



NORTH ATLANTIC COUNCIL
CONSEIL DE L'ATLANTIQUE NORD

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19 December 2024

**DOCUMENT
PO(2024)0416-AS1**

**IBAN AUDIT REPORT ON THE 2023 FINANCIAL STATEMENTS OF NATO
COMMUNICATIONS AND INFORMATION ORGANISATION (NCIO)**

ACTION SHEET

On 19 December 2024, under the silence procedure, the Council noted the RPPB report and the IBAN Audit Report attached to PO(2024)0416, approved the conclusions and recommendations in the RPPB report, and approved the public disclosure of the 2023 Financial Statements of NCIO, the associated IBAN Audit Report and the RPPB report.

(Signed) Mark Rutte
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to PO(2024)0416.

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13 December 2024

DOCUMENT

PO(2024)0416

Silence Procedure ends:

19 Dec 2024 – 17.30

To: Permanent Representatives (Council)

From: Secretary General

**IBAN AUDIT REPORT ON THE 2023 FINANCIAL STATEMENTS OF NATO
COMMUNICATIONS AND INFORMATION ORGANISATION (NCIO)**

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

2. I do not believe this issue requires further discussion in Council. Therefore, **unless I hear to the contrary by 17.30 on Thursday, 19 December 2024**, I shall assume that Council has noted the RPPB report and the IBAN Audit Report, approved the conclusions and recommendations in the RPPB report, and approved the public disclosure of the 2023 Financial Statements of NCIO, the associated IBAN Audit Report and the RPPB report.

(Signed) Mark RUTTE

1 Annex
2 Enclosures

Original: English



**IBAN AUDIT REPORT ON THE 2023 FINANCIAL STATEMENTS OF NATO
COMMUNICATIONS AND INFORMATION ORGANISATION (NCIO)****Report by the Resource Policy and Planning Board**

References:

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| A. | IBA-AR(2024)0020 | IBAN Audit Report on the Financial Statements of the NATO Communications and Information Organisation (NCIO) for the year ended 31 December 2023 |
| B. | C-M(2015)0025 | NATO Financial Regulations (NFRs) |
| C. | C-M(2016)0023 | NATO Accounting Framework (NAF) |
| D. | PO(64)379 | NATO Civilian Personnel Regulations (CPRs) |
| E. | PO(2015)0052 | Wales Summit tasker on transparency and accountability |

INTRODUCTION

1. This report by the Resource Policy and Planning Board (RPPB) addresses the IBAN Audit Report on the 2023 resubmitted Financial Statements of the NATO Communications and Information Organisation (NCIO). IBAN issued an unqualified opinion on the resubmitted Financial Statements and on compliance for the year ended 31 December 2023 (reference A).

2. The RPPB acknowledges that the observations highlighted in the IBAN Audit Report have been discussed and dealt with by participating Nations, represented on the NCIO Agency Supervisory Board (ASB), which is the relevant governing body. The RPPB is mandated under Article 15 of the NFRs (reference B) to examine the IBAN Audit Report and to provide comments and recommendations to the Council as required.

AIM

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

OBSERVATIONS AND RPPB VIEW

4. During the audit, IBAN made two observations and recommendations for the NCIO. They relate to the need to strengthen internal controls over the preparation of the Financial Statements and on the need to ensure full compliance with the NATO Accounting Framework (NAF) (reference C) regarding accounting policies impacting the NCIO Operating Fund. These observations and recommendations did not impact the audit opinion on the Financial Statements and on compliance.

4.1. Observation 1: The RPPB supports IBAN's recommendation that the NCIO strengthen internal controls over the preparation of the financial statements, including by establishing compensatory internal controls when needed, to provide a reasonable basis for obtaining assurance that financial statements are in compliance with the NAF and NATO Financial Regulations (NFRs) (reference C). The RPPB notes that this is mainly related to PPE and Asset Under Construction data.

4.2. Observation 2: The RPPB supports IBAN's recommendation that the NCIO ensure full compliance with the NAF regarding accounting policies impacting the NCIO Operating Fund. As regards derecognising of the untaken leave liability against the Operating Fund, as well as recognising and measuring an untaken leave liability only for the exceptional cases foreseen in the NATO Civilian Personnel Regulations (CPRs) (reference D), the RPPB notes that the NCIO applied the accounting treatment of untaken leave as discussed by the Accounting Working Group at their meeting held in September 2017 and confirmed by the Working Group of Financial Controllers (WGFC) at their meeting held in October 2017. The Agency reached out to the Accounting Working Group and Working Group of Financial Controllers and submitted a request for clarification to the Head of Financial Reporting Policy (HFRP) for an agreed NATO-wide approach on the accounting treatment of untaken leave. The RPPB notes that the HFRP will look into this request for clarifications and provide the necessary guidance.

5. Emphasis of Matter¹ on Financial Statements: IBAN raised an Emphasis of Matter concerning the reclassification of the Inventory Assets Reserve into the Operating Fund (reference to observation no. 1).

6. The observations are detailed in document at reference A. Additionally, IBAN followed up on the status of observations and recommendations from previous years' audits and found that three were closed and four remain in-progress.

7. The RPPB notes that NCIO resubmitted its financial statements to correct material misstatements identified by IBAN, and that without these corrections, the NCIO 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.

¹ 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 IBAN's judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

IBAN PREVIOUS YEARS' OBSERVATIONS AND RECOMMENDATIONS IN-PROGRESS OR OPEN FOR MORE THAN THREE YEARS

8. The RPPB invites the NCIO to provide an action plan to Council with timelines on the implementation of the 2020 financial year observation and recommendation when submitting their response on the IBAN audit of the 2024 Financial Statements if it is not closed during the course of the 2024 audit. The observation relates to the improvements needed to the NCIO cost to complete (CTC) model for revenue recognition. The RPPB supports the NCIO's efforts to continue applying remedial actions with the aim to address IBAN's observations and recommendations in-progress for more than three years.

CONCLUSIONS

9. IBAN issued an unqualified opinion on the 2023 NCIO resubmitted Financial Statements and on compliance. Two observations and recommendations were raised for the NCIO. Three previous years' observations and recommendations were closed and four were in-progress.

10. The RPPB supports IBAN's recommendation that improvements are needed in strengthening internal controls over the preparation of the Financial Statements, and in ensuring full compliance with the NAF regarding accounting policies impacting the NCIO Operating Fund. This is also proven by the resubmission of the NCIO 2023 Financial Statements to correct material misstatements (mainly related to PPE and Asset Under Construction data). 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.

11. The RPPB notes that the HFRP will look into the request for clarifications on the accounting treatment for untaken leave and provide the necessary guidance.

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

RECOMMENDATIONS

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

- 13.1. note this report and the IBAN Audit Report at reference A;
- 13.2. approve the conclusions at paragraphs 9 to 12;

13.3. invite the NCIO to provide an action plan to Council with timelines on the implementation of 2020 financial year recommendation when submitting their response on the IBAN audit of the 2024 Financial Statements; and

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



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

Brussels - Belgium



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IBA-A(2024)0097
27 August 2024

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

Cc: NATO Permanent Representatives
Chair, Agency Supervisory Board, NATO Communications & Information Organisation (NCIO)
General Manager, NATO Communications & Information Agency (NCIA)
Financial Controller, NATO Communications & Information Agency (NCIA)
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 Communications and Information Organisation's (NCIO) Financial Statements for the year ended 31 December 2023 – IBA-AR(2024)0020***

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 NCIO and on compliance for financial year 2023.

Yours sincerely,

Radek Visinger
Chair

Attachments: As stated above.

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**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Financial Statements of the
NATO Communications and Information Organisation (NCIO)
for the year ended 31 December 2023**

The NATO Communications and Information Organisation (NCIO) comprises an Agency Supervisory Board (ASB) and an Executive Body, the NATO Communications and Information Organisation Agency (NCIA). NCIO's mission is to deliver to NATO secure, coherent, cost effective and interoperable communications and information systems and services in support of consultation, command and control (C3) and enabling intelligence, surveillance and reconnaissance capabilities. It includes information technology support to NATO Headquarters, the Command Structure and NATO Agencies. In 2023, NCIO generated revenues of EUR 779 million and incurred expenses of EUR 792 million, resulting in a deficit of EUR 13 million.

Following a request of NCIO to correct material misstatements identified by IBAN during the course of the audit, we agreed to audit the resubmitted financial statements communicated to us on 17 June 2024. Without these corrections, the NCIO 2023 Financial Statements would have included material errors leading to a qualified audit opinion on the Financial Statements.

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

IBAN raised an Emphasis of Matter on the Financial Statements concerning the reclassification of the Inventory Assets Reserve into the Operating Fund. We draw attention to disclosure note 'C. Notes to the NCIO Statement of Changes in Net Assets/Equity', which discloses NCIO Net Assets/Equity. In its resubmitted Financial Statements, NCIO reclassified the Inventory Assets Reserve balance of EUR 75 million as of 31 December 2022 and EUR 66 million as of 31 December 2023 to the Operating Fund (i.e. Retained Earnings) to correct a classification misstatement. This misstatement related to the Inventory Assets Reserve, which lacked formal agreement from the appropriate governing body for its creation and use, as required by the NATO Accounting Framework (NAF), International Public Sector Accounting Standards (IPSAS) 1 and IPSAS 23.

The reclassified Inventory Assets Reserve in the NCIO Operating Fund comprises EUR 28 million related to "*global stocks*", which resulted from a change in accounting policy following the NAF implementation. This policy change led to the first-time capitalisation of inventory initially recognised as expenses by NCIO. Additionally, EUR 38 million is related to "*dedicated stocks*", primarily arising from accumulated inventory variances over the years. Since its creation, NCIO has recognised the use of surpluses as working capital to purchase inventories in the Inventory Assets Reserve. The establishment of this Reserve was intended to avoid shortages and to meet estimated future contractual obligations, mainly related to fixed firm price contracts with NCIO's customers.

This correction increased the Operating Fund by EUR 75 million as of 31 December 2022 and by EUR 66 million as of 31 December 2023.

Our opinion is not qualified with respect to this matter.

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

1. Need to strengthen internal controls over the preparation of the Financial Statements.
2. Need to ensure full compliance with the NATO Accounting Framework regarding accounting policies impacting the NCIO Operating Fund.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that three were closed and four remain in progress.

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

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IBA-AR(2024)0020

27 August 2024

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE
NATO COMMUNICATIONS AND INFORMATION ORGANISATION**

(NCIO)

FOR THE YEAR ENDED 31 DECEMBER 2023

PUBLICLY DISCLOSED - PDN(2025)0019 - MIS EN LECTURE PUBLIQUE

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

The International Board of Auditors for NATO (IBAN) has audited the Resubmitted Financial Statements of NCIO, for the 12 month period ended 31 December 2023, issued under document reference NCIA/FC/2024/03422, and submitted to IBAN on 18 June 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 NCIO 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

Reclassification of Inventory Assets Reserve into Operating Fund

We draw attention to disclosure note ‘C. Notes to the NCIO Statement of Changes in Net Assets/Equity’, which discloses NCIO Net Assets/Equity. In its resubmitted Financial Statements, NCIO reclassified the Inventory Assets Reserve balance of EUR 75 million as of 31 December 2022 and EUR 66 million as of 31 December 2023 to the Operating Fund (i.e., Retained Earnings) to correct a classification misstatement. This misstatement related to the Inventory Assets Reserve, which lacked formal agreement from the appropriate governing body for its creation and use, as required by the NATO Accounting Framework, IPSAS 1 and 23.

The reclassified Inventory Assets Reserve in the NCIO Operating Fund comprises EUR 28 million related to “*global stocks*”, which resulted from a change in accounting policy following the NATO Accounting Framework implementation. This policy change led to the first-time capitalisation of inventory initially recognised as expenses by NCIO. Additionally, EUR 38 million is related to “*dedicated stocks*”, primarily arising from accumulated inventory variances over the years. Since its creation, NCIO has recognised the use of surpluses as working capital to purchase inventories in the Inventory Assets Reserve. The establishment of this Reserve was intended to avoid shortages and to meet estimated future contractual obligations, mainly related to fixed firm price contracts with NCIO’s customers.

This correction increased the Operating Fund by EUR 75 million as of 31 December 2022 and by EUR 66 million as of 31 December 2023.

Our opinion is not modified in respect of this matter.

Management’s Responsibility for the Financial Statements

Management’s responsibility for the financial statements is laid down in the NFRs. The Financial Statements of NCIO are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31st March following the end of the financial year.

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

This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. This also

covers reporting on the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with standards consistent with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with standards consistent with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit. This involves taking into account Considerations Specific to Public Sector Entities. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However,

future events or conditions may cause the entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with the bodies charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

Compliance

Opinion on Compliance

Based on the procedures we performed, nothing has come to our attention, as part of our audit of the Financial Statements that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Basis for Opinion on Compliance

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

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

Management's Responsibility for Compliance

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

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

Auditor's Responsibilities for Compliance

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

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

Brussels, 27 August 2024



Radek Visinger
Chair

OBSERVATIONS AND RECOMMENDATIONS

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

1. Need to strengthen internal controls over the preparation of the Financial Statements.
2. Need to ensure full compliance with the NATO Accounting Framework regarding accounting policies impacting the NCIO Operating Fund.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that three were closed and four remain in progress.

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

Reasoning

1.1 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."*

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

1.3 On the contributions from owners, NAF IPSAS 1 states that: *"Contributions from owners means future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which:*

- (a) *Conveys entitlement both to distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or*
- (b) *Can be sold, exchanged, transferred or redeemed."*

1.4 The NAF, IPSAS 23 paragraph 37 states that: *“Contributions from owners are defined in IPSAS 1. For a transaction to qualify as a contribution from owners, it will be necessary to satisfy the characteristics identified in that definition. In determining whether a transaction satisfies the definition of a contribution from owners, the substance rather than the form of the transaction is considered. Paragraph 38 indicates the form that contributions from owners may take.”*

1.5 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 NAF.

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

1.7 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.

1.8 A key part of internal controls regarding the preparation of the financial statements relates to the audit trail. The responsibilities of NCIO include providing adequate audit trails in accordance with the NFRs Article 12.3. This includes ensuring that the primary financial statements and notes are properly referenced to supporting data and that all reconciling differences are fully documented.

Observations

1.9 IBAN found misstatements in the NCIO Financial Statements first submitted on 31 March 2024, as described below. These misstatements, some of which were material, were corrected in the Resubmitted Financial Statements submitted on 18 June 2024. Without these corrections, the NCIO 2023 Financial Statements would have included material errors, leading to a qualified audit opinion on the Financial Statements and on compliance.

1.10 We found a classification misstatement related to the Inventory Assets Reserve, for which the creation and use were not formally granted to NCIO by the appropriate NCIO governing body, and therefore should have been classified in the Operating Fund (i.e., Retained Earnings) in accordance with the NAF IPSAS 1 and 23. This correction increased the NCIO Operating Fund by EUR 75 million as of 31 December 2022 and by EUR 66 million as of 31 December 2023.

1.11 In addition, we found the following misstatements related to assets recognition, measurement and/or disclosure. These misstatements were corrected in the resubmitted financial statements:

- a) Recognition and disclosure error of EUR 36 million related to an asset handed over to a Territorial Nation, which should not have been capitalised in accordance with the NAF. This led to an overstatement of Assets recognised in the NCIO 2023 Statement of Financial Position and an accumulated understatement of expenses over the past years in the NCIO Statement of Financial Performance by EUR 36 million as of 31 December 2023, of which EUR 5 million pertains to 2023.
- b) Classification and disclosure error related to an asset reported as completed despite still being under construction, and vice versa, another asset completed but classified as under construction, amounting to a net amount of EUR 17 million as of 31 December 2023.
- c) Classification and disclosure error, stemming from an incorrect split between tangible assets and intangible assets related to a project, resulted in a classification error totalling EUR 17 million as of 31 December 2023.
- d) Measurement error due to the omission of a manual journal entry of approximately EUR 7 million, related to the reversal of a previous year's accrual that was not included as a decrease in the value of an Asset Under Construction.
- e) A measurement error involving assets acquired for a specific project scope of work that was ultimately abandoned led to an impairment of these assets amounting to approximately EUR 5 million.

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

Recommendations

1.13 IBAN recommends that NCIO strengthen internal controls over the preparation of the financial statements, including by establishing compensatory internal controls when needed, to provide a reasonable basis for obtaining assurance that financial statements are in compliance with the NATO Accounting Framework and NATO Financial Regulations.

2. NEED TO ENSURE FULL COMPLIANCE WITH THE NATO ACCOUNTING FRAMEWORK REGARDING ACCOUNTING POLICIES IMPACTING THE NCIO OPERATING FUND

Reasoning

2.1 The recent revision of the NATO Communications and Information Agency (NCIA) Customer Funding Regulatory Framework (CFRF) (PO(2021)0141) and the NCIO Financial Rules and Procedures (FRPs), including a change to the Operating Fund definition, has led to increased compliance audit risks associated to NCIO's Net Assets/Equity, which includes the Retained Earnings (i.e.: Operating Fund). IBAN therefore performed a detailed compliance review of the NCIO Statement of Changes in Net Assets/Equity, which includes the NCIA Retained Earnings (i.e.: Operating Fund) and Retained Reserves, as part of the audit of the NCIO 2023 Financial Statements.

2.2 According to the NCIA Customer Funding Regulatory Framework (CFRF) (PO(2021)0141) on NCIA Operating Fund:

“86. The NCIA Operating Fund, equalling the sum of retained earnings, is a ‘buffer’ to absorb surpluses or deficits that result from customer-funded operations where the risk lies with the Agency, i.e. not the customers. While the Regulatory Framework also acknowledges another purpose, namely to specifically provide a source of working capital, the Operating Fund was not designed to be the source of funding for major capital investments. The Operating Fund essentially enables the Agency to manage risk from its firm fixed price contracts and standard Customer Rates or reductions in demand. The Operating Fund has a target level of 10 million Euro which has consistently been exceeded over the past years.

87. In line with the Framework’s provisions, use of the fund is tightly controlled: the NCIO ASB [Agency Supervisory Board] can recommend, and the Budget Committee can approve, expenditures by NCIA of sums of up to 500,000 Euro while higher amounts require agreement by the RPPB. The NCIO ASB considers it should have direct supervisory authority and proposes that any surpluses arising at the end of a financial year should be returned to customers through Customer Rates rather than be attributed to an accumulating Operating Fund above the target level. [...]”

2.3 According to article 27.3 of the NATO Financial Regulations (NFRs): *“Where the business model in use predicates an Operating Fund, the management and use of the Operating Fund shall be in accordance with rules established by the appropriate regulatory authority.”*

2.4 On 29 September 2023, under a silence procedure, the Agency Supervisory Board (ASB) approved a revision (AC/337-D(2023)0067 (INV)) to the NCIO FRPs.

NCIA proposed six changes to the FRPs, including a change to the Operating Fund definition.

2.5 According to the FRP XXVII on the Operating Fund:

“Operating Fund

41) Expenditures in accordance with the annual Financial Plan shall be financed by payments received from Agency Customers under the terms of the agreements.

42) At the end of the financial year the net surplus or deficit distributed to retained earnings, excluding transfers to special purpose reserves, shall be transferred to the Agency’s Operating Fund.

Regulating the Operating Fund

43) Oversight of the performance of the Operating Fund is the responsibility of the ASB.

[...]

Use of the Operating Fund

50) The Operating Fund is a source of working capital for deficits or a repository for surpluses that arise from Agency operations. The Financial Controller should include a note to that effect within the certification of the financial statements.

[...].”

Slow-moving, obsolete or damaged inventories:

2.6 According to the NAF, IPSAS 12 on Inventory: *“Inventories shall be measured at the lower of cost and net realizable value”. The “net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.”*

[...] “The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined.

[...] The practice of writing inventories down below cost to net realizable value is consistent with the view that assets are not to be carried in excess of the future economic benefits or service potential expected to be realized from their sale, exchange, distribution, or use.”

[...] “Computer Information System (CIS) assets and Automated Information Systems AIS – If the NATO Communication and Information Organisation (NCIO) acts as a service provider to NATO Commands (including IS and IMS) for inventory of CIS and/or AIS assets, NCIO has control over these CIS and AIS assets.”

2.7 The NAF IPSAS 12 states that for financial reporting requirement, NATO Reporting entities: *“May choose to write down to the net realizable value items which are considered as slow-moving over the last 36 months. The value of slow-moving inventory which is written down shall be disclosed in the inventory note to the financial statements; May choose to measure slow moving stock items as strategic at historical cost. Reporting shall include a description of the stock items and a description of the assets or services to which they relate. The basis by which strategic stocks are measured shall be disclosed;”*

2.8 The NAF states that *“Some complex elements of slow moving stock can be identified as strategic if they are deemed essential to the effective operation of an asset and cannot be readily replaced by commercial off the shelf items or cannot be purchased due to market decisions to close production lines of key inventory items due to the advanced age of the strategic asset to which the stock relates” [...] “Aircraft engine parts and spare parts for bespoke items of communication systems are examples of strategic stock.”*

2.9 The NCIO Financial Statements accounting policy on Inventory states that *“NCIO CIS/AIS inventories are required to assure the delivery of services by NCIO to our customers and are in line with Service Level Agreements, Service Support Projects and Operational Level Agreements. These items are often, due to their nature, slow moving and are disclosed at weighted average cost. NCIO has already initiated a process (integral part of which is the identification of that kind of stock which could be deemed strategic due to its nature) of valuation of items that could potentially be characterized as slow moving, taking into consideration NATO Accounting Framework provisions as well as short and long term operational needs. Furthermore NCIO, as per NATO Accounting Framework, retains the option to write down to the net realizable value, items which are considered as slow-moving over the last 36 months. NCIO has chosen not to perform a write down on the inventory holdings.”*

2.10 According to information provided by NCIA, as of 31 December 2023, inventories classified under NCIO Net/Assets Equity include items identified as 'dedicated stocks' amounting to EUR 38 million and 'global stocks' amounting to EUR 28 million, as per NCIA terminology. NCIA's accounting policy is not to write down inventory holdings to their net realisable value, even if they have been considered slow-moving over the last 36 months or more. Nevertheless, in 2023, NCIA initiated a review of its inventory holdings to identify obsolete or damaged inventories that should be written-off.

Accounting for untaken leave liability in accordance with IPSAS 39:

2.11 According to note 10, “Other Current Liabilities”, of the NCIO 2023 Financial Statements: *“The NCI Agency estimated liability for the untaken leave days outstanding at year end, in accordance with IPSAS 25 Employee benefits, constitutes a liability towards the future for 10.1 MEUR (2022: 12.7 MEUR). This liability is calculated on a rolling basis, i.e. the prior year liability is reversed at the beginning of the year and a new estimate calculated, thus charging the change for the year to the personnel costs in the Statement of Financial Performance. The cost of these untaken leaves days has been absorbed during the year through the monthly salaries whereas the loss of production of capacity when the leave to be taken is pushed forward to the next year. This constitutes an Agency liability towards the future which is recognized.”*

2.12 Therefore, NATO Communications Information Organisation (NCIO) has recognised a liability for all employees’ untaken leave days outstanding at year-end.

2.13 According to the NATO Accounting Framework (NAF), IPSAS 1: On the Prudence principle: *“Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that assets or revenue are not overstated and liabilities or expenses are not understated. However, the exercise of prudence does not allow, for example, the creation of hidden reserves or excessive provisions, the deliberate understatement of assets or revenue, or the deliberate overstatement of liabilities or expenses, because the financial statements would not be neutral and, therefore, not have the quality of reliability.”*

2.14 The NAF IPSAS 39 on Employee Benefits, regarding Short-Term Paid Absences states that:

“An entity shall recognize the expected cost of short-term employee benefits in the form of paid absences under paragraph 11 as follows:

*13. (a) In the case of accumulating paid absences, when the employees render service that increases their entitlement to future paid absences; and
(b) In the case of non-accumulating paid absences, when the absences occur.*

14. An entity may pay employees for absence for various reasons, including holidays, sickness and short-term disability, maternity or paternity, jury service, and military service. Entitlement to paid absences falls into two categories:

*(a) Accumulating; and
(b) Non-accumulating.*

15. Accumulating paid absences are those that are carried forward and can be used in future periods if the current period’s entitlement is not used in full. Accumulating paid absences may be either vesting (in other words, employees are entitled to a cash payment for unused entitlement on leaving

the entity) or nonvesting (when employees are not entitled to a cash payment for unused entitlement on leaving). An obligation arises as employees render service that increases their entitlement to future paid absences. The obligation exists, and is recognized, even if the paid absences are non-vesting, although the possibility that employees may leave before they use an accumulated non-vesting entitlement affects the measurement of that obligation.

