	NATO	NORTH ATLANTIC COUNCIL
	OTAN	CONSEIL DE L'ATLANTIQUE NORD

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17 January 2022

DOCUMENT
C-M(2022)0002-AS1

**IBAN AUDIT REPORT ON THE AUDIT OF 2020 RESTATED FINANCIAL STATEMENTS
OF NATO COMMUNICATIONS AND INFORMATION ORGANISATION (NCIO)**

ACTION SHEET

On 14 January 2022, under the silence procedure, the Council noted the RPPB report at annex to C-M(2022)0002, agreed its conclusions and recommendations, noted the IBAN Audit Report and agreed to the public disclosure of this report, the IBAN Audit Report and associated 2020 financial statements of NCIO.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2022)0002.

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05 January 2022

DOCUMENT
C-M(2022)0002
Silence Procedure ends:
14 Jan 2022 15:30

**IBAN AUDIT REPORT ON THE AUDIT OF 2020 RESTATED FINANCIAL
STATEMENTS OF NATO COMMUNICATIONS AND INFORMATION ORGANISATION
(NCIO)**

Note by the Secretary General

1. I attach the International Board of Auditors for NATO (IBAN) Audit Report on the audit of the 2020 restated financial statements of the NATO Communications and Information Organisation (NCIO). This IBAN Audit Report sets out qualified opinion on both the 2020 financial statements and on compliance.
2. The IBAN Audit Report has been reviewed by the RPPB (see Annex 1).
3. I do not believe this issue requires further discussion. Therefore, **unless I hear to the contrary by 15:30 hours on Friday, 14 January 2022**, I shall assume the Council notes the RPPB report, agrees its conclusions and recommendations, notes the IBAN Audit Report and agrees to the public disclosure of this report, the IBAN Audit Report and associated 2020 financial statements of NCIO.

1 Annex
1 Enclosure

Original: English

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**IBAN AUDIT REPORT ON THE AUDIT OF 2020 RESTATED FINANCIAL
STATEMENTS OF NATO COMMUNICATIONS AND INFORMATION ORGANISATION
(NCIO)**

Report by the Resource Policy and Planning Board (RPPB)

References:

- | | | |
|----|-------------------------|---|
| A. | IBA-A(2021)0108 | IBAN Audit Report on the audit of 2020 restated financial statements of NATO Communications and Information Organisation (NCIO) |
| B. | C-M(2015)0025 | NATO Financial Regulations (NFR) |
| C. | BC-D(2015)0260-REV1 | Financial rules and procedures (FRP) |
| D. | C-M(2016)0023 | NATO Accounting Framework (NAF) |
| E. | AC/335-D(2021)0003-REV5 | NCIA Customer Funding Regulatory Framework Review |
| F. | PO(2015)0052 | Wales Summit tasker on transparency and accountability |

INTRODUCTION

1. This report by the RPPB addresses the IBAN Audit Report on the audit of 2020 restated financial statements of the NCIO. The IBAN Audit Report sets out a qualified opinion on both the restated financial statements and on compliance of the NCIO for financial year 2020 (reference A).

AIM

2. This report highlights key issues in the IBAN Audit Report (reference A) to enable the Board to reflect on strategic challenges emanating from the audit of financial statements of NATO entities and to recommend courses of action to Council as applicable, which have the potential to improve transparency, accountability and consistency.

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

OBSERVATIONS

4. During the audit, the IBAN made five observations with recommendations for the NCIO, including one observation on the material incompleteness of Property, Plant and Equipment (PP&E) and intangible assets that impacted the audit opinion on the financial

statements and on compliance. Other four observations relate to unavailability of financial impact of Resolute Support (RS) withdrawal, miscellaneous income owed by the NCIA to the NATO Security Investment Programme (NSIP), improvements needed in the internal control process over the preparation and quality of financial information and the NCIO's need to improve Cost to Complete (CTC) model for revenue recognition. These four observations did not impact the audit opinion on the financial statements or on compliance. However, the IBAN raised an Emphasis of Matter on inability to assess the financial impact of RS withdrawal and to verify the accuracy of Note 8 in the NCIO financial statements. Also, the IBAN followed up on the status of observations and recommendations from the previous years' audits and found that five were closed (amongst which one is superseded), one is open and two remain in-progress.

4.1. Observation 1 (basis for a qualified opinion on the financial statements and on compliance): Firstly, the IBAN found that PP&E and intangible assets, including assets under construction, were materially incomplete because Computer Information System (CIS) assets under construction as of 1 January 2018, including existing ones that continue after 1 January 2018 were fully expensed. This mainly relates to the NSIP projects and acquisitions on behalf of Third Parties. Secondly, PP&E and intangible assets recorded in the legacy accounting systems have not yet been fully migrated into the new Enterprise Business Applications (EBA) system and reported in the NCIO 2020 Financial Statements.¹ Thirdly, although the NCIO disclosed the note for PP&E and intangible assets held prior to 1 January 2013, no detail was given for CIS assets that were under construction prior to 1 January 2018, in accordance with the NAF (reference D). Finally, from a compliance perspective, the IBAN found that the NCIO did not establish and maintain a comprehensive inventory of PP&E and intangible assets, including assets under construction, in accordance with Article 12 of the NFRs.

4.2. Observation 2: Although the NCIO started the process to identify potential liabilities after the announcement of the withdrawal decision from Afghanistan, the IBAN found that the NCIO did not maintain on a continuous basis a record of the estimated impact of restructuring or closure of on-going NATO operations. Consequently, the NCIO could not provide IBAN with an analysis of the estimated financial impact of the RS drawdown, as financial data was not fully known or complete.

4.2.1. The Board supports the IBAN's recommendation that the NCIO completes the analysis of the projected financial impact of the RS withdrawal and sets out procedures for other on-going NATO missions to ensure that an updated analysis of the financial impact of possible restructuring or closure of an operation is readily available.

¹ NATO Reporting Entities capitalise all controlled PP&E and intangible assets purchased after 1 January 2013 while for those assets previously recognised and held prior to 1 January 2013, the NATO reporting entity should provide a brief description in the notes to the financial statements.

4.3. Observation 3: According to the NSIP 2019 Financial Activity Report, accumulated interest owed by the NCIA to NSIP and to be used to offset future calls for contributions amounted to approximately EUR 13.4 million. During the course of audit, the IBAN was unable to reconcile and confirm this amount with the balance of other liabilities amounting to approximately EUR 2 million accounted for and reported in the 2020 NCIO Financial Statements. Also, the IBAN found that NCIA did not comply with Article 31.2 of the NFRs and on the NSIP regulations as it did not declare to the Investment Committee (IC) the income on investments of NSIP funds as miscellaneous income owed to NSIP since 2015.

4.3.1. The NCIO partly disagreed with the observation as the liability regarding miscellaneous income owed by the NCIA to NSIP is recognised in accordance with the NAF. The Board notes that an amount of EUR 9.9 million of profits and losses due to exchange rates and interests received on bank deposits for the period 2007-2015 from the NCIA was included in the NSIP fourth call for contribution². It was also confirmed that an amount of EUR 2.4 has been corrected in the 2020 NSIP Annual Financial Activity Report due to a computation error. Further coordination between the NATO Office of Resources (NOR) and the NCIA is needed to reach full clarity with the aim of annual reconciliation in the future. In light of exposed arguments, the Board supports the IBAN's recommendation that NCIO reconciles the balance with the information provided by the NOR for the IC and provides the NOR for disclosure to the IC, regular financial information on the amounts and flows of refundable miscellaneous income owed relating to the NSIP.

4.4. Observation 4: The IBAN found errors and discrepancies in the financial information presented in the notes to the financial statements. Namely, the IBAN found material differences in accrued and deferred revenues balances and between accrued and deferred revenue liabilities balance sheet variations and their corresponding flows recorded in the Statement of Financial Performance. The IBAN also found that the NCIO performed a material restatement of prior year figures (2019) without informing its readers.

4.4.1. The Board acknowledges that these misstatements have been corrected in the NCIO restated financial statements submitted to IBAN on 12 May 2021. In addition, the Board agrees with the IBAN's recommendation that NCIO should strengthen its internal control system by improving the preparation, review and reporting process of the financial statements.

4.5. Observation 5: During its audit, the IBAN found weaknesses in preparation of revenue recognition due to an extensive use of CTC Excel file that is not adapted to a large volume of transactions. Moreover, the IBAN noted that although the NCIO reconciles Time Accounting System (TAS) data interfaced between Enterprise Project Management (EPM) and Enterprise Business Applications, Project Accounting module (EBA-PA), it did not produce any reports or reconciliations to confirm the completeness and integrity of the data originating from accounting transactions in support of the actual customer project costs

² (AC/4(PP)D/28321)

calculation in the CTC or by analytical comparison with the balance in the accounting ledger. Also, in EBA/EPM, some of the customer project codes do not capture the actual costs as they are recorded separately. As a result, the IBAN concluded that the completeness and integrity of the accounting transaction data costs used in the CTC calculation could not be verified. The IBAN also noted that the estimation of cost at completion coming from EPM is subject to different layers of control.

4.5.1. The NCIA did not fully concur with the observation mentioning that quality control increased significantly in 2020 with a number of automated controls embedded in the EBA. In that sense, the Board acknowledges the improvement in the CTC revenue recognition model since 2018 through the implementation of the EBA. However, the Board upholds the IBAN's recommendation that the NCIO replaces the Excel based process with an updated existing EBA model tailored to the NCIO's operations or equivalent system strengthens internal controls to ensure the completeness and integrity of the actual costs allocated to each project in the CTC calculation and establishes a sign-off on the responsibility and validation of the final cost at completion estimates embedded within the EPM-EBA interface.

4.6. Emphasis of Matter³ on the financial statements: The IBAN draw attention to Note 33 in the NCIO 2020 Financial Statements that does not disclose the financial impact of the Allies' withdrawal from the RS Mission. In addition, the IBAN was not able to give any opinion on the accuracy of figures in Note 8 to the financial statements, as they do not form part of the main financial statements.

4.7. Prior year open observation: During 2020, the IBAN found no evidence that the NCIO improved the accuracy and transparency of assumptions underlying customer rates, including overheads and will follow-up its progress in the course of audit of the NCIO 2021 financial statements. In its reply, the NCIO pointed out that the recommendation with its sub-recommendations was addressed in the preparation of the customer rates document for 2022 released by the NCIO on 31 March 2021.

4.8. Prior year closed observation: In the financial year 2020, the IBAN closed observations on the understatement of inventory, source selection planning process and on the confirmation of the Statement of Internal Control. It also closed the observation on further improvements in the area of internal audit by changing Internal Auditors' reporting lines with the revised version of the Internal Audit Charter. The observation on the material incompleteness of PP&E and Intangible Assets is superseded by this year's observation.

4.9. Prior year observation in-progress: Although the Board notes the NCIA's improvements, more substantial progress is still required on the internal control over accrual estimates.

³ Emphasis of Matter is used when the IBAN consider it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in its' judgement, is of such importance that it is fundamental to users' understanding of the financial statements

4.10. Prior year observations in-progress or open for more than three years: The Board is concerned regarding the qualified opinions and open observations especially those that have remained open for more than three years. When advising on assessment of the financial statements of the NCIO, the Board notes that this report include qualified audit opinion and one outstanding observation for the NCIO open for more than three years. In this respect, the Board invited the NOR, in coordination with IBAN, to advise the Board whether further discussion with the management/governance of those entities or more focused Board recommendations to Council are necessary to accelerate actions on this outstanding item. The following paragraph covers related in-progress observation.

4.10.1. For the 2016 financial year, the IBAN made an observation on the contractor claim resulting from changing and delayed contract requirement definition and weak coordination between the NCIA and the IC. In its recommendation, the IBAN reminds the NCIO and the funding committees of the recommendations of the IBAN Special Performance Audit Reports to Council on the need to improve NATO's capability package process. The Board recognise that the process improvement of capability delivery by the NCIO is conducted in the broader context of the 2018 governance model agreed by the Council. The Board note that the NCIA has updated its reporting that includes more detailed information like overview on delays and risks and that further reporting enhancement will take place after the implementation of a new reporting approach. However, due to its longevity, the Board recommends the NCIO to accelerate actions on this outstanding item. In that sense, the Board recommends that Council invites the NCIO to provide a clear remedial action plan to the Council with deadlines on the implementation of the recommendation, submitted with the NCIO's response on the IBAN audit of the 2021 financial statements.

DISCUSSION

5. The Board acknowledges the NCIO's significant efforts and commitment to address the remaining IBAN's observations, especially in resolving the qualified opinion on material incompleteness of PP&E and intangible assets (including assets under construction) and recommends the NCIO to solve this outstanding observation as soon as possible.

5.1. The Board is aware that the Asset Management Programme, which includes the completeness of assets register, will be included in the NCIO multi-year investment plan 2022-2026. Though it requires significant programmatic and accounting changes, the Board welcomes the Asset Management Programme as it shall directly contribute to address the IBAN's qualification on the NCIO financial statements and on compliance and enhance readiness to address one of the urgent reforms identified under Cyber Adaptation in close cooperation with the Office of the NATO Chief Information Officer (OCIO).

5.2. The Board conveys its content with the positive impact of EBA Release 1 and the full disclosure of inventories throughout the NCIO, which resulted in the closure of the IBAN's observation related to understatement of inventory. The Board also recognises the efforts

NCIO takes especially in the light of the NCIO CTC model for revenue recognition and on improving internal control over accrual estimates.

5.3. The Board highlights its discontent stemmed from the IBAN's observation on the NCIO customer rates and overhead assumptions due to the basis for its calculation and its impact on common funding and service rates. In order to comprehend the mechanism and processes the NCIA put in place to determine the level of efforts in the establishment of its Service Rates, the Board is awaiting the IS assessment and the IBAN's presentation of the IBAN Special Audit Report on the NCIA Service Rates.

