 EUR for tax adjustments due from the DCPS.

NOTE 11: OTHER LIABILITIES

These correspond to amounts relating to unrealized financial result, life insurance capital due and other miscellaneous amounts due to be regularized (including reimbursement to the DCPS of amounts paid in relation to Pension Adjustments and pensions not yet paid), and some accruals.

This item also includes funds held on behalf of certain Nations corresponding to their share of former NAMSA (now NSPA) staff members' validation costs, which date back to the date when the DBPS was established. By that time, staff who decided to transfer from the Provident Fund had to return the value of their accounts to the DBPS. The related holdings were returned to the Nations but certain Nations decided to keep the funds in the DBPS accounts. The total amount of 58,980.38EUR remained unchanged in 2023.

NOTE 12: NET ASSETS AVAILABLE FOR BENEFITS

The net assets available for benefits at year-end correspond essentially to the surplus or deficit linked to the budgetary process, the inward transfer of pension rights and credit for past service by staff. As explained in the introductory note on the funding of the DBPS, contrary to most, if not all, of the other Coordinated Organizations, NATO has not set aside funds to be invested to fund future costs and, therefore, NATO's funding of the Coordinated Pension Scheme is on a pay-as-you-go basis.

(amounts in EUR)	2023	2022
Credits for Past Services	11,200.33	22,152.85
Pensions Rights transferred to DBPS	42,426,534.54	42,426,534.54
Accumulated Surplus at End of Year	-2,672,165.96	-1,019,586.35
Total	39,765,568.91	41,429,101.04

The deficit at year-end is the difference between the final approved pension budgets and actual amounts required to ensure the payment of benefits due for the period covered by these financial statements.

The deficit is taken into account, as an additional funding requirement, in the assessment of the net contributions to be called from member Nations for the budgets of the second year after the

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reporting period (the deficit at the end of 2023 will be called to Nations with the call for the 2025 budget to be issued end 2024).

NOTE 13: INTERESTS EARNED AND BANK COSTS

This corresponds to expenses and revenues related to financial operations, interests earned on cash holdings and bank charges paid on transactions.

The table below provides an overview of these costs and revenues over the last two consecutive years:

(amounts in EUR)	2023	2022
Bank Charges	135,958.45	160,181.96
Financial Income	2,514,813.55	118,459.23

NOTE 14: INWARD TRANSFER OF PENSION RIGHTS FROM PENSION SYSTEMS

The NATO Civilian Personnel Regulations (Annex IV, Article 12) provide that staff may, under certain circumstances, arrange for payment to the Organization of any amounts corresponding to the retirement pension rights accrued under the pension scheme to which the staff member was previously affiliated as far as that scheme allows such a transfer. Agreements can be signed with other pension systems to establish the conditions under which such transfers apply to staff in given conditions.

Until the end of 2022, the DBPS received EUR 42,426,534.54 of inward transfers.

No inward transfers occurred during 2023 leaving the accumulated balance unchanged.

In consideration of the fact that these inward transfers of rights are evaluated at the actuarial value of future benefits due to the concerned staff, the corresponding amounts have been considered as a net asset available for future benefits. They have also been included in the actuarial value of the future obligation of the NATO DBPS.

The Budget Committee approved, per BC-DS(2011)0055, that the related budgetary receipts be applied not as a lump sum to the current year but rather spread over time and should offset expenses when they occur.

NOTE 15: OTHER INCREASES IN NET ASSETS

This corresponds mainly to realized exchange gains and other miscellaneous revenues.

NOTE 16: OTHER DECREASES IN NET ASSETS

This corresponds mainly to realized exchange losses and other miscellaneous expenses.

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NOTE 17: PENSION BENEFITS

The table below provides a breakdown of payments according to the nature of pensions paid in 2023 per budget:

(amounts in EUR)	Civil	Military	Total
Retirement Pensions	42,161,152.46	123,951,820.81	166,112,973.27
Survivor's Pensions	6,500,510.43	22,868,827.99	29,369,338.42
Orphan Pensions	116,881.23	520,389.01	637,270.24
Invalidity Pension	5,233,006.37	14,479,185.72	19,712,192.09
Family Allowance	2,281,787.93	7,680,814.97	9,962,602.90
Total Pension Benefits	56,293,338.42	169,501,038.50	225,794,376.92

NOTE 18: CONTINGENT ASSETS

Nothing to report.

NOTE 19: CONTINGENT LIABILITIES

There are no material contingent liabilities arising from legal actions and claims that are likely to result in significant liability to the NATO DBPS.

NOTE 20: SEGMENT INFORMATION

Although there are only two main sources of funding (Civil Budget and Military Budgets), each of the NATO bodies has its own individual funding cost share which is taken into account when calculating the final contributions for each individual country.

Segment information is developed in the following tables to show income and expenditure by NATO body (i.e. the NATO body that was the last employer of the retired staff member on the expense side, and the NATO body that is currently employing the contributing staff member on the revenue side).

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SEGMENT TABLE NATO BODIES 2023 (1/2)	ACO-ACT	ACO-ACT (16N)	ACO-ACT (17N)	BGOH (2N)	BGOH (8N)	BGOH (9N)	CEPMA (6N)	CEPMA (7N)	CEPMA (8N)	Ex NACISA (14N)	IMS
PAYMENTS / PAIEMENTS											
Retirement Pension / Pension d'Ancienneté	28,688,539.53	21,883,085.75	289,259.04	393,197.64	40,558.10	979,708.30	25,013.98	185,166.70	1,547,456.74	743,700.74	5,892,331.43
Survivor Pension / Pension de Survie	7,717,087.22	2,993,542.98	0.00	38,617.73	11,022.95	525,541.98	1,511.85	3,671.64	780,533.23	674,915.10	616,186.46
Orphans Pension / Pension d'Orphelins	102,115.13	36,204.12	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Invalidity Pension / Pension d'Invalidité	2,144,498.07	5,138,926.05	0.00	105,310.84	6,745.92	178,366.42	37,083.11	7,595.34	88,470.91	36,507.61	706,048.04
Family Allowance / Allocations Familiales	1,606,274.44	1,706,994.75	11,742.93	37,538.25	2,769.73	49,873.21	1,819.55	10,662.93	83,283.14	36,634.75	294,564.31
Leaving Allowance / Allocations de Départ	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Validation Costs Paid / Coûts de Validation payés	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Miscellaneous / Divers	79,794.35	62,947.41	596.60	1,141.00	121.10	3,435.86	129.68	410.48	4,954.62	2,956.74	14,883.46
Total Payments / Paiements	40,338,308.74	31,821,701.08	301,598.57	576,805.46	61,217.80	1,736,925.77	65,558.17	207,507.09	2,504,688.64	1,494,715.14	7,524,013.70
RECEIPTS / RECETTES											
Staff Contributions / Contributions des Agents	1,928,553.63	1,486,463.41	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	582,659.76
Employer Contributions / Contributions de l'Employeur	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	193,275.72
Validation Costs Received / Coûts de Validation reçus	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interests, Profit & Loss / Intérêts, Pertes & Profits	322,318.16	248,431.66	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	129,681.69
Miscellaneous / Divers	-2,663.31	-2,052.79	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-1,071.56
Contributions due by Staff Center	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Receipts / Recettes	2,248,208.48	1,732,842.47	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	904,545.61
Funding Requirement / Besoin de financement	38,090,100.26	30,088,858.58	301,598.57	576,805.46	61,217.80	1,736,925.77	65,558.17	207,507.09	2,504,688.64	1,494,715.14	6,619,468.09

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SEGMENT TABLE NATO BODIES 2023 (2/2)	IS	NAHEMA (5N)	NAMEADSMA (2N)	NAMMA (3N)	NAPMA (16N)	NCIA	NEFMA (4N)	NETMA (4N)	NSPA	Total
PAYMENTS / PAIEMENTS										
Retirement Pension / Pension d'ancienneté	42,161,152.46	74,891.64	0.00	34,909.19	2,417,243.70	28,963,089.89	69,434.28	762,314.28	30,961,919.88	168,112,973.27
Survivor Pension / Pension de Survie	6,500,510.43	0.00	0.00	45,563.28	674,295.23	3,031,006.57	167,557.32	277,997.76	5,309,776.69	29,369,338.42
Orphans Pension / Pension d'Orphelins	116,881.23	0.00	0.00	0.00	0.00	161,511.14	0.00	18,984.84	201,573.78	637,270.24
Invalidity Pension / Pension d'invalidité	5,233,006.37	0.00	0.00	0.00	481,762.48	1,685,015.57	63,353.76	190,149.18	3,608,362.22	19,712,192.09
Family Allowance / Allocations Familiales	2,281,787.93	4,670.28	0.00	3,075.94	176,774.66	1,844,095.73	-306.95	44,507.76	1,765,839.56	9,962,602.90
Leaving Allowance / Allocations de Départ	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Validation Costs Paid / Coûts de Validation payés	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Miscellaneous / Divers	111,576.16	157.70	0.00	165.60	7,432.81	70,728.86	594.69	2,564.68	82,943.74	447,535.53
Total Payments / Paiements	56,404,914.58	79,719.62	0.00	83,714.01	3,757,498.88	35,755,447.78	300,633.10	1,296,518.50	41,930,415.87	226,241,912.45
RECEIPTS / RECETTES										
Staff Contributions / Contributions des Agents	3,082,967.16	0.00	0.00	0.00	118,073.75	4,267,857.17	0.00	0.00	3,293,882.01	14,760,456.89
Employer Contributions / Contributions de l'Employeur	51,579.60	0.00	0.00	0.00	9,126.48	32,658.70	0.00	0.00	0.00	286,640.50
Validation Costs Received / Coûts de Validation reçus	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interests, Profit & Loss / Intérêts, Pertes & Profits	523,875.17	0.00	0.00	0.00	21,258.91	718,742.98	0.00	0.00	650,504.78	2,514,813.55
Miscellaneous / Divers	0.00	0.00	0.00	0.00	-175.66	-5,938.97	0.00	0.00	-4,548.82	-16,451.11
Contributions due by Staff Center	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Receipts / Recettes	3,658,421.93	0.00	0.00	0.00	148,283.48	5,013,319.88	0.00	0.00	3,839,837.98	17,545,458.83
Funding Requirement / Besoin de financement	52,746,492.65	79,719.62	0.00	83,714.01	3,609,215.41	30,742,127.89	300,633.10	1,296,518.50	38,090,577.89	208,696,452.62