16. An entity shall measure the expected cost of accumulating paid absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.”

2.15 NAF IPSAS 39 allows for recognising a liability for accumulating but non-vesting short-term paid absences. However, paragraph 16 conditions the measurement of the liability to the “*additional amount that the entity expects to pay*”.

2.16 According to the Chapter IX Article 42.3 of the NATO Civilian Personnel Regulations (NCPRs) on Leave:

“42.3.1: staff should take annual leave to the max extent possible in that year. Where unable, balance may be taken before 30 April next year.

-42.3.2: where the deadline of art .1 is impossible to be met (30 April), untaken leave may be taken forward for a further period. But annual leave not taken by 31 October of the following year in which it accrued shall be forfeited. If the Head of NATO Body requires a staff member to provide direct support to a Council approved operation, mission or event during the last year of assignment, the timeline foreseen under this article shall be extended by the period of the support.

-42.3.3 There will be no compensation for annual leave not taken. Exceptionally, where it has not been possible to allow members of the staff to take all their leave entitlement before their final departure from the Organization, staff members shall receive a corresponding payment of up to 30 days’ emoluments.”

2.17 In substance, the NCPRs stipulate that annual leave not taken by 31 October of the following year shall be forfeited, except in some exceptional cases described above where untaken leave could be paid.

Observations

2.18 IBAN notes that the CFRF states that “*any surpluses arising at the end of a financial year should be returned to customers through Customer Rates rather than be attributed to an accumulating Operating Fund above the target level*”. Since the Operating Fund is composed of both items arising from cash and non-cash transactions (i.e.: inventories, accruals, provisions, etc.), it is important to distinguish in the NCIO Operating Fund the items arising from cash outflow/inflow from non-cash

items in note 'C. Notes to the NCIO Statement of Changes in Net Assets/Equity'. This presentation is relevant to provide governance with an overview of the share of the Operating Fund supported by cash at bank.

2.19 The NCIO Operating Fund amounts to EUR 102 million as of 31 December 2023 and was significantly increased in 2023 following the reclassification of the Inventory Assets Reserve totalling EUR 66 million to the Operating Fund (i.e., Retained Earnings) in its Resubmitted Financial Statements to correct a classification misstatement. In practice, this inventory balance does not constitute a surplus with cash at bank that could be practically returned to customers according to the current Customer Rates methodology.

2.20 Moreover, IBAN considers that NCIA's accounting policy of not writing off inventory holdings or not writing them down to their net realisable value, even if they have been considered slow-moving for 36 months or more, does not accurately reflect the future economic benefits or service potential of the inventory holdings.

2.21 IBAN believes it is especially important, following the reclassification of the Inventory Asset Reserve balance amounting to EUR 66 million into the Operating Fund, for NCIA to complete its assessment of inventory holdings' value to ensure accurate inventory valuation and disclosure concerning the future economic benefits or service potential of NCIA's inventory holdings, which were mainly funded through NCIO Operating Fund surpluses arising from NCIO service delivery activities related to fixed firm price contracts with NCIO's customers.

2.22 In addition, IBAN found that NCIO recognised and measured accumulating but non-vesting untaken leave of its employees as a liability, even though there are no additional amounts that NCIO expects to pay as a result of the unused entitlement. The variances in the measurement of this liability have been recognised in NCIO's Statements of Financial Performance over the years, resulting in cumulative non-cash expenses amounting to EUR 10 million as of 31 December 2023, reported in the NCIO Operating Fund as part of NCIO Net Assets/Equity.

2.23 IBAN also found that NCIO incorrectly referred to IPSAS 25 in the NCIO 2023 Financial Statements note disclosures, although this standard was replaced by IPSAS 39 on 1 January 2018.

2.24 The situation described above related to the untaken leave liability is not compliant with the provisions of NAF IPSAS 39 and results in an overstatement of the NCIO liability categorised under "*Other Current Liabilities*" and an understatement of the NCIO Operating Fund within "*Net Assets/Equity*" in the NCIO 2023 Statement of Financial Position by the cumulative amount of EUR 10 million as of 31 December 2023.

Recommendations

2.25 IBAN recommends that NCIO ensure full compliance with the NATO Accounting Framework regarding accounting policies impacting the NCIO Operating Fund by:

- a) Considering to distinguish in the Operating Fund, items arising from cash outflows/inflows from non-cash items, in note 'C. Notes to the NCIO Statement of Changes in Net Assets/Equity';
- b) Completing the assessment of the value of NCIO inventory holdings, in order to recognise and disclose any inventory write-off and/or write-down on the face of the NCIO Financial Statements in accordance with the NAF IPSAS 1 and 12;
- c) Derecognising the untaken leave liability amounting to EUR 10 million as of 31 December 2023 reported under "*Other Current Liabilities*" against the Operating Fund categorised within "*Net Assets/Equity*" in the 2023 NCIO Statement of Financial Position in accordance with NAF IPSAS 39;
- d) Recognising and measuring a liability only for the exceptional cases foreseen in the NATO Civilian Personnel Regulations where NCIO expects to pay an additional amount as a result of the unused entitlement in accordance with NAF IPSAS 39;
- e) Referring to IPSAS 39, which superseded IPSAS 25, instead of IPSAS 25 in the NCIO Financial Statements disclosure notes.

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) NCIA FY 2022 IBA-AR(2023)0022, paragraph 1.19 NEED TO STRENGTHEN INTERNAL CONTROLS OVER THE PREPARATION OF THE FINANCIAL STATEMENTS IBAN's Recommendation IBAN recommends that NCIO: a) Strengthen internal controls over the preparation of the financial statements, including by establishing compensatory internal controls when needed, to provide a reasonable basis for obtaining assurance that financial statements are in compliance with the NATO Accounting Framework and NATO Financial Regulations (NFRs); b) Ensure compliance with the NFRs and the IBAN Charter by strengthening the audit trail, and by providing to IBAN in a timely manner complete supporting data relating to the financial statements including the notes, in a specific file prior to the commencement of the audit fieldwork.	a) IBAN identified material misstatements in the 2023 NCIO Financial Statements first submitted to IBAN for audit. In-Progress. b) IBAN noted as part of the audit process in 2023 that NCIO improved its audit trail and audit readiness. Closed.	Observation In-Progress.
(2) NCIA FY 2022 IBA-AR(2023)0022, paragraph 2.11 NON-DISCLOSURE OF INVENTORY HELD AT THIRD PARTIES' LOCATIONS IBAN's Recommendation IBAN recommends that NCIO:		Observation Closed.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
a) Disclose in the notes to the financial statements the inventory held at third parties in accordance with the NATO Accounting Framework; b) Ensure that the control over the quantities and valuation of inventory held at third parties is documented annually and reflected in the financial statements disclosure.	a) IBAN noted that NCIO has added the required disclosure note for the inventory held at third parties. Closed. b) IBAN noted that NCIO has documented controls over inventory held at third parties. Closed.	
(3) NCIA FY 2022 IBA-AR(2023)0022, paragraph 3.11 OFFSETTING OF NSIP RECEIVABLES AND LIABILITIES NOT COMPLIANT WITH THE NAF (IPSAS 1) PRESENTATION OF FINANCIAL STATEMENTS IBAN's Recommendation IBAN recommends that NCIO recognise financial assets and financial liabilities in relation to NSIP contributions separately in its Statement of Financial Position, except for those situations in which offsetting financial assets and financial liabilities is compliant with IPSAS 28.	IBAN noted that NCIO recognised financial assets and financial liabilities in relation to NSIP contributions separately in its 2023 Statement of Financial Position. Closed.	Observation Closed.
(4) NCIA FY 2022 IBA-AR(2023)0022, paragraph 4.11 ENSURE COMPLIANCE WITH THE NAF (IPSAS 18) SEGMENT REPORTING IBAN's Recommendation IBAN recommends that NCIO: a) Determine suitable operating segments; b) Include a segment reporting disclosure note in its financial statements in accordance with the NATO Accounting Framework, IPSAS 18.	a) IBAN noted that NCIO determined five suitable operating business segments based on customer funding source. Closed. b) IBAN noted that NCIO included a segment reporting disclosure note in its 2023 financial statements. Closed.	Observation Closed.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(5) NCIA FY 2021 IBA-AR(2022)0015, Observation 2 STRENGTHENING INTERNAL CONTROLS RELATED TO CASH MANAGEMENT IBAN's Recommendation IBAN recommends that NCIO: a) Comply with AC/4-D/2663, Annex paragraph 3 by including bank interests received on NSIP funds ('IC' bank deposits) and any profit and loss in a special Miscellaneous Account, and by regularly introducing the result of this operation in the NSIP Call for Contribution, in coordination with the NATO Office of Resources; b) Ensure that the treasury procedures approved by the NCIA Financial Controller cover the management of 'IC' and 'BC' related bank accounts, associated transfers between these accounts and sharing of interests received; c) Implement the Treasury Management System (TMS) in order to fully integrate treasury management into the Enterprise Business Application (EBA).	a) Sub-recommendation closed as part of the previous year's audit report (IBA-AR(2023)0022). Closed. b) Sub-recommendation closed as part of the previous year's audit report (IBA-AR(2023)0022). Closed. c) IBAN noted that the TMS service provider has been selected and the implementation is foreseen to be completed in 2024. In-Progress.	Observation In-Progress.
(6) NCIA FY 2021 IBA-AR(2022)0015, Observation 4 WEAKNESS REGARDING EBA USER ACCESS RIGHTS AND SEGREGATION OF DUTIES IBAN's Recommendation IBAN recommends that NCIO: a) Systematically develop and maintain a detailed action plan with regard to recommendations expressed in internal audit reports. b) Enhance segregation of duties by creating:	a) IBAN noted that NCIO developed and maintained a detailed action plan with regard to recommendations expressed in NCIO internal audit reports for EBA which is monitored by the EBA programme manager. Closed. b) IBAN noted that:	Observation In-Progress.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
i. appropriate documentation on all roles and responsibilities in EBA and ii. a Segregation of Duties matrix identifying all conflicting roles and responsibilities. c) Revoke roles and responsibilities for leavers at the time of departure. d) Perform, for staff members changing positions or departments within the Agency, an analysis in order to ensure that the new roles and responsibilities comply with the segregation of duties principle.	i. documentation on all roles and responsibilities in EBA will, according to NCIA, be part of an improvement plan for EBA access management processes in 2024. In-Progress. ii. a Segregation of Duties matrix identifying all conflicting roles and responsibilities was put in place and results were obtained through the use of an automated tool. Closed. c) IBAN noted that NCIO stated that they will include this initiative as part of the improvement plan for EBA access management processes. In-Progress. d) Similar as sub-recommendation c) above. In-Progress.	
(7) NCIA FY 2020 IBA-AR(2021)0016, Observation 5 IMPROVEMENT NEEDED TO THE NCIO COST TO COMPLETE (CTC) MODEL FOR REVENUE RECOGNITION IBAN's Recommendation While IBAN acknowledges the improvement in the cost to complete (CTC) revenue recognition model since 2018 through the implementation of the EBA and that, at a high level, no material inconsistencies were found, IBAN recommends that NCIO: a) Replaces the Excel based process with an EBA model tailored to NCIO's operations, which should guarantee the traceability, integrity and security of data;	a) IBAN noted that NCIO is developing a plan to use the existing management tool (Microsoft Power BI) to automate the CTC functionality to guarantee the traceability, integrity and security of data. In-Progress.	Observation In-Progress.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
b) Ensure that the treasury procedures approved by the NCIA Financial Controller cover the management of 'IC' and 'BC' related bank accounts, associated transfers between these accounts and sharing of interests received;	b) Sub-recommendation closed as part of the previous year's audit report (IBA-AR(2023)0022). Closed.	
c) Establishes a sign-off on the responsibility and validation of the final cost at completion estimates embedded within the EPM-EBA interface and integrates the project management document in support hereof.	c) IBAN noted that Enterprise Performance Management (EPM) software was replaced by ServiceNow, which integrates the sign-off process for responsibility and validation of the final cost at completion estimates. Closed.	

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IBA-AR(2024)0020

**NATO COMMUNICATIONS AND INFORMATION ORGANIZATION (NCIO)
FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL
BOARD OF AUDITORS (IBAN) POSITIONS**

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

NCIO's Formal Comments

Agreed.

NCIO will continue its effort to implement continuous improvement in relation to internal control and in particular address those areas which were matters of concern, namely PPE and Asset Under Construction data.

**OBSERVATION 2:
NEED TO ENSURE FULL COMPLIANCE WITH THE NATO ACCOUNTING
FRAMEWORK REGARDING ACCOUNTING POLICIES IMPACTING THE NCIO
OPERATING FUND**

NCIO's Formal Comments

Agreed.

Recommendation a):

NCIO has well noted the IBAN consideration.

Recommendation b):

Inventory holdings are verified on a regular basis and list prices are updated accordingly Agency will continue this exercise in FY2024.

Nevertheless, NCIO will continue reviewing the assets valuation in accordance with NAF and service potential of assets.

Recommendation c) and d):

NCIO has applied the accounting treatment of untaken leave as proposed by the AWG and confirmed by the WGFC to ensure consistent application by the NATO entities.

The cost for untaken leave days is paid during the year through the monthly salaries, whereas the loss of production capacity due to leave is carried forward into the next year. This is accounted as a recognised expense and

related liability towards the future. The accounting treatment of untaken leave will need to be consistent amongst the NATO entities and will be addressed by the WGFC to the HFRP for clarification of the issue.

Recommendation e):

NCIO agrees with the observation.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(1) NCIO 2022 FY

IBA-AR(2023)0022, paragraph 1.19

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

NCIO's Formal Comments

Agreed.

No additional comments.

(2) NCIO 2022 FY

IBA-AR(2023)0022, paragraph 2.11

NON-DISCLOSURE OF INVENTORY HELD AT THIRD PARTIES' LOCATIONS

NCIO's Formal Comments

Agreed.

No additional comments.

(3) NCIO 2022 FY

IBA-AR(2023)0022, paragraph 3.11

OFFSETTING OF NSIP RECEIVABLES AND LIABILITIES NOT COMPLIANT WITH THE NAF (IPSAS 1) PRESENTATION OF FINANCIAL STATEMENTS

NCIO's Formal Comments

Agreed.

No additional comments.

(4) NCIO 2022 FY
IBA-AR(2023)0022, paragraph 4.11
ENSURE COMPLIANCE WITH THE NAF (IPSAS 18) SEGMENT REPORTING

NCIO's Formal Comments

Agreed.

No formal comments.

(5) NCIO 2021 FY
IBA-AR(2022)0015, Observation 2
STRENGTHENING INTERNAL CONTROLS RELATED TO CASH MANAGEMENT

NCIO's Formal Comments

Agreed.

No formal comments.

(6) NCIO 2021 FY
IBA-AR(2022)0015, Observation 4
WEAKNESS REGARDING EBA USER ACCESS RIGHTS AND SEGREGATION OF DUTIES

NCIO's Formal Comments

Agreed.

No formal comments.

(7) NCIO 2020 FY
IBA-AR(2021)0016, Observation 5
IMPROVEMENT NEEDED TO THE NCIO COST TO COMPLETE (CTC) MODEL FOR REVENUE RECOGNITION

NCIO's Formal Comments

Agreed.

No formal comments.

GLOSSARY OF TERMS

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

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

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

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

**Office of the Financial Controller**

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NCIA/FC/2024/03422
17 June 2024

To : IBAN Board Member Mr. Carlo Mancinelli

Subject : **Re-submission of the NCIO 2023 Financial Statements**

Reference : A. IBA-A(2024)0050, IBAN audit of NCIO 2023 Financial Statements – Request to resubmit the NCIO 2023 Financial Statements (FS).

Dear Carlo,

As per reference A, the Agency herewith issues the resubmitted NCIO 2023 Financial Statements to be audited by your team.

The Agency recognises the importance of correcting any material elements detected during the audit which may affect understanding of the Financial Statements readers. The Agency is fully committed to reflect sound and robust data within the NCIO Financial Statements.

The reason for the resubmission of the NCIO 2023 Financial Statements is to specifically address the audit findings raised by IBAN to FC on 21 May and 10 June 2024. The following errors were reported to NCIA and would be addressed through the resubmission;

- NATO ACCS Replication Construction in Progress; the capitalized cost will need to be reversed for a total of 36 MEUR. Assets were not delivered to a NATO Command Structure but to a Territorial Host Nation hence NCIO should not report these assets on the face of its Statement of Financial Position in accordance with the NATO Accounting Framework.
- ITM Wave 1 Capitalised Asset; several corrections mounting up to an amount of 40 MEUR ; these corrections will address;
 - classification error between tangible and intangible assets
 - classification error of completed/in-service assets (should be construction in progress)
 - impairment required on the ITM construction in progress value.
- ITM Mitigation Tranche; Construction in progress (CIP); classification of 5.8 MEUR from CIP towards In-Service Assets.
- Replace UHF TACSAT radios; reduce the CIP value with 6 MEUR mainly due to missing reversal of accrual.

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Additionally we have also addressed the audit finding on the inventory reserve, Agency has reclassified from reserves towards a subcategory within the Operating Fund, although it remains under Net Assets.

The NCI Agency stands ready to provide all necessary support to the audit team to provide detailed reconciliations/explanations between the FS version submitted on 31 March 2024 and the enclosed version.

Ludwig Decamps

Antoine Pailhès

General Manager

Financial Controller

Enclosure:

1. NCIO Financial Statements for the year ended 31 December 2023

Distribution:

External

Chair Agency Supervisory Board

Internal

Members of Executive Management Board

Head of Internal Audit



NATO Communications and Information Agency
Agence OTAN d'Information et de Communication



Enclosure to
NCIA/FC/2024/03422

NATO Communications and Information Organisation

Financial Statements for the year ended 31 December 2023

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Overview of the NATO Communication and Information Organisation (NCIO) and Agency (NCI Agency)

The NATO Communications and Information Agency – or NCI Agency – acts as NATO's principal Consultation, Command and Control (C3) deliverer and Communications and Information Systems (CIS) provider. It also provides IT-support to NATO Headquarters, the NATO Command Structure and NATO Agencies. The NCI Agency acquire, deploy and defend communications systems for NATO's political decision-makers and Commands.

The Agency is on the frontlines against cyber-attacks and work closely with governments and industry to prevent future debilitating attacks. The Agency is working to deliver a secure, modern digital infrastructure to NATO – wherever the Alliance is working. In addition, the Agency conducts the central planning, system engineering, implementation and configuration management for the NATO Air Command and Control System (ACCS) Programme.

The NCI Agency, led by a General Manager, is headquartered at Boulevard Leopold III, 1140 Brussels, Belgium. It has major locations in The Hague, the Netherlands, Braine-l'Alleud and Mons, Belgium.

The Agency is the executive arm of the NATO Communication and Information Organisation (NCIO), which aims to achieve maximum effectiveness in delivering NATO's Consultation, Command and Control capabilities to stakeholders, while ensuring their coherence and interoperability, and ensuring the provision of secure CIS services at minimum cost to Allies – individually and collectively.

NCIO is managed by an Agency Supervisory Board (ASB) composed of representative from each NATO nation. The ASB oversees the work of the NCIO. After consulting with the NATO Secretary General, NCIO's ASB appoints the General Manager of the Agency. All NATO nations are members of the NCIO.

The ASB, which reports to the North Atlantic Council (NAC), issues directives and makes general policy decisions to enable NCIO to carry out its work. Its decisions on fundamental issues such as policy, finance, organization and establishment require unanimous agreement by all member countries.

The NCI Agency was created on 1 July 2012 through the merger of the NATO C3 Organisation, NATO Communication and Information Systems Services Agency (NCSA), NATO Consultation, Command and Control Agency (NC3A), NATO Air

Command and Control System Management Agency (NACMA), and NATO Headquarters Information and Communication Technology Service (ICTM).

For 65 years, the NATO Communications and Information Organisation and Agency and their predecessors have worked tirelessly in providing the means that enable the connectedness and togetherness that keep our Alliance strong. There is a long legacy of dedication to our mission and commitment to our customers. Our fundamental role as enshrined in the NCIO Charter is to act as NATO's principal C3 capability deliverer and CIS service provide for the full range of its entitled requirements holders and customers.

As established by the NCIO Charter in mid-2012, the NCI Agency is customer funded for delivering ICT to NATO and nations. The principles of Customer Funding are based on the NCIO Charter:

- Customers shall be charged the direct costs plus overhead to cover general administrative expenditures, recuperation of capital investments, and Agency operating and running costs;
- Charges to customers shall be subject to customer agreement prior to being incurred;
- Customer Rates and Service Rates are set in such a way to ensure balance between planned income (revenue) and expenditure (expenses) to achieve breakeven over the planning period; and are submitted, after review by the ASB Finance Committee (FINCOM), to the Agency Supervisory Board (ASB) for endorsement and finally to the Budget Committee (BC) for approval on behalf of all Customers.

The Customer Funding Regulatory Framework (CFRF) forms the basis of the Agency's financial operations. A key aspect of this framework covers the issues contained within the overarching principles for funding eligibility:

- Definition of customers internal/external and their roles and responsibilities;
- Coordination with existing programming and planning mechanisms;
- Recapitalization of ICT assets and equipment;
- Roles of the ASB, Resource Policy and Planning Board (RPPB), Budget Committee (BC), and Investment Committee (IC);
- Service demand and requirements validation;
- Pricing of Agency services;
- Provision of independent advice to the NATO resource community;
- Roles of other stakeholders in the governance of the NCI Agency;
- Requirement for ICT Services and Capabilities;

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- Procedures governing the use of the Operating Fund.

Governed by the Nations, the Operating Fund, in this context, performs the function of a repository for Accumulated Surpluses or Deficits and is a risk management reserve. A process has been put in place to return Operating Fund surpluses over the target level back to customers through Customer Rates rebates.

The main aim of the Customer Funding financial model is to empower the customer who can define requirements and/or volume of services and thus secure the best value for money in obtaining the services it requires. The concept also aims to ensure that the beneficiaries of the goods and services are those who pay the full costs of the benefits they receive. The customers state their requirements; generally in the context of the draft Service Level Agreement (SLA), Service Support Packages (SSP), Service Support Training Packages (SST), Capability Package (CP) or by submitting a Task Order (TO) or a Customer Request Form (CRF). The Agency confirms its ability to fulfil the requirements, and following internal staffing and coordination, proposes a cost for each service or capability requested based on approved Customer Rates and/or the CCSC. Operating as an integral part of NATO, the Agency must remain attentive to NATO's funding constraints and in close coordination with its customers to tailor its service levels to the requirements and priorities set by its customers.

By being Customer Funded, the Agency must recover all of its costs from the work and services it provides its customers. In line with the BC's guidance, the Customer Rates or professional labour fees are used to determine Service Rates and Agency charges to its customers, respectively by Project Service Costs (PSCs) for capability development and Service Support Costs (SSCs) for ICT services, with the aim to achieve financial breakeven over time.

The Agency's Customer Rates are based on the actual costs as disclosed in the Annual Financial Statements Year-1, or from the latest and most accurate possible execution data from Year-1. Following the Nations approval, since 2017, the Customer Rates used are a single set of rates. This is offering more transparency and traceability of the Agency's cost structure, and allows for a more stable calculation methodology and comparison over the years.

Consistent with the CFRF, the Agency predominantly provides customers with CIS services based on Firm Fixed Price (FFP) agreements whereby the Agency delivers a specified set of goods or services for a fixed price. The use of FFP agreements reduce administration costs and provides customers with more stability and less

risk as the Agency manages associated risks with delivering the goods or services within the agreed price unless otherwise agreed with the customer. The Agency's obligation is the delivery of goods and services in accordance with the agreed customer specifications, and the customers' obligation is the payment of the agreed amount. The Agency relies on the customer provided funding via advance payments and the timely payment of invoices to provide the cash flow for daily Agency business operations.

The Agency continues to leverage cutting-edge technology and collaborative partnerships with NATO entities and industry. For instance, in 2023, the Agency's IT modernisation initiative made strides in overcoming technical obsolescence, delivering 6,500 new workstations, laptops, tablets, and other devices to users throughout NATO. In the space realm, the Agency completed the upgrade of four NATO Satellite Ground Stations, doubling the previous satellite communications ground coverage and enabling the Alliance to do more with fewer stations. To strengthen cyber security, the Agency has upgraded and configured mission-critical cyber security capabilities and systems at 22 NATO sites, increasing its ability to monitor and defend the Alliance's networks from cyber-attacks and malicious activities. The Agency also provides critical support to NATO operations, missions and exercises. In 2023, the Agency enabled information-sharing and connectivity for over 100 NATO and national exercises. In 2023, the NATO Communications and Information Agency played a significant role in helping Ukraine to reduce cyber risks and improve cyber information sharing, including by delivering key IT capabilities such as satellite phones and GPS trackers to enhance Ukraine's ability to communicate during Russia's war against Ukraine.

