



NORTH ATLANTIC COUNCIL
CONSEIL DE L'ATLANTIQUE NORD

NATO UNCLASSIFIED

19 December 2024

**DOCUMENT
PO(2024)0419-AS1**

**IBAN AUDIT REPORT ON THE 2023 FINANCIAL STATEMENTS OF
NATO DEFENSE COLLEGE (NDC)**

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)0419, approved the conclusions and recommendations in the RPPB report, and approved the public disclosure of the 2023 Financial Statements of NDC, 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)0419.

NATO UNCLASSIFIED





NATO UNCLASSIFIED

13 December 2024

DOCUMENT

PO(2024)0419

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 DEFENSE COLLEGE (NDC)**

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 Defense College (NDC). IBAN issued an unqualified opinion on the resubmitted Financial Statements and a qualified opinion on compliance for the year ended 31 December 2023.

2. I do not believe this issue requires further discussion in Council. Therefore, **unless I hear to the contrary by 17.30 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 NDC, 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 DEFENSE COLLEGE (NDC)

Report by the Resource Policy and Planning Board

References:

A.	IBA-AR(2024)0016	IBAN Audit Report on the Financial Statements of the NATO Defense College (NDC).for the year ended 31 December 2023
B.	C-M(2015)0025	NATO Financial Regulations (NFRs)
C.	BC-D(2015)0260- REV3 (INV)	NATO Financial Rules and Procedures (FRPs)
D.	C-M(2016)0023	NATO Accounting Framework (NAF)
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 Defense College (NDC). IBAN issued an unqualified opinion on the resubmitted Financial Statements and a qualified opinion on compliance for the year ended 31 December 2023 (reference A).

AIM

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

OBSERVATIONS AND RPPB VIEW

3. In 2023, IBAN made four observations and recommendations for the NDC, including one observation that impacted the audit opinion on compliance: it relates to the material non-compliance with the NATO Financial Regulations (NFRs) (reference B) regarding prior approval of commitments. The other three observations concern the need to strengthen internal controls over the preparation of the financial statements, need to clarify regulations regarding the process of pre-financing non-appropriated activities, and misstatements in the recognition of revenue and expenses related to financial and operational liabilities in the statement of financial performance.

3.1. Observation 1 (basis for a qualified opinion on compliance): In relation to the material non-compliance with the NFRs regarding prior approval of commitments, the RPPB supports IBAN's recommendation that the NDC ensure that all contracts are subject to the prior or coincident approval of the Financial Controller (FC), in accordance with Article 25 of the NFRs and the corresponding NATO Financial Rules and Procedures (FRPs) (reference C), and implement, where appropriate, the formal delegation of the FC's authority to sign

contracts and incur legal obligations accordingly. The RPPB questioned whether the observation was sufficient grounds for a qualified opinion.

3.1.1. In its formal comments, the NDC partially disagreed with the recommendation underlining that verbal authorisation of the commitments by the FC in advance of the purchase order being issued, and the formal authorisation in the automated financial system prior to the provision of the services by the FC and Head of Finance, are elements that taken together provide sufficient evidence that the NDC acted in good faith and in accordance with the spirit and intent of the provisions of the NFRs and the corresponding FRPs. IBAN notes that the FC may have provided a verbal approval, highlighting that a verbal approval does not constitute sufficient audit evidence in line with auditing standards and an adequate audit trail in line with Article 12.3 (c) of the NFRs.

3.2. Observation 2: The RPPB supports IBAN's recommendation that the NDC strengthen internal controls over the preparation of the financial statements to provide a reasonable basis for obtaining assurance that the financial statements are in compliance with the NATO Accounting Framework (NAF) and NFRs. The NDC partially agreed with IBAN's recommendation. The RPPB notes that the adjustments made by NDC as a result of IBAN's recommendation may have to be re-assessed in light of the new control criteria included in the new IPSAS 45 Property, Plant and Equipment, which for NATO entities has an effective implementation date of 1 January 2026 (ref. PO(2024)0270).

3.3. Observation 3: Relating to the need to clarify regulations regarding the process of pre-financing non-appropriated activities, the RPPB notes that IBAN raised a similar observation for several NATO entities (Allied Command Operations (ACO), Allied Command Transformation (ACT) and NDC (part of IMS Budget Group)) during the audit of the 2023 financial statements. The RPPB notes that this topic was brought forward and discussed in the Budget Committee (BC), in the context of ACT's budget screening in order to ensure the appropriate governance approval for pre-financing reimbursable costs. The RPPB notes that the International Staff (IS) also support addressing this issue in the next budget guidance for all budget holders. As a result, the RPPB acknowledges that the BC, as finance committee, approved that the ACT Budget Holder can continue pre-financing appropriated and non-appropriated activity on a reimbursable basis, noting that this approval extends to similar pre-financing arrangements for ACO and IMS Budget Holders (ref. BC-DS(2024)0044). In addition, the RPPB supports IBAN's recommendation that the NDC provide appropriate disclosure in the notes to the financial statements on the use of cash holdings arising from common-funded budgetary appropriations to pre-finance non-appropriated activities, and on the status of any outstanding receivables for these activities.

3.4. Observation 4: Concerning IBAN's recommendation on the misstatements in the recognition of revenue and expenses related to financial and operational liabilities in the statement of financial performance, the RPPB notes IBAN's recommendation that the NDC record revenue and expenses related to financial results, miscellaneous income and the reversal of accruals as revenue and expenses in the statement of financial performance in accordance with the NAF (IPSAS 1 and IPSAS 3).

3.4.1. In its formal comments, the NDC disagreed with the recording approach recommended by IBAN as this was the agreed methodology from the Accounting Working

Group (AWG) used in practice for many years. In this respect, IBAN acknowledged the need for a consistent treatment on this topic among NATO reporting entities. As a result, the NDC intends to reach out to the AWG and Working Group of Financial Controllers in order to submit a request for clarification to the Head of Financial Reporting Policy for an agreed NATO-wide approach on the recognition of revenue and expenses related to financial and operational liabilities in the statement of financial performance. The RPPB notes that the HFRP will look into this request for clarifications and provide the necessary guidance.

4. Emphasis of Matter¹ on Financial Statements: IBAN raised an Emphasis of Matter concerning Note 5 of the Financial Statements “Property, Plant, and Equipment” (reference to observation 2).

5. In addition, IBAN followed up on the status of observations and recommendations from the previous years’ audits and found that one was closed and one remains in-progress. The observations are detailed in document at reference A.

6. The RPPB notes that NDC resubmitted its Financial Statements to correct material misstatements found by IBAN, and that without these corrections, the NDC 2023 Financial Statements would have included material errors, leading to a qualified audit opinion on the financial statements, noting that the correction relates to the derecognition of land and buildings. The NDC has consistently applied the same accounting policy regarding the capitalisation of land and buildings since 2011. For the 2011 through 2022 financial statement audits, IBAN issued unqualified opinions on the financial statements.

DISCUSSION

7. At the meeting held on 21 November 2024, after IBAN’s presentation, the Commandant of the NDC, Head of Budget & Finance and IMS Budget Group Financial Controller explained the situation that led to the IBAN qualified opinion on compliance and their endeavours to further strengthen internal controls.

8. Nations welcomed NDC’s efforts to improve financial procedures and noted that the two instances (acquisition of commercial flight tickets without prior approval of the commitment) which triggered a qualified opinion on compliance should be an isolated non-systemic error, as explained by the IMS Budget Group Financial Controller.

CONCLUSIONS

9. IBAN issued an unqualified opinion on the 2023 resubmitted NDC Financial Statements and a qualified opinion on compliance. Four observations and

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.

recommendations were raised for the NDC. One previous years' observation for the NDC was in-progress and one was closed.

10. The RPPB supports IBAN's recommendation that the NDC manage material non-compliance with the NFRs regarding prior approval of commitments, strengthen internal controls over the preparation of the financial statements and notes IBAN's recommendation on the recognition of revenue and expenses related to financial and operational liabilities in the statement of financial performance.

11. In terms of observation 2, the RPPB notes that the adjustments made by NDC as a result of IBAN's recommendation may have to be re-assessed in light of the new control criteria included in the new IPSAS 45 Property, Plant and Equipment, which for NATO entities has an effective implementation date of 1 January 2026 (ref. PO(2024)0270).

12. Regarding observation 3, the RPPB acknowledges that IBAN raised a similar observation for several NATO entities on the process of pre-financing non-appropriated activities during the audit of the 2023 financial statements. The RPPB notes that this topic was brought forward and discussed in the BC, in order to ensure the appropriate governance approval for pre-financing reimbursable costs. The RPPB notes that the IS also support addressing this issue in the next budget guidance for all budget holders. As a result, the RPPB acknowledges that the BC approved that the ACT Budget Holder can continue pre-financing appropriated and non-appropriated activity on a reimbursable basis, noting that this approval extends to similar pre-financing arrangements for ACO and IMS Budget Holders (ref. BC-DS(2024)0044).

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

14. The RPPB reminds that the resubmission of NDC 2023 Financial Statements to correct material misstatements shows that progress is still needed in strengthening internal controls over the financial reporting process. The RPPB recommends that the NDC ensure that its existing review process and internal controls are functioning as intended in order to prevent material misstatements in its financial statements issued for audit.

