



NORTH ATLANTIC COUNCIL
CONSEIL DE L'ATLANTIQUE NORD

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19 December 2024

**DOCUMENT
PO(2024)0424-AS1**

**IBAN AUDIT REPORTS ON THE 2023 AND 2024 FINANCIAL STATEMENTS OF
NATO MEDIUM EXTENDED AIR DEFENSE SYSTEM MANAGEMENT
ORGANIZATION IN LIQUIDATION (NAMEADSMO i.L.)**

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)0424, approved the conclusions and recommendations in the RPPB report, and approved the public disclosure of the 2023 and 2024 Financial Statements of NAMEADSMO i.L., 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)0424.

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16 December 2024

DOCUMENT
PO(2024)0424
Silence Procedure Ends:
19 Dec 2024 – 17.30

To: Permanent Representatives (Council)

From: Secretary General

**IBAN AUDIT REPORTS ON THE 2023 AND 2024 FINANCIAL STATEMENTS OF NATO
MEDIUM EXTENDED AIR DEFENSE SYSTEM MANAGEMENT ORGANIZATION IN
LIQUIDATION (NAMEADSMO i.L.)**

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 and 2024 resubmitted Financial Statements of the NATO Medium Extended Air Defense System Management Organization in Liquidation (NAMEADSMO i.L.). IBAN issued an unqualified opinion on the resubmitted Financial Statements and a qualified opinion on compliance for the year ended 31 December 2023, and an unqualified opinion on the resubmitted Financial Statements and a qualified opinion on compliance for the period ended 29 August 2024.

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 and 2024 Financial Statements of NAMEADSMO i.L., the associated IBAN Audit Reports and the RPPB report.

(Signed) Mark RUTTE

1 Annex
2 Enclosures

Original: English

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**IBAN AUDIT REPORTS ON THE 2023 AND 2024 FINANCIAL STATEMENTS OF THE
NATO MEDIUM EXTENDED AIR DEFENSE SYSTEM MANAGEMENT ORGANIZATION
IN LIQUIDATION (NAMEADSMO i.L.)**

Report by the Resource Policy and Planning Board

References:

- | | | |
|----|--------------------|--|
| A. | IBA-AR(2024)0022 | IBAN Audit Report on the Financial Statements of the NATO Medium Extended Air Defense System Management Organization in Liquidation (NAMEADSMO i.L.) for the year ended 31 December 2023 |
| B. | IBA-AR(2024)0023 | IBAN Audit Report on the Financial Statements of the NATO Medium Extended Air Defense System Management Organization in Liquidation (NAMEADSMO i.L.) for the period ended 29 August 2024 |
| C. | C-M(2015)0025 | NATO Financial Regulations (NFRs) |
| D. | PO(64)379 | NATO Civilian Personnel Regulations (CPRs) |
| E. | PO(2015)0202 | The NATO-wide policy on Voluntary National Contributions (VNCs) from NATO Member States |
| F. | C-M(2005)0044-ADD1 | Charter of NAMEADSMO |
| G. | C-M(66)9 | Rules Governing the Dissolution of NATO Production Organizations |
| H. | 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 and 2024 resubmitted Financial Statements of the NATO Medium Extended Air Defense System Management Organization in Liquidation (NAMEADSMO i.L.). IBAN issued an unqualified opinion on the resubmitted Financial Statements and a qualified opinion on compliance for the year ended 31 December 2023 (reference A) and an unqualified opinion on the resubmitted Financial Statements and a qualified opinion on compliance for the period ended 29 August 2024 (reference B).

2. 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.

3. The main highlights of the 2023 and 2024 IBAN Audit Reports are covered separately, in the respective sections below. At their meeting on 21 November 2024, the RPPB recalled that the handling arrangements for the 2023 Financial Statements Audit Reports envisage a discussion in the RPPB on the audit reports with a qualified audit opinion. These reports are not presented in the RPPB for discussion given that the IBAN made the same audit observation (observation 1) and recommendation in its audit report on NAGSMO i.L. 2022 Financial Statements, which was discussed in the RPPB on 23 November 2023.

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4. This report emphasises 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.

IBAN AUDIT REPORT ON THE 2023 FINANCIAL STATEMENTS OF NAMEADSMO i.L.**OBSERVATIONS AND RPPB VIEW**

5. IBAN made four observations and recommendations, including one observation and recommendation that impacted the audit opinion on compliance. It relates to the instances of non-compliance with NATO-wide policies on the recruitment, selection and appointment of a Liquidator and Financial Controller. The other three observations relate to significant weaknesses identified in internal controls over the preparation of the financial statements, an instance of non-compliance with NATO Civilian Personnel Regulations (CPRs) (reference D) concerning removal allowances, and the late submission of the NAMEADSMO i.L. 2023 Financial Statements.

5.1. Observation 1 (basis for the qualified opinion on compliance): IBAN found non-compliance with the NATO-wide policy on Voluntary National Contributions (VNCs) from NATO Member States (reference E). The Board of Directors (BoD) of NAMEADSMO i.L. appointed a new Liquidator and Financial Controller. While these positions were permanent posts in the NATO establishment, the BoD appointed VNCs instead. IBAN found that the Financial Controller was selected, nominated and appointed by the NAMEADSMO i.L. BoD instead of the Liquidator and that the appointment was not approved by Council. IBAN also found instances of non-compliance with the NFRs and the NAMEADSMO i.L. Charter (reference F) with regard to the recruitment, selection and appointment of the Financial Controller: the vacancy notice was not published, the recruitment process was not organised in accordance with the NATO Civilian Personnel Regulations (reference F) and an independent selection panel was not convened.

5.1.1. This issue has arisen because the Rules Governing the Dissolution of NATO Production Organisations (the Rules) (reference G) are no longer aligned with, and as such have not been adapted to, the current roles, responsibilities and reporting requirements identified in the NFRs. The RPPB supports IBAN's recommendation that Council task the appropriate governing body to ensure that the Rules provide a clear framework regarding maintaining compliance with the NFRs, 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; and assess whether there is a need for appointing a Liquidator external to the organisation in liquidation in order to complete the liquidation of NATO Procurement, Logistics or Service Organisation (NPLSO) in accordance with NATO-wide policies, and to revise the 'Rules Governing the Dissolution of NATO Production Organisations' (ref. C-M(66)9) accordingly, if needed.

5.1.2. The RPPB recalls that recommendations regarding the Rules were raised in the IBAN audit reports on the 2022 Financial Statements of the NATO Alliance Ground Surveillance Management Organisation in Liquidation (NAGSMO i.L.)¹, on the 2023 Financial Statements of NAGSMO i.L.² and on the 2022 Financial Statements of NAMEADSMO i.L.³. In this respect, the RPPB recalls that Council invited⁴ the International Staff to initiate a review of the 'Rules Governing the Dissolution of NATO Production Organizations' 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.

5.2. Observation 2: IBAN identified significant weaknesses in internal controls over the preparation of the financial statements. IBAN found material misstatements in the Budget Execution Statement, Statement of Financial Position, Statement of Financial Performance and Statement of Cash Flows, various errors in the disclosure notes to the Financial Statements first submitted to IBAN, and uncorrected errors and inconsistencies in the resubmitted Financial Statements. IBAN was informed that 2024 is the last year of operation of NAMEADSMO i.L. and therefore, did not issue an audit recommendation.

5.3. Observation 3: IBAN found that the Liquidator of NAMEADSMO i.L. granted former staff member an extension of his right to entitlement to a removal allowance beyond two years of leaving the organisation with one additional year. This is not compliant with Article 39.5 of the NATO CPRs. IBAN was informed that 2024 is the last year of operation of NAMEADSMO i.L. and therefore, did not issue an audit recommendation.

5.4. Observation 4: Concerning the late submission of the NAMEADSMO i.L. 2023 Financial Statements, the NAMEADSMO i.L. submitted its 2023 Financial Statements on 21 June 2024, and therefore failed to comply with the deadline of 31 March 2023 as laid down in Article 35 of the NFRs. IBAN was informed that 2024 is the last year of operation of NAMEADSMO i.L. and therefore, did not issue an audit recommendation.

5.5. Emphasis of Matter⁵ on the Financial Statements: IBAN included an Emphasis of Matter paragraph to draw attention on misstatements, some of which were material, in the NAMEADSMO i.L. 2023 Financial Statements, initially submitted to IBAN on 21 June 2024. Although NAMEADSMO i.L. made multiple corrections in the resubmission of the 2023 Financial Statements on 20 September 2024, a number of non-material errors and inconsistencies still remained in note F.6 on 'Deferred Revenue and Liability to Nations (reference to observation 2).

¹ IBA AR(2023)0013

² IBA-AR(2024)0005

³ IBA-AR(2024)0001

⁴ PO(2023)0467 (INV) RPPB Report on the IBAN Audit Report on the 2022 Financial Statements of NAGSMO i.L. and PO(2023)0467 (INV)-AS1

⁵ Emphasis of Matter is used when the IBAN considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in its judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

5.6. Other Matter⁶ on Compliance: IBAN included an Other Matter paragraph to draw attention on two issues; firstly, on the late submission of the NAMEADSMO i.L. 2023 Financial Statements (reference to observation 4); and secondly, on the retroactive approval of NAMEADSMO i.L. operational budget.

6. The RPPB notes that NAMEADSMO i.L. resubmitted its Financial Statements to correct material misstatements found by IBAN, and that without these corrections, the NAMEADSMO i.L. 2023 Financial Statements would have included material errors leading to a qualified audit opinion on the Financial Statements and on compliance. 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.

7. IBAN followed up on the status of observations and recommendations from the previous years' audits and found that all were closed or superseded.

IBAN AUDIT REPORT ON THE 2024 FINANCIAL STATEMENTS OF NAMEADSMO i.L.

OBSERVATIONS AND RPPB VIEW

8. IBAN made two observations and recommendations, including one observation and recommendation that impacted the audit opinion on compliance. It relates to the instances of non-compliance with NATO-wide policies on the recruitment, selection and appointment of a Liquidator and Financial Controller. The same observation was raised in the IBAN audit report on the 2023 Financial Statements (reference A) and on the 2022 Financial Statements of NAMEADSMO i.L.⁷. The second observation and recommendation relates to significant weaknesses identified in internal controls over the preparation of the financial statements.

8.1. Observation 1 (basis for the qualified opinion on compliance): Same as under paragraph 5.1.

8.2. Observation 2: IBAN identified significant weaknesses in internal controls over the preparation of the financial statements. They relate to material misstatements in the Statement of Financial Position, Statement of Financial Performance, various errors and omissions in the disclosure notes to the Financial Statements first submitted to IBAN, and to uncorrected errors and inconsistencies in the resubmitted Financial Statements. IBAN was informed that the period ended 29 August 2024 is the last period of operation of NAMEADSMO i.L. and therefore, did not issue an audit recommendation.

⁶ Other Matter is used when the IBAN considers it necessary to communicate a matter other than those that are presented or disclosed in the Financial Statements that, in IBAN's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

⁷ IBA-AR(2024)0001.

8.3. Emphasis of Matter on the Financial Statements: IBAN included an Emphasis of Matter paragraph to draw attention on misstatements, some of which were material, in the NAMEADSMO i.L. 2024 Financial Statements, initially submitted to IBAN on 30 August 2024. Although NAMEADSMO i.L. made multiple corrections in the resubmission of the 2024 Financial Statements on 20 September 2024, a number of non-material errors and inconsistencies still remained.

9. The RPPB notes that NAMEADSMO i.L. resubmitted its Financial Statements to correct material misstatements found by IBAN, and that without these corrections, the NAMEADSMO i.L. 2024 Financial Statements would have included material errors leading to a qualified audit opinion on the Financial Statements.

10. IBAN followed up on the status of observations and recommendations from the previous years' audits and found that all were closed or superseded.

CONCLUSIONS

11. IBAN issued an unqualified opinion on the NAMEADSMO i.L. resubmitted 2023 Financial Statements and a qualified opinion on compliance. Four observations and recommendations were raised for the NAMEADSMO i.L. All previous years' observations and recommendations were closed or superseded.

12. IBAN issued an unqualified opinion on the NAMEADSMO i.L. resubmitted 2024 Financial Statements and a qualified opinion on compliance. Two observations and recommendations were raised for the NAMEADSMO i.L. All previous years' observations and recommendations were closed or superseded.

13. The RPPB reminds that Council⁸ invited the International Staff to initiate a review of the 'Rules Governing the Dissolution of NATO Production Organizations' 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.

14. The RPPB notes that the HFRP raised the topic of the resubmissions of financial statements at the Working Group of Financial Controllers, and also emphasized the importance of strengthening internal controls NATO-wide in order to limit such cases.

15. At their meeting on 21 November 2024, the RPPB recalled that the handling arrangements for the 2023 Financial Statements Audit Reports⁹ envisage a discussion in the RPPB on the audit reports with a qualified audit opinion. These reports are not presented in the RPPB for discussion given that the IBAN made the same audit observation

⁸ PO(2023)0467 (INV) RPPB Report on the IBAN Audit Report on the 2022 Financial Statements of NAGSMO i.L. and PO(2023)0467 (INV)-AS1

⁹ AC/335-D(2024)0069 (INV)

(observation 1) and recommendation in its audit report on NAGSMO i.L. 2022 Financial Statements¹⁰, which was discussed in the RPPB on 23 November 2023.

RECOMMENDATIONS

- 16. The Resource Policy and Planning Board recommends that Council:
 - 16.1. note this report and the IBAN Audit Reports at references A and B;
 - 16.2. approve the conclusions at paragraphs 11 to 15;
 - 16.3. approve the public disclosure of the NAMEADSMO i.L. 2023 and 2024 Financial Statements, their associated IBAN Audit Reports and this report in line with agreed policy at reference H.

¹⁰ IBA-AR(2023)0013



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

Brussels - Belgium



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IBA-A(2024)0128
6 November 2024

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

Cc: NATO Permanent Representatives
Chair of Board of Directors, NAMEADSMO in Liquidation
Head of the Office of the Liquidator, NAMEADSMO in Liquidation
Financial Controller, NAMEADSMO in Liquidation
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 Medium Extended Air Defense System Management Organization in Liquidation (NAMEADSMO i.L.) Financial Statements for the period ended 29 August 2024 – IBA-AR(2024)0023***

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 Medium Extended Air Defense System Management Organization in Liquidation (NAMEADSMO i.L.) and a qualified opinion on compliance for financial year 2024.

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 Medium Extended Air Defense System Management Organization
in Liquidation (NAMEADSMO i.L.)
for the period ended 29 August 2024**

The NATO Medium Extended Air Defense System Management Organization in Liquidation (NAMEADSMO in Liquidation) is responsible for the planning, execution and overall management of the liquidation of the Medium Extended Air Defense System programme with the goal to complete the ongoing effort, safeguard the development results and accomplish a successful closeout on behalf of its members.

Based on Council decision (PO(2016)0230-AS1), NAMEADSMO was put into liquidation starting 1 July 2016, and since that date, NAMEADSMO'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).

NAMEADSMO in Liquidation did not incur any expenses in the period ended 29 August 2024.

IBAN issued an unqualified opinion on the Financial Statements and a qualified opinion on compliance for the period ended 29 August 2024.

During the audit, IBAN made two observations and recommendations. One observation impacts the audit opinion on compliance:

1. Instances of non-compliance with NATO-wide policies on the recruitment, selection and appointment of a Liquidator and Financial Controller.

The other observation does not impact the audit opinion on the Financial Statements and on compliance.

2. Significant weaknesses identified in internal controls over the preparation of the financial statements.

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

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

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IBA-AR(2024)0023

6 November 2024

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE
NATO MEDIUM EXTENDED AIR
DEFENSE SYSTEM MANAGEMENT ORGANIZATION IN LIQUIDATION**

(NAMEADSMO i.L.)

FOR THE PERIOD ENDED 29 AUGUST 2024

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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 NAMEADSMO in Liquidation (NAMEADSMO i.L.), for the period ended 29 August 2024, issued under document reference GM-5006-40026O-OL, and submitted to IBAN on 20 September 2024. These Financial Statements are the last set of Financial Statements submitted by NAMEADSMO i.L. prior to dissolution. These Financial Statements comprise the Statement of Financial Position as at 29 August 2024, the Statement of Financial Performance, the Statement of Changes in Net Assets/Equity and the Statement of Cash Flow, for the period ended 29 August 2024, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a Budget Execution Statement for the period ended 29 August 2024.