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NOTE 21: BUDGET EXECUTION

Presently the NATO DBPS budgets are not made available to the public. The following table compares approved budgets and actuals:

Budget Execution 2023

(amounts in EUR)	Initial Budget	Revised Budget	Actuals	Difference
	(a)	(b)	(c)	(b-c)
CIVIL BUDGET				
PAYMENTS / PAIEMENTS				
Retirement Pension / Pension d'ancienneté	40,160,240.00	42,466,668.00	42,161,152.46	305,515.54
Survivor Pension / Pension de Survie	6,694,558.00	6,457,043.00	6,500,510.43	-43,467.43
Orphans Pension / Pension d'Orphelins	87,925.00	123,732.00	116,881.23	6,850.77
Invalidity Pension / Pension d'invalidité	5,564,336.00	5,332,195.00	5,233,006.37	99,188.63
Family Allowance / Allocations Familiales	2,174,269.00	2,305,657.00	2,281,787.93	23,869.07
Leaving Allowance / Allocations de Départ	0.00	0.00	0.00	0.00
Validation Costs Paid / Coûts de Validation payés	0.00	0.00	0.00	0.00
Miscellaneous / Divers	0.00	0.00	111,576.16	-111,576.16
Total Payments / Paiements	\$4,681,328.00	\$6,685,295.00	\$6,404,914.58	280,380.42
RECEIPTS / RECETTES				
Staff Contributions / Contributions des Agents	2,270,134.00	3,305,486.00	3,082,967.16	222,518.84
Employer Contributions / Contributions de l'Employeur	31,924.00	53,373.00	51,579.60	1,793.40
Validation Costs Received / Coûts de Validation reçus	0.00	0.00	0.00	0.00
Interests, Profit & Loss / Intérêts, Pertes & Profits	0.00	0.00	523,875.17	-523,875.17
Miscellaneous / Divers	0.00	0.00	0.00	0.00
Contributions due by Staff Center	0.00	0.00	0.00	0.00
Total Receipts / Recettes	2,302,058.00	3,358,859.00	3,658,421.93	-299,562.93
Funding Requirement / Besoin de financement	\$2,379,270.00	\$3,326,436.00	\$2,746,492.65	\$79,943.35
MILITARY BUDGETS				
PAYMENTS / PAIEMENTS				
Retirement Pension / Pension d'ancienneté	120,000,000.00	120,000,000.00	123,951,820.81	-3,951,820.81
Survivor Pension / Pension de Survie	20,900,000.00	20,900,000.00	22,868,827.99	-1,968,827.99
Orphans Pension / Pension d'Orphelins	625,000.00	625,000.00	520,369.01	104,610.99
Invalidity Pension / Pension d'invalidité	15,170,000.00	15,170,000.00	14,479,165.72	690,814.28
Family Allowance / Allocations Familiales	7,305,000.00	7,305,000.00	7,680,814.97	-375,814.97
Leaving Allowance / Allocations de Départ	0.00	0.00	0.00	0.00
Validation Costs Paid / Coûts de Validation payés	0.00	0.00	0.00	0.00
Miscellaneous / Divers	350,000.00	350,000.00	335,959.37	14,040.63
Total Payments / Paiements	164,350,000.00	164,350,000.00	169,836,997.87	-5,486,997.87
RECEIPTS / RECETTES				
Staff Contributions / Contributions des Agents	11,343,000.00	11,343,000.00	11,677,489.73	-334,489.73
Employer Contributions / Contributions de l'Employeur	157,000.00	157,000.00	235,060.90	-78,060.90
Validation Costs Received / Coûts de Validation reçus	0.00	0.00	0.00	0.00
Interests, Profit & Loss / Intérêts, Pertes & Profits	0.00	0.00	1,990,938.38	-1,990,938.38
Miscellaneous / Divers	0.00	0.00	-16,451.11	16,451.11
Total Receipts / Recettes	11,500,000.00	11,500,000.00	13,887,037.90	-2,387,037.90
Funding Requirement / Besoin de financement	152,850,000.00	152,850,000.00	155,949,959.97	-3,099,959.97
TOTAL CIVIL + MILITARY BUDGETS				
TOTAL Funding Requirement	205,229,270.00	206,176,436.00	208,696,452.62	-2,520,016.62

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Miscellaneous payments and receipts are financial and miscellaneous expenses and revenues linked to the payment of pension benefits and to the receipt of pension contributions. Examples of these costs/revenues are:

TYPES OF DBPS FINANCIAL AND MISCELLANEOUS REVENUES/EXPENSES	
FINANCIAL	Realized exchange gains and losses
	Bank interests and charges
	Rounding differences (minor)
	Payment differences (minor)
MISCELLANEOUS	General admin support expenses
	Miscellaneous income

These miscellaneous expenses and revenues are allocated between civil and military budgets following the proportion of civil and military payments and receipts in the total amounts.

Only the expenses (whether from civil or military budget) incur financial and miscellaneous revenues and costs. For this reason, all revenues/costs have been dispatched on the payments, except for the realized exchange gains and losses. Those are prorated separately because they also regard the military budget receipts (agency contributions received in currency). No revenue/cost is prorated on civil budget receipts because all contributions are received in euros.

The chart below shows details of these proratas:

	Result to split	Payments		Receipts	
		CIV	MIL	CIV	MIL
		56,293,338.42	169,501,038.50	3,134,546.76	11,912,550.63
Prorata 1		25%	75%		
Realized financial non-exchange and miscellaneous costs	135,715.79	33,835.63	101,880.16		
Prorata 2		24%	71%		5%
Realized financial exchange costs	328,270.85	77,740.53	234,079.21		16,451.11
Prorata 3				21%	79%
Realized financial income	2,514,813.55			523,875.17	1,990,938.38
Totals		111,576.16	335,959.37	523,875.17	1,974,487.27

The "actual amounts" referred to by IPSAS 24 ("amounts that result from execution of the budget") are considered to be the commitment of credits. In the case of the NATO DBPS, there are no differences between the budget and accounting bases. The notion of commitments used for the NATO DBPS budget execution corresponds to expenses incurred during the course of the year. In this respect, the NATO DBPS budget should be considered as prepared and executed on an accrual basis. There are no timing or entity differences.

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The table below provides comparative data about the approved budgets and revised budgets for the two last consecutive years:

(amounts in EUR)	2023		2022	
	CIV	MIL	CIV	MIL
Budget called in Y-1	49,775,400.00	152,850,000.00	45,215,700.00	144,670,000.00
	202,625,400.00		189,885,700.00	
Regularization in Y	3,551,036.00	0.00	3,158,300.00	0.00
	3,551,036.00		3,158,300.00	
Revised budget in Y	53,326,436.00	152,850,000.00	48,374,000.00	144,670,000.00
	206,176,436.00		193,044,000.00	

The difference between approved budgets and actuals for both the Civil Budget and the Military Budgets mainly concern the following items: invalidity pensions and staff contributions. Invalidity pensions do not follow regular evolution paths and prove to be more difficult to anticipate. Newly recruited staff are automatically members of the DCPS. Consequently, the number of staff contributing to the NATO DBPS is declining. The impact of this trend has proven difficult to forecast. Approved budgets are based on a principle of prudence and therefore there is a tendency to underestimate revenue.

NOTE 22: RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT PERSONNEL

During 2023, there have been the following related party transactions:

Administrative Expenses

Administrative expenses in relation to the NATO DBPS are not recognized in these financial statements, the management of all pension schemes is performed by NATO IS.

NATO's contribution towards the annual administrative costs of the International Service for Remunerations and Pensions (ISRP which took over, among others, the activities of the former Joint Pensions Administrative Section) paid to the OECD in 2023 was EUR 120,355.22.