RECOMMENDATIONS

15. The Resource Policy and Planning Board recommends that Council:
 - 15.1. note this report and the IBAN Audit Report at reference;
 - 15.2. approve the conclusions at paragraphs 9 to 14;
 - 15.3. approve the public disclosure of the 2023 Financial Statements for the NDC, 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



NATO UNCLASSIFIED

IBA-A(2024)0096-COR1
06 September 2024

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

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

Subject: ***Corrigendum to the cover letter of the International Board of Auditors for NATO (IBAN) Audit Report on the audit of the NATO Defense College (NDC) Financial Statements for the year ended 31 December 2023***

Please note that in IBA-A(2024)0096 dated 29 August 2024, the final sentence of the cover letter should read "*IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO Defense College (NDC) and a qualified opinion on compliance for financial year 2023.*"

Yours sincerely,

Radek Visinger
Chair

Attachments: As stated above.

NATO UNCLASSIFIED

-1-





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

Brussels - Belgium



NATO UNCLASSIFIED

IBA-A(2024)0096
29 August 2024

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

Cc: NATO Permanent Representatives
Commandant, NATO Defense College
Financial Controller, International Military Staff
Head Budget & Finance Branch, NATO Defense College
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 Defense College (NDC) Financial Statements for the year ended 31 December 2023 – IBA-AR(2024)0016***

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

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO Defense College (NDC) and on compliance for financial year 2023.

Yours sincerely,

Radek Visinger
Chair

Attachments: As stated above.

NATO UNCLASSIFIED

-1-



**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Financial Statements of the
NATO Defense College (NDC)
for the year ended 31 December 2023**

The International Board of Auditors for NATO (IBAN) audited the NATO Defense College (NDC), which is responsible for organising courses and other programmes designed to prepare selected officers and officials for important NATO and NATO-related appointments, and to disseminate awareness of NATO initiatives and interests.

The total expenses of NDC for the year ended 31 December 2023 were EUR 14.1 million (EUR 13.1 million for the year ended 31 December 2022).

Following a request of NDC to correct material misstatements identified by IBAN during the course of the audit, we agreed to audit the restated financial statements communicated to us on 14 June 2024. Without these corrections, the NDC 2023 Financial Statements would have included material errors leading to a qualified audit opinion on the Financial Statements.

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

IBAN raised an Emphasis of Matter on the Financial Statements concerning Note 5, "Property, Plant, and Equipment", in the resubmitted financial statements of NDC. For the asset categories Land and Buildings, the note discloses a disposal/deletion in 2022. This relates to the retroactive derecognition of land and buildings adjusted in the resubmitted financial statements and should have been disclosed as an adjustment to the opening balance as of 1 January 2022.

In addition, the same Note 5 also stated that: "Under close coordination with IBAN, in 2023 the NDC has conducted a thorough assessment of Land and Buildings against the 10 control criteria included in the NAF". IBAN coordinated NDC's request to resubmit its financial statements following the IBAN's policy for resubmitting financial statements. Nonetheless, according to our Charter and international auditing standards, IBAN did not take part in assessing land and buildings against the NATO Accounting Framework control criteria, which was conducted solely by the NDC.

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

1. Material non-compliance with the NATO Financial Regulations (NFRs) regarding prior approval of commitments.

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

2. Need to strengthen internal controls over the preparation of the financial statements.
3. Need to clarify regulations regarding the process of pre-financing non-appropriated activities.
4. Misstatements in the recognition of revenue and expenses related to financial and operational liabilities in the statement of financial performance.

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

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

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

NATO UNCLASSIFIED

IBA-AR(2024)0016

29 August 2024

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE

NATO DEFENSE COLLEGE

(NDC)

FOR THE YEAR ENDED 31 DECEMBER 2023

PUBLICLY DISCLOSED - PDN(2025)0011 - MIS EN LECTURE PUBLIQUE

NATO UNCLASSIFIED

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

The International Board of Auditors for NATO (IBAN) has audited the Resubmitted Financial Statements of NATO Defense College (NDC), for the 12 month period ended 31 December 2023, issued under document reference IMSTAM(FC)-0028-2024, and submitted to IBAN on 14 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 NDC 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

We draw attention to Note 5, “Property, Plant, and Equipment”, in the resubmitted financial statements of NDC. For the asset categories Land and Buildings, the note discloses a disposal/deletion in 2022. This relates to the retroactive derecognition of land and buildings adjusted in the resubmitted financial statements and should have been disclosed as an adjustment to the opening balance as of 1 January 2022.

In addition, the same Note 5 also stated that: *“Under close coordination with IBAN, in 2023 the NDC has conducted a thorough assessment of Land and Buildings against the 10 control criteria included in the NAF”*. IBAN coordinated NDC's request to resubmit its financial statements following the IBAN's policy for resubmitting financial statements. Nonetheless, according to our Charter and international auditing standards, IBAN did not take part in assessing land and buildings against the NATO Accounting Framework control criteria, which was conducted solely by the NDC.

Management's Responsibility for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with standards consistent with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error

and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

We are required to communicate with the bodies charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. Our Independent External Auditor's Report is prepared to assist North Atlantic Council

in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

Compliance

Qualified Opinion on Compliance

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

Basis for Qualified Opinion on Compliance

In two instances of acquisition of commercial flight tickets from a travel agency totalling EUR 348,686, the initial and/or updated contracts were signed by the contracting officer, but were not co-signed by the Financial Controller. Moreover, these contracts were not subject to the prior or coincident approval of the Financial Controller, thereby not complying with Article 25 of the NFRs and the corresponding FRPs.

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

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

Management's Responsibility for Compliance

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

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

Auditor's Responsibilities for Compliance

In addition to the responsibility to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement, the IBAN Charter requires IBAN to provide independent assurance and report annually to the North Atlantic Council about whether funds have been properly used for the settlement of authorised expenditure (propriety) and are in compliance with

the regulations in force (regularity). Propriety relates to the observance of the general principles governing sound financial management and the conduct of public officials. Regularity concerns the adherence to formal criteria such as relevant regulations, rules and procedures.

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

Brussels, 29 August 2024

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

Radek Visinger
Chair

OBSERVATIONS AND RECOMMENDATIONS

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

1. Material non-compliance with the NATO Financial Regulations (NFRs) regarding prior approval of commitments.

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

2. Need to strengthen internal controls over the preparation of the financial statements.
3. Need to clarify regulations regarding the process of pre-financing non-appropriated activities.
4. Misstatements in the recognition of revenue and expenses related to financial and operational liabilities in the statement of financial performance.

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

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

1. MATERIAL NON-COMPLIANCE WITH THE NATO FINANCIAL REGULATION REGARDING PRIOR APPROVAL OF COMMITMENTS

Reasoning

1.1 Article 4.2 of the NATO Financial Regulations (NFRs) specifies that *"The financial administration of NATO bodies must be based on clear delegations of authority and ensure the most cost efficient, cost effective and economic use of resources incorporating the following principles: propriety, sound governance, accountability, transparency, risk management and internal control, internal audit, external audit, and fraud prevention and detection"*.

1.2 The NFRs defines a commitment as *"the advance acceptance and recording of legal obligations against: a) appropriations for the current financial year; and, b) contract authority for future financial years."*, and an appropriation as *"the authorisation granted to allocate funds, incur legal obligation and make payment for specified purpose"*.

1.3 Article 25.1 of the NFRs regarding *“Commitments, contract authority and carry forward”* provides that *“On approval of their annual and supplementary budget, the Secretary General, the Supreme Commanders, Subordinate Commanders by delegation and the other Heads of NATO bodies, subject to the concurrence of the Financial Controller, are:*

- (a) authorized to enter into commitments for goods and services to be rendered during the financial year; [...]”*

1.4 Several provisions in Article 25 of the NFRs also underline that a legal obligation must support a commitment of appropriated funds. Such legal obligation constitutes a binding agreement incurring a liability, which in practice takes the form of a contract.

1.5 The Financial Rules and Procedures (FRPs) XXV paragraph 1 for *“Approval and Control of Commitments”* prescribes that: *“Liability to expend international funds shall not be incurred, nor shall such funds be expended, without the Financial Controller’s prior or coincident approval of the corresponding commitment of appropriation and contract authority.”*

1.6 Finally, Article 32.2 of the NFRs, states that NATO Procurement and Contracting shall adhere to the following principles: *“The Financial Controller shall ensure and verify that procurement and contracting principles are adhered to and are in line with the principles of sound financial management as laid down in article 3. In exercise of these fiduciary responsibilities, the Financial Controller shall be part of the contract approvals process to ensure that funds are used for their intended purposes. [...].”*

1.7 Following the above principles, FRPs XXXII paragraph 21, specifies that contracts shall be *“co-signed by the Financial Controller or designated representative, whenever their total value, original or as modified by subsequent changes, exceeds the value of Level C and be worded to specify that their validity is conditional on this dual signature.”*

1.8 IMS Delegation of authority for financial matters (IMSTAM(FC)-0001-2023) does not provide with specific delegation relating to the application of the FRPs XXXII paragraph 21 for procurement and contracting.

