

	NATO	NORTH ATLANTIC COUNCIL
	OTAN	CONSEIL DE L'ATLANTIQUE NORD

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1 July 2024

DOCUMENT
PO(2024)0230-AS1

**IBAN AUDIT REPORT ON THE 2023 FINANCIAL STATEMENTS OF THE NATO
ALLIANCE GROUND SURVEILLANCE MANAGEMENT ORGANISATION IN
LIQUIDATION (NAGSMO I.L.)**

ACTION SHEET

On 1 July 2024, under the silence procedure, the Council noted RPPB report and the IBAN Audit Report, approved the conclusions in the RPPB report and approved the public disclosure of the 2023 Financial Statements of NAGSMO I.L., the associated IBAN Audit Report and the RPPB report attached to PO(2024)0230.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to PO(2024)0230.

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28 June 2024

DOCUMENT

PO(2024)0230

Silence Procedure ends:

1 Jul 2024 - 17:30

To: Permanent Representatives (Council)

From: Secretary General

IBAN AUDIT REPORT ON THE 2023 FINANCIAL STATEMENTS OF THE NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT ORGANISATION IN LIQUIDATION (NAGSMO I.L.)

1. I attach the Resource Policy and Planning Board (RPPB) report on the International Board of Auditors for NATO (IBAN) Audit Report on the 2023 Financial Statements of the NATO Alliance Ground Surveillance Management Organisation in Liquidation (NAGSMO i.L.). The IBAN issued an unqualified opinion on the Financial Statements and a qualified opinion 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 hours on Monday, 1 July 2024**, I shall assume that Council has noted the RPPB report and the IBAN Audit Report, approved the conclusions in the RPPB report and approved the public disclosure of the 2023 Financial Statements of NAGSMO i.L., the associated IBAN Audit Report and the RPPB report.

(Signed) Jens Stoltenberg

1 Annex
2 Enclosures

Original: English



IBAN AUDIT REPORT ON THE 2023 FINANCIAL STATEMENTS OF THE NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT ORGANISATION IN LIQUIDATION (NAGSMO i.L.)

Report by the Resource Policy and Planning Board

References:

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| A. | IBA-AR(2024)0005 | IBAN Audit Report on the 2022 Financial Statements of the NATO Alliance Ground Surveillance Management Organisation in Liquidation (NAGSMO i.L.) for the year ended 31 December 2023 |
| B. | NAGSMO i.L./BOD/2024/019 | Express handling of NATO Alliance Ground Surveillance Management Organisation in Liquidation Financial Statements |
| C. | C-M(2015)0025 | NATO Financial Regulations (NFRs) |
| D. | C-M(66)9 | Rules Governing the Dissolution of NATO Production Organizations |
| E. | PO(2023)0467 (INV) | IBAN Report on the 2022 Financial Statements of NATO Alliance Ground Surveillance Management Organisation in Liquidation (NAGSMO i.L.) |
| F. | C-M(2016)0023 | NATO Accounting Framework (NAF) |
| G. | PO(2015)0052 | Wales Summit tasker on transparency and accountability |

INTRODUCTION

1. This report by the Resource Policy and Planning Board (RPPB) addresses the IBAN Audit Report on the 2023 resubmitted Financial Statements of the NATO Alliance Ground Surveillance Management Organisation in Liquidation (NAGSMO i.L.). IBAN issued an unqualified opinion on the Financial Statements and a qualified opinion on compliance for the year ended 31 December 2023 (reference A).

2. The RPPB acknowledges and supports NAGSMO i.L. request for prompt handling of the IBAN Audit Report on the 2023 Financial Statements of NAGSMO i.L. (reference B) due to the NAGSMO i.L. Board of Directors (BoD) aim to conclude all financial transactions and return all unused funds to the Nations before 1 July 2024 and to request dissolution of NAGSMO i.L. before 1 August 2024. The RPPB is mandated under Article 15 of the NATO Financial Regulations (NFRs) (reference C) to examine the IBAN Audit Report and to provide comments and recommendations to Council as required.

AIM

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

OBSERVATIONS AND RPPB VIEW

4. In their audit report, IBAN made three observations and recommendations for the NAGSMO i.L. The observation and recommendation related to the Financial Controller position not established in the set-up of NAGSMO i.L. impacted the audit opinion on compliance. The other two observations and recommendations relate to the need to strengthen internal controls over the preparation of the financial statements and to the non-compliance with the provisions of the Rules Governing the Dissolution of NATO Production Organizations (Rules) (reference D) due to not appointing a Liquidator until the completion of the liquidation.

4.1. Observation 1 (basis for the qualified opinion on compliance): The RPPB supports IBAN's recommendation. The RPPB recalls that recommendations regarding the Rules Governing the Dissolution of NATO Production Organizations (reference E) were raised in the IBAN audit reports on the 2022 Financial Statements of the NAGSMO i.L. (IBA-AR(2023)0013) and on the 2022 Financial Statements of the NATO Medium Extended Air Defense System Management Organization in Liquidation (NAMEADSMO i.L.) (IBA-AR(2024)0001). In this respect, the Council invited the International Staff to initiate a review of these Rules in 2024, with oversight from the relevant committees, to ensure they provide a clear framework regarding maintaining compliance with the NFRs, including the function of the Financial Controller and adequate internal controls (reference E).

4.2. Observation 2: IBAN found misstatements in the 2023 NAGSMO i.L. Financial Statements first submitted to IBAN on 23 February 2024 related to the Budget Execution Statement, Statement of Financial Position, Statement of Financial Performance, Cash Flow Statement and in the notes to the Financial Statements. These misstatements, some of which were material, were corrected in a resubmission of the Financial Statements on 1 March 2024. Without these corrections, the 2023 NAGSMO i.L. Financial Statements would have included material errors leading to both a qualified audit opinion on the Financial Statements and on compliance.

4.3. The RPPB supports IBAN's recommendation that NAGSMO i.L. ensure that 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 presented in compliance with the NATO Accounting Framework (reference G) and the NFRs.

4.4. Observation 3: IBAN found that NAGSMO i.L. did not renew the appointment of the liquidator and did not appoint a new liquidator for the completion of the liquidation. IBAN considers this to be not-compliant with C-M(66)9. As the 2023 NAGSMO i.L. Financial Statements and the Statement of Internal Control were not signed by the Liquidator and the Financial Controller, this is not compliant with the NFRs. As 2024 is the last year of NAGSMO i.L.'s operation, IBAN does not raise any recommendation addressed to NAGSMO i.L. regarding this audit observation.

4.5. The RPPB supports IBAN's recommendation that for future liquidations Council task the appropriate governing body to ensure that the Rules are aligned with the financial reporting requirements and the responsibilities of the Head of NATO Body and the Financial

Controller as stipulated in the NFRs; and assess whether there is a need for appointing a Liquidator external to the organization in liquidation in order to complete the liquidation of NATO Procurement, Logistics or Service Organization and to revise the Rules accordingly if needed.

5. The RPPB notes that the remaining prior year observation and recommendation was closed (superseded by Observation 1 in the current Audit Report).