In our opinion, the Financial Statements give a true and fair view of the financial position of NAMEADSMO i.L. as at 29 August 2024, and of its financial performance, its cash flows and budget execution for the period ended 29 August 2024, 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.

Emphasis of Matter on the Financial Statements

IBAN found misstatements in the 2024 NAMEADSMO i.L. Financial Statements first submitted to IBAN on 30 August 2024. These misstatements, some of which were material, were corrected in a resubmission of the Financial Statements on 20 September 2024.

Although multiple corrections were made in the resubmission, the following errors and inconsistencies still exist in the resubmitted 2024 NAMEADSMO i.L. Financial Statements:

- With regard to comparative figures on 'Deferred Revenue and Liability to Nations', we noted that the total balance disclosed in note F.6 amounts to USD 6,203,195 while it should amount to USD 6,181,695 at 31 December 2023. As a result, there is a difference of USD 21,500 between the correct balance presented in the Statement of Financial Position (USD 6,181,695) and the total balance in note F.6 to the Financial Statements (USD 6,203,195);
- Note F.1 on 'Significant Accounting Policies' wrongly refers to a reporting date of 31 December 2023 instead of 29 August 2024 in the disclosures of 'Changes in accounting policy' and 'Foreign Currency'.
- Note F.1 on 'Significant Accounting Policies' contains the following erroneous information with regard to 'Comparative Figures': *"The reporting period for the current financial statements of 12 months, is the same as the reporting period for the previous financial statements (01 Jan - 31 Dec 2022). Comparative amounts for related notes are therefore comparable"*. Instead, the reporting period for the 2024 NAMEADSMO i.L. Financial Statements is approximately 8 months (i.e. 1 January 2024 to 29 August 2024) and differs from the annual reporting period of the previous financial statements (i.e. 1 January 2023 to 31 December 2023).

These errors and inconsistencies only affect the presentation and content of the above-mentioned disclosure notes, and do not impact our audit opinion since no material misstatements exist in the comparative figures presented in Statement of Financial Position.

Management's Responsibility for the Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of NAMEADSMO 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.

Basis for Qualified Opinion on Compliance

On 20 September 2022, the NAMEADSMO i.L. Board of Directors decided to select and appoint a new Liquidator and a new Financial Controller from 1 January 2023 onwards. The two individuals concerned were appointed as Voluntary National Contributions to these two permanent posts in the NATO establishment for NAMEADSMO i.L. by the Board of Directors.

We found that the appointment of the NAMEADSMO i.L. Liquidator is not compliant with the NATO-wide policy on Voluntary National Contributions (VNCs) from NATO Member States; and that the recruitment, selection and appointment of the NAMEADSMO i.L. Financial Controller is not compliant with the Charter of NAMEADSMO i.L., the NFRs and the NATO-wide policy on Voluntary National Contributions. Given that both Voluntary National Contributions held executive

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positions with responsibilities over the use of funds in 2024 (i.e. being authorised to enter into commitments and execute payments), the instances of non-compliance with the Charter, the NFRs and the NATO-wide policy on VNCs from NATO Member States, materially impact the audit opinion on compliance in 2024.

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

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

Management's Responsibility for Compliance

All NATO staff, military and civilian, are obligated to comply with the NATO Financial Regulations, associated Financial Rules and Procedures and internal implementing directives. These include the NATO Civilian Personnel Regulations.

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

Auditor's Responsibilities for Compliance

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

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

Brussels, 6 November 2024



Radek Visinger
Chair

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OBSERVATIONS AND RECOMMENDATIONS

IBAN made two observations and recommendations.

One observation impacts the audit opinion on compliance:

1. Instances of non-compliance with NATO-wide policies on the recruitment, selection and appointment of a Liquidator and Financial Controller.

The other observation does not impact the audit opinion on the Financial Statements and on compliance.

2. Significant weaknesses identified in internal controls over the preparation of the financial statements.

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

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

1. INSTANCES OF NON-COMPLIANCE WITH NATO-WIDE POLICIES ON THE RECRUITMENT, SELECTION AND APPOINTMENT OF A LIQUIDATOR AND FINANCIAL CONTROLLER

Reasoning

1.1 On 22 April 2016, the North Atlantic Council agreed to put NAMEADSMO into liquidation, commencing 1 July 2016 (Ref. PO(2016)0230-AS).

1.2 Prior to being put into Liquidation, and in accordance with its Charter, the NAMEADSMO was a NATO Procurement, Logistics or Service Organisation (NPLSO) comprised of:

- A Steering Committee composed of one representative of each Participant who is a member to NAMEADSMO;
- An Executive Body, the NATO MEADS Design and Development, Production and Logistics Management Agency (NAMEADSMA), that consists of the General Manager, the Deputy General Manager and supporting staff.

1.3 With regard to appointment of supporting staff, Article 9.1 of the NAMEADSMO Charter states that these are *"to be appointed by the General Manager in accordance with the table of establishment of NAMEADSMA"*, and Article 9.2.2.13 of the NAMEADSMO Charter states that the General Manager is responsible for *"the*

selection and appointment of individuals to fill positions in NAMEADSMA in accordance with the establishment approved by the Steering Committee”.

1.4 In case of a liquidation and dissolution of a NPLSO, the provisions of ‘Rules governing the dissolution of NATO Production Organisations’ (Ref. C-M(66)9) will apply.

1.5 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”.*

1.6 With regard to the organisation of the NPLSO in Liquidation, these rules 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.”.*

1.7 This implies that, after NAMEADSMO was put into liquidation by decision of the North Atlantic Council, the Steering Committee was replaced by a Board of Directors and the NAMEADSMA as an Executive Body was replaced by a Liquidator that may be assisted by a small staff.

Voluntary National Contributions (VNCs)

1.8 The NATO-wide policy on Voluntary National Contributions (VNCs) from NATO Member States (Ref. PO(2015)0202) *“establishes the conditions for the assignment of military or civilian Voluntary National Contributions (VNCs) from NATO member States to NATO bodies”, and “applies to all NATO bodies to which VNCs are assigned, and may be supplemented as required”.*

1.9 This policy defines VNCs as *“military or civilian national experts from the member States who are assigned to support specific NATO requirements, activities, initiatives, programmes or operations”, and states that VNCs “have and will keep their statutory and/or contractual relationship with their government or other national authority throughout the period of their assignment to NATO”.*

1.10 In accordance with paragraph 3.7 of this policy, *“VNCs shall not hold a permanent post on the NATO establishment”.*

1.11 With regard to identifying permanent posts on the NATO establishment, paragraph 8.8.4 the NAMEADSMO Charter states that the Steering Committee is responsible for *“approving and modifying the structure and size of NAMEADSMA, approving the organisation and establishment of personnel, including prior approval of appointments and positions at and above A5 level”*.

1.12 The policy contains the following provisions on the process to be followed concerning the appointment of VNCs:

- Paragraph 4.1 – *“Any Head of NATO Body may request the nomination of a VNC. When assigned, the Organization shall exercise functional oversight and accordingly, the VNC will be accountable to the Head of NATO Body or his/her delegated authority, for the performance of assigned functions and tasks in accordance with the description of job responsibilities mentioned in paragraph 4.3”*;
- Paragraph 4.3 – *“A VNC’s assignment shall be confirmed through an exchange of letters between NATO and the contributing nation. The letter shall address the modalities of the arrangement, and should include the start date and duration of assignment, as well as a description of job responsibilities.”*

1.13 With regard to the implementation of this policy, paragraph 5.1 states that *“where applicable, Heads of NATO Bodies shall develop and implement detailed instructions for VNCs assigned to them, consistent with all relevant regulations in force. These instructions shall be developed through the appropriate consultative process with Nations.”*

Financial Controller - Recruitment, selection and appointment

1.14 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”*.

1.15 With regard to the recruitment of a Financial Controller, Article 8 of the NFRs states the following:

- Article 8.1 of the NFRs - *“the post of Financial Controller shall be recruited and appointed on the basis of merit by a candidate (preferably a civil servant), of any member country in accordance with the Civilian Personnel Regulations. The Financial Controller shall be nominated for appointment by the Secretary General, the Supreme Commander or the Head of the NATO body concerned, on the basis of recommendations put forward by an independent selection panel.”*;
- Article 8.4 of the NFRs - *“the vacancy notice for Financial Controller posts shall be advertised in accordance with standard recruitment practices.”*

1.16 With regard to the appointment of the Financial Controller, Article 9 of the NFRs states the following:

- Article 9.1 of the NFRs - *“The Financial Controller shall be selected and nominated by the Secretary General, the Supreme Commander or the head of other NATO body concerned”*;
- Article 9.2 of the NFRs - *“The effective appointment and contract renewal of the Financial Controller to the staff of the Secretary General, the Supreme Commander or the other Heads of NATO bodies shall be subject to prior approval by the Council based on the recommendation of the relevant finance committee or appropriate governing body”*.

Observations

1.17 The NATO establishment for NAMEADSMO i.L., as approved by the Board of Directors, contained the following two permanent posts: the posts of Liquidator and Financial Controller.

1.18 On 20 September 2022, the NAMEADSMO i.L. Board of Directors decided to select and appoint a new Liquidator and new Financial Controller from 1 January 2023 onwards. The NATO establishment for NAMEADSMO i.L. remained unchanged as both the Liquidator and Financial Controller posts were maintained as permanent positions in the Executive Body of NAMEADSMO i.L..

Non-compliance with NATO-wide policy on VNCs from NATO Member States

1.19 We noted that the two individuals concerned were appointed as Voluntary National Contributions (by two NATO Member States) to these two permanent posts in the NATO establishment for NAMEADSMO i.L. by the Board of Directors. This is not compliant with paragraph 3.7 of the NATO-wide policy on VNCs from NATO Member States, which states that *“VNCs shall not hold a permanent post on the NATO establishment”*.

1.20 In addition to that, the provisions of paragraph 4.3 of the above-mentioned policy state that a VNC should always be accountable to the Head of NATO Body, or his/her delegated authority, for the performance of assigned functions and tasks in accordance with the VNC’s description of job responsibilities. This also implies that the post of Liquidator (i.e. Head of NATO Body for the Executive Body of NAMEADSMO i.L.) cannot be held by a VNC.

1.21 With regard to the process followed for appointing both VNCs, we found that the appointment of the VNCs is documented in a Board of Directors’ decision sheet. There were no exchanges by letter between NAMEADSMO i.L. and the contributing Nations that confirmed the assignment of both VNCs. Therefore, there is uncertainty about the modalities of the arrangements made, the duration of their assignments and their job responsibilities. This is not compliant with paragraph 4.3 of the NATO-wide policy on VNCs from NATO Member States, which states that *“the letter shall address*

the modalities of the arrangement, and should include the start date and duration of assignment, as well as a description of job responsibilities”.

1.22 With regard to the implementation of the NATO-wide policy on VNCs from NATO Member States, we consider that paragraph 5.1 of the NATO-wide policy on VNCs from NATO Member States applies since two VNCs started working for NAMEADSMO i.L. from 1 January 2023 onwards. However, we noted that NAMEADSMO i.L. did not develop and implement detailed instructions for VNCs assigned to them, consistent with all relevant regulations in force. This is not compliant with paragraph 5.1 of the NATO-wide policy on VNCs from NATO Member States.

Non-compliance with NFRs and the Charter with regard to recruitment, selection and appointment of a Financial Controller

1.23 With regard to the recruitment of the new Financial Controller, we noted that no vacancy notice was published in accordance with standard recruitment practices, no recruitment process was organised in accordance with the Civilian Personnel Regulations and no independent selection panel was convened. This is not compliant with Article 8 of the NFRs.

1.24 With regard to the selection and nomination of the new Financial Controller, we found that the Financial Controller was not selected and nominated by the Liquidator as the Executor of the NAMEADSMO i.L. (i.e. Head of NATO Body for the Executive Body of NAMEADSMO i.L. in accordance with C-M(66)9). Instead, the Financial Controller was selected, nominated and appointed by the NAMEADSMO i.L. Board of Directors. The effective appointment of the Financial Controller is documented in a Board of Directors’ decision sheet; and was not subject to prior approval by the North Atlantic Council based on a recommendation of the NAMEADSMO i.L. Board of Directors. This is not compliant with Article 9 of the NFRs and Article 9 of the NAMEADSMO Charter.

1.25 Given that both VNCs held executive positions with responsibilities over the use of funds in 2024 (i.e. being authorised to enter into commitments and execute payments), IBAN considers that the instances of non-compliance with the Charter, the NFRs and the NATO-wide policy on VNCs from NATO Member States, materially impact the audit opinion on compliance in 2024.

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

1.27 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 may be needed in

practice, since the Executive Body, would not be a position to liquidate itself, when the Liquidator is a NATO civilian staff member of the organisation in liquidation.

Recommendations

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

- a) 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, 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 in accordance with NATO-wide policies, and to revise the 'Rules Governing the Dissolution of NATO Production Organisations (C-M(66)9)' accordingly if needed.

2. SIGNIFICANT WEAKNESSES IDENTIFIED IN 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 2024 NAMEADSMO i.L Financial Statements first submitted to IBAN on 30 August 2024, as described below. These misstatements, some of which were material, were corrected in the first resubmission of the Financial Statements on 20 September 2024. Without these corrections, the 2024 NAMEADSMO i.L Financial Statements would have included material errors leading to a qualified audit opinion on the Financial Statements.

A. *Material misstatements in the Statement of Financial Position*

2.6 We identified the following material misstatements in the Statement of Financial Position first submitted to IBAN:

Current period figures at 29 August 2024

- Cash and Cash Equivalents – Overstated by USD 6,201,221 since the last remaining NAMEADSMO i.L. bank accounts were closed on 14 August 2024, and all remaining NAMEADSMO i.L. were returned to the participating nations prior to the closure of all bank accounts.
- Receivables – Overstated by USD 6,201,221, as this amount was erroneously duplicated in the Statement of Financial Position.
- Deferred Revenue and Liability to Nations – Overstated by USD 6,201,221, as all remaining NAMEADSMO i.L. were returned to the participating nations prior to the closure of the last remaining bank accounts on 14 August 2024.

Comparative figures at 31 December 2023

- Receivables – Overstated by USD 129,423 at 31 December 2023, as we found that there were no open receivables at year end;
- Accounts Payable and Accruals – Understated by USD 21,500 at 31 December 2023 due to missing accruals for education and removal allowances;
- Deferred Revenue and Liability to Nations – Overstated by USD 21,500 at 31 December 2023 due to missing accruals for education and removal allowances that directly impacted the remaining amount of available funds to be returned to the participating nations.

2.7 We identified the following material misstatements in the Statement of Financial Performance first submitted to IBAN:

Comparative figures at 31 December 2023

- Operational Revenue and Operational Expenses – Both overstated by USD 369,261 at 31 December 2023 since NAMEADSMO i.L. did not apply its accounting policy on ‘Accounting as a Procurement Agent’ as per Note F.1 to the Financial Statements and accounted for all transactions related to the operational budget as a Principal instead of an Agent;
- Administrative Revenue and Administrative Expenses – Both overstated by USD 12,684 at 31 December 2023, as NAMEADSMO i.L. recognised an expense for a number of outgoing payments in 2023 while these expenses had already been recognised in the previous financial year.

B. Various errors and omissions in the disclosure notes to the Financial Statements first submitted to IBAN

2.8 We noted that the NAMEADSMO i.L Financial Statements did not contain any notes that summarised significant accounting policies in accordance with the NAF IPSAS 1. Therefore, the Financial Statements first submitted to IBAN were incomplete.

2.9 We noted that the comparative figures disclosed in Note 8 on Revenue and Note 9 on Expenses did not reconcile with the figures presented in the Statement of Financial Performance.

2.10 We identified inconsistencies and errors in the disclosure notes to the Financial Statements, such as redundant disclosures and outdated information in the disclosures on employees and related parties.

C. Uncorrected errors and inconsistencies in the resubmitted Financial Statements

2.11 Apart from the corrected misstatements and errors in the resubmitted Financial Statements listed above, we identified the following remaining errors and inconsistencies in the 2024 NAMEASDMO i.L. Financial Statements after resubmission:

- With regard to comparative figures on ‘Deferred Revenue and Liability to Nations’, we noted that the total balance disclosed in note F.6 amounts to USD 6,203,195 while it should amount to USD 6,181,695 at 31 December 2023. As a result, there is a difference of USD 21,500 between the correct balance presented in the Statement of Financial Position (USD 6,181,695) and the total balance in note F.6 to the Financial Statements (USD 6,203,195);
- Note F.1 on ‘Significant Accounting Policies’ wrongly refers to a reporting date of 31 December 2023 instead of 29 August 2024 in the disclosures of ‘Changes in accounting policy’ and ‘Foreign Currency’.