NCIO's Financial Position and Financial Performance are based on the usage made of its capabilities by NATO Nations and its partner Nations. As such, its performance is impacted by NATO operations and the demand of its Nations and partners for the capabilities and services that it offers.

NATO Allies have increased substantially their military spending following the Russian invasion of Ukraine in February 2022. As a consequence this has led to an increased operational spend at the Agency in 2023 and will continue to lead to an increase in expenditure in 2024 and beyond.

The NATO 2030 agenda sets a higher level of ambition and provides a clear direction for the future adaptation of the Alliance. To meet these requirements in a more challenging security environment, increased resources will be needed across all three NATO budgets: military, civil, and infrastructure. NATO Leaders agreed to identify these additional resources, including through NATO common funding, to

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ensure that the Alliance continues to ensure its common defence and security through 2030 and beyond. The Agency would expect that some of this increase in National spending will come to NCIO through increased requirements.

Financial Statements general information & certification

Basis of Preparation

The NCIO Financial Statements are a formal record of the financial activities and position of the NCI Agency and the ASB Secretariat. These include an extensive set of notes to the financial statements describing each item on the statement of financial position, performance, cash flow and budget execution statement in further detail.

The NCIO Financial Statements are a standalone document and undergo a specific approval process as well as an audit by the International Board of Auditors for NATO (IBAN). For full visibility of the Agency's operating performance and strategic alignment to the NATO mission, readers should consult the NCIO Annual Report.

In respect to the 2023 NCIO Financial Statements, these were prepared:

- for public disclosure
- on a going-concern principle
- on the basis of a single entity
- on an accrual basis and a historical cost convention, except as disclosed in the accounting policies and detailed notes.

Amounts in the financial statements are stated in Euro currency.

Compliance with Financial Regulations

The NCIO Financial Statements are submitted to the Agency Supervisory Board (ASB) and the International Board for Auditors of NATO (IBAN) in accordance with NAC approved standards, including the International Public Accounting Standards (IPSAS) as adopted through the NATO Accounting Framework and the NATO Financial Regulations (NFR).

Article 35 of the NATO Financial Regulations: "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. The IBAN audit report, together with the associated financial statements, shall be finally noted or approved by the Council not later than 31 December."

This is consistent with Article 53 of the NCIO Charter: "The General Manager shall submit to the ASB and the International Board of Auditors for NATO annual financial statements in accordance with NAC approved standards, including the International

Public Sector Accounting Standards (IPSAS) as adopted by NATO, and the provisions of the NATO Financial Regulations".

The Financial Regulations that are applicable to NCIO are described in the NCIO Charter under Article 50: "The NCIO shall be governed by the provisions of the NATO Financial Regulations, subject to such derogations as may be approved by the NAC upon recommendation by the Resource Policy and Planning Board".

Article 27 of the NATO Financial Regulations specifically relates to the Agency as a Customer Funded entity: "Customer-Funded bodies make agreements with Customers to provide goods and services in accordance with Customer requirements. Customers' agreement will describe the requirements for how funds are to be made available to the Customer-Funded bodies and how the funds will be committed and carried forward; these requirements may be different from common-funded NATO bodies".

The NATO Communications & Information Agency Customer Funding Regulatory Framework is a fundamental part of the governance of the Agency, along with the NCIO Charter provisions. It is designed to deliver effective and efficient C&I service provision by NCI Agency by establishing mechanisms for validating Agency costs and for validation of all requirements, including ICT services, while future C&I capability requirements will continue to be provided through the Capability Package process with greater emphasis on ICT asset renewal which will be on a biennial schedule to ensure that technology upgrades and replacement of obsolescent equipment keeps up with the military requirement.

Certification of the NCIO Financial Statements

The NCIO 2023 Financial Statements were prepared in accordance with the following reference documents:

- C-M(2012)0049, Charter of the NATO Communications and Information Organisation, approved by Council, dated 14 June 2012.
- C-M(2015)0025), NATO Financial Regulations, approved by Council, dated 4 May 2015;
- PO(2015)0394, NATO Communications & Information Agency Customer Funding Regulatory Framework (CFRF), approved by Council, dated 16 July 2015 and regular reviews by RPPB towards the CFRF ;
- C-M(2016)0023, revised NATO Accounting Framework (IPSAS adaptation), approved by Council, dated 29 April 2016;
- C-M(2017)0022(INV), NATO Accounting policy for Property Plant and Equipment , approved by Council, dated 31 May 2017;

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- C-M(2017)0044, NATO Accounting Policy for Intangible Assets, approved by Council, dated 08 September 2017
- C-M(2017)0043, NATO Accounting Policy for Inventory, approved by Council, dated 08 September 2017;
- PO(2023)0315-AS1 (INV), amendments to the NATO Accounting Framework, approved by Council, dated 03 August 2023;
- AC/337-D(2016)0014-REV2 (INV), NCIO Financial Rules and Procedures, approved by the ASB, dated 05 October 2023;

The NCI Agency General Manager and NCI Agency Financial Controller certify that the NCIO 2023 Financial Statements present fairly the NCIO's financial position, financial performance, cash flows and changes in net assets/equity during the period.

Ludwig Decamps
General Manager

Antoine Pailhès
Financial Controller

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NCIO Statement of Financial Position*For the year ended 31 December 2023**(all figures are expressed in thousands of Euro)*

	Note	2023	2022 Restated	2022
ASSETS				
Current Assets				
Cash and Cash Equivalents	1	271,243	253,753	253,753
Receivables	2	332,231	345,776	172,590
Prepayments and Miscellaneous Assets	3	16,852	7,328	7,328
Inventory	4	69,758	64,250	64,250
Work in Progress	5	5,476	4,304	4,304
Other Current Assets		0	0	0
Total Current Assets		695,562	675,412	502,226
Non-Current Assets				
Financial Assets		0	0	0
Non-current Receivables	6	549	548	548
Property, Plant and Equipment	7	408,924	339,633	389,547
Intangible Assets	7	421,740	372,697	357,508
Other Non-Current Assets		0	0	0
Total Non-Current Assets		831,213	712,878	747,603
TOTAL ASSETS		1,526,775	1,388,290	1,249,829
LIABILITIES				
Current Liabilities				
Payables	8	125,923	102,347	102,347
Deferred Revenue and Advances	9	525,180	493,912	331,578
Other Current Liabilities	10	18,244	23,099	23,099
Total Current Liabilities		669,347	619,358	457,025
Non-Current Liabilities				
Non-Current Payables		0	0	0
Non-Current Deferred Revenue and Advances	9	725,491	619,016	650,484
Non-Current Borrowings		0	0	0
Provisions	11	4,625	9,276	9,276
Total Non-Current Liabilities		730,116	628,292	659,760
TOTAL LIABILITIES		1,399,463	1,247,651	1,116,785
NET ASSETS/EQUITY				
Retained Earnings	27	102,299	115,727	44,645
Reserved Earnings	26	25,013	24,912	88,399
TOTAL NET ASSETS/EQUITY		127,312	140,639	133,044
TOTAL LIABILITIES AND NET ASSETS/EQUITY		1,526,775	1,388,290	1,249,829

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NCIO Statement of Financial Performance*For the year ended 31 December 2023**(all figures are expressed in thousands of Euro)*

		NCIO		
	Note	2023	2022 Restated	2022
REVENUE				
Project and Support Services Revenue	12	355,089	342,601	341,511
External Services Revenue	13	199,818	188,813	191,023
Acquisition Revenue	14	208,386	175,564	168,609
Other Revenue	15	8,497	4,923	4,923
Financial Revenue	16	7,201	3,335	3,335
TOTAL REVENUE		778,991	715,236	709,401
EXPENSES				
Cost of Acquisition	17	(130,518)	(110,421)	(98,274)
Personnel Costs	18	(304,261)	(284,882)	(282,957)
Contractual Supplies and Services	21	(250,814)	(231,991)	(236,313)
Depreciation and Amortisation	22	(99,235)	(91,925)	(94,304)
Provisions Expenses	23	(4,678)	(5,841)	(7,278)
Financial Expenses	16	(2,812)	(2,752)	(2,752)
Other Expenses		0	0	0
TOTAL EXPENSES		(792,318)	(727,812)	(721,878)
SURPLUS/(DEFICIT)		(13,327)	(12,576)	(12,477)
Distributed(net) to Retained Earnings	27	(13,428)	(18,508)	(7,619)
Distrubuted(net) to Reserved Earnings	26	101	5,932	(4,858)

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NCIO Statement of Cash Flows*For the year ended 31 December 2023**(all figures are expressed in thousands of Euro)***CASH FLOWS FROM OPERATING ACTIVITIES**

Surplus/(Deficit) for the Period
Depreciation and Amortisation
Revaluation of Assets
Decr./((Incr.) Receivables
Decr./((Incr.) Prepayments and Miscellaneous Assets
Decr./((Incr.) Inventory
Decr./((Incr.) Work in Progress
Decr./((Incr.) Other Current Assets
Incr./((Decr.) Payables
Incr./((Decr.) Deferred Revenue and Advances
Incr./((Decr.) Non-Current Deferred Revenue and Advances
Incr./((Decr.) Borrowings
Incr./((Decr.) Other Current Liabilities
Incr./((Decr.) Provisions
NET CASH FLOWS FROM OPERATING ACTIVITIES

CASH FLOWS FROM INVESTING ACTIVITIES

Decr./((Incr.) Financial Assets
Decr./((Incr.) Non-current Receivables
Decr./((incr.) PP&E and Intangible Assets
Decr./((Incr.) Other Non-Current Assets
NET CASH FLOWS FROM INVESTING ACTIVITIES

CASH FLOWS FROM FINANCING ACTIVITIES

Incr./((Decr.) Non-Current Payables
Incr./((Decr.) Non-Current Borrowings
Incr./((Decr.) Other Non-Current Liabilities
NET CASH FLOWS FROM FINANCING ACTIVITIES

NET INCR./((DECR.) CASH AND CASH EQUIVALENTS**CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD**

Incr./((Decr.) Cash and Cash Equivalents
--

CASH AND CASH EQUIVALENTS AT END OF PERIOD**NCIO**

2023	2022 Restated	2022
(13,327)	(12,576)	(12,477)
97,742	91,683	92,853
0	0	0
13,545	25,256	46,718
(9,524)	2,203	2,203
(5,508)	11,778	11,778
(1,172)	(1,860)	(1,860)
0	0	0
23,576	(2,598)	(2,598)
31,267	52,235	35,785
106,474	80,456	82,714
0	0	0
(4,854)	9,389	9,389
(4,651)	1,422	1,422
233,568	257,389	265,929
0	0	0
(1)	0	0
(216,076)	(190,352)	(198,892)
0	0	0
(216,078)	(190,352)	(198,892)
0	0	0
0	0	0
0	0	0
0	0	0
17,491	67,037	67,037
253,753	186,716	186,716
17,491	67,037	67,037
271,243	253,753	253,753

NCIO Statement of Change in Net Assets/Equity*For the year ended 31 December 2023**(all figures are expressed in thousands of Euro)*

BALANCE AT BEGINNING OF PERIOD
Net surplus/(deficit) for the period
BALANCE AT END OF PERIOD
RESERVES AT BEGINNING OF PERIOD
Net decrease/(increase) of bookvalue of property, plant and equipment
Net decrease/(increase) of Internal Investements reserves
Net decrease/(increase) of Transition reserves
Net decrease/(increase) of Inventory reserves
Net decrease/(increase) of currency translation differences
RESERVES AT END OF PERIOD
RETAINED EARNINGS AT END OF PERIOD (OF)
Retained Earnings/Operating fund (excluding Inventories)
Retained Earnings/Operating fund related to Inventories
NET ASSETS/EQUITY AT END OF PERIOD

NCIO		
2023	2022 Restated	2022
140,639	153,215	145,521
(13,327)	(12,576)	(12,477)
127,312	140,639	133,044
24,912	18,979	93,257
589	5,359	6,370
(488)	648	648
0	(74)	(74)
0	0	(11,801)
0	0	0
25,013	24,912	88,399
102,299	115,727	44,645
36,603	53,035	44,645
65,696	62,692	0
127,312	140,639	133,044

NCIO Statement of Change in Net Asset/Equity detail can be found under note C.

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NCIO ASB Secretariat

NCIO Budget Execution Statement*For the year ended 31 December 2023**(all figures are expressed in thousands of Euro)***BUDGET**

Chapter 1 - Personnel
Chapter 2 - Contractual supplies and services
Chapter 3 - Investments
Total Fiscal Year 2023
Chapter 1 - Personnel
Chapter 2 - Contractual supplies and services
Chapter 3 - Investments
Total Fiscal Year 2022
Chapter 1 - Personnel
Chapter 2 - Contractual supplies and services
Chapter 3 - Investments
Total Fiscal Year 2021
TOTAL

NCIO									
Initial Budget	Transfers	Budget Revision	Transfers	Final Budget	Net Commitment	Expenses	Total Spent	Carry Forward	Lapsed
1,336	0		0	1,182	0	1,216	1,216	0	120
232	0	0	0	235	0	91	91	0	141
0	0	0	0	0	0	0	0	0	0
1,569	0	0	0	1,416	0	1,307	1,307	0	261
1,124	0	58	0	1,182	0	1,173	1,173	0	9
235	0	0	0	235	0	166	166	0	69
0	0	0	0	0	0	0	0	0	0
1,359	0	58	0	1,416	0	1,339	1,339	0	78
168	0		0	168	0	168	168	0	0
0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0
168	0	0	0	168	0	168	168	0	0
3,095	0	58	0	3,001	0	2,814	2,814	0	339

NCIO Budget Execution Statement details can be found under note E.

Accounting Policies

1. General information

The below information provides a summary of the material accounting policies that have been applied by the NATO Communications and Information Organisation (NCIO) when preparing its Financial Statements for the year ended 31 December 2023. The NCIO Financial Statements are a formal record of the financial activities and position of the NCI Agency (NCIA) and the Agency Supervisory Board (ASB) Secretariat. These include an extensive set of notes to the Financial Statements describing each item on the Statement of Financial Position, Performance, Cash Flow and Budget Execution Statement in further detail.

Article 35 of the NATO Financial Regulations state that financial statements prepared by NCIO have to be submitted for audit to the International Board of Auditors for NATO (IBAN) by the NCIO Financial Controller no later than 31st March following the end of the financial year. In addition, Financial Statements also have to be submitted to the ASB. The IBAN audit report, together with the associated Financial Statements, have to be finally noted or approved by the Council not later than 31 December following the end of the financial year.

2. Summary of significant accounting policies

a. Statement of compliance and basis of preparation

These Financial Statements have been prepared in accordance with the NATO Accounting Framework (NAF) which is based upon the International Public Sector Accounting Standards (IPSAS). NCIO applies all IPSAS apart from the below standards which have been adapted by the Council.

The following IPSAS were adapted by the Council in August 2013:

- IPSAS 6 – Consolidated financial statements and accounting for controlled entities;
- IPSAS 12 – Inventories;
- IPSAS 17 – Property, Plant and Equipment;
- IPSAS 31 – Intangible Assets.

The following standard was adapted by the Council in April 2016:

- IPSAS 1 – Presentation of Financial Statements.

The following standard was further adapted by the Council in July 2023:

- IPSAS 17 – Property, Plant and Equipment;
- IPSAS 31 – Intangible Assets.

In addition, these financial statements are also prepared in accordance with the NATO Financial Regulations (NFRs) and NCIO Financial Rules and Policies (FRPs).

The NCIO Financial Statements consist of:

- A statement of financial position;
- A statement of financial performance;
- A statement of changes in net assets;
- A statement of changes in cash flows;
- Accompanying notes.

NCIO prepares its Financial Statements on the basis that it will continue to operate as a going concern basis which means that those charged with governance of NCIO consider that they believe NCIO will continue in existence for at least a year from the date the financial statements are issued. The Financial Statements have been prepared on the basis of historical cost, unless stated otherwise. The Cash Flow Statement is prepared using the indirect method for operating, investing and financing activities as well. The Financial Statements are prepared on an accrual basis.

The preparation of Financial Statements in compliance with the NAF requires the use of certain critical accounting estimates and requires that those responsible for preparing and presenting the financial statements of NCIO use judgement in applying these accounting policies. The areas where significant judgements and estimates have been made in preparing the financial statements and their effect are disclosed in the notes to the financial statements.

The policies have been consistently applied to all the years presented.

b. Presentation and functional currency used in these financial statements

The NCIO financial statements are presented in EUR, which is the functional and presentation currency of NCIO. Figures included in these financial statements are expressed in thousands EUR, unless otherwise stated. Because the amounts are stated in thousand of Euro it could result to certain immaterial rounding differences in the presented numbers.

c. Financial period covered by these financial statements

The financial statements are prepared on an annual basis, beginning on the first day of January and ending on the thirty-first day of December each year.

d. Changes in accounting policies

New and amended standards and interpretations;

New and amended standards adopted by NCIO in the reporting period

The International Public Sector Accounting Standards Board (IPSASB) has published the following new standards that became effective for annual financial reporting periods commencing from 1 January 2023:

- **IPSAS 41 - Financial Instruments and subsequent amendment.** This standard replaces the existing IPSAS 29 - Financial Instruments - and sets out new requirements for recognition and measurement of financial instruments, including impairment, de-recognition and general hedge accounting. NCIO's main financial assets consists of cash and cash equivalents, short-term investments as well as trade and other receivables. NCIO's main financial liabilities consist of trade payables and non-current and current unearned revenue liabilities. No derivative financial instruments are held by NCIO, neither NCIO applies any hedging activities. The impact of applying IPSAS 41 by NCIO is therefore limited to the changes in accounting for credit losses on trade receivables as a result of implementing the revised guidance on accounting for provisions for expected credit losses on these trade receivables. The impact of the initial application/restatement can be found in detail in the NCIO Financial Statements under chapter 2. Accounts Receivable of the Notes to the NCIO Statement of Financial Position.
- **IPSAS 42 - Social Benefits.** This standard defines social benefits as cash transfers to individuals to mitigate the effect of social risks and address the needs of society as a whole and provides guidance for their accounting. This standard has no impact on the financial statements of the NCIO.

New and amended standards not yet adopted by NCIO in the reporting period

The International Public Sector Accounting Standards Board has published the following new accounting standards, which are not yet effective as at 31 December 2023:

- **IPSAS 43 – Leases.** This Standard will be applicable to annual financial statements covering periods beginning on or after 1 January 2025. Earlier application is permitted provided the entity applies IPSAS 41 ‘Financial instruments’ at the same time. This standard will replace IPSAS 13. The NCIO is in the process of identifying the impact of this new standard on its financial statements. NCIO intends to apply this standard from its effective date.
- **IPSAS 44 – Non-current assets held for sale and discontinued operations.** This Standard will be applicable to annual financial statements covering periods beginning on or after 1 January 2025. Earlier application is permitted provided the entity applies IPSAS 43 ‘Leases’ at the same time. This standard will likely have no material impact on the financial statements. The NCIO intends to apply this standard from its effective date.
- **IPSAS 45 – Property, plant & equipment.** This Standard will be applicable to annual financial statements covering periods beginning on or after 1 January 2025. This standard will replace IPSAS 17, Property, Plant, and Equipment by adding current operational value as a measurement basis in the updated current value model for assets within its scope, identifying the characteristics of heritage and infrastructure assets, and adding new guidance on how these important types of public sector assets should be recognized and measured. Earlier application is permitted. The NCIO does not have heritage assets recognised at the reporting date. This standard will likely have no material impact on the financial statements. IPSAS 17 is adapted by NATO within the NATO Accounting Framework (NAF) hence NCIO expects that this new IPSAS 45 Standard will also be adapted soon within NATO and the NAF will be updated accordingly.
- **IPSAS 46 – Measurement.** This Standard will be applicable to annual financial statements covering periods beginning on or after 1 January 2025. Earlier application is permitted. The NCIO is not expected to be materially impacted by this standard. The NCIO intends to apply this standard from its effective date.
- **IPSAS 47 – Revenue.** This Standard will be applicable to annual financial statements covering periods beginning on or after 1 January 2026. Earlier application is permitted. IPSAS 47 presents two accounting models based on the existence of a binding arrangement. A binding arrangement is an arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the arrangement. NCIO has a minor budget funded revenue source, however it mainly derives its revenue from its customer funded activities that are entered into by NCIO by means of a binding arrangement. Therefore, at the inception of the contract, NCIO has to identify all compliance obligations in the binding arrangement. Revenue is to be recognized at the amount allocated to a compliance obligation when NCIO satisfies the compliance obligation. NCIO is in the process of identifying the impact of this new standard on its financial statements. NCIO intends to apply this standard from its effective date.
- **IPSAS 48 – Transfer expenses.** This Standard will be applicable to annual financial statements covering periods beginning on or after 1 January 2026. Earlier application is permitted. The NCIO is not expected to be impacted by this standard as it does not generally provide a good, service or asset to another entity without directly receiving any good, service, or other asset in return, however the NCIO is in the process of identifying the impact of this new standard on its financial statements. The NCIO intends to apply this standard from its effective date.

Changes in Accounting Policies/Standards and Adoption

As per IPSAS 3 – Accounting Policies, changes in accounting estimates and errors requires that “A change in the accounting treatment, recognition, or measurement of a transaction, event, or condition within a basis of accounting is regarded as a change in accounting policy”.

The Agency has changed at the start of FY2023:

- **IPSAS 41 - Financial Instruments** and subsequent amendment. This standard replaces the existing IPSAS 29 - Financial Instruments - and sets out new requirements for recognition and measurement of financial instruments, including impairment, de-recognition and general hedge accounting. NCIO’s main financial assets consists of cash and cash equivalents, short-term investments as well as trade and other receivables. NCIO’s main financial liabilities consist of trade payables and non-current and current unearned revenue liabilities. No derivative financial instruments are hold by NCIO, neither NCIO applies any hedging

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activities. The impact of applying IPSAS 41 by NCIO is therefore limited to the changes in accounting for credit losses on trade receivables as a result of implementing the revised guidance on accounting for provisions for expected credit losses on these trade receivables.

- **IPSAS 42 - Social Benefits.** This standard defines social benefits as cash transfers to individuals to mitigate the effect of social risks and address the needs of society as a whole and provides guidance for their accounting. This standard has no impact on the financial statements of the NCIO.
- **Change in measurement of a transaction/recognition;** Revenue generated on Firm Fix Price customer agreements/contracts are recognised equal to the agreed firm fix price/amount hence no deferral of revenue is accounted for unless there is a clear indication that the services/goods have not been delivered towards the customer.

Restatement and reclassifications that impact the face of the NCIO Financial Statements

Property, plant and Equipment and Intangible assets have been restated. The ongoing improvement effort and review of assets under construction and in-services assets resulted into a corrective action/restatement. This restatement also impacted the deferred revenue, revenue, depreciation cost and net assets.

Revenue and deferred revenue are restated as a result of the change in measurement of a transaction/recognition for firm fix price customer agreements/contracts.

Trade Receivables, Provisions and Net assets are restated due to implementing IPSAS 41 Financial Instruments.

NSIP QAFR advances which are now disclosed as a liability and not netted anymore with current assets - receivables.

Inventory reserve under the Nets Asset Reserve Earnings is reclassified toward Net Assets Retained Earnings to align to the applicable NATO policy documents.

Further details can be found in the respective notes to the financial statements.

e. Revenue Recognition

Main Revenue Streams

Communications and Information partnerships agreed by the NCIO are customer funded agreements between NCIO, two or more NATO nations and, if mutually agreed, non-NATO nations, whereby NCIO provides the participating nations with technical expertise, services, or support (i.e. development and maintenance of C3 and CIS assets) within the scope of approved missions and activities. All the activities performed by NCIO are therefore customer funded.

Under this Customer Funding Regulatory Framework, NCIO customer funded revenue is reported as follows:

Revenue line item	Description
Project and Support Services Revenue	Project revenue represents revenue that is generated by NCIO from customers in relation to recharged personnel costs mainly incurred by NCIO staff throughout the construction phase of C3 and CIS tangible and intangible assets. Support Services revenue represents revenue that is generated by NCIO from customers in relation to recharged personnel costs incurred by NCIO staff throughout the operational maintenance activities on these C3 and CIS tangible and intangible assets, and other standard and non-standard services as per the service agreements (throughout their useful life).
External Services Revenue	External services revenue represents revenue that is generated by NCIO from customers as result of recharges made by NCIO of maintenance costs incurred and procurement of low value assets from industry in relation to maintenance activities of C3 and CIS assets.

