



NORTH ATLANTIC COUNCIL
CONSEIL DE L'ATLANTIQUE NORD

NATO UNCLASSIFIED

19 December 2024

**DOCUMENT
PO(2024)0421-AS1**

**IBAN AUDIT REPORT ON THE 2023 FINANCIAL STATEMENTS OF SCIENCE AND
TECHNOLOGY ORGANISATION (STO)**

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)0421, approved the conclusions and recommendations in the RPPB report, and approved the public disclosure of the 2023 Financial Statements of STO, 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)0421.

NATO UNCLASSIFIED





NATO UNCLASSIFIED

13 December 2024

DOCUMENT
PO(2024)0421
Silence Procedure Ends:
19 Dec 2024 – 17.30

To: Permanent Representatives (Council)

From: Secretary General

**IBAN AUDIT REPORT ON THE 2023 FINANCIAL STATEMENTS OF SCIENCE AND
TECHNOLOGY ORGANISATION (STO)**

1. I attach the Resource Policy and Planning Board (RPPB) report on the International Board of Auditors for NATO (IBAN) Audit Report on the 2023 Financial Statements of the Science and Technology Organisation (STO). IBAN issued an unqualified opinion on the Financial Statements and a qualified opinion on compliance for the year ended 31 December 2023.
2. I do not believe this issue requires further discussion in Council. Therefore, **unless I hear to the contrary by 17.30 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 STO, 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 SCIENCE AND
TECHNOLOGY ORGANISATION (STO)****Report by the Resource Policy and Planning Board**

References:

- | | | |
|----|---------------------------|--|
| A. | IBA-AR(2024)0018 | IBAN Audit Report on the Financial Statements of the Science and Technology Organisation (STO) for the year ended 31 December 2023 |
| B. | C-M(2015)0025 | NATO Financial Regulations (NFRs) |
| C. | C-M(2016)0023 | NATO Accounting Framework (NAF) |
| D. | BC-D(2015)0260-REV3 (INV) | NATO Financial Rules and Procedures (FRPs) |
| 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 Financial Statements of the Science and Technology Organisation (STO). IBAN issued an unqualified opinion on the 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.

DISCUSSION

3. In 2023, IBAN made two observations and recommendations for the STO, including one observation that impacted the audit opinion on compliance. It relates to the material non-compliance for the procurement of vessels' maintenance and dry-docking through STO-Centre for Maritime Research and Experimentation (CMRE)'s certified ship Managers. The other observation relates to the 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 for the procurement of vessels' maintenance and dry-docking through STO-CMRE's certified ship Managers, the RPPB supports IBAN's recommendation that the STO request from the competent deviation authority, where appropriate, a waiver

of the competitive procurement rules in favour of a sole-source contract with the certified ship management company, covering the management fees and maintenance costs, and ensure that the STO Financial Procedures comply with Article 32.2 of the NATO Financial Regulations (NFRs) (reference B) and designate the powers to deviate from the strict application of competitive bidding for contracts with a value above Established Financial Limits E. In its formal comments, the STO disagreed with the recommendation as the Finance and Audit Sub-Group (FASG) was notified and approved the forecasted spending in regard to vessel maintenance as required in the STO Financial Procedures. In light of this observation, CMRE will suggest a revision of the STO's Financial Procedures to clarify the waiver/approval process.

3.2. Observation 2: 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 STO-Collaboration Support Office (CSO) and the STO-Office of the Chief Scientist (OCS) 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 NATO Accounting Framework (NAF) (IPSAS 1 and IPSAS 3) (reference C), and comply with Article 31.2 of the NFRs relating to disclosures of short-term investment income in the annual financial statements.

3.2.1. In its formal comments, the STO 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 STO 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 (HFRP) 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 1.3 of the Financial Statements 'Changes in accounting policies'.

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

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.

DISCUSSION

6. At the meeting held on 21 November 2024, after IBAN's presentation, the NATO Chief Scientist, the STO-CMRE Director and the IMS Budget Group Financial Controller clarified the situation that led to the IBAN qualified opinion on compliance. The RPPB noted that the respective contract should have required a formal waiver for the procurement and commitment of maintenance costs. In addition, the deviation authority in STO's FRP for such a contract amount is not defined. As a way forward, the STO proposed to update the STO Financial Procedures so that waivers of procurement rules will be endorsed by their FASG and submitted for approval to the Science and Technology Board. The RPPB appreciated STO-CMRE statements and work contribution and was reassured as the STO clarified that the review of the STO Financial Procedures is envisaged for 2025.

CONCLUSIONS

7. IBAN issued an unqualified opinion on the 2023 STO Financial Statements and a qualified opinion on compliance. Two observations and recommendations were raised for the STO. One previous years' observation for the STO was in-progress and two were closed.

8. The RPPB supports IBAN's recommendation that the STO address the recommendations on material non-compliance for the procurement of vessels' maintenance and dry-docking through STO-CMRE's certified ship managers.

9. The RPPB notes IBAN's recommendation on the recognition of revenue and expenses related to financial and operational liabilities in the Statement of Financial Performance. 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.

RECOMMENDATIONS

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

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

10.2. approve the conclusions at paragraphs 7 to 9;

10.3. approve the public disclosure of the 2023 Financial Statements for the STO, 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)0091-COR1
06 September 2024

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

Cc: NATO Permanent Representatives
Chair/NATO Chief Scientist, Science and Technology Board
Chair, Science and Technology Organisation Finance and Audit Sub-Group
Director, Centre for Maritime Research and Experimentation
Director, Science and Technology Collaboration Support Office
Financial Controller, International Military Staff/Science and Technology Organisation
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 Science and Technology Organisation's (STO) Financial Statements for the year ended 31 December 2023***

Please note that in IBA-A(2024)0091 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 Science and Technology Organisation (STO) 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)0091
29 August 2024

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

Cc: NATO Permanent Representatives
Chair/NATO Chief Scientist, Science and Technology Board
Chair, Science and Technology Organisation Finance and Audit Sub-Group
Director, Centre for Maritime Research and Experimentation
Director, Science and Technology Collaboration Support Office
Financial Controller, International Military Staff/Science and Technology Organisation
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 Science and Technology Organisation's (STO) Financial Statements for the year ended 31 December 2023 – IBA-AR(2024)0018***

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 Science and Technology Organisation (STO) 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
Science and Technology Organisation (STO)
for the year ended 31 December 2023**

IBAN audited the Science and Technology Organisation (STO), which mission is to help position the Nations' and NATO's Science and Technology investments as a strategic enabler of the knowledge and technology advantage for the defence and security posture of NATO nations and partner Nations.

The STO comprises three executive bodies: the STO Office of the Chief Scientist (OCS) located in Brussels, Belgium, under the authority of the Chief Scientist; the STO Collaboration Support Office (CSO) located in Neuilly-sur-Seine, France, under the authority of its Director; and the STO Centre for Maritime Research and Experimentation (CMRE) located in La Spezia, Italy, under the authority of its Director.

The total consolidated expenses of STO for the year ended 31 December 2023 were EUR 38.4 million (34.2 million for the year ended 31 December 2022).

IBAN issued an 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 1.3 of the Financial Statements "Changes in accounting policies". It indicates that "STO changed its accounting policy to capitalize as property, plant and equipment (PP&E) minor and major dry-dock maintenance costs". According to IPSAS 3 "Accounting policies, changes in accounting estimate and errors", this is not a change in accounting policy but the correction of errors due to a misapplication of IPSAS 17 "Property, Plant and Equipment" provisions raised by IBAN in the audit report of the financial statement of STO for the year ended 31 December 2021.

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

1. Material non-compliance for the procurement of vessels' maintenance and dry-docking through STO-CMRE's certified ship Managers.

The second observation does not impact the audit opinion on the Financial Statements or on compliance:

2. 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 two were closed, and one remain in progress.

The Audit Report was issued to STO 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 STO management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under STO executive responsibility.

NATO UNCLASSIFIED

IBA-AR(2024)0018

29 August 2024

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE
SCIENCE AND TECHNOLOGY ORGANISATION
(STO)**

FOR THE YEAR ENDED 31 DECEMBER 2023

PUBLICLY DISCLOSED - PDN(2025)0010 - MIS EN LECTURE PUBLIQUE

NATO UNCLASSIFIED

INDEPENDENT EXTERNAL AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL

Financial Statements

Opinion on the Financial Statements

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of Science and Technology Organisation (STO), for the 12 month period ended 31 December 2023, issued under document reference STO-OCS(2024)0036, and submitted to IBAN on 28 March 2024. These Financial Statements comprise the Statement of Financial Position as at 31 December 2023, the Statement of Financial Performance, the Statement of Changes in Net Assets/Equity and the Statement of Cash Flow, for the 12 month period ended 31 December 2023, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a Budget Execution Statement for the 12 month period ended 31 December 2023.