These administrative expenses are charged to the NATO Civil Budget, which includes the IS. In the framework of the Human Resource Shared Services process applied by NATO IS to all of the other NATO bodies to which such kind of services are provided, NATO-IS charges these expenses to the other individual NATO bodies in proportion to the number of NATO established posts. The related income is returned to NATO member Nations as a deduction to the Civil Budget contributions called from them.

Key Management Personnel

For the purposes of these financial statements, Key Management Personnel are considered to be the NATO-IS Assistant Secretary General for Executive Management and the Financial Controller. Their remuneration is totally covered by the NATO International Staff.

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NOTE 23: STATISTICAL INFORMATION

The following table provides information concerning the number of beneficiaries in the NATO Coordinated Pension Scheme.

Year	Retirement Pensions	Survivor and Reversion Pensions	Orphan's and Dependant's Pensions	Invalidity Pensions	Total
1995	830	330	88	155	1,403
1996	878	340	91	168	1,477
1997	926	374	97	188	1,585
1998	967	395	98	202	1,662
1999	1,020	409	104	224	1,757
2000	1,096	424	96	229	1,845
2001	1,134	432	102	248	1,916
2002	1,187	448	98	275	2,008
2003	1,243	461	103	293	2,100
2004	1,344	479	96	313	2,232
2005	1,417	500	99	336	2,352
2006	1,469	515	96	379	2,459
2007	1,548	515	90	406	2,559
2008	1,629	523	77	419	2,648
2009	1,715	537	79	452	2,783
2010	1,838	543	71	472	2,924
2011	1,950	561	68	480	3,059
2012	2,023	592	72	480	3,167
2013	2,149	609	64	491	3,313
2014	2,272	624	59	470	3,425
2015	2,380	652	58	459	3,549
2016	2,589	665	65	439	3,758
2017	2,665	684	58	436	3,843
2018	2,759	699	53	432	3,943
2019	2,863	699	41	414	4,017
2020	2,940	717	37	412	4,106
2021	3,024	731	37	389	4,181
2022	3,103	748	46	381	4,278
2023	3,192	770	44	358	4,364

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List of acronyms:

BICES:	Battlefield Information Collection and Exploitation Systems Agency
CPR:	Civilian Personnel Regulations
DCPS:	Defined Contribution Pension Scheme
DBPS:	Defined Benefit Pension Scheme
FORACS:	NATO Naval Forces Sensor and Weapons Accuracy Check Sites
IPSAS:	International Public Sector Accounting Standards
IS:	International Staff
ISRP:	International Service for Remunerations and Pensions
MSIAC:	Munitions Safety Information Analysis Centre
NAGSMOIL:	NATO Alliance Ground Surveillance Management Organization in Liquidation
NHQPO	New Headquarters Program Office
NSPA:	NATO Support Agency
OECD:	Organization for Economic Co-operation and Development
OFC:	Office of Financial Control

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NATO FORACS OFFICE

FINANCIAL STATEMENTS Financial Year 2023

Annexes:

- 1 Statement of Financial Position
- 2 Statement of Financial Performance
- 3 Statement of Cash Flow
- 4 Statement of Changes in Net Assets/Equity
- 5 Statement of Budget Execution
- 6 Explanatory Notes to the Financial Statements



Michael MAGAN
Project Manager FORACS



Mirosława BORYCZKA
Financial Controller NATO-IS

NATO FORACS OFFICE

Statement of Financial Position

As at 31 December 2023

(in EUR)

	Notes	Current Year	Prior Year
		2023	2022
Assets			
Current assets			
Cash and cash equivalents	(3)	6,768,420.34	5,768,155.76
Short term investments	(4)	0.00	0.00
Receivables	(5)	681,632.29	1,350,893.21
Prepayments	(6)	1,999,656.92	1,927,837.78
Other current assets	(7)	43,532.96	15,087.94
Inventories	(8)		
		9,493,242.51	9,061,974.69
Non-current assets			
Receivables			
Property, plant & equipment			
Intangible assets	(9)	1,937,750.85	2,025,030.00
		1,937,750.85	2,025,030.00
Total assets		11,430,993.36	11,087,004.69
Liabilities			
Current liabilities			
Payables	(10)	281,891.70	139,536.79
Deferred revenue	(11)	854,691.06	251,269.24
Advances	(12)	6,321,122.90	6,087,801.53
Provisions	(13)	0.00	0.00
Other current liabilities	(14)	1,776,195.52	1,544,653.08
		9,233,901.18	8,023,260.64
Non-current liabilities			
Provisions		0.00	0.00
Deferred revenue	(15)	1,937,750.85	2,025,030.00
Other non-current liabilities			
		1,937,750.85	2,025,030.00
Total liabilities		11,171,652.03	10,048,290.64
Surplus/Deficit		0.00	0.00
Retained earnings	(16)	259,341.33	1,038,714.05
Reserves			
Total net assets		259,341.33	1,038,714.05

NATO FORACS OFFICE

Statement of Financial Performance

As at 31 December 2023

		(in EUR)	
	Notes	Current Year	Prior Year
		2023	2022
Revenue			
Non-Exchange Revenue		1,789,684.09	1,314,911.09
Exchange revenue		0.00	0.00
Financial revenue		1,649.11	672.03
Other revenue		4,002.26	6,248.28
Total revenue	(17)	1,795,335.46	1,321,831.40
Expenses			
Personnel		787,113.08	755,366.18
Contractual supplies and services		727,450.27	327,671.71
Depreciation and amortization		244,642.58	224,187.53
Impairment		0.00	0.00
Provisions		0.00	0.00
Other expenses		0.00	0.00
Finance costs		36,129.53	14,605.98
Total expenses	(18)	1,795,335.46	1,321,831.40
Surplus/(Deficit) for the period		0.00	0.00

NATO FORACS OFFICE
Statement of Cash Flow

As at 31 December 2023

(in EUR)

	Notes	Current Year 2023	Prior Year 2022
Cash flow from operating activities			
Surplus/(Deficit)		0.00	0.00
Non-cash movements			
Depreciation/ Amortisation		244,642.58	224,187.53
Impairment		0.00	0.00
Use of Cash Reserves		-779,372.72	452,391.53
Increase /(decrease) in payables		142,354.91	-70,366.40
Increase/ (decrease) in deferred revenue, advances and other current liabilities		1,068,285.63	71,005.73
Increase/ (decrease) in provisions		0.00	0.00
Increase/ (decrease) in other non current liabilities		-87,279.15	339,448.36
(Gains)/losses on sale of property, plant and equipment		0.00	0.00
Decrease/ (Increase) in prepayments and other current assets		-100,264.16	-517,200.59
Decrease/ (Increase) in receivables		669,260.92	-538,204.55
Net cash flow from operating activities		1,157,628.01	-38,738.39
Cash flow from investing activities			
Purchase of property plant and equipment / Intangible assets		-157,363.43	-191,224.80
Proceeds from sale of property plant and equipment		0.00	0.00
Net cash flow from investing activities		-157,363.43	-191,224.80
Cash flow from financing activities			
Decrease/ (Increase) Deposit		0.00	0.00
Net cash flow from financing activities		0.00	0.00
Net increase/(decrease) in cash and cash equivalents		1,000,264.58	-229,963.19
Cash and cash equivalent at the beginning of the period			
		5,768,155.76	5,998,118.95
Cash and cash equivalent at the end of the period			
		6,768,420.34	5,768,155.76

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NATO FORACS OFFICE
Statement of Changes in Net Assets/Equity

As at 31 December 2023

(in EUR)

Balance at the beginning of the period 2022	<u>(586,322.52)</u>
Changes in accounting policy	
Restated balance	
Net (gains)/losses recognised directly in net assets/equity	
Exchange difference on translating foreign operations	
Use of cash Reserves	(452,391.53)
Gain on property revaluation	
Surplus/(deficit) for the period	
Change in net assets/equity for the year ended 2022	<u>(1,038,714.05)</u>
Balance at the beginning of the period 2023	<u>(1,038,714.05)</u>
Changes in accounting policy	
Restated balance	
Net (gains)/losses recognised directly in net assets/equity	
Exchange difference on translating foreign operations	
Use of cash Reserves	779,372.72
Gain on property revaluation	
Surplus/(deficit) for the period	
Change in net assets/equity for the year ended 2023	<u>(259,341.33)</u>

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NATO FORACS OFFICE
Statement of Budget Execution
As at 31 December 2023

(Amounts in EUR)	Initial budget	Budget increase	BA2	Budget Revision	BA3	Transfers	Final budget	Expenses	Carry forward	Lapsed
Budget 2023										
Chapter 1	771,000	-	771,000	-	771,000	16,120	787,120	787,113	-	7
Chapter 2	424,511	-	424,511	567,144	991,655	(16,120)	975,535	421,121	8,657	545,757
Chapter 3	58,905	-	58,905	1,532,246	1,591,151	-	1,591,151	219,341	846,035	525,775
Chapter 4	-	-	-	-	-	-	-	-	-	-
Total	1,254,416	-	1,254,416	2,099,390	3,353,806	-	3,353,806	1,427,575	854,692	1,071,539
Budget 2022										
Chapter 1	-	-	-	-	-	-	-	-	-	-
Chapter 2	143,144	-	143,144	-	143,144	-	143,144	140,465	-	2,678
Chapter 3	108,125	-	108,125	-	108,125	-	108,125	103,886	-	4,239
Chapter 4	-	-	-	-	-	-	-	-	-	-
Total	251,269	-	251,269	-	251,269	-	251,269	244,352	-	6,917
Budget 2021										
Chapter 1	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-	-
Total All Budgets	1,505,685	-	1,505,685	2,099,390	3,605,075	-	3,605,075	1,671,927	854,692	1,078,456

EXPLANATORY NOTES TO NATO FORACS OFFICE 2023 FINANCIAL STATEMENTS

NOTE 1: GENERAL INFORMATION

NATO FORACS' mission is to maximise the lethality, operational readiness and interoperability of NATO maritime forces through comprehensive calibration of sensor, weapon, combat, communication, and navigation systems to clearly defined accuracy and performance standards in order to support the verification and restoration of optimal Operational Capability (OC) and interoperability, the provision of near real-time OC assurance to Alliance and National Command Chains and the validation of new and upgraded maritime platforms and capabilities.