5.4. The Board supports the IBAN's recommendation regarding miscellaneous income owed by the NCIA to NSIP and request for the reconciliation of all discrepancies in accounting transactions. As regards the observation on the weak coordination between the NCIA and the IC, the Board has recently observed improvement in the communication line and encourages NCIO to continue improving the coordination.

5.5. The Board notes that the NCIO is one of the last NATO entities without unqualified audit opinion; however, the Board recognises NCIO's efforts and in this regard look forward not to see the qualified IBAN audit report for the upcoming years for the NCIO with a closure of pending audit observations.

CONCLUSIONS

6. The IBAN Audit Report sets out qualified opinion on both the restated financial statements and on compliance of the NCIO in 2020. In total, the IBAN raised five observations in the NCIO audit report during the audit of 2020 financial year for which the first observation superseded the one raised in prior years. Also, the first observation impacts the audit opinion on both the restated financial statements and on compliance and was for the first time raised in respect of the 2016 financial statements. As of the date of the respective IBAN Audit Report on the 2020 restated financial statements, five prior year observations for the NCIO were closed (including one superseded), one was open and two prior year observations were in-progress.

7. In 2020, the IBAN recommended that improvements are needed in recognising and disclosure of all PP&E and intangible assets in the NCIO's financial statements, estimating financial impact of RS mission withdrawal, recognising the liability regarding the miscellaneous amounts owed by the NCIA to the NSIP and strengthening the NCIO system of internal control by improving the preparation, review and reporting process of the financial statements. Furthermore, the IBAN also noted that additional improvements are needed on the CTC model for revenue recognition. Also, the IBAN draw attention to the absence of financial impact disclosure of RS mission withdrawal and on the accuracy of figures in Note 8 to the financial statements. In this regard, the Board supports the IBAN's recommendations and takes note on the Emphasis of Matter highlighted in the IBAN Audit Report.

8. In respect of prior year observations, the Board upholds the IBAN's recommendation that the NCIO develop documented internal control procedures to detect incorrect estimates of accrued expenses. Furthermore, it supports the IBAN's recommendation that more improvements are needed to the NCIO customer rates and overhead assumptions.

9. As regards the IBAN's recommendation for the 2016 financial year to the NCIO, although the NCIA made significant progress in its reporting process, additional improvements are still needed in the definition and coordination between the NCIA and IC, particularly related to NATO's capability package process. Subsequently, the Board recommends that the NCIO improves its coordination with the IC through the enhancement of its reporting approach. In that light, the Board recommends that Council invites the NCIO to provide an action plan to the Council with deadlines on the implementation of recommendation, submitted with the NCIO's response on the IBAN audit of the 2021 financial statements.

RECOMMENDATIONS

10. The Resource Policy and Planning Board recommend that the Council:
- 10.1. note this report and the IBAN Audit Report at reference A;
 - 10.2. agree the conclusions at paragraphs 6 to 9;
 - 10.3. invite the NCIO to provide an action plan to the Council with deadlines on the implementation of the outstanding recommendation, submitted with the NCIO's response on the IBAN audit of the 2021 financial statements; and,
 - 10.4. agree to the public disclosure of the restated 2020 financial statements for the NCIO, its associated IBAN Audit Report and this report in line with agreed policy at reference F.



NORTH ATLANTIC TREATY ORGANIZATION
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD
INTERNATIONAL BOARD OF AUDITORS
COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN

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IBA-A(2021)0108
25 August 2021

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

Cc: NATO Permanent Representatives
Chair, Agency Supervisory Board, NATO Communications & Information
Organisation (NCIO)
General Manager, NATO Communications & Information Agency (NCIA)
Financial Controller, NCIA
Chair, Resource Policy & Planning Board
Branch Head, Resource Management Branch, NATO Office of Resources
Private Office Registry

Subject: ***International Board of Auditors for NATO (IBAN) Audit Report on the audit of the NATO Communications and Information Organisation's (NCIO) Restated Financial Statements for the year ended 31 December 2020 – IBA-AR(2021)0016***

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

IBAN's report sets out a qualified opinion on the Restated Financial Statements of the NCIO and on compliance for financial year 2020.

Yours sincerely,

Daniela Morgante
Chair

Attachments: As stated above.

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**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Restated Financial Statements of the
NATO Communications and Information Organisation (NCIO)
for the year ended 31 December 2020**

NCIO comprises an Agency Supervisory Board (ASB) and an Executive Body, the NATO Communications and Information Agency (NCIA). The mission of the NCIA is to deliver to NATO secure, coherent, cost effective and interoperable communications and information systems and services in support of consultation, command and control (C3) and enabling intelligence, surveillance and reconnaissance capabilities. It includes information technology support to NATO Headquarters, the Command Structure and NATO Agencies. In 2020, NCIO generated revenues of EUR 773.2 million and incurred expenses of EUR 769.9 million, resulting in a surplus of EUR 3.2 million.

IBAN issued a qualified opinion on the restated financial statements and on compliance for the year ended 31 December 2020.

We were not able to obtain sufficient evidence in respect to the completeness of Property, Plant and Equipment (PP&E) and Intangible Assets, including assets under construction, reported in the 2020 Financial Statements. This is because Computer Information Systems (CIS) assets that were under construction as of 1 January 2018, including existing ones that continue after 1 January 2018, were fully expensed in the Statement of Financial Performance. A similar issue led to a qualification of the 2018 and 2019 NCIO Financial Statements.

Additionally, PP&E and Intangible Assets recorded in the legacy accounting systems have not yet been fully migrated into the new Enterprise Business Applications (EBA) system and reported in the NCIO 2020 Financial Statements.

Furthermore, NCIO did not include in the Financial Statements a note disclosure for CIS assets that were under construction and development prior to 1 January 2018, in accordance with the NATO Accounting Framework.

As a result, we were not able to obtain sufficient evidence in respect to the fair presentation of expenses and, given the Agency's no-profit/no-loss model, of its associated revenue.

From a compliance standpoint, with respect to PP&E, Intangible Assets, including assets under construction, controlled by NCIO, we did not obtain sufficient evidence that a comprehensive inventory was established and maintained as required by Article 12 of the NFRs. Article 12 of the NFRs, which applies to all assets irrespective of when they were acquired, requires that comprehensive accounting records are established and maintained for all assets.

IBAN made five observations and recommendations. These findings are listed below:

One observation and recommendation impacts the audit opinion on both the Financial Statements and on compliance:

1. Material incompleteness of Property, Plant and Equipment (PP&E) and Intangible Assets.

The other four observations and recommendations do not impact the audit opinion on the Financial Statements and compliance:

2. Estimated financial impact of Resolute Support (RS) withdrawal not yet available.
3. Miscellaneous income owed by NCIA to NSIP.
4. Improvement needed in the internal control process for the preparation of financial statements and the quality of financial information disclosed.
5. Improvement needed to the NCIO Cost to Complete (CTC) model for revenue recognition.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that five were closed, one is open and two remain in progress.

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

The observations and recommendations and the follow-up of the previous years' observations and recommendations that are not in the Audit Report are included in a Management Letter addressed to NCIO's management. This is because IBAN considers that these matters are to be addressed by NCIO's management and therefore fall under NCIO's management responsibility.

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IBA-AR(2021)0016

25 August 2021

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDIT REPORT ON THE RESTATED FINANCIAL STATEMENTS OF THE

NATO COMMUNICATIONS AND INFORMATION ORGANISATION

(NCIO)

FOR THE YEAR ENDED 31 DECEMBER 2020

PUBLICLY DISCLOSED - PDN(2022)0009 - MIS EN LECTURE PUBLIQUE

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

The International Board of Auditors for NATO (IBAN) has audited the Restated Financial Statements of NATO Communications and Information Organisation (NCIO), for the 12 month period ended 31 December 2020, issued under document reference NCIA/FC/2021/03452, and submitted to IBAN on 12 May 2021. These Restated Financial Statements comprise the Statement of Financial Position as at 31 December 2020, 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 2020, including a summary of significant accounting policies and other explanatory notes. In addition, the Restated Financial Statements include a Budget Execution Statement for the 12 month period ended 31 December 2020.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the Restated Financial Statements give a true and fair view of the financial position of NCIO as at 31 December 2020, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2020, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

Basis for Qualified Opinion on the Financial Statements

We were not able to obtain sufficient evidence in respect to the completeness of Property, Plant and Equipment (PP&E) and Intangible Assets, including assets under construction, reported in the 2020 Financial Statements.

This is because Computer Information Systems (CIS) assets that were under construction as of 1 January 2018, including existing ones that continue after 1 January 2018, were fully expensed in the Statement of Financial Performance. A similar issue led to a qualification of the 2018 and 2019 NCIO Financial Statements.

Additionally, PP&E and Intangible Assets recorded in the legacy accounting systems have not yet been fully migrated into the new Enterprise Business Applications (EBA) system and reported in the NCIO 2020 Financial Statements.

Furthermore, NCIO did not include in the Financial Statements a note disclosure for CIS assets that were under construction and development prior to 1 January 2018, in accordance with the NATO Accounting Framework.

As a result, we were not able to obtain sufficient evidence in respect to the fair presentation of expenses and, given the Agency's no-profit/no-loss model, of its associated revenue.

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 Standards of Supreme Audit Institutions (ISSAI 2200-2899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

An Emphasis of Matter paragraph is used when we consider 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.

We draw attention to Note 33 in the NCIO 2020 Financial Statements, *Events after the financial reporting date of 31 December 2020*, which describes the decision of NATO Allies taken on 14 April 2021 to withdraw from the Resolute Support Mission in Afghanistan by 1 May 2021, with plans to complete the drawdown of all troops within a few months.

NCIO does not disclose the financial impact of this withdrawal as financial data is not present or complete to provide a reliable estimate. We are not in a position to assess the potential liabilities and financial impact, as we have not received supporting evidence, especially regarding the completeness of provisions and contingent liabilities for such a significant operation.

In addition, NCIO states in Note 8 to the financial statements that *"the latest simulation on running the capitalization of AuC [Assets under Construction] would result in an increase in the statement of [financial] Position asset balance with 775.3 MEUR and would decrease the statement of [financial] Performance personnel expenses with 139.7 MEUR, Acquisition Cost/Contractual Supplier with 699.4 MEUR and increase the depreciation for 63.8 MEUR. Illustrative NCIO Statement of Financial Position and Performance is attached in ANNEX A (this annex is not publicly disclosed). The Agency is continuing efforts to ensure the robustness of those numbers and will incorporate the element for public disclosure when data quality are sufficiently mature."* IBAN cannot give any opinion as to the accuracy of these figures as they do not form

part of the main financial statements and are only illustrative at this stage.

Our opinion is not modified in respect of this matter.

Management's Responsibility for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 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 for qualified opinion section, nothing has come to our attention, as part of our audit of the Restated 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

With respect to PP&E, Intangible Assets, including assets under construction, controlled by NCIO, we did not obtain sufficient evidence that a comprehensive inventory was established and maintained as required by Article 12 of the NFRs. Article 12 of the NFRs, which applies to all assets irrespective of when they were acquired, requires that comprehensive accounting records are established and maintained for all assets.

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000-4899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

Management's Responsibility for 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 authorized expenditure and whether they have been used in compliance with the regulations in

force. Such procedures include consideration of the risks of material non-compliance.

Brussels, 25 August 2021



Daniela Morgante
Chair

OBSERVATIONS AND RECOMMENDATIONS

IBAN made five observations and recommendations.

One observation and recommendation impacts the audit opinion on both the Financial Statements and on compliance:

1. Material incompleteness of Property, Plant and Equipment (PP&E) and Intangible Assets.

The other four observations and recommendations do not impact the audit opinion on the Financial Statements and compliance:

2. Estimated financial impact of Resolute Support (RS) withdrawal not yet available.
3. Miscellaneous income owed by NCIA to NSIP.
4. Improvement needed in the internal control process for the preparation of financial statements and the quality of financial information disclosed.
5. Improvement needed to the NCIO Cost to Complete (CTC) model for revenue recognition.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that five were closed, one is open and two remain in progress.

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

The observations and recommendations and the follow-up of the previous years' observations and recommendations that are not in the Audit Report are included in a Management Letter addressed to NCIO management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under NCIO executive responsibility.

1. MATERIAL INCOMPLETENESS OF PROPERTY, PLANT AND EQUIPMENT (PP&E) AND INTANGIBLE ASSETS**Reasoning**

1.1 The NATO Accounting Framework (NAF) states that, if NCIO is acting as a service provider to NATO Commands for Computer Information Systems (CIS) or Automated Information Systems (AIS) assets, then NCIO has control over those assets. The NAF requires that NATO Reporting Entities shall capitalise in their

Statement of Financial Position all controlled Property, Plant and Equipment (PP&E) and Intangible Assets purchased after 1 January 2013 above certain capitalisation thresholds.

1.2 For PP&E and Intangible Assets held prior to 1 January 2013, and previously recognised as an asset, the NAF also requires that NATO Reporting Entities provide a brief description of assets in the notes to the financial statements. Such disclosure should include as a minimum the types of assets held, locations where assets are held and the approximate number of items per asset category.

1.3 According to the NAF, NCIO may consider CIS assets under construction prior to 1 January 2018 as fully expensed. The NAF also states that NCIO shall capitalise all CIS assets under construction starting as of 1 January 2018. This applies for all new CIS assets under construction after 1 January 2018, but also for existing ones that continue after 1 January 2018.

1.4 Further, in accordance with the NAF, NCIO shall from 1 January 2018, provide in the notes to the financial statements disclosure on types and the locations of CIS assets that were under construction prior to 1 January 2018.

1.5 From a compliance perspective, Article 12 of the NATO Financial Regulations (NFRs) on Internal Control requires NATO bodies to establish and maintain comprehensive accounting records of all assets and liabilities. Such accounting records include an inventory of PP&E and Intangible Assets, including assets under construction, indicating for instance the types of assets held, locations, the number of items per asset category and asset value. Article 12 of the NFRs applies to all assets, irrespective of when they were acquired.