Observation

1.9 We found in two instances of acquisition of commercial flight tickets from a travel agency totalling EUR 348,686, that the initial and/or updated contracts were signed by the contracting officer, but were not co-signed by the FC. Moreover, these contracts were not subject to the prior or coincident approval of the FC, thereby not complying with Article 25 of the NFRs and the corresponding FRPs.

1.10 The details are as follows:

- a) For one charter flight contract amounting to EUR 122,000 (above Established Financial Limits (EFL) C), the Head of Purchasing and Contracting Section Officer initially signed the contract on 14 February 2023, however the FC did not co-sign it. The purchase order (PO) was entered in the accounting system for approval after the contract signature, on 24 February 2023. The commitment was approved electronically on 15 March 2023 by the FC under authorised delegation to the NDC's Head, Budget and Finance.
- b) For a second charter flight contract amounting to EUR 226,685 (above EFL D), the Head of Purchasing and Contracting Section Officer initially signed the contract on 25 July 2023 and signed a minor update on 15 September 2023, however the FC did not co-sign them. The PO was entered in the accounting system for approval after the contract signature on 02 August 2023. The Commitment was fully approved electronically on 26 September 2023 by the FC.

1.11 Even if these purchases may be low risk routine operations, related to field study flights, with specific constraints, such as short deadlines imposed by brokers for signing contracts and operational priorities, this does not exempt the NDC from complying to the rules of commitment authorisation within the framework of NFRs. The cumulative value of these expenditure is material and amounts to EUR 348,686.

Recommendations

1.12 IBAN recommends that NDC:

- a) Ensure that all contracts are subject to the prior or coincident approval of the Financial Controller, in accordance with Article 25 of the NFRs and the corresponding FRPs.
- b) Implement, where appropriate, the formal delegation of the Financial Controller's authority to sign contracts and incur legal obligations accordingly.

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

Reasoning

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

2.2 According to NAF, IPSAS 1, *"the Financial Statements shall present fairly the Financial Position, Financial Performance, and cash flows of an entity. Fair*

presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSAS.”

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

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

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

Observations

2.6 IBAN found misstatements in the NDC Financial Statements first submitted to IBAN on 31 March 2024, as described below. These misstatements, some of which were material, were corrected in the resubmission of the financial statements on 14 June 2024. Without these corrections, the NDC 2023 Financial Statement would have included material errors leading to a qualified audit opinion on the financial statements.

a) Material misstatement in the capitalisation of NDC land and buildings

2.7 We found that NDC recognised the value of the building and the land it occupies for a total net amount of EUR 10.26 million as of 31 December 2023, although it did not control the building and the land within the meaning of the NATO Accounting Framework (NAF).

2.8 These infrastructures, constructed by the Italian Ministry of Defense (ITA MOD) within one of its military bases, were provided to the NDC in 1999 under an agreement with the ITA MOD with provisions preventing NDC from adhering to at least six of the control criteria outlined in the NAF.

2.9 In addition, we found that the gross value of the land and buildings made available by the ITA MOD and recorded in NDC's accounts since 2011 could not be reliably measured. This is because it was based on a fair value using market prices

that did not reflect the unique characteristics of the military facilities and it had never been revalued.

2.10 NDC resubmitted its financial statements to make the above corrections. It derecognised retroactively all fixed assets relating to the premises acquired by NDC prior to 2013, as well as the buildings and land made available by the ITA MOD for a total net amount of EUR 10.52 million as of 31 December 2023.

2.11 We noted the following in the resubmitted financial statements:

- a) In the table of Note 5 *“Property, Plant and Equipment”*, NDC disclosed the retroactive derecognition of land and buildings as if it were a disposal/deletion occurring in 2022 when it should be disclosed as an adjustment to the opening balance as from 01 January 2022.
- b) Note 5 also states that: *“Under close coordination with IBAN, in 2023 the NDC has conducted a thorough assessment of Land and Buildings against the 10 control criteria included in the NAF”*. IBAN coordinated NDC's request to resubmit its financial statements following the IBAN's policy for resubmitting financial statements. Nonetheless, according to our Charter and international auditing standards, IBAN did not take part in assessing Land and Buildings against the 10 control criteria, which was conducted solely by the NDC.

b) Misstatements in disclosure of future lease payments

2.12 We found that the amounts and breakdown of future minimum lease payments reported in Note 10 to the NDC 2023 Financial Statements were incorrect and resulted in an overall disclosure overstatement of EUR 89,712.

Recommendations

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

3. NEED TO CLARIFY REGULATIONS REGARDING THE PROCESS OF PRE-FINANCING NON-APPROPRIATED ACTIVITIES

Reasoning

3.1 According to 12.2 of the NATO Financial Regulations (NFRs) states that *“In order to meet the desired internal control standards, the Financial Controller shall:*

- (a) establish a system of internal financial and budgetary control, embracing all aspects of financial management including transactions for which*

appropriations have been approved and those funded from such non-appropriated fund accounts as they may authorise within their jurisdiction”

3.2 Article 25.1 of the NFRs states that: *“On approval of their annual and supplementary budget, the Secretary General, the Supreme Commanders, Subordinate Commanders by delegation and the other Heads of NATO bodies, subject to the concurrence of the Financial Controller, are:*

[...] (b) authorized to make payments in relation to the appropriations which have been approved and within the limits of such appropriations; [...]”.

3.3 The NFRs define an appropriation as *“an authorisation granted by the member nations as represented on the appropriate governing body or finance committee to allocate funds, incur legal obligations and make payments for specified purposes.”*

3.4 According to paragraph 28 to 30 of FRP XXV regarding commitments in advance of budget approval for appropriated activities:

“28) Cash that has been called on the basis of the approved budget can only be used for different purposes, as an interim and temporary solution, if all the following conditions are met:

- (a) it supports the execution of unforeseen, urgent and exceptional operational activities consistent with NAC decisions; and,*
- (b) the Budget Committee deems it impossible to accommodate the additional requirements within existing and approved budgets; and,*
- (c) the need to fund these activities occurred after the regular budget recommendations submitted to Council; and,*
- (d) the Budget Committee’s authority is delegated to it as part of the annual budget recommendations approved by Council.*

29) The Budget Committee will immediately notify the RPPB of its decision to apply the abovementioned mechanism and the reasoning for it.

30) The use of cash within this framework shall be recorded via a suspense account and regularised as soon as possible either as part of the normal budget process (preparation or execution) or specifically approved by the NAC.”

3.5 The NFRs do not include specific provisions for pre-financing, on a reimbursable basis, for activities undertaken by common-funded NATO bodies on behalf of third parties such as NATO bodies, Nations and Multinationals.

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

3.7 NDC has implemented a pre-financing mechanism for third-party reimbursable activities for a number of years related to field study expenses for Course Members.

Observations

3.8 NDC pre-financed activities reimbursable by third parties in 2023 for a total amount of EUR 1.8 million, temporarily using cash holdings arising from common-funded budgetary appropriations.

3.9 This pre-financing mechanism has an opportunity cost linked to the absence of bank interest income on cash holdings arising from common-funded budgetary appropriations. In addition, even though the risk is assessed as low by NDC, this creates a risk of non-recovery of funds which could lead to a potential write-off of cash receivables.

3.10 In NDC's 2023 budget submission, we found no indication that NDC had communicated to the Budget Committee its third-party reimbursable activities and its pre-financing using common budget funds.

3.11 According to Article 25.1 of the NFRs, the Head of NDC, subject to the concurrence of the FC, on approval of the annual and supplementary budget, is authorised to make payments in relation to the appropriations, which have been approved and within the limits of such appropriations.

3.12 However, this article does not specify whether payments can be made to pre-finance non-appropriated activities with cash holdings arising from common-funded budgetary appropriations. Moreover, the definition of an appropriation in the NFRs includes making payments for specified purposes.

3.13 Paragraph 28 of FRP XXV provides that cash called on the basis of the approved budget can be used for different purposes under specific conditions. However, none of the conditions are met in the case of these third-party reimbursable activities, and there are no NFR or FRP articles addressing the pre-financing of non-appropriated activities with appropriated funds.

3.14 As a result, we conclude that that it is unclear whether the current process of pre-financing non-appropriated activities with cash holdings arising from common-funded budgetary appropriations, is fully compliant with the NFRs and FRPs. This is because it could reasonably be construed that these regulations and rules only provide for the situation in which cash holdings arising from common funded budgetary appropriations should be used only for the specified common funded activities.

Recommendations

3.15 IBAN recommends that NDC:

- a) Seek clarification from the relevant governing body regarding the full compliance of pre-financing of non-appropriated activities with the NFRs and FRPs, drawing attention to the opportunity cost related to the lack of bank interest income, and potential risk of not recovering some of the funds;
- b) Provide appropriate disclosure in the notes to the financial statements on the use of cash holdings arising from common-funded budgetary appropriations to pre-finance non-appropriated activities, and on the status of any outstanding receivables for these activities.