The NATO FORACS Memorandum of Understanding was signed in 1974 by seven NATO nations: Denmark, Germany, Greece, Italy, Norway, the United Kingdom and the United States. In September 1994, Canada became the eighth signatory. Collectively the eight nations are referred to as the Member Nations.

Three NATO FORACS (Naval Forces Sensor and Weapons Accuracy Check Sites) test Ranges were authorized under the management of a NATO FORACS Steering Committee (NFSC).

NATO FORACS Office (NFO) was established at NATO Headquarters in January 1977. This office provides technical direction for the project, quality control over test procedures, and maintains a data bank of test results for national summary reports.

NATO FORACS Norway (NFN) began routine testing in 1978.

NATO FORACS Greece (NFG) was opened for routine operation in 1985.

In 1994 the US FORACS range at AUTEC (Atlantic Underwater Test and Evaluation Center) became an affiliated NATO FORACS test range called NATO FORACS AUTEC (NFA).

Member Nations maintain oversight of the project through the NATO FORACS Steering Committee. The Steering Committee executes its responsibility through an executive Project Manager at the NFO in Brussels.

Normal operations and maintenance of NATO FORACS activities are funded by the Member Nations on a cost-sharing basis. Non-member nations utilize the resources and capabilities based on a calculated 'day rate' for services. Fixed facilities and capital costs are commonly funded through the NATO Security Investment Programme (NSIP). NATO International Staff Office of Financial Control provides accounting and budgeting for the NFO and handles annual calls to Member Nations to fund operations for the Project.

These financial statements relate only to the NFO. The three NATO FORACS Ranges (NFA, NFG and NFN, referred to also as the Ranges) are responsible for executing their own budgets and issuing their own financial statements under their national budgeting and financial rules.

NATO FORACS conducts tests for Alliance nations in response to NATO's tasking to provide mission capable platforms. This testing also supports Nation's acquisition and upgrade programmes testing ship, submarine and maritime aircraft. Having systems in ships, submarines and maritime aircraft

aligned and calibrated to the same common reference and to clearly defined accuracy standards aligns with the Connected Forces Initiative and improves interoperability of maritime systems within and between nations.

The NATO FORACS Project continues to demonstrate a quality management culture based on ISO 9001:2015 and on 22 Dec 2023 achieved recertification for a further three years.

NOTE 2: ACCOUNTING POLICIES

NFO applies the NATO IS Accounting Policies which have been published through ON(2021)0079 and updated through FC(CAF)(2023)0001.

Declaration of Conformity

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

Basis of Preparation

These financial statements relate to the NATO FORACS Office (NFO). They also include transactions with the Ranges only in as much as they relate to the calls for contribution process of their respective budgets and therefore concerns cash, short term investments, receivables, payables, advances, and the Ranges' other current liabilities to the IS OFC on behalf of the NFO. Funds are called from Member Nations; receivables are recorded; funds are transferred to the Ranges upon request of the Range Managers. Cash and cash equivalents are held on separate bank accounts controlled by the IS Office of Financial Control. None of the ensuing financial transactions of the Ranges (commitments, expenses, payments, etc.) are disclosed in these financial statements since they are executed under the exclusive authority and responsibility of the Ranges in accordance with their respective national regulations. The NFO plays no role in this respect.

All budget related decisions are taken by the NATO FORACS Steering Committee, not by the NFO. The latter has no financial authority over the Ranges, which operate under national regulations for all aspects of their management (budget execution, procurement, human resources, health and safety, financial reporting, external audit, etc.). The NFO holds an executive management function but does not exercise any power over the Ranges and it does not have rights over their surpluses or assets, neither can it be considered liable for their obligations. As a consequence, the NFO exercises no control over the Ranges for financial reporting purposes and therefore its financial statements are not consolidated with those of the Ranges.

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

The financial year is from 1 January to 31 December.

The amounts shown in these financial statements are presented in EUR.

NATO FORACS applied IPSAS 9 Revenue from exchange transactions and IPSAS 23 Revenue from non-exchange transactions.

The following IPSAS have no material effect on the 2023 NFO financial statements:

- IPSAS 5: Borrowing Costs
- IPSAS 7: Investments in Associates.
- IPSAS 8: Interests in Joint Ventures
- IPSAS 10: Financial Reporting in Hyperinflationary Economies
- IPSAS 11: Construction Contracts
- IPSAS 16: Investment Property
- IPSAS 21: Impairment of non-cash generating assets
- IPSAS 26: Impairment of Cash-Generating Assets
- IPSAS 27: Agriculture
- IPSAS 32: Service Concession Arrangements: Grantor

Changes in accounting policy

The accounting policy has been aligned with the NATO Civilian Personnel Regulations with regards to annual leave that is not taken.

The NATO Civilian Personnel Regulations (NCPRs) stipulate in article 42.3.3 that no compensation is paid for annual leave not taken. Only in exceptional cases, determined by the Head of the NATO body, payment in lieu may be authorized. Hence no provision is considered by NATO-IS Group Entities.

Restatement of Financial Statements of Previous Years

Integrated Data Acquisition and Test System version X (IDATSvX) achieved Initial Operational Capability (IOC) on 1 September 2021 and entered into service. Additionally, all services to improve and enhance IDATSvX provided by NCIA since September 2018 have been capitalized. As a consequence, EUR 616,404.93 (EUR 425,180.13 from 2018 to 2021 and EUR 191,224.80 for 2022) has been capitalized. The accumulated amortization amounts to EUR 276,956.57 (EUR 52,769.04 for 2021 and EUR 224,187.53 for 2022) which results in a net increase of EUR 339,448.36 in Non-current Assets and Liabilities.

Below tables provide an overview of the impact on the 2022 restated Statement of Financial Position and Statement of Financial Performance for comparative purposes:

	Notes	2022 REPORTED	2022 RESTATED	IMPACT
Assets				
Current assets				
Cash and cash equivalents	(3)	5,768,155.76	5,768,155.76	0.00
Short term investments	(4)	0.00	0.00	0.00
Receivables	(5)	1,350,893.21	1,350,893.21	0.00
Prepayments	(6)	1,927,837.78	1,927,837.78	0.00
Other current assets	(7)	15,087.94	15,087.94	0.00
Inventories	(8)			0.00
		9,061,974.69	9,061,974.69	0.00
Non-current assets				
Receivables				0.00
Property, plant & equipment				0.00
Intangible assets	(9)	1,685,581.64	2,025,030.00	339,448.36
		1,685,581.64	2,025,030.00	339,448.36
Total assets		10,747,556.33	11,087,004.69	339,448.36
Liabilities				
Current liabilities				
Payables	(10)	139,536.79	139,536.79	0.00
Deferred revenue	(11)	251,269.24	251,269.24	0.00
Advances	(12)	6,087,801.53	6,087,801.53	0.00
Provisions	(13)	0.00	0.00	0.00
Other current liabilities	(14)	1,544,653.08	1,544,653.08	0.00
		8,023,260.64	8,023,260.64	0.00
Non-current liabilities				
Provisions				
Deferred revenue	(15)	1,685,581.64	2,025,030.00	339,448.36
Other non-current liabilities				
		1,685,581.64	2,025,030.00	339,448.36
Total liabilities		9,708,842.28	10,048,290.64	339,448.36

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	Notes	2022 REPORTED	2022 RESTATED	IMPACT
Revenue				
Non-Exchange Revenue		1,281,948.36	1,314,911.09	32,962.73
Exchange revenue		0.00	0.00	0.00
Financial revenue		672.03	672.03	0.00
Other revenue		6,248.28	6,248.28	0.00
Total revenue	(17)	1,288,868.67	1,321,831.40	32,962.73
Expenses				
Personnel		755,366.18	755,366.18	0.00
Contractual supplies and services		518,896.51	327,671.71	-191,224.80
Depreciation and amortization		0.00	224,187.53	224,187.53
Impairment		0.00	0.00	0.00
Provisions		0.00	0.00	0.00
Other expenses		0.00	0.00	0.00
Finance costs		14,605.98	14,605.98	0.00
Total expenses	(18)	1,288,868.67	1,321,831.40	32,962.73
Surplus/(Deficit) for the period		0.00	0.00	0.00

Reclassification of Financial Statements of Previous Years

None.