CONCLUSIONS

6. The IBAN issued an unqualified opinion on the NAGSMO i.L. resubmitted Financial Statements and a qualified opinion on compliance. Three observations and recommendations were raised. The previous year observation was closed.

7. The RPPB supports IBAN's recommendation that NAGSMO i.L. ensure that adequate internal control processes are in place for the preparation of the financial statements. Furthermore, the RPPB supports IBAN's recommendation that Council task the appropriate governing body to ensure that the Rules Governing the Dissolution of NATO Production Organizations provide a clear framework regarding maintaining compliance with the NFRs. In this respect, the RPPB reminds on the Action Sheet by which the Council invited the International Staff to initiate a review of the Rules Governing the Dissolution of NATO Production Organizations in 2024.

8. The RPPB recalls that the Handling arrangements for the 2022 Financial Statements Audit Reports (AC/335-D(2023)0059 (INV)) envisage a discussion in the RPPB on the audit reports with a qualified audit opinion. This report is not presented in the RPPB for a discussion as the IBAN made the same audit observation (observation 1) and recommendation in its audit report on NAGSMO i.L. 2022 Financial Statements (IBA-AR(2023)0013), which was discussed in the RPPB on 23 November 2023.

RECOMMENDATIONS

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

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

9.2. approve the conclusions at paragraphs 6 to 8;

9.3. approve the public disclosure of the NAGSMO i.L. 2023 Financial Statements, its associated IBAN Audit Report and this report in line with agreed policy at reference G.



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

Brussels - Belgium



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IBA-A(2024)0041
24 April 2024

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

Cc: NATO Permanent Representatives
Chair, NATO Alliance Ground Surveillance Management Organisation in Liquidation (NAGSMO i.L.), Board of Directors
Deputy Chair, NATO Alliance Ground Surveillance Management Organisation in Liquidation (NAGSMO i.L.), Board of Directors
Chair, Resource Policy and Planning Board (RPPB)
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 Alliance Ground Surveillance Management Organisation in Liquidation (NAGSMO i.L.) Financial Statements for the year ended 31 December 2023 – IBA-AR(2024)0005***

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 NAGSMO i.L. and a qualified opinion 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 Alliance Ground Surveillance Management Organisation in Liquidation
(NAGSMO i.L.)
for the year ended 31 December 2023**

The NATO Alliance Ground Surveillance Management Organisation (NAGSMO) was created within NATO for the acquisition of the Alliance Ground Surveillance (AGS) Core System.

Based on Council decision (PO(2021)0449), NAGSMO was put into liquidation starting 1 April 2022, and since that date, NAGSMO's title is followed by the terms "*in Liquidation*" in accordance with the Rules Governing the Dissolution of NATO Production Organizations (C-M(66)9).

The budgetary expenditure for the administrative budget in 2023 was EUR 2.7 million, and the budgetary expenditure for the operational budget in 2023 was EUR 147,639.

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

During the audit, IBAN made three observations. One observation impacts the audit opinion on compliance:

1. Financial Controller position not established in the set-up of NAGSMO i.L.

The other two observations do not impact the audit opinion on the Financial Statements and on compliance.

2. Need to strengthen internal controls over the preparation of the financial statements.
3. Non-compliance with the provisions of C-M(66)9 due to not appointing a Liquidator until completion of the liquidation.

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 NAGSMO i.L., which made no comments in return.

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IBA-AR(2024)0005

24 April 2024

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE
NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT ORGANISATION
IN LIQUIDATION**

(NAGSMO i.L.)

FOR THE YEAR ENDED 31 DECEMBER 2023

PUBLICLY DISCLOSED - PDN(2025)0016 - 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 the NATO Alliance Ground Surveillance Management Organisation in Liquidation (NAGSMO i.L.), for the 12 month period ended 31 December 2023, issued under document reference NAGSMO i.L./BOD/2024/011-REV1, and resubmitted to IBAN on 1 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 NAGSMO i.L. 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 NAGSMO i.L. 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

Qualified Opinion on Compliance

Based on the procedures we performed, except for the matter described in the basis of qualification paragraph, 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 Qualified Opinion on Compliance

The NATO Financial Regulations (NFRs) govern the financial administration of all civilian and military headquarters and other organisations established pursuant to the North Atlantic Treaty. The NAGSMO Board of Directors (BoD) adopted the NAGSMO Financial Management Procedures Document and Financial Rules and Regulations (FMPD-FRPs). These are based on the NFRs and take into account any deviations approved by Council.

NAGSMO was put into liquidation on 1 April 2022. As from that date, NAGSMO i.L. decided no longer to have a Financial Controller on its staff. Although NAGSMO was put into liquidation on 1 April 2022 following the completion of the mission for which it had been created, NAGSMO i.L. continued to incur material levels of expenditures in 2022 and 2023. From 1 January 2023 to 31 December 2023, NAGSMO i.L. incurred EUR 2,726,462 of expenditure for the Administrative Budget and EUR 147,639 of expenditure for the Operational Budget.

Not having a Financial Controller leads to non-compliance regarding Section II – Financial Controller of the NAGSMO FMPD-FRP, which in turn leads to non-compliance regarding a number of other articles of the NAGSMO FMPD-FRPs, in particular concerning the internal control (Article 12), and the management of, and the provision of funds with respect to material levels of expenditure (Article 25). The requirement of Article 35 of the NAGSMO FMPD-FRPs and Implementing Rules and Procedures (IRP) XXXV that supplement these Regulations, requiring a personal certification of the financial statements by a Financial Controller is also not fulfilled.

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

Auditor's Responsibilities for Compliance

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

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

Brussels, 24 April 2024

A handwritten signature in blue ink, appearing to read 'Radek Visinger', is positioned above the printed name.

Radek Visinger
Chair

OBSERVATIONS AND RECOMMENDATIONS

IBAN made three observations and recommendations.

One observation impacts the audit opinion on compliance:

1. Financial Controller position not established in the set-up of NAGSMO i.L.

The other two observations do not impact the audit opinion on the Financial Statements and on compliance.

2. Need to strengthen internal controls over the preparation of the financial statements.
3. Non-compliance with the provisions of C-M(66)9 due to not appointing a Liquidator until completion of the liquidation.

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

1. FINANCIAL CONTROLLER POSITION NOT ESTABLISHED IN THE SET-UP OF NAGSMO i.L.

Reasoning

1.1 According to the NATO Financial Regulations (NFRs), they *“shall govern the financial administration of all civilian and military headquarters and other organizations established pursuant to the North Atlantic Treaty [...]”*.

1.2 The NAGSMO Charter, C-M(2008)0059, section XI, Financial Management, Article 42 (c), General Provisions states that, *“NAGSMO shall adopt based on the NATO Financial Regulations a set of financial rules and procedures to be approved by the BOD in conformity with the present Article and any regulations promulgated pursuant to Article 41.”*

1.3 The NAGSMO Board of Directors (BoD) adopted the NAGSMO Financial Management Procedures Document and Financial Rules and Regulations (FMPD-FRPs). These are based on the NFRs and take into account any deviations approved by Council. According to the FMPD-FRPs, the *“NATO Financial Regulations prevail over the NAGSMO FMPD-FRP document, which takes precedence over NAGSMO Board of Directors governance and policy”*. Implementing Rules and Procedures (IRP) also supplement the FMPD-FRPs.