In our opinion, the Financial Statements give a true and fair view of the financial position of STO 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 1.3 of the Financial Statements "*Changes in accounting*

policies". It indicates that *"STO changed its accounting policy to capitalize as property, plant and equipment (PP&E) minor and major dry-dock maintenance costs"*. According to IPSAS 3 *"Accounting policies, changes in accounting estimate and errors"*, this is not a change in accounting policy but the correction of errors due to a misapplication of IPSAS 17 *"Property, Plant and Equipment"* provisions raised by IBAN in the audit report of the financial statement of STO for the year ended 31 December 2021.

Management's Responsibility for the Financial Statements

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

According to Article 32.2 of the NATO Financial Regulations (NFRs), *“the relevant finance committee/governing body will provide appropriate levels of delegated powers to deviate from the strict application of competitive bidding where justified for operational, efficiency, economic or technical reasons.”* However, according to the STO Financial Procedures (FPs) (AC/323-D(2017)0003-REV1-INV) approved by the STO Science and Technology Board (STB), no deviation authority is clearly indicated for contracts with a value above EUR 800,000 (Established Financial Limits (EFL) E). The only deviation authority obligation as per the FPs is as follows: *“Info STO FASG”* [Financial and Audit Sub-Group], which is a sub-committee of the STB. According to the STO Centre for Maritime Research and Experimentation (STO-CMRE), this means that the deviation authority above level E is designated as information of the STO FASG only.

In 2023, the STO-CMRE committed material maintenance and dry-docking costs for the two vessels (the Alliance and the Leonardo) with the contractor in charge of the vessels' technical management without formally drawing up a specific contract for the maintenance costs. This situation arose because the competition under the initial call for tenders for this contract with the Manager was limited to management fees only, and did not include the maintenance costs. These commitments amounted to EUR 3.4 million. This included EUR 2.1 million for the dry dock of the Alliance and EUR 1.3 million for maintenance of the two vessels.

Considering the amount of the contract, the powers to deviate from the strict application of competitive bidding should be provided by the relevant finance committee/governing body, in compliance with Article 32.2 of the NFRs.

However, in the absence of such deviation authority clearly designated in the FPs, STO-CMRE did not request and obtain a waiver from competitive procurement rules in favour of a sole-source contract with the ship Manager for the procurement of maintenance and dry-dock work on the vessels. This is not compliant with Article 32.2 of the NFRs.

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



Radek Visinger
Chair

OBSERVATIONS AND RECOMMENDATIONS

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

1. Material non-compliance for the procurement of vessels' maintenance and dry-docking through STO-CMRE's certified ship Managers.

The second observation does not impact the audit opinion on the Financial Statements or on compliance:

2. 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 two were closed and one is in progress.

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

1. MATERIAL NON-COMPLIANCE FOR THE PROCUREMENT OF VESSELS' MAINTENANCE AND DRY-DOCKING THROUGH STO-CMRE'S CERTIFIED SHIP MANAGERS

Reasoning

1.1 According to article 32.1 of the NATO Financial Regulations (NFRs), NATO procurement and contracting shall be governed by the following principles:

- "a) The timely acquisition of goods and services to be achieved wherever possible through a competitive bidding process, using approved procurement procedures [...];*
- (b) Goods and services will be procured, in a transparent and fair manner built upon the principle of non-discrimination and fairness in which eligible suppliers are given the same opportunity and treated in the same fair manner;"*

1.2 According to Article 32.2 of the NFRs, *"the relevant finance committee/governing body will provide appropriate levels of delegated powers to deviate from the strict application of competitive bidding where justified for operational, efficiency, economic or technical reasons."*

1.3 The STO Centre for Maritime Research and Experimentation (STO-CMRE) Financial Procedures (FPs) (AC/323-D(2017)0003-REV1-INV), approved by the STO

Science and Technology Board (STB), Chapter “Procurement of Goods and Services (CMRE)” paragraph 3.3 states that the STO Financial Controller (FC):

“Shall ensure and verify that procurement and contracting principles are in line with the NFR as approved by Council and the related FRP. He may delegate this role to the Head of CMRE Budget and Finance.”

“The STO Financial Controller or the Head of the CMRE Budget and Finance by delegation: [...] Authorises the departure from procurement regulations. Requests for authorization to deviate will be made on a case-by-case basis. They will be fully justified and documented and must be based on the inability to reasonably comply with competitive requirements. When the departure involves a procurement exceeding Level E of the Established Financial Limit (EFL) such cases shall be submitted via the Financial Controller.”

1.4 Annex A of the STO-CMRE FPs Chapter 3 provides a table of Competition Requirements and Procurement Procedures. It establishes that for commitments exceeding level E of the Established Financial Limits ((EFL) EUR 800,000), international competitive bidding and a formal procedure involving a Contract Award Committee (CAC) is required. The final contract requires also a signature of both the contracting officer and Financial Controller.

1.5 However, in this Annex to the STO FPs, no deviation authority is clearly indicated for contracts with a value above EUR 800,000 (EFL E). The only deviation authority obligation as per the FPs is as follows: “*Info STO FASG*” [Financial and Audit Sub-Group], which is a sub-committee of the STB. According to STO-CMRE, this means that the deviation authority above level E is designated as for information of the STO FASG only.

1.6 In December 2021, following an international competition, STO-CMRE signed a technical management contract with a certified ship Manager (hereinafter the Manager) responsible for the implementation of technical support to permit safe operation of STO-CMRE's two vessels, the Leonardo and the Alliance. The contract was effective until 31 December 2022, with an option for STO-CMRE to exercise four additional twelve-month extension periods.

1.7 As stated in the contract, the Manager's scope and responsibility include the organisation and supervision of dry-docking, repairs, alterations and maintenance of the vessel to the standards agreed with STO-CMRE. The contract also provided that the Manager has the right to incur the necessary expenditure to carry out the maintenance work ensuring that the vessel complies with all the requirements and recommendations of the classification society, and the legislation of the flag state and locations where the vessel is to sail.

1.8 During the tendering procedure, only the management fees payable to the Manager were considered by STO-CMRE, effectively excluding estimated maintenance costs from the price competition. Consequently, the contract price

pertains solely to the management fees fixed firm price (FFP) and does not cover the actual maintenance costs that the Manager must incur on a cost-reimbursement basis to perform its duties.

1.9 The maintenance budget is agreed upon annually by STO-CMRE in coordination with the Manager and in accordance with the procedures and timing set out in the technical management contract. Therefore, the annual maintenance costs represent a separate commitment from the technical management contract and vary according to the maintenance planned for the upcoming year.

1.10 STO-CMRE makes regular advance payments to the Manager to cover the working capital for maintenance costs as budgeted. The Manager then charges vessel maintenance costs to STO-CMRE on a reimbursable basis, combining calls for advance funds and end-of-year adjustment invoices. The latter is done upon submission of accounting reports, supported by the invoices from the Manager's subcontractors responsible for carrying out the maintenance work and procured by the Manager.

Observations

1.11 IBAN found that in 2023, the STO-CMRE committed material maintenance and dry-docking costs for the two vessels (the Alliance and the Leonardo) with the contractor in charge of the vessels' technical management without formally including specific contract provisions for the maintenance costs. This situation arose because the competition under the initial call for tenders for this contract with the Manager was limited to the value of the management fees only, and did not include the maintenance costs. These commitments amounted to EUR 3.4 million. This included EUR 2.1 million for the dry dock of the Alliance and EUR 1.3 million for maintenance of the two vessels. The Manager's management fees for 2023 amounted to EUR 0.48 million.

1.12 Considering the amount of the contract, including the maintenance costs, the powers to deviate from the strict application of competitive bidding should be provided by the relevant finance committee/governing body, in compliance with Article 32.2 of the NFRs.

1.13 STO-CMRE stated that the vessels' estimated costs in regards to maintenance is a focus of their communication with the FASG and subsequently all financial forecasts are approved the STB. This indicates that STO-CMRE provided information to their governing body in a transparent manner.

1.14 However, in the absence of such deviation authority clearly designated in the FPs, STO-CMRE did not request and obtain a waiver from competitive procurement rules in favour of a sole-source contract with the ship Manager for the procurement of maintenance and dry-dock work on the vessels. This is not compliant with Article 32.2 of the NFRs.

Recommendations

1.15 IBAN recommends that STO:

- a) Request from the competent deviation authority, where appropriate, a waiver of the competitive procurement rules in favour of a sole-source contract with the certified ship management company, covering the management fees and maintenance costs.
- b) Ensure that the STO Financial Procedures comply with Article 32.2 of the NFRs and designate the powers to deviate from the strict application of competitive bidding for contracts with a value above EFL E.

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

Reasoning

2.1 The STO 2023 Financial Statements were prepared in accordance with the NATO Accounting Framework (NAF). This accounting framework is based on IPSAS, as adapted by NATO.

2.2 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.”*

2.3 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.

2.4 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.

2.5 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.”*

2.6 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.

2.7 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.

2.8 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.

2.9 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 [...].*"

2.10 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.*"

2.11 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.

2.12 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 9 of the STO 2023 Consolidated Financial Statement states: "Payables to nations are surplus funds to be returned to the nations. They include lapsed appropriations, and miscellaneous income from operational and financial results".