Use of Estimates

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

Foreign Currency Transactions

The NFO's budget is authorized and managed in EUR so the contribution call is made in EUR. Foreign currency transactions as required are accounted for at the NATO exchange rates prevailing on the date of the transactions. Monetary assets and liabilities at year-end which were denominated in foreign currencies were converted into EUR using the NATO foreign currency exchange rates as of 31 December 2023.

Realised and unrealised 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 recognised in the Statement of Financial Performance.

NFO does not have any unrealised gains or losses resulting from the translation of statements.

Financial Risks

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

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

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

a. Foreign currency exchange risk

The exposure to foreign currency risk is limited as the vast majority of NFO's expenditures are made in EUR, the currency of its budget. The current bank account is held in EUR.

b. Credit risk

NFO incurs credit risks from cash and cash equivalent held with banks and from receivables.

The maximum exposure as at year-end is equal to the total amount of bank balances, short term deposits and receivables. There is very limited credit risk associated with the realization of these elements.

Concerning cash and cash equivalent NFO credit risk is managed by holding current bank accounts and short term highly liquid deposits that are readily convertible to a known amount of cash held with ING Bank (Belgium) which has the following short term credit ratings:

BANK NAME	COUNTRY OF HQ	SHORT TERM RATINGS					
		FITCH		S&P GLOBAL		MOODY'S	
ING BANK	Netherlands	F1+	13-Jul-23	A-1	23-Jun-23	P-1	28-Nov-23

The NFO outstanding accounts receivable are managed by maintaining control procedures over receivables. All cash receivables are due from NATO member nations, which are considered credit worthy.

c. Liquidity risk

The liquidity risk, also referred to as funding risk, is based on the assessment as to whether the Organisation will encounter difficulties in meeting its obligations associated with financial liabilities. A liquidity risk could arise from a short term liquidity requirement. There is a very limited exposure to liquidity risk because of the funding mechanism which guarantees contributions in relation to the approved budgets. In addition, the NFO maintains an Operational Reserve. Some limited risk could be due to the inaccuracy of budget forecasts. However, past history shows that this process results in surpluses and since the budgetary rules provide for revised budgets, it also helps risk mitigation.

The NFO incurs a liquidity risk since it collects the budget contributions for the Ranges and sends to the Ranges the funds they require, sometimes in advance of the budget year. This transfers the liquidity risk from the Ranges to the NFO and could result in a liquidity issue if contributions from Participating Nations were late.

d. Interest rate risk

Except for certain cash and cash equivalent balances, NFO's financial assets and liabilities do not have associated interest rates. NFO is restricted from entering into borrowings and investments, and, therefore, there is an insignificant interest rate risk. Interest earned is not a budgetary resource but contributes to the surplus owed to Nations. In case of negative interest rates, these are added to the amounts called from Member Nations.

Current Assets

a. Cash and cash equivalents

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

b. Funds managed for third parties

Funds managed on behalf of third parties are held in cash and are presented as a liability. They are accounted for when cash is effectively received.

c. Receivables

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

Outstanding budget contributions concerning the Ranges are also recorded as Receivables.

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

d. Prepayments

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

e. Other Current Assets

Other Current Assets relate to miscellaneous amounts due to the NATO FORACS such as accrued interest. This item may include other assets that do not result from the standard order to cash process, such as miscellaneous transactions to be regularized between entities managed by the IS Office of Financial Control.

f. Inventories

As mentioned above, NATO's adaptations of IPSAS are spelled out in C-M(2016)0023 of April 2016, which included IPSAS 12 Inventories. Furthermore, C-M(2017)0043 of September 2017, approved the NATO Accounting Policy for Inventory.

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

Criteria that may indicate control of an asset:

- The act of purchasing the asset carried out (or resulted from instructions given) by the NATO Reporting Entity.
- The legal title is in the name of the NATO Reporting Entity.
- The asset is physically located on the premises or locations used by the NATO Reporting Entity.
- The asset is physically used by staff employed by the NATO Reporting Entity or staff working under the NATO Reporting Entity's instructions.
- The fact that the NATO Reporting Entity can decide on an alternative use of the asset.
- The fact that the NATO Reporting Entity can decide to sell or to dispose the asset.
- The fact that the NATO Reporting Entity, if it has to remove or destroy the asset, can take the decision to replace it.
- The fact that a representative of the NATO Reporting Entity regularly inspects the asset to determine its current condition.
- The fact that the asset is used in achieving the objectives of the NATO Reporting Entity.
- The fact that the asset will be retained by the NATO Reporting Entity at the end of the activity.

Capitalization thresholds relevant to the financial statement are as follow:

Category	Threshold	Basis
Consumables	€50,000	Per location/warehouse
Spare Parts	€50,000	Per location/warehouse
Ammunition	€50,000	Per location/warehouse
Strategic stocks	€50,000	Per location/warehouse

Slow moving inventory – Assuming turnover of stock is over a 12 month period, any items not used over a 36 month period will be deemed to be slow moving.

Strategic stock – Some complex elements of slow moving stock can be identified as strategic if they are deemed essential to the effective operation of an asset and cannot be readily replaced by commercial off the shelf items or cannot be purchased due to market decisions to close production lines of key inventory items due to the advanced age of the strategic asset to which the stock relates.

NFO capitalizes inventory which it controls in its financial statements. Where there is a conflict between more than one NATO Reporting Entity as to the control of inventory, only the end-user entity reports the inventory in its financial statements, based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities.

NFO includes transportation costs involved in bringing the inventories to their present location and condition in the initial valuation of inventory. These costs will be measured on the actual cost of transportation per item of inventory or by using an apportionment of the global transportation costs of bringing the inventories to their present location and condition across all inventory items in the period. Transportation costs involved in the subsequent movement of inventory which brings them into operational use will not be included in the value of inventory. The method of measuring these costs will be disclosed.

NFO considers inventory acquired prior to 1 January 2013 as fully expensed.

NFO assesses inventories under IPSAS 12. The outcome of this assessment is that the value of the inventories is immaterial both in value and in terms of the nature of the items held. Consequently, inventory is fully expensed on receipt. The materiality will be assessed each year.

In consideration of the above thresholds, the NFO currently has no inventory.

Non-Current Assets - Fixed Assets (Property, Plant & Equipment)

a. Property, Plant & Equipment

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

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

Capitalization thresholds relevant to the financial statement are as follow:

Category	Threshold	Depreciation Life	Method
Land	€200,000	N/A	N/A
Buildings	€200,000	40 years	Straight line
Other infrastructure	€200,000	40 years	Straight line
Installed equipment	€ 30,000	10 years	Straight line
Machinery	€ 30,000	10 years	Straight line
Vehicles	€ 10,000	5 years	Straight line
Aircraft	€200,000	Dependent on type	Straight line
Vessels	€200,000	Dependent on type	Straight line
Mission equipment	€ 50,000	3 years	Straight line
Furniture	€ 30,000	10 years	Straight line
Communications	€ 50,000	3 years	Straight line
Automated information systems	€ 50,000	3 years	Straight line

NFO considers PPE acquired prior to 1 January 2013 as fully expensed. However, existing accounting policies will continue to be applied for any PPE assets already capitalized prior to 1 January 2013. For PPE upgraded after 1 January 2013, only the portion related to the modification will be capitalized.

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

b. Intangible Assets

As mentioned above, NATO's adaptations of IPSAS are spelled out in C-M(2017)0023 of April 2013, which included IPSAS 31 Intangible Assets. Furthermore, C-M(2017)0044 approved the NATO accounting policy for intangible assets.

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

NATO Intangible Assets Capitalization Thresholds - the NATO FORACS will capitalize each intangible asset item above the following agreed NATO thresholds:

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

NATO FORACS capitalizes all controlled intangible assets above the NATO Intangible Asset Capitalization Threshold. For anything below the threshold, NATO FORACS will have the flexibility to expense specific items.

NATO FORACS capitalizes integrated systems and include research, development, implementation and can include both software and hardware elements. But NATO FORACS will not capitalize the following types of intangible assets in their financial statements:

- rights of use(air, land and water);
- landing rights;
- airport gates and slots;
- historical documents; and,
- publications

NATO FORACS capitalizes other types of intangible assets acquired after 1 January 2013 including:

- Copyright
- Intellectual Property Rights
- Software development

NATO FORACS considers Intangible Assets acquired prior to 1 January 2013 as fully expensed.

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

NATO FORACS has no intangible assets acquired or held prior to 1 January 2013.

If an intangible asset is upgraded after 1 January 2013, only the portion related to the modification is capitalized.