Observations

1.6 IBAN maintains its qualified opinions of 2018 and 2019 regarding PP&E, Intangible Assets and assets under construction on NCIO's 2020 Financial Statements. The qualification relates to both the disclosure requirements of the NAF and compliance with the NATO Financial Regulations. The reasons for qualification are outlined in the paragraphs below.

1.7 We found that PP&E and Intangible assets, including assets under construction, reported in the 2020 Statement of Financial Position were materially incomplete. The assets concerned mainly relate to NSIP projects and acquisitions on behalf of Third Parties. For example, amongst others, assets related to the Air Command and Control System (ACCS), crypto equipment and CIS related to the New NATO Headquarters.

1.8 Assets that were under construction from 1 January 2018 have been fully expensed in the 2020 Statement of Financial Performance rather than capitalised in the Statement of Financial Position. As a result, we were not able to obtain sufficient evidence in respect to the fair presentation of expenses and, given the agency's no-

profit/no-loss model, of its associated revenue.

1.9 We found improvements in the note disclosures required by the NAF. Unlike 2018 and 2019, NCIO included a note in the Financial Statements outlining the PP&E and Intangible Assets held prior to 1 January 2013. This included the types of PP&E and Intangible Assets held, locations and the approximate number of items per asset category. However, no detail was given on CIS assets that were under construction and development prior to 1 January 2018.

1.10 NCIO states in Note 8 to the financial statements that *“the latest simulation on running the capitalization of AUC would result in an increase in the statement of Position asset balance with 775.3 MEUR and would decrease the statement of Performance personnel expenses with 139.7 MEUR, Acquisition Cost/Contractual Supplier with 699.4 MEUR and increase the depreciation for 63.8 MEUR. Illustrative NCIO Statement of Financial Position and Performance is attached in ANNEX A (this annex is not publicly disclosed). The Agency is continuing efforts to ensure the robustness of those numbers and will incorporate the element for public disclosure when data quality are sufficiently mature.”* IBAN cannot give any opinion as to the accuracy of these figures as they do not form part of the main financial statements and are only illustrative at this stage.

1.11 From a compliance perspective, IBAN found that NCIO had not yet established comprehensive records of PP&E and Intangible Assets, including assets under construction, in accordance with Article 12 of the NFRs. Such an inventory should include the types of assets held, locations, and the number of items per asset category and asset value. Article 12 of the NFRs applies to all assets, including assets under construction, irrespective of when they were acquired. Establishing and maintaining a comprehensive inventory of assets is an important control to ensure the safeguard of the Agency’s assets.

Recommendations

1.12 IBAN recommends that NCIO:

- a) Recognises and discloses all PP&E and Intangible Assets, including assets under construction, in the financial statements in accordance with the NAF.
- b) Establishes and maintains comprehensive accounting records of all PP&E, Intangible Assets, and assets under construction in accordance with Article 12 of the NFRs.

2. THE ESTIMATED FINANCIAL IMPACT OF RESOLUTE SUPPORT (RS) WITHDRAWAL NOT YET AVAILABLE

Reasoning

2.1 The objective of preparing and issuing financial statements is to provide financial information about the reporting entity that is useful to nations in making and evaluating decisions about the allocation of resources and for accountability purposes. Financial information must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable.

2.2 Article 3.1 of the NATO Financial Regulations (NFRs) states that *the Secretary General, the Supreme Commanders and the other Heads of NATO bodies are responsible and accountable for sound financial management and shall put in place the necessary governance arrangements to ensure and maintain this. This shall include, but is not limited to, the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources.*

2.3 According to the NATO Accounting Framework (more specifically IPSAS 14 Events after the Reporting Date), events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. IPSAS 14 therefore does not apply to events occurring after the date the financial statements are issued.

2.4 The International Standards of Supreme Audit Institutions (ISSAI) 2560 Subsequent Events states that, *Financial statements may be affected by certain events that occur after the date of the financial statements. Many financial reporting frameworks specifically refer to such events. Such financial reporting frameworks ordinarily identify two types of events:*

- (a) Those that provide evidence of conditions that existed at the date of the financial statements; and*
- (b) Those that provide evidence of conditions that arose after the date of the financial statements.*

2.5 On 14 April 2021, NATO Allies decided to start withdrawing forces from the Resolute Support Mission in Afghanistan by 1 May 2021, with plans to complete the drawdown of all troops within a few months. The withdrawal is therefore considered a discontinuation of the NATO operation from a financial reporting perspective.

Observation

2.6 The NCIO 2020 Financial Statements were issued and submitted to IBAN for audit on 31 March 2021. The decision to withdraw from Afghanistan was made on 14

April 2021 and therefore after the date the financial statements were issued but during the period of the audit.

2.7 Given the significant nature of the RS withdrawal, IBAN, during the audit, requested NCIO to prepare an analysis of the estimated financial impact of the RS drawdown by category of expenses. We requested that this analysis include the estimated financial impact for categories such as penalties on terminated contracts or any other penalties that the Reporting Entities' third party contractors (or consultants) are entitled to claim, infrastructures and assets dismantling costs, sites decontamination costs, impact on the termination of NSIP projects in progress, personnel expenses and loss of job indemnities etc..

2.8 NCIO was not in a position to provide IBAN with a detailed analysis of the RS drawdown financial impact, as financial data was not fully known or complete in order to ensure a reliable and accurate estimate. At the time of the announcement, the organisation did not have accurate and auditable figures readily available. The process to identify potential liabilities and to estimate the financial impact only started after the announcement of the decision to withdraw from Afghanistan.

2.9 Considering that on-going NATO operations are by nature not permanent operations, IBAN found that NCIO did not maintain on a continuous basis a financial record of the estimated impact of restructuring or closure of on-going operations, to be available in a timely manner.

2.10 Furthermore, although NCIO restated their 2020 Financial Statements to include a note disclosure (Note 33) related to the decision to withdraw from Afghanistan, NCIO states in this note disclosure that *"An estimate of its financial effect cannot presently be made as financial data is currently not present neither complete to provide a reliable estimate of its impact. Initial assessment confirms that potential liabilities and financial impacts would be limited considering the staffing, funding model of the Agency and the accounting treatment of assets in support of missions."*

2.11 IBAN is not in a position to confirm whether the potential liabilities and financial impacts are limited, as we have not received supporting evidence, especially regarding the completeness of provisions and contingent liabilities for such a significant operation. Net financial risks may appear limited from a customer-funded perspective, as any additional unforeseen costs would normally be borne by customers. However, from a financial reporting perspective, balances may not be netted off in accordance with the NATO Accounting Framework (IPSAS 1). Therefore, even if the net financial impact to the Agency would be limited, the impact on total assets and total liabilities may still be material.

Recommendation

2.12 IBAN recommends that NCIO:

- a) Finalise the analysis of the estimated financial impact of the RS withdrawal as soon as possible and inform all stakeholders hereof.
- b) For other on-going NATO missions, establish procedures to ensure that an updated analysis and overview of the financial impact of possible restructuring or closure of an operation is readily available, at a minimum annually.

3. MISCELLANEOUS INCOME OWED BY NCIA TO NSIP

Reasoning

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

3.2 Unused funds held by NCIA may accumulate surpluses and deficits due to fluctuations in exchange rates or interest earned on bank deposits. These include NSIP funds that have not yet been spent on projects, or which are unused authorised funds in excess of expenditures.

3.3 According to the operating instruction for NATO Agencies “Handling of Infrastructure funds” (annex to AC/4-D/2663), *the income resulting from such miscellaneous operations and owed by NCIA to NSIP must be submitted to the Infrastructure Committee (IC) for approval.* As approved by AC/4-DS/1151, they are accounted for in a special dedicated account in order to be transferred to the Nations in due course, in practice by offsetting future calls for contributions.

3.4 The status of refundable miscellaneous income (or loss) is presented in the annual report on NSIP Financial Activity prepared by the NATO Office of Resources (NOR) for the IC. The report includes a cumulative balance of the remaining amounts to be redistributed to the Nations on the basis of the declarations provided by the Agency.

3.5 The refundable surpluses to the IC from acquisition projects, including the above-mentioned miscellaneous income, are recognised in NCIO’s balance of other current liabilities in its Statement of Financial Position.

Observations

3.6 According to the report on NSIP 2019 Financial Activity, para 8 (AC/4-N(2020)0010), accumulated interest owed by NCIA to NSIP amounted to approximately EUR 13.4 million. This covers amounts owed up until 2015 as NCIA has not provided information regarding miscellaneous income owed from 2016

onwards. This interest is owed by NCIA to NSIP and should to be used to offset future calls for contributions.

3.7 It is not possible at the end of 2020 to reconcile and confirm the cumulative amount of EUR 13.4 million of NSIP programme that is shown in the report on NSIP 2019 Financial Activity, with the balance of other liabilities accounted for and reported as part of the 2020 NCIO Financial Statements, which amounts to approximately EUR 2 million.

3.8 This lack of information does not allow the Nations to know the accurate amount of surpluses they are entitled to and therefore to offset future calls for contributions within a reasonable period of time.

3.9 Furthermore, given that NCIO did not declare to the IC the income on investments of NSIP funds as miscellaneous income in the annual financial statements and did not provide information to the IC via the NOR on the status and specific movements of miscellaneous income owed to NSIP since 2015, we found that NCIA did not comply with Article 31.2 of the NFRs and the above-mentioned operating instruction AC/4-D/2663 and corresponding decision sheets.

Recommendations

3.10 IBAN recommends that NCIO:

- a) Recognises a liability in its Statement of Financial Position regarding amounts owed by NCIA to NSIP, which reconciles with the information prepared by the NATO Office of Resources for the Investment Committee.
- b) Provides the International Staff's NATO Office of Resources for disclosure to the Investment Committee, regular financial information on the amounts and flows of refundable miscellaneous income owed relating to NSIP; including the underlying transactions reconciling with the account balances.

4. IMPROVEMENT NEEDED IN THE CONTROL PROCESS FOR THE PREPARATION OF FINANCIAL STATEMENTS AND THE QUALITY OF FINANCIAL INFORMATION DISCLOSED

Reasoning

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

4.2 The NCIO Financial Rules and Procedures (NCIO FRPs) XXXIV states that “*detailed accounting records shall be established and maintained in support of the accounting requirement*” covered by Article 34 of the NFRs with regards to the preparation of a complete set of financial statements consistent with the NAF and the IPSAS.

4.3 Therefore, when the presentation or classification of items in the financial statements is amended, comparative amounts (i.e. previous years) should be reclassified unless the reclassification is impracticable. Also, the entity should disclose, the nature of the reclassification, the amount of each item or class of item that is reclassified and the reason for the reclassification.

Observations

4.4 We found errors and discrepancies in the financial information presented in the notes to the financial statements. These misstatements have been corrected in the restated financial statements submitted to IBAN on 12 May 2021. This includes in particular:

4.5 Material discrepancies were found in accrued and deferred revenues balances for the year 2020 in the Note 15 of the financial statements:

- Accrued revenues and deferred revenues flows for External CIS (ECIS) activity in 2020 were reported as EUR 24 million and EUR -6 million respectively. However, these flows amount to EUR 27 million and EUR 47 million respectively in the trial balance. The restated financial statements now present Note 15 information in line with the trial balance. The net impact of the restatement was EUR 51 million.

4.6 We found that NCIO performed a material restatement in the classifications of previous year (2019) receivables and flows of revenue in Notes 2 and 16 to the Financial Statements without informing the reader:

- In Note 2, the “*Accrued unbilled – Licence revenue*” receivable 2019 balance increased by EUR 61 million as compared to the amount disclosed in NCIO 2019 Financial Statements.
- In Note 16, the “*Acquisition revenue accrued*” for 2019 amounted to EUR 171 million, as compared to EUR 29 million disclosed in NCIO 2019 Financial Statements. Similarly, “*Acquisition revenue deferred*” for 2019 amounted to EUR 156 million as compared to a zero balance in NCIO 2019 Financial Statements. Finally, “*Billed revenues*” for 2019 increased by EUR 13 million as compared to the amount disclosed in NCIO 2019 Financial Statements. However, the overall balance of acquisition revenues for 2019 was the same in both 2020 and 2019 Financial Statements at EUR 266 million.

4.7 Additional narrative information was provided in the restated Financial Statements to clearly highlight the existence of these material corrections in prior year figures and to explain the reasons for them.

4.8 Finally, we found that the accrued revenue and deferred revenue liabilities balance sheet variations between 2019 and 2020 are not consistent with the corresponding flows of accrued revenue and deferred revenue recorded in the Statement of Financial Performance for 2020. The flows distortions result in a missed reclassification between the deferred and accrued revenues amounting to EUR 136 million for Acquisition activity and EUR 50 million for ECIS activity. According to NCIO, this is due to corrections in the accounting treatment and presentation of 2019 revenue that were identified after the EBA migration. These adjustments have an impact on the 2020 flows via the reversal of accrued and deferred revenue for 2019, but do not impact the net surplus or deficit. However, we consider that the information in the Restated Financial Statements could have been improved for the reader by highlighting the existence and reasons for these distortions in the financial flows.

Recommendations

4.9 IBAN recommends NCIO to strengthen its system of internal control by improving the preparation, review and reporting process of the Financial Statements. This includes documenting:

- a) The reconciliation of the primary financial statements and the notes with the trial balance.
- b) The reconciliation of prior year balances in the financial statements with the previous year's audited financial statements.
- c) The verification of factual accuracy and completeness of all disclosures included in the notes to the financial statements.

5. IMPROVEMENT NEEDED TO THE NCIO COST TO COMPLETE (CTC) MODEL FOR REVENUE RECOGNITION

Reasoning

5.1 The NCIO revenue recognition accounting policy follows IPSAS 9 and 11 methodology, which states that *"when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction should be recognized by reference to the stage of completion of the transaction at the reporting date."* The reliability condition to be satisfied includes in particular that *"the costs incurred for the transaction and the costs to complete the transaction can be measured reliably."*

5.2 According to Note 16 of the NCIO Financial Statements all customer funded revenue is recognised in the reporting periods in which the services are rendered “*by reference to the stage of completion or the cost burn rate depending on the type of funding agreement i.e. firm fixed price or cost reimbursable*”.