Observation

2.13 IBAN found that revenue and expenses relating exclusively to STO-CSO and STO-OCS recognised in the Statement of Financial Performance were incorrect because they did not include the following items:

- a) The net financial revenue of EUR 81,493 mainly relating to short term investments 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.

In addition, STO, did not declare the income from these investments as miscellaneous income of STO-CSO and STO-OCS in the annual financial statements as required by Article 31.2 of the NFRs.

- b) The reversal of previous year's net overestimate of accruals amounting to EUR 37,718 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 Other current liabilities – Payables to Nations.
- c) Miscellaneous income amounting to around EUR 11,700 initially booked in revenue, were reversed and included under Payables – Payables to Nations.

2.14 Although STO- CSO and STO-OCS surpluses, in line with Article 29 of the NFRs and FRP XXIX, are returned to Nations and do not remain in net assets/equity, STO is still required to apply IPSAS 1 and IPSAS 3 for the recognition of revenue and expenses in the Statement of Financial Performance.

Recommendations

2.15 IBAN recommends that STO-OCS and STO-CSO:

- a) 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).

- b) Comply with Article 31.2 of the NFRs relating to disclosures of short-term investment income in the annual financial statements.

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) STO FY 2022 IBA-AR(2023)0016, paragraph 1 NEED TO IMPROVE THE CONTROL OVER THE ACCOUNTING OF ADVANCES AND COSTS FOR VESSELS' MAINTENANCE BY THE SHIP MANAGEMENT CONTRACTOR IBAN's Recommendation IBAN recommends that STO-CMRE a) establish a formal procedure with the ship management contractor using appropriate financial reporting statements to track the progress and costs of vessel maintenance work, in order to ensure the reliability of the assessment of costs to be recorded on an accrual basis at the end of the year;	a) STO-CMRE held several coordination meetings directly with the Ship Manager to organise the processes for reconciling expenses, including accruals and paid invoices, in order to control the expenses declared by the Manager and make STO-CMRE's accounts more reliable. The steps in this process are as follows: The Ship Manager sends STO-CMRE a Monthly Operational Summary Statement for both vessels to STO-CMRE's Maritime Operations (MAROPS) and Finance (FIN).	Observation In-Progress.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
b) obtain from the ship management contractor a summary invoice for the cost to be charged against the advances; c) implement a standard operating procedure for controlling the costs declared by the ship management contractor, in accordance with audit provisions of the framework contract, based for example on a documented review of the sub-contractors' invoices.	The monthly summary contains; • An operational expense statement showing costs incurred during the month, monthly variances, actual year to date expenses, and year to date variances; • Copies of invoices related to the operational expenses; • Copies of purchase orders for goods and services that have been received. The monthly cost summary is reviewed by for verification of expenses against the established budget. Any discrepancies are raised with the Ship Manager for verification/further action. Closed b) STO-CMRE has received the information required in accordance with the process and within the planned timeframe concerning the costs to be charged in advance. Closed c) A process exists to control costs declared by the Ship Manager, but the written standard operating procedure has not yet been formalised. In-Progress	
(2) STO FY 2022 IBA-AR(2023)0016, paragraph 2 PROCUREMENT OF CSO'S ELECTRICITY SUPPLY CONTRACT NOT COMPLYING WITH THE NFRs AND FRPs IBAN's Recommendation IBAN recommends that STO-CSO comply with the provisions of Article 32.1 of the NFRs and Article XXXII of the FRPs regarding procurement rules under simplified acquisition procedure and, if	For the subscription of its electricity supply contract, STO-CSO issued a sole source request in 2023.	Observation Closed.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
applicable, with waivers for the subscription of its electricity supply contract.		
(3) STO FY 2021 IBA-AR(2022)0022, paragraph 1 NEED TO CAPITALISE THE UPKEEP COSTS FOR THE VESSELS IBAN's Recommendation IBAN recommends that STO-CMRE: a) Reclassifies inspections cost for the Certificate of Class currently reported as expenses in the STO Statement of Financial Performance as PP&E in the STO Statement of Financial Position. b) Accounts and discloses with retroactive effect in the STO Financial Statements past expenses for the Certificate of Class inspections as PP&E in accordance with the NATO Accounting Framework. c) Depreciates the Certificate of Class inspections costs considering that the useful life for depreciation corresponds to the period between two consecutive inspections in accordance with the NATO Accounting Framework. d) Makes an assessment in order to determine if the minor upkeeps need to be capitalised in accordance with IPSAS 17. e) Develops an accounting policy for Certificate of Class inspection costs, consistent with NATO Accounting Framework and IPSAS 17 requirements, taking into account the above changes.	a), b), c), d) and e) Capitalisation of major and minor upkeeps of the vessels was reported in the 2023 Financial Statements with the appropriate retroactive effects applied to previous years balances. The accounting policy was updated accordingly, but the capitalisation is presented as a change in accounting policy when it was a correction of an error due to misapplication of IPSAS 17.	Observation Closed.

SCIENCE AND TECHNOLOGY ORGANISATION (STO) FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

OBSERVATION 1: MATERIAL NON-COMPLIANCE FOR THE PROCUREMENT OF VESSELS' MAINTENANCE AND DRY-DOCKING THROUGH STO-CMRE'S CERTIFIED SHIP MANAGERS

STO's Formal Comments

Not agreed.

CMRE disagrees as a thorough legal review did not identify this contract to be two separate contracts as indicated by IBAN. Additionally, the Financial Controller was aligned with the legal advisor on this matter. The Finance Audit Sub-Group (FASG) was notified and approved the forecasted spending in regard to vessel maintenance as required in the STO Financial Procedures.

In light of this observation, CMRE will suggest a revision of the STO-Financial Procedures to clarify the waiver/approval process.

It should be noted that CMRE diligently drafted this materially sizeable contract to ensure compliance. The purpose of this contract was to bring more control over planned and unplanned maintenance spending, all to be within the best interest of NATO economically. During the tendering process, the management fees for the technical managers, fixed firm price (FFP), were determined with the objective of the technical managers to bring forth an annual maintenance budget and dry-dock planned budget.

IBAN's Position

IBAN acknowledges that there is only one contract with the certified ship management company and has amended the observation and recommendation to reflect this specific matter, without changing their core substance.

OBSERVATION 2: MISSTATEMENTS IN THE RECOGNITION OF REVENUE AND EXPENSES RELATED TO FINANCIAL AND OPERATIONAL LIABILITIES IN THE STATEMENT OF FINANCIAL PERFORMANCE

STO's Formal Comments

Not agreed.

STO 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 STO 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 STO 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".

CSO and OCS 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 STO consolidated net assets/equity as their annual contribution to the net assets/equity is nil.

For the CSO and OCS, a remainder 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 STO 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 STO 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 STO, but have found no substantial reason to amend the observation and recommendation, which are maintained.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(1) STO 2022 FY

IBA-AR(2023)0016, paragraph 1

**NEED TO IMPROVE THE CONTROL OVER THE ACCOUNTING OF ADVANCES
AND COSTS FOR VESSELS' MAINTENANCE BY THE SHIP MANAGEMENT
CONTRACTOR**

STO's Formal Comments

*Recommendation a): Agreed.
None.*

Recommendation b): Agreed.

None.

Recommendation c): Agreed.

*CMRE has established a process during 2023 and will now formalize with a
documented procedure.*

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.

Consolidated financial statements of the

NATO SCIENCE AND TECHNOLOGY ORGANIZATION

for the year ended 31 December 2023



Index

Introduction	3
Statement on Internal Control.....	5
STO Consolidated Statement of Financial Position.....	8
STO Consolidated Statement of Financial Performance.....	9
STO Consolidated Cash Flow Statement.....	10
STO Consolidated Statement of Changes in Net Assets	11
Notes to the STO Consolidated Financial Statements	12
1. Significant accounting policies	12
1.1. Basis of preparation	12
1.2. Accounting estimates and judgments.....	12
1.3. Changes in accounting policies	12
1.4. Changes in pronouncements	13
1.5. Foreign currency transactions	13
1.6. Consolidation	14
1.7. Services in-kind	14
1.8. Financial instruments disclosure/presentation	14
1.9. Cash and cash equivalents	15
1.10. Receivables.....	15
1.11. Prepayments	15
1.12. Property, plant and equipment (PP&E)	15
1.13. Impairment of tangible and intangible assets	16
1.14. Payables	16
1.15. Deferred revenue.....	16
1.16. Advances	16
1.17. Employee benefits – Post-employment benefits.....	16
1.18. Net Assets	17
1.19. Revenue	17
2. Cash and cash equivalents	18
3. Receivables.....	18
4. Prepayments	18
5. Property, plant and equipment	19
6. Payables	21
7. Deferred revenue.....	21

8. Advances	22
9. Other current liabilities	22
10. Deferred Revenue – Non-current liabilities	22
11. Net Assets	22
12. Revenue	24
13. Personnel	24
14. Contractual supplies and services.....	25
15. Contingent liabilities	25
16. Segment reporting	25
17. Related parties	27
18. Representation allowance	27
19. Morale and Welfare Activities	28
20. Events after the reporting date	28
Annex 1: Budget Execution Statements.....	29

Introduction

1. The NATO Science & Technology Organization (STO) is a NATO organisation, with a Charter approved by the North Atlantic Council. The mission of the STO is to help position the Nations' and NATO's S&T investments as a strategic enabler of the knowledge and technology advantage for the defence and security posture of NATO Nations and partner Nations by:

- a. Conducting and promoting S&T activities that augment and leverage the S&T capabilities and programmes of Nations and NATO in support of Alliance objectives;
- b. Contributing to NATO's ability to influence security and defence related capability development and threat mitigation in NATO and partner Nations;
- c. Delivering targeted and timely evidence-based advice in support of decision-making in NATO Nations and NATO.