Where this adaptation conflicts with another requirement of IPSAS this adaptation will apply. For the remainder, IPSAS 31 shall apply. This adaptation is effective for financial reporting periods beginning on 1 January 2013.

Current Liabilities

a. Payables

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

b. Advances and Deferred Revenue

Advances are contributions received related to future year's budgets. Advances include all advances linked to the budget process of the NFO and of the Ranges. This reflects the nature of the transactions since they result from the call for budgetary contributions process, handled by IS OFC, irrespective of the entity, and harmonises the approach between the NFO and the Ranges.

Deferred Revenue represents Participating Nations' contributions which have been called for current NFO budgets but that have not yet been recognised as revenue in the absence of any related budgetary expenses.

c. Other Current Liabilities

Amounts corresponding to the current year budgetary surplus of NFO, i.e. lapsed credits, net financial income and miscellaneous income, are considered a liability towards the Participating Nations. The settlement does not follow the normal accounts payable process, since the standard approach is to return them to Participating Nations via a deduction from the following year's call for budget contributions. This liability is therefore classified under Other Current Liabilities.

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

Non-Current Liabilities

The long term unearned revenue is unearned revenue in relation to net carrying amounts of Property, Plant and Equipment and Intangible Assets. Revenue is recognised over the estimated life cycle of the Property, Plant and Equipment and The Intangible Assets.

Net Assets

Net Assets correspond to NATO FORACS' Project Accumulated Surplus. Project Accumulated Surplus relates to funds resulting from past years contributions by NATO FORACS' Member Nations in excess of budget execution that the Steering Committee decided not to redistribute to the Member Nations but keep for the needs of NATO FORACS as an operational reserve. It is held at the direction of the Steering Committee, with North Atlantic Council approval for the NFRs deviation.

Revenue Recognition

Revenue comprises contributions from NATO FORACS Member Nations and amounts due by beneficiaries of services provided by the NATO FORACS Ranges.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. The balance of unspent contributions and other revenues that relate to future periods are deferred accordingly.

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

Contributions to be called from Member Nations, based on the budget they approved, are initially recorded as unearned revenue liabilities. They are recognised as revenue in the statement of financial performance when such contributions are used for their intended purpose as envisioned in the approved Budget.

Transformational adjustments are made in calculating earned revenue and expenses in the Statement of Financial Performance.

Segment Reporting

A segment is a distinguishable activity or group of activities for which it is appropriate to separately report financial information. There is no segment in NFO. The Ranges are NATO FORACS components but are not NATO entities and do not form part of NFO, so cannot be considered as segments of NFO. Separate information concerning the Ranges is provided when appropriate, but this should not be considered as being done with the intent of complying with IPSAS 18 on Segment Reporting, which is not applicable in the case of these financial statements.

Statement of Financial Position**NOTE 3: CASH AND CASH EQUIVALENTS**

The current NFO bank accounts are held in EUR. Deposits (if any) are held in interest-bearing bank accounts, immediately available.

Overview of the cash and cash equivalents held by NATO FORACS:

Amounts in EUR

	2023	2022
NFO	3,461,794.86	2,928,148.85
TOTAL	3,461,794.86	2,928,148.85

Funds managed for third parties

The NATO-IS Office of Financial Control holds funds, in cash, contributed to the NFG, NFA and, NFN budgets. These bank accounts are controlled by the IS Office of Financial Control, in the context of the management of NATO FORACS financial operations, thus the closing balances are reported in the NFO's financial statements. Upon request of the Range Managers, funds are transferred to the respective Range accounts to enable the execution of Range budgets following their national rules.

The breakdown is as follows:

Amounts in EUR

	2023	2022
NFA	1,345,279.08	1,347,280.18
NFG	710,774.80	650,294.83
NFN	1,250,571.60	842,431.90
TOTAL	3,306,625.48	2,840,006.91

NOTE 4: SHORT TERM INVESTMENTS

The NFO does not hold short term investments as per 31 December 2023.

NOTE 5: ACCOUNTS RECEIVABLE

At the end of 2023 this position consists mostly of the receivable from lapsed Ranges' credits, being part of their yearly budgetary surplus.

Contributions receivable are funds requested from the Nations to finance the current and following year budgets of all the NATO FORACS components. There is normally only one call for contribution, issued during the summer period. As directed by the Steering Committee, the call includes approximately 20% of the current year's budget credits and an advance of approximately 80% for next financial year.

The amounts recorded as receivables represent the lapses of the Ranges reported in their respective Budget Execution Statements.

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The below table provides an overview of open receivables at year-end for two consecutive years:

Amounts in EUR

	2023	2022
Budgetary contributions	325.45	336,182.93
NATO Bodies	221.77	-
Ranges	681,085.07	1,014,710.28
TOTAL	681,632.29	1,350,893.21

NOTE 6: PREPAYMENTS

Advance payments are made to the Ranges based on their respective budgets for the following year in accordance with the process of centralisation of all budgetary calls under the NFO umbrella.

Prepayments to NFO staff (typically advances on salaries, advances on education allowances, travel expenses) are done in accordance with the NATO Civilian Personnel Regulations. As per end of 2023, prepayments to staff are only related to education allowances.

Below table gives the breakdown of the different prepayments for the last 2 consecutive years:

Amounts in EUR

	2023	2022
Prepayments to the Ranges	1,976,978.40	1,906,474.19
Prepayments to Suppliers	1,893.20	-
Prepayments to Staff	20,785.32	21,363.59
TOTAL	1,999,656.92	1,927,837.78

The advances made to the Ranges are broken down as follows:

Amounts in EUR

	2023	2022
NFA	807,211.14	808,913.00
NFG	425,873.40	390,180.00
NFN	743,893.86	707,381.19
TOTAL	1,976,978.40	1,906,474.19

NOTE 7: OTHER CURRENT ASSETS

This item includes only accrued financial revenue.

Amounts in EUR

	2023	2022
Accrued bank interest	43,532.96	15,087.94
TOTAL	43,532.96	15,087.94

NOTE 8: INVENTORIES

Nothing to report, inventories are not considered material.

NOTE 9: INTANGIBLE ASSETS

Integrated Data Acquisition and Test System version X (IDATSvX) achieved Initial Operational Capability (IOC) on 1 September 2021. Progress towards the formal acceptance trials required to declare Full Operational Capability (FOC) remains ongoing and is to be completed in early 2024.

IDATSvX has achieved sufficient maturity to support standard NATO FORACS testing at sea and has been accredited by NOS up to NC.

The below table provides an overview of the Intangible Assets carrying amount at the year-end.

(amounts in EUR)	Carrying Amount end 2021	Restated Carrying Amount end 2021	Additions	Disposals	Depreciation	Other Changes	Carrying Amount end 2022
Software	1,685,582	2,057,993	191,225		224,188		2,025,030
TOTAL FORACS	1,685,582	2,057,993	191,225	0	224,188	0	2,025,030

(amounts in EUR)	Carrying Amount end 2022	Additions	Disposals	Depreciation	Other Changes	Carrying Amount end 2023
Software	2,025,030	157,363		244,643		1,937,751
TOTAL FORACS	2,025,030	157,363	0	244,643	0	1,937,751

NOTE 10: PAYABLES

Payables and accrued expenses (accruals) are to commercial suppliers, staff, other NATO bodies, NATO FORACS Member Nations or other NATO FORACS entities.

Payable to suppliers relates to goods and services for which an invoice has been processed but for which payment was still pending at year-end. The invoices open in a currency different from the budget currency (EUR) has been revalued on 31 December 2023.

Accrued expenses (accruals) correspond to the estimated accrual obligation to third parties for goods and services received but not yet invoiced.

Below table provides details of the payables balances for the last 2 financial years at year-end:

Amounts in EUR		
	2023	2022
Suppliers	169,668.36	110,624.84
Accruals	112,223.34	28,911.95
TOTAL	281,891.70	139,536.79

Payable to Participating Nations

Nothing to report.

NOTE 11: DEFERRED REVENUE**Deferred Revenue**

This item is limited to NFO since it is the only NATO FORACS entity over which the IS Office of Financial Control exercises budgetary control.

Deferred Revenue corresponds to NFO contributions called for the current year budget or before (received or receivable) that NFO intends to use for its initial purpose, but for which corresponding goods or services could not be received in the course of the current budget year but will be incurred after the end of the reporting period. If these amounts carried forward are not spent by the end of the second year following the year for which they were approved, these funds will lapse unless a specific decision is taken by Member Nations for a further carry-forward.

There were no appropriations subject to a special carry-forward, neither to a further carry-forward.

Below table provides details on the deferred revenue balances for the last 2 financial years at year-end:

Amounts in EUR

	2023	2022
Deferred revenue	854,691.06	251,269.24
TOTAL	854,691.06	251,269.24

NOTE 12: ADVANCES

The standard call for contribution process includes an advance on the following year's budgets for all NATO FORACS components. The NATO FORACS Ranges may in turn request that part or all of the advances be transferred to them. The amounts called as advances at year end were the following:

Amounts in EUR

	2023	2022
NFO	1,035,787.00	1,003,533.00
NFA	2,153,729.80	2,157,101.34
NFG	1,136,657.00	1,040,480.00
NFN	1,994,949.10	1,886,349.92
TOTAL	6,321,122.90	6,087,464.26

This item includes also a voluntary advance by the United States for an amount of EUR 15,831.84.