5.3 In practice, the calculations of the earned revenues are not integrated into EBA and therefore NCIO continues to rely on an updated version of its legacy Cost to Complete (CTC) methods. The latter is an Excel process designed to determine the percentage of completion of a project by comparing the actual costs accumulated to date with the estimated cost at completion. The methodology requires manual work such as compilation, reprocessing, correction and quality control of a large amount of data relating to project costs.

5.4 Excel is not an application that provides a high degree of security and traceability when processing large databases. The risk increases with the number of worksheets used, their size, the complexity of the formulas, the volume of links and data. Therefore, the CTC process is an important factor for NCIO to consider in mitigating risks and developing appropriate controls. In particular, it is necessary to ensure that the source data is complete, accurate, can be reconciled with the systems report from which it is derived, or confirmed with other documents containing the same data, such as the general ledger.

5.5 It should be noted that, the actual costs of a project is the result of an analytical construction using a combination of standard costs and accounting transaction costs coming from separate systems that feed directly in the Enterprise Business Applications, Project Accounting module (EBA-PA) before being discharged and reprocessed in the Excel Based CTC.

Observations

5.6 We acknowledge that the migration made in 2019 to EBA is a step forward. However, we found that the extensive use of Excel for final processing combined to manual corrections in the CTC model for the preparation of revenue recognition considerably reduces the benefits provided by such an ERP.

5.7 IBAN found that the auditability of the CTC Excel file was complex due to the multiple links to other files, the magnitude of manual corrections applied and the lack of comprehensive documentation in support of the underlying methodology. The process is in our view not adapted to a large volume of transactions. It presents a level of risks in terms of accuracy, integrity, continuity, availability and traceability of the data especially since few people have the knowledge of dealing with the information. As an example, although this did not impact the accuracy of the revenue adjustment calculation for 2020, we found discrepancies between the cumulative data reported in the CTC of the previous year to be carried forward and those in the opening of the following year.

5.8 This complexity inherent to the CTC model, is caused by the system design and data quality issues in the upstream processes since the integration of EBA-PA. For instance, the upstream data source of the CTC comes from a single Excel file, the Project Controlling Report (PCR), whose function is to centralise and pre-process raw data extracted from EBA-PA. It contains all detailed cost flows for each project mixing those from accounting transactions, Time Accounting System (TAS) standard labour costs including overheads (based on customer rate), and all Enterprise Service Delivery Management (ESDM) cost reallocations between projects (see below).

5.9 The NCIO reconciles TAS data interfaced between Enterprise Project Management (EPM) and EBA-PA. However, we found that the NCIO did not produce any reports or reconciliations to confirm the completeness and integrity of the data originating from accounting transactions in support of the actual customer project costs calculation in the CTC or by analytical comparison with the balance in the accounting ledger. According to the Agency, such a reconciliation at project task level is not possible because of the system setup.

5.10 This finding corroborates a requirement also identified by NCIO and confirmed to us during the audit fieldwork, as NCIO requested *“the project and task dimension to be included in General Ledger module to allow detailed reconciliation on project and transaction level or any other alternative that would increase transparency/reconciliation between GL and PA module. This was not implemented in the EBA R1 project and later refused due to system limitation and complexity to implement in a live system. Without this granularity, reconciling PA actuals with GL actuals will remain a challenge and a high level manual exercise outside EBA. The requirement of additional GL dimension/granularity linked to the Project/Task dimension is recognised within the EBA 2021 stabilization effort.”*

5.11 For instance there is a difference amounting to EUR 55 million between the total accounting balance of Contractual and Supplies Services / Operating expenses (EUR 282 million) and the total of similar transactions costs reported in the PCR/CTC file (EUR 227 million). This difference is not analysed by NCIO. However, in theory, it could be rationalised at a high level, as the standard costs arising from the TAS include a share of non-payroll overheads that substitutes the actual accounting costs. However, in the absence of analytical accounting of indirect costs per project, this consistency check remains mostly impossible.

5.12 Also, in EBA/EPM, some of the customer project codes (mainly for Service Level Agreements (SLAs)) are used to capture customer agreements, billing and customer revenues and budget but not the actual costs. The latter are recorded separately in a cost centralising project. For the CTC process, the centralised costs required to be reallocated and broken-down to the different customer projects are made according to a defined contribution algorithm (ESDM).

5.13 NCIO performs a separate reconciliation as part of the closure process, taking into account all projects, to ensure that all the ESDM's internal cost reallocations are balanced between emitting and receiving projects in EBA-PA. However, for the

revenue calculation process, when comparing the total amount reconciled by NCIO with the costs in the CTC reported as coming from ESDM reallocation (EUR 375 million, almost 50% of all actual cost in the CTC), we found an overall net difference of EUR 7 million. Furthermore, we were not in position to reconcile the cost excluded in the PCR with the actual customer project integrated in the CTC's. However, it was possible on the basis of a sample to trace and reconcile some reallocations with the underlying costs.

5.14 Therefore, as the completeness and integrity of the accounting transaction data costs used in the CTC calculation cannot be verified overall, we were not able to fully confirm the accuracy of the estimates made for the revenue recognition.

5.15 We also noted that the estimation of cost at completion coming from EPM is subject to different layers of control. The last one of which is to detect possible quality defects and inconsistencies by using Excel formulas. Detection scenarios are standardised and mainly alert to situations where the cost estimate deviates significantly from the original budget. Any updates are agreed in meetings with the Chief Operating Officer and confirmed through email. However, due to the Excel-based design, we believe that the audit trail of the validation flows is weak, given that there is no log of changes in estimates and there is no built-in evidence documentation that a given cost estimate that successfully passes the consistency tests is actually correct.

Recommendations

5.16 While IBAN acknowledges the improvement in the cost to complete (CTC) revenue recognition model since 2018 through the implementation of the EBA and that, at a high level, no material inconsistencies were found, IBAN recommends that NCIO:

- a) Replaces the Excel based process with an EBA model tailored to NCIO's operations, which should guarantee the traceability, integrity and security of data;
- b) Strengthens internal controls to ensure the completeness and integrity of the actual costs allocated to each project in the CTC calculation;
- c) Establishes a sign-off on the responsibility and validation of the final cost at completion estimates embedded within the EPM-EBA interface and integrates the project management document in support hereof.

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
<p>(1) NCIA FY 2019 IBA-AR(2020)0021</p> <p>MATERIAL INCOMPLETENESS OF PROPERTY, PLANT AND EQUIPMENT (PP&E) AND INTANGIBLE ASSETS</p> <p>IBAN's Recommendation IBAN recommends that NCIO:</p> <p>a) Recognises all PP&E and Intangible Assets, including assets under construction, in the Financial Statements in accordance with the NATO Accounting Framework.</p> <p>b) Establishes and maintains comprehensive accounting records of all PP&E, Intangible Assets, and assets under construction in accordance with Article 12 of the NFRs.</p>	<p>Superseded by this year's observation.</p>	<p>Observation Closed.</p>
<p>(2) NCIA FY 2019 IBA-AR(2020)0021</p> <p>IMPROVEMENTS NEEDED ON THE INTERNAL CONTROL OVER ACCRUAL ESTIMATES</p> <p>IBAN's Recommendation IBAN recommends that NCIO:</p> <p>a) Develops documented internal control procedures to detect incorrect estimates of accrued expenses, in particular with regard to the erroneous validation of the receipt of purchase orders in EBA.</p>	<p>The agency incorporated elements in the 2020 End of Year Guidance with clear instructions for the project managers on how to proceed</p>	<p>Observation In-Progress.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>b) Defines a mandatory list of documents to be uploaded in EBA by operational project staff in order to justify the accrual amounts or estimates and dates of validation of the receipts of goods and services.</p>	<p>with entering receipts in EBA. Despite these instructions, IBAN found discrepancies and errors in the estimate of accruals leading to an overstatement of accruals for EUR 4 million. Similar to last year, these discrepancies are mainly due to erroneous receipts of services validated in EBA by project managers.</p> <p>IBAN acknowledges that maturing the process to improve the estimate of accruals at year-end requires management effort.</p> <p>IBAN recommends improving controls on the validation of receipts in EBA to provide sufficient evidence of the delivery of services and goods in the financial year.</p>	
<p>(3) NCIA FY 2019 IBA-AR(2020)0021</p> <p>IMPROVEMENTS NEEDED TO THE NCIO CUSTOMER RATES AND OVERHEAD ASSUMPTIONS</p> <p>IBAN's Recommendation IBAN recommends that NCIO improves the accuracy and transparency of assumptions underlying customer rates, including overheads. This can be achieved by:</p> <p>a) Clarifying roles, responsibilities and accountabilities of internal stakeholders involved in the business assumptions that influence customer rates and overhead calculations;</p> <p>b) Providing detailed qualitative information supporting the rationale of each business assumption taken by Management;</p> <p>c) Applying a fair and consistent approach regarding travel costs for services delivered, that should be directly charged to customers and not be included in the Agency overheads;</p>	<p>No evidence was brought to our attention that the recommendations were implemented in 2020.</p>	<p>Observation Open.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>d) Using the Time Accounting System to compare prior year's assumptions and actuals in order to support, assess and improve the accuracy of business assumptions (i.e. activity ratios per staff category, resource classification billable or non-billable information, FTE projections, etc.), and</p> <p>e) Reporting significant variances between approved customer and overhead rates and actuals to the ASB Finance Committee.</p>		
<p>(4) NCIO FY 2018 IBA-AR(2019)0019</p> <p>UNDERSTATEMENT OF INVENTORY</p> <p>IBAN's Recommendation IBAN recommends that, with the implementation of the new EBA in 2019, the Agency disclose the full value of inventory held in its 2019 Financial Statements. In addition, the Agency needs to complete its clean up exercise on unit prices migrated from NDSS. Further, the agency should identify slow moving and obsolete inventory and write them down to net realizable value in the 2019 Financial Statements.</p>	<p>IBAN found that the full value of inventory was disclosed in the 2020 financial statements. In addition, IBAN found that all material unit price discrepancies carried over from NDSS had been corrected by the end of 2019.</p> <p>As a result, this report observation is considered closed.</p>	<p>Observation Closed.</p>
<p>(5) NCIO FY 2017 IBA-AR(2018)0011-REV1</p> <p>FURTHER IMPROVEMENTS REQUIRED IN THE AREA OF RISK MANAGEMENT, INTERNAL CONTROL AND INTERNAL AUDIT</p> <p>IBAN's Recommendation While continuing the effort of maintain corporate Enterprise Risk, the Board recommends that:</p> <p>c) modifies its Charter to ensure independence in compliance with internationally accepted Internal Auditing Standards as mentioned in Article 13.2 of the NFRs.</p>	<p>A decision was taken in February 2021 to change the Internal Auditors reporting lines. The IA now reports directly to the Audit Committee. A revised version of the Charter has been drafted and is in the approval process.</p>	<p>Observation Closed.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(6) NCIO FY 2017 IBA-AR(2018)0011-REV1</p> <p>NO CLEAR CONFIRMATION OF THE SYSTEM OF INTERNAL CONTROL</p> <p>IBAN's Recommendation The Board recommends that NCIO's Statement of Internal Control contain the confirmations required by FRP XII including the confirmation by the Director of Acquisition on the content for procurement and contracting of the Statement of Internal Control.</p>	<p>The wording in NCIO's Statement of Internal Control was updated and aligned to the regulatory requirements.</p>	<p>Observation Closed.</p>
<p>(7) NCIO FY 2017 IBA-AR(2018)0011-REV1</p> <p>WEAKNESSES IN THE SOURCE SELECTION PLANNING PROCESS</p> <p>IBAN's Recommendation The Board recommends that the Agency comply with its 2017 Acquisition SOP ensuring that sufficient resources are planned for the evaluation and selection phases and that Source Selection Plans are approved prior to the issuance of the solicitation document.</p>	<p>The observation was raised in 2017 and since then, the procurement planning and tracking was automated (80% of the work). The planning now is done in EPM. With the new Agency Procurement Plan, all project requests are analysed and before the project is confirmed it is reviewed by the Priority and Coherence Board. The projects are assigned a priority, this priority level will not change during the life cycle of the project. The allocated priority are linked to the resources to be assigned to the execution of a project. A resource request towards the resource management will take into consideration the priority level named for the project. The planning is reviewed every three months.</p>	<p>Observation Closed.</p>
<p>(8) NCIO FY 2016 IBA-AR(2017)15</p> <p>CONTRACTOR CLAIM RESULTING FROM CHANGING AND DELAYED CONTRACT REQUIREMENT</p>		<p>Observation In-Progress.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>DEFINITION AND WEAK COORDINATION BETWEEN NCIA AND THE INVESTMENT COMMITTEE</p> <p>IBAN's Recommendation The Board reminds NCIO and the funding committees of the recommendations of the IBAN Special Performance Audit Reports to Council on the need to improve NATO's capability package process, including:</p> <p>(a) For the Agency, improving information management and transparency by rationalizing and modernizing the processes and information technology used to manage Capability Package work.</p> <p>(b) For the funding committees, unifying, strengthening and clarifying governance roles to ensure capability requirements reflect needs and enable capability delivery as closely as possible to agreed plans.</p>	<p>IBAN notes that NCIA has updated its reporting that includes more detailed information like overview on delays and risks. Further reporting enhancement will take place after the implementation of a new reporting approach.</p>	

**NATO COMMUNICATIONS AND INFORMATION ORGANISATION (NCIO)
FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL
BOARD OF AUDITORS (IBAN) POSITIONS****OBSERVATION 1:
MATERIAL INCOMPLETENESS OF PROPERTY, PLANT AND EQUIPMENT
(PP&E) AND INTANGIBLE ASSETS*****NCIO's Formal Comments***

Agreed.