- Note F.1 on 'Significant Accounting Policies' contains the following erroneous information with regard to 'Comparative Figures': *"The reporting period for the current financial statements of 12 months, is the same as the reporting period for the previous financial statements (01 Jan - 31 Dec 2022). Comparative amounts for related notes are therefore comparable"*. Instead, the reporting period for the 2024 NAMEADSMO i.L. Financial Statements is approximately 8 months (i.e. 1 January 2024 to 29 August 2024) and differs from the reporting period of the previous financial statements (i.e. 1 January 2023 to 31 December 2023).

Recommendations

2.12 IBAN was informed the period ended 29 August 2024 is the last period of operation of NAMEADSMO i.L.. Therefore, we do not issue an audit recommendation.

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) NAMEADSMO i.L. FY 2023 IBA-AR(2024)0022, paragraph 1.28 INSTANCES OF NON-COMPLIANCE WITH NATO-WIDE POLICIES ON THE RECRUITMENT, SELECTION AND APPOINTMENT OF A LIQUIDATOR AND FINANCIAL CONTROLLER IBAN's Recommendation IBAN recommends that Council task the appropriate governing body to: a) Ensure that the Rules Governing the Dissolution of NATO Production Organizations (C-M(66)9) provide a clear framework regarding maintaining	This recommendation is superseded by the recommendation of the first observation in this audit report.	Observation Closed.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
compliance with the NATO Financial Regulations, 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 in accordance with NATO-wide policies, and to revise the 'Rules Governing the Dissolution of NATO Production Organisations (C-M(66)9)' accordingly if needed.	Closed.	
(2) NAMEADSMO I.L. FY 2023 IBA-AR(2024)0022, paragraph 2.28 SIGNIFICANT WEAKNESSES IDENTIFIED IN INTERNAL CONTROLS OVER THE PREPARATION OF THE FINANCIAL STATEMENTS IBAN's Recommendation IBAN was informed that 2024 is the last year of operation of NAMEADSMO i.L.. Therefore, we decided not to issue an audit recommendation.	No recommendation made, and no follow-up required. Closed.	Observation Closed.
(3) NAMEADSMO I.L. FY 2023 IBA-AR(2024)0022, paragraph 3.9 INSTANCE OF NON-COMPLIANCE WITH NATO CIVILIAN PERSONNEL REGULATIONS CONCERNING REMOVAL ALLOWANCES IBAN's Recommendation IBAN was informed that 2024 is the last year of operation of NAMEADSMO i.L.. Therefore, we decided not to issue an audit recommendation.	No recommendation made, and no follow-up required. Closed.	Observation Closed.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(4) NAMEADSMO I.L. FY 2023 IBA-AR(2024)0022, paragraph 4.4 LATE SUBMISSION OF THE 2023 NAMEADSMO I.L. FINANCIAL STATEMENTS IBAN’s Recommendation IBAN was informed that 2024 is the last year of operation of NAMEADSMO i.L.. Therefore, we decided not to issue an audit recommendation.	No recommendation made, and no follow-up required. Closed.	Observation Closed.

NATO MEDIUM EXTENDED AIR DEFENSE SYSTEM MANAGEMENT ORGANIZATION IN LIQUIDATION (NAMEADSMO I.L.) FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

NAMEADSMO in Liquidation made no formal comments on the Report and previous years' observations.

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)0127
6 November 2024

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

Cc: NATO Permanent Representatives
Chair of Board of Directors, NAMEADSMO in Liquidation
Head of the Office of the Liquidator, NAMEADSMO in Liquidation
Financial Controller, NAMEADSMO in Liquidation
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 Medium Extended Air Defense System Management Organization in Liquidation (NAMEADSMO i.L.) Financial Statements for the year ended 31 December 2023 – IBA-AR(2024)0022***

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

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO Medium Extended Air Defense System Management Organization in Liquidation (NAMEADSMO 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 Medium Extended Air Defense System Management Organization
in Liquidation (NAMEADSMO in Liquidation)
for the year ended 31 December 2023**

The NATO Medium Extended Air Defense System Management Organization in Liquidation (NAMEADSMO in Liquidation) is responsible for the planning, execution and overall management of the liquidation of the Medium Extended Air Defense System programme with the goal to complete the ongoing effort, safeguard the development results and accomplish a successful closeout on behalf of its members.

Based on Council decision (PO(2016)0230-AS1), NAMEADSMO was put into liquidation starting 1 July 2016, and since that date, NAMEADSMO'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 total expenses of NAMEADSMO in Liquidation in 2023 amounted to USD 34,170.

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 four observations and recommendations. One observation impacts the audit opinion on compliance:

1. Instances of non-compliance with NATO-wide policies on the recruitment, selection and appointment of a Liquidator and Financial Controller.

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

2. Significant weaknesses identified in internal controls over the preparation of the financial statements.
3. Instance of non-compliance with NATO Civilian Personnel Regulations concerning removal allowances.
4. Late submission of the NAMEADSMO i.L. 2023 Financial Statements.

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

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

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IBA-AR(2024)0022

6 November 2024

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE
NATO MEDIUM EXTENDED AIR
DEFENSE SYSTEM MANAGEMENT ORGANIZATION IN LIQUIDATION**

(NAMEADSMO i.L.)

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 Financial Statements of NAMEADSMO in Liquidation (NAMEADSMO i.L.), for the 12 month period ended 31 December 2023, issued under document reference GM-5006 40026O-OL, and submitted to IBAN on 20 September 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 NAMEADSMO 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.

Emphasis of Matter on the Financial Statements

IBAN found misstatements in the 2023 NAMEADSMO i.L. Financial Statements first submitted to IBAN on 21 June 2024. These misstatements, some of which were material, were corrected in a resubmission of the Financial Statements on 20 September 2024.

Although multiple corrections were made in the resubmission, the following errors and inconsistencies still exist in note F.6 on 'Deferred Revenue and Liability to Nations' of the resubmitted 2023 NAMEADSMO i.L. Financial Statements:

- The total 'Liability to Nations' in relation to the operational budget amounts to USD 4,712,325 while it should amount to USD 4,466,898 at 31 December 2023. The erroneous amount at 31 December 2023 corresponds to the position at 31 December 2022, which NAMEADSMO i.L. did not update;
- The total balance of 'Deferred Revenue and Liability to Nations' amounts to USD 6,203,195 while it should amount to USD 6,181,695 at 31 December 2023. As a result, there is a difference of USD 21,500 between the correct balance presented in the Statement of Financial Position (USD 6,181,695) and the total balance in note F.6 to the Financial Statements (USD 6,203,195).

These errors and inconsistencies only affect the presentation of the disclosure note on 'Deferred Revenue and Liability to Nations', and do not impact our audit opinion since no material misstatements exist in the Statement of Financial Position at 31 December 2023.

Management's Responsibility for the Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of NAMEADSMO 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.

Basis for Qualified Opinion on Compliance

On 20 September 2022, the NAMEADSMO i.L. Board of Directors decided to select and appoint a new Liquidator and a new Financial Controller from 1 January 2023 onwards. The two individuals concerned were appointed as Voluntary National Contributions to these two permanent posts in the NATO establishment for NAMEADSMO i.L. by the Board of Directors.

We found that the appointment of the NAMEADSMO i.L. Liquidator is not compliant with the NATO-wide policy on Voluntary National Contributions (VNCs) from NATO Member States; and that the recruitment, selection and appointment of the NAMEADSMO i.L. Financial Controller is not compliant with the Charter of NAMEADSMO i.L, the NFRs and the NATO-wide policy on Voluntary National Contributions. Given that both Voluntary National Contributions held executive positions with responsibilities over the use of funds in 2023 (i.e. being authorised to enter into commitments and execute payments), the instances of non-compliance with the Charter, the NFRs and the NATO-wide policy on VNCs from NATO Member States, materially impact the audit opinion on compliance in 2023.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to

provide a basis for our opinion.

Other Matters on Compliance

Firstly, according to the NATO Financial Regulations (NFRs), the deadline for submitting the 2023 financial statements for audit to IBAN was 31 March 2024. NAMEADSMO i.L. submitted its signed Financial Statements for the financial year ending 31 December 2023 on 21 June 2024, and therefore failed to comply with the deadline of 31 March 2024 as laid down in the NFRs. IBAN agreed to audit a resubmitted version of the 2023 NAMEADSMO i.L. Financial Statements in response to a request from NAMEADSMO i.L. to correct material misstatements and errors in disclosure notes identified by IBAN during the audit period.

Without these corrections, the 2023 NAMEADSMO i.L. Financial Statements would have included material errors leading to both a qualified audit opinion on the Financial Statements and on compliance. The resubmitted Financial Statements were sent to IBAN on 20 September 2024 (i.e. after the deadline of 31 March 2024).

Secondly, we found that NAMEADSMO i.L.'s operational budget for financial year 2023 was only approved retroactively on 16 January 2024 (i.e. after the end of the financial year on 31 December 2023). Therefore, in 2023, NAMEADSMO i.L. initially entered into commitments and executed payments without any authority to spend.

Management's Responsibility for Compliance

All NATO staff, military and civilian, are obligated to comply with the NATO Financial Regulations, associated Financial Rules and Procedures and internal implementing directives. These include the NATO Civilian Personnel Regulations.

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

Auditor's Responsibilities for Compliance

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

This responsibility includes performing procedures to obtain independent assurance

about whether funds have been properly used for the settlement of authorised expenditure and whether they have been used in compliance with the regulations in force. Such procedures include consideration of the risks of material non-compliance.

Brussels, 6 November 2024

A handwritten signature in blue ink, appearing to read 'Radek Visinger', written in a cursive style.

Radek Visinger
Chair

OBSERVATIONS AND RECOMMENDATIONS

IBAN made four observations and recommendations.

One observation impacts the audit opinion on compliance:

1. Instances of non-compliance with NATO-wide policies on the recruitment, selection and appointment of a Liquidator and Financial Controller.

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

2. Significant weaknesses identified in internal controls over the preparation of the financial statements.
3. Instance of non-compliance with NATO Civilian Personnel Regulations concerning removal allowances.
4. Late submission of the NAMEADSMO i.L. 2023 Financial Statements.

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

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

1. INSTANCES OF NON-COMPLIANCE WITH NATO-WIDE POLICIES ON THE RECRUITMENT, SELECTION AND APPOINTMENT OF A LIQUIDATOR AND FINANCIAL CONTROLLER

Reasoning

1.1 On 22 April 2016, the North Atlantic Council agreed to put NAMEADSMO into liquidation, commencing 1 July 2016 (Ref. PO(2016)0230-AS).

1.2 Prior to being put into Liquidation, and in accordance with its Charter, the NAMEADSMO was a NATO Procurement, Logistics or Service Organisation (NPLSO) comprised of:

- A Steering Committee composed of one representative of each Participant who is a member to NAMEADSMO;
- An Executive Body, the NATO MEADS Design and Development, Production and Logistics Management Agency (NAMEADSMA), that consists of the General Manager, the Deputy General Manager and supporting staff.

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1.3 With regard to appointment of supporting staff, Article 9.1 of the NAMEADSMO Charter states that these are *“to be appointed by the General Manager in accordance with the table of establishment of NAMEADSMA”*, and Article 9.2.2.13 of the NAMEADSMO Charter states that the General Manager is responsible for *“the selection and appointment of individuals to fill positions in NAMEADSMA in accordance with the establishment approved by the Steering Committee”*.

1.4 In case of a liquidation and dissolution of a NPLSO, the provisions of ‘Rules governing the dissolution of NATO Production Organisations’ (Ref. C-M(66)9) will apply.

1.5 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”*.

1.6 With regard to the organisation of the NPLSO in Liquidation, these rules 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.”*

1.7 This implies that, after NAMEADSMO was put into liquidation by decision of the North Atlantic Council, the Steering Committee was replaced by a Board of Directors and the NAMEADSMA as an Executive Body was replaced by a Liquidator that may be assisted by a small staff.

Voluntary National Contributions (VNCs)

1.8 The NATO-wide policy on Voluntary National Contributions (VNCs) from NATO Member States (Ref. PO(2015)0202) *“establishes the conditions for the assignment of military or civilian Voluntary National Contributions (VNCs) from NATO member States to NATO bodies”*, and *“applies to all NATO bodies to which VNCs are assigned, and may be supplemented as required”*.

1.9 This policy defines VNCs as *“military or civilian national experts from the member States who are assigned to support specific NATO requirements, activities, initiatives, programmes or operations”*, and states that VNCs *“have and will keep their statutory and/or contractual relationship with their government or other national authority throughout the period of their assignment to NATO”*.

1.10 In accordance with paragraph 3.7 of this policy, *“VNCs shall not hold a permanent post on the NATO establishment”*.

1.11 With regard to identifying permanent posts on the NATO establishment, paragraph 8.8.4 of the NAMEADSMO Charter states that the Steering Committee is responsible for *“approving and modifying the structure and size of NAMEADSMA, approving the organisation and establishment of personnel, including prior approval of appointments and positions at and above A5 level”*.

1.12 The policy contains the following provisions on the process to be followed concerning the appointment of VNCs:

- Paragraph 4.1 – *“Any Head of NATO Body may request the nomination of a VNC. When assigned, the Organization shall exercise functional oversight and accordingly, the VNC will be accountable to the Head of NATO Body or his/her delegated authority, for the performance of assigned functions and tasks in accordance with the description of job responsibilities mentioned in paragraph 4.3”*;
- Paragraph 4.3 – *“A VNC’s assignment shall be confirmed through an exchange of letters between NATO and the contributing nation. The letter shall address the modalities of the arrangement, and should include the start date and duration of assignment, as well as a description of job responsibilities.”*

1.13 With regard to the implementation of this policy, paragraph 5.1 states that *“where applicable, Heads of NATO Bodies shall develop and implement detailed instructions for VNCs assigned to them, consistent with all relevant regulations in force. These instructions shall be developed through the appropriate consultative process with Nations.”*

Financial Controller - Recruitment, selection and appointment

1.14 In accordance with Article 6.1 of the NATO Financial Regulations (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”*.

1.15 With regard to the recruitment of a Financial Controller, Article 8 of the NFRs states the following:

- Article 8.1 of the NFRs - *“the post of Financial Controller shall be recruited and appointed on the basis of merit by a candidate (preferably a civil servant), of any member country in accordance with the Civilian Personnel Regulations. The Financial Controller shall be nominated for appointment by the Secretary General, the Supreme Commander or the Head of the NATO body concerned, on the basis of recommendations put forward by an independent selection panel.”*;

- Article 8.4 of the NFRs - *“the vacancy notice for Financial Controller posts shall be advertised in accordance with standard recruitment practices.”*

1.16 With regard to the appointment of the Financial Controller, Article 9 of the NFRs states the following:

- Article 9.1 of the NFRs - *“The Financial Controller shall be selected and nominated by the Secretary General, the Supreme Commander or the head of other NATO body concerned”;*
- Article 9.2 of the NFRs - *“The effective appointment and contract renewal of the Financial Controller to the staff of the Secretary General, the Supreme Commander or the other Heads of NATO bodies shall be subject to prior approval by the Council based on the recommendation of the relevant finance committee or appropriate governing body”.*

Observations

1.17 The NATO establishment for NAMEADSMO i.L, as approved by the Board of Directors, contained the following two permanent posts: the posts of Liquidator and Financial Controller.

1.18 On 20 September 2022, the NAMEADSMO i.L. Board of Directors decided to select and appoint a new Liquidator and new Financial Controller from 1 January 2023 onwards. The NATO establishment for NAMEADSMO i.L. remained unchanged as both the Liquidator and Financial Controller posts were maintained as permanent positions in the Executive Body of NAMEADSMO i.L..

Non-compliance with NATO-wide policy on VNCs from NATO Member States

1.19 We noted that the two individuals concerned were appointed as VNCs (by two NATO Member States) to these two permanent posts in the NATO establishment for NAMEADSMO i.L. by the Board of Directors. This is not compliant with paragraph 3.7 of the NATO-wide policy on VNCs from NATO Member States, which states that *“VNCs shall not hold a permanent post on the NATO establishment”*.

1.20 In addition to that, the provisions of paragraph 4.3 of the above-mentioned policy state that a VNC should always be accountable to the Head of NATO Body, or his/her delegated authority, for the performance of assigned functions and tasks in accordance with the VNC’s description of job responsibilities. This also implies that the post of Liquidator (i.e. Head of NATO Body for the Executive Body of NAMEADSMO i.L.) cannot be held by a VNC.