2. According to the STO Charter, governance of the STO is vested in the Science & Technology Board (STB). The STO has three separate executive bodies:

- a. Office of the Chief Scientist (OCS), located in the NATO Headquarters, Brussels, Belgium;
- b. Collaboration Support Office (CSO), located in Neuilly-sur-Seine, France ; and
- c. Centre for Maritime Research & Experimentation (CMRE), located in La Spezia, Italy.

3. Russia's unprovoked war on Ukraine, the new NATO Strategic Concept and the 2022 NATO Madrid Summit have put a new emphasis on S&T in NATO and so the STO. Heads of State and Government and Allies at NATO have identified S&T as a key strategic enabler to NATO, and the STO swiftly evaluated the impact of this new situation to derive necessary organizational adaptation of the STO in its entirety. The NATO STB established the STO2030 Working Group (WG) to develop strategic guidance on the future direction of the STO towards 2030.

4. In 2023, the OCS published the Science & Technology Trends 2023 to 2043 report, a systematic forward look at the future development trajectories of the all technology areas relevant to deterrence and defence. Tailored to political and military audiences and targeted at planners and decision-makers, this report was delivered in time to inform the NATO Defence Planning Process, and in particular the setting of military requirements. The OCS continued to provide high-level summaries of STO research work in order to inform the Deputy Permanent Representatives on key technology developments relevant for the implementation of the Emerging and Disruptive Technologies Roadmap. The Chief Scientist's programmatic budget was instrumental to build S&T capacity in fledgling research areas, to seek knowledge and insights from external sources, and to build tools that facilitate programme coordination and provide situational awareness of the evolving global S&T environment. In 2024, the OCS is still faced with an increasing demand for specific, targeted S&T Advice to NATO and NATO Nations and their leaderships in a variety of technology domains.

5. In 2022, the CSO finalized the implementation of its new PE, which allowed to support the Collaborative Program of Work (CPoW) at the pre-COVID level. However, the CSO experienced further significant increase in Nations' demand for collaborative S&T following the 2022 Madrid Summit, which led to further growth of the CPoW. Hence one of the key conclusions of the STO2030 WG was the need for a systematic review of the CPoW, its structures, processes and support requirements. The CSO has conducted that review and obtained STB agreement for a suite of actions to adapt organisational

structures, IT tools, management processes, staffing, etc. Key actions have already been launched and will be completed in 2024, while others will take some time to prepare and execute.

6. In 2023, the CMRE excelled with a historical high revenue due to an increase in demand for maritime S&T research from a variety of customers. This allowed the CMRE to achieve a surplus of over 4 MEUR for the period, which was used in part to support increased working capital needs related to higher volume and ongoing investments in the IT infrastructure and vessel upkeep.

7. Nevertheless, despite the challenging circumstances, the STO and its composing activities and programmes were able to successfully contribute to the Alliance's overall objectives, its three core tasks and strengthened its Deterrence and Defence posture.



Dr Bryan Wells
NATO Chief Scientist
Chairman, NATO Science and Technology Board



Mike HORGAN
GBRCV – Financial Controller
International Military Staff
Science & Technology Organisation

Statement on Internal Control

The NATO Chief Scientist and Chairman of the Science and Technology Board (STB), together with the Directors of the Centre for Maritime Research and Experimentation (CMRE) and the Collaborative Support Office (CSO), as Heads of the three Executive Bodies of the NATO Science & Technology Organization (STO), collectively exercise overall responsibility for STO Risk Management and Internal Control systems, in accordance with NATO Financial Regulations (NFRs).

NFRs also state that the Financial Controller is responsible for the organisation and administration of the internal control system, which includes a responsibility to the NATO Chief Scientist for financial risk management and for establishing financial risk management standards according to Financial Rules and Practices (FRPs) as well as establishing a system of internal financial and budgetary control.

The systems of risk management and internal control are based on an on-going process designed to identify the principal risks to the achievement of STB policies, aims 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 eliminate risk at the STB. Risk management and internal controls can therefore provide only a reasonable, but not absolute, assurance of effectiveness. The risks addressed at the STB include: risks to STB operational aims and objectives; compliance with the NFRs; the accuracy and reliability of financial information; and the safeguarding of assets.

The risk management and internal control processes at the STO provide a network of internal controls that can be assessed using the five key components of the Committee of Sponsoring Organisations of the Treadway Committee (COSO) Framework:

Control Environment

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

Oversight is provided by the STB, supported by various sub-groups, who routinely scrutinize STO Senior Management reports on strategic operational matters.

On financial matters, interim Budgetary Execution Reports are presented to and reviewed by the NATO Budget Committee two times a year for the common-funded entities. In addition, STO financial requirements comprising the yearly budget proposals are screened and reviewed by the Nations. For the customer-funded entity, the financial execution and the annual financial plan are submitted to and screened by the STB Finance and Audit Sub-Group (FASG), which also sits biannually.

The overall structure of the STO incorporates clearly defined responsibilities and authorities in the pursuit of operational objectives. In this regard, the FASG mission is to prepare the decision making process of the STB, pertaining to the financial and audit governance of the STO and the

STO's executive bodies. The scope of the FASG activities covers all financial, audit and financial risk aspects of the STB's governance.

Risk Assessment

The STB acts as the risk champion by promoting and encouraging risk management at all levels of the STO from the top down. The STB ensures that major decisions are subject to a risk assessment and regularly reviews the most serious risks threatening the strategic objectives of the STO. The FASG Chair acts as the STO risk executive and oversees the execution of this policy and the adoption of the overall risk process and is supported by the Financial Controller, who has delegated authority from the STB. The STO risk executive also monitors and advises stakeholders on the STO's internal control mechanisms. The FASG reviews and comments on the findings of internal audit and on the maturity and effectiveness of the STO risk management practices.

Risk identification and management has now been extended to all organizational elements of the STB, and the risk register is being updated every six months. The STB is routinely informed about risks affecting the STO, via the work of the FASG.

Control Activities

Internal directives cover all aspects of business operations at entity level for the Office of the Chief Scientist (OCS), CSO and CMRE. Internal directives also include STO financial operating procedures. At an organisational level, the STO Financial Procedures and Risk Management Policy support the FASG with all financial, audit and risk aspects of the STB's governance.

In the financial domain, the STO Financial System (FinS) has built-in approval workflows and controls, together with audit trails. The controls are designed in order that the transactions are recorded consistently, accurately and in accordance with the applicable rules and regulations.

Further control activities exist through monthly meetings between the STO Heads of Finance and Financial Controller, including regular reporting activates to both the Financial Controller and the Budget Committee. Additionally, biannually the OCS and CSO submit Budget Execution Reports, budgets, the CMRE charge-out rates and their financial plans.

Information and Communication

STO internal communications are enhanced by strong reporting lines. The STO has extensive guidance on the management of information and communications. This promotes effective communications in pursuit of operational objectives, and in turn provides for effective functioning of internal control.

The STO communicates externally on matters affecting the functioning of internal control mechanisms including the Statement on Internal Control, which is included in the financial statements. External audits include examinations of internal controls and compliance. The

results of these audits are reviewed by various oversight authorities and made available to the general public along with the financial statements.

Monitoring

An outsourced internal audit service provider is engaged on an annual basis to undertake internal audit assignments as directed by the Financial Controller. The STO is also subject to annual financial and external audit from the International Board of Auditors for NATO (IBAN).

The heads of each executive body are supported by Executive Management Boards who meet weekly to review internal processes and to inform decision-making. The STO entities reports at least biannually to the STB through the FASG on their financial business operations.

Recommendations and observations arising from audits are assessed by the FASG, which vets the remediation actions, reporting the results to the STB.

The Chair of the STB, the Heads of NATO body of CSO and CMRE and the Financial Controller have collective responsibility for reviewing the effectiveness of the system of internal control. The review is informed by the above five COSO components, and by the work of STO senior managers, external audits, internal audits, and the work of various sub-groups reporting to the STB, including the FASG.

Overall, while continuing to develop further application guidance within the framework of the STO Risk Management Policy, we are satisfied that the Risk Management and Internal Financial Control systems in operation across the STO during the year 2023 were reasonably adequate and effective.