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

Reasoning

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

4.2 According to the NAF (IPSAS 1), *“the financial statements shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSAS 3.”*

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

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

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

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

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

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

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

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

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

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

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

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

4.12 NATO common-funded entities do not retain net assets/equity as they need to be returned to Nations in accordance with Article 29 of the NFRs and FRPs XXIX. Therefore, the net surplus or loss from the above expenses and revenues of the

reporting entities are reported in the net balance of liabilities due to Nations. Note 6 of the NDC 2023 Financial Statements states: *“Payables to nations encompass liabilities from financial result, liabilities from operational result, liabilities from budget decrease and liabilities from lapses”*.

Observation

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

- a) The net financial revenue of EUR 37,123 mainly related to foreign exchange rate gains and losses and bank charge was accounted for as Cash and cash equivalents in the Statement of Financial Position against Payables – Payables to Nations, whereas under IPSAS, financial revenue and expenses should be recognised on the face of the Statement of Financial Performance.
- b) The reversal of previous year's net overestimate of accruals amounting to EUR 12,813 was not recognised as a deduction from expenses against a deduction from revenue of the current year in the Statement of Financial Performance, but was directly accounted for in Payables – Payables to Nations.

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

Recommendations

4.15 IBAN recommends that NDC record revenue and expenses related to financial results, miscellaneous income and the reversal of accruals as revenue and expenses in the Statement of Financial Performance in accordance with the NAF (IPSAS 1 and IPSAS 3).

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) NDC FY 2022 IBA-AR(2023)0017, paragraph 1 PROCUREMENT FOR THE ACQUISITION OF FLIGHT TICKETS DOES NOT FULLY COMPLY WITH THE NFRS IBAN's Recommendation IBAN recommends that NDC: a) Conduct procurement, in the case of commercial flights acquired through travel agencies, in accordance with the NFRs and the EFL thresholds, and, where appropriate, justify any duly approved waiver from ICB. b) Establish a framework agreement with brokers for the provision of charter flight services, in order to streamline procurement, minimise the need for frequent urgent waivers and help mitigate by anticipation the risk of cost increases.	a) and b) In 2024, the NDC undertook an International Competitive Bidding (ICB) with the aim to award two Framework Contracts for the provision of brokering services in the domains of charter and commercial air transportation for field studies. The purpose of the bidding, structured over two lots, was to pre-select a number of technically compliant brokers which would be part of a 3-year framework contract with the NDC, and would compete among them prior to each field study in order to identify and submit the most competitive and compliant offers from charter and commercial airline companies. The framework contract was awarded on 15 May 2024, and the contracts are effective as of 1st September 2024. Therefore, as of 31 December 2023 the observation was in progress.	Observation In-Progress.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(2) NDC FY 2022 IBA-AR(2023)0017, paragraph 2 INCONSISTENCY IN THE PRESENTATION OF CONSULTANT COSTS IN THE FINANCIAL STATEMENTS AND BUDGET EXECUTION STATEMENTS IBAN's Recommendation IBAN recommends that NDC: a) Revise the contracts of language teachers to accurately reflect their status as service providers if NDC does not engage them under the CPRs. b) Ensure that the accounting and budgetary classification of consultants and service providers aligns with the provisions outlined in their contracts, the relevant regulations, the nature of services rendered, and the specific method of recruitment or procurement employed. c) Disclose changes in accounting presentation regarding consultants and service providers in accordance with the NATO Accounting Framework and ensure that comparative information is consistently reflected in the financial statements in accordance with the revised presentation.	a) On 19 June 2023, the NDC awarded a number of Indefinite-Quantity contracts with preselected and technically compliant bidders (individual contractors / teachers) following an open competition. Each pre-selected bidder has signed an Indefinite-Quantity contract with the NDC lasting until 30 June 2026, without any financial commitment. Subsequent Purchase Orders are released, prior to each course, to the bidders having signed the Indefinite-Quantity contract, based on the awarding score. Closed b) Following the procurement action undertaken in 2023 (point a) above), the consistency between contracts and accounting/budgetary classification for the language teachers has been fully achieved and completed. Closed c) In the 2023 Financial Statements, the comparative 2022 figures were restated, with the aim to disclose changes in accounting presentation regarding consultants and service providers in accordance with the NATO Accounting Framework and to ensure that comparative information is consistently reflected in the	Observation Closed.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
	financial statements. As from 2024, NDC has fully aligned budgetary and accounting of expenses for consultants and service providers to the nature of their contracts. Closed	

NATO DEFENSE COLLEGE (NDC) FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS**OBSERVATION 1:****MATERIAL NON-COMPLIANCE WITH THE NATO FINANCIAL REGULATION REGARDING PRIOR APPROVAL OF COMMITMENTS*****NDC's Formal Comments***

Not agreed.

The NDC does not fully agree with the auditor's observation. As the commitments in question were authorized by the financial controller albeit verbally and in advance of the PO being issued at first, and then formally within the automated financial system (FinS) prior to the provision of the services, the NDC defends that the core principles and requirements of art 25.1 of the NFRs have been fulfilled. In NDC's view the IBAN cannot therefore contest a lack of compliance to the NFRs.

In this procurement, the timescales imposed by the vendors for signing the contracts were extremely compressed, and there was a risk of losing the options presented by the best bidders, with obvious and major operational and financial consequences for the NDC. The IMS financial controller was kept informed at all times during the process, and he provided verbal approval for the activities in question¹.

The verbal endorsement of the activities by the Financial Controller and the prior approval of the PO by the Financial Controller and Head of Finance, are elements that taken together provide sufficient evidence that the NDC acted in good faith and in accordance with the spirit and intent of the provisions of the NFRs and the corresponding FRPs.

IBAN's Position

IBAN notes, based on the above comment, that the Financial Controller may have provided a verbal approval. Nevertheless, a verbal approval does not constitute sufficient audit evidence in line with auditing standards and an adequate audit trail in line with Article 12.3 (c) of the NFRs. IBAN therefore maintains its observation and recommendation.

¹ Whereas it is to be expected that formal commitment approval is normally provided via the Financial System (FinS), the NFRs do not prescribe the form in which financial approval is to be given.

**OBSERVATION 2:
NEED TO STRENGTHEN INTERNAL CONTROLS OVER THE PREPARATION OF
THE FINANCIAL STATEMENTS**

NDC's Formal Comments

Partially agreed.

IBAN found two misstatements which were subsequently remedied with the submission of the restated financial statements.

With regard to the capitalisation of land and buildings, the NDC has consistently applied the same accounting policy since 2011. During the 2011 through 2022 financial statement audits, IBAN made no observations against this practice. For 2023, IBAN has now observed a material misstatement, on the basis of NDC not having control of the building and land within the meaning of the NAF.

On the basis that NDC does not control the land and building, and in line with RPPB guidance on PPE in 2017 (AC/335-N(2016)0088-REV3 (INV)), paragraph 5.3.1 stating that "major upgrades to an asset shall be capitalised if they meet the recognition criteria as set out in paragraph 3.1 and if they extend the useful life of the asset". Paragraph 3.1. Recognition Criteria states:

3.1.1 The cost of an item of PP&E is first recognised as an asset in the Financial Statements of a NATO entity if:

- a) it is probable that future economic benefits or service potential associated with the item will flow to the NATO entity;*
- b) the cost or fair value can be measured reliably (estimates are also permitted); the NATO entity has control over it; and*
- c) d) it is expected to be used during more than one 12 month reporting period.*

For this reason, in addition to the building and land, the renovation works were also removed from capital assets on the Statement of Financial Position.

IBAN's Position

IBAN notes the reason why renovation works were also removed from capital assets on the Statement of Financial Position and amended the observation accordingly.

**OBSERVATION 3:
NEED TO CLARIFY REGULATIONS REGARDING THE PROCESS OF PRE-FINANCING NON-APPROPRIATED ACTIVITIES**

NDC's Formal Comments

Partially agreed.

- a) *Given the lack of clarity of the regulations from an audit perspective, NDC agrees that clarification of the regulations could be helpful. NDC's interpretation of the regulations is that payments are compliant as they are made in accordance with NFR 25.1(b) ("authorized to make payments in relation to the appropriations which have been approved..." and NFR 25.7: FRP XXV (3) and (14) which speak to commitments within appropriations and contract authorities "available for the purposes concerned in the approved budget").*

The field study activity is one activity, with collective transportation expenses funded through the NDC approved budget, and course members per diem and accommodation costs borne by Nations. In this perspective, the "third-party reimbursable share of the activity", i.e. the Nations borne costs, is an integral part of the NDC mission as approved by the Military Committee. The potential risk of not recovering some of the funds has been assessed as extremely low as the terms and conditions for the courses are made clear to the nations prior to any student enrollment. By enrolling their Course Members into the NDC courses, nations de facto agree on all their liabilities and accountabilities, including the repayment of their share of reimbursable activities. Therefore, the risk of non-recovery of receivable amounts is basically non-existent. In fact, the NDC has never recorded an episode of write-off of receivables.

IBAN has failed to quantify the potential opportunity cost, which could mislead the reader into thinking that this could be material, when in reality it would not be.