Acquisition revenue	Acquisition revenue represents amounts that can be invoiced to customers in relation to NCIO's costs incurred in relation to materials and effort procured from the market and utilized in the development of both C3 and CIS assets.
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Revenue recognition pattern for C3 and CIS assets whereby NCIO acts as the service provider for NATO Command Structure, NATO IS and NATO IMS

The amount of revenue recognised by NCIO in relation to C3 and CIS assets for which it acts as a service provider is derived from the costs capitalized in accordance with IPSAS 17 – Property, Plant and Equipment and/or IPSAS 31 – Intangible Asset. As a result, revenue in relation to C3 and CIS assets is recognised by NCIO in its Statement of Financial Performance on a straight-line basis over the estimated useful life of the related assets matching the corresponding depreciation and/or amortization charge recognised for the related assets.

Additional revenue can be recognised by NCIO upon performing maintenance services on these assets throughout their useful life.

Revenue recognition pattern for C3 and CIS assets whereby NCIO does not act as the service provider for NATO Command Structure, NATO IS and NATO IMS

Revenue in relation to C3 and CIS assets for which NCIO does not act as a service provider are recognised by reference to the stage of completion or the cost burn rate, depending on the type of funding agreement, firm fixed price or cost reimbursable, respectively.

As per IPSAS 11, when the outcome of a construction contract can be reliably estimated, revenue and costs related to the contract are recognised by NCIO by reference to the stage of completion at the reporting date. Under the percentage of completion method, contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and surplus/deficit that can be attributed to the proportion of work completed.

Additional revenue can be recognised by NCIO upon performing maintenance services on these assets throughout their useful life.

Financial Revenue

Mainly consist of bank interest or gains on foreign currency exchanges which occur when transactions are settled in another currency than EUR. Realised gains on foreign currency transactions are either refunded, charged or absorbed by the NCI Agency, depending on the agreement with the Customers.

Other Revenue

All activities performed by the ASB Executive Secretariat are not customer funded and distinct contributions are obtained from the different NATO member states on the basis of the NAC-agreed cost shares for NATO's Military Budget to cover the funding of its independent secretariat and the direct costs of supporting ASB meetings.

Revenue from non-exchange transactions is recognised by NCIO in the Statement of Financial Performance at the same moment on which the related expense, covered by the revenue from non-exchange transactions, is incurred by NCIO.

f. Expenses Recognition

Expenses are defined as decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets.

Expenses are recognized by NCIO when the transaction or event causing the expense occurs, and the recognition of the expense is therefore not linked to when cash or its equivalent is received or paid.

NCIO typically incurs the following main type of expenses:

- **Acquisition costs:** Acquisition costs mainly relate to costs incurred by NCIO to acquire goods or obtain services in relation to assets whereby NCIO acts as a principal on behalf of sponsors, NATO entities or Member Nations.
- **Personnel costs:** Personnel costs are costs derived from the employment of civilian personnel, as per NATO Civilian personnel regulations, including salaries, allowances, pension contribution, joining and leaving costs. In addition, this also includes costs incurred for training and medical activities as well as the costs incurred for Interim Workforce Contractors, temporary staff and external consultants.
- **Contractual supplies and services costs:** These costs mainly relate to goods and services procured from industry partners (either directly in support of the delivery of services and capabilities or required for the normal functioning of the Agency's facilities and equipment).
- **Costs related to depreciations, amortisations and provisions:** These costs mainly relate to spreading the capitalised costs of property, plant and equipment as well as intangible assets over their useful life. In addition, it relates to additional expenses recognised for provisions.
- **Financial Expenses;** losses on foreign currency exchanges occur when transactions are settled in another currency than EUR. Realised losses on foreign currency transactions are either refunded, charged or absorbed by the NCI Agency, depending on the agreement with the Customers.

g. Foreign Currency Transactions

Transactions entered into by NCIO in a currency other than EUR (which is NCIO's functional and presentation currency) are recorded at the exchange rates in effect when the transactions occur. The use of exchange rates does not materially impact the financial statements.

NSIP and Third-Party acquisition transactions are converted using the quarterly exchange rates issued by the Investment Committee (IC). This rate is imposed by the IC and allows the NCI Agency to get reimbursed for all exchange, bank and miscellaneous financial results. All other foreign currency transactions are recorded by converting the foreign currency amount at the Budget Committee (BC) conversion rates valid at the date of the transaction.

NCIO adheres to the following principles when reporting foreign currency items at each reporting date:

- Foreign currency monetary items are translated using the closing rate: and
- Foreign currency non-monetary items (i.e. those at historical cost) are translated using the exchange rate at the date of the transaction.

All exchange differences are reported as a financial expense or financial revenue in the Statement of Financial Performance in the period in which they occur.

h. Segment Reporting

A segment is a distinguishable activity of NCIO for which it is appropriate to separately report financial information. At NCIO, segment information is based on customer funding sources. As such, NCIO reports separate financial information for five segments:

#	Segments	Customer base	Description
A.	Investment Committee	Internal customers IC funded: Investment Committee	Internal Customers are NATO common funded and comprise: The Investment Committee, which is assigning NCIA as Host Nation and is authorising NSIP funding for the development and implementation of common-funded C3 capabilities. Although the Strategic Commands are primarily the requirements holders, the investment committee is responsible for fulfilling the role of internal customer of NCI Agency.
B.	Budget Committee	Internal customers BC funded:	

#	Segments	Customer base	Description
		- NATO Command Structure (ACO and ACT) - NATO International Staff (IS) - NATO International Military Staff (IMS)	The BC funded entities (NCS, IS and IMS), which are common funded entities resourced through direct contributions to NATO budgets to support objectives, priorities and activities that serve the interests of the Alliance as a whole – and cannot reasonably be borne by any single member – such as Alliance operations and missions or NATO-wide air defense, command and control structure.
C.	(Multi-) National and other	External customers	External Customers are non-common funded customers. External customers include non-common funded NATO Agencies, NATO Force Structure, NATO nations, Other Agencies and Multinational Organisations and Partner Nations to which NCI Agency delivers projects and services.
D.	Budget funded	Not applicable.	This segment reflects the running costs of the Independent Secretariat in support of the ASB Chairman and Nations, funded directly by a NATO common funded budget envelop.
E.	NCI Agency (CIS support & running support)	Not applicable.	This segment discloses the Agency Operating running costs intra-segment allocation to Internal and External Customers as well as the Communication and Information System (CIS) support. It also refers mainly to Overhead & General

NCIO allocates operating assets, liabilities, revenues and expenses that are directly attributable to the segment or can be allocated to the segment on a reasonable basis to the different identified segments they relate to.

Some assets, liabilities and revenues and expenses cannot be directly attributed towards customer funding sources, or allocated on a reasonable basis towards the individual segments.

Within NCIO, limited segment information is available for cash and cash equivalents as well as net assets across the different segments. These elements are shown within an 'unallocated segment' allowing to reconcile the segment disclosures to the aggregate amounts of revenue, expense, asset and liabilities that are presented in the financial statements of NCIO that are prepared in accordance with IPSAS.

i. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Assets, Type of financial assets hold by NCIO;

- Cash and Cash Equivalents
- Receivables

Financial Liabilities, Type of financial liabilities hold by NCIO;

- Trade and Accrued Payables
- Advances and/or Unearned Revenue

Initial recognition and measurement

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

NCIO's financial obligations are financed by payments and advances from its Customers, who are either NATO Nations or Partners. NCIO does not borrow money and only invests on short term bank deposits. No other financial instruments are held other than financial assets and liabilities which are generated by day-to-day operational activities.

*Risk Types***Liquidity risk**

NCIO's financial requirements and capital expenditure are met by its Customers and are typically funded in advance. NCIO is therefore not exposed to material liquidity risks. Nevertheless, to ensure business continuity, Treasury holds around 3 months payroll costs equivalent of cash as a security buffer. Based on agreed procedures, Treasury may request additional advance payments to NATO bodies if the cash levels approach to the security buffer or cash forecasts indicate any potential liquidity problems.

Credit risk

NCIO's Customers are member and partner Nations of NATO and hence NCIO is therefore not exposed to material credit risks.

Foreign currency risk

Agency aims to have natural hedge in its transactions to avoid foreign currency risk exposure. Agency operates mainly in EUR, USD, GBP and NOK currencies. Treasury may request calls for contributions in these currencies, in line with expected outflows, based on either cash projections or previous business experiences.

Treasury holds currency bank accounts in those currencies to pay and receive funds.

In addition to the main currencies, there are fewer transactions in other currencies; PLN, TRY, RON and CAD. Agency holds a TRY bank account in Türkiye as an advance account to facilitate direct debit payments in Türkiye. Aligned with NFR, Treasury does not take any speculative positions nor makes any speculative transactions. All foreign currency transactions are related to current or future business needs.

j. Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments that are readily convertible to cash and that are subject to an insignificant risk of changes in value, with original maturities of three months or less, and bank overdrafts.

k. Receivables

Receivables are measured at Net Realisable Value after taking bad and doubtful debts into account. NCIO, as required in accordance with IPSAS 41, considers forward looking information in its Expected Credit Loss (ECL) model. As a general rule, the Agency considers that as it works with customers which are funded through national governments, that debts are considered to be "good"; only on rare occasions provisions are made for bad or doubtful debts.

NCIO utilizes its historical credit loss experience for receivables to estimate the 12-month expected credit losses. NCIO applies provision matrix based:

- on a 3 year average basis provision rates function of total trade receivable amount overdue beyond 60 days;
- on the diversity of its customer base, NCIO distinguishes two categories of customers:

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- All NATO entities, including, but not limited to, NATO International Staff, NATO International Military Staff, NATO Agencies, NATO Command Structures etc.
- Member and Partner Nations, or External Organisations, public or private.

The average would have to be review on a yearly basis to maintain the trend of the receivables paid/impaired within a 3-year basis analysis.

The standard introduces a Forward-Looking Impairment Model deriving Expected Credit Losses, which no longer depend on a triggering event based on an objective indication for recognizing impairment. The model is designed to provide users of financial statements with information on Expected Credit Losses that is more useful and timely.

IPSAS 41 proposes an AR Provision Matrix for ECL estimations, with calculations begin solely derived from the year-end AR Aging Balances. These are extracted separately for every 31st of December of the year, for period 2021 to 2023 included. As stated in the introduction, we then identify each customer as NATO or Non-NATO body, based on their respective funding source.

The calculations also require a deep analysis of the Total Write-Off amounts performed for trade receivables. Similar to the previous paragraph, we also aim to identify the funding source for classifying the amounts belonging to NATO and Non-NATO bodies.

NCIO adopt a 3-Year ECL model for better reflection of impairment, for the purpose of the exercise we shall report ECL values separately for each NCIO customer category, however the final average amount will combine both of them, following the standard's accounting treatment.

The impact of the initial application/restatement can be found in detail in the NCIO Financial Statements under chapter 2. Accounts Receivable of the Notes to the NCIO Statement of Financial Position.

l. Accounts Payable

Accounts Payable represent amounts for which goods and services, supported by a vendor invoice, have been received at the year-end but which remain unpaid. Accounts payable include services and goods received supported by an unpaid invoice and estimates of accrued obligations for goods and services received but not yet invoiced by the vendors.

m. Advances and/or Unearned Revenue

In order to ensure that Customer and budget requirements can be met, NCIO can call for money in advance of need to provide adequate cash flow. The advance is shown as an asset but is matched by a liability because until the funds are used, they are owed back to the Customer who provided the funding.

n. Prepayments and Miscellaneous assets

Prepayments mainly relate to amounts paid in advance by NCIO to suppliers for goods or services not yet received.

o. Property, Plant and Equipment

Recognition

In addition to the IPSAS requirements and definition on control, the NATO Accounting Framework (NAF) establishes criteria as to assist in assessing the level of control that any NATO Reporting Entity has for reporting assets in its financial statements. The NAF states that the NCIO acts as a service provider for CIS and/or Automated Information Systems (AIS) assets (including the construction of these assets) for the NATO Military Commands (Allied Command Operations (ACO) and Allied Command Transformation (ACT)) as

well as for the International Staff (IS) and the International Military Staff (IMS). NCIO has control over these assets because it uses them to provide goods and services to its customers and therefore reports them in its Financial Statements since 1 January 2018.

In adherence to the NAF, NCIO capitalises all CIS Assets, including Assets under Construction (AuC) starting as of 1 January 2018. NCIO considers CIS Assets, including AuC prior to 1 January 2018 as fully expensed. If AuC continue after 1 January 2018, only the portion that has not already been expensed should be capitalised.

NCIO provides a brief description on the items of PP&E that were held and expensed prior to 1 January 2013 in the notes to the financial statements. In addition, as from 1 January 2018 onwards, NCIO provides in the notes to the financial statements further disclosure on types and the locations of CIS assets that were under construction prior to 1 January 2018.

Measurement

Initial measurement

PP&E is initially recognised at cost, which includes the purchase price (inclusive of import duties, non-refundable purchase taxes, and deducting trade discounts and rebates) and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating, such as costs of site preparation, initial delivery and handling costs and installation costs.

Regarding self-constructed assets, the eligible costs for capitalization include expenses such as material costs, site preparation, installation and assembly, project service, internal engineering services, external professional fees (architecture and engineering fees), direct attributable labour costs, and any other directly attributable costs.

Each category of PP&E has specified capitalization threshold values per item. Items falling below these thresholds are treated as expenses. Refer for more information to the next section.

Subsequent measurement

PP&E is subsequently measured at cost less accumulated depreciation and impairment.

Depreciation is applied to all PP&E items, using a straight-line pro-rata basis to gradually reduce their carrying value over their expected useful economic lives. Land and AuC are not subject to depreciation.

According to the NAF, costs related to assets used in support of Allied Operation Missions (AOM) must be capitalised and depreciated over 12 months.

According to the NAF, the capitalization thresholds, useful lives, and annual depreciation for each category of PP&E items are outlined below:

SUB CATEGORIES	Threshold	Economic Life Time (years)	Annual Depreciation %
CLASS 1: PLANT AND EQUIPMENT			
CATEGORY 1.1: AUTOMATIC DATA PROCESSING EQUIPMENT(NAF: AUTOMATED INFORMATION SYSTEMS)	50,000	3	33.33%
CATEGORY 1.2: COMMUNICATION SYSTEMS (NAF: COMMUNICATIONS)	50,000	3	33.33%
CATEGORY 1.3: MACHINERY (NAF: MACHINERY)	30,000	10	10.00%
CATEGORY 1.4: INSTALLED EQUIPMENT (NAF: INSTALLED EQUIPMENT)	30,000	10	10.00%

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CATEGORY 1.5: FURNITURE (NAF: FURNITURE)	30,000	10	10.00%
CATEGORY 1.6: TRANSPORT EQUIPMENT (NAF: VEHICLES)	10,000	5	20.00%
CATEGORY 1.7: MISSION EQUIPMENT (NAF: MISSION EQUIPMENT)	50,000	3	33.33%
CLASS 2: LAND AND BUILDINGS			
CATEGORY 2.1: LAND (NAF: LAND)	200,000	N/A	N/A
CATEGORY 2.2: BUILDINGS (NAF: BUILDINGS)	200,000	40	2.50%
CATEGORY 2.3: INFRASTRUCTURE (NAF: OTHER INFRASTRUCTURE)	200,000	40	2.50%

The assets' residual values and useful lives are reviewed, and adjusted prospectively, if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount, or recoverable service amount, if the asset's carrying amount is greater than its estimated recoverable amount or recoverable service amount.

De-recognition

NCIO derecognizes an item of PP&E in the following potential circumstances when it is disposed of, or when no future economic benefits and service potential are expected from its use.

In case of received donations (prior approval required) the PP&E Item is recognised at fair value, with the exception of items of PP&E acquired before 1 January 2013 and for Assets constructed by NCIO before 1 January 2018 where no recognition requirement exists. Where the item of PP&E has a net book value at the moment of de-recognition, a loss is being accounted for in the Statement of Financial Performance.

In case of a transfer (between a NATO entity and NCIO) an item of PP&E is de-recognised at one NATO entity disposing the item and recognised at the other entity receiving the item according to the provisions of C-M(2017)0022(INV), NATO Accounting policy for Property Plant and Equipment, approved by Council, dated 31 May 2017.

Upon completion of the development of CIS assets, a reclassification from AuC to PP&E and /or Intangible Assets is made by NCIO.

The request to write-off of assets is done in accordance with the NFRs. The request to write-off NSIP funded assets is submitted to the Investment Committee for approval in accordance with the NFRs and the Procedure on Property Accountability and write-off Authority for NATO Infrastructure for which NATO MNCs or Agencies are Responsible (Annex II to Addendum to AC/4-D/1058 (Final)).

Services-in-kind

NCIO occupies different buildings and facilities which it received for free by the Host Nation or the hosting Organisation. The usage of these buildings and facilities is considered by NCIO as free service provided (services in kind) and not as concessionary leases. As NCIO has the access to the usage, it can be categorized as services in-kind instead of goods in-kind. Services in kind are services provided to public sector entities in a non-exchange transaction. IPSAS allows an entity to recognise services in kind in its financial statements. If the entity elects (accounting policy choice) to do so, it recognises a revenue and a corresponding expense at the fair value of the service received during the period in which the service is received. NCIO does not measure nor record it in its financial statements these services-in-kind.

p. Intangible Assets

Recognition

The recognition of intangible assets is in line with the recognition of PPE as described above.

Measurement

An Intangible asset is initially recognised when the asset is controlled by NCI Agency and subsequently carried at cost less accumulated amortization and impairment.

The measurement of intangible assets is in line with the measurement of PPE as described above.

According to the NAF, the capitalization thresholds, useful lives, and annual amortization for each category of intangible items are outlined below:

SUB CATEGORIES	Threshold	Economic Life Time (years)	Annual Amortization %
CLASS 3: INTANGIBLE ASSETS			
CATEGORY 3.1: SOFTWARE (NAF: COMPUTER SOFTWARE(COMMERCIAL OF THE SHELF); COMPUTER DATABASE, INTEGRATED SYSTEM)	50,000	4	25%
CATEGORY 3.2: RIGHTS OF WAY, INTELLECTUAL PROPERTY RIGHTS (IPR'S), ADMINISTRATIVE CONCESSION RIGHTS (NAF: COPYRIGHTS, INTELLECTUAL PROPERTY RIGHTS)	50,000	N/A	N/A
CATEGORY 3.3: INVESTMENTS IN RESEARCH AND DEVELOPMENT (R&D) (NAF: SOFTWARE DEVELOPMENT)	50,000	N/A – Tested annually for impairment	N/A
CATEGORY 3.4: SOFTWARE (NAF: COMPUTER SOFTWARE (BESPOKE))	50,000	10	10%

The assets' residual values and useful lives are reviewed, and adjusted prospectively, if appropriate, at the end of each reporting period.

An intangible asset's carrying amount is written down immediately to its recoverable amount, or recoverable service amount, if the asset's carrying amount is greater than its estimated recoverable amount or recoverable service amount.

De-recognition

De-recognition of intangible assets is similar to de-recognition of PPE.

q. Leases

NCIO classifies a lease as a finance lease if the contract transfers substantially all the risks and rewards incidental to ownership from the lessor to the lessee. All other leases are classified as an operating lease. The following are examples of situations that, individually or in combination, would normally lead to a lease being classified as a finance lease:

- ownership is transferred to the lessee at the end of the lease term;

- the lessee has an option to buy the leased asset at the end of the lease term, priced so that it is reasonably certain at inception that the lessee will exercise the option;
- the lease term is for the majority of the economic life of the asset;
- at inception, the fair value of the asset is not significantly more than the present value of the minimum lease payments;
- the leased asset is much specialised and only the lessee can use it without major modifications.

Additional indicators that a lease may be a finance lease include the following:

- if the lessee can cancel the lease, it bears any losses of the lessor that arise from the cancellation;
- the lessee benefits from fluctuations in the fair value of the residual value, for example by receiving rent rebates for most of the sales proceeds at the end of the lease;
- the lessee can continue the lease for a secondary period at a below-market rent, making it highly probable that the lease will be renewed.

Finance lease

At the commencement of the lease, NCIO recognises assets acquired under finance leases as assets, and the associated lease obligations as liabilities in its statements of financial position. The amount recognised as an asset and liability is the lower of:

- the fair value of the leased asset; and
- the present value of the minimum lease payments.

To calculate the present value, the minimum lease payments are discounted at the interest rate implicit in the lease, which is the rate that makes the sum of the minimum lease payments and the unguaranteed residual value equal to the fair value of the leased asset plus initial direct costs.

If this rate is not available, NCIO uses its incremental borrowing rate, i.e. the rate it would have to pay on a similar lease or on borrowings over a similar term with similar security.

The leased assets are depreciated over the shorter of the lease term and its useful life. If it is reasonably certain that title will pass to the lessee at the end of the lease term, the asset is depreciated over its useful life.

Lease rentals are split into two components: an interest charge and the reduction in the lease liability.

Operating lease

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term by NCIO.

All leases entered into by NCIO as a lessee are currently classified as an operating lease. Main types of assets leased by NCIO relate to buildings, fiber optic/coax network/pipeline or other IT infrastructure lease, leased communication lines, network stations, sites, antennas, nodes, other machinery/equipment leases (e.g., Satcom MOU), towers/ground satellite station lease, data center lease, cloud computing leases, transmission capacities, photocopiers and cars.

r. Inventories

Inventories are assets in the form of materials or supplies to be consumed or distributed in the production process or in the rendering of services or held for sale or distribution in the ordinary course of operations or in the process of production for sale or distribution.

Recognition

NCIO recognises an inventory item when all the following apply:

- it is probable that the future economic benefits or service potential associated with the item will flow to NCIO;
- NCIO has control over it; and
- the cost can be measured reliably (estimates are also permitted).

In accordance with the NAF, NCIO acts as a service provider for inventory items of CIS and/or AIS for the NATO Military Commands ((ACO) and (ACT)) as well as for (IS) and (IMS). As a result, NCIO has control over these inventories because it uses them to provide goods and services to its customers. It therefore reports these inventory items in its financial statements

Stock items within NCIO, therefore, mainly include the following tangible items:

- materials or supplies to be consumed in the production process;
- materials or supplies to be consumed or distributed in the rendering of services;
- held for sale or distribution in the ordinary course of operations; or
- in the process of production for sale or distribution.

NCIO has not applied capitalisation thresholds towards its Inventory holdings.

Initial measurement

The cost of inventories comprises all costs of purchase, cost of conversion, and other costs incurred in bringing the inventories to their present location and condition.

The costs of purchase comprise the purchase price; import duties and other taxes (insofar as not recoverable from the taxing authorities) and transport, handling, and other costs directly attributable to the acquisition of finished goods, materials and supplies.

Trade discounts, rebates and other similar items are deducted. The costs of conversion include costs directly related to the units of production, such as direct labour and a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods.

Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition.

Subsequent measurement

The cost of standard items of inventories is measured by using the weighted average cost (WAC) formula at NCIO.

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the NCIO.

s. Impairment of non-financial assets – cash generating assets

The recoverable amounts of cash generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change, which may then impact management's estimations and require a material adjustment to the carrying value of tangible assets.

NCIO reviews and tests the carrying value of cash generating assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Cash generating assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates of expected future cash flows are prepared for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

t. Impairment of non-financial assets – non-cash generating assets

NCIO reviews and tests the carrying value of non-cash generating assets when events or changes in circumstances suggest that there may be a reduction in the future service potential that can reasonably be expected to be derived from the asset. Where indicators of possible impairment are present, NCIO undertakes impairment tests, which require the determination of the fair value of the asset and its recoverable service amount.

u. Provisions

General

Provisions are recognized when NCIO has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

NCIO recognises provisions for liabilities of uncertain timing or amount including those for legal disputes. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date. The reversal of the unused provision is recognized under 'Other Revenue' in the Statement of Financial Performance. The expense relating to any provision is presented in the Statement of Financial Performance net of any reimbursement.

v. Contingent liabilities and contingent assets

NCIO does not recognize any contingent liabilities, instead contingent liabilities are disclosed, unless the possibility of an outflow is remote. NCIO discloses the inflow of economic benefits when it is probable.