1.21 With regard to the process followed for appointing both VNCs, we found that the appointment of the VNCs is documented in a Board of Directors’ decision sheet. There were no exchanges by letter between NAMEADSMO i.L. and the contributing Nations that confirmed the assignment of both VNCs. Therefore, there is uncertainty about the modalities of the arrangements made, the duration of their assignments and

their job responsibilities. This is not compliant with paragraph 4.3 of the NATO-wide policy on VNCs from NATO Member States, which states that “the letter shall address the modalities of the arrangement, and should include the start date and duration of assignment, as well as a description of job responsibilities”.

1.22 With regard to the implementation of the NATO-wide policy on VNCs from NATO Member States, we consider that paragraph 5.1 of the NATO-wide policy on VNCs from NATO Member States applies since two VNCs started working for NAMEADSMO i.L. from 1 January 2023 onwards. However, we noted that NAMEADSMO i.L. did not develop and implement detailed instructions for VNCs assigned to them, consistent with all relevant regulations in force. This is not compliant with paragraph 5.1 of the NATO-wide policy on VNCs from NATO Member States.

Non-compliance with NFRs and the Charter with regard to recruitment, selection and appointment of a Financial Controller

1.23 With regard to the recruitment of the new Financial Controller, we noted that no vacancy notice was published in accordance with standard recruitment practices, no recruitment process was organised in accordance with the Civilian Personnel Regulations and no independent selection panel was convened. This is not compliant with Article 8 of the NFRs.

1.24 With regard to the selection and nomination of the new Financial Controller, we found that the Financial Controller was not selected and nominated by the Liquidator as the Executor of the NAMEADSMO i.L. (i.e. Head of NATO Body for the Executive Body of NAMEADSMO i.L. in accordance with C-M(66)9). Instead, the Financial Controller was selected, nominated and appointed by the NAMEADSMO i.L. Board of Directors. The effective appointment of the Financial Controller is documented in a Board of Directors’ decision sheet; and was not subject to prior approval by the North Atlantic Council based on a recommendation of the NAMEADSMO i.L. Board of Directors. This is not compliant with Article 9 of the NFRs and Article 9 of the NAMEADSMO Charter.

1.25 Given that both VNCs held executive positions with responsibilities over the use of funds in 2023 (i.e. being authorised to enter into commitments and execute payments), IBAN considers that the instances of non-compliance with the Charter, the NFRs and the NATO-wide policy on VNCs from NATO Member States, materially impact the audit opinion on compliance in 2023.

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

1.27 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 may be needed in practice, since the Executive Body, would not be a position to liquidate itself, when the Liquidator is a NATO civilian staff member of the organisation in liquidation.

Recommendations

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

- a) 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, 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 in accordance with NATO-wide policies, and to revise the 'Rules Governing the Dissolution of NATO Production Organisations (C-M(66)9)' accordingly if needed.

2. SIGNIFICANT WEAKNESSES IDENTIFIED IN 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 NAMEADSMO i.L Financial Statements first submitted to IBAN on 21 June 2024, as described below. These misstatements, some of which were material, were corrected in the first resubmission of the Financial Statements on 20 September 2024. Without these corrections, the 2023 NAMEADSMO 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 first submitted to IBAN*

2.6 We found that the units of figures for the operational budget were presented in thousands of USD while the units of figures for the administrative budget were presented in USD without indicating which units of figures were applied to the Budget Execution Statement. The total budget was presented as a sum of the operational budget (expressed in thousands of USD) and the administrative budget (expressed in USD) without adjusting for the difference in units of figures, resulting in material misstatements in the presentation of the budget execution statement.

2.7 We noted that no lapses for the administrative budget were presented in the Budget Execution Statement, while not all appropriations had been used at 31 December 2023.

B. *Material misstatements in the Statement of Financial Position, Statement of Financial Performance and Statement of Cash Flows first submitted to IBAN*

2.8 We identified the following material misstatements in the Statement of Financial Position first submitted to IBAN:

- Receivables – Overstated by USD 129,423 at 31 December 2023, as we found that there were no open receivables at year end;
- Accounts Payable and Accruals – Understated by USD 21,500 at 31 December 2023 due to missing accruals for education and removal allowances;
- Deferred Revenue and Liability to Nations – Overstated by USD 21,500 at 31 December 2023 due to missing accruals for education and removal allowances that directly impacted the remaining amount of available funds to be returned to the participating nations.

2.9 We identified the following material misstatements in the Statement of Financial Performance first submitted to IBAN:

- Operational Revenue and Operational Expenses – Both overstated by USD 369,261 at 31 December 2023 since NAMEADSMO i.L. did not apply its accounting policy on 'Accounting as a Procurement Agent' as per Note F.1 to the Financial Statements and accounted for all transactions related to the operational budget as a Principal instead of an Agent;
- Administrative Revenue and Administrative Expenses – Both overstated by USD 12,684 at 31 December 2023, as NAMEADSMO i.L. recognised an expense for a number of outgoing payments in 2023, while these expenses had already been recognised in the previous financial year.

2.10 We noted that the total cash flows from operating activities in the Statement of Cash Flows were overstated by USD 102,938.

C. Various errors in the disclosure notes to the Financial Statements first submitted to IBAN

2.11 We noted that the current year figures disclosed in Note F.9 on Revenue and Note F.10 on Expenses did not reconcile with the figures presented in the Statement of Financial Performance.

2.12 We identified inconsistencies and errors in the disclosure notes to the Financial Statements, such as references to the wrong financial year, redundant disclosures, and outdated information in the disclosures on employees and related parties.

D. Uncorrected errors and inconsistencies in the resubmitted Financial Statements

2.13 Apart from the corrected misstatements and errors in the resubmitted Financial Statements listed above, we identified the following remaining errors and inconsistencies in note F.6 on 'Deferred Revenue and Liability to Nations' after resubmission:

- The total 'Liability to Nations' in relation to the operational budget amounts to USD 4,712,325 while it should amount to USD 4,466,898 at 31 December 2023. The erroneous amount at 31 December 2023 corresponds to the position at 31 December 2022, which NAMEADSMO i.L. did not update;
- The total balance of 'Deferred Revenue and Liability to Nations' amounts to USD 6,203,195 while it should amount to USD 6,181,695 at 31 December 2023. As a result, there is a difference of USD 21,500 between the correct balance presented in the Statement of Financial Position (USD 6,181,695) and the total balance in note F.6 to the Financial Statements (USD 6,203,195).

Recommendations

2.14 IBAN was informed that 2024 is the last year of operation of NAMEADSMO i.L. Therefore, we do not issue an audit recommendation.

3. INSTANCE OF NON-COMPLIANCE WITH NATO CIVILIAN PERSONNEL REGULATIONS CONCERNING REMOVAL ALLOWANCES

Reasoning

3.1 In accordance with Article 39.1 of the NATO Civilian Personnel Regulations (NCPRs), *“Members of the Staff eligible for the payment of installation allowance under Article 26.1 shall be entitled to the removal, at the expense of the Organization, of their household goods and personal effects.”*

3.2 In accordance with Article 26.1 of the NCPRs, eligible staff members for the payment of an installation allowance are those staff members *“whose actual and habitual residence at the time of their appointment by NATO for an appointment of at least one year, or of their transfer for at least one year to a different duty station, is more than 100 km away from their assigned duty station and who can prove and confirm by submitting the appropriate documentation that they have in fact moved their residence in order to take up duty, are eligible for the installation allowance.”*

3.3 Article 39.5 of the NCPRs states that *“The Organization will pay, according to the provisions of Article 38.1, for two consignments of household effects to the place of employment and for two consignments from the place of employment. The entitlement to removal shall normally lapse if not claimed within 3 years of joining or within 2 years of leaving the Organization. Warehousing or other storage costs, other than those directly incidental to normal transportation expenses, shall not be admitted.”*

Observations

3.4 A former staff member of NAMEADSMO i.L., who was eligible for a removal allowance payment in accordance with the NCPRs and whose employment contract ended on 31 December 2020, requested an extension of his right to entitlement to a removal allowance beyond two years of leaving the organisation (i.e. beyond 31 December 2022).

3.5 On 17 November 2022, and in response to this request, the Liquidator of NAMEADSMO i.L. granted the individual concerned an extension of his right to entitlement to a removal allowance with one additional year (i.e. until 31 December 2023).

3.6 The former employee's second consignment of household effects was moved from the place of employment in 2023, after which NAMEADSMO i.L. received an

invoice of USD 20,590 on 20 July 2023. This invoice was paid by NAMEADSMO i.L. on 31 July 2023.

3.7 We found that the NAMEADSMO i.L. Liquidator's decision to extend a former staff member's entitlement to a removal allowance beyond two years of leaving the organisation is not compliant with Article 39.5 of the NCPRs. As a result, expenditure of USD 20,950 was incurred in 2023 in a manner that is not compliant with the NCPRs.

3.8 We also noted that no justification was documented in support of the Liquidator's decision that the entitlement to removal shall not lapse within two years of leaving the Organization, when the NCPRs state that it shall normally lapse.

Recommendations

3.9 IBAN was informed that 2024 is the last year of operation of NAMEADSMO i.L. Therefore, we do not issue an audit recommendation.

4. LATE SUBMISSION OF THE NAMEADSMO I.L. 2023 FINANCIAL STATEMENTS

Reasoning

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

Observations

4.2 NAMEADSMO i.L. submitted its signed Financial Statements for the financial year ending 31 December 2023 on 21 June 2024, and therefore failed to comply with the deadline of 31 March 2023 as laid down in Article 35 of the NFRs.

4.3 On 28 March 2024, NAMEADSMO i.L. informed us of a delay in the submission of its Financial Statements for the financial year ending 31 December 2023, and clarified that the late submission of its Financial Statements was due to not having access to the NATO Parity Rates since these are not made publicly available outside of NATO.

Recommendations

4.4 IBAN was informed that 2024 is the last year of operation of NAMEADSMO i.L. Therefore, we do not issue an audit recommendation.

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) NAMEADSMO i.L. FY 2022 IBA-AR(2024)0001, paragraph 1.14 SIGNIFICANT WEAKNESSES IDENTIFIED IN INTERNAL CONTROLS OVER THE PREPARATION OF THE FINANCIAL STATEMENTS IBAN's Recommendation IBAN recommends NAMEADSMO 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 prepared and presented in compliance with the NATO Accounting Framework and NATO Financial Regulations (NFRs).	This recommendation is superseded by the recommendation of the second observation in this Audit Report. Closed.	Observation Closed.
(2) NAMEADSMO i.L. FY 2022 IBA-AR(2024)0001, paragraph 2.28 INSTANCES OF NON-COMPLIANCE WITH NATO-WIDE POLICIES ON THE RECRUITMENT, SELECTION AND APPOINTMENT OF A LIQUIDATOR AND FINANCIAL CONTROLLER IBAN's Recommendation IBAN recommends that NAMEADSMO i.L. complies with its Charter, the NATO Financial Regulations, and the NATO-wide policy on Voluntary National Contributions (VNCs) from NATO Member States, regarding the employment of the staff of the Office of the Liquidator.	This recommendation is superseded by the recommendation of the first observation in this Audit Report. Closed.	Observation Closed.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(3) NAMEADSMO I.L. FY 2022 IBA-AR(2024)0001, paragraph 3.3 LATE SUBMISSION OF THE 2022 NAMEADSMO I.L. FINANCIAL STATEMENTS IBAN's Recommendation IBAN recommends NAMEADSMO i.L. to ensure that its financial statements are submitted within the deadline set in Article 35 of the NATO Financial Regulations (NFRs).	This recommendation is superseded by the recommendation of the fourth observation in this Audit Report. Closed.	Observation Closed.
(4) NAMEADSMO I.L. FY 2022 IBA-AR(2024)0001, paragraph 4.6 INCOMPLETE AUDIT TRAIL FOR AN EXPENSE RECORDED AND PAYMENT MADE IN RELATION TO HOME LEAVE IBAN's Recommendation IBAN recommends NAMEADSMO i.L. to maintain comprehensive accounting records of all transactions and ensure the existence of adequate audit trails.	We noted that NAMEADSMO i.L. maintained comprehensive accounting records of all transactions and ensured the existence of adequate audit trails in support of all transactions in 2023. Closed.	Observation Closed.

NATO MEDIUM EXTENDED AIR DEFENSE SYSTEM MANAGEMENT ORGANIZATION IN LIQUIDATION (NAMEADSMO I.L.) FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

NAMEADSMO in Liquidation made no formal comments on the Report and previous years' observations.

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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North Atlantic Treaty Organization



NATO Medium Extended Air Defense System Management Organization in Liquidation



Financial Statements

For the year ended

29 August 2024

Serial # GM-5006-40026O-OL

PUBLICLY DISCLOSED - PDN(2025)0015 - MIS EN LECTURE-PUBLIQUE

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A. Overview of NAMEADSMO i.L. Operations and Environment

General description of the NATO MEADS Management Organization in Liquidation

The North Atlantic Treaty Organization (NATO) Medium Extended Air Defense System Management Organization (NAMEADSMO) is a NATO Development, Production and Logistics Organization (NPLO), a subsidiary body of NATO created by the North Atlantic Council with the “Charter of NAMEADSMO”, documented at C-M(2005)0044-ADD1. Per virtue of the Section VII of the Charter, the organization comprises a Steering Committee (now called Board of Directors), and a NATO Agency whose headquarter is located in the United States of America.

NAMEADSMO shares the international characteristics of NATO and the jurisdictional autonomy by virtue of Article 4 of the Ottawa Agreement. NAMEADSMO was created to provide direction, coordination, and execution of all phases of the MEADS program as delineated by the participating Nations. The participating Nations (Participants) are Germany, Italy, and the United States of America.

On 4 April 2016, the Board of Directors (BoD) submitted a formal request to the North Atlantic Council (NAC) to place NAMEADSMO into Liquidation (NAMEADSMO i.L.). This request was approved and became effective on 1 July 2016.

NAMEADSMO i.L. is comprised of a BoD, composed of one representative from each of the Participants, and the Office of the Liquidator (OotL) which replaced the former NATO MEADS Management Agency (NAMEADSMA).

Consequently, NAMEADSMO i.L. and its staff are under the governance of the NATO Document C-M(66)9 which states in Article 1.b):

“Until the liquidation is completed, the provision 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.”

The liquidation phase for the MEADS program is financed with the “inherited” contributions received prior to the liquidation phase from participating Governments in accordance with the Financial Management Policy Document (FMPD) and in accordance with the terms stipulated in the Design and Development (D&D) Memorandum of Understanding (MoU). While some parts of the MoU expired on 22 April 2017, Section 19.7 provides application in perpetuity of the Sections “Equipment”, “Disclosure and Use of Project Information”, “Controlled unclassified Information, “Security”, “Third Party Sales and transfers”, “Liability and Claims” and “Amendment, Termination, Entry into Effect, and Duration”.

The FMPD specifies the financial management policies and the funding schedule set for the MEADS D&D phase also applicable for the liquidation phase. It delineates the Participants’ annual cumulative financial ceilings which are the basis for the NAMEADSMO i.L. annual budgets. The budgets consist of the Administrative and Operational Budgets. Germany, Italy and the USA (DEU/ITA/USA) percentage shares of the total contribution ceiling are 25.2%, 16.7% and 58.1% respectively, including a portion of non-financial contributions as defined in the FMPD. No further contribution by each Nation will occur during the liquidation phase. The total contribution ceilings for Germany and Italy for the Operational Budget (OB) were reached in 2013 and for the Administrative Budget (AB) in 2014. The USA will not reach their contribution ceilings for either budget as it was noted with BoD decision D14/08 that “no additional USA funds will be provided for the remainder of the MEADS program.”

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There are no cumulative D&D costs incurred until 29 August 2024.

The organization of the OotL changed from previous years. As of 31 December 2022, the NATO employment contracts for the Office of the Liquidator position of Liquidator (DEU) and Business Financial Manager (DEU)/acting Financial Controller (DEU) expired. The MEADS Board of Directors appointed a US Department of the Army Civilian Servant to the position of Financial Controller and a German Ministry of Defense Civilian Servant to the position of Liquidator.

NAMEADSMO i.L. has no liens or encumbrances on the agency's assets.

NAMEADSMO i.L. has given no guarantees to third parties.

NAMEADSMO i.L. is located in Huntsville, Alabama, USA.

All operational and administrative effort is completed and closed out. All unused funds have been returned to Nations and all bank accounts are closed.