Dr Bryan Wells
NATO Chief Scientist
Chairman, NATO Science and Technology Board



Mike HORGAN
GBRCV – Financial Controller
International Military Staff
Science & Technology Organisation

STO Consolidated Statement of Financial Position

as at 31 December 2023

(in EUR)

		<u>2023</u>	<u>2022</u> <u>Restated</u>
	Notes		
Assets			
Current assets			
Cash and cash equivalents	2	15,499,642	11,245,726
Receivables	3	9,435,675	6,750,257
Prepayments	4	1,417,936	920,201
		<u>26,353,253</u>	<u>18,916,184</u>
Non-current assets			
Property, plant & equipment	5	3,624,114	2,193,298
		<u>3,624,114</u>	<u>2,193,298</u>
Total assets		<u>29,977,367</u>	<u>21,109,482</u>
Liabilities			
Current liabilities			
Payables	6	3,411,804	2,799,233
Deferred revenue	7	1,067,241	419,872
Advances	8	4,235,037	2,908,253
Other current liabilities	9	846,041	667,683
		<u>9,560,123</u>	<u>6,795,041</u>
Non-current liabilities			
Deferred revenue	10	721,223	733,562
		<u>721,223</u>	<u>733,562</u>
Total liabilities		<u>10,281,346</u>	<u>7,528,603</u>
Surplus/Deficit		6,115,142	4,041,639
Retained earnings		13,580,879	9,539,240
Total net assets	11	<u>19,696,021</u>	<u>13,580,879</u>
Total net assets and liabilities		<u>29,977,367</u>	<u>21,109,482</u>



Dr Bryan Wells
NATO Chief Scientist
Chairman, NATO Science and Technology Board



Mike HORGAN
GBRCV – Financial Controller
International Military Staff
Science & Technology Organisation

The notes on pages 12 to 28 form an integral part of these financial statements.

The financial statements were issued to the International Board of Auditors for NATO on 28 March 2024.

STO Consolidated Statement of Financial Performance

for the year ended 31 December 2023

(in EUR)

		<u>2023</u>	<u>2022</u> <u>Restated</u>
	Notes		
Revenue			
Revenue	12	44,574,244	38,187,307
Financial revenue		30,796	64,792
Total revenue		<u>44,605,040</u>	<u>38,252,099</u>
Expense			
Personnel	13	20,453,091	19,358,905
Contractual supplies and services	14	16,689,525	13,135,959
Depreciation	5	1,209,512	1,562,004
Financial costs		137,770	153,592
Total expense		<u>38,489,898</u>	<u>34,210,460</u>
Surplus/(Deficit) for the period		<u>6,115,142</u>	<u>4,041,639</u>

STO Consolidated Cash Flow Statement

for the year ended 31 December 2023

(in EUR)

		2023	2022 Restated
Cash flow from operating activities	Notes		
Surplus/(Deficit)		6,115,142	4,041,639
Non-cash movements			
Depreciation	5	1,209,512	1,562,004
Effect of foreign exchange rate changes		28,712	55,525
Increase / (decrease) in payables		612,571	561,266
Increase / (decrease) in deferred revenue		647,370	(306,052)
Increase / (decrease) in advances		1,326,783	69,101
Increase / (decrease) in other current liabilities		178,358	(432,927)
Increase / (decrease) in deferred revenue		(12,339)	(80,645)
(Increase) / decrease in other current assets		(497,735)	(429,171)
(Increase) / decrease in receivables		(2,685,418)	(1,262,599)
Net cash flow from operating activities		<u>6,922,956</u>	<u>3,778,141</u>
Cash flow from investing activities			
Purchase of property plant and equipment	5	<u>(2,640,328)</u>	<u>(298,238)</u>
Net cash flow from investing activities		<u>(2,640,328)</u>	<u>(298,238)</u>
Cash flow from financing activities	2		
Cash in from IMS BG transfer		700,000	500,000
Cash out from IMS BG transfer		<u>(700,000)</u>	<u>(500,000)</u>
Net cash flow from financing activities		<u>-</u>	<u>-</u>
Net increase/(decrease) in cash and cash equivalents		<u>4,282,628</u>	<u>3,479,903</u>
Cash and cash equivalent at the beginning of the period		<u>11,245,726</u>	<u>7,821,348</u>
Effect of foreign exchange rate changes		(28,712)	(55,525)
Cash and cash equivalent at the end of the period	2	<u>15,499,642</u>	<u>11,245,726</u>

STO Consolidated Statement of Changes in Net Assets

for the year ended 31 December 2023

(in EUR)

	Commitments / Legal Obligations	Depreciation Reserve	Vessels Reserve	Net Equity Fund	General Reserve	Total
Balance at the end of the period 2021	602,992	2,072,810	810,850	2,315,516	3,167,024	8,969,192
Restated	-	570,048	-	-	-	570,048
Restated balance at 1-Jan-2022	602,992	2,642,858	810,850	2,315,516	3,167,024	9,539,240
Surplus/(deficit) for the period	666,221	(1,183,121)	1,400,000	1,184,484	1,974,055	4,041,639
Change in net assets/equity for the year ended 2022	666,221	(1,183,121)	1,400,000	1,184,484	1,974,055	4,041,639
Balance at the end of the period 2022	1,269,213	1,459,737	2,210,850	3,500,000	5,141,079	13,580,879
Surplus/(deficit) for the period	1,673,981	1,443,155	(1,251,286)	-	4,249,292	6,115,142
Change in net assets/equity for the year ended 2023	1,673,981	1,443,155	(1,251,286)	-	4,249,292	6,115,142
Balance at the end of the period 2023	2,943,194	2,902,892	959,564	3,500,000	9,390,371	19,696,021

Notes to the STO Consolidated Financial Statements

1. Significant accounting policies

1.1. Basis of preparation

The STO financial statements 2023 have been prepared in accordance with the NATO Accounting Framework (NAF). The NAF 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 relevant entity directives and policies. In instances where there is a conflict between IPSAS and the NFRs, this has been noted.

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

In accordance with Article 2 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. They have been applied consistently to all periods presented. 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 judgments

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, revenue and expenses reported. By their nature, these estimates are subject to measurement uncertainty. The effect of changes to such estimates and assumptions in future periods could be significant to the financial statements.

1.3. Changes in accounting policies

In 2023, the STO changed its accounting policy to capitalize as property, plant and equipment (PP&E) minor and major dry-dock maintenance costs. Costs of 744,569 EUR in 2021, 265,545 EUR in 2022 and 2,001,285 EUR in 2023 have now been capitalized and the 2022 comparative balances have been restated. Costs are depreciated over useful life periods of 5 years for the dry-dock maintenance costs, and 2.5 years for the minor upkeep that corresponds to the period between inspections for the Certificate of Class for vessels. Under the previous accounting policy, these costs were fully expensed in the year incurred.

The 2022 STO Statement of Financial Position has been restated in the amount of 493,429 EUR (272,384 EUR for the NRV Alliance and 221,045 EUR for the CRV Leonardo) in both the net assets and the PP&E. A reduction of 265,545 EUR in contractual supplies and services and an increase of 342,164 EUR in depreciation expense in the 2022 comparatives of the statement of financial performance results in a net increase in expenses of 76,619 EUR with a corresponding decrease in surplus/deficit. The surplus/deficit for the period is reduced from 4,118,258 EUR in the 2022 Statement of Financial Performance to 4,041,639 EUR in the restated 2022 comparatives.

1.4. Changes in pronouncements

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

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

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 STO in future periods.

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

1.5. Foreign currency transactions

These financial statements are presented in euro (EUR), which is the STO functional and reporting currency. Foreign currency transactions are accounted for at the NATO exchange rates prevailing at the date of the transaction. Monetary assets and liabilities which were denominated in foreign currencies at year-end are assessed for materiality and if material are converted 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 Statement of Financial Performance.

1.6. Consolidation

The STO comprises the Science and Technology Board (STB) and three separate executive bodies:

Name	Location
Office of the Chief Scientist (OCS)	Brussels – Belgium
Collaboration Support Office (CSO)	Neuilly-sur-Seine – France
Centre for Maritime Research and Experimentation (CMRE)	La Spezia – Italy

According to Article 25 of the Charter of the NATO Science and Technology Organization, the NATO Chief Scientist, supported by the STO Financial Controller, shall submit consolidated annual financial statements to the STB and the International Board of Auditors for NATO (IBAN).

The three bodies each have a separate Director (Head of NATO Body), and a separate budget or revenue stream. None of the bodies has control over the others, as defined in IPSAS 35 - paragraphs 18-22. OCS and CSO are common funded entities and CMRE is customer funded.

Morale and Welfare Activities (MWA) such as sport, community service, retail and concessionary activities are only conducted by the CMRE. In accordance with the NAF departure from IPSAS 6, these activities are not consolidated into the respective financial statements of NATO reporting entities. More information on MWA is disclosed in note 19.

1.7. Services in-kind

The STO 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 Personnel Establishment (CMRE) and Peacetime Establishments (CSO and OCS) of the executive bodies and/or provided as voluntary contributions. This also includes military personnel assigned to the crew of the research vessels Alliance and Leonardo. In these financial statements, services in-kind are recognized neither as revenue nor as an asset.