NCIO discloses in the notes to the Financial Statements contingent liabilities where:

- the NCIO is exposed to possible financial liabilities that arose from events which occurred before the year-end, and where the confirmation of the existence of the liability will only be known through the occurrence or non-occurrence of one or more uncertain future events not wholly within the organisations control, or,
- the NCIO is exposed to a current financial liability which arose from events which occurred before the year-end where NCIO does not believe it will be required to pay for the financial liability, or the amount of the financial liability cannot be measured with sufficient reliability.

Contingent assets are recognized when it is virtually certain that the economic benefits will flow into the Group.

w. Events after the financial reporting date of 31 December 2023

NCIO will disclose events, both favourable and unfavourable, that occurred between the reporting date of 31 December 2023 and the date when these Financial Statements were authorised for issue by the General Manager. IPSAS requires two types of events which should be identified:

- Those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- Those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

x. Employee benefits

Employment of NATO civilian staff is governed by the NATO Civilian Personnel Regulations. Different rules apply depending on the circumstances of employment. NCIO recognizes the following categories of employee benefits: short-term employee benefits, post-employment benefits, other long-term employee benefits and termination benefits.

Short-term employee benefits

Short-term employee benefits are expected to be settled within 12 months of the reporting date and are measured at their nominal values based on accrued entitlements at current rates of pay. Short-term employee benefits mainly consist of regular monthly benefits such as wages, salaries and allowances and other benefits such as education allowances and home leave at NCIO. An expense is recognised when employees render service to NCIO and a liability is recognised for an entitlement that has not been settled at the reporting date.

Post-employment benefits

The Group operates various post-employment schemes, including both defined benefit and defined contribution pension plans and post-employment medical plans.

Provident Fund and Defined Contribution Pension Scheme (DCPS)

Contributions to Provident Fund and DCPS are charged to the Statement of Financial Performance in the year to which they relate. NCIO is not exposed directly to any liabilities that may arise on the scheme and have no control over the assets of the scheme which is accounted for centrally at NATO Headquarters.

Defined Benefit Pension Scheme (DBPS)

Contributions to the NATO Defined Benefit Pension Scheme are charged to the Statement of Financial Performance in the year to which they relate. NCIO is not exposed directly to any liabilities that may arise on the scheme and has no control over the assets of the scheme which is accounted for centrally at NATO Headquarters.

Termination benefits

Termination benefits are employee benefits payable as a result of either NCIO's decision to terminate a staff member's employment before the normal retirement date; or a Staff members' decision to accept voluntary redundancy in exchange for those benefits. A typical example of a termination benefit is a compensation that is paid for loss of job indemnities (LOJI).

The event that gives rise to an obligation is not the service rendered by the employee but the termination itself. NCIO therefore only recognizes a liability for termination benefits when it is effectively committed to either:

- terminating the employment of a (group of) staff member(s) before the normal retirement date; or
- providing termination benefits as a result of an offer made in order to encourage voluntary redundancy.

NCIO needs to have a detailed formal plan for the termination, without realistic possibility of withdrawal.

NCIO recognises its termination benefits as an expense at the moment the employee is notified by means of official letters. In the case of an offer made to encourage voluntary redundancy, NCIO bases its measurement of the termination benefits on the number of employees expected to accept the offer.

y. Related Party Disclosures

NCIO has no related party relationships where significant influence or control of the related party exists from a financial reporting perspective. Many Member Nations and Partner Countries have financial and operating control, or, significant influence over suppliers based in their territories; as such the NCIO can trade with suppliers which may be controlled or influenced by its Member Nations. However, NCIO trades with such suppliers at “arms-length” and under transparent procurement regulations; while it aims to get the best value for money for its Customers, it does not do this through exerting control or significant influence over its suppliers.

The general criteria state that a person, or a close member of that person’s family as well as another entity is a related party of NCIO if that person or entity:

- as control or joint control over NCIO;
- has significant influence over NCIO; or
- is a member of the key management personnel of NCIO.

A related party, therefore, can be an individual person or an entity. A related party transaction is defined as a transfer of resources, services or obligations between a reporting entity (i.e., NCIO) and a related party, regardless of whether a price is charged. NCIO’s main related parties are the Agency Supervisory Board and its key management personnel.

z. Net Assets/Equity including Operating Fund

The Net Surplus / (Deficit) for the Period as realised by NCIO is carried forward in the Statement of Changes in Net Assets/Equity of NCIO by allocating amounts to:

- Net increase / (decrease) to the Reserved Earnings; and
- Net increase / (decrease) to the Retained Earnings.

The Reserved Earnings are further broken down in different subcategories of reserves (see further).

- Reserves – Tangible and Intangible Assets Depreciation Reserves
- Reserves – Internal Investments Reserves
- Reserves – Special Programmes Reserves

The Tangible and Intangible Assets Depreciation Reserves includes the earnings which remain reserved for the assets not yet fully depreciated and/or impaired. The tangible and intangible assets depreciation reserve increases by the acquisition of fixed assets (additions of the year) and decreases by the depreciation of the year. It therefore matches with the carrying amount of owned Intangible Assets and Property, Plant and Equipment at the end of the reporting period.

The aim of the Internal Investment Reserves is to fund Agency Internal Investments.

The Special Programmes Reserves (transition reserve) relates to the Agency’s transition activities at the moment the Agency was formed.

The Retained Earnings encompass two components:

1. Retained Earnings/Operating fund (excluding Inventories)
 - the surplus (deficits) carried forward from prior years; and
 - a portion of the Surplus (Deficits) for the current year, which is allocated to Retained Earnings (therefore not allocated to Reserved Earnings).
2. Retained Earnings/Operating fund related to Inventories

The Inventory accounting is composed of earnings on the accounting for inventories, including low value PPEs (below thresholds) stored at the CSSC and CSU warehouses and as a result of changes in inventory asset values (WAC). These inventory flows are mainly non-monetary elements and therefore are kept separately from the Retained Earnings/Operating fund used for the Customer Rates Calculation rebates. This approach is similar to the accounting principle applied for the depreciation reserve mechanism.

The main reason for splitting into 2 components is to provide transparency to our Governance and to provide the useful information for future decision on the usage of the Operating Fund.

aa. Budget Execution Statement/Financial Plan

IPSAS 24 - Presentation of Budget Information in Financial Statements applies to public sector entities which are required or elected to make their approved budgets publically available, NCIO does not make their approved budgets publicly available, hence NCIO do not apply IPSAS 24. However, NCIO shows a budget execution summary for specific budget elements to provide useful information to the reader of the Financial Statements.

NCI Agency, under full Customer Funding, has no budget but an Annual Financial Plan, which is approved by the ASB under the NCIO Charter, and which includes a statement of planned income (revenue) and expenditure (expenses).

3. Significant accounting judgements, estimates, assumptions and legal proceedings

The preparation of Financial Statements in accordance with IPSAS requires NCIO to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the year. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the assets or liabilities affected in future periods.

NCIO makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. Some balances such as accruals and unbilled sales need to be assessed at the year-end to estimate the value of work and services delivered at the year-end. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

The areas where estimates, assumptions or judgements are significant to NCIO's Financial Statements include, but are not limited to:

- the assessment and measurement of revenue and related expenses in relation to developing C3 and CIS assets during the asset under construction phase using the percentage of completion method;
- the period over which non-current assets (i.e. intangible assets and property, plant and equipment) are depreciated or amortised;
- the measurement of provisions and pension obligations; and
- the estimates used in impairment tests that have been carried out.

Legal proceedings both real and possible

In accordance with IPSAS, NCIO recognises a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Obligations arising in respect of contingent liabilities that have been disclosed, or those which are not currently recognised or disclosed in the financial statements could have a material effect on NCIO's financial position.

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Application of these accounting principles to legal cases requires NCI Agency's management to make determinations about various factual and legal matters beyond its control. The Agency reviews outstanding legal cases following developments in the legal proceedings and at each reporting date, in order to assess the need for provisions and disclosures in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisors, experience on similar cases.

NOTES TO THE FINANCIAL STATEMENTS

A. Notes to the NCIO Statement of Financial Position

1. Cash and Cash Equivalents

(all figures in the table are expressed in thousands of Euro)

		2023	2022 Restated	2022
Cash and Cash Equivalents				
100	Cash in hand	27	26	26
102	Current bank accounts - Euro	247,242	196,776	196,776
104	Current bank accounts - Non-Euro	10,500	19,708	19,708
106	Current investments accounts - Euro	10,184	10,025	10,025
108	Current investments accounts - Non-Euro	3,291	27,217	27,217
		271,243	253,753	253,753

Cash in hand is mainly related to cash that is held by the approved Agency business credit card users and the advance account in Izmir. It represents the cash withdrawn from the ATMs for the procurement of low value, urgent items but not yet spent.

Current bank accounts are considered to be cash that can be accessed at very short notice (e.g. 1 working day) while Current investments represents short-term deposits with a duration of typically one to three months. Non-Euro bank accounts are mainly held in USD, GBP and NOK currencies to pay Agency liabilities in these currencies.

Cash and Cash equivalents Current bank accounts and investments are spread among a number of banks that have “A grade” credit ratings to optimise the bank charges and interest cost as well as to manage the counterparty risk. The only exception to a grade rated bank is an advance account in Türkiye with a total value of 25 KEUR to facilitate local operations.

Cash and cash equivalents include amounts advanced by Customers for future usage, the NCI Agency relies on the Customer provided funding via advance payments and timely payment of invoices to provide the cash flow for daily operations.

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2. Accounts Receivable*(all figures in the table are expressed in thousands of Euro)*

		2023	2022 Restated	2022
Receivables				
11001	Customer receivables (A/R) - Common funded - NATO and NATO entities	193,323	193,067	20,297
11002	Customer receivables (A/R) - Not common funded	20,675	10,092	10,092
1107	Customer receivables - Bad debts	78	1,157	1,157
11000	Customer receivables (A/R) - Common funded - NSIP	0	0	0
113	Customer receivables - Recoverable expenses	14	(156)	(156)
114	Customer receivables - Impairments	(837)	(1,184)	(1,157)
115	Current receivables - Tax or personnel related	4,753	3,965	3,965
116	Current receivables - Accrued, unbilled revenue	114,211	138,835	138,393
119	Current receivables - Other	15	0	0
		332,231	345,776	172,590

NCIO adopted the new IPSAS 41 standard in respect to Trade Receivables for financial risks by utilizing historical credit loss experience to determine the provisioned amount. The Impairments show a decrease of 0.8MEUR in comparison to the 2022 Financial Statement note restated.

As per IBAN recommendation, NSIP Quarterly Accounting Financial Report (QAFR) bookings for 172.7 MEUR in 2022 has been restated to current liabilities – deferred revenue and advances.

The NCI Agency reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Cash generating assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities.

3. Prepayments and Miscellaneous Assets*(all figures in the table are expressed in thousands of Euro)*

	2023	2022 Restated	2022
Prepayments and Miscellaneous Assets			
13 Prepayments	16,852	7,328	7,328
	16,852	7,328	7,328

This amount represents advances and prepayments made to vendors (including prepaid expenses) required to maintain continuity in service provision toward the Agency customers.

4. Inventories*(all figures in the table are expressed in thousands of Euro)*

	2023	2022 Restated	2022
Inventory			
14000 Inventory - Consumables	24,543	22,959	22,959
14001 Inventory - Spare parts	1,854	1,465	1,465
14005 Inventory - Minor Equipment	43,362	39,826	39,826
	69,758	64,250	64,250

The NATO Accounting Framework clarifies that the NCI Agency on behalf of the NCI Organisation acts as a service provider for inventory of CIS and/or Automated Information Systems (AIS) for the NATO Military Commands (Allied Command Operations (ACO) and Allied Command Transformation (ACT)) as well as for International Staff (IS) and International Military Staff (IMS). NCIO has control over these inventories in order to provide goods and services to its customers and, therefore, reports them as inventories in its financial statements.

Since the NCI Agency became fully Customer Funded as of 1 Jan 2014 inventories are fully disclosed, as the NCI Agency is no longer acting as an agent on behalf of a third party but rather as a principal in rendering services to its Customers.

The regular inventory variance of the year is reflected within the statement of performance. CSSC logistic staff conducts regularly a count of the inventories, and where necessary, they update the items on stock that requires weighted average cost price adjustments based at the best fair value. At the end of Fiscal Year 2023, the inventory ending balance amounts to 69.8 MEUR (increase of stock)¹.

NCIO CIS/AIS inventories are required to assure the delivery of services by NCIO to our customers and are in line with Service Level Agreements, Service Support Projects and Operational Level Agreements. These items are often, due to their nature, slow moving and are disclosed at weighted average cost. NCIO has already initiated a process (integral part of which is the identification of that kind of stock which could be deemed strategic due to its nature) of valuation of items that could potentially be characterized as slow

¹ NSPO held inventory on behalf of NCI Agency for providing logistical services and support for certain NATO equipment. Those inventory items are financially reported as assets under construction under Property, Plant and Equipment (PP&E) and Intangible Assets note.

moving, taking into consideration NATO Accounting Framework provisions as well as short and long term operational needs. Furthermore NCIO, as per NATO Accounting Framework, retains the option to write down to the net realizable value, items which are considered as slow-moving over the last 36 months. NCIO has chosen not to perform a write down on the inventory holdings.

5. Work In Progress

(all figures in the table are expressed in thousands of Euro)

	2023	2022 Restated	2022
Work in Progress			
145 Work in progress	5,476	4,304	4,304
	5,476	4,304	4,304

The work in progress consists of capitalised expenses for pre-financed projects, cost overruns on Advance Planning Funds (APF) and for recoverable exceptions.

Pre-financed projects totalling 0.5 MEUR are governed by existing binding arrangements (overarching framework agreements such as Memorandum of Understanding – MOU) between the Agency and its main customers. All existing pre-finance authorisations are granted as per the terms and conditions prescribed in the FRPs specifically developed for the Agency operating under its Customer Funding Regime. The decision to pre-finance projects is assessed by the Chief Operating Officer (COO), Production Chiefs and the Financial Controller prior to being approved on a case-by-case basis by the Financial Controller. Accordingly this is not considered as a technical contingent asset.

For projects sponsored by NSIP, APFs may be authorised to cover the initial cost for writing the full project price proposal (TBCE). In some cases the APFs are insufficient to cover this initial effort in which case the NCI Agency capitalises the shortfall pending approval of the Project Service Cost (PSC). Funds expended during this stage are capitalised as work in progress for a total amount of 0.1 MEUR.

In the course of executing projects, sometimes the Customer requests changes in specifications, scope, or duration that results in the costs exceeding the contracted revenue. Similarly to APF over-runs, for these recoverable exceptions, costs are capitalised until the exceptions are contractually regularised. The total capitalised amount of recoverable exceptions is 4.9 MEUR.

6. Non-current Receivables

(all figures in the table are expressed in thousands of Euro)

	2023	2022 Restated	2022
Non-current Receivables			
160 Non-current financial assets	549	548	548
	549	548	548

These are outstanding prepayments on long term (> 1 year) to suppliers.

7. Property, Plant and Equipment (PP&E) and Intangible Assets

The NCI Agency has applied the NATO Accounting Framework (NAF), adapting IPSAS 17 on Property Plant and Equipment (PP&E) and IPSAS 31 on Intangible Fixed Assets, in that respect all Tangible and Intangible (PPE and Intangible Assets) acquired prior to 1 Jan 2013 are considered expensed.

According to the NATO Accounting Framework and in accordance with IPSAS 17 Property, Plant and Equipment and IPSAS 31 Intangible Assets, NCIO shall capitalise all CIS Assets including under Construction or Development for the NATO Command Structure as well as for IS and IMS as of 1 January 2018.

This shall apply for all new CIS assets with construction starting on or after 1 January 2018 but also, for existing assets partially under Construction or Development that continue after 1 January 2018. The costs as of 1 January 2018 have to be capitalised and the cost of assets under construction prior to 1 January 2018 shall be expensed as per the NATO Accounting Framework – Note by the Deputy Secretary General reference C-M(2016)0023.

The restatement is the result of a continuing Asset Management process improvement and Finance internal control effort on CIS Assets Under Construction or Under Development, and CIS In-Service Assets including Tangible and Intangible Assets where NCIO acts as a service provider toward the NATO Command Structure as well as for IS and IMS. In comparison with 2022 published Financial statements, the restated Property Plant and Equipment and Intangible Assets decreased for a total Net Book Value of 9.1 MEUR that can be further broken-down by an historical cost increase of 1.1 MEUR, an accumulated depreciation increase of (5,4 MEUR) and Write-Offs decrease of (1.2 MEUR). The restated Depreciation/Impairments balance of 31-Dec-21 includes as well an impairment of 4.6 MEUR for which there is indicator of no future service potential and therefore the valuation of these assets has been reduced to zero. Additional details and comparative analysis by Asset Category can be found in the below 2023, 2022 Restated and 2022 published Note tables.

In accordance to NCIO Financial Rules and Procedures, the 2022 (restated) and 2023 Write Offs related to CIS PPEs and Asset under Constructions is disclosed on Note 26.

In 2022 and 2023, the Agency submitted the request of the write-off of NSIP funded assets to the Investment Committee for approval in accordance with the NFRs and the Procedure on Property Accountability and write-off Authority for NATO Infrastructure for which Agencies (NCIO) are Responsible (Annex II to Addendum to AC/4-D/1058 (Final)).

NCIO Statement of Property, Plant and Equipment and Intangible Assets

	ACQUISITION					DEPRECIATION/IMPAIRMENT				BOOK VALUE	
<i>As of 31 December 2023</i> <i>(all figures are expressed in thousands of Euro)</i>	31-Dec-22 Restated	Current Year	Transfers / Reversals	Disposals / Adjustm.	Revaluation	31-Dec-23	31-Dec-22 Restated	Current Year	Disposals / Adjustm.	31-Dec-23	31-Dec-23
PLANT, PROPERTY AND EQUIPMENT											
Automated Data Processing (ADP) Equipment	261,635	1,200	68,192	0	0	331,027	(157,473)	(65,648)	0	(223,121)	107,906
Communications Equipment	4,871	162	497	0	0	5,530	(2,192)	(1,481)	0	(3,673)	1,857
Mission Equipment	6,217	105	172	0	0	6,495	(4,513)	(1,135)	0	(5,647)	848
Machinery	3,907	0	2	0	0	3,909	(2,341)	(391)	0	(2,732)	1,177
Installed Equipment	6,455	129	1,258	0	0	7,841	(2,708)	(691)	0	(3,399)	4,443
Office Furniture	9,250	0	34	0	0	9,285	(1,447)	(933)	0	(2,380)	6,905
Passenger Vehicles	544	0	0	0	0	544	(404)	(38)	0	(442)	102
Buildings	4,504	0	924	0	0	5,427	(146)	(524)	0	(670)	4,757
Other Infrastructure	12,439	0	322	0	0	12,761	(158)	(324)	0	(482)	12,279
Assets under construction - Tangible	205,774	140,281	(71,401)	(1,423)	0	273,231	(4,581)	0	0	(4,581)	268,651
TOTAL PLANT, PROPERTY AND EQUIPMENT	515,596	141,877	0	(1,423)	0	656,050	(175,962)	(71,163)	0	(247,126)	408,924
INTANGIBLE ASSETS											
Software Licences - COTS	31,322	0	9,187	0	0	40,509	(17,987)	(9,219)	0	(27,207)	13,303
Software Licences - Bespoke	165,664	0	17,652	0	0	183,316	(37,178)	(17,360)	0	(54,538)	128,778
Assets under construction - Intangible	230,876	75,660	(26,839)	(38)	0	279,659	0	0	0	0	279,659
TOTAL INTANGIBLE ASSETS	427,862	75,660	0	(38)	0	503,484	(55,165)	(26,579)	0	(81,744)	421,740
TOTAL PLANT, PROPERTY AND EQUIPMENT & INTANGIBLE	943,458	217,538	0	(1,461)	0	1,159,534	(231,128)	(97,742)	0	(328,870)	830,664
DEPRECIATION RESERVE	22,687	4,886	0	0	0	27,573	(6,370)	(4,297)	0	(10,667)	16,906
INCREASE/(DECREASE) DEPRECIATION RESERVE	0	4,886	0	0	0	4,886	0	(4,297)	0	(4,297)	589
DEFERRED REVENUE	920,770	212,652	0	(1,461)	0	1,131,961	(224,757)	(93,446)	0	(318,203)	813,758
INCREASE/(DECREASE) DEFERRED REVENUE	0	212,652	0	(1,461)	0	211,191	0	(93,446)	0	(93,446)	117,745

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NCIO Statement of Property, Plant and Equipment and Intangible Assets

As of 31 December 2022 Restated (all figures are expressed in thousands of Euro)	ACQUISITION					DEPRECIATION/IMPAIRMENT				BOOK VALUE	
	31-Dec-21 Restated	Current Year	Transfers / Reversals	Disposals / Adjustm.	Revaluation	31-Dec-22	31-Dec-21 Restated	Current Year	Disposals / Adjustm.	31-Dec-22 Restated	31-Dec-22 Restated
PLANT, PROPERTY AND EQUIPMENT											
Automated Data Processing (ADP) Equipment	155,866	1,990	103,666	112	0	261,635	(94,814)	(62,659)	0	(157,473)	104,162
Communications Equipment	1,746	251	2,875	0	0	4,871	(960)	(1,232)	0	(2,192)	2,680
Mission Equipment	5,405	692	120	0	0	6,217	(3,145)	(1,368)	0	(4,513)	1,705
Machinery	3,663	212	31	0	0	3,907	(1,960)	(381)	0	(2,341)	1,566
Installed Equipment	5,554	46	856	0	0	6,455	(2,129)	(580)	0	(2,708)	3,747
Office Furniture	9,250	0	0	0	0	9,250	(522)	(925)	0	(1,447)	7,803
Passenger Vehicles	511	33	(0)	0	0	544	(370)	(34)	0	(404)	140
Buildings	1,557	0	2,947	0	0	4,504	(56)	(90)	0	(146)	4,358
Other Infrastructure	2,665	0	9,773	0	0	12,439	(65)	(93)	0	(158)	12,281
Assets under construction - Tangible	209,054	116,988	(120,268)	0	0	205,774	(4,581)	0	0	(4,581)	201,194
TOTAL PLANT, PROPERTY AND EQUIPMENT	395,272	120,211	0	112	0	515,596	(108,601)	(67,362)	0	(175,962)	339,633
INTANGIBLE ASSETS											
Software Licences - COTS	29,646	0	1,676	0	0	31,322	(10,076)	(7,911)	0	(17,987)	13,335
Software Licences - Bespoke	161,291	0	4,372	0	0	165,664	(20,768)	(16,410)	0	(37,178)	128,486
Assets under construction - Intangible	166,896	70,327	(6,049)	(299)	0	230,876	0	0	0	0	230,876
TOTAL INTANGIBLE ASSETS	357,834	70,327	0	(299)	0	427,862	(30,844)	(24,321)	0	(55,165)	372,697
TOTAL PLANT, PROPERTY AND EQUIPMENT & INTANGIBLE	753,106	190,539	0	(187)	0	943,458	(139,444)	(91,683)	0	(231,128)	712,330
DEPRECIATION RESERVE	14,690	7,998	0	0	0	22,687	(3,731)	(2,639)	0	(6,370)	16,317
INCREASE/(DECREASE) DEPRECIATION RESERVE	0	7,998	0	0	0	7,998	0	(2,639)	0	(2,639)	5,359
DEFERRED REVENUE	738,416	182,541	0	(187)	0	920,770	(135,713)	(89,044)	0	(224,757)	696,013
INCREASE/(DECREASE) DEFERRED REVENUE	0	182,541	0	(187)	0	182,354	0	(89,044)	0	(89,044)	93,310

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NCIO Statement of Property, Plant and Equipment and Intangible Assets

As of 31 December 2022 <i>(all figures are expressed in thousands of Euro)</i>	ACQUISITION					DEPRECIATION				BOOK VALUE	
	31/12/2021 Restated	Current Year	Transfers / Reversals	Disposals / Adjustm.	Revaluation	31-Dec-22	31/12/2021 Restated	Current Year	Disposals / Adjustm.	31-Dec-22	31-Dec-22
PLANT, PROPERTY AND EQUIPMENT											
Automated Data Processing (ADP) Equipment	180,804	1,614	102,948	0	0	285,366	(102,714)	(68,701)	0	(171,415)	113,951
Communications Equipment	994	120	3,179	0	0	4,292	(623)	(1,110)	0	(1,733)	2,559
Mission Equipment	3,062	0	1,074	0	0	4,136	(2,127)	(912)	0	(3,039)	1,097
Machinery	140	179	65	0	0	384	(32)	(29)	0	(61)	324
Installed Equipment	3,293	0	812	0	0	4,105	(807)	(337)	0	(1,144)	2,961
Office Furniture	9,250	0	0	0	0	9,250	(685)	(925)	0	(1,610)	7,640
Passenger Vehicles	451	0	0	0	0	451	(369)	(19)	0	(389)	63
Buildings	1,557	0	2,947	0	0	4,504	(56)	(69)	0	(125)	4,379
Other Infrastructure	2,665	0	9,773	0	0	12,439	(65)	(132)	0	(197)	12,241
Assets under construction - Tangible	224,643	141,885	(120,798)	(1,396)	0	244,333	0	0	0	0	244,333
TOTAL PLANT, PROPERTY AND EQUIPMENT	426,859	143,798	0	(1,396)	0	569,261	(107,478)	(72,235)	0	(179,713)	389,547
INTANGIBLE ASSETS											
Software Licences - COTS	24,843	0	953	0	0	25,796	(9,786)	(6,726)	0	(16,512)	9,284
Software Licences - Bespoke	111,176	0	36,335	0	0	147,511	(15,758)	(13,891)	0	(29,649)	117,862
Assets under construction - Intangible	211,161	56,490	(37,289)	0	0	230,362	0	0	0	0	230,362
TOTAL INTANGIBLE ASSETS	347,179	56,490	0	0	0	403,669	(25,544)	(20,618)	0	(46,161)	357,508
TOTAL PLANT, PROPERTY AND EQUIPMENT & INTANGIBLE	774,038	200,288	0	(1,396)	0	972,930	(133,022)	(92,853)	0	(225,875)	747,055
DEPRECIATION RESERVE	13,674	8,243	0	0	0	21,917	(2,931)	(1,873)	0	(4,804)	17,112
INCREASE/(DECREASE) DEPRECIATION RESERVE	0	8,243	0	0	0	8,243	0	(1,873)	0	(1,873)	6,370
DEFERRED REVENUE	760,364	192,045	0	(1,396)	0	951,013	(130,091)	(90,979)	0	(221,070)	729,943
INCREASE/(DECREASE) DEFERRED REVENUE	0	192,045	0	(1,396)	0	190,649	0	(90,979)	0	(90,979)	99,669

8. Payables*(all figures in the table are expressed in thousands of Euro)*

		2023	2022 Restated	2022
Payables				
2000	Supplier payables - Accounts payable	42,877	31,337	31,337
2004	Supplier payables - Accrued supplier invoices	82,337	69,931	69,931
2006	Supplier payables - Warranties received	709	1,079	1,079
		125,923	102,347	102,347

Trade payables are short-term (< 1 year) liabilities to Vendors; directly related to the activities and operations of the Agency.