NOTE 13: PROVISIONS

Nothing to report.

NOTE 14: OTHER CURRENT LIABILITIES

Amounts corresponding to the current year budgetary surplus of NFO, i.e. lapsed credits, net financial income and miscellaneous income, are considered a liability towards the Participating Nations. The settlement does not follow the normal accounts payable process, since the standard approach is to return them to Participating Nations via a deduction of the following year's call for budget contributions. Up to now, the standard practice of the NATO FORACS Steering Committee has been to use these amounts to fund the NFO Supplementary Budget or to add them to the Project Accumulated Surplus (see note on Net Assets).

Below is a snapshot of NFO's current year surplus at year ends:

Amounts in EUR		
	2023	2022
Lapsed Appropriations	1,078,456.40	719,925.65
Net Financial Income/(Expense)	- 33,758.81	- 14,449.24
Miscellaneous Income/(Expense)	4,002.26	6,248.28
TOTAL	1,048,699.85	711,724.69

Miscellaneous income represents an over accrual reported for 2022.

Financial income is the result of foreign exchange rate differences on the payments of the supplementary budget to the ranges NFN and NFA, payments to suppliers, bank charges and interest collected throughout the year.

Other current liabilities cover also the current year budgetary surplus of the Ranges, i.e. lapsed credits and net financial income.

Detailed breakout is presented in the table below:

Amounts in EUR		
	2023	2022
NFO Current Year Budget Surplus	1,048,699.85	711,724.69
Lapses NFA	254,082.86	410,171.73
Lapses NFG	64,306.85	25,034.81
Lapses NFN	365,765.89	382,811.81
Financial Surplus Ranges	43,340.07	14,910.04
TOTAL	1,776,195.52	1,544,653.08

NOTE 15: NON CURRENT LIABILITIES AND LONG TERM DEFERRED REVENUE

The long term deferred revenue is unearned revenue in relation to net carrying amounts of Property, Plant and Equipment and Intangible Assets. Revenue is recognised over the estimated life cycle of the Property, Plant and Equipment and the Intangible Assets.

This account is used as a counterpart of the Integrated Data Acquisition and Test System version X (IDATSVX), since it is available for operational use and thus recognized as an Intangible Asset and subject to yearly amortizations.

NOTE 16: RETAINED EARNINGS

Retained earnings correspond to NATO FORACS' Project Accumulated Surplus.

Project Accumulated Surplus relates to funds resulting from past contributions by NATO FORACS member Nations in excess of budget execution that the Steering Committee decided not to redistribute to the member nations but keep for the needs of the NATO FORACS project. This decision was approved by the NAC (C-M(2018)0032-AS1 dated 26 June 2018, under "Approval of FORACS Operational Reserve Fund"). It is an Operational Reserve, with a balance as per end 2023 of EUR 316,416.12, held at the direction of the Steering Committee essentially in the case of emergency funding needs for the Project to ensure continuity of service and also for reallocation among NATO FORACS entities when the Steering Committee approves their Supplementary Budgets. It originates from previous years' budgetary and financial operations of the various NATO FORACS entities.

Statement of Financial Performance**NOTE 17: REVENUE****Non-Exchange Revenue**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. The non-exchange revenue is matched with the expenses stemming from budget execution.

Contributions, when called, are booked as an Unearned Revenue and subsequently recognized as Non-Exchange Revenue when it is earned.

Exchange Revenue may result from services provided by NATO FORACS to entities other than the Participating Nations. This type of revenue is assessed on a calculated day rate for services.

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Below there is a snapshot of the 2023 non-exchange revenue breakdown:

Amounts in EUR

		2023	2022
Budget Execution (a)		1,671,926.78	1,274,262.69
	Current Year Budget	3,353,806.00	2,177,879.00
	Automatic carry forward from previous year	251,268.87	67,578.58
	Lapses at year end	-1,078,456.40	-719,925.65
	Automatic carry forward into next year	-854,691.69	-251,269.24
Financial Result (b)		-34,480.42	-13,933.95
	Financial revenue - Realized	2,167.82	153.32
	Financial cost - Realized	-35,926.63	-14,602.56
	Financial revenue - Unrealized	-518.71	518.71
	Financial cost - Unrealized	202.90	3.42
Miscellaneous Result (c)		4,002.26	6,248.28
	Current year income		0.00
	Overaccrual	4,002.26	6,248.28
Other (d)		-87,279.15	-32,962.73
	Purchase of PPE/Intangible assets	157,363.43	191,224.80
	Depreciation and Amortizations	-244,642.58	-224,187.53
Non Exchange Revenue (a-b-c-d)		1,789,684.09	1,314,911.09

Exchange Revenue

Nothing to report.

Financial Revenue

This includes exchange rate differences.

Other Revenue

This includes the regularization of overestimated accruals from previous year.

NOTE 18: EXPENSES**Wages, Salaries and Employee Benefits**

The personnel costs only pertain to all civilian personnel in support of funded activities. They also include expenses for salaries and emoluments for approved NATO permanent civilian positions and temporary personnel, for other salary related and non-related allowances including overtime, medical examinations, recruitment, installation and removal.

Supplies and Consumables Used

This item may also include expenses attributed to Capital Expenses (Property, Plant and Equipment and Intangible Assets) from a budget perspective, if they do not meet the criteria of PPE or Intangible Assets.

Depreciation and Amortization

Depreciation and amortization expenses are not budgeted for.

Impairments

Nothing to report.

Provisions

Nothing to report.

Other Expenses

Nothing to report.

Finance Costs

This item includes bank charges and exchange rate differences.

NOTE 19: BUDGET INFORMATION**NATO FORACS Office Budget**

Presently, the NATO FORACS Budgets are not publicly available.

The actual amounts referred to by IPSAS 24 ("amounts that result from execution of the budget") are expenses incurred during the execution of the budget and appearing under the heading "Actuals" in the Budget Execution Statement.

Presentation of budget information in the financial statements

In the present financial statements budget information is limited to NFO since it is the only entity over which the IS OFC exercises budgetary control.

The NFO budget classification is based on the economic nature of the expenses broken down into three chapters as follows:

Chapter I	Personnel Expenses
Chapter II	Operating Expenses
Chapter III	Capital Costs

The NFO Budget is prepared for the same period (1 January to 31 December) as these financial statements.

These financial statements also include transactions with NFA, NFG and NFN in relation to their funding as components of NATO FORACS (calls for their budgets' contributions, prepayment of advances on their budgets, transfers related to budget adjustments). Their respective budget execution and control are conducted in accordance with their own national regulations. Neither the NFO nor the IS Financial Controller have any responsibility or authority in this respect. As a consequence their budget executions are not reflected in the budget execution statement of the NFO presented in these financial statements.

Changes to the budgetary regulations were introduced by the North Atlantic Council in 2015 in approving a new set of NATO Financial Regulations. The new NATO Financial Regulations were made applicable to the 2015 budget year as from 1 May 2015. They have in particular instilled an accruals based approach to budget preparation and budget execution, whereas before the approach was largely commitment and cash based.

Despite a stronger emphasis on the principle of annual budgets, the approved and executed budget cannot be considered as fully accruals-based, since the new regulations allow for a number of exceptions, such as carrying forward commitments for goods and services that were expected to be delivered in the course of the year but for various reasons were not, or authority given to the member Nations to allow for special carry forward of appropriations unused at year-end.

The NFO budget is prepared and executed as follows:

- 1) The commitment of appropriations is the advance acceptance and recording of the financial consequence resulting from a legal obligation incurred during the financial year. As a consequence appropriations are allocated, and commitments are approved, for goods, services and works to be delivered at a later stage. Commitments are settled when the service is rendered or goods delivered as is the case for expenses under accrual accounting.
- 2) Approved Commitments for which no goods could be received or services rendered at year end normally lapse. However, if they are supported by a legal obligation and correspond to goods or services that could not be received during the course of the year for specific reasons, they may be carried forward and added to the budget of the following financial year. Uncommitted appropriations may be subject of a special carry forward to the following year if a specific agreement is given by the Steering Committee. Outstanding commitments can be carried forward for two years. As a consequence, the services or goods received may relate to a commitment of appropriations from previous years' budgets. The carry-forward should be justified by a reason for which the services or goods could not be received in the course of the year. In addition, in accordance with Financial Regulations, member Nations may agree to a further carry-forward of commitments that were already carried forward twice.
- 3) Commitments, because they are an advance acceptance, and because payments cannot be made above approved appropriations levels, typically include an estimation factor and may

be (if only slightly) higher than the actual amount eventually paid. This results in commitments being higher than the actual expenses and in appropriations eventually lapsing.