1.4 According to the Rules Governing the Dissolution of NATO Production Organisations (C-M(66)9), Article 1 (a) - Obligation to liquidate, *“as soon as a NATO Production Organization shall have completed the mission for which it has been*

created, it shall be put into liquidation at the request of the States concerned, by decision of the North Atlantic-Council. Its title shall subsequently be followed by the terms "in liquidation".

1.5 Further, according to C-M(66)9, Article 1 (b) *"Until the liquidation is completed, the Provisions of the Charter of the Production Organization will continue to apply to the Production Organization in liquidation and its staff, insofar as nothing to the contrary results from the provisions of this document or from the purpose of the liquidation."*

Role and Responsibilities of the Financial Controller

1.6 In accordance with Article 6.1 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:*

- (a) the budgeting, accounting and reporting activities of the NATO body;*
- (b) ensuring adherence to the principles of sound financial management as laid down in article 4;*
- (c) the management of appropriated and non-appropriated funds;*
- (d) the responsibility for the organisation and administration of the financial internal control system established pursuant to article 12.1;*
- (e) prior approval of commitments consistent with article 25;*
- (f) management of commitments in line with article 25;*
- (g) the authority to make transfers of approved authorisations permissible in accordance with article 26;*
- (h) the authority to, coordinate, inspect and control the functions of the Financial Controllers of NATO bodies subordinate to their own."*

1.7 In accordance with Article 6.2 of the NFRs, *"the Financial Controller shall be responsible to the Head of the NATO body and shall be accountable to the relevant finance committee on the management of appropriated and non-appropriated funds".*

1.8 In accordance with Article 3.2 of the NFRs, the Head of the NATO body and the Financial Controller should sign the Financial Statements and the Statement of Internal Control.

1.9 These roles and responsibilities are also reflected in the FMPD-FRPs, for which the key responsibilities of the Financial Controller for the purpose of this current observation have already been described in 'Observation 1 - Financial Controller position not established in the set-up of NAGSMO i.L.' of our audit report on the 2022 NAGSMO i.L. Financial Statements (Ref. IBA-AR(2023)0013).

Observations

1.10 Based on Council decision (PO(2021)0449), NAGSMO was put into liquidation starting 1 April 2022, and since that date, NASGMO's title is followed by the terms "in liquidation" in accordance with C-M(66)9.

1.11 NAGSMO had on its staff a Financial Controller up to 31 March 2022 in accordance with the NAGSMO FMPD-FRPs and the NFRs. As from 1 April 2022, NAGSMO i.L. decided no longer to have a Financial Controller on its staff, based on its interpretation of C-M(66)9 which states that *"The Liquidator may be assisted by a small staff"*. The Liquidator and a Fiscal and Accounting Officer thereafter assumed the function and responsibilities of the Financial Controller.

1.12 Although NAGSMO was put into liquidation on 1 April 2022 following the completion of the mission for which it had been created, NAGSMO i.L. continued to incur material levels of expenditures in 2022 and 2023. From 1 January 2023 to 31 December 2023, NAGSMO i.L. incurred EUR 2,726,462 of expenditure for the Administrative Budget and EUR 147,639 of expenditure for the Operational Budget.

1.13 Not having a Financial Controller may be appropriate immediately prior to the dissolution of the Organisation, when expenditure levels are minimal. However, this is not the case when expenditure levels are still high and an appropriate level of internal controls therefore needs to be maintained.

1.14 IBAN considers that in light of the significance of the expenditures incurred during 2023, the basis for not having a Financial Controller on its staff as required by the NAGSMO FMPD-FRPs, which are based on the NFRs and the Charter, cannot be construed as resulting from the provisions of C-M(66)9 or from the purpose of the liquidation. The fact that C-M(66)9 states that the liquidator may be assisted by a small staff, does not preclude NAGSMO i.L. from having a Financial Controller on its staff, if this is required by the NAGSMO FMPD-FRPs, which are based on the NFRs.

1.15 From a compliance perspective, not having a Financial Controller, leads to non-compliance regarding Section II – Financial Controller of the NAGSMO FMPD-FRPs, which in turn leads to non-compliance regarding a number of other articles of the NAGSMO FMPD-FRPs, in particular concerning the internal control (Article 12), and the management of, and the provision of funds with respect to material levels of expenditure (Article 25). The requirement of Article 35 of the NAGSMO FMPD-FRPs and IRP XXXV requiring a personal certification of the financial statements by a Financial Controller is also not fulfilled.

1.16 NAGSMO i.L. acknowledges in its 2023 Financial Statements that the *"inconsistency between the governance document [NAGSMO FMPD-FRP] and the actual situation is recognized as a potential compliance issue and causes an uncertain situation with regards to sound financial management and governance."* The Financial Statements further state that *"in order to mitigate the risk, interim*

governance measures are applied insofar they do not contradict pertinent BoD decisions”.

1.17 NAGSMO i.L. informed IBAN that NAGSMO i.L. will be dissolved in 2024. As this is the last year of operation, IBAN does not raise any recommendation addressed to NAGSMO i.L. regarding this qualifying compliance audit matter.

1.18 IBAN considers that this issue has arisen because the Rules Governing the Dissolution of NATO Production Organizations (C-M(66)9) do not provide a clear framework regarding the role of the Financial Controller and for establishing adequate internal controls in line with the NFRs where significant levels of expenditure continue to be incurred after the start of the liquidation process.

Recommendation

1.19 IBAN recommends for future liquidations that Council task the appropriate governing body to ensure that the Rules Governing the Dissolution of NATO Production Organizations (C-M(66)9) provide a clear framework regarding maintaining compliance with the NATO Financial Regulations, including the function of the Financial Controller and adequate internal controls.

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

Reasoning

2.1 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.”*

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

2.3 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 in compliance with the applicable financial reporting framework.

2.4 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

2.5 IBAN found misstatements in the 2023 NAGSMO i.L. Financial Statements first submitted to IBAN on 23 February 2024, as described below. These misstatements, some of which were material, were corrected in a resubmission of the Financial Statements on 1 March 2024. Without these corrections, the 2023 NAGSMO i.L. 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

2.6 IBAN found that the 2023 Budget Execution Statement did not contain any information on the budget execution of the operational budget, while NAGSMO i.L. had budget appropriations of EUR 148,168 related to a special carry-forward to budget year 2023 of commitments from previous years' operational budgets as reflected in the Budget Execution Statement of the 2022 NAGSMO i.L. Financial Statements. Out of these appropriations of EUR 148,168, we noted that EUR 147,639 were spent in 2023 and EUR 529 lapsed at 31 December 2023.