1.8. Financial instruments disclosure/presentation

STO 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 the financial instruments are recognized in the Statement of Financial Position at their fair value.

Credit risk: In the normal course of business, STO incurs credit risk from trade receivables and transactions with banking institutions. The STO 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 accounted for. There is a very limited credit risk associated with the realization of these instruments.

Currency risk: The STO's exposure to foreign currency exchange risk is very limited, as most of its transactions are dealt with in euros. A limited number of transactions are accounted for in other currencies.

Liquidity risk: The liquidity risk is based on the assessment of whether the organization will encounter difficulties in meeting its obligations associated with financial liabilities.

For CSO and OCS, there is a very limited exposure to liquidity risk because of the budget funding mechanism that 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. For CMRE, liquidity risk is minimized by the cash available in the Net Equity Fund (NEF) and by the policy of requiring pre-payments and milestone payments from customers.

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

1.9. Cash and cash equivalents

Cash and cash equivalents are defined as short-term assets. They include cash in hand and deposits held with banks.

1.10. Receivables

Receivables are stated at net realizable value after provision for doubtful and uncollectible debts. It can also include amounts due from other NATO entities and/or staff members.

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.

1.11. Prepayments

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

1.12. Property, plant and equipment (PP&E)

Property, plant and equipment 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. Monthly

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. Property, plant and equipment is derecognized when no future economic benefit is expected. The cost and any related accumulated depreciation are removed from the accounting records.

Assets purchased prior to the implementation of the NATO Accounting Framework

In accordance with the NAF adaptation of IPSAS 17, property, plant and equipment acquired prior to 1 January 2013 has been fully expensed and the STO does not foresee any grouping of assets. STO owns or controls approximately 100 assets purchased before 1 January 2013, amongst them the NATO Research Vessel Alliance and the Coastal Research Vessel Leonardo. In accordance with the NATO Accounting Framework, the STO capitalizes improvements made to the assets on or after 1 January 2013 within the relevant equipment category.

1.13. Impairment of tangible and intangible 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.

1.14. Payables

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

1.15. Deferred revenue

For CSO and OCS, deferred revenue represents contributions from nations and/or third parties that have been called for current or prior year budgets but that have not yet been recognized as revenue.

For CMRE, deferred revenue represents revenue from customers for current or prior year activities for which goods have not been delivered or services have not been rendered at year-end.

1.16. Advances

For CSO and OCS, advances are income or contributions from member nations or third parties called or received, that are related to future budgets. 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.

For CMRE, advances from customers are either cash received as working capital or result from advance billing to customers where the rate of expenditure has fallen behind the agreed payment milestones.

1.17. Employee benefits – Post-employment benefits

STO employees participate either in the Defined Contribution Pension Scheme (DCPS) or in the Coordinated Pension Scheme.

The assets and liabilities for all of NATO's post-employment benefit schemes are accounted for

centrally at NATO Headquarters by the International Staff (NATO IS) and therefore are not recognized in these financial statements.

Defined Contributions Pension Scheme: The assets of the plan are held separately from those of STO in funds under the control of an independent Administrator. The STO 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 STO with respect to the DCPS is to make the specified contributions.

Coordinated Pension Scheme: Employees who 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 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.

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

1.18. Net Assets

Net assets are the residual interest in the assets of the entity after deducting its liabilities.

NATO entities perform their activities on a no profit/no loss basis over the reporting period. However, this does not prohibit the realization of an operating surplus or deficit in the financial reporting period.

1.19. Revenue

Revenue comprises contributions from member nations and other customers to fund STO activities. 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.

For CSO and OCS, revenue is recognized 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. 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.

For CMRE, revenue is recognized as goods and services are delivered to customers.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Exchange rate revenue due to transactions in foreign currency, in accordance with IPSAS 4 – The Effects of Changes in Foreign Exchange Rates, is recognized as financial revenue.

2. Cash and cash equivalents

	(in EUR)	
	2023	2022
Current accounts	15,497,202	11,243,036
Petty cash	2,440	2,690
Total	15,499,642	11,245,726

Cash and cash equivalents are short-term liquid assets, held in EUR, GBP and USD. Deposits are held in interest bearing bank accounts in immediately available funds. For CSO and OCS, cash holdings are largely determined by the timing of receipts from the nations, which arrive in two instalments, generally in March and November.

During the year, cash transfers totalling 700,000 EUR (2022: 500,000 EUR) were received from another entity in the IMS Budget Group 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 all of these cash transfers have been repaid.

3. Receivables

	(in EUR)	
	2023	2022
Receivable from non consolidated NATO entities	3,697,519	882,182
Receivable from governments	96,317	135,590
Other receivables	5,641,838	5,732,485
Total	9,435,674	6,750,257

Receivables are mainly invoices to be established for services that have been provided to CMRE customers, primarily to ACT and other non-consolidated NATO entities, but not yet invoiced at the end of the reporting period.

4. Prepayments

	(in EUR)	
	2023	2022
Prepaid expenses	408,855	344,987
Advances to vendors	889,081	575,214
Security deposit	120,000	-
Total Prepayments	1,417,936	920,201

Prepaid expenses are amounts paid for expenses to be incurred or services to be rendered in the following financial years. The figure relates, for the most part, to CMRE prepaid insurance for the two

vessels and software licences. The balance includes education advances paid to staff members for the following school year.

Advances to vendors are payments for which goods have not been received, or services have not been rendered.

Security deposit is an amount paid to the CMRE electricity supplier as a guarantee which will be returned to CMRE after the termination of the contract.

5. Property, plant and equipment

(in EUR)							
Cost	Mission equipment	AIS equipment	Vehicles	Installed equipment	Vessels	Work in progress	Total
Balance at 1 January 2022	4,950,015	1,384,137	103,024	3,339,408	744,569	-	10,521,153
Addition	-	-	-	-	265,545	-	265,545
Adjustments in 2022	-	-	-	-	-	32,693	32,693
Balance at 31 December 2022	4,950,015	1,384,137	103,024	3,339,408	1,010,114	32,693	10,819,391
Additions in 2023	86,680	-	-	136,655	2,001,285	448,400	2,673,020
Adjustments in 2023	-	-	-	-	-	(32,693)	(32,693)
Balance at 31 December 2023	5,036,695	1,384,137	103,024	3,476,063	3,011,399	448,400	13,459,718
Accumulated Depreciation							
Balance at 1 January 2022	(4,306,833)	(971,939)	(40,349)	(1,570,447)	(174,521)	-	(7,064,089)
Depreciation expenses 2022	(574,585)	(291,575)	(19,876)	(333,804)	(342,164)	-	(1,562,004)
Balance at 31 December 2022	(4,881,418)	(1,263,514)	(60,225)	(1,904,251)	(516,685)	-	(8,626,093)
Depreciation expenses 2023	(75,874)	(120,623)	(15,139)	(337,221)	(660,654)	-	(1,209,511)
Balance at 31 December 2023	(4,957,292)	(1,384,137)	(75,364)	(2,241,472)	(1,177,339)	-	(9,835,604)
Net book value							
Balance at 31 December 2022	68,597	120,623	42,799	1,435,157	493,429	32,693	2,193,298
Balance at 31 December 2023	79,403	-	27,660	1,234,591	1,834,060	448,400	3,624,114

For informational purposes, the PP&E table as presented in the 2022 Financial Statements is provided below:

(in EUR)						
Cost	Mission equipment	AIS equipment	Vehicles	Installed equipment	Work in progress	Total
Balance at 1 January 2021	4,950,015	1,384,137	55,608	2,852,593	3,022	9,245,375
Addition	-	-	47,416	483,793	-	531,209
Adjustments in 2021	-	-	-	3,022	(3,022)	-
Balance at 31 December 2021	4,950,015	1,384,137	103,024	3,339,408	-	9,776,584
Additions in 2022	-	-	-	-	32,693	32,693
Balance at 31 December 2022	4,950,015	1,384,137	103,024	3,339,408	32,693	9,809,277
Accumulated Depreciation						
Balance at 1 January 2021	(3,479,470)	(668,914)	(28,442)	(1,277,210)	-	(5,454,036)
Depreciation expenses 2021	(827,363)	(303,025)	(11,907)	(293,237)	-	(1,435,532)
Balance at 31 December 2021	(4,306,833)	(971,939)	(40,349)	(1,570,447)	-	(6,889,568)
Depreciation expenses 2022	(574,585)	(291,575)	(19,876)	(333,804)	-	(1,219,840)
Balance at 31 December 2022	(4,881,418)	(1,263,514)	(60,225)	(1,904,251)	-	(8,109,408)
Net book value						
Balance at 31 December 2021	643,182	412,198	62,675	1,768,961	-	2,887,016
Balance at 31 December 2022	68,597	120,623	42,799	1,435,157	32,693	1,699,869

Property, plant and equipment are capitalized in the following categories:

Category	Useful life	Threshold
Mission equipment	3	50,000
AIS equipment	3	50,000
Vessels	2.5 - 5	200,000
Vehicles	5	10,000
Installed equipment	10	30,000

The depreciation charge for the year was 1,209,512 EUR (2022: 1,562,004 EUR)

The premises of the three entities are generally provided by the Host Nation at no cost or at a nominal charge. Leasehold improvements made after 1 January 2013 are capitalized in accordance with the STO accounting policies.