For the PPE items, we have reported the fixed asset register within our financial statements with the caveat of missing PPE items due to its nature of classification and PPE items related to Assets under Construction (AuC). The complex matter of AuC represents a significant transformation of accounting referential and practices. Further analysis on the impact towards financial planning/reporting vs Financial Statements applying NAF and the underlying process change related to IC projects are being performed to assess the feasibility and costs of implementing. The Agency remains committed to achieving full compliance with the NATO Accounting Framework and will actively work to present an assessment of the impacts and actions and expected time needed to address the audit qualification. This assessment will be presented to the Nations by the 3rd Quarter 2021.

In the meantime the Agency informed its governance board ASB and the RPPB on this legacy observation with a notional timeline to become compliant by publication of the NCIO Financial Statements FY2022. This timeline is subject to resource availability.

**OBSERVATION 2:
THE ESTIMATED FINANCIAL IMPACT OF RESOLUTE SUPPORT (RS)
WITHDRAWAL NOT YET AVAILABLE*****NCIO's Formal Comments***

Agreed.

The Agency has provided initial assessment on the impact in respect to certain specific categories of the Financial Statements.

Detailed assertion is possible after clarification on the conditions of the end of mission and possible follow up are determined and NCIA customers provide their analysis in respect to the RSM withdrawal. These elements were not available at the time of NCIO FS publication.

HR

In all cases it is believed that all affected NIC personnel can be reallocated to other work especially as the Agency's overall demand from Customers exceeds capacity. Moreover, where NICs serve in Afghanistan (AFG) they are backfilled (where required) by IWCs. Therefore, the Agency has flexibility to reduce IWC numbers without penalty. There are also IWCs deployed in AFG, again they will be able to be released if no other work is available in the NCIA.

ACQ

Agency does not expect significant termination costs of those contracts that would bring us above whatever residual contract value is contracted today. However, should demobilization implied new requirements (repatriation of data/equipment, specific tasking to be done to return sites in a certain state, etc...) this would have to be considered as new requirements that could imply new costs (so not directly linked to terminating contracts but to comply with any demobilization requirements).

PPE/Inventory

Given it is an Operational environment and the harsh conditions, the value of PPE is generally carried in the books at a net book value of zero. For NATO owned equipment the current working assumption, given the limited time to leave AFG and the costs associated with repatriation, is that the equipment will be just left in theatre except for those items which have specific security issues or sensitivities or is essential for other missions. The latter type of equipment will be destroyed locally or repatriated to NATO locations outside AFG. Reports of Survey will be raised to reflect how the equipment is dealt with. Requests for the disposal of NSIP commonly funded equipment and/or the dismantling of commonly funded facilities and their deletion from the NATO inventory will be dealt in accordance with NSIP procedures, where applicable.

**OBSERVATION 3:
MISCELLANEOUS INCOME OWED BY NCIA TO NSIP****NCIO's Formal Comments**

Recommendation a): Not agreed.

Agency disagrees as the liability is recognised in accordance with the NAF in 2020 as well as in the prior years. Moreover Agency has taken prudent approach and recognized a provision to cover the legacy difference resulting from the stand-up Agency FY2012 (NACMA merger into NCIA).

Agency continues its reconciliation efforts to align the respective positions with

the NOR.

Preliminary results from ongoing investigations/reconciliations indicate that the differences may mostly be due to inverse amounts recorded within the NOR/IC report.

Once the reconciliation is finished, the current disclosure in the Financial Statements will be supplemented with details supporting the reconciliation of the liability between the Agency and the NOR and agreed liability will be reported.

Recommendation b): Agreed.

The Agency already agreed to resume the annual reporting to the NOR once the 2015 position is fully aligned between the Agency and the NOR.

IBAN's Position

IBAN acknowledges that NCIO recognised a liability regarding miscellaneous income owed by NCIA to NSIP. Nevertheless, as this balance does not reconcile with the information prepared by the NATO Office of Resources for the Investment Committee, we updated the audit observation and recommendation accordingly.

OBSERVATION 4: IMPROVEMENT NEEDED IN THE CONTROL PROCESS FOR THE PREPARATION OF FINANCIAL STATEMENTS AND THE QUALITY OF FINANCIAL INFORMATION DISCLOSED

NCIO's Formal Comments

Agreed.

Agency agrees with the reconciliation principles mentioned and generally applies those controls, however the production for the first time of FS in EBA at the end of 2019 required one off specific treatments.

More detailed explanation is provided below.

The Agency has provided IBAN with explanations and supporting documentation with respect to the notes 2, 15 and 16 during the course of the audit.

At the time of producing the Financial Statements 2019, which was the first production year of EBA, all entries could not be validated on the detailed level and were reviewed on aggregated level instead. Following more detailed

validation exercise in 2020 the Agency was able to provide more detailed splits encompassing the comparative figures of 2019 (including the migrated figures) as well. The line level split was therefore reclassified in the Financial Statements of 2020 to ensure comparability between 2020 and 2019 information in line with IPSAS 1.

**OBSERVATION 5:
IMPROVEMENT NEEDED TO THE NCIO COST TO COMPLETE (CTC) MODEL
FOR REVENUE RECOGNITION**

NCIO's Formal Comments

Not Agreed.

The Agency does not concur with the scope and several elements of the observation. First, the scope of NCIO Cost to Complete model for revenue recognition is about aggregating data, calculating earned revenue, comparing with booked revenue and generating an adjustment journal.. All controls that are required to ensure accurate data input are “upstream” controls in scope of the core business processes: Project Funds Loading, Project Costing including Time Accounting, Project Planning, Project Billing, Project Master Data and Project Funds Execution Monitoring.

Paragraph 5.16 a): Agreed. There is no standard solution in EBA (Oracle EBS) to perform CTC/ revenue calculation. A customized solution in Oracle EBS would be required with a significant cost to implement and to maintain and would present significant risk in performing annual closing. Since the 2019 go live of EBA, there is no other working alternative to calculate revenue numbers as part of the CtC exercise than the one developed in Excel. The Agency is in favour of the principle to integrate the Cost to Complete model in EBA. However, the current status of the integration between EPM and the Project Accounting Module combined with the corrections required to the data input after year end closing, do not allow an integrated revenue calculation model at this stage.

Paragraph 5.16 b): Not agreed. Although being an Excel model, quality control has increased significantly in 2020. There are 28 automated controls included in the CtC model.

Paragraph 5.16 c): Agreed. This was in scope of the EBA implementation. Unfortunately, this process is not yet operational because of EPM-EBA interface issues and complex mapping between EPM and EBA project structure.

Release 4 of EBA will review the integration between P3SM tool (former EPM) and EBA focusing on the interface issues. R4 incorporates specific stream for

the integration of P3SM. Complete R4 implementation and resolution of interface issues is a pre-requisite for integrating CtC model into EBA.

IBAN's Position

In accordance with the IBAN Charter, our function is to provide independent assurance that the financial statements of the NATO bodies present fairly their financial position, financial performance, and cash flows and that the funds have been properly used for the settlement of authorised expenditure and are in compliance with the regulations in force (financial statements audit). Therefore, IBAN confirms that internal control over the revenue calculation process falls within the financial statements audit scope.

IBAN acknowledges that a number of automated controls exist in the Enterprise Business Application and we have updated sub-recommendation b) accordingly.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(2) NCIA FY 2019

IBA-AR(2020)0021

IMPROVEMENTS NEEDED ON THE INTERNAL CONTROL OVER ACCRUAL ESTIMATES

NCIO's Formal Comments

Agreed.

The Agency already has strengthened and incorporated several elements in the End of year guidance 2020 with clear instructions on how to proceed with entering receipts in EBA and considers guidance is fit for purpose. Maturing that process requires change management effort and is gradual process that needs to be rolled out across very broad Project Managers community.

From a process perspective it should be noted that not all documentation can be attached to EBA due to its sensitivity/classification/nature (e.g. like utilities, MOU services etc.). EBA is NU only and sensitivity of certain information it will never be possible to have 100% of documentation available in EBA but sufficient audit trail will be kept outside EBA.

PM community has an integral role as part of their accountability to enter receipts into EBA for the services/goods they have requested in relation to the approved purchase requisition/Purchase Order recorded within EBA. Agency will continue its efforts to further educate Project Managers community on the necessity of attaching available receiving documentation in EBA whenever possible.

The Agency will assess feasibility of changing Year End procedures without additional operational impacts and its related costs to change/implement.

(3) NCIA FY 2019

IBA-AR(2020)0021

IMPROVEMENTS NEEDED TO THE NCIO CUSTOMER RATES AND OVERHEAD ASSUMPTIONS

NCIO's Formal Comments

Agreed.

The recommendations were addressed in the preparation of the CR document for 2022 released by the Agency on 31 march 2021.

a) Information outlined in the recommendation was added to the 2022 CR document currently under approval by Finance Committee. An updated CR methodology and principles comprising this information was also drafted by the Agency and presented to the Nations in March 2021.

b) Qualitative information was provided as part of the Customer Rates 2022 document currently under approval by Finance Committee. Specifically:

- the assumptions supporting business demand and underlying workforce projections where further detailed;*
- the assumptions on FTE man-days assumptions were supported by historical TAS review;*
- the assumptions on O&M costs to be recovered were further detailed.*

c) The 2022 travel costs used for Customer Rates were significantly reduced from 4M to 1M to match more closely to Admin expenditures only. This was based on historical data with the caveat that previous year (2020) was a COVID year hence not fully representative of reality and not captured in full in EBA. Important to note that 2022 Service Rates have not been adjusted accordingly hence putting an extra 3MEUR risk on Agency travel cost recovery in 2022. Further improvements in the accuracy of the planning assumptions (1MEUR) will be incorporated in subsequent CR when a more realistic historical baseline will be available.

d) This has been Incorporated into CR 2022 and to be further improved in subsequent years pending ongoing work of the ASB Tiger Team. See overall comment and observations a & b.

e) Reporting significant variances has been incorporated in full in CR2022 document.

(8) NCIO FY 2016

IBA-AR(2017)15

CONTRACTOR CLAIM RESULTING FROM CHANGING AND DELAYED CONTRACT REQUIREMENT DEFINITION AND WEAK COORDINATION BETWEEN NCIA AND THE INVESTMENT COMMITTEE

NCIO's Formal Comments

Agreed.

Process improvement of capability delivery by the Agency is conducted in the broader context of the 2018 governance model agreed by the NAC. This includes:

- Strengthening of information exchange and coordination with the Strategic Commands under the mandate of the Capability Management Authorities (CMA) and the Capability Management Function (CMF). In this context, products are coordinated at CMA/CMF level before they are submitted to governance for decision making.

- NCIA is conducting internal business change in order to better align with the new governance model for common funded capability delivery. In particular, the Agency's Project, Programme and Portfolio (P3M) approach has been strengthened in order to provide clear visibility into programme and project schedules and progress, quickly and effectively identify and mitigate schedule dependencies among projects, and keep overall programme implementation progress on track.

- The development of such a strengthened P3M approach has been extensively discussed at governance level (ASB, ASB-FINCOM, RPPB, and IC) and will be further implemented, subject to the approval of the cost model as an organic Agency capability.

- NCIA has proposed a new methodology for evaluating risks and determining tolerances in support of the operationalisation of the new governance model. In line with the 'learning by doing' approach embedded in the new governance model, this methodology has been applied for the first time on a Project Proposal that is under development for funding authorisation by governance.

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; we will include an Emphasis of Matter paragraph in the auditor's report provided.
- 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; we will include an Other Matter paragraph in the auditor's report.

**General Manager**

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NCIA/FC/2021/03452
12 May 2021

To: Distribution

Subject: **Revised NCIO Financial Statements for the period 01 January to 31 December 2020**

1. This letter forwards the revised Financial Statements for the NCIO for the period 01 January to 31 December 2020. The statements include the financial information for the NCIA and NCIO Secretariat.
 2. On 05 May 2021, NCIO Financial Controller has sent a request to audit restated NATO Communications and Information Organisation (NCIO) Financial Statements for the period 01 January to 31 December 2020 towards IBAN Board Member Mr Amipal Manchanda, providing the rationale and decision to restate and or revise Financial Statements;
 - Major post closure event, NATO decided on 14 April 2021 to start withdrawing forces from the Resolute Support Mission in Afghanistan by May 1, with plans to complete the drawdown of all troops within a few months hence Note 33 of the NCIO 2020 Financial Statements is updated to reflect this event in line with IPSAS 14 "Events after the reporting date".
 - Major changes/updates to the notes 2,15,16 and section E. of the NCIO 2020 Financial Statements as a result of the recommendations on the tentative audit findings provided by IBAN field auditors during their field audit of the NCIO 2020 Financial Statements.
- It should be noted that the restatements are not affecting the presented FY2020 numbers on the face of the financial statements neither the result of FY2020. We believe these updates are material and will provide additional clarification to the readers of the NCIO 2020 Financial Statements.
3. The revised Financial Statements as submitted are unaudited. In accordance with the NCIO Charter, once the outcome of the IBAN audit is received, the Financial Statements will be forwarded to the Agency Supervisory Board for approval taking into account the IBAN report and the advice of the Audit Committee on responses.
 4. The revised NCIO Financial Statements for the period 01 January to 31 December 2020 can be publicly disclosed except for the Annex A as described within the Financial Statements.



NATO Communications
and Information Agency
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5. The NCI Agency is already working with the IBAN on audit fieldwork, and stands ready to provide all necessary further support to the audit team including reports, documents and associated reconciliations and explanations.

Kevin Scheid
Digitally signed by
Kevin Scheid
Date: 2021.05.12
13:18:21 +02'00'
Kevin Scheid
General Manager

Antoine Pailhès
Digitally signed by
Antoine Pailhès
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Antoine Pailhès
Financial Controller

Enclosure:

1. NCIO Revised Financial Statements for the period 01 January to 31 December 2020

Distribution:

External

Chairman International Board of Auditors for NATO
Chairman NCIO Agency Supervisory Board

Internal

Members Executive Management Board



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



NCIA/FC/2021/03399REV1

NATO Communications and Information Organisation Financial Statements 2020

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Foreword by General Manager NATO Communication and Information (NCI) Agency

I am pleased to present the Financial Statements (FS) for the NCI Agency for the financial year 2020. These statements have been produced based on the Agency integrated financial system, Enterprise Business Application (EBA), which is in its second year of operation, following go live early 2019. This is the fourth set of FS that I have issued during my tenure and I am glad to see our financial process and quality of information maturing.