- b) *All receivables are presented on the financial statements. In Note 3 Receivables, the receivables related to the costs borne by Nations are clearly shown ("Receivables from Governments/Gov. Agencies") along with a note stating, "The main balance refers to outstanding invoices issued to Governments/Course Members for the settlement of field studies expenses." Once clarity of the regulations has been provided as discussed in part a), NDC will amend its note accordingly if need be.*

IBAN's Position

IBAN considers that it is unclear whether the current process of pre-financing

non-appropriated activities with cash holdings arising from common-funded budgetary appropriations, is fully compliant with the NFRs and FRPs. As stated in the observation, NDC pre-financed activities reimbursable by third parties in 2023 for a total amount of EUR 1.8 million, which is significant, and could potentially in the future become material. IBAN therefore maintains its observation and recommendation.

**OBSERVATION 4:
MISSTATEMENTS IN THE RECOGNITION OF REVENUE AND EXPENSES
RELATED TO FINANCIAL AND OPERATIONAL LIABILITIES IN THE STATEMENT
OF FINANCIAL PERFORMANCE**

NDC's Formal Comments

Not agreed.

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

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

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

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

NDC revenue and expenses related to financial results, miscellaneous revenue, and the settling of prior year accruals do not meet the definition of revenue as they relate to contributions from/to owners. They do not increase the NDC consolidated net assets/equity as their annual contribution to the net assets/equity is nil. Remainders due to a reversal of accrual estimates from a prior period (which does not relate to the current period but rather to the prior period), as per the definition of accrual accounting, should not flow through the current period revenue and expense shown on the NDC statement of financial performance. To follow this practice could reduce the current year's expense and revenue totals, effectively enabling the use of a prior period budget for current year purposes. As these transactions do not increase the NDC consolidated net assets/equity, and given the requirement to return

unused funds to the nations, the correct account to use is the “payable to nations” account.

IBAN’s Position

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

FOLLOW-UP OF PREVIOUS YEARS’ OBSERVATIONS

(1) NDC 2022 FY

IBA-AR(2023)0017, paragraph 1

PROCUREMENT FOR THE ACQUISITION OF FLIGHT TICKETS DOES NOT FULLY COMPLY WITH THE NFRS

NDC’s Formal Comments

Agreed.

In 2024, the NDC has undertaken an International Competitive Bidding (ICB) with the aim to award two Framework Contracts for the provision of brokering services in the domains of charter and commercial air transportation during field studies. The ICB was awarded on 15 May 2024, and the contracts are effective as of 1st September 2024.

GLOSSARY OF TERMS

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

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

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

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



International Military Staff
Etat-Major Militaire International

Brussels - Belgium



14 June 2024

IMSTAM(FC)-0028-2024

Major General (GRC A) Iordanis Chatzigiannakis

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

**NATO DEFENSE COLLEGE (NDC) FINANCIAL STATEMENTS 2023 – RESUBMISSION
OF FINANCIAL STATEMENTS**

1. Further to the request to IBAN on IMSTAM(FC)-0020-2024 dated 28 May 2024 and IBAN's subsequent approval through IBA-A(2024)0051 dated 7 June 2024, I hereby submit revised Financial Statements for the NDC for 2023. The NDC hereby requests to restate the 2023 Financial Statements which were submitted to IBAN on IMSTAM(FC)-0012-2024 dated 28 March 2024.

Mike Horgan
GBR CV
Financial Controller
International Military Staff &
Science and Technology Organisation

Enclosure:

1. NDC 20240614 - NDC Financial Statements 2023, 14 June 24

Copy to: COMMANDANT NDC, HEAD OF FINANCE NDC, IMS-FC, IMS-RECORDS,
IS IBAN

Originating Office: FC

Action Officer: Mrs Vivien KAYE, Finance & Accounting Officer, (2607)

Taxonomy: Organisation and Management Support (ORG) - ORG - Finance and
Accounting



NATO DEFENSE COLLEGE FINANCIAL STATEMENTS

2023



Via Giorgio Pelosi, 1
00143 Rome
ITALY



TABLE OF CONTENTS

Introduction	2
NDC Statement of Internal Control FY 2023	3
STATEMENT OF FINANCIAL POSITION	6
STATEMENT OF FINANCIAL PERFORMANCE	7
STATEMENT OF CASH FLOWS	8
STATEMENT OF CHANGES IN NET ASSETS	9
NOTES TO THE FINANCIAL STATEMENTS	10
1. Significant Accounting Policies	10
2. Cash and cash equivalents	14
3. Receivables.....	14
4. Prepayments and Advances.....	14
5. Property, Plant and Equipment.....	15
6. Payables	16
7. Deferred revenue and advances	16
8. Revenue.....	17
9. Personnel.....	17
10. Contractual Supplies and Services	18
11. Related Parties Disclosure	18
12. Representation Allowance	18
13. Events after reporting date	19
14. Morale and Welfare Activities	19
ANNEX 1 - BUDGET EXECUTION STATEMENTS FOR THE YEAR ENDED 31/12/2023	20

Introduction

1. The NATO Defense College (NDC) is a NATO Military body of the NATO Military Committee (MC) led by the Commandant, who reports to the Chair of the Military Committee through the Director General of the International Military Staff. Its mission is to contribute to the effectiveness and cohesion of the Alliance by developing its role as a major centre of education, outreach and research on transatlantic security issues. As the Alliance's premier academic institution, the NDC aspires to be regarded as the first choice for nations in the educational development of their senior officers and officials, and as a respected source of relevant policy-making advice.
2. In 2023 the NDC successfully met all objectives formulated for the year across the three pillars of its mission. In the education field, apart from delivering all scheduled courses, the NDC focused on their continuous evaluation and assessment, updating the curricula to reflect current and future challenges to NATO, in order to provide course members with the latest information so they can take this knowledge into their future assignments. In the research domain, on top of the large number of publications issued, a new work programme for the division was developed, to include a fresh focus on content and format, with the intent to produce ideas that inform and influence the policy debate—both within NATO's strategic circles as well as at the College. Within the outreach pillar, among the various activities conducted, to note is a very successful NATO Conference of Commandants in Tallinn, Estonia, in partnership with the Baltic Defence College, a forum that brings together the Commandants of defence institutions of NATO and partners.
3. The NDC 2023 Financial Statements have been produced in accordance with the NATO Accounting Framework (NAF) based on the International Public Sector Accounting Standards (IPSAS) as adapted by NATO and the NATO Financial Regulations (NFRs). They are presented in a commonly adopted layout.
4. The expenses recorded herein are mainly charged over two budgets, the NDC budget, covering its operating and maintenance costs, and a delegated portion of the Outreach Programme for which the NDC has operational control. In 2023 the NDC has also executed other non-appropriated reimbursable activities.
5. The budgetary expenses are recorded on an accrual basis, i.e. in the period in which the goods or services are delivered. Any exception to that principle is outlined in Annex 1 to the financial statements, which provides a comparison between the Budget Execution and IPSAS.

Max A.L.T. NIELSEN
Lieutenant General, Danish Air Force
Commandant
NATO Defense College

Mike HORGAN ACMA CGMA
GBRCV - Financial Controller
International Military Staff
Science & Technology Organisation

NDC Statement of Internal Control FY 2023

In accordance with the NATO Financial Regulations (NFRs) as supplemented by the Financial Rules and Procedures (FRPs), the Commandant of the NATO Defense College is responsible and accountable for implementing and maintaining a sound financial management. In particular, as set forth in articles 11 and 12 of the NFRs, the Commandant is responsible for implementing sound risk management procedures and effective internal control arrangements aimed at supporting the achievement of the organizational objectives.

The NDC Financial Controller, in accordance with articles XI.3 and XI.4 of the FRPs, is responsible for financial risk management and for establishing financial risk management standards, as well as responsible for the system of internal financial and budgetary control (NFR 12.2).

In order to meet the provisions of the NFRs, the NDC has established systems of Risk Management and Internal Control, which are being continuously enhanced with the aim to ensure the achievement of NDC mission and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. The systems of Risk Management and Internal Control are designed to manage and minimize, rather than entirely eliminate, risk at the NDC. Risk Management and Internal Control can therefore provide only a reasonable, but not absolute, assurance of effectiveness. The risks addressed at the NDC include risks to NDC operational aims and objectives; compliance with the NFRs; the reliability of financial information; and the safeguarding of assets. This process has been in place for the year ended 31 December 2023 and up to the date of these financial statements.

In accordance with the Budget Committee recommendation to adopt COSO as internationally-recognized Internal Control Framework, the risk management and financial control processes at the NDC provide a network of internal controls that can be assessed using the five key components of the COSO Framework:

Control Environment

The culture and ethical values of the overall control environment are established by senior management. The promotion of ethical values includes: NDC participation in the NATO-wide 'Building Integrity' Initiative; the promulgation of the NATO Code of Conduct to all NDC staff; the disclosures on any senior management related party transactions in NDC annual financial statements.

The NDC structure provides for clear, hierarchical reporting lines based on military principles, as well as functional reporting lines, and appropriate authorities and responsibilities are formally entrusted to personnel in accordance with their role within the organization.

Oversight is provided by the MC, supported by various subcommittees, who routinely scrutinize NDC senior management reports on strategic operational matters.

On financial matters, interim Budgetary Execution Reports are presented to, and reviewed by, the Budget Committee twice per year. In addition, NDC financial requirements comprising the yearly budget proposals are screened and reviewed by the nations at various oversight fora.