STO – Assets purchased prior to the implementation of the NATO Accounting Framework

In accordance with the NAF, PP&E acquired prior to 1 January 2013 has been fully expensed and the STO does not foresee any grouping of assets.

CMRE owns approximately 100 assets purchased before 1 January 2013.

- *Vessels*
 - *The NRV Alliance*
 - *The CRV Leonardo*
- *IT Equipment*
 - *Disaster recovery*
 - *Satellite communication system*
 - *Various workstations and servers*
- *Mission Equipment*
 - *Multiple types of autonomous vehicles*
 - *Towed acoustics arrays*
 - *Multiple types of sonar*
- *Vehicles (car and forklift)*
- *Machinery (shredding machine)*
- *Installed Equipment*
 - *Air condition systems for the new and old building*
 - *Uninterrupted Power Supply (UPS) systems*
 - *TV closed circuit system*

NATO Research Vessels

The NATO vessels NRV Alliance and CRV Leonardo are used to carry out the CMRE programme of work for its customers. The CMRE and its predecessor organizations acquired full operational control and beneficial ownership of these two NATO vessels in 1988 and 2002 respectively. Following a North Atlantic Council decision on 21 December 2015, custody of both vessels (on behalf of NATO) was transferred from the Supreme Allied Commander Transformation, to the CMRE with effect from 1 January 2016.

The vessels are operated by the Italian Navy under Italian flagging and Italian military crew as agreed in a memorandum of understanding between the CMRE and Italy.

Notwithstanding the formal transfer in custody effective 1 January 2016, both vessels have been under the full operational control of the CMRE since their introduction into service in 1988 and 2002. The transfer of custody on behalf of NATO was a non-adjusting event. The acquisition date of both vessels remains unchanged. These assets have been recorded in accordance with the accounting policy in outlined in paragraph 1.12. In accordance with the NAF, improvements made to the vessels on or after 1 January 2013 are capitalized within the relevant equipment category.

CMRE intends to operate the vessels for the foreseeable future. Costs related to a potential future divestment have therefore not been assessed nor accounted for. Any future divestment decision (sale, dismantling or donation) regarding these vessels requires formal approval from the North Atlantic Council upon recommendation from the Defence Policy and Planning Committee (Resources) and the Resource Policy and Planning Board.

Write-offs

In 2023, no write-offs met the disclosure criteria in the NFRs.

6. Payables

	(in EUR)	
	2023	2022
Payable to suppliers	1,042,054	1,254,163
Accruals	2,369,750	1,545,070
Total	3,411,804	2,799,233

Payables are short-term liabilities to third parties directly related to the activities and operations of the STO. The average credit period on purchases is 30 days. STO has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

Accruals mainly relate to goods and services received before year-end and untaken leave.

7. Deferred revenue

The deferred revenue, in an amount of 1,067,241 EUR at year-end 2023 (2022: 419,872 EUR), is related to Programme of Work activities (CSO and OCS) and associated commitments not fully delivered by suppliers (carried-forward) at 31 December 2023 due to delays from contractors unable to fulfil their deliveries as planned.

8. Advances

	(in EUR)	
	2023	2022
Advances from customers	611,024	434,240
Contributions	3,600,000	2,450,000
Other advances	24,013	24,013
Total	4,235,037	2,908,253

Contributions are cash called or received related to future years' budgets (applicable to CSO and OCS), and advances from customers (applicable to CMRE).

9. Other current liabilities

	2023	2022
Payables to nations	846,040	526,877
Liabilities for loss of job indemnity	-	140,806
	846,040	667,683

Payables to nations are surplus funds to be returned to the nations. They include lapsed appropriations, and miscellaneous income from operational and financial results.

10. Deferred Revenue – Non-current liabilities

The non-current deferred revenue represents the net carrying amount of PP&E of CSO and OCS in an amount of 721,223 EUR (2022: 733,562 EUR). The revenue will be recognized in the year when the depreciation expense will be recognized.

11. Net Assets

The surplus of the period of 6,115,142 EUR increased the CMRE net assets, which are allocated as follows:

Reserve	Commitments / Legal Obligations	Depreciation Reserve	Vessels Reserve	Net Equity Fund	General Reserve	Total
Net Assets 31st December 2022	1,269,213	1,459,737	2,210,850	3,500,000	5,141,079	13,580,879
Net change in Vessels Reserve			(1,251,286)			(1,251,286)
Net change in PPE		1,443,155				1,443,155
Net change in Commitments	1,673,981					1,673,981
Net change in Net Equity Fund				-		-
Net change in General Reserve					4,249,292	4,249,292
Net Assets 31st December 2023	2,943,194	2,902,892	959,564	3,500,000	9,390,371	19,696,021
Net result of the period						6,115,142

Commitments/Legal Obligations

The reserve for commitments represents the value of orders for goods and services placed in one financial year, but neither received nor invoiced until the following fiscal year(s).

Depreciation Reserve

The depreciation reserve represents the net book value of assets and a source of future depreciation expense.

Vessels Reserve

The reserve is used to accumulate resources in current periods to fund future major vessel upkeep projects.

NRV Alliance undergoes one major and one minor upkeep on a five-year period cycle. In 2023, a major upkeep was performed in the amount of 2,001,285 EUR funded by the vessel reserve funds. At year-end, a contribution to the vessel reserve fund was made in the amount of 750,000 EUR in preparation for the next upkeep.

Net Equity Fund (NEF)

The STO Charter states that the governing board may establish a Net Equity Fund (NEF) to facilitate the CMRE operations. The fund was established to provide liquidity for projects, to act as a buffer for project gains and losses, and to be a source of funds for investments.

General Reserve

This represents the net accumulated surplus available for allocation in subsequent financial periods. In 2023, due to an expansion of the revenue, the general reserve increased by 4,249,292 EUR (2022 increased by 1,974,055 EUR).

12. Revenue

	2023	2022
Revenue from contributions	12,919,142	8,989,753
Revenue from services	31,655,102	29,197,554
Total	44,574,244	38,187,307

Revenue from contributions is revenue received from the member nations to cover the operational expenses of CSO and OCS.

Revenue from services is the revenue received from CMRE customers and projects funded from industries and other public organizations.

13. 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 personnel establishments (PE) of the STO entities at 31 December 2023 are shown in the table below.

Personnel Establishment	PE - Authorized			PE - Filled			VNC
	Mil	Civ	Total	Mil	Civ	Total	
CSO	14	39	53	9	38	47	-
OCS	5	7	12	2	7	9	-
CMRE	9	-	9	5	-	5	1
International Workforce Ceiling	28	46	74	16	45	61	1
CMRE - Customer funded positions	-	169	169	-	121	121	-
Total	28	215	243	16	166	182	1

The breakdown of salaries and other personnel related expenses is as follows:

	(in EUR)	
	2023	2022
Basic salary	13,688,224	13,237,975
Allowances	2,384,549	2,519,990
Employer's contribution to post-employment benefits	1,243,031	1,183,910
Employer's contribution to insurance	1,632,914	1,582,954
Consultant	973,625	542,423
Other allowances	414,454	160,354
Medical examination	23,527	57,938
Training	92,767	73,361
Total personnel expenses	20,453,091	19,358,905

Untaken leave

The balance of untaken leave at the end of 2023 is days 1,598 (2022: 1,481 days). The associated cost is recognized as an accrual of 529,219 EUR (2022: 594,813 EUR).

14. Contractual supplies and services

	(in EUR)	
	2023	2022
General support	2,338,784	2,202,293
Mission support	12,071,860	8,990,439
Travel	1,161,206	861,863
Grants and subsidies	969,112	619,040
Miscellaneous	43,737	236,941
Capital and investments	104,825	225,383
Total Expenses	16,689,525	13,135,959

Contractual supplies and services include expenses required for STO activities: general administrative costs, maintenance costs of buildings/grounds, communications and information systems, transportation, travel expenses, representation/hospitality and miscellaneous expenses.

15. Contingent liabilities

In 2022, the Italian authorities re-issued a claim to the CMRE for contributions to the Italian National Health System. The claim covers all NATO entities in Italy and dates back to the 1980's. The NATO HQ legal services are aware of this matter, and the claims are suspended pending resolution of the issue between NATO and Italy. As of the date of the financial statements, the CMRE is not aware that the claim will be substantiated, and can make no estimate as to when this case will be resolved. There is a remote possibility of a future obligation and the CMRE assessment is that no settlement will be made.