The year 2020 was marked by the COVID-19 crisis, which presented both risks and opportunities. Risks materialised in certain programmes delays due to imposed sanitary and travel restrictions and challenges with industry in delivering the contracted work. The Agency however maintained its financial and business continuity, with its mobile and committed workforce delivering on projects and services. Secure remote working solutions were also enabled and delivered to many of Agency customers and stakeholders.

EBA, our enterprise resource planning system supporting financial management and reporting, continued its stabilisation dynamic and improved usage learning curve. Following a discovery phase of key issues requiring attention following Release 1, these efforts are now followed by implementation of main areas of system and process improvements.

Financial statements are an important element confirming the sound and prudent financial management of the Agency and in particular its capacity to achieve breakeven over the planning period. Overall, the NCI Agency's 2020 total revenue amounts to 773.2 MEUR, this is a 3.9% decrease compared to the previous year. In 2020, the net operating result shows a small surplus of 3.2 MEUR (0.4% of the total revenue).

This decrease in Agency revenue is mainly due to a lower NSIP Acquisition Revenue, mainly in relation to few major NSIP projects/programmes such as ACCS, Polaris and SATCOM and over-optimistic forecasts on non-NSIP smaller projects and prudent financial management to avoid further impacting the Operating Fund of the Agency.

By the end of 2020, the Agency assessed that COVID-19 impacted 100 NSIP projects out of 245 active projects.

The Operating Revenues were up 12% compared to prior year, while the External CIS increased by 5.5%.

Finally, compared with planned break-even included in the 2020 – 2022 Financial Plan¹, the net operating result for 2020 amounting MEUR 3.2 demonstrates, in particular during this COVID-19 impacted year, the ability of the Agency to exercise prudent financial management.

Agency Internal accomplishments include:

Finance Function Transformation

- A review of Finance function took place during 2020 and highlighted a number of areas that are being addressed as part of Finance Transformation efforts:
 - Establish a Finance Transformation organizational pillar to drive strategy, policy, change management, continuous improvement;
 - Implement EBA stabilization, coherent data architecture and ownership in EBA and Enterprise Project Management (EPM);
 - Create an extended Finance Community of Practice to foster consistent standards and operates streamlined processes;
 - Secure second level controls by Finance within end-to-end processes e.g. corporate planning processes, revenues and costs planning, execution and forecasting, workforce planning;
 - Operate efficient central transactions processing within Corporate Accounting Services;
 - Instantiate the Business Management - Business Partnership roles with direct interface within Service Lines, Corporate Functions.
- Implemented interim reorganisations within Finance of Business Management and Corporate Accounting Services in 2020, pending finalisation of Finance organisation end state design in 2021.

¹ AC/337-D(2019)0027 (INV) dated 18 November 2019 and AC/337-DS(2019)0004 (INV) dated 27 November 2019

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- Defined a number of Finance Transformation work strands that are currently progressing within existing resource limitations.
- Continued to actively address and closeout IBAN and Internal Audit observations.
- Continued to progress the NCIO Internal Control Framework.
- Delivered during 2020 the Agency's second Multi-Year Investment Plan 2021 – 2025, embedded within the 2021 – 2023 Business Plan² and reflected in the 2021 – 2023 Financial Plan³. Progressed the process of finding viable funding sources and a sustainable funding mechanism for NCI Agency Internal Investments with the Agency's governance bodies.
- Followed-up the independent study that focused on the categorization and allocation of overhead cost with phased implementation of recommendations within a broader cost accounting roadmap. A Finance Committee Tiger Team was established to deliver a coherent set of recommendations concerning NCIA Customer Rates and Overhead while addressing all existing and formal requirements within NATO bodies (NCIO, RPPB, and IBAN).

Business Operations Management Improvements

- Continued the Agency's risk management process that removes hierarchical barriers and allows timely decision-making for the successful delivery of planned objectives and milestones.
- Outsourced the Agency's Customer Satisfaction Survey and the results indicated that progress has been made, while certain gaps remain.
- Stood up the Matrix programme team, focussing on establishing the matrix design principles and the programme implementation approach.
- The Crisis Management and Business Continuity Office (CMBC) was established in 2020 to develop these capabilities across the Agency.

Facilities Upgrades

- Completed several important facilities upgrade milestones in cooperation with the Agency's Host Nations (HN):

- Construction works for the renovated building at The Hague in collaboration with the HN The Netherlands have been completed and staff and technical asset moves are expected to be completed in 2021.
- Initiated the design of the NCIA Digital Enterprise Centre (NDEC) facility in Camp Casteau, Mons with the HN Belgium.
- The project of a new Agency's facility in Waterloo has been approved and the Agency continued to work with its Governance to identify appropriate funding sources for this facility.

Some specific NCI Agency Capability Development and Service Delivery accomplishments include:Contract Awards

- In 2020, the NCI Agency awarded contracts worth approximately 623.0 million EUR. 251.2 million EUR, representing 40.3% of the total value, was contracted under the Military Budget, and 190.0 million EUR (30.5%) contracted under the NATO Security Investment Programme. Contracts awarded under multinational funding represent 52.7 million EUR and 8.5% of the overall value. Contracts placed under the Agency Operating Cost amount to 129.0 million EUR or 20.7% of the overall value. 84.6% of these procurements correspond to the Advisory and Assistance Services (AAS) Contract. Significant downward change in the global procurement volume in comparison to 2019 is due to the award of the SATCOM MOU in that preceding year. The 2020 global procurement volume is considered rather representative to NCIA portfolio from multi-year perspective.

Operations & Exercises

- NATO operations and exercises remain the Agency's priority. Overall, in 2020, the Agency deployed over 367 staff, including NATO civilians, military staff, and contractors.

² AC/337-D(2020)0032 dated 11 December 2020 and AC/337-D(2020)0032-AS1 dated 18 December 2020

³ AC/337-D(2020)0031-FINAL dated 15 January 2021 and AC/337-D(2020)0031-AS1 dated 18 December 2020

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- The Agency delivered technology and expertise to support NATO and national exercises, including US-led Exercise BALTOPS, Exercise Coalition Warrior, as well as Exercises Steadfast Cobalt and Steadfast Jupiter-Jackal 2020.
- The COVID-19 pandemic forced NATO to reassess the conduct of the exercises for 2020. While the exercise schedule ran regularly until beginning of March most exercises were either cancelled or drastically reduced in scope thereafter. Given the guidance to minimize deployments and travels, exercises were to be executed mostly from static location, preferably from the Peace Time Locations.

Capability/Service Delivery

- In the area of new capability delivery, major achievements included, among others, Final System Acceptance and deployment of the new Tools for Operations Planning Functional Area Service (TOPFAS) Increment 2, a new web application for The International Submarine Escape and Rescue Liaison Office (ISMERLO) to plan and coordinate international submarine rescue operations, delivery of the full scope of the Land Command and Information System (LC2IS) Inc2 project and its provision to KFOR.
- Several framework agreements were signed (with Switzerland and North Macedonia), or amended (with Czech Republic, France, Portugal, Norway, Bulgaria and Luxembourg) for cooperation on Consultation, Command, Control, Communications, Intelligence, Surveillance and Reconnaissance (C4ISR) activities.
- In 2020, the Agency delivered services in accordance with 154 separate agreements with Commands, Nations, Partners, Multi-National Organizations, and others.
- The number of signed Service Support Packages (SSPs) has exceeded the one from past year, becoming so the highest number ever reached.

Capability Development

- Polaris experienced contractor challenges in the area of ITM Modernisation, with programme preparing recovery, remediation and mitigation response efforts.
- Other areas of important development included Air Command and Control and Ballistic Missile Defence, Maritime Information Exchange service, Alliance Ground Surveillance, Next Generation Satellite Communication Services, Cyber Security.

External Stakeholder Engagement

- In 2020, the Agency continued to invest in its relations with Allied industries across the Atlantic by hosting its first virtual industry event, NITEC Connect. The event was attended by more than 1,300 participants and attracted more than 450 new companies. It provided early insight into upcoming business opportunities and featured a new framework for the Agency to team up with not-for-profit entities.
- For the fifth NITEC innovation challenge the Agency innovated its process, challenging industry to address a very specific problem in the Air C2 domain. Eighteen companies entered, with eight taking part in a virtual pitch session at the NITEC Connect conference where they were grilled by experts from the Agency, NATO HQ and a Nation. Three companies were selected at the pitch session in November and each received contracts to quantify the potential operational improvement they could deliver and understand the deployment challenges should NATO adopt these innovative technologies.

Future Challenges

The Alliance experienced unprecedented challenges in 2020, as did the rest of the world, with the advent of the COVID-19 pandemic and uncertainties surrounding public health, the economy, and global security and movement. We also experienced major challenges with some of our critical programmes, namely ACCS and Polaris. These concerns, while perhaps novel, are not the first or last crises NATO and the Agency will need to manage. Indeed, while events in 2020 dramatically shifted our ways of working, they also made clear that our human

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capital is the deciding factor in the NCI Agency's endurance and ability to face challenges. The NCI/NCI Agency vision remains a strong, fully digital NATO enterprise focused on ensuring consultation and collective defence.

At the time of releasing the NCI Agency 2020 Financial Statements, the COVID-19 crisis is still unfolding. Proactive financial risk management will be exercised during 2021 to ensure a balanced financial performance and secure the Agency's financial fundamentals.

Kevin
Scheid

A digital signature block for Kevin Scheid. It includes the text "Digitally signed by Kevin Scheid", the date "Date: 2021.05.12", and the time "13:13:12 +02'00'". The signature is overlaid on a faint background logo of the NATO Communications and Information Agency (NCI Agency).

Kevin J. Scheid
General Manager
NATO Communications and Information Agency

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

Vision

Today's global technological environment is inherently complex and its sheer dynamism challenges NATO's technological superiority on a daily basis. The rise of emerging and disruptive technologies, from artificial intelligence to quantum computing, hypersonic weapons to 5G networks, expose NATO's technological edge and drive the need for large-scale digital transformation.

Since its start in 1949 the Alliance has continually adapted to our ever-changing global security and technological landscape, and the NCIO/NCI Agency endures as the provider of capabilities instrumental to NATO's ability to fulfil Articles 4 (Consultation) and Article 5 (Collective Defence). Today, NATO's success in consultation and collective military operations is critically dependent on a secure, resilient, cloud-based information technology infrastructure and an array of software applications provided by the Agency in conjunction with industry partners.

To achieve NATO's digital transformation, the Agency will continue our work with Nations to upgrade their capabilities through common funded and multinational projects to maximize the impact of their investments, and our partnerships with Industry to ensure our technological solutions remain at the cutting edge. At this phase of Agency maturity, our focus is on driving efficiency and adapting to new technologies and processes that can help NATO to maintain its technological edge.

The Agency Supervisory Board revised the Strategic Direction and Guidance (SD&G) to the Agency from 2016, and the agreed SD&G 2022 - 2026⁴ will enable improved effectiveness and efficiency, ensure linkages between on the one hand NATO nations' and key stakeholders' priorities, and on the other, the organisational planning and management of the NCI Agency. The aim is to ensure strategic focus on the NCIA's ability to deliver modern, resilient Communications & Information Systems. The guidance set four focal areas for the Agency, as follows:

- Strengthen NCIA Core Business;
- Adaptive Support to NATO Core Tasks;

- Strengthen Cyber Space and Cyber Resilience;
- Enhancement of Digital Modernisation.

In 2020, the Board approved advice to the Resource Policy and Planning Board (RPPB) on the Customer Funded Regulatory Framework, as part of the RPPB's review of the framework. The Board concluded that continuing the implementation of the framework was the best way forward, proposing improvements and additional accountabilities for the NCIO in the review of Agency Customer Rates, internal investments (including for technology refresh) and the Operating Fund. The Board also provided advice to the RPPB on its organisational governance activities relating to the 2018 agreed Common Funded Capability Delivery Governance Model.

The Agency has accelerated its delivery against the strategic goals and objectives set in the NCI Agency 2018 - 2022 Strategic Plan⁵, notably towards the implementation of the matrix organisation and providing for physical and digital workplace for the Agency workforce. Increasing employee engagement evidenced through the second staff survey in 2020 is representing progress towards the NCIO vision – becoming one of the top 10 international organizations to work for in Europe.

Mission

The NCI Agency's mission is defined in the NCIO Charter and is a solid foundation for the Agency's business operations, and the Agency is building upon this foundation. The digital transformation of NATO is a necessity and has been accelerated by the requirements for communication and information during COVID-19. The Agency has been willingly and proactively responded to this challenge, with anticipation that digitisation requirements will remain beyond COVID-19 crisis.

As a customer funded organization, sound financial systems, processes and controls are essential for all parts of Agency's business, be it towards customer delivery or in its enabling functions. A specific strategic goal is dedicated to championing customer funding, tailoring it for the digital endeavour and strengthening the Agency's financial management model.

⁴ AC/337-D(2020)0023-REV1 dated 10 December 2020 and AC/337-D(2020)0023-REV1-AS1 dated 18 December 2020

⁵ AC/337-D(2018)0014-REV2 dated 7 December 2018 and AC/337-D(2018)0014-REV2-AS1 dated 18 December 2018

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Business Model and Developments in 2020

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

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

Since 2014, the Agency's operations have been in line with a Bridging Model, with customers charged through Customer Funding except for the NATO CIS School, Latina. The successor of the School is the NCI Academy in Oeiras, Portugal, which opened with an Interim Operating Capability (IOC) in 2019. The NCI Academy will migrate to the Customer Funding model used elsewhere in the Agency as from 2021.

The Agency continues to evolve from an asset based to a service based provider and is maturing Customer Funding application through the Agency's Costed Customer Service Catalogue (CCSC) approach. Following screening by the Agency's governance bodies and Working Group of National Technical Experts (WGNTe), the 2020 Service Rates were used as a basis to price services to Commands, Headquarters and the Nations. Service Rates will be reviewed in 2021 as part of an IBAN performance audit.