9. Deferred Revenue and Advances*(all figures in the table are expressed in thousands of Euro)*

		2023	2022 Restated	2022
Deferred Revenue and Advances				
Current Liabilities		525,180	493,912	331,578
211	Deferred Revenue	325,932	276,278	286,714
215	Advances	199,247	217,634	44,864
Non-Current Liabilities		725,491	619,016	650,484
271	Deferred Revenue (NC*)	725,491	619,016	650,484
		1,250,670	1,112,929	982,063

*Non-Current

The Current and Non-Current Deferred/Unearned Revenue and Advances are composed of:

- Revenue billed for ongoing projects and services, however revenue earned is determined through the stage of completion resulting in 1,051 MEUR of revenue billed but not yet recognised as earned.
- Advances and prepayments of 199.2 MEUR refer to deposits from customers and nations for projects and services that will be delivered by the agency.

For comparative reasons, the 2022 deferred revenue, Current and Non-Current were restated.

This restatements is related to:

- The ongoing improvement effort and review of assets under construction and in-services assets Property, plant and Equipment and Intangible assets;
- The change in measurement of a transaction/recognition for firm fix price customer agreements/contracts;
- NSIP QAFR advances which are now disclosed as an advance. The restatement resulted to a net increase of 166.7 MEUR in current deferred revenue and advances; and a net decrease of 10.2 MEUR in the non-current deferred revenue.

10. Other Current Liabilities

(all figures in the table are expressed in thousands of Euro)

		2023	2022 Restated	2022
Other Current Liabilities				
250	Current tax and personnel related liabilities	10,523	12,988	12,988
254	Current other liabilities	7,721	10,111	10,111
		18,244	23,099	23,099

The Other Current Liabilities arecomposed of:

- The current Tax and personnel related liabilities of 11MEUR which include:
 - The NCI Agency estimated liability for the untaken leave days outstanding at year end, in accordance with IPSAS 25 Employee benefits, constitutes a liability towards the future for 10.1 MEUR (2022: 12.7 MEUR). This liability is calculated on a rolling basis, i.e. the prior year liability is reversed at the beginning of the year and a new estimate calculated, thus charging the change for the year to the personnel costs in the Statement of Financial Performance. The costs of these untaken leaves days has been absorbed during the year through the monthly salaries whereas the loss of production of capacity when the leave to be taken is pushed forward to the next year. This constitutes an Agency liability towards the future which is recognized.
 - The liability made of 0.1 MEUR (2022: 0.1 MEUR for JFC Naples for “Trattamento di Fine Rapporto (TFR)” in application of the Italian Law and of IPSAS 19. TFR is a vested benefit payable to the employee for a part of his / her salary deferred in time to the moment when termination of the contract takes place. The calculation of the value of this liability takes place annually and includes interests for the loan forcedly made by the employee to the employer given the fact that payment is deferred to a later time. In view of the foregoing, TFR has to be considered as one extra monthly instalment of the annual pay.
- The current other liabilities of 7.7 MEUR mainly represent NSIP annual gains and losses.

11. Provisions*(all figures in the table are expressed in thousands of Euro)*

	2023	2022 Restated	2022
Provisions			
2901 Provisions - Major risks and costs	4,625	9,276	9,276
	4,625	9,276	9,276

Provisions are liabilities and obligations, which are known to exist but for which the amount is not certain yet and the probability of occurrence is not fully known at the time of the disclosure.

Provisions - Major risks and costs 2023	Beginning Balance	Additions	Used	Reversal	Ending Balance
Provisions for future/expected loss on active Project/Service contracts	937	2,254	(597)	0	2,594
Provisions for litigations	8,339	1,692	(2,652)	(5,348)	2,031
Total 2023	9,276	3,946	(3,249)	(5,348)	4,625

Major risks and costs:

- Projects are constantly monitored and deviations from the original cost estimates and authorised budgets are reported and analysed. At year-end closing a thorough cost-to-complete exercise is carried out to determine what the current status is in terms of costs and revenue to date, and to estimate what the cost-to-complete will be for multiple year projects. If, as a result of this process, the project management together with the NCI Agency Capability Development's financial management come to the conclusion that the project is likely to generate a loss at completion, then a provision is made to cover for that potential future loss. Analysis conducted at a later stage may result in a change of estimates which translates in an increase or decrease of the provision built up in prior years. The total provision for the Customer Funded projects stands at 2.6 MEUR following an increase of 1.7 MEUR.
- Provisions related to litigations (contractual) and other major risks amount to 2 MEUR, reflecting a decrease of 6.3 MEUR.

B. Notes to the NCIO Statement of Financial Performance

12. Projects and Support Service Revenue

(all figures in the table are expressed in thousands of Euro)

		2023	2022 Restated	2022
Project and Support Services Revenue				
5000	Project services revenue - Billed	143,740	129,359	129,359
5005-5009	Project services revenue - Accrued/(Deferred)	(35,287)	(33,586)	(32,928)
5010	Support services revenue - Billed	246,090	245,759	245,759
5015-5019	Support services revenue - Accrued/(Deferred)	545	1,070	(679)
		355,089	342,601	341,511

With the introduction of full Customer Funding as of 1 Jan 2014, the 2023 operations revenue can be categorised as either Project Services Revenue for 108.5 MEUR and Support Services Revenue for 246.6 MEUR, coming from signed Service Level Agreements (Service Support Costs) and other Service Agreements, all agreed and calculated at approved Customer Rates.

For all Customer Funded revenue, revenue is recognised, in accordance with IPSAS 9 and 11, by reference to the stage of completion or the cost burn rate, depending on the type of funding agreement; firm fixed price or cost reimbursable. In applying this revenue recognition a “cost to complete” is calculated based on either inputs from the project manager as to the resources required to complete the project/deliverables or either based on information from the financial system as to the legal liabilities incurred per the end of 2023, but not yet accrued or expended, and which nevertheless form part of the 2023 services signed with the Customers through the Service Level Agreements.

For comparative reasons, the 2022 numbers were restated related resulting to an increase of 1.1 MEUR in comparison with 2022 audited note.

This restatements is related to:

- The ongoing improvement effort and review of assets under construction and in-services assets Property, Pand Equipment and Intangible assets;
- The change in measurement of a transaction/recognition for firm fix price customer agreements/contracts.

13. External Service Revenue

(all figures in the table are expressed in thousands of Euro)

		2023	2022 Restated	2022
External Services Revenue				
5100	External CIS revenue – Billed	199,052	184,030	184,030
5105-5109	External CIS revenue – Accrued/(Deferred)	766	4,783	6,994
		199,818	188,813	191,023

The total revenue per service as specified in the Service Level agreements have two revenue components. There is the Service Support Revenue element that is based on effort charged at approved customer rates and the External CIS Revenue of 199.8 MEUR in 2023 that represents the revenue charged to customers to cover the contractual supplies and services delivered by industry required by the NCI Agency to provide its CIS services.

For comparative reasons, the 2022 numbers were restated resulting in a decrease of 2.2 MEUR in comparison with audited 2022 note.

This restatements is related to:

- The ongoing improvement effort and review of assets under construction and in-services assets Property, plant and Equipment and Intangible assets;
- The change in measurement of a transaction/recognition for firm fix price customer agreements/contracts;

14. Acquisition Revenue

(all figures in the table are expressed in thousands of Euro)

		2023	2022 Restated	2022
Acquisition Revenue				
5110	Acquisition revenue - Billed	356,042	246,443	246,443
5115-5119	Acquisition revenue – Accrued/(Deferred)	(147,656)	(70,879)	(77,834)
		208,386	175,564	168,609

Acquisition Revenue is earned as Host Nation for the NSIP, and for other NATO entities and Nations.

Revenue is recognised by reference to the stage of completion or the cost burn rate, depending on the type of funding agreement; firm fixed price or cost reimbursable. All of NSIP and, most other agreements as well, are through cost reimbursable funding agreements, and thus at cost burn rate.

For comparative reasons, the 2022 numbers were restated resulting to an increase of 7.0 MEUR in comparison with audited 2022 note. This restatements is related to the ongoing improvement effort and review of assets under construction and in-services assets Property, Plant and Equipment and Intangible assets.

15. Other Revenue

(all figures in the table are expressed in thousands of Euro)

		2023	2022 Restated	2022
Other Revenue				
52	Other operations revenue	2,070	2,532	2,532
546	Reversal of unused Provisions	6,427	2,392	2,392
		8,497	4,923	4,923

Other Revenue consists of elements such as:

- Revenue from 2023 budget for the ASB Independent Secretariat for a total of 1.3 MEUR. Details and their Budget Execution Statement can be found under section E of the Notes to the Financial Statements.
- Reversal of provisions resulting from positive outcome of contractual litigations from the prior years, for a total of value of 6.4 MEUR for 2023 fiscal year.

16. Financial Revenue and Expenses

(all figures in the table are expressed in thousands of Euro)

		2023	2022 Restated	2022
Financial Revenue and Expenses				
550	Foreign exchange surpluses	2,375	2,641	2,641
555	Other financial surpluses	4,826	694	694
750	Foreign exchange deficits	(2,798)	(2,584)	(2,584)
7550	Financial costs - Current liabilities	(15)	(168)	(168)
7555	Financial costs - Other	(0)	(0)	(0)
		4,389	583	583

The total result from financial revenue and expenses is a gain of 4.4MEUR. For IC acquisition activity the financial result is borne by NSIP and is thus not included here.

17. Cost of Acquisitions

(all figures in the table are expressed in thousands of Euro)

		2023	2022 Restated	2022
Cost of Acquisition				
727560	Contractors, general services and supplies for NSIP	144,694	144,319	114,705
727560	Contractors, general services and supplies for Third Parties	88,750	49,803	79,417
727561	Lease Expenses for NSIP	61,190	54,223	54,223
7291	Capitalized costs - Acquisition costs	(164,116)	(137,924)	(150,071)
		130,518	110,421	98,274

The NCI Agency procures goods and services using funds provided by all its customers but the main expenses represented in the cost of acquisition are related to IC/NSIP funds.

As for the revenue, the cost of acquisitions does not include the Project Service Costs (PSCs) of the NCI Agency to enact the procurements on behalf of customers. These professional fees are accounted for through the Project and Service Support Revenue as they relate to the NCI Agency work across the C4ISR lifecycle. It must be noted that there is not a direct relationship for any financial year between the PSCs with the specific acquisition payments and costs associated with major acquisitions. This is due to the

fact that PSCs are recognisable when the service is provided and not when the actual acquisition transactions occur, particularly as the subsequent receipt of goods and payment to Vendors can occur over many years when downstream activity is minimal.

The decrease of capitalized Acquisition costs of 12.1 MEUR in the 2022 restated column in comparison with the 2022 column is the result of a corrective action on the capitalized costs related to the construction of CIS Assets for which NCIO acts as a service provider toward the NATO Command Structure as well as for IS and IMS, including Asset Under Construction or Under Development, and In-Service Tangible or Intangible Assets.

The Contractors, general services and supplies expenses for NSIP increased in the 2022 restated column with 29.6 MEUR due to the an incorrect classification of expenses under Contracts, general services and supplies for Third Parties.

Operating Lease Commitments:

(all figures in the table are expressed in thousands of Euro)

At 31 December 2023 the Agency was party in an operating lease agreement related to its activities that expires within the contractual terms agreed. The minimum future non-cancellable operating lease payments under the agreement are as follows:

	2023	2022 Restated	2022
Operating Lease - Future Commitments			
Less than 1 year	63,823	63,849	62,572
More than 1 year and less than 5 years	242,630	243,982	243,982
More than 5 years	401,956	464,427	464,427
	708,410	772,258	770,981

The rent expense under such lease for the period ended 31 December 2023 amounted to 63.8 MEUR and is included in the surplus/deficit of the year. The 2022 Operating lease commitments are restated to represent the actual cost of 2023.

In some particular cases, NCIA recognizes operating lease expenses on accrual basis when the services are obtained, that represents more correctly the time when the benefits are received.

18. Personnel Costs

(all figures in the table are expressed in thousands of Euro)

		2023	2022 Restated	2022
Personnel Costs				
710	Salaries, allowances and other remunerations	240,405	220,177	220,177
711	Interim Workforce Capacity (IWC)	61,470	66,571	66,571
712	Recruitment costs and installation and separation allowances	2,969	2,112	2,112
713	Clothing costs and allowances	89	93	93
715	Medical examinations and general personnel related insurances	23,372	21,046	21,046
716	Education and training	5,891	5,047	5,047
717	Employer contributions to pensions; loss of job and other personnel contracts related indemnities	603	251	251
718	NATO Pensions (Pension funds)	18,867	16,535	16,535
719	Capitalized personnel Costs	(48,807)	(44,530)	(46,455)
7191	Usage of Provision	(597)	(2,420)	(2,420)
		304,261	284,882	282,957

Personnel costs in this category are for staff members hired under the NATO Civilian Personnel Regulations (CPRs) and contractors. The figures represent the costs of personnel working on activities required to operate the NCI Agency and deliver services to Customers.

LOJI paid in 2023 was for 0.145 MEUR and the provision is 0.25 MEUR for a settlement payment.

The capitalized personnel costs of 48 MEUR in the 2023 slightly increased in comparison with the 2022. It is the result of the disclosure of capitalized labour costs related to the construction of CIS Assets for which NCIO acts as a service provider toward the NATO Command Structure as well as for IS and IMS and other Asset Under Construction or Under Development, and In-Service Tangible or Intangible Assets. The capitalized costs of 2022 are restated, a decrease of 1.9 MEUR in comparison to the 2022 published.

19. Employee Disclosures**Staff Numbers**

At 31 December 2023 - 667 (2022: 690) military posts and 2185 (2022: 2038) NATO civilian posts were filled.

Retirement benefits

NCI Agency NICs and temporary personnel (not contractors), past and present, are enrolled in various NATO pension schemes. The NCI Agency contributes to the schemes for existing employees at amounts laid out in the CPR.

The NCI Agency does not control or manage any of the schemes or scheme assets and is not exposed to the risks and rewards of the schemes and hence does not record any assets or liabilities of the schemes on its Statement of Financial Position. In 2023 the NCI Agency contributed 18.9 MEUR (2022: 16.5 MEUR) to the various NATO pension schemes, this is displayed within disclosure note 'Personnel Costs' – 718 NATO Pensions (Pension funds).

20. Related Party Transactions

Related Party Transactions of Members of Boards and Committees

The NCIO reports to a number of Boards and Committees which form part of its governance. With the exception of the ASB, those charged with governance may also have potential related party transactions with NCIO this has not been validated.

Representative Allowance of the General Manager

The General Manager (GM), in addition to other allowances to which all staff are entitled, receives a representation allowance due to the requirements to represent the NCI Agency.

Since 2013, management of the GM representation allowance moved, per the BC guidance, from a situation where recipients receive the representation allowance as an advance and return the unspent amount to the NATO body, to a situation where all recipients are reimbursed permitted expenses within the limits of their individual representation allowance allocation.

The total entitlement to representation allowance for the NCI Agency GM was 10,000 EUR. The actual expenses during 2023: 275 EUR (2022: 280 EUR) were as follows:

- Rental supplement: € 0
- Functions: € 275
- Total representation allowance: € 275

Key Management Personnel

Key Management Personnel hold positions of responsibility within NCI Agency. They are responsible for implementing the strategic direction and carrying out the operational management of NCI Agency; they are entrusted with significant authority. Procedures are in place to ensure Key Management Personnel carry out their responsibilities impartially and in compliance with the Code of Conduct (applicable to all staff) and the Agency discloses:

- the remuneration of Key Management Personnel,
- related parties,
- loans made, and
- payments provided for services provided to the entity other than as an employee.

Euro (G24/A7 - G23/A6)
Basic salaries
Allowances
Post-employment benefits
Employer's contribution to Insurance
Employer's contribution to Pension
Total

2023
1,526,003
321,508
0
171,608
141,257
2,160,376

2022
1,004,019
191,251
0
110,961
82,641
1,388,872

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FTE
General Manager
Directors (A6/OF6/OF7)

2023
1
10

2022
1
7.23

Name	Nationality	Role	Loans received from NCI Agency	Family members receiving income from NCI Agency	Other revenue from NCI Agency or NATO
Ludwig Julien DECAMPS	BEL	General Manager	Nil	Nil	Nil
Johannes Martinus FOLMER	NLD	Chief of Staff	Nil	Nil	Nil
Timothy MURPHY	GBR	Chief Service Operations	Nil	Yes	Nil
Michael STOLTZ (left 30 Jun 23)	DEU	Director Air and Missile Defence Command & Control	Nil	Nil	Nil
Michael STOLTZ (app 01 Jul 23)	DEU	Chief Quality Officer	Nil	Nil	Nil
Garry HARGREAVES	GBR	Director of the Academy	Nil	Nil	Nil
Antonio Jose CALDERON PEREZ	ESP	Chief Technology Officer	Nil	Nil	Nil
Su Jin CHAN	CAN	Legal Adviser	Nil	Yes	Nil
Antoine Pierre Jean PAILHES	FRA	Financial Controller	Nil	Nil	Nil
Jennifer Colleen UPTON	USA	Chief of Acquisition	Nil	Nil	Nil
Wiebe Eelco Ids NAUTA	NLD	Chief Operating Officer	Nil	Nil	Nil
Ralf HOFFMANN	DEU	Director of CIS Support Units	Nil	Nil	Nil

All Key Management Personnel of the NCI Agency must sign a declaration statement that supports the disclosure requirements of IPSAS 20.

21. Contractual Supplies and Services*(all figures in the table are expressed in thousands of Euro)*

		2023	2022 Restated	2022
Contractual Supplies and Services				
720	Rent and operational leasing costs	31,726	27,099	27,099
721	Maintenance and repair (Services)	122,767	115,417	115,417
722	Consumables and spare parts (Supplies)	1,173	4,662	4,662
723	Minor equipment (Investments below threshold)	28,112	29,484	29,484
724	Utilities, postal and courier services, travel and transportation	18,903	15,900	15,900
725	Facilities management, environment, safety and security	12,983	10,579	10,579
726	Public relations, representation, hospitality and moral and welfare	266	186	186
727	Contractors, general services and supplies	35,878	27,524	27,524
730-738	Investment costs	7,392	11,083	11,083
7290/7390	Capitalized Costs	(8,385)	(9,944)	(5,622)
		250,814	231,991	236,313

The 2022 restated balance was decreased by a total of 4.3 MEUR, due to a a correction on the first time disclosure of capitalized Contractual Supplies and Services costs related to the construction of CIS Assets where NCIO acts as a service provider toward the NATO Command Structure as well as for IS and IMS, including Asset Under Construction or Under Development, and In-Service Tangible or Intangible Assets.

Operating Lease Commitments:*(all figures in the table are expressed in thousands of Euro)*

At 31 December 2023 the Agency was party in an operating lease agreement related to its activities that expires within the contractual terms agreed. The minimum future non-cancellable operating lease payments under the agreement are as follows:

		2023	2022 Restated	2022
Operating Lease - Future Commitments				
	Less than 1 year	1,318	1,287	0
	More than 1 year and less than 5 years	5,273	5,273	0
	More than 5 years	2,142	3,461	0
		8,734	10,020	0

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The rent expense under such lease for the period ended 31 December 2023 amounted to 1.3 MEUR (2022: 316KEUR) and is included in the surplus/deficit of the year. The 2022 commitments are restated due to a accounting error the operating lease was not disclosed in 2022.

In some particular cases, NCIA recognizes operating lease expenses on accrual basis when the services are obtained, that represents more correctly the time when the benefits are received.

22. Depreciation and Amortisation

(all figures in the table are expressed in thousands of Euro)

		2023	2022 Restated	2022
Depreciation and Amortisation				
740	Amortisation and depreciation	97,742	91,683	92,853
741	Write-offs	1,493	242	1,451
		99,235	91,925	94,304

For Fixed Assets, the NCI Agency takes into account the current year depreciation as a cost which amounts to 97.7 MEUR (2022 restated: 91.6 MEUR) and write-offs for 1.5 MEUR in 2023 and, for 242 KEUR in 2022 Restated.

Full details on the 2023, 2022 restated and 2022 annual depreciation and retirements by asset categories can be found within note: Property, Plant and Equipment (PP&E) and Intangible Assets. The 2022 Restated column is the result of corrections on first time disclosure of capitalized costs related to the construction of CIS Assets for which NCIO acts as a service provider toward the NATO Command Structure as well as for IS and IMS, including Asset Under Construction or Under Development, and In-Service Tangible or Intangible Assets.

23. Provisions Expenses

(all figures in the table are expressed in thousands of Euro)

		2023	2022 Restated	2022
Provisions Expenses				
7461	Provisions Expenses - Major risks and costs	4,678	5,841	7,278
		4,678	5,841	7,278

NCIO has made the following provisions:

- Major risks and costs, provisions were made for future losses for active projects/services. The expected loss was recognised as an expense immediately (IPSAS 9 and 11);

- Provision for bad debt and impairment loss related to outstanding receivables.

For reasons of commercial confidentiality, details of which programmes/projects/customers are not disclosed.

Further details can be found under note 11, Provisions. IPSAS defines a provision as “a liability of uncertain timing or amount”.

24. Contingent Liabilities

IPSAS defines a contingent liability as “A possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or, a present obligation that arises from past events, but is not recognised because:

- 1) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
- 2) The amount of the obligation cannot be measured with sufficient reliability”. The Agency has a process to capture information on provisions and contingent liabilities at year-end from all the organisational elements, and is implementing a process to capture that information throughout the year.

NCI Agency carried out extensive analysis due to continuing uncertainty surrounding the Governance decision on the future of NATO’s AIRC2 capability.

Budget Committee approved interim financing appropriation for the NATINAMDS commencing in the first quarter 2024 recommending preparation of the ramp-down plan.