B. Material misstatements in the Statement of Financial Position, Statement of Financial Performance and Cash Flow Statement

2.7 The effect of all misstatements identified in the Statement of Financial Position, Statement of Financial Performance and Cash Flow Statement consisted of the following individual misstatements:

- Cash and Cash Equivalents were overstated by EUR 3,647,830 and Other Current Assets and Prepayments were understated by EUR 3,647,830. NAGSMO i.L. closed all its bank accounts in 2023 and transferred all residual funds to the NATO Support and Procurement Agency (NSPA) on 18 December 2023 in response to a call for advance from NSPA. Therefore, NAGSMO i.L.'s residual funds of EUR 3,647,830 were held on a NSPA bank account on 31 December 2023. This also affected the presentation of the Cash Flow Statement, in particular the movement in 'Other current assets and prepayments' and the balance of cash and cash equivalents held at the end of the reporting period.
- Revenue and accrued expenses were understated by EUR 19,750 due to incomplete accounting entries. More in particular, we noted that NAGSMO i.L. did not perform double accounting entries and only accounted for the impact of accruals of EUR 19,750 on its liabilities.

- Recognised a contingent liability balance of EUR 30,000 in its Statement of Financial Position, while contingent liabilities should only be disclosed in the Financial Statements and not recognised. After a reassessment of the circumstances concerned, NAGSMO i.L. concluded that the contingent liabilities of EUR 30,000 should be presented as a provision of EUR 26,000 and an accrual of EUR 4,000. The provision and accrual should both be recognised and resulted in an understatement of expenses and revenue by EUR 30,000 due to the fact that the initial recognition of the contingent liability only had an impact on the liabilities as NAGSMO i.L. did not perform double accounting entries.
- Receivables and Other Current liabilities were understated by EUR 35,935 in total, due to an unrecorded receivable in relation to interest owed to NAGSMO i.L. by the NATO Support and Procurement Agency (NSPA) for the period 2012 to 2022 (understatement of EUR 40,000) and the use of an incorrect exchange rate for converting a receivable in USD to EUR at 31 December 2023 (overstatement of EUR 4,065). According to NAGSMO i.L., no receivable was recorded, as NSPA had not informed them of the existence of a receivable prior to the first submission of its 2023 Financial Statements.

C. Disclosure notes to the Financial Statements

2.8 We identified inconsistencies and errors in some of the disclosure notes to the Financial Statements, such as references to the wrong financial year, information that cannot be traced to the accounting records and information that was not updated to the correct reporting year.

2.9 The above corrected misstatements indicate that adequate internal control processes were not in place for the preparation, review and reporting of the Financial Statements to avoid material misstatements or errors in disclosures.

Recommendation

2.10 IBAN recommends NAGSMO i.L. to ensure that 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 presented in compliance with the NATO Accounting Framework and NATO Financial Regulations (NFRs).

3. NON-COMPLIANCE WITH THE PROVISIONS OF C-M(66)9 DUE TO NOT APPOINTING A LIQUIDATOR UNTIL COMPLETION OF THE LIQUIDATION

3.1 In case of a liquidation and dissolution of a NATO Procurement, Logistics or Service Organisation (NPLSO), the provisions of 'Rules governing the dissolution of NATO Production Organizations' (Ref. C-M(66)9) apply.

3.2 These rules state that *“until the liquidation is completed, the provisions of the Charter of the Production Organization will continue to apply to the Production Organization in liquidation and its staff, insofar nothing to the contrary results from the provisions of this document or from the purpose of liquidation”*.

3.3 Based on Council decision (PO(2021)0449), NAGSMO was put into liquidation starting 1 April 2022, and since that date, NAGSMO's title is followed by the terms “in liquidation”.

Composition of NAGSMO in Liquidation

3.4 Prior to being put into liquidation, and in accordance with its Charter, NAGSMO was a NPLSO comprised of:

- A Board of Directors (BoD);
- Committee(s);
- An Executive Body, the NATO Alliance Ground Surveillance Management Agency (NAGSMA), led by a General Manager.

3.5 With regard to the organisation of a NPLSO in Liquidation, the provisions of C-M(66)9 state the following:

- Paragraph 2(a) – *“The Production Organization in liquidation shall be composed of the Board of Directors and a Liquidator.”*;
- Paragraph 2(b) – *“The Liquidator shall be appointed by the Board of Directors. He shall act, under the control of the Board, as the executor of the Production Organization, thus replacing the Executive Body.”*;
- Paragraph 2(c) – *“The Liquidator may be assisted by a small staff.”*

3.6 This implies that, after NAGSMO i.L. was put into liquidation by decision of the North Atlantic Council from 1 April 2022 onwards, NAGSMA as an Executive Body was replaced by a Liquidator assisted by a small staff. The Liquidator together with his supporting staff formed the NAGSMO i.L. Office for Liquidation (i.e. the Executive Body of NAGSMO i.L.).

Tasks of NAGSMO in Liquidation

3.7 In accordance with C-M(66)9, a NPLSO in liquidation shall only have the following tasks:

- Complete all current business;
- Fulfil the obligations of the NPLSO;
- Recover the debts due to the NPLSO;
- Convert the assets acquired by the NPLSO into money and distribute the proceeds to its member states in accordance with the provisions of the Charter of the NPLSO.

3.8 Once these tasks have been completed, and as such on completion of the liquidation, C-M(66)9 states that *“the Liquidator shall render final accounts which will be submitted to the Board of Directors. The Board shall approve these accounts and give discharge thereof to the Liquidation”*.

Responsibility and accountability

3.9 With regard to responsibility and accountability, Article 3 of the NFRs states the following:

- Article 3.1 - *“the Secretary General, the Supreme Commanders and the other Heads of NATO bodies are responsible and accountable for sound financial management and shall put in place the necessary governance arrangements to ensure and maintain this. This shall include, but is not limited to, the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources”*.
- Article 3.2 – *“The adherence to article 3.1 is confirmed annually by signature of the Financial Statements and Statements of Internal Control. Both documents should be signed by the Head of the NATO body and the Financial Controller.”*

Observations

3.10 On 7 March 2023, the NAGSMO i.L. BoD decided not to renew the Liquidator's employment contract beyond 31 December 2023, and tasked the Liquidator to terminate the employment contracts of his staff on 31 December 2023 (Ref. NAGSMO i.L./BOD/D/2023/0006AS1).

3.11 On 10 October 2023, the NAGSMO i.L. BoD upheld its previous decision from 7 March 2023 by reconfirming that the Office for Liquidation was to be closed on 31 December 2023, and that the last working day of the NAGSMO i.L. staff would be no later than Thursday 21 December 2023 (Ref. NAGSMO i.L./BOD/L/2023/0007).