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

- Definition of customers, internal and external and their roles and responsibilities;
- Coordination with existing programming and planning mechanisms;
- Recapitalization of ICT assets and equipment;

- Roles of the Agency Supervisory Board (ASB), Resource Policy and Planning Board (RPPB), Budget Committee (BC), and Investment Committee (IC);
- Service demand and requirements validation;
- Pricing of Agency services;
- Provision of independent advice to the NATO resource community;
- Roles of other stakeholders in the governance of the NCI Agency;
- Requirement for ICT Services and Capabilities;
- Procedures governing the use of the Operating Fund.

Governed by the Nations, the Operating Fund, in this context, performs the function of a repository for Accumulated Surpluses or Deficits and is a risk management reserve. The overall level of the Operating Fund (excluding the depreciation) set by the Nations, currently at 10 MEUR, with any increases, is based on a risk assessment and justification. The CFRF has been in effect as of 2016, it went through its first review in 2018. During 2020 a comprehensive CFRF review has been initiated and at the time of releasing these Financial Statement is in its final stage of reporting. Budget Committee in its decision from 15 December 2020 (BC-D(2020)0176-FINAL) bound the Agency to implement CIS Cost reduction for NCSEP using the Agency Operating Fund amounting to 6.5M EUR.

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

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

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development and Service Support Costs (SSCs) for ICT services, with the aim to achieve financial breakeven over time.

The Agency's Customer Rates are based on the actual costs as disclosed in this Annual Financial Statements. Following the Nations approval, since the 2017, the Customer Rates used are a single set of rates. This is considered to offer more transparency and traceability of the Agency's cost structure, and allows for a more stable calculation methodology and comparison over the years. During 2020 there was extensive scrutiny on 2021 Customer Rates by ASB Finance Committee.

Consistent with the CFRF, the Agency predominantly provides customers with CIS services based on Firm Fixed Price (FFP) agreements whereby the Agency delivers a specified set of goods or services for a fixed price. The use of FFP agreements reduce administration costs and provides customers with more stability and less risk as the Agency manages all associated risks with delivering the goods or services within the agreed price unless otherwise agreed with the customer (e.g. exchange rate fluctuations for agreements not priced in Euros). The Agency's obligation is the delivery of goods and services in accordance with the agreed customer specifications, and the customers obligation is the payment of the agreed amount. Given the constraints associated with the use of the Operating Fund and its limited level, the Agency relies on the customer provided funding via advance payments and the timely payment of invoices to provide the cash flow for daily Agency business operations.

During 2020 and as part of the approved 2021 Business Plan and Financial Plan, the Agency provided the second iteration of a Multi-Year Investment Plan covering Agency Internal Investments. Out of the investments presented, Nations approved two items: EBA Release 4 (EPM replacement) and Interim Facility setup costs. The Agency will continue to engage with the ASB Finance Committee to identify and define an appropriate and sustainable funding mechanism in line with the NCIO Charter for these necessary Agency internal investments.

During 2020, the Agency continued the implementation of the 2019 independent study focused on the Agency categorization and allocation of overhead cost. This work is in line with the IBAN observation on Agency Customer Rates.

The Enterprise Business Applications (EBA) system continues its roadmap of functionality releases. The programme continued to progress Release 2 (R2) Advanced acquisition/procurement towards completion, and made preparations

for the subsequent releases; Release 3 (R3) to provide Advanced HR functionality, and EBA Release 4 (R4) which replaces the existing Project, Programme, Portfolio and Service Management (P3SM) toolset.

Through 2020 the EBA Programme took stock of the in-service release (R1) as part of the EBA Stabilization effort with the intent to implement modifications during 2021.

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Financial Statements Overview

Basis of Preparation

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

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

In respect to the 2020 NCIO Financial Statements, these were prepared:

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

Amounts in the financial statements are stated in euros.

Compliance with Financial Regulations

The NCIO Financial Statements are submitted to the Agency Supervisory Board (ASB) and the International Board for Auditors of NATO (IBAN) in accordance with NAC approved standards, including the International Public Accounting Standards (IPSAS) as adopted through the NATO Accounting Framework and the NATO Financial Regulations (NFR). This is consistent with Article 53 of the Charter: "The General Manager shall submit to the ASB and the International Board of Auditors for NATO annual financial statements in accordance with NAC approved standards, including the International Public Sector Accounting Standards (IPSAS) as adopted by NATO, and the provisions of the NATO Financial Regulations".

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

Article 27 of the NATO Financial Regulations specifically relates to the Agency as a Customer Funded entity: "*Customer-Funded bodies make agreements with*

customers to provide goods and services in accordance with Customer requirements. Customers' agreement will describe the requirements for how funds are to be made available to the Customer-Funded bodies and how the funds will be committed and carried forward; these requirements may be different from common-funded NATO bodies".

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

Financial Performance and Position Highlights

Total revenues for 2020 amount to 773.2 MEUR, a decrease of 31.5 MEUR or 3.9% from 2020, and include:

- 189.3 MEUR of acquisition revenue earned as Host Nation and procurement principal for NSIP, NATO Entities and Nations, a decrease of 76.7 MEUR or 28.9% from previous year;
- 332.0 MEUR of operating, services and project support revenue contracted, using BC approved Customer Rates, for the provision and acquisition of CIS capabilities and services, an increase of 35.5 MEUR or 12% from previous year;
- 249.4 MEUR of operating and external CIS revenue earned in direct support of the delivery of services, an increase of 13.1 MEUR or 5.5% from previous year;
- 0.9 MEUR of other operating revenue earned in the provision of other support services provided to hosted entities as well as contribution revenue from the execution of the BC funded portion of the Transition Programme and NCIO Independent Secretariat core funding from Nations;
- 1.6 MEUR earned from favourable foreign exchange rate variances and, to a minor extent, interest earned from short-term deposits, typically one to three months (same as previous year).

Totalling 770.0 MEUR the 2020 Agency costs and expenses are 30.2 MEUR or 3.8% lower compared to 2019 and include:

- 188.6 MEUR of acquisition costs incurred in the procurement, on behalf of the Investment Committee (IC), other NATO entities and Nations, of CIS capabilities

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and services from industry, decrease of 77.8 MEUR or 29.2 % from previous year;

- 282.8 MEUR of costs related with the civilian personnel employed during the year (in compliance with NATO Civilian Personnel Regulations, NAC approved salary scales and allowances), and Interim Workforce Contractors, temporary staff and consultants, increase of 18.5 MEUR or 7.0% from previous year;
- 282.2 MEUR of costs for Contractual Supplies and Services, an increase of 28.7 MEUR or 11.3% from previous year, which include operating and external CIS costs in direct support of the delivery of services, costs related to the execution of capabilities' projects as well as running costs of the Agency facilities and equipment.
- 8.1 MEUR cost from an in-year provisions mainly on active projects and services the agency is delivering.
- 1.1 MEUR of depreciation expense for fixed assets capitalised in line with the accounting policies as adopted by NATO, increase of 0.4 MEUR from previous year;
- 7.2 MEUR of expenses from unfavourable foreign exchange rate variances, including revaluation impact of foreign exchange positions and bank transaction fees related to conversion of currencies.

Net result for the year is a surplus of 3.2 MEUR compared to a surplus of 4.6 MEUR in prior year which is close to a break even.

Total assets amount to 439.5 MEUR a decrease of 66.2 MEUR or 13.1% from previous year, largely made up of changes in Cash holdings (increase) and Receivables (decrease). Total Liabilities amount to 364.4 MEUR a decrease of 69.5 MEUR or 16.02% from previous year, mostly reflecting a decrease in the balances of Accounts Payable and additions into provisions.

Total Net Equity and Operating Fund

In line with the NFRs applicable to the Agency Customer Funding regime and the Customer Funding Regulatory Framework, the Agency maintains, as part of its Total Net Equity, an Operating Fund. This serves as a limited source of working capital and acts as buffer to absorb the surpluses or deficits from Agency's operating results. The use and level of the Agency Operating Fund is fully governed by Nations and distinguished separately governed components.

At 31 December 2020, the Agency Total Net Equity amounts to 75.1 MEUR broken-down as follows:

- 46.9 MEUR of Reserved Earnings, composed of (1) the remaining Transition Reserve of 2.3 MEUR, as per RPPB decision, for purposes of funding transition activities of the Agency; (2) the Depreciation Reserve, amounting to 1.8 MEUR, related to assets not yet fully depreciated, and (3) the Inventory Reserves amounting 42.8 MEUR related to IPSAS12 inventory adjustments and Weighted Average Cost (WAC) price adjustments.
- 28.2 MEUR of Retained Earnings, which equal the Operating Fund (as per the IBAN guidance and ASB Finance Committee decision, depreciation reserve is no longer considered as part of the Operating Fund).

Internal Control Framework

Internal control helps entities to achieve objectives and sustain and improve performance. NCIO has an Internal Control Framework (ICF), approved by the ASB in 2016, that has been designed considering the components and associated principles of the COSO's Internal Control - Integrated Framework'. It enables NCIO to effectively and efficiently reinforce the system of internal control that adapts to changing business and operating environment, mitigate risks to acceptable levels, and support sound decision making and governance of the organisation. The NCIO ICF is subject to continuous improvements, under the supervision of NCI Agency Internal Control Panel and the Financial Controller. The ICF meets regularly to: oversee the implementation of the ICF across the Agency, oversee development & deployment of related policies and procedures, recommend priorities and objectives to the GM and identify opportunities, risks, control weaknesses, and correcting measures to the GM.

Risk Management

The Agency operates an Enterprise Risk Management (ERM) system with Corporate and also Directorate Risk Registers. The Agency's top risk landscape is dynamic and is made up of risks that can be Agency-wide and/or corporate in nature. The Agency regularly reviews its top risks at an Executive level taking account of the environment in which the Agency operates and its risk appetite, as well as the probability of the risk occurring and its impact. Such an Executive level review takes place a minimum of once or twice per year with regular monitoring through the Executive Meetings. All Agency top risks are assigned to an individually accountable Risk Owner (usually an Executive) to manage. Other lower level (in terms of probability and impact) risks are within Directorate Risk Registers.

Of the top ten risks the Agency has identified some other risk that have given rise to Provisions and are captured in the Financial Statements (note 12).

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The Agency continues to mature its ERM, through a documented process, trainings, workshops, presentations and communications to staff as well as reinforcing the activities to review, mitigate and regularly report on risks. The Agency also separately tracks the issues it faces.

External and Internal Audit

As a chartered NATO Organisation, the Agency financial statements, performance and underlying transactions are audited by the IBAN upon mandate from the NAC. The Agency also has its own body of Internal Auditors, whom, under the direct authority of the General Manager, perform internal reviews of control and compliance.

External Audit

The International Board of Auditors (IBAN) led in 2020 the audit of the 2019 NCIO Financial Statements resulting in 3 observations (first observation impact the audit opinion on the financial statements, as well as the opinion on compliance):

1. Material incompleteness of Property, Plant and Equipment (PP&E) and Intangible Assets.
2. Improvements needed on the internal control over accrual estimates.
3. Improvements needed to the NCIO customer rates and overhead assumptions.

The Agency, under the remit of its supervisory board, is undertaking the necessary actions to remediate all outstanding observations. For the first observation on the Material incompleteness of PPE and intangible assets, the Agency is taking mitigation actions in an increment way; for the FS2020 a high level simulation impact of Assets under construction/development is included for the first time in the notes of PPE, a separate annex to the FS2020 is showing the simulation on the statement of performance and position, this annex is not made publicly available.

IBAN has already initiated the interim audit of the 2020 Financial Statements at the time of the publication of these statements. As per the NFR the NCIO Financial Statements are submitted to IBAN and ASB by 31 March. In accordance with the NCIO Charter, the ASB will approve the Financial Statements once IBAN audit results are published, taking in consideration the advice of the ASB Audit Committee.

NCIO resubmitted the NATO Communications and Information Organisation (NCIO) Financial Statements 2020 to IBAN for the audit on the 12 May 2021. Additional

disclosure in note 33 related to the NATO decision on 14 April 2021 to start withdrawing forces from the Resolute Support Mission in Afghanistan has been included. Furthermore note 15 has been fully aligned with the financial systems information and additional clarifications were provided in the disclosures notes 2, 16 and section E for the readers of the NCIO 2020 Financial Statements.

Internal Audit

The Agency's internal audit activities are a significant part of its overall control structure, and directly impacted its performance in 2020.

Over the year, Internal Audit completed eleven advisory and eleven compliance engagements; it also provided consultancy services to management in various areas. The completed engagements spanned several thematic areas and covered reviews of project management activities, operational processes, corporate and administrative processes and information technology areas.

The Agency continues to improve its methods and processes used to monitor the implementation of audit recommendations and realized significant improvement throughout the year. Over 2020, management successfully closed sixty-four internal audit and nine IBAN observations.

Internal Audit will continue performing follow up missions and will report on the status of the implementation of the recommended actions during 2021 to Agency management and the ASB Audit Committee. Finally, IA continued to support the implementation of the NATO Financial Regulations and the NCIO Financial Rules and Procedures and also contributed to the development and implementation of the NCIO Internal Control Framework as well as the NCIO Risk Appetite Framework. The Agency's internal audit activities are a significant part of its overall control structure, and directly impacted its performance in 2020.

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NCIO Statement of Financial Position

As of 31 December 2020
(all figures are in Euro)
(restated)

		NCIO	
Note	2020	2019 - restated	
ASSETS			
<i>Current Assets</i>			
	Cash and Cash Equivalents	171,712,449	63,440,700
1			
	Receivables	209,823,894	372,248,062
2			
	Prepayments and Miscellaneous Assets	6,482,729	19,737,257
3			
	Inventory	42,761,749	46,743,909
4			
	Work in Progress	5,757,711	1,995,874
5			
	Other Current Assets	0	12,744
6			
	Total Current Assets	436,538,532	504,178,546
<i>Non-Current Assets</i>			
	Financial Assets	0	0
	Non-current Receivables	1,201,631	766,962
7			
	Property, Plant and Equipment	1,798,467	798,625
8			
	Intangible Assets	0	3,437
8			
	Total Non-Current Assets	3,000,098	1,569,024
	TOTAL ASSETS	439,538,630	505,747,570

Further details on restatement can be found in Section E.