The Audit Advisory Panel (AAP) makes periodic assessments as to whether Internal Audit is properly resourced and has the appropriate standing. It reviews, provides input to and endorsement of, internal audit planning. It reviews the findings and recommendations of Internal Audit and the International Board of Auditors for NATO (IBAN), and reviews management responses and follow-up actions.

NATO UNCLASSIFIED

The AAP provides the Commandant with an annual report which includes an assessment on the effectiveness of risk management, internal control, and external financial reporting, along with advice and recommendations for the Commandant.

Risk Assessment

The NDC continues to maintain and improve internal risk management policies and procedures, adapting existing risk management frameworks, to better identify those events that if occurring may affect the achievement of its objectives. Risk identification and management has been extended to all organizational elements of the NDC, and the risk register is being updated every six months.

Control Activities

The NDC, through its Command Group and other internal boards, monitors and controls ongoing progresses towards the achievement of the set objectives, in accordance with deadlines and operational priorities.

In the financial domain, the NDC finance and accounting system has built-in approval workflows, controls and verifications, which grant the necessary segregation of responsibilities, together with relevant audit trails, and ensures sufficient control as regards consistency and accuracy of financial transactions, and compliance to the NFRs.

Information and Communication

The NDC structure with its clear reporting lines underpins internal communication. The internal boards structure is the primary channel of information flow across internal stakeholders, and informs decision-making at all levels. The NDC has a Standard Operating Procedure for a secure user access to Communication & Information resources. This provides for effective communications in pursuit of operational objectives. The NDC also holds an Audit Advisory Panel that periodically reports to the Commandant.

Communication also provides for the effective functioning of internal control. In this regard important information is disseminated through the staff by means of weekly bulletins and periodic all-hands meetings called by the Commandant.

The NDC communicates externally on matters affecting the functioning of internal control mechanisms via the Statement on Internal Control, which is included with the annual Financial Statements and is released to the general public. External audits include examinations of internal controls and compliance with applicable rules and regulations. The results of these audits are reviewed by various oversight authorities and made available to the general public along with the financial statements.

Monitoring Activities

An outsourced Internal Audit service provider is engaged on a periodic basis, to undertake internal audit assignments. On top, NDC internal controls of non-appropriated funds are conducted regularly. The NDC is also subject to annual external audit from the IBAN.

Recommendations and observations arising from audits are assessed by the AAP reporting to the Commandant. The results are then assessed by NDC senior management, who initiate any appropriate actions.

The Commandant of the NDC and the Financial Controller have a collective responsibility for reviewing the effectiveness of the system of internal control. Our review is informed by the above five COSO components and by the work of NDC senior managers, external audits, and internal audits.

No issues regarding financial or operational matters were raised in 2023. The IBAN external audit of the 2022 Financial Statements resulted in an unqualified opinion, with just two observation:

- Procurement for the acquisition of flight tickets does not fully comply with the NFRs.
- Inconsistency in the presentation of consultant costs in the financial statements and budget execution statements.

In line with the IBAN's recommendations, the NDC has started implementing contractual arrangements for travel-related activities, and as from fiscal year 2024 has fully aligned budgetary and accounting of expenses for consultants and service providers to the nature of their contracts.

We are satisfied that the Risk Management and Internal Control systems in operation across the NDC during the year 2023 were reasonably adequate and effective. However, in the course of the closed year the NDC was unable to implement a process of internal control certification as additional step to further enhance its internal control system. In 2024 the NDC will strive to implement an organization-wide internal control certification process along the lines of what done at other NATO bodies.



Max A.L.T. NIELSEN
Lieutenant General, Danish Air Force
Commandant
NATO Defense College



Mike HORGAN ACMA CGMA
GBRCV - Financial Controller
International Military Staff
Science & Technology Organisation

**NATO DEFENSE COLLEGE
STATEMENT OF FINANCIAL POSITION**

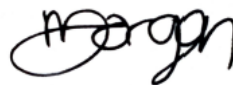
As at 31 December 2023

(in EUR)

	<i>Notes</i>	<u>2023</u>	<u>2022 Restated</u>
ASSETS			
Current Assets			
Cash and Cash Equivalents	2	4,528,096	3,390,316
Receivables	3	173,489	416,180
Prepayments and Advances	4	47,873	15,052
Total Current Assets		<u>4,749,459</u>	<u>3,821,548</u>
Non-Current Assets			
Property, Plant & Equipment	5	2,004,603	2,244,886
Total Non-Current Assets		<u>2,004,603</u>	<u>2,244,886</u>
TOTAL ASSETS		<u>6,754,062</u>	<u>6,066,434</u>
LIABILITIES			
Current Liabilities			
Payables	6	1,194,459	1,085,848
Deferred Revenue & Advances	7	3,555,000	2,735,700
Total Current Liabilities		<u>4,749,459</u>	<u>3,821,548</u>
Non-Current Liabilities			
Non-Current Deferred Revenue	7	2,004,603	2,244,886
Total Non-Current Liabilities		<u>2,004,603</u>	<u>2,244,886</u>
TOTAL LIABILITIES		<u>6,754,062</u>	<u>6,066,434</u>
TOTAL NET ASSETS/EQUITY		<u>-</u>	<u>-</u>



Max A.L.T. NIELSEN
Lieutenant General, Danish Air Force
Commandant
NATO Defense College



Mike HORGAN ACMA CGMA
GBRCV - Financial Controller
International Military Staff
Science & Technology Organisation

The notes on pages 10 to 18 form an integral part of these financial statements.
The financial statements were issued to the International Board of Auditors for NATO on 31 March 2024.

**NATO DEFENSE COLLEGE
STATEMENT OF FINANCIAL PERFORMANCE**

for the year ended 31 December 2023
(in EUR)

	<i>Notes</i>	<u>2023</u>	<u>2022 Restated</u>
Revenue			
Revenue		14,131,952	13,090,673
Total Revenue	8	<u>14,131,952</u>	<u>13,090,673</u>
Expenses			
Personnel	9	6,384,742	5,689,048
Contractual Supplies and Services	10	7,103,488	6,555,824
Capital and Investments Budgeting		184,018	473,279
Depreciation	5	459,705	372,523
Total Expenses		<u>14,131,952</u>	<u>13,090,673</u>
SURPLUS / DEFICIT FOR THE PERIOD		<u>-</u>	<u>-</u>

NATO DEFENSE COLLEGE STATEMENT OF CASH FLOWS

For the year ended 31 December 2023
(in EUR)

	<i>Notes</i>	<u>2023</u>	<u>2022 Restated</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
<i>Surplus/Deficit for the period</i>		-	-
Non-cash movements			
Depreciation / Amortization	5	459,705	372,523
Increase - (Decrease) in payables		108,611	(455,209)
Increase - (Decrease) in other current liabilities		819,300	(1,184,677)
(Increase) - Decrease in receivables		242,691	(182,904)
(Increase) - Decrease in other current assets		(32,822)	8,338
(Increase) - Decrease in Long-term Provisions		(240,283)	578,798
NET CASH FLOWS FROM OPERATING ACTIVITIES		<u>1,357,201</u>	<u>(863,130)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property plant and equipment	5	(219,421)	(951,322)
NET CASH FLOWS FROM INVESTING ACTIVITIES		<u>(219,421)</u>	<u>(951,322)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash in from IMS BG cash transfer		2,500,000	500,000
Cash out from IMS BG cash transfer		(2,500,000)	(500,000)
NET CASH FLOWS FROM FINANCING ACTIVITIES		<u>-</u>	<u>-</u>
Net Increase - (Decrease) in cash and cash equivalents		<u>1,137,780</u>	<u>(1,814,452)</u>
Cash and cash equivalents at the beginning of the period		<u>3,390,316</u>	<u>5,204,768</u>
Cash and cash equivalents at the end of the period		<u>4,528,096</u>	<u>3,390,316</u>

**NATO DEFENSE COLLEGE
STATEMENT OF CHANGES IN NET ASSETS**

For the year ended 31 December 2023
(in EUR)

Balance at the beginning of the period 2022

Surplus / (deficit) for the period

Change in net assets/equity for the year ended 2022

Balance at the beginning of the period 2023

Surplus / (deficit) for the period

Change in net assets/equity for the year ended 2023

Total

-

-

-

-

NOTES TO THE FINANCIAL STATEMENTS

1. Significant Accounting Policies

1.1. Basis of Preparation

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

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

In accordance with Article 2.1 of the NFRs, the financial year covered by these financial statements is 1 January to 31 December 2023.

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

1.2. Accounting Estimates and Judgements

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

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

1.3. Changes in Accounting Policy and Standards

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

1.4. Changes in Pronouncements

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

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

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

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

1.5. Foreign Currency Transactions

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

1.6. Consolidation

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

While Morale and Welfare activities (MWAs) are under the control of the head of the NATO body, in accordance with the NAF departure from IPSAS 6 they have not been consolidated into these financial statements. A separate activity report is submitted to the Budget Committee as required by the NFRs, and summary information is provided at note 14.

1.7. Services In-Kind

The NDC received services in-kind in the form of military personnel provided by the NATO nations. Such personnel are assigned to specific, military positions on the Peacetime Establishments (PE) of the NDC (see note 9). In these financial statements services in-kind are recognized neither as revenue nor as an asset.