3.12 On 18 December 2023, the Liquidator rendered final accounts to the BoD with the following caveats (Ref. NAGSMO i.L./LIQ/L/(2023)00229) concerning tasks not fully completed prior to the closing of the Office for Liquidation:

- *“remaining payments received after Office for Liquidation Bank Accounts closure;*
- *“remaining documentation to be transfer to NATO Archives after 1st January 2024”;*
- *“prepare, issue and support 2023 Financial Statements on 2024 for NATO IBAN”.*

3.13 In addition to the remaining tasks of NAGSMO i.L. after 31 December 2023 as identified by the Liquidator in NAGSMO i.L./LIQ/L/(2023)00229, we noted that the following tasks of NAGSMO i.L. in accordance with C-M(66)9 were not completed on 31 December 2023:

- Complete all current business – One agreement still had to be signed, and entered into, with NSPA in 2024 for the treasury management of the remaining NAGSMO i.L. funds after the closure of all NAGSMO i.L. bank accounts in 2023;
- Recover the debts due to the NPLSO – NAGSMO i.L. had receivables of EUR 581,690 at 31 December 2023 in relation to operational activities from NAGSMO;
- Convert the assets acquired by the NPLSO into money and distribute the proceeds to its member states in accordance with the provisions of the Charter of the NPLSO – All remaining NAGSMO i.L. funds were transferred to a bank account of the NSPA prior to 31 December 2023, after which NSPA will receive instructions on how to distribute all proceeds to the NAGSMO i.L. member states in 2024.

3.14 In order to complete the remaining tasks of NAGSMO i.L., and in absence of the appointment of a new Liquidator in 2023, the BoD granted the following executive authority to its BoD Chair on 23 November 2023 (Ref. NAGSMO i.L./BOD/L/2023/0013 and NAGSMO i.L./BOD/L/2023/0013AS1):

- *“To sign Shared Service agreement/contract with NATO International Staff/Executive Management Division/Staff Services for Removal of OfL personnel.”*
- *“To transfer NAGSMO i.L. documents generated or received by NAGSMO i.L., after OfL has closed down, to NATO Archive.”*
- *“To authorise, together with Co-chair, payments of invoices received after OfL closes their bank accounts in December 2023. Invoices will be paid by NSPA AGS & UAS Program Office.”*
- *“If need, to sign any other documents needed to ensure that the close down of OfL and the Dissolution of NAGSMO i.L. will continue according to plan. The BoD will be kept informed about any documents signed as soon as possible.”*

3.15 Although the Liquidator rendered final accounts that were approved by the BoD and resulted in a discharge of the Liquidator on 19 December 2023, the liquidation was not fully completed at 31 December 2023 as described above.

3.16 On 23 November 2023, the BoD decided not to appoint a new Liquidator from 1 January 2024 onwards for the completion of NAGSMO i.L.’s remaining tasks as part of the liquidation, but to grant the necessary executive authority to its BoD Chair in order to complete the liquidation. As a result, the composition of NAGSMO i.L. from 1 January 2024 onwards is not compliant with the provisions of C-M(66)9 which requires NAGSMO i.L. to be composed of the BoD and a Liquidator as the executor of the NPLSO in liquidation.

3.17 Although the BoD Chair only started to exercise his executive authority from 1 January 2024 onwards, we believe that his executive role is relevant for the audit of the 2023 NAGSMO i.L. Financial statements as well since he prepared and signed the 2023 NAGSMO i.L. Financial Statements and Statement of Internal Control.

3.18 This also implies that the signature of the 2023 NAGSMO i.L. Financial Statements and the Statement of Internal Control by the BoD Chair is not compliant with Article 3 of the NFRs, which requires that these documents are signed by the Liquidator (i.e. Head of NATO Body for the Executive Body of NAGSMO i.L.) and the Financial Controller.

3.19 NAGSMO i.L. informed IBAN that NAGSMO i.L. will be dissolved in 2024. As this is the last year of operation, IBAN does not raise any recommendation addressed to NAGSMO i.L. regarding this audit observation.

3.20 IBAN considers that these issues have arisen because the Rules Governing the Dissolution of NATO Production Organisations (C-M(66)9) are no longer aligned with, and as such have not been adapted to, the current roles, responsibilities and reporting requirements identified in the NFRs. In addition, C-M(66)9 currently does not provide a possibility, or a framework, for appointing a Liquidator external to the organisation in liquidation in order to complete the liquidation. This might be required in practice, as the Executive Body, based on the current applicable rules and regulations, does not succeed in liquidating itself when the Liquidator is a NATO civilian staff member of the organisation in liquidation.

Recommendations

3.21 IBAN recommends that Council task the appropriate governing body to:

- a) Ensure that the 'Rules Governing the Dissolution of NATO Production Organisations (C-M(66)9)' are aligned with, and as such are adapted to, the financial reporting requirements and the responsibilities of the Head of NATO Body and the Financial Controller as stipulated in the NFRs;
- b) Assess whether there is a need for appointing a Liquidator external to the organisation in liquidation in order to complete the liquidation of a NPLSO, and to revise the 'Rules Governing the Dissolution of NATO Production Organisations (C-M(66)9)' accordingly if needed.

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) NAGSMO i.L. FY 2022 IBA-AR(2023)0013, paragraph 1 FINANCIAL CONTROLLER POSITION NOT ESTABLISHED IN THE SET-UP OF NAGSMO i.L. IBAN’s Recommendation IBAN recommends for future liquidations that Council task the appropriate governing body to ensure that the Rules Governing the Dissolution of NATO Production Organisations (C-M(66)9) provide a clear framework regarding maintaining compliance with the NATO Financial Regulations, including the function of the Financial Controller and adequate internal controls.	This recommendation is closed as superseded by Observation 1 in the current Audit Report.	Observation Closed

**NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT ORGANISATION IN
LIQUIDATION (NAGSMO i.L.) FORMAL COMMENTS ON THE AUDIT REPORT
AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS**

NAGSMO i.L. made no comments on the 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.

NAGSMOIL/BOD/2024/011-REV1
1 March 2024

NAGSMOIL 2023 FINANCIAL STATEMENTS



PUBLICLY DISCLOSED - PDN(2025)0016 - MIS EN LECTURE PUBLIQUE

INTRODUCTION

Based on the request by the fifteen participating nations and North Atlantic Council (NAC) agreement, on the 31 March 2022 NATO Alliance Ground Surveillance Management Agency (NAGSMA) was dissolved and ceased to exist as agent of NATO Alliance Ground Surveillance Management Organisation (NAGSMO) and on 1 April 2022, NAGSMO entered into Liquidation. Therefore, in line with NATO C-M(66)9 dated 31 January 1966, it is referred to as NAGSMOIL.

This Financial Statement (FS) represent the consolidated activities of the NAGSMOIL and its executive Agent (Liquidator) supported by Office for Liquidation (OfL).

On 21 December 2023, Liquidator and OfL had their last working day and their contracts with NAGSMOIL ended 31 December 2023. Since 1 January 2024 NAGSMOIL consists of the Board of Directors (BoD), Vice-Chair and Chair.

THE NATO ALLIANCE GROUND SURVEILLANCE PROGRAMME

NAGSMO acquired as an agent a NATO owned and operated Alliance Ground Surveillance (AGS) system that gives commanders an up-to-date picture of the situation on the ground throughout a wide area of interest. The AGS Core capability enables the Alliance to perform persistent surveillance over wide areas from high-altitude, long-endurance (HALE), unmanned air platforms operating at considerable stand-off distances and in any weather or light condition. Using advanced radar sensors, the AGS Core continuously detects and tracks moving objects throughout the observed areas, as well as providing radar imagery of areas and stationary objects.

The NAGSMO and its executive body NAGSMA were responsible for the procurement of the NATO AGS Core capability. NAGSMA was established in September 2009, after all Participating Nations signed the AGS Programme Memorandum of Understanding.