- 4) Commitments are only made in respect of expenses relating to the initial purpose of the commitment. Commitments for capital expenditures are normally made in the year during which the purchase order is issued. In accrual accounting, the related costs would not appear in the Statement of Financial Performance but in the Balance Sheet and only upon reception of the works, goods or services. Conversely, there is no budgetary commitment of appropriations for non-cash flow transactions such as capital depreciation or provisions which would normally appear in the Statement of Financial Performance under accrual accounting.
- 5) On an exceptional basis, the Steering Committee may approve the carry-forward of credits without any prior legal commitment, for instance for projects at their initiation stage or planned expenditures. In accrual accounting there would be no expense recorded.
- 6) The balance of unused budgetary appropriations (not committed) lapses and is to be returned to Contributing Nations or added to the Operational Reserve at year-end (the latter being the usual practice). Lapses may include cases where a project was eventually not completed or started, and therefore lead to no expense.

Budget approval

Every year, an initial budget for Operations and Maintenance is requested in order to provide contributors with a stable level of contribution and a significant amount is planned for under the Supplementary Budget.

In order to keep the Ranges' annual O&M budgets reasonably constant, the Steering Committee decided to remove general equipment modernisation from the O&M budgets. These modernisation activities would be delivered through the NFO Supplementary Budget. For 2023, the Steering Committee approved additional proposals for a total of KEUR 1,260 to be funded from the Supplementary Budget.

Amounts in EUR

	2023	2022
Initial Budget	1,254,416.00	1,198,489.00
Supplementary Budget	2,099,390.00	979,390.00
Total Annual Budget	3,353,806.00	2,177,879.00

There were no frozen appropriations.

Budget execution

The NFO budget execution for the current and previous year is shown at Annex 5.

Table below compare the budget's authorized appropriations and the actual amounts committed and expended, i.e. the comparison between the Budget Execution and the expenses in the Statement of Financial Performance.

BUDGET EXECUTION		
Total Budget (including carried-forward from previous year)	(a)	3,605,075
Credits Carried Forward in Following Year	(b)	854,692
Lapsed Appropriations	(c)	1,078,456
Budget Execution Expenses	(d) = (a-b-c)	1,671,927
RECONCILIATION		
Financial Performance Expenses (Excluding financial costs, depreciations)	(e)	1,514,563
Increase in Non-Current Assets	(f)	(87,279)
Provisions	(g)	-
Depreciation and Amortizations	(h)	244,643
Other Expenses	(i)	-
Sub-Total	(j)=(e+f-g+h-i)	1,671,927
Difference to Budget Expenses	(d-j)	-

Reconciliation between NFO Budget and Calls for Contributions

The funding of the NFO budget is made of an advance call and a call for contributions, carried over credits, the previous year's surplus, and on occasion, as directed by the Steering Committee, a contribution from/to the Project's Accumulated Surplus and/or a transfer from/to another FORACS entity's current year budget.

One call for contributions is issued every year which includes an advance concerning the budget of the following year and the remainder concerning the current year's budget (i.e. current year budget minus advance called during the previous year and any other adjustments among the FORACS entities).

The table below reconciles the approved budget and the sources of funding.

Amounts in EUR

	2023	2022
Initial Budget	1,254,416	1,198,489
Supplementary Budget	2,099,390	979,390
Total Annual Budget	3,353,806	2,177,879
Advance called previous year	1,003,533	958,791
Call in current year	250,883	239,698
Total Cash Calls	1,254,416	1,198,489
Use of Previous Year's Surplus	711,725	1,247,225
Use of (Contribution to) Project Accumulated Surplus		
Transfer from (to) other FORACS entities	1,387,665	- 267,835
Other Funding Sources	2,099,390	979,390
Total Funding	3,353,806	2,177,879

NOTE 20: WRITE-OFFS

There were no write-offs during 2023.

NOTE 21: LEASES

NFO does not have any financial leases.

NOTE 22: RESTRICTIONS ON FIXED ASSETS

There are no restrictions on fixed assets.

NOTE 23: CONTINGENT LIABILITIES

There have been no contingent liabilities identified that would be expected to result in a material obligation.

NOTE 24: CONTINGENT ASSETS

Nothing to report.

NOTE 25: EMPLOYEE DISCLOSURE**Employee Status**

The tables below provide comparative data about FORACS staff for two consecutive years:

	NATO Civilians	
	2023	2022
Total Approved PE	4	4
Total Filled Positions	4	4
Arrivals in the year	0	0
Departures in the year	0	0

	Total Approved PE	Total Filled Positions
Civilian (PE)	4	4
VNC	0	0
Short term	0	0
Interns	0	0
Others – explain	0	0

Pension Schemes

NATO-IS is managing centrally three pension programs, namely the Defined Benefit Pension Scheme (DBS), the Defined Contribution Pension Scheme (DCPS) as well as the Retiree Medical Claims Fund (RMCF), covering staff employed by all NATO bodies.

NFO staff are covered by one of the two NATO pensions schemes (either DCPS or DBPS). The DCPS provides that the NFO budget makes a 12 percent monthly matching contribution to the staff members' contributions for current service. As for the DBPS, a deduction of 11.8% of staff salaries is made and contributed to the annual financing of this Plan. In addition, the NFO budget makes a monthly matching contribution of 23.6% to the DBPS. These contributions are expensed during the year concerned and represent the sole pension related obligation of the entity. Consequently, the NFO has neither DBPS nor DCPS liabilities for its staff members.

The table below provides comparative data about the staff affiliation to the different pension schemes for two consecutive years:

FORACS STAFF PENSION SCHEME AFFILIATION

	2023	2022
Co-ordinated Pension Scheme	2	2
Defined Contribution Pension Scheme	2	2

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The table below indicates the contributions made by NFO to the various pension programs.

Amounts in EUR

		2023	2022
Co-ordinated Pension Scheme	Staff	25,789.80	24,975.23
	Employer	51,579.60	49,950.46
	Total	77,369.40	74,925.69
Defined Contribution Pension Scheme	Staff	19,636.88	18,723.90
	Employer	29,455.41	28,085.92
	Total	49,092.29	46,809.82
TOTAL	Staff	45,426.68	43,699.13
	Employer	81,035.01	78,036.38
	Total	126,461.69	121,735.51

NOTE 26: KEY MANAGEMENT PERSONNEL

The NATO FORACS Steering Committee (one representative per member nation) is the governing body of the NFO and of the NFG, NFN and NFA. Steering Committee members are nominated by their respective National Authorities. They are paid on the basis of applicable National pay scales. The Steering Committee members do not receive from NATO any additional remuneration for Steering Committee responsibilities or access to benefits.

The key management personnel of the NFO consists of the Project Manager. The Project Manager is responsible for the overall operational management of NATO FORACS. The Project Manager reviews the three Ranges' budgets, proposed by the Range Managers, and proposes all four budgets to the Steering Committee for approval. The three sites are managed operationally by Range Managers, each nominated by the participating nation where the site is located.

There are no other remuneration or benefits to Steering Committee members or key management personnel or their family members.

NOTE 27: RELATED PARTIES

In reviewing the four budgets on an annual basis, the Steering Committee determines the budgetary credits for the initial and the Supplementary Budgets. It is in this context that funds for the O&M budget are called (Supplementary Budget funds are already held by NFO on behalf of the Project) and held in cash or cash equivalents by the NATO-IS Office of Financial Control to finance three other NATO FORACS budgets, namely NATO FORACS Greece, NATO FORACS AUTEC and NATO FORACS Norway. For more effective cash management purposes, the Steering Committee approved the call procedure whereby funds pertaining to NFG, NFA and NFN are transferred into accounts at NATO Headquarters. These bank accounts are controlled by NFO, thus the closing balances are reported in the NFO's financial statements. Upon request of the Range Managers, funds are transferred to the Greek, US and Norwegian defence authorities respectively, with whom the Range Managers engage to execute their budget following their national rules.

NATO Office of Financial Control holds the surplus funds of all the NATO FORACS entities on the NFO bank account. These funds are not controlled by the NFO Project Manager, but are approved

for expenditure by the Steering Committee to enable it to implement its Supplementary Budget authorisations. Remaining funds constitute the Operational Reserve.

Both the Steering Committee members and Key management personnel have no significant party relationships that could affect the operation of the NFO.

In 2023, NATO International Staff charged NATO FORACS for the following cost- sharing:

Amounts in EUR

	Burden Sharing Charges	
	2023	2022
Common Operating Cost	24,496.00	16,424.00
Admin Cost	43,886.86	36,634.83
Total	68,382.86	53,058.83

* * * * *

List of acronyms:

AUTEC	Atlantic Underwater Test and Evaluation Center
DOD	Department of Defense
BC	Budget Committee
FORACS	Naval Forces Sensor and Weapon Accuracy Check Sites
IPSAS	International Public Sector Accounting Standards
IS	International Staff
MOD	Ministry of Defense
MOU	Memorandum of Understanding
NCIA	NATO Communication and Information Agency
NFA	NATO FORACS AUTEC
NFG	NATO FORACS Greece
NFN	NATO FORACS Norway
NFO	NATO FORACS Office
NFSC	NATO FORACS Steering Committee
OFC	Office of Financial Control
PPE	Property, Plant and Equipment