1.8. Financial Instruments

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

All financial instruments are recognized in the statement of financial position at their fair value.

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

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

The maximum exposure as at 31 December 2023 is equal to the total amount of bank balances, short-term deposits, and receivables disclosed in the statement of financial position. Receivables considered uncollectible

are adequately provided for. There is a very limited credit risk associated with the realization of these instruments.

Currency risk: The NDC's exposure to foreign currency exchange risk is very limited, as most transactions are in euros.

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

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

1.9. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under lease contracts are recognised as an expense in the Statement of Financial Performance on a straight line basis over the term of the lease.

The NDC is not party to any financial lease contracts and therefore is not reporting any assets or liabilities related to financial leases.

1.10. Cash and cash equivalents

Cash and cash equivalents are defined as short-term assets. They include cash in hand, petty cash, current bank accounts, deposits held with banks and other short-term, highly liquid investments.

1.11. Receivables

Receivables are stated at net realizable value, after provision for doubtful and uncollectible debts. Contributions receivable are recognized when a call for contribution has been issued to the member nations. No allowance for loss is recorded with respect to member countries' assessed contributions receivable, except for exceptional and agreed technical reasons.

1.12. Prepayments

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

1.13. Property, plant and equipment

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

In accordance with IPSAS 17 as adapted by the NAF, all assets qualified as PPE and under the control of the NDC at the reporting date have been capitalized if exceeding the set capitalization thresholds, and recognised as non-current assets in the statement of financial position. In 2023 the NDC has conducted a thorough reassessment of Land and Buildings vis-à-vis the control criteria set forth in the NAF, and has come to the conclusion that the criteria met are less than six, and therefore not sufficient to justify the control of such assets. Accordingly, Land and Buildings have been removed from the Statement of Financial Position, and PP&E balances retrospectively restated for comparability purposes. There have been corresponding impacts to the Statement of Financial Performance and the Statement of Cash Flows. Additional information is provided in the note for PP&E.

1.14. Impairment of tangible assets

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

1.15. Payables

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

1.16. Deferred revenue and advances

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

1.17. Employee benefits

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

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

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

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

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

1.18. Revenue recognition

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

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

1.19. Financial result

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

2. Cash and cash equivalents

(in EUR)	2023	2022
Cash Accounts	37,279	1,221
Petty Cash and Advances	2,500	2,500
Current Bank Accounts in Euros	4,488,317	3,386,595
Total	4,528,096	3,390,316

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

During the year, cash transfers totalling 2,500,000 EUR (2022: 500,000 EUR) were provided by the IMS in order to cover temporary shortfalls of funds related to the timing of the receipt of the calls for contributions. As at 31 December 2023 such cash transfers have been repaid.

Increase in cash accounts with respect to the previous financial year is the result of the increasing difficulties in wire transferring subsidisation funds to partner Course Members because of the extremely volatile geopolitical context. Participants from some countries must now be paid in cash. Increase in bank account holdings when compared to 2022 mainly relates to the combination of the higher cash called in the year (100% of the authorised budget) against an overall execution of 98%, with the higher advance requested for the next fiscal year received with the 2nd cash call.

3. Receivables

(in EUR)	2023	2022 (Restated)
Receivables from NATO Entities	22,140	233,108
Receivables from Governments / Gov. Agencies	115,929	183,072
Receivables from Staff Members	15,793	-
Receivables from Third Parties	19,627	-
Total	173,489	416,180

Receivables encompass outstanding reimbursements from different kinds of debtors, to include other NATO entities, NATO and Partner Nations, staff members and third parties. The main balance refers to outstanding invoices issued to Governments/Course Members for the settlement of field studies expenses.

Advances to staff, previously included herein, have been moved to Prepayment and Advances, and the corresponding 2022 entry restated.

4. Prepayments and Advances

(in EUR)	2023	2022
Advances — Staff	1,750	4,000
Advances — Vendors	46,123	11,052
Total	47,873	15,052

The amounts are mainly prepayments for hotels' deposits necessary to block group reservations related to the 2024 field studies, and for intercontinental flight tickets purchased in advance in order to obtain more favourable prices, thus achieving significant economies.

Advances to staff, previously included under Receivables, have been moved hereto, and the corresponding 2022 entry restated.

5. Property, Plant and Equipment

	Land	Buildings	Installed Equipment	Machinery	Automated Information Systems	Totals
Cost						
Balance at 1 January 2022	7,718,220	7,119,426	3,185,700	105,994	249,025	18,378,365
Additions	-	-	554,322	0	397,000	951,322
Disposals/Deletions	(7,718,220)	(7,119,426)	-	-	-	(14,837,646)
Balance at 31 December 2022	-	-	3,740,022	105,994	646,025	4,492,040
Additions	-	-	219,421	-	-	219,421
Balance at 31 December 2023	-	-	3,959,443	105,994	646,025	4,711,462
Accumulated depreciation						
Balance at 1 January 2022	-	(3,805,282)	(1,647,211)	(70,172)	(157,248)	(5,679,913)
Depreciation expense	-	-	(255,790)	(7,190)	(109,543)	(372,523)
Disposals/Deletions	-	3,805,282	-	-	-	3,805,282
Balance at 31 December 2022	-	-	(1,903,001)	(77,362)	(266,791)	(2,247,154)
Depreciation expense	-	-	(293,155)	(4,820)	(161,729)	(459,705)
Balance at 31 December 2023	-	-	(2,196,156)	(82,183)	(428,520)	(2,706,859)
Net book value						
Balance at 31 December 2022	-	-	1,837,021	28,631	379,234	2,244,886
Balance at 31 December 2023	-	-	1,763,287	23,811	217,505	2,004,603

Restatement 2022: The restatement for 2022 refers to the removal of Land and Buildings from PP&E, as reflected in the disposals/deletions line of the above table. The main NDC building and underlying land was assigned to the College by the Host Nation for free in 1999 when the College moved from its old location to the present premises. Such assets were capitalized in 2011, before the entry into force of the NAF. Over time, the latter has been modified and adapted to provide clearer guidance, inter alia, on recognition and measurement criteria; however, no reassessment was ever conducted by the NDC to validate the capitalization of such assets against the accounting policy in force. Under close coordination with the IBAN, in 2023 the NDC has conducted a thorough assessment of Land and Buildings against the 10 control criteria included in the NAF. Control is likely if a NATO entity responds positively to at least 6 of the 10 criteria. The reassessment evidenced that the NDC did not meet sufficient criteria to claim control of such assets, and it has additionally emerged that the available information does not permit a reliable measurement of their value. Accordingly, the NDC has decided to remove Land and Buildings from the Statement of Financial Position and restate the relevant PP&E balances for 2022, as well as the related deferred revenue, revenue and depreciation balances.

The following capitalization thresholds and useful lives are used in the calculation of depreciation:

Category	Capitalization Threshold	Depreciation life
Land	€ 200,000	N/A
Buildings	€ 200,000	40 years
Installed equipment	€ 5,000	10 years
Machinery	€ 5,000	10 years
Furniture	€ 5,000	10 years
Automated information systems	€ 5,000	3 years

The depreciation charge for the year was 459,705 EUR (2022 restated: 372,523 EUR).

In accordance with the NATO Financial Regulations (art. 17) an annual summary of property written-off in 2023 is provided in the following table.

Items (Quantity)	Purchased in	Net Book value	Total Cost	Report of Survey	Reason for write-off
Mission Equipment (184)	1998 → 2017	-	2,276	5/8/2023	Obsolete or broken beyond economical repair. No longer serviceable.
Automated Information Systems (253)	2006 → 2016	-	125,350	01-09/2023	
Furniture (164)	1967 → 2017	-	22,902	02-04-07/2023	
Total		-	150,528		

6. Payables

(in EUR)	2023	2022
Payables to Suppliers	519,426	493,278
Accruals	270,531	387,307
Payables to Nations	348,990	66,710
Other Payables	55,512	138,553
Total	1,194,459	1,085,848

Payables are short-term liabilities to third parties directly related to the activities and operations of the NDC. Payables to suppliers include invoices from commercial vendors not yet settled, whereas accruals include goods and services received by year-end, but for which relevant invoices were not received by the reporting date. Additionally, accruals also include the cost associated with the balance of untaken leave at the end of 2023 (572 days - 2022: 448 days), amounting to 109,463 EUR (2022: 82,717 EUR).

The average credit period on purchases is 30 days. The NDC has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

Payables to nations encompass liabilities from financial result, liabilities from operational result, liabilities from budget decrease and liabilities from lapses. They will be offset in the 2nd call for contribution 2024.

Other payables include credits advanced by nations to pay the field study costs of their personnel attending the Senior Course, as well as payments returned by banking institutions at year-end for reasons beyond NDC's control. Such payments will be newly processed in 2024.