In late 2011, NAGSMA completed negotiations of the AGS Core procurement contract which was subsequently approved by the Participating Nations. The AGS Programme contract award was signed on 20 May 2012. In parallel, all 28 NATO nations negotiated the AGS Programme's practical funding solution for the related Capability Package for the future operations and support of the system.

On 31 March 2022, NAGSMA delivered the AGS system and handed over the system to the NATO AGS Force (NAGSF)/NATO Support & Procurement Agency (NSPA) for lifecycle Operations and Maintenance. The executive body was dissolved per NAC decision and the liquidating body Office for Liquidation (OfL) was established from 1 April 2022. OfL was tasked to finalize all pending contractual activities, render final payments for the AGS core system and transfer all NAGSMA record to NATO Archives following NATO regulations.

NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT ORGANISATION in LIQUIDATION

The NATO Alliance Ground Surveillance Management Organisation in Liquidation (NAGSMOIL) is a NATO body with the following tasks:¹

- Complete all current business (NAGSMA/NAGSMO).
- Fulfil the obligations of the Production organisation (NAGSMA).
- Recover the debts due to the Production Organisation (NAGSMA).
- Convert the assets acquired by the Production Organisation into money and distribute the proceeds to its member States in accordance with the provisions of the Charter of the Production Organisation
- Report to Secretary General and NAGSMOIL nations that the liquidation has been completed.

NAGSMOIL comprises a BoD with Representatives from the Participating Nations and Liquidator as the Executive Agent with a small staff (OfL).

Office for Liquidation and Service Support/Level Agreement

OfL have signed service support agreements with the NATO IS, NSPA, and the NCI Agency in a number of areas necessary for the day-to-day operations of the bodies. In all respects of OfL related activities, the Liquidator and staff remain fully accountable for the responsibilities assigned to them and make the final decisions on all matters related to the execution of OfL's mandate.

NAGSMO Financial Management Procedures Document and Financial Rules and Procedures (FMPD-FRP)

The NAGSMO FMPD-FRP conforms to the provisions of the NATO Financial Regulations. At the start of the Liquidation phase on the 1st of April 2022, there were changes to the structure, setup, organizational chart and governance bodies in NAGSMO. These changes are not reflected in the NAGSMO FMPD-FRP document. This inconsistency between the governance document and the actual situation is recognized as a potential compliance issue and may cause an uncertain situation with regards to sound financial management and governance. In order to mitigate the risk, interim governance measures are applied insofar they do not contradict pertinent BoD decisions.²

NAGSMOIL 2023 Administrative Budget

In November 2022 BoD approved the 2023 Budget.³ The Budget covers the budgetary period from 1 January to 31 December 2023.

In 2023 OfL continued finding cost-effective manpower and increased performance solutions.

In 2023 OfL's expenditure were lower than what had been anticipated (52%). Chapter I Personell used only 65% of allocated funds. This is mainly because of reduced payment of

¹ C-M(66)9

² This has already been discussed in IBAN's report (IBA-AR(2023)0013) on the NAGSMOIL FS 2022. NAC has noted (PO(2023)0467) the RPPB report and the IBAN Audit Report.

³ NAGSMOIL/BOD/D/2022/0010AS1

Loss of Job Indemnity (LOJI) and Removal cost since almost everyone in OfL got a new job in NATO. Chapter II Operation and Maintenance used only 31% of allocated funds due to reduced need for Shared Service Agreements and Duty Travel.

Major Achievements FY 2023:

NAGSMOIL focused the activities on achieving the following:

- Complete all current business, including no renewal of personell contracts, and closing all bank accounts.
- Fulfil the obligations of NAGSMA and OfL.
- Closing the AGS Core Contract (June 2023).
- Transfer of all documentations, contracts, BoD correspondence, files to the NATO archive.
- Fulfil the obligations for returning material, equipment, office space etc.
- Closing OfL (21 December 2023).

2024 Outlook

OfL has been terminated and NAGSMOIL consist now of only a BoD with 15 National Representatives, CO-Chair and Chair. The BoD will focus on completing the necessary reports (including Lesson Learned and Annual Report) to provide those documents to the NAC for notation that the NAGSMOIL has ceased to exist and completed its mission according to C-M (66)9.

CERTIFICATION

1. The NAGSMOIL 2023 Financial Statements are submitted to the International Board of Auditors for NATO.
2. The Financial Statements will be audited in accordance with the following reference documents:
 - i. The NAGSMO FMPD-FRP conform to the NFRs, Part II as approved by the North Atlantic Council (NAC) in C-M(2015)0025.
 - ii. PO(2002)109, dated 23 July 2002: the document from the NAC adopting IPSAS, including the accrual and going concern assumptions, as the applicable accounting standards for all NATO entities effective for the financial year of 2006.
 - iii. The NATO Accounting Framework has been developed to provide minimum requirements for financial reporting for all NATO Reporting Entities following approval of C-M(2016)0023 by the North Atlantic Council on 29 April 2016 of an IPSAS-adapted accounting framework for the Alliance.
3. The NAGSMOIL Financial Statements are certified by Chair BOD to the best of his knowledge and according to the applicable accounting standards to give a true and fair view of the assets, liabilities, financial position and financial performance of NAGSMOIL and OfL.⁴
4. The NAGSMOIL Financial Statements may be disclosed to the general public.



John-Arne Nyland
Chairman
NAGSMOIL Board of Director

⁴ This document is signed by Chair BoD since Liquidator's final working day was 21 December 2023 and Liquidator stated that "...the impossibility to perform the draft and signature of 2023 Financial Statement because infringing NFR and physically not practicable (2023 Fiscal Year not ended)". (NAGSMOIL/LIQ/L/(2023)00229).

Chair has the Authorisation from the BoD to: "...to sign any other documents needed to ensure that the close down of OfL and the Dissolution of NAGSMOIL will continue according to plan." (NAGSMOIL/BOD/L/2023/0013)

STATEMENT ON INTERNAL CONTROL

This statement of internal control applies to the Financial Statements of OfL, as the executive body of NAGSMOIL, for the year ended 31 December 2023.

Scope of responsibility

- The Liquidator acknowledges responsibility for the correct use of funds made available to OfL and for maintaining a sound system of internal control that supports the achievement of OfL's mandate under its NATO Charter, whilst safeguarding the public funds and assets.
- Funds received are recorded, accounted and managed through the core financial system. The Board of Directors approved the NAGSMO Financial Management Procedures Document-Financial Rules and Procedures (FMPD-FRP) to provide guidance on the proper handling and reporting of public funds. The FMPD-FRP sets out the relevant financial rules and procedures in accordance with the NATO Financial Regulations, emphasises the need for economy, efficiency and effectiveness, and promotes good practice and high standards of propriety. Office for Liquidation applies the NAGSMO FMPD-FRP document insofar it does not contradict pertinent BoD decisions.

Purpose of the System of Internal Control

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

Risk and Control Framework

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

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

Review of Effectiveness

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

- The executive managers within the organisation who have responsibility for the development and maintenance of the internal control framework;
- Comments made by the external auditors in their management letters and other reports.