Parallel to closing down the operational part of the agency, the OotL continues the liquidation effort on the administrative side as well. All 2023 administrative effort is complete and final invoices have been paid. On 29 December 2023, the MEADS Board of Directors authorized €100,000 of administrative funds be placed in a German bank trust account in order to settle NAMEADSMO i.L. liabilities in relation to the employment of former employees that would exist between the date of closure of all bank accounts and 31 December 2024. In essence, any NAMEADSMO i.L. liabilities that would exist between the date of closure of all bank accounts and 31 December 2024 are transferred to the German State on behalf of the MEADS partner nations. The German State, acting on behalf of the MEADS partner nations, will settle these liabilities with the funds held on the German bank trust account. All unused funds at 31 December 2024 will directly be returned to the MEADS partner nations in accordance with an agreed sharing key immediately after 31 December 2024, hence no NAMEADSMO i.L. receivables exist at 29 August 2024 in relation to this transfer of €100,000 since these funds are considered to have been fully returned to the MEADS partner nations.

With the above-mentioned authorization of the MEADS Board of Directors, €100,000 of administrative funds were transferred to a German bank trust account on 5 January 2024. The last remaining bank accounts were closed on 14 August 2024, and all monies were returned to the MEADS partner nations. The Liquidator was discharged by the Board of Directors for the closure of all bank accounts on 29 August 2024, and any NAMEADSMO i.L. liabilities that would exist between the date of closure of all bank accounts and 31 December 2024 are transferred to the German State on behalf of the MEADS partner nations. The German State, acting on behalf of the MEADS partner nations, will settle these liabilities with the funds held on the German bank trust account. Therefore, 29 August 2024 is considered to be the closing date for financial year 2024, and the Financial Statements for financial year 2024 will be the last set of Financial Statements prepared for the NAMEADSMO i.L. All unused funds will be returned to Nations.

Role of the Office of the Liquidator

Beginning 01 July 2016, the Office of the Liquidator (OotL) is the successor of NAMEADSMA. OotL is responsible for the planning, execution, and overall management of the liquidation of the program with the goal to complete the ongoing effort, safeguard the development results and accomplish a successful close-out.

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The OotL inherited all existing contracts awarded by the (former) NATO Agency NAMEADSMMA throughout the D&D phase and all contracts were closed in 2023.

On 31 December 2022, the OotL closed and effective 01 January 2023 two employees of the participating nations took over the role of the Liquidator and Financial Controller with the approval of the BoD to complete the last remaining tasks to liquidate the program.

Compliance with Financial Regulations

NAMEADSMO i.L. follows standardized rules and regulations approved by the NAC. Specifically, NAMEADSMO i.L. adheres to the NATO Financial Regulations (NFRs) and Financial Rules and Procedures (FRPs) and to the NATO Civilian Personnel Regulations (CPRs). Since the financial management of NAMEADSMO i.L. is separate and distinct from those of the International Staff or other NATO entities, NAMEADSMO i.L. also follows the NAMEADSMO Financial Rules and Regulations (FRRs), as approved by the NAMEADSMO BoD. If a conflict between the NFR/FRP and NAMEADSMO FRRs arises, the most recent NATO NFR/FRP will prevail.

Note that the BoD decided with decision D22/03 that the Liquidator has the discretion to modify processes and regulations of the NAMEADSMO FRR and Operating Instructions (OIs) to accommodate the OotL organization and requirements, as long as these modifications are compliant with the NFR.

NAMEADSMO i.L.'s mission, strategies and how they relate to its Financial Position, Financial Performance and Cash Flows

NAMEADSMO i.L. does not have any objectives and strategies in relation to its financial position, performance, and cash flows other than to have enough funding available to cover its administrative and operational costs. This is done while acting in the best interest of the three participating Nations within the mission established by the NAMEADSMO Charter and the D&D MoU objectives, in accordance with guidance received from the BoD.

Risks and Uncertainties that affect NAMEADSMO i.L.'s Financial Position and Performance

NAMEADSMO i.L.'s performance is based on the MEADS program results and deliveries that can be achieved with the resources spent. The financial position of NAMEADSMO i.L. is not affected by any significant risk as the MEADS program comes to an end.

Assets/Liabilities in regard of other NATO bodies

NAMEADSMO i.L. does not have any assets or liabilities in respect of other NATO entities.

B. Statement of Financial Position

as at 29 August 2024 (in
US Dollars)

	Notes	2024	2023
Assets			
<i>Current Assets</i>			
Cash and Cash Equivalents		-	6,203,195
Receivables	3	-	-
Prepayments	4	-	-
		<u>-</u>	<u>6,203,195</u>
<i>Non-Current Assets</i>			
Property, Plant and Equipment		-	-
Total Assets		<u>-</u>	<u>6,203,195</u>
Liabilities			
<i>Current Liabilities</i>			
Accounts Payable and Accruals	5	-	21,500
Deferred Revenue and Liability to Nations	6	-	6,181,695
		<u>-</u>	<u>6,203,195</u>
Total Liabilities		<u>-</u>	<u>6,332,618</u>

C. Statement of Financial Performance

for the year ended 29 August 2024 (in
US Dollars)

	Notes	2024	2023
Revenue	9		
Operational		-	-
Administrative		-	34,170
Total Revenue		-	34,170
Expense	10		
Operational		-	-
Administrative		-	34,170
Total Expense		-	34,170
Net Result for the Year		-	-

D. Statement of Cash Flows

for the year ended 29 August 2024 (in
US Dollars)

	2024	2023
<i>Operational Budget</i>		
Cash Paid to Contractors	(0)	(276,284)
Cash Returned to Nations	(4,466,898)	(92,977)
Other Cash Receipts		126,022
Total Operational Budget	(4,466,898)	(243,238)
<i>Administrative Budget</i>		
Other Cash Receipts	(0)	3,401
Cash Returned to Nations	(1,736,297)	(0)
Cash Paid to Suppliers and Employees	(0)	(73,340)
Total Administrative Budget	(1,736,297)	(69,939)
Total Cash Flows from Operating Activities	(6,203,195)	(313,377)
Total Cash Flows from Investing Activities	-	-
Total Cash Flows from Financing Activities	-	-
Net Increase/Decrease in Cash	(6,203,195)	(313,377)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	-	3,512
Cash at Beginning of Period	6,203,195	6,512,861
Cash at End of Period	-	6,203,195

E. Statement of Changes to Net Assets/Equity

for the year ended 29 August 2024 (in
US Dollars)

	Capital assets	Reserves	Accumulated surplus/deficit	Total
Balance at the end of the period 1 Jan - 31 Dec 2023	-	-	-	-
Net gains/(losses) recognised directly in net assets/equity	-	-	-	-
Surplus/(deficit) for the period	-	-	-	-
Change in net assets/equity for the year ended 29 Aug 2024	-	-	-	-
Balance at the end of the period 1 Jan – 29 Aug 2024	-	-	-	-
Net gains/(losses) recognised directly in net assets/equity	-	-	-	-
Surplus/(deficit) for the period	-	-	-	-
Change in net assets/equity for the year ended 2024	-	-	-	-
Balance at 29 August 2024	-	-	-	-

F. Notes to the Financial Statements

The notes form an integral part of these financial statements.

Note 1. Significant Accounting Policies

Basis of preparation

The financial statements of NAMEADSMO i.L. have been prepared on the accrual basis of accounting in accordance with the NATO Accounting Framework (NAF) as adopted by the North Atlantic Council (NAC). The NAF is an adaptation of the International Public Sector Accounting Standards (IPSAS).

The application of the NATO accounting framework has had no material impact on the disclosures or on the amounts recognised in the NAMEADSMO i.L. financial statements.

The financial statements comply with the accounting requirements of the NFR and FRP and the relevant NAMEADSMO FRR. They are prepared on a non-going concern basis in consideration of the decisions taken by the Participants.

With the development coming to an end and with none of the participating Nations continuing this MEADS Program, in 2012 the NAMEADSMO BoD requested a plan for the orderly transition to close-out the Agency by mid-2014. Subsequently, in June 2014 the BoD approved a new plan to initiate the liquidation of the entity on 1 February 2015. In the end, the BoD submitted a formal request to the NAC to place NAMEADSMO into Liquidation on 4 April 2016. This request was approved and became effective on 1 July 2016. Consequently, NAMEADSMO became “NAMEADSMO in Liquidation”, headed by the Liquidator who is supported by a small staff also referred to as “Office of the Liquidator”.

Accounting as Procurement Agent

According to the IPSAS Preface, IPSASs are converged with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) by adapting them to public sector context where appropriate.

The only IPSAS that specifically refers to Principals and Agents, is IPSAS 9 which provides guidance on how Principals and Agents should account for ‘Revenue from exchange transactions’.

IFRS 15 defines a Principal as the party that controls the goods or services before they are transferred to customers and defines an Agent as the party that arranges for the goods or services to be provided by another party without taking control over those goods or services.

In accordance with paragraphs B.35 and B.36 of IFRS 15, a Principal recognises revenue and expenses in gross amounts, whereas an Agent recognises only fees or commissions, even if gross cash flows go through the Agent.

NAMEADMO i.L. is responsible for the planning, execution and overall management of the liquidation of the program with the goal to complete the ongoing effort, safeguard the development results and accomplish a successful closeout on behalf of its member.

NAMEADSMA/NAMEADSMO i.L. – OotL has been acting as a procurement agent in respect of its operations since it does not control a good or service before it is transferred to the customer. As such the agency does not have:

- Primary responsibility for fulfilling the promise to provide the specified good or service
- Inventory risk
- Discretion in establishing the price for the specified good or service

The Agency was created for the sole purpose of designing MEADS on behalf of Germany, Italy and the United States and consequently has been carrying out the acceptance of goods and services on behalf of the participating Nations. All assets are owned, controlled, and operated by the three Nations.

The running costs of the Agency are reimbursed via the Administrative Budget. Therefore, the operational revenue and expenses are not recognised throughout these financial statements.

Accounting estimates and judgments

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

The estimates and underlying assumptions are reviewed on an ongoing basis. These estimates and assumptions affect the amounts of assets, liabilities, revenue, and expenses reported. By their nature, these estimates are subject to measurement uncertainty. The effect of changes to such estimates and assumptions in future periods are not likely to be significant to the financial statements.

Changes in accounting policy

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set in NAF/IPSAS 3. For the 31 December 2023 financial statements, the accounting policies have been applied consistently throughout the reporting period.

Restatements

NAMEADSMO i.L. restated balances. In line with IFRS 15, a Principal recognizes revenue and expenses in gross amounts, whereas an Agent recognizes only fees or commissions, even if gross cash flows go through the Agent.

Given that NAMEADSMO does not recognize any expenses in relation to OB expenditure, it no longer has any accruals in relation to the OB expenditure either. Payables in relation to the OB therefore only contain those invoices with an invoice date in the reporting year which remain unsettled at the period end date. Accruals previously shown in relation to OB expenditure, have now been presented as a Liability to Nations.

Changes in pronouncements

Some new standards, alignments, updates, amendments of standards and interpretations were issued. The adoption of or updates to these below-mentioned standards will not have a material impact on the financial statements of the agency.

IPSAS	Name	Effective date for periods beginning on or after
IPSAS 41	Financial Instruments	01 January 2023
IPSAS 42	Social Benefits	01 January 2023
IPSAS 36 and IPSAS 41	Long-term Interests in Associates and Joint Ventures (Amendment to IPSAS 36) and Prepayment Features with Negative Compensation (Amendment to IPSAS 41)	01 January 2023
IPSAS 19	Collective and Individual Services (Amendments to IPSAS 19)	01 January 2023
IPSAS	Improvements to IPSAS, 2019	01 January 2023
IPSAS 41	Non-Authoritative Amendments to IPSAS 41	01 January 2023
IPSAS 41	Non-Authoritative Amendments to IPSAS 41	01 January 2023
IPSAS 5	Amendments to IPSAS 5, Borrowing Costs – Non-Authoritative Guidance	No effective date
Improvement to IPSAS	General improvements and IFRS alignment improvements to IPSAS 2021	01 January 2023
IPSAS 43	Leases	01 January 2025

Foreign Currency

These financial statements are presented in US Dollars (USD), which is NAMEADSMO i.L.'s reporting currency. EURO (€) currency transactions are translated into USD at the average monthly NATO exchange rates, with the exception of foreign exchange transactions, which are converted at the daily exchange rate. Monetary assets and liabilities denominated in EURO at period-end are translated into USD using the NATO exchange rates applicable at 31 December 2023.

All EURO transactions related to the budget are converted into equivalent USD (EUSD) at the MoU exchange rate of 1.19.

Financial Instruments disclosure/presentation

NAMEADSMO i.L. uses only non-derivative financial instruments as part of its normal operations. These financial instruments include cash and cash equivalents, accounts receivable, provisions and liabilities. Financial instruments are recognized in the Statement of Financial Position at fair value.

Financial risk factors

NAMEADSMO i.L. is minimally exposed to a variety of financial risks, including credit, liquidity, and currency risks.

a. Credit risk

The OotL holds current bank account balances with registered banking institutions in the USA and Germany. Wells Fargo (USA) and Sparkasse (Germany) have a very low long-term credit risk rating. In accordance with Fitch, the following bank deposit ratings assigned (as of the date of the submittal of these Financial Statements):

- Wells Fargo Bank: A+/F1+
- Sparkasse Koblenz: A+/F1+

b. Liquidity risk

The OotL does not expect to encounter any difficulty in meeting obligations associated with financial liabilities. There is limited exposure to liquidity risk because of the budget mechanism that guarantees funds for the total approved budget.

c. Currency risk

The OotL continues to operate on the contributions received in prior years from the Participants in USD (\$) and EURO (€), based on the FMPD. Generally, expenses are paid in the same currency as the receipts. For the Operational Budget, in the past total obligations for each currency may not have matched the available resources in the same currency, yielding some foreign exchange risk from fluctuations in currency rates. Consequently, the BoD authorized foreign exchange money market operations, if necessary, to maintain adequate funding level in each currency to hedge this risk (decision D15/09). As of 2021 the Operational Budget holds enough resources in the same currency and therefore yielding no longer foreign exchange risk.

The exposure of financial instruments to foreign currency exchange risk associated with the Administrative Budget is insignificant as contributions and expenditure are made in USD only.

Revenue and Expense Recognition

Revenue comprises contributions from Participants to fund the entity's budgets. 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 revenue recognition is matched with the recognition of expenses.

Administrative Budget

Administrative Budget contributions fund the costs of NATO contract personnel and the goods and services to be rendered toward the performance of tasks to be executed by NAMEADSMO i.L. over an agreed period of time. Contributions are initially recorded as deferred revenue liabilities. They are recognized as revenue in the statement of financial performance when such contributions are used for their intended purpose as estimated in the Administrative Budget.

Operational Budget

The entity's contracts are with the private sector utilizing *cost-plus fixed fee* contract. The operational revenue and expenses are not recognised since the entity is considered an agent in respect of its operations.

Budget Execution

Total budgetary resources are comprised of assessed contributions from the Participants.

The budgets are Administrative (costs for agency personnel, supplies and services, furnishings and equipment), and Operational (costs associated with the MEADS system development and ancillary contracts). Costs are further categorized by chapters, items and sub-items within the separate budgets. In accordance with NFR Art. 34.4, a Budget Execution Statement (BES) is presented in Annex I.

There has not been a change in the execution of the BES compared to the previous accounting period for transparency and disclosures to readers. The BES is prepared on an accrual basis of accounting.

Cash Flow Statements

NAMEADSMO i.L. has elected to use the direct method of presentation in these financial statements, in accordance with NAF.

Financial Assets

The financial assets are cash and cash equivalents, accounts receivable and prepayments. They are measured at fair value. Bank deposits denominated in foreign currencies are translated to reporting currency at the closing date NATO exchange rate. Changes in fair value are recognized in the Statement of Financial Performance

Financial Liabilities

The financial liabilities are accounts payable and accruals, and advances and deferred revenue and liability to Nations. They are measured at fair value. Changes in fair value are recognized in the Statement of Financial Performance. As consequence of the 1 July 2016 transition into liquidation, all NAMEADSMO assets and liabilities were subsumed into NAMEADSMO i.L. assets and liabilities.

Receivables

Amounts receivable are stated at fair value in the Statement of Financial Position. No provision for doubtful debts is necessary as all receivables are deemed to be collectible.

Prepayments

Advance payments to vendors are reflected as prepayments in the Statement of Financial Position.