7. Deferred revenue and advances

(in EUR)	2023	2022 (Restated)
Deferred Revenue – carry forwards	555,000	-
Advance Contributions for next year	3,000,000	2,735,700
Total current deferred revenue	3,555,000	2,735,700
Investment in PPE	2,004,603	2,244,886
Total non-current deferred revenue	2,004,603	2,244,886
Total deferred revenue	5,559,603	4,980,586

Current deferred revenue consists mostly of budget deferred revenue for credits carried forward or advanced contributions for the next financial year, but for which corresponding expenses will be incurred after the reporting date. Advance contributions will be deducted from the 1st call for contribution 2024. In 2023 the NDC special carried forward 555,000 EUR as authorized by the Budget Committee.

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

8. Revenue

(in EUR)	2023	2022 (Restated)
Revenue from NDC budget 303	10,930,442	10,397,745
Revenue from other NATO budgets	928,798	1,033,961
Revenue from third party reimbursables	1,813,007	1,286,444
Other revenue	459,705	372,523
Total Revenue	14,131,952	13,090,673

In 2023 the NDC managed the following budgets:

- **NDC Budget (Military Budget code 303):** This revenue relates to the contributions received from the participating nations to exclusively cover the operating expenses of the College.
- **Other NATO budgets:** This revenue is the total from other NATO budgets. In 2023 the NDC managed a portion of the IMS Outreach Budget (budget code 501) in order to conduct Outreach/Cooperation activities with partner nations.
- **Third Party Reimbursables:** This revenue is the total of reimbursable activities conducted by the NDC, mainly consisting of National funds for field studies-related expenses of Course Members.

Other revenue is revenue released from deferred revenue in respect of PPE depreciation.

9. Personnel

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

The breakdown of personnel expenses is the following:

(in EUR)	2023	2022
Employment of Personnel	5,879,597	5,325,180
Recruitment and Separation	164,248	84,218
Clothing	1,725	1,492
Medical Examinations	12,482	12,817
Training	26,250	6,655
Post-Employment Benefits	300,440	258,686
Total	6,384,742	5,689,048

The balance of untaken leave at the end of 2023 was 572 days (2022: 448 days). The associated cost is recognized as an accrual.

Peacetime Establishment (PE):

	Authorized PE	Filled Positions
Civilians	57	54
Military (IMP)	58	45
Voluntary National Contribution (VNC)	1	1
Host Nation	33	32
Partnership Posts	6	2
Total	155	134

10. Contractual Supplies and Services

Contractual Supplies and Services are expenses required for administrative support to the NDC and include expenses for general administrative overheads, and the maintenance costs of buildings/grounds, communications and information systems, transportation, travel expenses, representation/hospitality and miscellaneous expenses.

Operating Leases: All leases of the NDC are operating leases as they do not transfer substantially all the risks and rewards incidental to ownership, they do not cover all of the assets' life, the ownership is not transferred by the end of the lease term and do not contain a bargain purchase option. Lease payments are recognized as an expense on a straight-line basis over the lease term.

In 2023, the NDC had two non-cancellable operational lease contract, one related to the rental of copy machines for an amount of 36,712 EUR (2022: 32,883 EUR), and one for the rental of the Commandant's armoured car for 53,000 EUR (2022: NIL).

The future minimum lease payments are as follows:

- Less than one year: EUR 63,600
- Between one and five years: EUR 201,400
- Total non-cancellable operating lease payments: EUR 265,000

11. Related Parties Disclosure

The key management personnel includes: the Commandant, the Dean, the Director of Enablement, and the Head of Budget & Finance Branch. They are all rotated, typically every three years, and with the exception of the Head of Budget & Finance Branch, have only management oversight of routine operating and maintenance activities. The detailed work related to these tasks tends to be undertaken by staff officers.

The Financial Controller is also the Financial Controller of the International Military Staff and the Science and Technology Organization. The NDC, IMS and STO are therefore related parties under a common Financial Controller.

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

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

12. Representation Allowance

Representation Allowance is allocated to certain designated high level officials whose position entails responsibility for maintaining relationships of value to NATO.

In 2023, one senior NDC official received representation allowance. The total entitlement was 2,876 EUR (2022: 4,000 EUR) and the actual expenses were 2,876 EUR (2022: 623 EUR) .

13. Events after reporting date

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

14. Morale and Welfare Activities

The NDC carried out Morale and Welfare Activities (MWA) in 2023 for which a detailed annual special purpose report is presented to the Budget Committee. Morale and Welfare Activity is an activity of a NATO body that enhances the quality of life, promotes cohesion and integrity, and/or contributes to the physical and mental wellbeing of eligible individuals. At the NDC, the MWA mainly relate to petrol products, rationed items and a small shop offering mementoes and other few items.

The position of MWA at year-end is:

(in EUR)	2023	2022
Cash and cash equivalents	218,847	73,120
Total liabilities including provisions and contingent liabilities	22,434	43,343

Two (2022: two) staff members support the MWA as a minor part of their duties. The total extent of their MWA responsibilities amounts to less than one part-time equivalent.

ANNEX 1 - BUDGET EXECUTION STATEMENTS FOR THE YEAR ENDED 31/12/2023

A) NDC Budget (Military Budget Code 303)

Budget Currency EURO	Initial Budget BA-1	Transfers	BA-2	Transfers	BA-3	Transfers	Final Budget	Expenses	Carry Forward	Lapsed
BUDGET 303 - 2023										
Chapter 1	6,793,575	-	6,793,575	(150,050)	6,643,525	(172,008)	6,471,517	6,325,843	-	145,674
Chapter 2	4,364,804	-	4,364,804	135,470	4,500,274	172,008	4,672,282	4,617,282	55,000	-
Chapter 3	784,400	-	784,400	1,000	785,400	-	785,400	206,739	500,000	78,661
TOTAL FY 2023	11,942,779	-	11,942,779	(13,580)	11,929,199	-	11,929,199	11,149,864	555,000	224,335
BUDGET 303 - 2022										
Chapter 1	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-
TOTAL FY 2022	-	-	-	-	-	-	-	-	-	-
BUDGET 303 - ALL FYs										
Chapter 1	6,793,575	-	6,793,575	(150,050)	6,643,525	(172,008)	6,471,517	6,325,843	-	145,674
Chapter 2	4,364,804	-	4,364,804	135,470	4,500,274	172,008	4,672,282	4,617,282	55,000	-
Chapter 3	784,400	-	784,400	1,000	785,400	-	785,400	206,739	500,000	78,661
GRAND TOTAL BUDGET 303 ALL FYs	11,942,779	-	11,942,779	(13,580)	11,929,199	-	11,929,199	11,149,864	555,000	224,335

NATO UNCLASSIFIED

The deferred revenue for carry forwards refers to special carry forward totalling 555,000 EUR, approved by the Budget Committee with document BC-DS(2023)0056 (INV) and document BC-DS(2023)0060 (INV). They relate to the requirement to expand the existing photovoltaic system (500,000 EUR) and to the replacement of the obsolete fibre optic backbone infrastructure (55,000 EUR).

B) Other NATO Budgets & Third Party Reimbursables

Budget Currency EURO	Initial Budget	Transfers Adjustments	Final Budget	Expenses	Carry Forward	Lapsed
REIMBURSABLE BUDGETS						
BUDGET 2023 ZNC (501/IMS - PfP)*	463,500	(36,098)	427,402	427,402	-	-
BUDGET 2023 ZNC (501/IMS - MD)*	394,000	(22,711)	371,289	371,289	-	-
BUDGET 2023 ZNC (501/IMS - ICI)*	36,000	(29,790)	6,210	6,210	-	-
BUDGET 2023 ZNC (501/IMS - OMC)*	173,000	(49,102)	123,898	123,898	-	-
TOTAL 2023	1,066,500	(137,702)	928,798	928,798	-	-
TOTAL REIMBURSABLE BUDGETS	1,066,500	(137,702)	928,798	928,798	-	-
(*) According to the IMS Directives, since Budget 501 (Outreach PfP, MD, ICI and OMC) is reimbursable, the accrued and carried forward amounts are shown in both IMS and NDC boo Expenses are recognized / recorded on an accrual basis						
REIMBURSABLE EXPENSES						
BUDGET 2023 Z01 (REIMBURSABLE EXPENSES)	1,813,007	-	1,813,007	1,813,007	-	-
TOTAL 2023	1,813,007	-	1,813,007	1,813,007	-	-
TOTAL REIMBURSABLE EXPENSES	1,813,007	-	1,813,007	1,813,007	-	-
TOTAL REIMBURSABLE BUDGETS & EXPENSES	2,879,507	(137,702)	2,741,805	2,741,805	-	-

In accordance with the NFRs, article 34.4, the NDC has included within its financial statements a budget execution report of its main budget (military budget code 303) that shows the initial budget allocations, the in-year changes as authorized under the authority of the Financial Controller or by the Budget Committee, the final approved budget and its execution status for the financial year 2023. Funds lapsed are also included. In addition thereto, a budget execution statement for all reimbursable budgets managed by the NDC has also been included.

NATO UNCLASSIFIED

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

(in EUR)	2023
Total expenses NDC Budget (BC303)	11,149,864
Total expenses reimbursable budgets	928,798
Total other reimbursable expenses	1,813,007
Total Expenses All Budgets	13,891,669
Capital and investments (Note 5)	(219,421)
Depreciation (Note 5)	459,705
Total Expenses, Statement of Financial Performance	14,131,952