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

This document is signed by BoD Chair since Liquidator's final working day was 21 December 2023 and Liquidator stated that "...the impossibility to perform the draft and signature of 2023 Financial Statement because infringing NFR and physically not practicable (2023 Fiscal Year not ended)".⁵ Chair has the Authorisation from the BoD to: "...to sign any other documents needed to ensure that the close down of OfL and the Dissolution of NAGSMOIL will continue according to plan."⁶

John-Arne Nyland
Chairman /NAGSMOIL Board of Director

⁵ NAGSMOIL/LIQ/L/(2023)00229

⁶ NAGSMOIL/BOD/L/2023/0013

NAGSMOIL – Statement of Financial Position
as at 31 December 2023
(all amounts in Euro)

		Notes	Current Year	Prior Year
		Annex B	31-Dec-23	31-Dec-22
Assets				
	Cash and cash equivalents	BO1	0	17,454,943
	Receivables	BO2	581,690	17,144
	Other current assets and prepayments	BO3	3,647,830	38,522
Total Assets			4,229,520	17,510,609
Liabilities				
	Payables	BO4	23,750	1,600,914
	Advances and deferred revenue	BO5	0	5,403,106
	Short term provisions	BO6	26,000	38,522
	Other current liabilities	BO7	4,179,770	10,468,067
Total Liabilities			4,229,520	17,510,609

NAGSMOIL – Statement of Financial Performance
for the year ended 31 December 2023
(all amounts in Euro)

		Notes	Current Year	Prior Year
		Annex C	2023	2022
Revenue				
	Non-exchange transactions	CO1	2,726,462	3,088,307
Total Revenue			2,726,462	3,088,207
Expenses				
	Personell	CO2	2,098,761	2,289,111
	Contractual supplies and services	CO3	627,701	799,196
Total expenses			2,726,462	3,088,307
Net Surplus			0	0

NAGSMOIL – Cash Flow Statement (Indirect Method)
for the year ended 31 December 2023
(all amounts in Euro)

	Notes	Current Year	Prior Year
	Annex D	2023	2022
CASH FLOW FROM OPERATING ACTIVITIES			
Cash flow from operating activities and other activities			
Net surplus/(deficit)		0	0
Decrease/(increase) Current assets			
Other current assets and prepayments		(3,609,308)	51,292
Receivables		(564,546)	(17,144)
Total decrease/(increase) Current assets		(4,173,854)	34,148
Increase/(decrease) Current liabilities			
Short term provisions		(12,522)	(51,292)
Other current liabilities		(6,288,297)	6,720,643
Payables		(1,577,164)	57,678
Advances and deferred revenue		(5,403,106)	(60,928,789)
Total Increase/(decrease) Current liabilities		(13,281,089)	(54,201,759)
NET CASH FLOW FROM OPERATING ACTIVITIES		(17,454,943)	(54,167,612)
Incr/(decr) Long -term payables		0	(1,690,684)
NET CASH FLOW FROM INVESTING ACTIVITIES		0	0
NET CASH FLOW FROM FINANCING ACTIVITIES		0	0
NET INCREASE/(DECREASE) CASH AND EQUIVALENTS		(17,454,943)	(55,858,296)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		17,454,943	73,313,239
CASH AND CASH EQUIVALENTS AT END OF PERIOD		0	17,454,943

**NAGSMOIL – Budget Execution Statement – Administrative Budget
for the period 1 January 2023 – 31 December 2023
(all amounts in Euro)**

	Notes	Initial/Final	Expenditure	Carry Forward	Lapsed
	Annex E	Auth⁷			
Personell	EO1	3,231,938	2,098,761	0	1,133,177
Operation/ Maintenance	EO2	2,021,000	627,701	0	1,393,299
Capital and Investment Budgeting	EO3	2,000	0	0	2,000
Total Budget 2023		5,254,938	2,726,462	0	2,528,476

**NAGSMOIL – Budget Execution Statement – Operational Budget (2018-2021)⁸ for the
period 1 January 2023 – 31 December 2023
(all amounts in Euro)**

	Commitments carried forward from previous years (2018-2021)	Expenditure	Carry Forward	Lapsed
IISS	148,168	147,639	0	529

Lapsed credits will be paid back to nations in 2024.

⁷ 2023 NAGSMOIL Budget approved by BoD (NAGSMOIL/BOD/D/2022/0010AS1) on 9 November 2022. No changes were made on the budget authorization in 2023.

⁸ See NAGSMOIL Financial Statement 2022 page 22.

Notes to the Financial Statements for the year ending 31 December 2023

Index Page

- A. Basis of Preparation and Accounting Policies
- B. Notes to the Statement of Financial Position
- C. Notes to the Statement of Financial Performance
- D. Notes to the Cash Flow Statement
- E. Notes to the Budget Execution Statement
- F. General Notes to the Financial Statements

ANNEX A Basis of Preparation and Accounting Policies

A01 Basis of preparation

The Financial Statement (FS) has been prepared on the accrual basis of accounting in accordance with the International Financial Reporting Standards (IFRS/IAS) as adopted by NAC in 2002. In 2013 and 2016 NAC approved an adaptation to IPSAS to better suit the specific requirement of NATO and associated Accounting Framework.

FS has been prepared in accordance with NATO Accounting Framework, the NATO Financial Regulations (NFR) and NAGSMO Financial Management Procedures Document and Financial Rules and Regulations (FMPD-FRP).

In accordance with Article 2.1 of NFR, the financial year begins on 1 January and ends on 31 December of the year. Due to the closure of OfL no payments were done after 15 December 2023.

This financial statement represents the consolidated activities of NAGSMOIL and its liquidating body (OfL).

This document is signed by BoD Chair since Liquidator's final working day was 21 December 2023 and Liquidator stated that "...the impossibility to perform the draft and signature of 2023 Financial Statement because infringing NFR and physically not practicable (2023 Fiscal Year not ended)".⁹

Chair has the Authorisation from the BoD to: "...to sign any other documents needed to ensure that the close down of OfL and the Dissolution of NAGSMOIL will continue according to plan."

¹⁰

A02 Significant Accounting Policies

Accounting as a Procurement Agent

IPSAS draw a distinction between transactions that an entity undertakes on its own behalf (principal) and those on behalf of other (agent). NAGSMA was considered as a procurement agent and acted as an agent in accordance with a mandate set by the participating Nations. OfL functions as the liquidating body of NAGSMOIL and are tasked to close all pending activities from NAGSMO/NAGSMA.

Foreign Currency Translation

The functional and reporting currency of NAGSMOIL/OfL is EUR. Transactions in other currencies are translated into EUR at the prevailing NATO exchange rates at the time of transaction. Monetary assets and liabilities denominated in other currencies are translated into EUR at the prevailing NATO year-end closing rate. Resulting foreign exchange unrealised gains and losses are recognised as advances from nations. Realised exchange differences are recognised as payables to nations in the Statement of Financial Positions.

Financial instruments

OfL is aware of the risks associated with financial instruments and is bound by NAGSMO Financial Management Procedures Document and Financial Rules and Regulations to keep this risk very low. OfL uses only non-derivate financial instruments (bank and deposit accounts).