Accounts Payable and Accruals

Accounts Payable represent amounts for which goods and/or services, supported by an invoice, have been received by period-end but which remain unpaid. Accruals represent amounts for goods and/or services rendered by period-end but are not yet supported by an invoice at period-end.

Deferred Revenue and Liability to Nations

Deferred revenue represents contributions from Participants and/or third parties for the Administrative Budget that have been called for, in prior years' budgets but that have not yet been recognized as revenue.

Liability to Nations refers to contributions from Participants and/or third parties for the Operational Budget that have been called for, in prior years' budgets but that have not yet been returned back to the Nations.

Property, Plant and Equipment (PP&E)

PP&E is reported in the financial statements in accordance with internal policy guidance for Property, Plant and Equipment for the Administrative Budget. No changes occurred with the criterion adopted by former NAMEADSMA's internal policy guidelines. PP&E is recognized in accordance with the criteria relating to control outlined in the NATO Accounting Framework.

After recognition as an asset, an item of PP&E is carried at its historical cost less any accumulated depreciation. Total cost consists of the asset purchase price plus any installation costs for bringing the asset to working condition for its intended use.

As allowed under the NATO Accounting Framework, NAMEADSMO i.L. uses capitalization thresholds based on its activities and size. These thresholds are lower than the agreed NATO thresholds in the framework.

NAMEADSMO i.L. uses the straight-line method of depreciation (calculated by dividing the cost equally over the asset's useful life) with a half-year rule to recognize assets with six months depreciation in the first year regardless of the date the asset was received. The half-year rule treats all property acquired during the year as being acquired exactly in the middle of the year. This means that only half of the full-year depreciation is allowed in the first year, with the remaining balance being deducted in the final year of the depreciation schedule, or the year that the property is disposed.

The estimated useful lives for asset classes applicable to NAMEADSMO i.L. are listed in the table below:

Asset Class	Depreciation Method	Useful Life Years	Capitalization Threshold Dollars (\$)	Notes
Leasehold Improvements	Straight-Line	40	65,000	Major Building Renovations
Furniture & Fixtures	Straight-Line	10	1,000	Per item cost
Communication Systems	Straight-Line	3	1,000	Per item cost
Automated Information Systems	Straight-Line	3	1,000	Per item cost
Major Software	Straight-Line	3	65,000	Acquired Externally

Note that for some items the useful life is longer than the estimated life of the Agency. The depreciation expense was adjusted in 2012 and again in 2013 to the estimated expected end of the life of the agency. The final year of depreciation for all remaining NAMEADSMO assets was 2015. Consequently, everything acquired by the NAMEADSMO i.L. - OotL, starting 01 July 2016, is fully expensed.

Intangible Assets

NAMEADSMO i.L. does not have any intangible assets.

Retirement benefit plans: NATO Defined Contribution Pension Scheme (DCPS)

Contributions to the NATO defined contribution pension scheme are charged to the Statement of Financial Performance in the year to which they relate. NAMEADSMO i.L. is not directly exposed to any liabilities that may arise on the scheme and has no control over the assets of the scheme. The assets and liabilities for the NATO Pension Schemes are accounted for centrally by NATO International Staff (IS).

Retirement benefit plans: NATO Defined Benefit Scheme

Contributions to the NATO defined benefit scheme are charged to the Statement of Financial Performance in the year to which they relate. NAMEADSMO i.L. is not directly exposed to any liabilities that may arise on the scheme and has no control over the assets of the scheme. The assets and liabilities for the NATO Pension Schemes are accounted for centrally by NATO IS.

Provisions

Provisions are recognized when the entity has a legal or constructive obligation as a result of a past event, and where it is probable that an outflow of resources will be required to settle the obligation, and where a reliable estimate of the amount of the obligation can be made.

Contingent Liabilities

Contingent liabilities are possible obligations arising from past events whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the control of NAMEADSMO i.L..

Reserves and Net Assets

NAMEADSMO i.L. operates on a “no profit, no loss” basis. As such, it does not have net assets; any surplus gained in the year becomes payable to the Participants while any deficit becomes a receivable from the Participants.

Comparative Figures

The reporting period for the current financial statements of 12 months, is the same as the reporting period for the previous financial statements (01 Jan - 31 Dec 2022). Comparative amounts for related notes are therefore comparable.

Note 2. Cash and Cash Equivalents

2024:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational	-	-	-	-	-	-
Administrative	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

2023:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational	121,299	-	-	-	4,333,676	4,706,625
Administrative	-	-	-	-	1,736,297	1,736,297
TOTAL	121,299	-	-	-	6,069,973	6,203,195

Note 3. Receivables**2024:**

There are no receivables as of 29 August 2024.

2023:

There were no receivables as of 31 December 2023.

Note 4. Prepayments**2024:**

There are no prepayments as of 29 August 2024.

2023:

There were no prepayments as of 31 December 2023.

Note 5. Accounts Payable and Accruals**2024:**

There are no accounts payable and accruals as of 29 August 2024.

2023:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Accrued Expenses	-	-	-	-	-	-
Total Operational	-	-	-	-	-	-
Administrative						
Accounts Payable	-	-	-	-	-	-
Accrued Expenses	-	-	-	-	21,500	21,500
Total Administrative	-	-	-	-	21,500	21,500
TOTAL	-	-	-	-	21,500	21,500

The accounts payable and accruals includes potential claims for education allowance and removal allowance.

Note 6. Deferred Revenue and Liability to Nations**2024:**

There are no deferred revenue and liability to nations as of 29 August 2024.

2023:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Liability to Nations	121,299	-	-	-	4,333,676	4,466,898
Total Operational	121,299	-	-	-	4,333,676	4,466,898
Administrative						
Deferred Revenue	-	(158)	-	1	1,736,297	1,736,297
Total Administrative	-	(158)	-	1	1,736,454	1,736,297
TOTAL	121,299	(158)	-	1	6,070,130	6,203,195

Note 7. Other Current Liabilities**2024:**

There are no other current liabilities as the banks ceased to yield interest on the cash balances for the period 01 Jan – 29 Aug 2024.

2023:

There are no other current liabilities as the banks ceased to yield interest on the cash balances for the period 01 Jan – 31 Dec 2023.

Note 8. Provisions and Contingent Liabilities

The OotL does not have any provisions or contingent liabilities to report.

Note 9. Revenue**2024:**

There are no revenues for the period 01 Jan – 29 Aug 2024.

2023:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational	-	-	-	-	-	-
Administrative	-	-	-	-	34,170	34,170
TOTAL	8465	43	-	-	34,170	34,170

The operational revenue is not recognised since the entity is considered an agent in respect of its operations.

Note 10. Expenses**2024:**

There are no expenses for the period 01 Jan – 29 Aug 2024.

2023:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational	-	-	-	-	-	-
Total Operational	-	-	-	-	-	-
Administrative	-	-	-	-	-	-
Personnel	-	-	-	-	32,485	32,485
Operating	-	-	-	-	1,685	1,685
Total Administrative	-	-	-	-	34,170	34,170
TOTAL	-	-	-	-	34,170	34,170

Note 11. Draw Down of Operations

All operational and administrative effort is completed and closed out. All unused funds have been returned to Nations and all bank accounts are closed.

Parallel to closing down the operational part of the agency, the OotL continues the liquidation effort on the administrative side as well. All 2023 administrative effort is complete and final invoices have been paid. On 29 December 2023, the MEADS Board of Directors authorized €100,000 of administrative funds be placed in a German bank trust account in order to settle NAMEADSMO i.L. liabilities in relation to the employment of former employees that would exist between the date of closure of all bank accounts and 31 December 2024. In essence, any NAMEADSMO i.L. liabilities that would exist between the date of closure of all bank accounts and 31 December 2024 are transferred to the German State on behalf of the MEADS partner nations. The German State, acting on behalf of the MEADS partner nations, will settle these liabilities with the funds held on the German bank trust account. All unused funds at 31 December 2024 will directly be returned to the MEADS partner nations in accordance with an agreed sharing key immediately after 31 December 2024, hence no NAMEADSMO i.L. receivables exist at 29 August 2024 in relation to this transfer of €100,000 since these funds are

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considered to have been fully returned to the MEADS partner nations.

With the above-mentioned authorization of the MEADS Board of Directors, €100,000 of administrative funds were transferred to a German bank trust account on 5 January 2024. The last remaining bank accounts were closed on 14 August 2024, and all monies were returned to the MEADS partner nations. The Liquidator was discharged by the Board of Directors for the closure of all bank accounts on 29 August 2024, and any NAMEADSMO i.L. liabilities that would exist between the date of closure of all bank accounts and 31 December 2024 are transferred to the German State on behalf of the MEADS partner nations. The German State, acting on behalf of the MEADS partner nations, will settle these liabilities with the funds held on the German bank trust account. Therefore, 29 August 2024 is considered to be the closing date for financial year 2024, and the Financial Statements for financial year 2024 will be the last set of Financial Statements prepared for the NAMEADSMO i.L. All unused funds will be returned to Nations.

Note 12. Employee Disclosure

As of 31 December 2022, the NATO employment contracts for the Office of the Liquidator position of Liquidator (DEU) and Business Financial Manager (DEU)/acting Financial Controller (DEU) expired. The MEADS Board of Directors appointed a US Department of the Army Civilian Servant to the position of Financial Controller and a German Ministry of Defense Civilian Servant to the position of Liquidator.

Note 13. Related Parties

The OotL is under direct control of NAMEADSMO i.L.'s Board of Directors.

NATO IS, who deals with NATO pensions on behalf of other NATO entities, is a related party due to the OotL's pension plans being handled centrally at NATO HQ. NATO IS performed administrative support services for the OotL in 2022. No fees were charged to OotL for the period ending 29 August 2024.

During 2024, key management personnel are the Liquidator and the Financial Controller.

Note 14. Representation Allowance

There were no qualifying officials to receive Representation Allowance in 2024

Note 15. Events after the Reporting Date

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

G. Report of Management

The North Atlantic Treaty Organization (NATO) Medium Extended Air Defense Missile System Management Organization in Liquidation's (NAMEADSMO i.L.) Financial Statements have been prepared in accordance with the NAF as adopted by the NAC. The NAF is an adaptation of the IPSAS. The Agency's system of internal financial control is designed to provide reasonable assurance regarding the reliability of financial reports and the preparation of financial statements.

The NAMEADSMO i.L. Financial Statements are approved and certified by the Liquidator and the Financial Controller respectively to the best of their knowledge and according to the applicable accounting standards to give a true and fair view, in all material respect, of the assets, liabilities, financial position and financial performance of NAMEADSMO i.L. and to be in accordance with the books and records maintained.

Liquidator

Financial Controller

Annex I – Budget Execution

There are no Operational or Administrative Budgets for 2024. All Operational and Administrative residual funds have been dispersed to the MEADS partner nations in accordance with the MOU funding key and all bank accounts are closed.

Annex II: Budget Calls and Receipts

The Operational and Administrative Budget contributions are called based on cash requirements and within the FMPD schedule and limits. The Operational Budget reached the contribution ceiling in 2013, the Administrative Budget reached the contribution ceiling in 2014 and as such there were no calls made in 2024 by the OotL

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North Atlantic Treaty Organization



NATO Medium Extended Air Defense System Management Organization in Liquidation



Financial Statements

For the year ended

31 December 2023

Serial # GM-5006-400260-OL

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A. Overview of NAMEADSMO i.L. Operations and Environment

General description of the NATO MEADS Management Organization in Liquidation

The North Atlantic Treaty Organization (NATO) Medium Extended Air Defense System Management Organization (NAMEADSMO) is a NATO Development, Production and Logistics Organization (NPLO), a subsidiary body of NATO created by the North Atlantic Council with the “Charter of NAMEADSMO”, documented at C-M(2005)0044-ADD1. Per virtue of the Section VII of the Charter, the organization comprises a Steering Committee (now called Board of Directors), and a NATO Agency whose headquarter is located in the United States of America.

NAMEADSMO shares the international characteristics of NATO and the jurisdictional autonomy by virtue of Article 4 of the Ottawa Agreement. NAMEADSMO was created to provide direction, coordination, and execution of all phases of the MEADS program as delineated by the participating Nations. The participating Nations (Participants) are Germany, Italy, and the United States of America.

On 4 April 2016, the Board of Directors (BoD) submitted a formal request to the North Atlantic Council (NAC) to place NAMEADSMO into Liquidation (NAMEADSMO i.L.). This request was approved and became effective on 1 July 2016.

NAMEADSMO i.L. is comprised of a BoD, composed of one representative from each of the Participants, and the Office of the Liquidator (OotL) which replaced the former NATO MEADS Management Agency (NAMEADSMA).

Consequently, NAMEADSMO i.L. and its staff are under the governance of the NATO Document C-M(66)9 which states in Article 1.b):

“Until the liquidation is completed, the provision 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.”

The liquidation phase for the MEADS program is financed with the “inherited” contributions received prior to the liquidation phase from participating Governments in accordance with the Financial Management Policy Document (FMPD) and in accordance with the terms stipulated in the Design and Development (D&D) Memorandum of Understanding (MoU). While some parts of the MoU expired on 22 April 2017, Section 19.7 provides application in perpetuity of the Sections “Equipment”, “Disclosure and Use of Project Information”, “Controlled unclassified Information”, “Security”, “Third Party Sales and transfers”, “Liability and Claims” and “Amendment, Termination, Entry into Effect, and Duration”.

The FMPD specifies the financial management policies and the funding schedule set for the MEADS D&D phase also applicable for the liquidation phase. It delineates the Participants’ annual cumulative financial ceilings which are the basis for the NAMEADSMO i.L. annual budgets. The budgets consist of the Administrative and Operational Budgets. Germany, Italy and the USA (DEU/ITA/USA) percentage shares of the total contribution ceiling are 25.2%, 16.7% and 58.1% respectively, including a portion of non-financial contributions as defined in the FMPD. No further contribution by each Nation will occur during the liquidation phase. The total contribution ceilings for Germany and Italy for the Operational Budget (OB) were reached in 2013 and for the Administrative Budget (AB) in 2014. The USA will not reach their contribution ceilings for either budget as it was noted with BoD decision D14/08 that “no additional USA funds will be provided for the remainder of the MEADS program.”

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The organization of the OotL changed from previous years. As of 31 December 2022, the NATO employment contracts for the Office of the Liquidator position of Liquidator (DEU) and Business Financial Manager (DEU)/acting Financial Controller (DEU) expired. The MEADS Board of Directors appointed a US Department of the Army Civilian Servant to the position of Financial Controller and a German Ministry of Defense Civilian Servant to the position of Liquidator.

NAMEADSMO i.L. has no liens or encumbrances on the agency's assets.

NAMEADSMO i.L. has given no guarantees to third parties.

NAMEADSMO i.L. is located in Huntsville, Alabama, USA.

After the completion of all operational effort in November of 2020 (legacy effort from D&D program plus safe keeping effort during liquidation phase) and US pricing audit, the D&D contract was closed effective 21 September 2023.

All other operational effort is completed and closed out. All unused funds will be returned to Nations.

Parallel to closing down the operational part of the agency, the OotL continues the liquidation effort on the administrative side as well. All 2023 administrative effort is complete and final invoices have been paid. On 29 December 2023, the MEADS Board of Directors authorized €100,000 of administrative funds be placed in a German bank trust account in order to settle NAMEADSMO i.L. liabilities in relation to the employment of former employees that would exist between the date of closure of all bank accounts and 31 December 2024. In essence, any NAMEADSMO i.L. liabilities that would exist between the date of closure of all bank accounts and 31 December 2024 are transferred to the German State on behalf of the MEADS partner nations. The German State, acting on behalf of the MEADS partner nations, will settle these liabilities with the funds held on the German bank trust account. All unused funds at 31 December 2024 will directly be returned to the MEADS partner nations in accordance with an agreed sharing key immediately after 31 December 2024, hence no NAMEADSMO i.L. receivables exist at 29 August 2024 in relation to this transfer of €100,000 since these funds are considered to have been fully returned to the MEADS partner nations.

With the above-mentioned authorization of the MEADS Board of Directors, €100,000 of administrative funds were transferred to a German bank trust account on 5 January 2024. The last remaining bank accounts were closed on 14 August 2024, and all monies were returned to the MEADS partner nations. The Liquidator was discharged by the Board of Directors for the closure of all bank accounts on 29 August 2024, and any NAMEADSMO i.L. liabilities that would exist between the date of closure of all bank accounts and 31 December 2024 are transferred to the German State on behalf of the MEADS partner nations. The German State, acting on behalf of the MEADS partner nations, will settle these liabilities with the funds held on the German bank trust account. Therefore, 29 August 2024 is considered to be the closing date for financial year 2024, and the Financial Statements for financial year 2024 will be the last set of Financial Statements prepared for the NAMEADSMO i.L. All unused funds will be returned to Nations.