25. Write-offs

Per the applicable NCIO Financial Rules and Procedures (document AC/337-D(2016)0014-REV2 (INV));

FRP XVII 8) on write-offs, information will be provided to the NATO budget Committee and the Finance Committee on an aggregated level in the Financial Statements as audited by IBAN.

For the period between 01 January 2023 and 31 December 2023 the NCI Agency has written off:

- CIS assets with total net book value of 1.5 MEUR (Restated 2022: 187 KEUR);
- Accounts receivable with a total value of 31,416.92 EUR;
- Pre-Fin anticipatory commitments write off with total value of 41,243.34 EUR.

C. Notes to the NCIO Statement of Changes in Net Assets/Equity

Under its Charter and its Customer Funding model, the NCIO is allowed to have an Operating Fund (OF) which represents its retained earnings accumulated over the years. The use of the OF is regulated by the Customer Funding Regulatory Framework approved by Council in 2015 (PO(2015)0394-AS1) and are part of the NCIO Financial Rules and Procedures (FRPs)

The OF is not the NCI Agency’s only source of working capital, because the NCI Agency benefits from significant advance payments from its main customers for purposes of the execution of its programmes and services. In addition all the work performed by the Agency in its role as Host Nation under the NSIP and acquisition projects for Third Parties is funded in advance respectively by the Investment Committee and by NATO Nations & Organisations. The Retained Earnings/Operating fund is composed of 2 elements:

1. Retained Earnings/Operating fund (excluding Inventories)
 - o the surplus (deficits) carried forward from prior years; and
 - o a portion of the Surplus (Deficits) for the current year, which is allocated to Retained Earnings (therefore not allocated to Reserved Earnings).
2. Retained Earnings/Operating fund related to Inventories

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The Inventory accounting is composed of earnings on the accounting for inventories, including low value PPEs (below thresholds) stored at the CSSC and CSU warehouses and as a result of changes in inventory asset values (WAC). These inventory flows are mainly non-monetary elements and therefore are kept separately from the Retained Earnings/Operating fund used for the Customer Rates Calculation rebates. This approach is similar to the accounting principle applied for the depreciation reserve mechanism.

The main reason for splitting into 2 components is to provide transparency to our Governance and to provide the useful information for future decision on the usage of the Operating Fund.

This operating fund from inventory accounting is composed of earnings on accounting for low value PPEs (below thresholds) stored at the CSSC and CSU warehouses and adjustment of Inventory asset values (WAC).

When implementing IPSAS 17, a portion of these earnings were partially encumbered for the value of fixed assets not yet fully depreciated, reported separately as a depreciation reserve. The categories of assets and the breakdown of the remaining book value per category is reported in the Statement of Property Plant and Equipment (PPE).

<i>(all figures in the table are expressed in thousands of Euro)</i>	Opening 2022 (published)	Adjustment of the carrying amount (restated)	Opening 2022 (restated)	Result of the Year 2022 (published)	Adjustment to 2022 published result	Result of the Year 2022 (restated)	Closing 2022 (restated)	Result of the Year 2023 (unaudited)	Closing 2023 (unaudited)
Operating Fund	52,263	81,972	134,235	(7,619)	(10,890)	(18,508)	115,727	(13,428)	102,299
Reserves	93,257	(74,278)	18,979	(4,858)	10,790	5,932	24,912	101	25,013
Reserves - Tangible and Intangible Assets Depreciation Reserves	10,743	216	10,958	6,370	(1,011)	5,359	16,317	589	16,906
Reserves - Internal Investements	5,820	0	5,820	648	0	648	6,468	(488)	5,980
Reserves - Special Programmes	2,201	0	2,201	(74)	0	(74)	2,127	0	2,127
Reserves - Inventory Assets	74,494	(74,494)	0	(11,801)	11,801	0	0	0	0
Total Net Assets/Equity	145,521	7,694	153,215	(12,477)	(99)	(12,576)	140,639	(13,327)	127,312

The above table shows the reconciliation to the restated opening and closing balances of the reserved and retained earnings.

3. Reserved Earnings

(all figures in the table are expressed in thousands of Euro)

	2023	2022 Restated	2022
Reserved Earnings			
3100, 3101 Reserves - Tangible and Intangible Assets Depreciation Reserves	16,906	16,317	17,112
311 Reserves - Internal Investements	5,980	6,468	6,468
311 Reserves - Special Programmes	2,127	2,127	2,127
3102 Reserves - Inventory Assets	0	0	62,692
	25,013	24,912	88,399

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The reserved earning is composed of:

- 16.9 MEUR of earnings remain reserved for Tangible and Intangible Assets not yet fully depreciated
- In 2023, the net decrease of the Internal Investement reserve resulting from an consumption 5.5 MEUR and a budget increase of 5 MEUR in the other end;
- 6.4MEUR of accumulated transition expenses are booked against the Transition Reserve thus decreasing from a total 8.6 MEUR at 31 December 2013 to 2.1 MEUR at 31 December 2023;
- 62.6M EUR inventory reserve is reclassified in Retained Earnings/Operating fund-Inventory accounting in accordance to NATO policy documents.

The Reserve – Tangible and Intangible Assets depreciation have been restated. The ongoing improvement effort and review of assets under construction and in-services assets resulted in to corrective action/restatement.

		2023	2022 Restated	2022
Special Programmes Reserves				
311000	Special programmes reserves - Transition projects - Approved and authorised	801	801	801
311001	Special programmes reserves - Transition projects - Approved, not authorised	1,325	1,325	1,325
		2,127	2,127	2,127

Special Programmes - Transition Expenses

	Authorised	Spent < 2023	Remaining
Transition OF funded	7,244,724	6,443,317	801,407

In order to fund its transition activities between 2014 and 2018, the Agency requested 8.6 MEUR of the Operating Fund (OF) and 18.9 MEUR of common funding. The subsequent IC/BC decision sheet (AC/4 (PP) D/27275 – ADD1 and BC-D(2013)0214) authorised 17 MEUR of common funding and 7.2 MEUR from the Agency OF. The latter has been reserved to pay for backfill consultancy cost and travel of the NCI Agency personnel involved in activities related to the Transition Programme as per the decision sheet. The difference between the RPPB approved amount (8.6 MEUR) and the detailed amount approved by the IC/BC (7.2 MEUR), has also been reserved for future possible use. As the transition programs are completed, NCIO will address its governance to dissolve this transition reserve in year 2024.

Internal Investment Reserve

		2023	2022 Restated	2022
Internal Investements Reserves				
311131	Special programmes reserves - A2I - EBA R4	346	2,554	2,554
311132	Special programmes reserves - A2I - Interim Facility (IF)/Braine L'Alleud (BLL)	0	830	830
311133	Special programmes reserves - A2I - Multi Year Investment Plan (MYIP)	5,634	3,084	3,084
		5,980	6,468	6,468

The RPPB approved 4 MEUR from the Operating Fund (AC/335-D(2021)0036 dated 21 May 2021) to fund for the EBA release 4 program. The Operating Fund evolution is elaborated in detail at section 2.6 of Financial Plan 2022-2024 (AC/337-D(2021)0050 dated 10 December 2021). The remaining funds at the year-end of FY2023 are 0.3 MEUR for EBA R4.

As per the AC/337(FC)D(2021)0054 - NCI Agency Internal Investment Reserve (MYIP) - Mechanism and Governance Framework paragraph 20; In the Financial Statements, the internal investment reserve will be accounted for separately within Reserved Earnings, considered as the accumulated surplus and deficit that is reserved for a specific purpose.

Furthermore, the internal investment reserve is under the control of the ASB with authority over the fund delegated to the ASB Finance Committee.

4. Retained Earnings

(all figures in the table are expressed in thousands of Euro)

		2023	2022 Restated	2022
Retained Earnings				
5	Revenue	778,991	715,236	709,401
7	Expenses	(792,318)	(727,812)	(721,878)
	Surplus (Deficits) Current Year	(13,327)	(12,576)	(12,477)
	Distributed(net) to Retained Earnings	(13,428)	(18,508)	(7,619)
	Distributed(net) to Reserved Earnings	101	5,932	(4,858)
30, 301	Surplus (Deficits) carried forward - Prior Years	115,727	134,235	52,263
	Retained Earnings (OF)	102,299	115,727	44,645

The 2022 Restated column is the result of:

- The ongoing improvement effort and review of assets under construction and in-services assets resulted in to corrective action/restatement.
- Of the change in measurement of a transaction/recognition for firm fix price customer agreements/contracts.
- Implementation of IPSAS 41 Financial Instruments.
- The reclassification of inventory in accordance to NATO policy documents.

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Note: Retained earnings columns in the below tables on Net Assts/Equity represents the Operating fund.

NCIO Reconciliation of Net Assets/Equity

For the year ended 31 December 2023

(all figures are expressed in thousands of Euro)

		Property, Plant and Equipment (PP&E) & Intangible Assets		Reserves - Tangible and Intangible Assets Depreciation	Reserves - Special Programmes	Reserves - Internal Investements	RESERVED EARNINGS	Retained Earnings/Operating fund related to Inventories	Retained Earnings/Operating fund (excluding Inventories)	NET ASSETS/EQUITY	
		Acq. Value	Depreciation	Book Value						Surpl./ (Def.) Yr	Yr-end Balance
31-Dec-21		13,674	(2,931)	10,743	2,201	5,820	18,764	74,494	52,263		145,521
2022 as Published (Audited)		21,917	(4,804)	17,112	2,127	6,468	25,707	62,692	44,645	(12,477)	(12,477)
31-Dec-22		21,917	(4,804)	17,112	2,127	6,468	25,707	62,692	44,645		133,044
2022 as Published Restated (Unaudited)		22,687	(6,370)	16,317	2,127	6,468	24,912	62,692	53,035	(12,576)	(12,576)
31-Dec-22		22,687	(6,370)	16,317	2,127	6,468	24,912	62,692	53,035		140,639
2023 Published (Unaudited)		27,573	(10,667)	16,906	2,127	5,980	25,013	65,696	36,603	(13,327)	(13,327)
31-Dec-23		27,573	(10,667)	16,906	2,127	5,980	25,013	65,696	36,603		127,312

YEAR-END BALANCES	Year-end Balance	Property, Plant and Equipment (PP&E) & Intangible Assets		Reserves - Tangible and Intangible Assets Depreciation	Reserves - Special Programmes	Reserves - Internal Investements	RESERVED EARNINGS	Retained Earnings/Operating fund related to Inventories	Retained Earnings/Operating fund (excluding Inventories)	NET ASSETS/EQUITY	
		Acq. Value	Acc. Deprec.	Book Value						Yr-end Balance	
31-Dec-21	100,624	3,055	(2,582)	474	2,201	5,820	8,495	42,756	49,374		100,624
31-Dec-21 Restated	145,521	13,674	(2,931)	10,958	2,201	5,820	18,764	74,494	52,263		145,521
31-Dec-22	133,044	21,917	(4,804)	17,112	2,127	6,468	25,707	62,692	44,645		133,044
31-Dec-22 Restated	140,639	22,687	(6,370)	16,317	2,127	6,468	24,912	62,692	53,035		140,639
31-Dec-23	127,312	27,573	(10,667)	16,906	2,127	5,980	25,013	65,696	36,603		127,312

INCR./ (DECR.) FOR THE YEAR	Surplus/ (Def.) for the Year	Property, Plant and Equipment (PP&E) & Intangible Assets		Reserves - Tangible and Intangible Assets Depreciation	Reserves - Special Programmes	Reserves - Internal Investements	RESERVED EARNINGS	Retained Earnings/Operating fund related to Inventories	Retained Earnings/Operating fund (excluding Inventories)	NET ASSETS/EQUITY	
		Acq. Value Yr	Deprec. Yr	Δ Book Value						Surpl./ (Def.) Yr	
12/31/2021	25,523	(2,874)	1,550	(1,325)	(172)	5,820	4,323	0	21,200		25,523
31/12/2021 Restated	36,001	7,744	1,200	9,160	(172)	5,820	14,592	31,738	(10,328)		36,001
12/31/2022	(12,477)	8,243	(1,873)	6,154	(74)	648	6,943	(11,801)	(7,619)		(12,477)
31/12/2022 Restated	(12,576)	7,998	(2,639)	5,359	(74)	648	5,932	(11,801)	(6,707)		(12,576)
12/31/2023	(13,327)	4,886	(4,297)	589	0	(488)	101	3,004	(16,432)		(13,327)

5. Events after the financial reporting date of 31 December 2023

NCIO is required to disclose events, both favourable and unfavourable, that occurred between the reporting date of 31 December 2023 and the date when these Financial Statements were authorised for issue by the General Manager. IPSAS requires two types of events which should be identified:

- (a) Those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- (b) Those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

NCIO has not detected any events after reporting for disclosure.

6. MWA disclosure

NCIO also has some Morale and Welfare Activities (MWA) which are not consolidated into the Financial Statements as per the NAF adapted IPSAS 6, even if they are considered to be under the control, from a financial reporting perspective of the NCI Agency. They are reported separately towards the ASB FinCom.

Revenue generated throughout the year for MWA activities amounted at 18,628 EUR (2022: 42,232 EUR), originated primarily from contributions from external parties (3,602 EUR) and tickets sale for two major social events with additional contribution funds (14,171 EUR).

Total expenses for the MWA activities related to 2023 amounted 30,767 EUR (2022: 48,298 EUR). Hence a loss for the year 2023 of 12,139 EUR.

Main assets of the MWA consists of cash and cash equivalents balance of 60,361 EUR and payables of 27,875 EUR. Provision was accounted for receivables to amount 50,000 EUR in Fiscal Year 2020 because there would be a risk that settlement of these receivables would not happen.

D. Notes to the NCIO Segment Reporting

(all figures in the table are expressed in thousands of Euro)

SEGMENTED STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 31 December 2023

(all figures are expressed in thousands of Euro)

	CUSTOMER FUNDING								BUDGET FUNDING		Unallocated		CONSOLIDATED	
	NATO Security Investment Programme				Budget Committee		Multi-National		Overhead & General		Agency Supervisory Board Secretariat		Segment	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
SEGMENTED REVENUE														
Project and Support Services Revenue	28,517	31,140	279,120	265,097	47,453	46,364	0	0	0	0	0	0	355,089	342,601
External Services Revenue	0	0	186,180	177,273	13,638	11,540	0	0	0	0	0	0	199,818	188,813
Acquisition Revenue	140,474	138,250	33,372	3,883	34,540	33,431	0	0	0	0	0	0	208,386	175,564
Other Revenue	5,379	2,271	37	57	67	300	0	0	1,307	1,532	1,706	763	8,497	4,923
Financial Revenue	0	0	464	(0)	245	143	0	0	0	0	6,492	3,192	7,201	3,335
SUBTOTAL SEGMENTED REVENUE	174,370	171,661	499,172	446,310	95,943	91,777	0	0	1,307	1,532	8,198	3,956	778,991	715,236
INTRA-SEGMENTS ELIMINATIONS REVENUE														
Intra-Segment Service Delivery	0	0	0	0	0	0	0	0	0	0	0	0	0	0
SUBTOTAL INTRA -SEGMENTS ELIMINATIONS REVENUE	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL SEGMENTED REVENUE	174,370	171,661	499,172	446,310	95,943	91,777	0	0	1,307	1,532	8,198	3,956	778,991	715,236
SEGMENTED EXPENSES														
Cost of Acquisition	(205,621)	(198,544)	(51,734)	(14,322)	(35,476)	(35,420)	(1,802)	0	0	0	0	0	(294,634)	(248,285)
Personnel Costs	0	(0)	(1,498)	(2,355)	(195)	(442)	(345,700)	(324,799)	(1,227)	(1,341)	0	0	(348,620)	(328,937)
Contractual Supplies and Services	(10,983)	(3,207)	(19,212)	(21,045)	(6,541)	(8,042)	(22,561)	(31,696)	(80)	(191)	0	0	(59,378)	(64,181)
Capitalization Costs (+)	186,589	168,700	30,680	22,035	2,230	2,702							219,499	193,437
Depreciation and Amortisation	(88,239)	(84,639)	(6,711)	(4,652)	(39)	(292)	(4,247)	(2,341)	0	0	0	0	(99,235)	(91,925)
Provisions Expenses	(3,496)	(5,259)	(0)	(23)	(47)	0	0	0	0	0	(1,135)	(560)	(4,678)	(5,841)
Financial Expenses	0	(0)	(364)	(0)	(353)	(196)	0	0	0	(0)	(2,095)	(2,556)	(2,812)	(2,752)
Other Expenses	0	0	0	0	0	0	0	0	0	0	0	0	0	0
SUBTOTAL TOTAL SEGMENTED EXPENSES	(121,750)	(122,948)	(48,839)	(20,362)	(40,422)	(41,690)	(374,310)	(358,836)	(1,307)	(1,532)	(3,230)	(3,115)	(589,858)	(548,484)
INTRA-SEGMENTS ELIMINATIONS/ALLOCATIONS EXPENSES														
Intra-Segment Service Delivery	(4,919)	(5,925)	(200,788)	(189,500)	(18,468)	(14,085)	24,354	31,696	0	0		0	(199,821)	(177,814)
Intra-Segment Workforce Capacity	(50,425)	(48,020)	(257,889)	(243,572)	(40,026)	(34,721)	345,700	324,799	0	0		0	(2,639)	(1,514)
SUBTOTAL INTRA -SEGMENTS ELIMINATIONS/ALLOCATIONS EXPENSES	(55,343)	(53,945)	(458,676)	(433,072)	(58,494)	(48,806)	370,054	356,495	0	0	0	0	(202,460)	(179,328)
TOTAL SEGMENTED EXPENSES	(177,093)	(176,894)	(507,516)	(453,434)	(98,916)	(90,496)	(4,256)	(2,341)	(1,307)	(1,532)	(3,230)	(3,115)	(792,318)	(727,812)
SEGMENTED SURPLUS/(DEFICIT) FOR THE PERIOD	(2,723)	(5,232)	(8,343)	(7,124)	(2,973)	1,281	(4,256)	(2,341)	0	0	4,968	841	(13,327)	(12,576)
Revaluation of Assets														
CONSOLIDATION ELIMINATIONS														

SEGMENTED EXPENSES TO STATEMENT OF PERFORMANCE
RECONCILIATION

	CUSTOMER FUNDING								BUDGET FUNDING		Unallocated		CONSOLIDATED	
	NATO Security Investment Programme				Budget Committee		Multi-National		Overhead & General		Agency Supervisory Board Secretariat		Segment	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
SEGMENTED EXPENSES														
Cost of Acquisition	(64,036)	(73,524)	(30,285)	(2,886)	(34,395)	(34,012)	(1,802)	0	0	0	0	0	(130,518)	(110,421)
Personnel Costs	(9,092)	(7,953)	(254,238)	(241,062)	(39,703)	(34,526)	(0)	0	(1,227)	(1,341)	0	0	(304,261)	(284,882)
Contractual Supplies and Services	(12,231)	(5,519)	(215,917)	(204,811)	(24,378)	(21,470)	1,793	0	(80)	(191)	0	0	(250,814)	(231,991)
TOTAL	(85,358)	(86,996)	(500,441)	(448,759)	(98,476)	(90,008)	(10)	0	(1,307)	(1,532)	0	0	(685,593)	(627,294)
SEGMENTED EXPENSES														
Cost of Acquisition	(205,621)	(198,544)	(51,734)	(14,322)	(35,476)	(35,420)	(1,802)	0	0	0	0	0	(294,634)	(248,285)
Personnel Costs	0	(0)	(1,498)	(2,355)	(195)	(442)	(345,700)	(324,799)	(1,227)	(1,341)	0	0	(348,620)	(328,937)
Contractual Supplies and Services	(10,983)	(3,207)	(19,212)	(21,045)	(6,541)	(8,042)	(22,561)	(31,696)	(80)	(191)	0	0	(59,378)	(64,181)
Capitalization Costs (+)	186,589	168,700	30,680	22,035	2,230	2,702	0	0	0	0	0	0	219,499	193,437
TOTAL	(30,015)	(33,051)	(41,765)	(15,687)	(39,982)	(41,202)	(370,064)	(356,495)	(1,307)	(1,532)	0	0	(483,133)	(447,966)
INTRA-SEGMENTS ELIMINATIONS/ALLOCATIONS EXPENSES														
Intra-Segment Contract Supplies and Services	(4,919)	(5,925)	(200,788)	(189,500)	(18,468)	(14,085)	24,354	31,696	0	0	0	0	(199,821)	(177,814)
Intra-Segment Personnel Costs	(50,425)	(48,020)	(257,889)	(243,572)	(40,026)	(34,721)	345,700	324,799	0	0	0	0	(2,639)	(1,514)
SUBTOTAL INTRA - SEGMENTS ELIMINATIONS/ALLOCATIONS EXPENSES	(55,343)	(53,945)	(458,676)	(433,072)	(58,494)	(48,806)	370,054	356,495	0	0	0	0	(202,460)	(179,328)
TOTAL	(85,358)	(86,996)	(500,441)	(448,759)	(98,476)	(90,008)	(10)	0	(1,307)	(1,532)	0	0	(685,593)	(627,294)

OTHER SEGMENTED INFORMATION

For the year ended 31 December 2023
(all figures are expressed in thousands of Euro)

For the year ended 31 December 2023 (all figures are expressed in thousands of Euro)	CUSTOMER FUNDING								BUDGET FUNDING		Unallocated Segment		CONSOLIDATED	
	NATO Security Investment Programme		Budget Committee		Multi-National		Overhead & General		Agency Supervisory Board Secretariat					
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
SEGMENTED ASSETS														
Current Assets														
Subtotal Segmented Cash and Cash Equivalents	87,741	95,270	0	(0)	0	0	0	0	0	0	183,502	158,482	271,243	253,753
Subtotal intra-segments eliminations cash and cash equivalents	(25,946)	(76,072)	0	0	0	0	0	0	0	0	25,946	76,072	0	0
Total Cash and Cash Equivalents	61,795	19,198	0	(0)	0	0	0	0	0	0	209,448	234,555	271,243	253,753
Receivables	111,662	188,620	186,479	131,580	27,996	22,890	0	0	58	58	6,036	2,629	332,231	345,776
Prepayments and Miscellaneous Assets	3,070	3,417	176	524	384	1,119	0	0	0	1	13,222	2,267	16,852	7,328
Inventory	(0)	0	38,721	34,636	(0)	(0)	0	0	0	0	31,037	29,615	69,758	64,250
Work in Progress	4,758	3,668	59	177	659	459	0	0	0	0	0	0	5,476	4,304
Other Current Assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Current Assets	181,286	214,904	225,435	166,917	29,039	24,467	0	0	58	58	259,743	269,066	695,562	675,412
Non-Current Assets														
Financial Assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-current Receivables	0	0	0	0	0	0	0	0	0	0	549	548	549	548
Property, Plant and Equipment	342,704	292,230	58,328	38,584	0	0	7,892	8,819	0	0	0	0	408,924	339,633
Intangible Assets	400,609	355,334	12,191	9,988	0	0	8,940	7,375	0	0	0	0	421,740	372,697
Other Non-Current Assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Non-Current Assets	743,313	647,564	70,519	48,572	0	0	16,832	16,194	0	0	549	548	831,213	712,878
TOTAL SEGMENTED ASSETS	924,598	862,468	295,955	215,489	29,039	24,467	16,832	16,194	58	58	260,293	269,614	1,526,775	1,388,290
SEGMENTED LIABILITIES														
Current Liabilities														
Payables	51,897	52,271	11,880	4,060	6,338	9,786	0	0	196	193	55,612	36,037	125,923	102,347
Deferred Revenue and Advances	247,269	258,323	89,485	61,830	188,368	173,760	0	0	58	0	0	0	525,180	493,912
Borrowings	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Current Liabilities	7,460	10,033	(4)	10	1,553	795	0	0	261	78	8,974	12,184	18,244	23,099
Total Current Liabilities	306,626	320,627	101,361	65,900	196,260	184,341	0	0	514	271	64,586	48,220	669,347	619,358
Non-Current Liabilities														
Non-Current Payables	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-Current Deferred Revenue and Advances	661,402	575,110	64,088	43,907	0	0	0	0	0	0	0	0	725,491	619,016
Non-Current Borrowings	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Provisions	3,682	8,251	154	183	47	3	0	0	0	0	742	839	4,625	9,276
Other Non-Current Liabilities	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Non-Current Liabilities	665,084	583,361	64,242	44,089	47	3	0	0	0	0	742	839	730,116	628,292
TOTAL SEGMENTED LIABILITIES	971,711	903,988	165,603	109,989	196,307	184,344	0	0	514	271	65,328	49,059	1,399,463	1,247,651

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Consistent with the definition under IPSAS 18, a segment is a distinguishable activity or group of activities whose identification shall be driven by the evaluation of the entity's past performance in achieving its objectives from accountability purposes and, the decision-making about the future allocation of resources.