⁹ NAGSMOIL/LIQ/L/(2023)00229

¹⁰ NAGSMOIL/BOD/L/2023/0013

Liquidity risk: There is a very limited exposure to liquidity risk because the funding for 2023 is based on prepaid contributions from nations.

Credit risk: There is a very limited credit risk and OfL used three banks to deposit its cash holding. The credit rating of the banks used by OfL are as follows:

DNB Bank ASA: AAA (S&P)

Banque et Caisse d'Epargne de l'Etat: AA+ (S&P)

UniCredit S.p.A: BBB+ (S&P)

Cash and Cash Equivalents includes cash held with the banks.

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

Other Current Assets and Prepayments include prepayments which are payment in advance of the period to which it pertains as well as bank interest receivable at year end.

Payables are amounts due to third parties based on goods received or services provided that remain unpaid. This includes an estimate of accrued obligations to third parties for goods and services received but not yet invoiced.

Advances and Deferred Revenue are contributions called or received related to future years budget. Deferred revenue represents contributions from nations that have been called for current or prior year's budget but that have not yet been recognized as revenue.

Provisions and Contingent Liabilities.: Provisions are recognized when OfL has a present obligation as a result of a past event, and it is probable that OfL will be required to settle that obligation. Provisions are measured at the Liquidator's best estimate of the expenditure required to settle the obligation at the date of the statement of financial position, and are discounted to present value where the effect is material.

Other commitments, which do not meet the recognition criteria for liabilities, are disclosed in the notes to the financial statement as contingent liabilities when their existence will be

confirmed only by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the control of OfL.

Budget Execution Statement: BoD approves the annual budget. Budget may be subsequently amended by the BoD or through the exercise of delegated authority. The budget execution statement provides a comparison of budget and actual amounts calculated on accrual basis.

Revenue and Expense Recognition: revenue comprises of contributions from nations to fund the budget. Where a transfer is subject to conditions that, if unfulfilled, require the return of the fund, OfL recognizes a liability until the condition is fulfilled.

Revenue for the Budget: Contributions to the budget are initially recorded as advances from nations. They are recognized as revenue in the statement of financial performance when such contributions are used for their intended purpose as envisioned in its approved budget.

Interest receivable is credited as payables to nations.

Representation Allowance is included in FS and are expensed in the period to which they relate, and are paid back directly from payroll or reimbursed.

Post-employment benefits

Defined Contribution Plans: OfL employees are member of NATO-wide Defined Contribution Pension Scheme (DCPS) or if they joined NATO before 1 July 2005, they are member of NATO Coordinated Pension Scheme (CPS). The only obligation for OfL to the DCPS is to make the specified contributions. The liability for CPS is accounted for centrally at NATO and therefore are not recognized in this FS.

ANNEX B Notes to the Statement of Financial Position

Notes	Reference	Current Year	Prior Year
		31-Dec-23	31-Dec-22
BO1	Cash and cash equivalents	0	17,454,943
	Operational account	0	8,555,909
	Administrative account	0	8,899,034
BO2	Receivables	581,690	17,144
534,154 (586,661 USD) Refund from FMS case W3-P-LAB funds. Interest from NSPA 2012-2022 will be repaid in 2024 at the amount of 47,536			
BO3	Other current assets and prepayments	3,647,830	38,522
On 21 Dec 2023 NAGSMOIL deposited residual funds to NSPA. NSPA functions as Treasury until dissolution of NAGSMOIL. ¹¹ Before the dissolution the remaining funds will be distributed back according to each nation's preference.			
B04	Payables	23,750	1,600,914
	Accruals	23,750	1,600,914
Services rendered in 2023 that will be paid in 2024 due to no invoices received in 2023.			
BO5	Advances and deferred revenue	0	5,403,106
	Advance towards budget	0	5,254,938
	Deferred revenue	0	148,168
BO6	Short-term provisions	26,000	38,522
Two persons that have left OfL (Non-renewal of Contracts) can claim Removal and Travel cost if they decide to move from Belgium to their home country. The rights to claim Removal and Travel cost ends 31 December 2025.			
BO7	Other current liabilities	4,179.770	10,468,067
Mainly lapsed credits due to be paid to the nations when NAGSMOIL will be dissolved.			

¹¹ NAGSMOIL/INN/2024/009

ANNEX C Notes to the Statement of Financial Performance

Notes	Reference	Current Year	Prior Year
		2023	2022

CO1	Revenue from non-exchange transactions	2,726,462	3,088,307
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Revenue representing funds from nations for expenses incurred during the financial year.

CO2	Personell	2,098,761	2,289,111
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Personell cost (salary, allowances, insurance and pension contributions) for OfL including consultants. Cost also includes former NAGSMA employ that was on sick leave until October 2023.

CO3	Contractual supplies and services	627,701	799,196
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Costs of goods and services used by OfL associated with the general management and administrative activities under the SSA and SLA, such as information management, finances, HR, office space, security, communication services and NATO HQ support. etc.

ANNEX D Notes to the Cash Flow Statement

The cash Flow statement is prepared using the indirect method and summarises the cash movement in and out of OfL during the financial year.

ANNEX E Notes to the Budget Execution Statement

The budget is prepared and presented using the accrual basis. The classification basis adopted for the budget is to show expenditure in three chapter for Personell costs, Operating and Maintenance costs¹² and capital and Investment expenditure.

The actual expenses presented includes accruals (expenses for goods and services delivered before the year-end but not yet invoiced) and therefore reconcile to the expenses in the statement of financial performance after excluding the reversal for the provision for annual leave entitlement. The net commitments are those commitments fir which a contractual obligation has been created before the year-end without the goods and services delivered before the year-end.

EO1 Personell

This category covers mainly salary, allowances, contribution to the employee's pension scheme and employment insurance.

EO2 Operation and Maintenance

Costs of goods and services used by OfL associated with the general management and administrative activities under the SSA and SLA, such as information management, finances, HR, office space, security, communication services and NATO HQ support etc.

EO3 Capital and Investment

Cost for business equipment and software.

¹² Sometime referred to «Contractual supplies and Service costs».

ANNEX F General Notes to the Financial Statements**Related party Disclosure**

OfL have related part relationship with the members of the NAGSMOIL BoD and a number of NATO bodies. All transactions with NATO entities are based on signed Service Level Agreements or similar agreements. NCIA provided administrative services. NATO IS provided operating, HR, administrative, training and other services.

Transactions with NATO bodies:

	Current Year 2023	Prior Year 2022
NATO Communication and Information Agency	190,066	314,853
NATO Support and Procurement Agency	524	3,119,081
NATO International Staff	111,776	104,782
	302,366	3,538,716

Compensation of key management personnel

The remuneration of Directors and other members of key management personnel (NATO civil grade A5 and above) is determined by the NATO salary and was as follows during the year:

	Current Year 2023	Prior Year 2022
Basic salaries	129,709	164,884
Allowances	12,382	15,888
Post-employment benefits	0	19,786
Employer's contribution to Insurance	13,828	18,993
	155,919	219,551