Role of the Office of the Liquidator

Beginning 01 July 2016, the Office of the Liquidator (OotL) is the successor of NAMEADSMA. OotL is responsible for the planning, execution, and overall management of the liquidation of the program with the goal to complete the ongoing effort, safeguard the development results and accomplish a successful close-out.

On 31 December 2022, the OotL closed and effective 01 January 2023 two employees of the participating nations took over the role of the Liquidator and Financial Controller with the approval of the BoD to complete the last remaining tasks to liquidate the program.

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Main responsibility of the OotL is the close out of contracts of the MEADS program. In addition, as per direction of the BoD, the OotL amends existing contracts or awards new ones. It also provides support and information/data to the BoD, the National Product Offices, Industry, and national price audit agencies.

The OotL inherited all existing contracts awarded by the (former) NATO Agency NAMEADSMO throughout the D&D phase.

Contract legacy with NAMEADSMO can be explained as follows:

- The Prime Contract with MEADS International (MI), the prime contractor, was definitized on 31 May 2005. The main D&D phase and MI main contract effort were completed on 31 December 2014 while “Data Archival” of all development documentation (drawings, reports, test results, etc.) and the distribution of the development residual material lasted throughout 2016-2017. It is now completed. Price audits are also complete. The contract was closed effective 21 September 2023.
- Ancillary contracts were also part of the business transferred to the OotL. Lockheed Martin was engaged in a cooperative agreement for the realization of a Low Frequency Sensor (LFS). The MBDA joint venture EuroMEADS was retrofitting one of the two Multifunction Fire Control Radars (MFCR). All ancillary contracts are complete and final pricing audits are complete. The LFS cooperative agreement was closed effective 31 March 2023. The MFCR ancillary agreement was closed effective 3 August 2023.

Compliance with Financial Regulations

NAMEADSMO i.L. follows standardized rules and regulations approved by the NAC. Specifically, NAMEADSMO i.L. adheres to the NATO Financial Regulations (NFRs) and Financial Rules and Procedures (FRPs) and to the NATO Civilian Personnel Regulations (CPRs). Since the financial management of NAMEADSMO i.L. is separate and distinct from those of the International Staff or other NATO entities, NAMEADSMO i.L. also follows the NAMEADSMO Financial Rules and Regulations (FRRs), as approved by the NAMEADSMO BoD. If a conflict between the NFR/FRP and NAMEADSMO FRRs arises, the most recent NATO NFR/FRP will prevail.

Note that the BoD decided with decision D22/03 that the Liquidator has the discretion to modify processes and regulations of the NAMEADSMO FRR and Operating Instructions (OIs) to accommodate the OotL organization and requirements, as long as these modifications are compliant with the NFR.

NAMEADSMO i.L.’s mission, strategies and how they relate to its Financial Position, Financial Performance and Cash Flows

NAMEADSMO i.L. does not have any objectives and strategies in relation to its financial position, performance, and cash flows other than to have enough funding available to cover its administrative and operational costs. This is done while acting in the best interest of the three participating Nations within the mission established by the NAMEADSMO Charter and the D&D MoU objectives, in accordance with guidance received from the BoD.

Risks and Uncertainties that affect NAMEADSMO i.L.’s Financial Position and Performance

NAMEADSMO i.L.’s performance is based on the MEADS program results and deliveries that can be achieved with the resources spent. The financial position of NAMEADSMO i.L. is not affected by any significant risk as the MEADS program comes to an end.

Assets/Liabilities in regard of other NATO bodies

NAMEADSMO i.L. does not have any assets or liabilities in respect of other NATO entities.

B. Statement of Financial Position

as at 31 December 2023
(in US Dollars)

	Notes	2023	2022
Assets			
<i>Current Assets</i>			
Cash and Cash Equivalents	2	6,203,195	6,512,861
Receivables	3	-	1,064
Prepayments	4	-	-
		<u>6,203,195</u>	<u>6,513,925</u>
<i>Non-Current Assets</i>			
Property, Plant and Equipment		-	-
Total Assets		<u>6,203,195</u>	<u>6,513,925</u>
Liabilities			
<i>Current Liabilities</i>			
Accounts Payable and Accruals	5	21,500	35,242
Deferred Revenue and Liability to Nations	6	<u>6,181,695</u>	<u>6,478,683</u>
		<u>6,203,195</u>	<u>6,513,925</u>
Total Liabilities		<u>6,203,195</u>	<u>6,513,925</u>

C. Statement of Financial Performance

for the year ended 31 December 2023
(in US Dollars)

	Notes	<u>2023</u>	<u>2022</u>
Revenue	9		
Operational		-	-
Administrative		<u>34,170</u>	<u>669,238</u>
Total Revenue		<u>34,170</u>	<u>669,238</u>
Expense	10, 11, 12, 13		
Operational		-	-
Administrative		<u>34,170</u>	<u>669,238</u>
Total Expense		<u>34,170</u>	<u>669,238</u>
Net Result for the Year		<u>-</u>	<u>-</u>

D. Statement of Cash Flows

for the year ended 31 December 2023
(in US Dollars)

	2023	2022
<i>Operational Budget</i>		
Cash Paid to Contractors	(276,284)	(308)
Cash Returned to Nations	(92,977)	-
Other Cash Receipts	126,022	
Total Operational Budget	(243,238)	(308)
<i>Administrative Budget</i>		
Other Cash Receipts	3,401	-
Cash Returned to Nations		
Cash Paid to Suppliers and Employees	(73,340)	(669,238)
Total Administrative Budget	(69,939)	(669,238)
Total Cash Flows from Operating Activities	(313,377)	(669,546)
Total Cash Flows from Investing Activities	-	-
Total Cash Flows from Financing Activities	-	-
Net Increase/Decrease in Cash	(313,377)	(669,546)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	3,512	6,831
Cash at Beginning of Period	6,512,861	7,175,576
Cash at End of Period	6,203,195	6,512,861

E. Statement of Changes to Net Assets/Equity

for the year ended 31 December 2023
(in US Dollars)

	Capital assets	Reserves	Accumulated surplus/deficit	Total
Balance at the end of the period 1 Jan - 31 Dec 2022	-	-	-	-
Net gains/(losses) recognised directly in net assets/equity	-	-	-	-
Surplus/(deficit) for the period	-	-	-	-
Change in net assets/equity for the year ended 31 Dec 2023	-	-	-	-
Balance at the end of the period 1 Jan - 31 Dec 2023	-	-	-	-
Net gains/(losses) recognised directly in net assets/equity	-	-	-	-
Surplus/(deficit) for the period	-	-	-	-
Change in net assets/equity for the year ended 2023	-	-	-	-
Balance at 31 December 2023	-	-	-	-

F. Notes to the Financial Statements

The notes form an integral part of these financial statements.

Note 1. Significant Accounting Policies

Basis of preparation

The financial statements of NAMEADSMO i.L. have been prepared on the accrual basis of accounting in accordance with the NATO Accounting Framework (NAF) as adopted by the North Atlantic Council (NAC). The NAF is an adaptation of the International Public Sector Accounting Standards (IPSAS).

The application of the NATO accounting framework has had no material impact on the disclosures or on the amounts recognised in the NAMEADSMO i.L. financial statements.

The financial statements comply with the accounting requirements of the NFR and FRP and the relevant NAMEADSMO FRR. They are prepared on a non-going concern basis in consideration of the decisions taken by the Participants.

With the development coming to an end and with none of the participating Nations continuing this MEADS Program, in 2012 the NAMEADSMO BoD requested a plan for the orderly transition to close-out the Agency by mid-2014. Subsequently, in June 2014 the BoD approved a new plan to initiate the liquidation of the entity on 1 February 2015. In the end, the BoD submitted a formal request to the NAC to place NAMEADSMO into Liquidation on 4 April 2016. This request was approved and became effective on 1 July 2016. Consequently, NAMEADSMO became “NAMEADSMO in Liquidation”, headed by the Liquidator who is supported by a small staff also referred to as “Office of the Liquidator”.

Accounting as Procurement Agent

According to the IPSAS Preface, IPSASs are converged with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) by adapting them to public sector context where appropriate.

The only IPSAS that specifically refers to Principals and Agents, is IPSAS 9 which provides guidance on how Principals and Agents should account for ‘Revenue from exchange transactions’.

IFRS 15 defines a Principal as the party that controls the goods or services before they are transferred to customers and defines an Agent as the party that arranges for the goods or services to be provided by another party without taking control over those goods or services.

In accordance with paragraphs B.35 and B.36 of IFRS 15, a Principal recognises revenue and expenses in gross amounts, whereas an Agent recognises only fees or commissions, even if gross cash flows go through the Agent.

NAMEADMO i.L. is responsible for the planning, execution and overall management of the liquidation of the program with the goal to complete the ongoing effort, safeguard the development results and accomplish a successful closeout on behalf of its member.

NAMEADSMA/NAMEADSMO i.L. – OotL has been acting as a procurement agent in respect of its operations since it does not control a good or service before it is transferred to the customer. As such the agency does not have:

- Primary responsibility for fulfilling the promise to provide the specified good or service
- Inventory risk
- Discretion in establishing the price for the specified good or service

The Agency was created for the sole purpose of designing MEADS on behalf of Germany, Italy and the United States and consequently has been carrying out the acceptance of goods and services on behalf of the participating Nations. All assets are owned, controlled, and operated by the three Nations.

The running costs of the Agency are reimbursed via the Administrative Budget. Therefore, the operational revenue and expenses are not recognised throughout these financial statements.

Accounting estimates and judgments

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

The estimates and underlying assumptions are reviewed on an ongoing basis. These estimates and assumptions affect the amounts of assets, liabilities, revenue, and expenses reported. By their nature, these estimates are subject to measurement uncertainty. The effect of changes to such estimates and assumptions in future periods are not likely to be significant to the financial statements.

Changes in accounting policy

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set in NAF/IPSAS 3. For the 31 December 2023 financial statements, the accounting policies have been applied consistently throughout the reporting period.

Restatements

NAMEADSMO i.L. restated balances. In line with IFRS 15, a Principal recognizes revenue and expenses in gross amounts, whereas an Agent recognizes only fees or commissions, even if gross cash flows go through the Agent.

Given that NAMEADSMO does not recognize any expenses in relation to OB expenditure, it no longer has any accruals in relation to the OB expenditure either. Payables in relation to the OB therefore only contain those invoices with an invoice date in the reporting year which remain unsettled at the period end date. Accruals previously shown in relation to OB expenditure, have now been presented as a Liability to Nations.

Changes in pronouncements

Some new standards, alignments, updates, amendments of standards and interpretations were issued. The adoption of or updates to these below-mentioned standards will not have a material impact on the financial statements of the agency.

IPSAS	Name	Effective date for periods beginning on or after
IPSAS 41	Financial Instruments	01 January 2023
IPSAS 42	Social Benefits	01 January 2023
IPSAS 36 and IPSAS 41	Long-term Interests in Associates and Joint Ventures (Amendment to IPSAS 36) and Prepayment Features with Negative Compensation (Amendment to IPSAS 41)	01 January 2023
IPSAS 19	Collective and Individual Services (Amendments to IPSAS 19)	01 January 2023
IPSAS	Improvements to IPSAS, 2019	01 January 2023
IPSAS 41	Non-Authoritative Amendments to IPSAS 41	01 January 2023
IPSAS 41	Non-Authoritative Amendments to IPSAS 41	01 January 2023
IPSAS 5	Amendments to IPSAS 5, Borrowing Costs – Non-Authoritative Guidance	No effective date
Improvement to IPSAS	General improvements and IFRS alignment improvements to IPSAS 2021	01 January 2023
IPSAS 43	Leases	01 January 2025

Foreign Currency

These financial statements are presented in US Dollars (USD), which is NAMEADSMO i.L.'s reporting currency. EURO (€) currency transactions are translated into USD at the average monthly NATO exchange rates, with the exception of foreign exchange transactions, which are converted at the daily exchange rate. Monetary assets and liabilities denominated in EURO at period-end are translated into USD using the NATO exchange rates applicable at 31 December 2023.

All EURO transactions related to the budget are converted into equivalent USD (EUSD) at the MoU exchange rate of 1.19.

Financial Instruments disclosure/presentation

NAMEADSMO i.L. uses only non-derivative financial instruments as part of its normal operations. These financial instruments include cash and cash equivalents, accounts receivable, provisions and liabilities. Financial instruments are recognized in the Statement of Financial Position at fair value.

Financial risk factors

NAMEADSMO i.L. is minimally exposed to a variety of financial risks, including credit, liquidity, and currency risks.

a. Credit risk

The OotL holds current bank account balances with registered banking institutions in the USA and Germany. Wells Fargo (USA) and Sparkasse (Germany) have a very low long-term credit risk rating. In accordance with Fitch, the following bank deposit ratings assigned (as of the date of the submittal of these Financial Statements):

- Wells Fargo Bank: A+/F1+
- Sparkasse Koblenz: A+/F1+

b. Liquidity risk

The OotL does not expect to encounter any difficulty in meeting obligations associated with financial liabilities. There is limited exposure to liquidity risk because of the budget mechanism that guarantees funds for the total approved budget.

c. Currency risk

The OotL continues to operate on the contributions received in prior years from the Participants in USD (\$) and EURO (€), based on the FMPD. Generally, expenses are paid in the same currency as the receipts. For the Operational Budget, in the past total obligations for each currency may not have matched the available resources in the same currency, yielding some foreign exchange risk from fluctuations in currency rates. Consequently, the BoD authorized foreign exchange money market operations, if necessary, to maintain adequate funding level in each currency to hedge this risk (decision D15/09). As of 2021 the Operational Budget holds enough resources in the same currency and therefore yielding no longer foreign exchange risk.

The exposure of financial instruments to foreign currency exchange risk associated with the Administrative Budget is insignificant as contributions and expenditure are made in USD only.

Revenue and Expense Recognition

Revenue comprises contributions from Participants to fund the entity's budgets. 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 revenue recognition is matched with the recognition of expenses.

Administrative Budget

Administrative Budget contributions fund the costs of NATO contract personnel and the goods and services to be rendered toward the performance of tasks to be executed by NAMEADSMO i.L. over an agreed period of time. Contributions are initially recorded as deferred revenue liabilities. They are recognized as revenue in the statement of financial performance when such contributions are used for their intended purpose as estimated in the Administrative Budget.

Operational Budget

The entity's contracts are with the private sector utilizing *cost-plus fixed fee* contract. The operational revenue and expenses are not recognised since the entity is considered an agent in respect of its operations.

Budget Execution

Total budgetary resources are comprised of assessed contributions from the Participants.

The budgets are Administrative (costs for agency personnel, supplies and services, furnishings and equipment), and Operational (costs associated with the MEADS system development and ancillary contracts). Costs are further categorized by chapters, items and sub-items within the separate budgets. In accordance with NFR Art. 34.4, a Budget Execution Statement (BES) is presented in Annex I.

There has not been a change in the execution of the BES compared to the previous accounting period for transparency and disclosures to readers. The BES is prepared on an accrual basis of accounting.

Cash Flow Statements

NAMEADSMO i.L. has elected to use the direct method of presentation in these financial statements, in accordance with NAF.

Financial Assets

The financial assets are cash and cash equivalents, accounts receivable and prepayments. They are measured at fair value. Bank deposits denominated in foreign currencies are translated to reporting currency at the closing date NATO exchange rate. Changes in fair value are recognized in the Statement of Financial Performance

Financial Liabilities

The financial liabilities are accounts payable and accruals, and advances and deferred revenue and liability to Nations. They are measured at fair value. Changes in fair value are recognized in the Statement of Financial Performance. As consequence of the 1 July 2016 transition into liquidation, all NAMEADSMO assets and liabilities were subsumed into NAMEADSMO i.L. assets and liabilities.

Receivables

Amounts receivable are stated at fair value in the Statement of Financial Position. No provision for doubtful debts is necessary as all receivables are deemed to be collectible.

Prepayments

Advance payments to vendors are reflected as prepayments in the Statement of Financial Position.

Accounts Payable and Accruals

Accounts Payable represent amounts for which goods and/or services, supported by an invoice, have been received by period-end but which remain unpaid. Accruals represent amounts for goods and/or services rendered by period-end but are not yet supported by an invoice at period-end.