With the Agency Supervisory Board Finance Committee's expressed support as per AC/337(FC)DS(2023)0005 (INV) dated 03 October 2023, NCIO has defined five distinctive segment in its Financial Statements based on Customer Funding sources (Customer Funding and Budget Funding), almost similar with the main business segments structure within the Agency's Business and Financial Plans guidance. It fairly represent the way the NCI Agency's past performance is evaluated and the way decisions are made about future allocation of resources.

Intra-segment eliminations/allocations:

- **CIS support costs to Customers segments:** These are annual Service Level Agreement mainly related to maintenance costs incurred from industry in relation to maintenance activities of C3 and CIS assets.
- **Agency costs to Customers segments:** These are Agency running costs, including Personnel costs and Contractual Supplies and Services that are reallocated on the time and effort basis to Customers.

Unallocated segment:

Some assets, liabilities and revenues and expenses cannot be directly attributed towards customer funding sources, or allocated on a reasonable basis towards the individual segments.

For comparative reason, the 2022 opening and 2022 movement have been restated. The Cash Flow reconciliation is kept at the consolidated financial level.

E. Notes to the NCIO Budget Execution Statement

Although NCIA is fully Customer Funded as of 2014, the NCIO Independent Secretariat is Budget Funded, as per the Charter of the NCIO, approved by Council on 19 June 2012 under C-M(2012)0049, the NCIO is composed of an ASB and an executive body composed of a General Manager and his/her staff (the NCI Agency).

Article 26 (e) of the Charter, the chairperson of the ASB is supported by an Independent Secretariat that is only responsible to the chairperson.

Article 50 (c) and AC/337-D(2014)0007-AS1 dated 9 May 2014, the ASB approved core funding (distinct and separate from NATO common funding) for the NCIO Independent Secretariat.

The ASB approves an annual budget. The basic structure of the Military Budget cost share model is used;

- Budgets are submitted with the following breakdown of nature of costs; Chapter 1 - Personnel, Chapter 2 - Contractual supplies and services and Chapter 3 - Investments.
- Commitments ; As per the NCIO FRP XXV; '...Appropriations shall be committed only for the purposes and to the extent authorised in the approved budget...' and '...commitment of appropriations (budget) is the acceptance and recording of a legal liability to expend international funds..'
- Expenses include expense accruals for goods and services delivered.
- Carry forward amounts are the net commitments at the end of the financial year that have not been converted into expenses at the end of the financial year.
- Lapsed amounts represent budget funds that were not used (unspent) during the course of the financial year.

NCIO does not provide their budgets publically available, this table only represents a summary of the appropriations related to the running cost of the ASB secretariat.

NATO Accounting Framework (NAF) additional disclosures

NAF Impact prior 1 January 2013 Expensed PPE/Inventory and prior 1 January 2018 Assets under Construction

NATO assets are composed of Property Plant and Equipment and Intangible Elements. The classification of the different assets is done in accordance with the requirements set forth by the NAF. If multiple categories were applicable the assignment was done on the intended use of the asset involved. The NCI Agency was established July 1st 2012, following the merger of three legacy NATO Agencies (NACMA, NC3A and NCSA).

1. Property Plant and Equipment and Intangible Assets

In accordance with the NATO Accounting Framework (C-M(2016)0023) the NCIO shall, for PPE and intangible assets held prior to 1 January 2013, and not previously recognized as an asset, provide a brief description of the assets in the notes to the financial statements.

The projects were funded by the Infrastructure Committee, and are summarised as follows.

Infrastructure Assets put in Service prior to 01 January 2013

Location of Project ⁽¹⁾	Type of Project	Number ⁽²⁾
ACO and former ACE area	Networking and Command and Control Capabilities for Military Commands.	48
ACT and former Aclant area	Networking and Command and Control Capabilities for Military Commands.	33
Former Yugoslavia	Communication networks and installations in theatre.	98
Peace Support Operations	CIS support for Peace Support Operations located in Former Yugoslavia.	32
SATCOM	Military Satellite Communications projects.	23
Various Networking Projects	NATO-wide networking infrastructure.	186
TOTAL		420

⁽¹⁾ Project defined as Infrastructure Committee slice serials.

⁽²⁾ Table does not include infrastructure completed by the legacy agencies prior to the year 2000.

It should be noted that almost all of these projects were delivered to legacy military commands, prior to NATO military reorganisation in 2012. Many of the projects were installed 'in theatre' (former Yugoslavia). All the items are largely or completely obsolescent, and due to their age, should be considered as fully depreciated.

2. Inventory

In accordance with the NATO Accounting Framework (C-M(2016)0023) the NCIO shall, for inventory held prior to 1 January 2013, and not previously recognized as an asset, provide a brief description of the inventory in the notes to the financial statements.

NSPO held inventory prior to 1 January 2023 on behalf of NCI Agency for providing logistical services and support for certain NATO equipment whose location, description and quantities cannot be publically disclosed due to restricted information.

3. Assets under Construction/Development

In accordance with the NATO Accounting Framework, the NATO ACCOUNTING POLICY FOR PROPERTY, PLANT AND EQUIPMENT (C-M(2017)0022 APPENDIX 1 ANNEX 1) and the NATO ACCOUNTING POLICY FOR INTANGIBLE ASSETS (C-M(2017)0044 APPENDIX 1 ANNEX 1); the NCIO shall for the NCIO controlled CIS Assets under Construction/Development before 1 January 2018 provide a brief description on the types and locations of CIS assets that were under construction prior to 1 January 2018 for the NATO Command Structure as well as for IS and IMS.

The Assets under Construction/Development are grouped by geographical region, if multiple locations are involved no specific region was assigned but kept general. (e.g. ACCS, NATO wide location was assigned as this asset is located in the different NATO member countries)

Asset Location ⁽²⁾	NATO Asset Category	Asset Type	Number of Assets ⁽¹⁾
Eastern Europe	Automated Information Systems	VARIOUS Networking Projects	3
NATO-WIDE	Automated Information Systems	Networking and Command and Control Capabilities for Military Commands	7
	Automated Information Systems	VARIOUS Networking Projects	61
	Communications	SATCOM	8
	Mission Equipment	Peace Support Operations	5
	Vehicles	Peace Support Operations	2
North America	Automated Information Systems	Networking and Command and Control Capabilities for Military Commands	1
Northern Europe	Automated Information Systems	VARIOUS Networking Projects	1
Southern Europe	Automated Information Systems	Networking and Command and Control Capabilities for Military Commands	4
	Automated Information Systems	VARIOUS Networking Projects	2
Theatre	Automated Information Systems	VARIOUS Networking Projects	3
Western Europe	Automated Information Systems	Networking and Command and Control Capabilities for Military Commands	2
	Automated Information Systems	VARIOUS Networking Projects	3
	Communications	SATCOM	1
Grand Total			103

⁽¹⁾ Asset defined as Infrastructure Committee slice serials.

⁽²⁾ Countries by Geographic Locations:

Eastern Europe: Czech Republic, Lithuania, Montenegro, Poland, North Macedonia, Slovakia, Hungary, Romania

NATO-Wide: Albania, Belgium, Bulgaria, Canada, Croatia, Czech Republic, Denmark, Estonia, France, Germany, Greece, Hungary, Iceland, Italy, Latvia, Lithuania, Luxembourg, Montenegro, Netherlands, North Macedonia, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Türkiye, United Kingdom, United States

North America: United States

Southern Europe: Italy, Portugal, Türkiye

Theatre: Balkans

Western Europe: Belgium, France, Germany, Netherlands

4. Assets under Construction/Development completed during the period of 2013-2017

In accordance the NAF and related accounting policies for CIS Assets constructed and developed for the NATO Command Structure as well as for IS and IMS, which were completed during the period 01 January 2013 and 31 December 2017. NCIO discloses the number assets that were completed by Asset location, Asset Category and Asset Type.

The assets are grouped similar to the disclosure under paragraph 3 Assets under Construction/Development.

Asset Location ⁽²⁾	NATO Asset Category	Asset Type	Number of Assets ⁽¹⁾
Eastern Europe	Automated Information Systems	Networking and Command and Control Capabilities for Military Commands	2
	Automated Information Systems	VARIOUS Networking Projects	2
NATO-WIDE	Automated Information Systems	Networking and Command and Control Capabilities for Military Commands	11
	Automated Information Systems	VARIOUS Networking Projects	4
	Software Bespoke	Command and Control Capabilities for Military Commands	2
	Software COTS	Command and Control Capabilities for Military Commands	1
	Communications	Networking and Command and Control Capabilities for Military Commands	1
North America	Automated Information Systems	Command and Control Capabilities for Military Commands	1
Southern Europe	Automated Information Systems	Networking and Command and Control Capabilities for Military Commands	1
	Automated Information Systems	VARIOUS Networking Projects	4
	Communications	Networking and Command and Control Capabilities for Military Commands	1
Theatre	Automated Information Systems	Networking and Command and Control Capabilities for Military Commands	1
	Automated Information Systems	VARIOUS Networking Projects	1
Western Europe	Automated Information Systems	Networking and Command and Control Capabilities for Military Commands	1
	Automated Information Systems	VARIOUS Networking Projects	2
	Software COTS	Command and Control Capabilities for Military Commands	1
	Communications	SATCOM	1
TOTAL			37

⁽¹⁾ Asset defined as Infrastructure Committee slice serials.

⁽²⁾ Countries by Geographic Locations:

Eastern Europe: Czech Republic, Lithuania, Montenegro, Poland, North Macedonia, Slovakia, Hungary, Romania

NATO-Wide: Albania, Belgium, Bulgaria, Canada, Croatia, Czech Republic, Denmark, Estonia, France, Germany, Greece, Hungary, Iceland, Italy, Latvia, Lithuania, Luxembourg, Montenegro, Netherlands, North Macedonia, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Türkiye, United Kingdom, United States

North America: United States

Southern Europe: Italy, Portugal, Türkiye

Theatre: Balkans

Western Europe: Belgium, France, Germany, Netherlands

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NCIA/FC/2024/03378

Subject : **Statement of Internal Control
NATO Communications and Information Organisation (NCIO)
Financial Statements for the period 01 January 2023 to
31 December 2023**

1. This Statement of Internal Control applies to the NCIO Financial Statements for the year ended 31 December 2023. Internal control is driven by the requirement of the NATO Financial Regulations, the NCIO Financial Rules and Procedures, the NATO Accounting Framework, the NCIO Internal Control Framework and good business practices. Internal control is to ensure that NATO assets are utilized for the purposes intended and that the transactions relating to their usage reflect the highest standards of integrity to justify continued confidence of the NATO Member Nations.
2. The NCIO system of internal control is based on an ongoing process effected by the Board, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance. As part of the process, identified risks to the achievement of NCIO Organisation goals and objectives, are managed efficiently, effectively and economically. In detail:
 - a. The ASB has the responsibility to: (1) ensure that effective risk management measures are in place and monitor performance execution on that basis; (2) exercise management control by comparison of the NCIA activities with applicable ASB directives; (3) oversee the delivery of results against targets; (4) evaluate the performance against objectives of the NCIA; (5) benchmark the NCIA against comparable organisations;
 - b. The ASB has established an Audit Committee (AC) comprising representatives of all NATO nations. The AC assists the Board in fulfilling its oversight responsibilities in the areas of internal controls, risk management, internal and

external audits, financial reporting, and regulatory compliance. In 2023, the AC carried out four meetings in plenary session.

- c. The Chairman of the ASB is responsible to maintain a sound system of internal control that supports the ASB Secretariat and ensures it delivers on its mandate;
- d. The General Manager (GM) is responsible to maintain a sound system of internal control that supports the NCI Agency and ensures it delivers on its Chartered mandate;
- e. The Chief Operating Officer (COO) is responsible to maintain a sound system of internal control for business planning together with the related business intake and capacity management, as well as monitoring programme/project exceptions;
- f. The Chief of Acquisition is responsible to maintain a sound system of internal control that ensures the integrity of the procurement process;
- g. The Chief People Officer is responsible to maintain a sound system of internal control relating to the recruitment and departure of staff and associated payment of salaries and allowances;
- h. The Financial Controller is responsible for maintaining a sound system of internal financial controls, for the correct use and accounting of funds made available to the NCI Agency and the ASB Independent Secretariat.

3. Key aspects of the NCIO's system of internal control for 2023:

- a. All funds received are recorded, accounted and managed through a set of information systems, which include: ServiceNow Strategic Portfolio Management (including a time accounting platform) and the Oracle R 12 based tool Enterprise Business Applications (EBA)¹. Controls are in place at transactional level to control use and disbursement of funds.

¹ Go-Live' was in Q1 2019 for EBA Release 1

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- b. The Independent Secretariat has its budget approved and funded by ASB Member Nations.
- c. The NCI Agency annually updates its Customer Rates based on the ASB approved Customer Rates Principles and Methodology². These are endorsed by the ASB, and approved by the NATO Budget Committee on behalf of all Customers.
- d. The NCI Agency also annually updates its Services Rates (based on Customer Rates for the Agency's professional services element) and these are validated by the ASB and NATO Budget Committee.
- e. The NCI Agency has an integrated planning process comprising the Strategic Plan; Business Plan; the Multi-Year Investment Plan; and Financial Plan. It prepares annually a Financial Plan (three years planning horizon) covering revenue and expenses related to Customer Funding, which is signed-off by the Executive Management Board, chaired by the GM. The Financial Plan is approved by the ASB.
- f. Agreements with Customers are in writing and are usually concluded on a Firm Fixed Price and/or Cost Reimbursable basis.
- g. Procurement activities are under the responsibility of the Chief of Acquisition with the specific involvement of the GM. For some deviations from normal competition the Agency has a designated Competition Advocate – a role covered by the Agency Chief Information Officer, who advises the GM.
- h. Through its Service Lifecycle Management Board (SLMB) chaired by the COO, the Agency oversees the operational environment with a focus on early identification and quantification of risks which affect services and projects to allow for timely management oversight and/or assistance to mitigate.
- i. The Agency has an Enterprise-wide Risk Management Policy and Framework which sets out the risk management processes in place and details the roles and responsibilities of staff in relation to risk. This policy has been issued to all staff who are expected to work within the Agency's risk management policies, to alert management on emerging risks and control weaknesses and assume responsibility for risks and controls within their own area of work. There are regular reviews by senior management of key risks and related controls.
- j. The Agency has adopted the Three Lines Model for its internal governance. This model, published on 20 June 2020 by the Institute of Internal Auditors as an update of the Three Lines of Defence Model, is based on an assurance system combined around three lines, providing a comprehensive view of how the different parts of the Agency interact in an effective and coordinated manner, increasing the efficiency of the processes for management and internal control of the entity's significant risks. Its purpose is to improve the operational efficiency of the Agency.
- k. In compliance with Agency Directive 1 (Executive Structures), the Agency has established in 2023 the function of Chief Quality Officer. The Chief Quality Officer is responsible to the Chief of Staff and ultimately the General Manager for the establishment and running of the Agency's Quality Management System. This includes the execution of independent test, verification, validation and assurance activities related to Agency systems, services, processes, programmes and projects.
- l. The Agency has an Internal Audit Function, compliant with internationally accepted Internal Auditing standards and with an approved risk-based three years audit plan, which reviews, amongst other areas, internal control and risk mitigation. The Head of Internal Audit reports functionally to the ASB and administratively to the GM.
- m. The Agency has Fraud Prevention and Detection function. It reports to the Investigative Authority delegated by the GM and provides regular updates on lessons learned at the Internal Control Panel and the Complaints Triage Board. The Agency has established procedures for managing risks of fraud, including fraud prevention, detection and response in line with the NATO wide Strategy on the prevention, detection and response to Fraud and Corruption. In 2023, the Agency was not exposed to material fraudulent activities.
- n. In order to support the NCI Agency Management and the ASB in undertaking internal control responsibilities, an Internal Control Questionnaire and Assessment (ICQA) is used to serve as a management self-assessment and

² AC/337(FC)WP(2023)0011-REV1-AS1 (INV), dated 13 April 2023

evaluation tool. This questionnaire is in line with the provisions of the NCIO Internal Control Framework which was developed based on the guidance issued by the Committee of Sponsoring Organizations of the Tread way Commission (COSO) approved by ASB in November 2016. On 10 June 2022, the ASB approved the updated version of the NCIO Internal Control Framework (ICF), to address organizational and operational changes introduced over time. Management has continued work on developing the internal control framework within the Finance Directorate by employing a risk based methodology to design process controls in line with the COSO guidance.

- o. With this Internal Control Statement, GM and FC certify that no work was done that was not specifically requested and paid for by a customer, beyond what could be absorbed as part of a reasonable overhead envelope as approved by the ASB. This certification is based on internal reassurance mechanism whereby each manager entrusted with business responsibility has to provide in writing reinsurance to the GM and FC. As part of this reassurance process, Agency is willing to make transparent that the PMO of Polaris ITM remained funded from Agency overheads in 2023.
- p. Currently new joiners to the Agency receive information about Agency procedures and behaviour standards. Moreover, the Agency has a Code of Conduct for all staff, as well as an Anti-Fraud Directive, and staff must undergo training in ethical behaviour and appropriate use of resources.

Overall control environment and the control activities continued to be strengthened in the Agency with the maturation of Agency's ERP (EBA). Reporting tools and their standardisation across the Agency are improving. Agency continues to improve business planning and resource allocation with improved practices and the roll out of modern resources planning tools. In 2023, however with the start-up of ServiceNow, for project planning and monitoring, the Agency faced challenges providing accurate and timely management data during the year. The situation was corrected by the end of year which allowed to secure data quality for the Financial Statements. The Asset Management Program (AM) phase 1 has been completed and delivered significant progresses. This program will continue in 2024 to further mature the core AM processes.

Considering the statements above, senior management and the Financial Controller can provide confirmation that, the system of internal control of the Agency is generally effective.

4. IBAN observations

During its last Financial Statements audit, the International Board of Auditors for NATO (IBAN) made four observations and recommendations related to the 2022 NCIO Financial Statements. These findings are listed in the Letter of Observations and Recommendations. None of the observations and recommendations impact the audit opinion on the Financial Statements and compliance: (1) Need to strengthen internal controls over the preparation of the financial statements, (2) Non-disclosure of inventory held at third parties' locations, (3) Offsetting of NSIP receivables and liabilities not compliant with the NAF (IPSAS 1) Presentation of Financial Statements and (4) Ensure compliance with the NAF (IPSAS 18) Segment Reporting. IBAN followed up on the status of observations and recommendations from the previous years' audits and found that three were closed and three remain open.

The NCIO remains focused and committed to resolving all IBAN observations and recommendations.

Ludwig Decamps	Antoine Pailhès
General Manager	Financial Controller

Distribution:

External

Chairman Board of Auditors for NATO
Chairman NCIO Agency Supervisory Board

Internal

Members Executive Management Board

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ACRONYMS

AAS	ADVISORY AND ASSISTANCE SERVICES
ACCS	NATO AIR COMMAND AND CONTROL SYSTEM
ACO	ALLIED COMMAND OPERATIONS
ACPV	ASSET, CONFIGURATION, PATCH AND VULNERABILITY
ACT	ALLIED COMMAND TRANSFORMATION
AIR C2	AIR COMMAND AND CONTROL
AIS	AUTOMATED INFORMATION SYSTEM
APF	ADVANCE PLANNING FUNDS
ASB	AGENCY SUPERVISORY BOARD
AuC	ASSET UNDER CONSTRUCTION/DEVELOPMENT
FinCom	AGENCY SUPERVISORY BOARD FINANCE COMMITTEE
BC	NATO BUDGET COMMITTEE
BEUR	BILLION EUR
BMD	BALLISTIC MISSILE DEFENCE
C4ISR	CONSULTATION, COMMAND, CONTROL, COMMUNICATIONS, INTELLIGENCE, SURVEILLANCE AND RECONNAISSANCE
C3	CONSULTATION, COMMAND AND CONTROL
CCSC	AGENCY'S COSTED CUSTOMER SERVICE CATALOGUE
CFRF	CUSTOMER FUNDING REGULATORY FRAMEWORK
CIS	COMMUNICATION INFORMATION SYSTEMS
CMBC	THE CRISIS MANAGEMENT AND BUSINESS CONTINUITY OFFICE
COO	CHIEF OPERATING OFFICER
COSO	COMMITTEE OF SPONSORING ORGANISATIONS
CP	CAPABILITY PACKAGE
CPR	NATO CIVILIAN PERSONNEL REGULATIONS
CRF	CUSTOMER REQUEST FORM
CSSC	CIS SUSTAINMENT SUPPORT CENTRE
EBA	ENTERPRISE BUSINESS APPLICATIONS
ECL	EXPECTED CREDIT LOSS
EPM	ENTERPRISE PROJECT MANAGEMENT
ERM	ENTERPRISE RISK MANAGEMENT
ESPE	END STATE PEACETIME ESTABLISHMENT
FFP	FIRM FIXED PRICE
FRP	FINANCIAL RULES AND PROCEDURES
FS	FINANCIAL STATEMENTS

GM	GENERAL MANAGER
HN	HOST NATION
HO/TO	HANDOVER/TAKEOVER
IA	INTERNAL AUDIT
IBAN	INTERNATIONAL BOARD OF AUDIT FOR NATO
IC	NATO INVESTMENT COMMITTEE
ICF	INTERNAL CONTROL FRAMEWORK
ICQA	INTERNAL CONTROL QUESTIONNAIRE AND ASSESSMENT
ICTM	INFORMATION COMMUNICATIONS TECHNOLOGY MANAGEMENT
IMS	INTERNATIONAL MILITARY STAFF
IS	INTERNATIONAL STAFF
ISAF	INTERNATIONAL SECURITY ASSISTANCE FORCE
ISMERLO	THE INTERNATIONAL SUBMARINE ESCAPE AND RESCUE LIAISON OFFICE
ISPAS	INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS
ITM	IT MODERNIZATION (PROGRAM)
KEUR	THOUSAND EURO
KFOR	KOSOVO FORCES
LC2IS	LAND COMMAND AND INFORMATION SYSTEM
MC	MILITARY COMMITTEE
MEUR	MILLION EURO
MYIP	MULTI YEAR INVESTMENT PLAN
MWA	MORALE AND WELFARE ACTIVITIES
IWC	INTERIM WORKFORCE CAPACITY
NAC	NORTH ATLANTIC COUNCIL
NAF	NATO ACCOUNTING FRAMEWORK
NAGSMOIL	NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT ORGANISATION IN LIQUIDATION
NATO	NORTH ATLANTIC TREATY ORGANISATION
NCI Agency	NATO COMMUNICATIONS AND INFORMATION AGENCY
NCIO	NATO COMMUNICATIONS AND INFORMATION ORGANISATION
NCS	NATO COMMAND STRUCTURE
NDEC	NCI Agency DIGITAL ENTERPRISE CENTRE
NFR	NATO FINANCIAL REGULATIONS

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NIC	NATO INTERNATIONAL CIVILIAN
NITEC	NATO INDUSTRY CONFERENCE AND TECHNET INTERNATIONAL
NSIP	NATO SECURITY INVESTMENT PROGRAMME
OF	OPERATING FUND
PE	PEACETIME ESTABLISHMENT/PERSONNEL ESTABLISHMENT
PP&E	PROPERTY PLANT and EQUIPMENT
PSC	PROJECT SERVICE COSTS
QAFR	QUARTERLY ACCOUNTING FINANCIAL REPORT
RPPB	NATO RESOURCE POLICY AND PLANNING BOARD
RS	RESOLUTE SUPPORT
SATCOM	SATELLITE COMMUNICATION
SATCOM MOU	SATELLITE COMMUNICATION MEMORANDUM OF UNDERSTANDING

SLA	SERVICE LEVEL AGREEMENT
SLMB	SERVICE LIFECYCLE MANAGEMENT BOARD
SSC	SERVICE SUPPORT COST
SSP	SERVICE SUPPORT PACKAGES
SST	SERVICE SUPPORT TRAINING PACKAGES
TFR	'TRATTAMENTI DI FINE RAPPORTO'
TO	TASK ORDER
TOPFAS	TOOLS FOR OPERATIONS PLANNING FUNCTIONAL AREA SERVICE
WAC	WEIGHTED AVERAGE COST
WGNT	WORKING GROUP OF NATIONAL TECHNICAL EXPERTS