In 2020, CMRE became aware of an invoice issued in 2019 in the amount of 213,000 EUR for repairs made to the NRV Alliance. CMRE's position is that these repairs, conducted in 2019, were a direct consequence of the supplier's defective workmanship when carrying out prior repairs in 2018. An initial court survey has indicated that CMRE would not be responsible for these costs. If further proceedings result in a liability, some or all of these costs may be reimbursed to CMRE through insurance proceeds. The final hearing will occur in April 2024 with the decision expected in 2025.

16. Segment reporting

In accordance with IPSAS 18, the STO discloses segment information for its three executive bodies as provided in the STO Charter: CMRE, CSO and OCS. The inter-entity transactions have been eliminated at consolidation.

(in EUR)										
	CMRE		CSO		OCS		CONSOLIDATION		Total	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Segment revenue										
Revenue from contributions			7,976,386	7,348,059	4,942,756	1,641,695	-	-	12,919,142	8,989,754
Revenue from services	34,653,072	29,272,554	-	-	-	-	(2,997,970)	(75,000)	31,655,102	29,197,554
Financial revenue	30,796	64,792	-	-	-	-	-	-	30,796	64,792
Total segment revenue	34,683,868	29,337,346	7,976,386	7,348,059	4,942,756	1,641,695	(2,997,970)	(75,000)	44,605,040	38,252,100
Segment expenses										
Personnel costs	14,224,495	13,505,419	5,218,364	4,860,247	1,010,232	993,239	-	-	20,453,091	19,358,905
Contractual supplies and services	13,113,250	10,188,029	2,641,721	2,374,474	3,932,524	648,456	(2,997,970)	(75,000)	16,689,525	13,135,959
Depreciation and amortisation	1,093,211	1,448,667	116,301	113,338	-	-	-	-	1,209,512	1,562,005
Financial costs	137,770	153,592	-	-	-	-	-	-	137,770	153,592
Total segment expenses	28,568,726	25,295,707	7,976,386	7,348,059	4,942,756	1,641,695	(2,997,970)	(75,000)	38,489,898	34,210,461
Surplus/deficit for the year	6,115,142	4,041,639	-	-	-	-	-	-	6,115,142	4,041,639
Segment assets	22,979,107	16,298,846	4,708,266	3,580,833	3,011,224	1,236,588	(721,229)	(6,785)	29,977,368	21,109,482
Segment liabilities	3,283,085	2,717,967	4,708,266	3,580,833	3,011,224	1,236,588	(721,229)	(6,785)	10,281,346	7,528,603

17. Related parties

The key management personnel of the STO, and the STB National Representatives, have no significant known related party relationships that could affect the operations of the STO. However, the STO Financial Controller is also the Financial Controller of the International Military Staff (IMS) and the NATO Defense College (NDC). The STO, IMS and NDC are therefore related parties.

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

Key management personnel include the following officials:

Science and Technology Board	NATO National Representatives on STB
Office of the Chief Scientist	NATO Chief Scientist
Centre for Maritime Research and Experimentation	- CMRE Director - CMRE Deputy Director
Collaboration Support Office	- CSO Director - CSO Deputy Director

Remuneration of key management personnel

STO Board members do not receive remuneration or access to preferential benefits such as the entitlement to receive loans from NATO for their Board responsibilities.

STO key management personnel are 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 the NATO Civilian Personnel Regulations.

	(in EUR)	
	2023	2022
Basic salaries	639,283	583,142
Allowances	42,705	48,231
Post-employment benefits	75,075	69,322
Employer's contribution to Insurance	71,479	68,395
Total	828,542	769,090

18. Representation allowance

Representation allowance is available to certain designated NATO high-level officials whose position entails responsibility for maintaining relationships of value to NATO. In 2023, three senior STO officials received representation allowance. The total entitlement was 24,325 EUR (2022: 24,325 EUR) and actual expenses were 11,112 EUR (2022: 11,863 EUR).

19. Morale and Welfare Activities

The STO carried out Morale and Welfare Activities (MWA) in 2023 for which a detailed annual special purpose report is presented to the relevant Financial 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 CMRE, the MWA mainly relate to common interest clubs, athletic and recreational activities.

The position of MWA at year-end is:

	(in EUR)	
	2023	2022
Cash and cash equivalents	271,527	229,029
Total liabilities including provisions and contingent liabilities	54,815	68,485

20. Events after the 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 statements.

Annex 1: Budget Execution Statements

The budgets cover the financial year from 1 January 2023 to 31 December 2023 and include the common funded elements of the STO. The initial budget and subsequent revisions are reviewed, approved and issued by the Budget Committee.

In accordance with the NFRs, all changes between the initial and the final budget due to transfers of appropriations were either authorised by the Budget Committee or were within the authority of the IMS/STO Financial Controller. These changes are presented in the Budget Execution Statement. The credits carried forward are presented in the Budget Execution Statement as required by the NATO Financial Regulations and the FRPs. They represent the unexpended balances at year-end for which there is a legal liability and are equal to the deferred revenue (see Note 7).

The Budget and the Financial Statements are not prepared on the same basis. In the financial statements only current year depreciation is recognized as an expense, while in the budget all noncurrent assets are fully expensed during the year.

OFFICE OF THE CHIEF SCIENTIST

OFFICE OF CHIEF SCIENTIST
STATEMENT OF BUDGET EXECUTION AS OF 31 DECEMBER 2023

	Initial Budget	BA2	Transfers	BA3	Transfers	Final Budget	Expenses	Carry-Forward	Special Carry-Forward	Lapsed
BUDGET 907 (OCS) 2023										
Chapter 1	1,405,802	1,405,802	(31,000)	1,374,802	-	1,374,802	1,010,232	-	-	364,570
Chapter 2	4,089,119	4,089,119	31,000	4,120,119	-	4,120,119	3,846,203	242,030	-	31,886
TOTAL	5,494,921	5,494,921	-	5,494,921	-	5,494,921	4,856,435	242,030	-	396,456
BUDGET 907 (OCS) 2022										
Chapter 2	86,321	-	86,321	86,321	-	86,321	86,321	-	-	-
TOTAL	86,321	-	86,321	86,321	-	86,321	86,321	-	-	-
TOTAL BUDGET 907 (OCS)	5,581,242	5,494,921	86,321	5,581,242	-	5,581,242	4,942,756	242,030	-	396,456

Credits carried forward relate to the programme of work. The lapses are mainly due to vacant positions during the year. As the OCS does not have any assets at the end of 2023, there is no difference between the expenses reported in the Budget Execution Statement and expenses reported in the Statement of Financial Performance (see note 16).

COLLABORATION SUPPORT OFFICE

COLLABORATIVE SUPPORT OFFICE

STATEMENT OF BUDGET EXECUTION AS AT 31 DECEMBER 2023

	Initial Budget	BA2	Transfers	BA3	Transfers	Final Budget	Expenses	Carry-Forward	Special Carry-Forward	Lapsed
BUDGET 908 (CSO) 2023										
Chapter 1	5,722,594	5,722,594	-	5,722,594	(240,731)	5,481,863	5,218,364	25,917	-	237,582
Chapter 2	2,540,688	2,540,688	-	2,540,688	155,790	2,696,478	2,368,895	269,165	-	58,418
Chapter 3	515,000	515,000	-	515,000	84,941	599,941	73,452	156,490	370,000	-
TOTAL	8,778,282	8,778,282	-	8,778,282	-	8,778,282	7,660,711	451,572	370,000	296,000
BUDGET 908 (CSO) 2022										
Chapter 1			-		-					-
Chapter 2	203,455	203,455	-	203,455	-	203,455	173,400	3,640	-	26,415
Chapter 3	38,898	38,898	-	38,898	-	38,898	38,898	-	-	-
TOTAL	242,353	242,353	-	242,353	-	242,353	212,298	3,640	-	26,415
BUDGET 908 (CSO) 2021										
Chapter 71										
Chapter 72	14,915	14,915	-	14,915	-	14,915	14,757	-	-	158
Chapter 73	76,283	76,283	-	76,283	-	76,283	76,283	-	-	-
TOTAL	91,198	91,198	-	91,198	-	91,198	91,040	-	-	158
TOTAL BUDGET 908 (CSO)	9,111,833	9,111,833	-	9,111,833	-	9,111,833	7,964,049	455,212	370,000	322,573

The lapses are due to unscheduled turnover of personnel and late arrival of new personnel together with unrealized projects in CPOW. In 2023, the BC authorized a 'Special Carry-Forward' of the 2023 CSO budget (BC-D(2023)0214 (INV)) for an amount of EUR 370,000 (Chapter 3), including EUR 300,000 for the Installation of a 'Dual Domain Video-Teleconferencing (VTC) System (classified/unclassified)' and EUR 70,000 for the 'Combined Federated Battle Laboratories Network (CFBLNet) Point-of-Presence (PoP) (see note 16).

COLLABORATIVE SUPPORT OFFICE

(in EUR)

Expenses	Actuals
Total Expenses as per Budget Execution	7,964,049
Property Plant and Equipment capitalized (Note 5)	
(Recognition from Capital and Investments)	(103,964)
Depreciation (Note 5)	116,301
Total Expenses as per Statement of Financial Performance	7,976,386