Deferred Revenue and Liability to Nations

Deferred revenue represents contributions from Participants and/or third parties for the Administrative Budget that have been called for, in prior years' budgets but that have not yet been recognized as revenue.

Liability to Nations refers to contributions from Participants and/or third parties for the Operational Budget that have been called for, in prior years' budgets but that have not yet been returned back to the Nations.

Property, Plant and Equipment (PP&E)

PP&E is reported in the financial statements in accordance with internal policy guidance for Property, Plant and Equipment for the Administrative Budget. No changes occurred with the criterion adopted by former NAMEADSMA's internal policy guidelines. PP&E is recognized in accordance with the criteria relating to control outlined in the NATO Accounting Framework.

After recognition as an asset, an item of PP&E is carried at its historical cost less any accumulated depreciation. Total cost consists of the asset purchase price plus any installation costs for bringing the asset to working condition for its intended use.

As allowed under the NATO Accounting Framework, NAMEADSMO i.L. uses capitalization thresholds based on its activities and size. These thresholds are lower than the agreed NATO thresholds in the framework.

NAMEADSMO i.L. uses the straight-line method of depreciation (calculated by dividing the cost equally over the asset's useful life) with a half-year rule to recognize assets with six months depreciation in the first year regardless of the date the asset was received. The half-year rule treats all property acquired during the year as being acquired exactly in the middle of the year. This means that only half of the full-year depreciation is allowed in the first year, with the remaining balance being deducted in the final year of the depreciation schedule, or the year that the property is disposed.

The estimated useful lives for asset classes applicable to NAMEADSMO i.L. are listed in the table below:

Asset Class	Depreciation Method	Useful Life Years	Capitalization Threshold Dollars (\$)	Notes
Leasehold Improvements	Straight-Line	40	65,000	Major Building Renovations
Furniture & Fixtures	Straight-Line	10	1,000	Per item cost
Communication Systems	Straight-Line	3	1,000	Per item cost
Automated Information Systems	Straight-Line	3	1,000	Per item cost
Major Software	Straight-Line	3	65,000	Acquired Externally

Note that for some items the useful life is longer than the estimated life of the Agency. The depreciation expense was adjusted in 2012 and again in 2013 to the estimated expected end of the life of the agency. The final year of depreciation for all remaining NAMEADSMO assets was 2015. Consequently, everything acquired by the NAMEADSMO i.L. - OotL, starting 01 July 2016, is fully expensed.

Intangible Assets

NAMEADSMO i.L. does not have any intangible assets.

Retirement benefit plans: NATO Defined Contribution Pension Scheme (DCPS)

Contributions to the NATO defined contribution pension scheme are charged to the Statement of Financial Performance in the year to which they relate. NAMEADSMO i.L. is not directly exposed to any liabilities that may arise on the scheme and has no control over the assets of the scheme. The assets and liabilities for the NATO Pension Schemes are accounted for centrally by NATO International Staff (IS).

Retirement benefit plans: NATO Defined Benefit Scheme

Contributions to the NATO defined benefit scheme are charged to the Statement of Financial Performance in the year to which they relate. NAMEADSMO i.L. is not directly exposed to any liabilities that may arise on the scheme and has no control over the assets of the scheme. The assets and liabilities for the NATO Pension Schemes are accounted for centrally by NATO IS.

Provisions

Provisions are recognized when the entity has a legal or constructive obligation as a result of a past event, and where it is probable that an outflow of resources will be required to settle the obligation, and where a reliable estimate of the amount of the obligation can be made.

Contingent Liabilities

Contingent liabilities are possible obligations arising from past events whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the control of NAMEADSMO i.L..

Reserves and Net Assets

NAMEADSMO i.L. operates on a “no profit, no loss” basis. As such, it does not have net assets; any surplus gained in the year becomes payable to the Participants while any deficit becomes a receivable from the Participants.

Comparative Figures

The reporting period for the current financial statements of 12 months, is the same as the reporting period for the previous financial statements (01 Jan - 31 Dec 2022). Comparative amounts for related notes are therefore comparable.

Note 2. Cash and Cash Equivalents**2023:**

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational	121,299	-	-	-	4,333,676	4,706,625
Administrative	-	-	-	-	1,736,297	1,736,297
TOTAL	121,299	-	-	-	6,069,973	6,203,195

The agency's cash includes deposits which are held in non-interest-bearing current bank accounts in immediately available funds. Current bank accounts are held in USD (\$) and Euro (€) currencies.

2022:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational	91,211	-	-	-	4,609,960	4,706,625
Administrative	-	17,953	-	5,136	1,783,146	1,806,236
TOTAL	91,211	17,953	-	5,136	6,393,106	6,512,861

Note 3. Receivables**2023:**

There are no receivables as of 31 December 2023.

2022:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Contract Receivables		-		-		-
Total Operational	-	-	-	-	-	-
Administrative						
Miscellaneous					1,064	1,064
Total Administrative		-		-	1,064	1,064
TOTAL	-	-	-	-	1,064	1,064

Note 4. Prepayments**2023:**

There are no prepayments as of 31 December 2023.

2022:

There were no prepayments as of 31 December 2022.

Note 5. Accounts Payable and Accruals**2023:**

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Accrued Expenses	-	-	-	-		-
Total Operational	-	-	-	-	-	-
Administrative						
Accounts Payable	-	-	-	-	-	-
Accrued Expenses	-	-	-	-	21,500	21,500
Total Administrative	-	-	-	-	21,500	21,500
TOTAL	-	-	-	-	21,500	21,500

The accounts payable and accruals includes potential claims for education allowance and removal allowance.

2022:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Accrued Expenses	-	-	-	-	-	-
Total Operational	-	-	-	-	-	-
Administrative						
Accounts Payable	-	-	-	-	-	-
Accrued Expenses	-	-	-	-	35,242	35,242
Total Administrative	-	-	-	-	35,242	35,242
TOTAL	-	-	-	-	35,242	35,242

Note 6. Deferred Revenue and Liability to Nations

2023:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Liability to Nations	121,299	-	-	-	4,333,676	4,712,325
Total Operational	121,299	-	-	-	4,333,676	4,712,325
Administrative						
Liability to Nations	-	(158)	-	1	1,736,454	1,736,297
Total Administrative	-	(158)	-	1	1,736,454	1,736,297
TOTAL	121,299	(158)	-	1	6,070,130	6,203,195

Deferred revenue and Liability to nations include uncommitted funds and lapses. All remaining funds, if any, will be returned to the respective national treasuries prior to the dissolution of the agency.

2022:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Liability to Nations	91,211	-	-	-	4,609,960	4,712,325
Total Operational	91,211	-	-	-	4,609,960	4,712,325
Administrative						
Deferred Revenue	-	17,838	-	5,137	1,783,383	1,806,236
Total Administrative	-	17,838	-	5,137	1,783,393	1,806,236
TOTAL	91,211	17,838	-	5,137	6,393,343	6,518,562

Note 7. Other Current Liabilities

2023:

There are no other current liabilities as the banks ceased to yield interest on the cash balances for the period 01 Jan – 31 Dec 2023.

2022:

There are no other current liabilities as the banks ceased to yield interest on the cash balances for the period 01 Jan – 31 Dec 2022.

Note 8. Provisions and Contingent Liabilities

The OotL does not have any provisions or contingent liabilities to report.

Note 9. Revenue

2023:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational	-	-	-	-	-	-
Administrative	-	-	-	-	34,170	34,170
TOTAL	-	-	-	-	34,170	34,170

The operational revenue is not recognised since the entity is considered an agent in respect of its operations.

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2022:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational	-	-	-	-	-	-
Administrative	-	-	-	-	669,238	669,238
TOTAL	-	-	-	-	669,238	669,238

Note 10. Expenses**2023:**

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational	-	-	-	-	-	-
Total Operational	-	-	-	-	-	-
Administrative	-	-	-	-	-	-
Personnel	-	-	-	-	32,485	32,485
Operating	-	-	-	-	1,685	1,685
Total Administrative	-	-	-	-	34,170	34,170
TOTAL	-	-	-	-	34,170	34,170

The operational expenses are not recognised since the entity is considered an agent in respect of its operations.

2022:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational	-	-	-	-	-	-
Total Operational	-	-	-	-	-	-
Administrative	-	-	-	-	-	-
Personnel	-	-	-	-	572,840	547,840
Operating	-	-	-	-	96,398	96,398
Total Administrative	-	-	-	-	669,238	669,238
TOTAL	-	-	-	-	669,238	669,238

Note 11. Administrative Expenses

Personnel expenses included removal expenses for NAMEADSMO i.L. personnel and education allowance.

Note 12. Leases

The OotL does not have any financial or operational leases.

Note 13. Draw Down of Operations**Operational:**

After the completion of all operational effort in November of 2020 (legacy effort from D&D program plus safe keeping effort during liquidation phase) and US pricing audit, the D&D contract was closed effective 21 September 2023.

The MFCR#1 contract German pricing audit was completed in August 2022. This contract was closed effective 3 August 2023.

The LFS Cooperative Agreement contract US pricing audit was completed in August 2022. This contract was closed effective 31 March 2023.

All other operational effort is completed and closed out. All unused funds will be returned to Nations.

Administrative:

Parallel to closing down the operational part of the agency, the OotL continues the liquidation effort on the administrative side as well. All 2023 administrative effort is complete and final invoices have been paid. On 29 December 2023, the MEADS Board of Directors authorized €100,000 of administrative

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funds be placed in a German bank trust account in order to settle NAMEADSMO i.L. liabilities in relation to the employment of former employees that would exist between the date of closure of all bank accounts and 31 December 2024. In essence, any NAMEADSMO i.L. liabilities that would exist between the date of closure of all bank accounts and 31 December 2024 are transferred to the German State on behalf of the MEADS partner nations. The German State, acting on behalf of the MEADS partner nations, will settle these liabilities with the funds held on the German bank trust account. All unused funds at 31 December 2024 will directly be returned to the MEADS partner nations in accordance with an agreed sharing key immediately after 31 December 2024, hence no NAMEADSMO i.L. receivables exist at 29 August 2024 in relation to this transfer of €100,000 since these funds are considered to have been fully returned to the MEADS partner nations.

With the above-mentioned authorization of the MEADS Board of Directors, €100,000 of administrative funds were transferred to a German bank trust account on 5 January 2024. The last remaining bank accounts were closed on 14 August 2024, and all monies were returned to the MEADS partner nations. The Liquidator was discharged by the Board of Directors for the closure of all bank accounts on 29 August 2024, and any NAMEADSMO i.L. liabilities that would exist between the date of closure of all bank accounts and 31 December 2024 are transferred to the German State on behalf of the MEADS partner nations. The German State, acting on behalf of the MEADS partner nations, will settle these liabilities with the funds held on the German bank trust account. Therefore, 29 August 2024 is considered to be the closing date for financial year 2024, and the Financial Statements for financial year 2024 will be the last set of Financial Statements prepared for the NAMEADSMO i.L. All unused funds will be returned to Nations.

Note 14. Write-Off

There are no write-offs.

Note 15. Employee Disclosure

As of 31 December 2022, the NATO employment contracts for the Office of the Liquidator position of Liquidator (DEU) and Business Financial Manager (DEU)/acting Financial Controller (DEU) expired. The MEADS Board of Directors appointed a US Department of the Army Civilian Servant to the position of Financial Controller and a German Ministry of Defense Civilian Servant to the position of Liquidator.

Note 16. Related Parties

The OotL is under direct control of NAMEADSMO i.L.'s Board of Directors.

NATO IS, who deals with NATO pensions on behalf of other NATO entities, is a related party due to the OotL's pension plans being handled centrally at NATO HQ. NATO IS performed administrative support services for the OotL in 2022. No fees were charged to OotL for the period ending 31 December 2023.

During 2023, key management personnel are the Liquidator and the Financial Controller.

Note 17. Representation Allowance

There were no qualifying officials to receive Representation Allowance in 2023.

Note 18. Events after the Reporting Date

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

G. Report of Management

The North Atlantic Treaty Organization (NATO) Medium Extended Air Defense Missile System Management Organization in Liquidation's (NAMEADSMO i.L.) Financial Statements have been prepared in accordance with the NAF as adopted by the NAC. The NAF is an adaptation of the IPSAS. The Agency's system of internal financial control is designed to provide reasonable assurance regarding the reliability of financial reports and the preparation of financial statements.

The NAMEADSMO i.L. Financial Statements are approved and certified by the Liquidator and the Financial Controller respectively to the best of their knowledge and according to the applicable accounting standards to give a true and fair view, in all material respect, of the assets, liabilities, financial position and financial performance of NAMEADSMO i.L. and to be in accordance with the books and records maintained.

Liquidator

Financial Controller

Annex I – Budget Execution

The Budget Execution Statement (BES) for the current reporting period 01 January 2023 through 31 December 2023 is presented on the accrual basis of accounting. For transparency purposes, both the Operational and the Administrative Budgets are shown.

“Accrual Basis” provides full visibility of revenues and expenses recorded in the period when they are earned, irrespective of the actual cash flows (according to NAF).

The funds shown for the Operational Budget 2023 reflect the maximum amount that is being authorized to be committed and spent.

The funds shown for the Administrative Budget 2023 reflect only the current year authorizations. Remaining funds are available for future years until dissolution.

Statement of Budget Execution as at 31 December 2023

Equivalent USD	Original estimated budget for 2023	Amended estimated budget for 2023	Special Carry Forward 2022/2023	Special Carry Forward Adjustment 2022/2023	Final budget 2023/ Appropriations	Commitments	2023 Expenses	CFwfor Committed Appropriations 2023 - 2024	Lapses
Budget 2023 Operational									
Chapter 3	300,000	-	-	-	300,000	276,284	276,284	-	23,716
Total FY 2023-	300,000	-	-	-	300,000	276,284	276,284	-	23,716
Budget 2023 Administrative									
Chapter 1 Personnel	130,000	-	-	-	130,000	32,485	32,485	-	97,515
Chapter 2 Admin/Svcs	17,000	-	-	-	17,000	1,685	1,685	-	15,315
Chapter 4 Investments	-	-	-	-	-	-	-	-	-
Total FY 2023	147,000	-	-	-	147,000	34,170	34,170	-	112,830
Budget 2022 Operational									
Total FY 2022	-	-	-	-	-	-	-	-	-
Budget 2022 Administrative									
Total FY 2022	-	-	-	-	-	-	-	-	-
Budget 2021 Operational									
Total FY 2021	-	-	-	-	-	-	-	-	-
Budget 2021 Administrative									
Total FY 2021	-	-	-	-	-	-	-	-	-
Budget 2020 Operational									
Chapter 3	-	-	-	-	-	-	-	-	-
Total FY 2020	-	-	-	-	-	-	-	-	-
Budget 2020 Administrative									
Total FY 2020	-	-	-	-	-	-	-	-	-
Budget 2019 Operational									
Chapter 3	-	-	-	-	-	-	-	-	-
Total FY 2019	-	-	-	-	-	-	-	-	-
Budget 2019 Administrative									
Total FY 2019	-	-	-	-	-	-	-	-	-
Total Operational	300,000	-	-	-	300,000	276,284	276,284	-	23,716
Total Administrative	147,000	-	-	-	147,000	34,170	34,170	-	112,830
Total all Budgets	447,000	-	-	-	447,000	310,454	310,454	-	136,546

Explanation of Special Carry Forward, Carry Forward and Lapsed Credits/Ending Balance:

Operational Budget:

The lapsed credits of USD 23,716 are funds that were approved by the BoD for the entire Operational Budget 2023 but were not spent by the end of 2023.

Administrative Budget:

The lapsed credits of USD 112,830 are funds that were approved by the BoD for the entire Administrative Budget 2023 but were not spent by the end of 2023.

Budget Transfers

For the Administrative Budget, transfers of credits between budget chapters can be made after approval of the BoD. The Liquidator may authorize transfers within any chapter between items and among sub-items within an item concerning recurring expenditure and within any item concerning capital expenditure. No transfers within the Administrative Budget occurred in 2023.

For the Operational Budget, transfers of credits between budget chapters and items can be made after approval by the BoD. The Liquidator may authorize transfers between sub-items within any chapter item. No transfers within the Operational Budget occurred in 2023 and no amendment to the budget took place.

Annex II: Budget Calls and Receipts

The Operational and Administrative Budget contributions are called based on cash requirements and within the FMPD schedule and limits. The Operational Budget reached the contribution ceiling in 2013, the Administrative Budget reached the contribution ceiling in 2014 and as such there were no calls made in 2023 by the OotL