NCIO Statement of Financial Position

As of 31 December 2020
(all figures are in Euro)
(restated)

		NCIO	
Note	2020	2019 - restated	
LIABILITIES			
<i>Current Liabilities</i>			
	Payables	115,120,471	199,929,108
9			
	Deferred Revenue and Advances	217,157,528	208,655,570
10			
	Other Current Liabilities	931,345	2,133,882
11			
	Total Current Liabilities	333,209,344	410,718,560
<i>Non-Current Liabilities</i>			
	Non-Current Payables	0	0
	Non-Current Deferred Revenue and Advances	0	0
	Non-Current Borrowings	0	0
	Provisions	31,227,677	23,159,439
12			
	Total Non-Current Liabilities	31,227,677	23,159,439
	TOTAL LIABILITIES	364,437,021	433,877,999
NET ASSETS/EQUITY			
	Retained Earnings	28,173,837	25,813,856
13			
	Reserved Earnings	46,927,772	46,055,715
32			
	TOTAL NET ASSETS/EQUITY	75,101,609	71,869,571
31			
	TOTAL LIABILITIES AND NET ASSETS/EQUITY	439,538,630	505,747,570

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NCIO Statement of Financial Performance

For the year ended 31 December 2020

(all figures are in Euro)

(restated)

		NCIO	
	Note	2020	2019 - restated
REVENUE			
Project and Support Services Revenue	14	332,018,673	296,503,404
External Services Revenue	15	249,438,623	236,274,416
Acquisition Revenue	16	189,253,449	266,058,420
Other Operating Revenue	17	871,511	3,578,455
TOTAL OPERATING REVENUE	18	771,582,257	802,414,695
Financial Revenue	27	1,586,824	2,280,385
TOTAL REVENUE	18	773,169,081	804,695,080
EXPENSES			
Cost of Acquisition	19	(188,569,294)	(266,420,567)
Personnel Costs	20	(282,755,618)	(264,293,659)
Contractual Supplies and Services	23	(282,152,759)	(253,494,185)
Depreciation and Amortisation	24	(1,160,776)	(724,393)
Provisions	25	(8,068,239)	(7,492,829)
Financial Expenses	27	(7,230,357)	(1,153,992)
Other Expenses	28	0	(6,558,848)
TOTAL EXPENSES		(769,937,043)	(800,138,473)
SURPLUS/(DEFICIT) FOR THE PERIOD		3,232,038	4,556,607
		3,232,038	4,556,607
<i>Distributed to Retained Earnings</i>	32	2,359,981	7,330,926
<i>Distributed to Reserved Earnings</i>	32	872,057	(2,774,319)

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NCIO Statement of Cash Flows*For the year ended 31 December 2020**(all figures are in Euro)**(restated)*

	NCIO	
	2020	2019 - restated
CASH FLOWS FROM OPERATING ACTIVITIES		
Surplus/(Deficit) for the Period	3,232,038	4,556,607
Depreciation and Amortisation	1,160,776	724,393
Revaluation of Assets	0	0
Decr./(Incr.) Receivables	162,424,168	(99,420,592)
Decr./(Incr.) Prepayments and Miscellaneous Assets	13,254,528	(16,629,570)
Decr./(Incr.) Inventory	3,982,159	4,081,557
Decr./(Incr.) Work in Progress	(3,761,837)	1,149,384
Decr./(Incr.) Other Current Assets	12,744	2,671
Incr./(Decr.) Payables	(84,808,637)	41,963,262
Incr./(Decr.) Deferred Revenue and Advances	8,501,958	(29,915,610)
Incr./(Decr.) Borrowings	0	0
Incr./(Decr.) Other Current Liabilities	(1,202,537)	232,642
Incr./(Decr.) Provisions	8,068,239	7,492,829
NET CASH FLOWS FROM OPERATING ACTIVITIES	110,863,601	(85,762,427)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decr./(Incr.) Financial Assets	0	0
Decr./(Incr.) Non-current Receivables	(434,669)	(768,470)
Decr./(Incr.) PP&E and Intangible Assets	(2,157,183)	1,677,213
Decr./(Incr.) Other Non-Current Assets		0
NET CASH FLOWS FROM INVESTING ACTIVITIES	(2,591,852)	908,743
CASH FLOWS FROM FINANCING ACTIVITIES		
Incr./(Decr.) Non-Current Payables	0	0
Incr./(Decr.) Non-Current Deferred Revenue and Advances	0	0
Incr./(Decr.) Non-Current Borrowings	0	0
Incr./(Decr.) Other Non-Current Liabilities	0	0
NET CASH FLOWS FROM FINANCING ACTIVITIES	0	0
NET INCR./((DECR.) CASH AND CASH EQUIVALENTS	108,271,749	(84,853,684)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	63,440,700	148,294,384
Incr./(Decr.) Cash and Cash Equivalents	108,271,749	(84,853,684)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	171,712,449	63,440,700

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NCIO Statement of Change in Net Assets/Equity

As of 31 December 2020

(all figures are in Euro)

(restated)

	NCIO	
	2020	2019 - restated
BALANCE AT BEGINNING OF PERIOD	71,869,571	67,312,963
Variations due to restatement	0	1,276,331
Restated balance	71,869,571	68,589,294
Net gains/(losses) not recognized in the Statement of Financial Performance		0
Net surplus/(deficit) for the period	3,232,038	3,280,277
BALANCE AT END OF PERIOD	75,101,609	71,869,571
RESERVES AT BEGINNING OF PERIOD	46,055,715	48,830,031
Net increase/(decrease) of book value of property, plant and equipment	999,842	(2,401,606)
Net increase/(decrease) of Transition reserves	(127,785)	(372,710)
Net increase/(decrease) of Inventory reserves	0	0
Net increase/(decrease) of currency translation differences	0	0
RESERVES AT END OF PERIOD	46,927,772	46,055,715
SURPLUSES/(DEFICITS) CARRIED FORWARD	28,173,837	25,813,856
NET ASSETS/EQUITY AT END OF PERIOD	75,101,609	71,869,571

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NCIO Budget Execution Statement

For the year ended 31 December 2020

(all figures are in Euro)

NCIO

	Initial Budget	Transfers	BA2	Transfers	Final Budget	Net Commitment	Expenses	Total Spent	Carry Forward	Lapsed
BUDGET										
Chapter 1	771,940	0	0	0	771,940	0	745,178	745,178	0	26,762
Chapter 2	99,154	0	0	0	99,154	0	86,825	86,825	0	12,330
Chapter 3	0	0	0	0	0	0	0	0	0	0
Total current year	871,094	0	0	0	871,094	0	832,002	832,002	0	39,092
Chapter 1	0	0	0	0	0	0	0	0	0	0
Chapter 2	438	0	0	0	438	0	438	438	0	0
Chapter 3	0	0	0	0	0	0	0	0	0	0
Total prior year	438	0	0	0	438	0	438	438	0	0
Chapter 1	0	0	0	0	0	0	0	0	0	0
Chapter 2	0	0	0	0	0	0	0	0	0	0
Chapter 3	0	0	0	0	0	0	0	0	0	0
Total 2 years ago	0	0	0	0	0	0	0	0	0	0
TOTAL	871,532	0	0	0	900,138	0	832,440	832,440	0	39,092

Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with the NATO Accounting Framework (NAF) which is based upon International Public Sector Accounting Standards (IPSAS). IPSAS relating to *IPSAS 6 – Consolidated financial statements and accounting for controlled entities*, *IPSAS 12 – Inventories*, *IPSAS 17 - Property, Plant and Equipment* and *IPSAS 31 - Intangible Assets* were adapted by the NAC in August 2013 for reporting periods beginning on 1 January 2013. In addition, where certain financial reporting requirements are required by the NATO Financial Regulations (NFR), these are also met.

The Financial Statements are prepared on the going-concern basis which means that those charged with governance of NCIO consider that they believe NCIO will continue in existence for at least a year from the date the financial statements are issued.

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

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

Changes in IPSAS Accounting Standards

No IPSAS have become effective as of 1 January 2020.

Revenue Recognition

Revenue from exchange transactions

NCIO operates under Customer Funding Regulatory Framework and the vast majority of NCIO's revenue is Customer Funded revenue which is subdivided into:

- Operations and service revenue (e.g. Scientific Programme of Work (POW) and IC project service costs, SLA External CIS and service support costs).
- Acquisition revenue, for which NCIO considers it is the procurement principal on behalf of sponsors, NATO entities or Member Nations.
- Other revenue represents shared services associated with the hosting and support the Agency provides to other NATO entities such as NAGSMA.

NCIO also still has some contributions income from budgets:

- NCIO's Independent Secretariat: revenue associated with the running of the Independent Executive Secretariat which is to support the ASB Chairman. This budget is core funded and the ASB approves the structure and its annual budget, which is based on the Military Budget cost share model.
- Transition: specific budgets, authorised by the BC, created in 2013 and onwards to cover for expenses related to the NATO Command Structure reform and Agency Transition Programme workforce adjustments.

Revenue measurement and timing

Provided the amount of revenue can be measured reliably and it is probable that NCIO will receive payment, revenue for goods and services delivered is recognised when NCIO has transferred the significant risks and rewards of ownership and it is probable that NCIO will receive payment for delivering goods and services. These criteria are considered to be met when the goods or services are delivered to the customers' satisfaction. For all Customer Funded revenue, revenue is recognised by reference to the stage of completion or the cost burn rate, depending on the type of funding agreement; firm fixed price or cost reimbursable. For the budget revenue, income is recognised at the moment an expense is incurred as the revenue is guaranteed to be funded by member Nations.

Expenses Recognition

NCIO has the following main categories of costs:

- Acquisition: costs relating to goods and services procured as a principal on behalf of sponsors, NATO entities or Member Nations.
- Personnel: costs derived from the employment of civilian personnel, as per NATO regulations, including salaries, allowances, pension contributions, recruitment and moving costs, but also training, medical and Interim Workforce Contractors, temporary staff and consultants.
- Contractual supplies and services: costs pertaining to goods and services procured from industry either directly in support of the delivery of services and capabilities or required for the normal functioning of the Agency's facilities and equipment.
- Depreciation, amortisation and provisions: costs related to usage of Agency assets, spread on a straight-line over their economic life, and costs related to the variance of Agency reserves (e.g. reserve for future losses, reserve for untaken leave).
- Foreign currency exchange and financial gains/losses: payments by NATO Bodies and Host Nations may be made in a variety of currencies. Gains/losses on foreign currency exchanges occasionally occur between the time of assessment and the

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time of payment. These differences are assessed and either refunded, charged or absorbed by the NCI Agency, depending on the agreement with the Customers. Gains or losses are recognised in the accounts in the period in which they occur.

Expenses are recognised when an invoice is posted or accrued, which reflects the point at which a good or service is received to the NCI's satisfaction.

Financial Plan Execution

IPSAS 24 - Presentation of Budget Information in Financial Statements applies to public sector entities which are required or elect to make their approved budgets publically available.

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

Per above however, NCI still has some budget elements for which specific individual budget execution statements have been prepared.

Cash Flow Statements

IPSAS 2 – Cash Flow Statements allows the choice between presenting the cash flow based on the direct method or indirect method. NCI has elected to use the indirect method of presentation in these financial statements.

Foreign Currency

Transactions entered into by NCI in a currency other than the currency of the primary economic environment in which they operate (their "functional currency"; which is Euro for NCI) are recorded at the exchange rates in effect when the transactions occur. The use of exchange rates does not materially impact the financial statements.

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

NCI applied the following principles for reporting foreign currency items at each reporting date: foreign currency monetary items have been translated using the closing rate. Items that are measured in terms of historical cost in a foreign currency have been translated using the exchange rate at the date of the transaction.

The Agency recognises all exchange differences as revenues or as expenses in the Statement of Financial Performance in the period in which they arise.

Financial Assets

The financial assets of NCI are cash and cash equivalents, accounts receivable and prepayments. They are measured at fair value. Changes in fair value are recognised in the Statement of Financial Performance.

Financial Liabilities

The financial liabilities of NCI are accounts payable, accruals, customer advances, unearned revenues, provisions for costs and contingencies and miscellaneous items. They are measured at fair value. Changes in fair value are recognised in the Statement of Financial Performance.

Receivables

Amounts receivable are reported at fair value in the Statement of Financial Position. Provisions for doubtful debts are only made once a legal process is started against a debtor and this is limited to only private sector entities; no provisions are made against Nations' debts as they are deemed to be collectable.

Accounts Payable

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

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Advances and/or Unearned Revenue

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

Prepayments

When NCIO makes advance payments to vendors these are reflected as prepayments in the Statement of Financial Position.

Retirement Benefits: Provident Fund and Defined Contribution Pension Scheme

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

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

Other Long-Term Service Benefits

Employment of NATO civilian staff is governed by the NATO Civilian Personnel Regulations. Different rules apply depending on the circumstances of employment. Where there is a liability for potential long-term service benefits at the year-end, they are described and disclosed in the notes to the Financial Statements.

Leased Assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to NCIO (a "finance lease"), the asset is treated as if it had been purchased outright. NCIO has no finance leases.

Where substantially all of the risks and rewards incidental to ownership are not transferred to NCIO (an "operating lease"), the total rentals payable under the lease are charged to the Statement of Financial Performance on a straight-line basis over the lease term. Examples of operating leases can include photocopiers and cars.

Externally Acquired Intangible Assets

Externally acquired intangible assets are recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives. The useful economic lives are deemed to be 4 years and all assets are capitalised above €50,000.

Property, Plant and Equipment (PPE)

PPE is recognised when it is an asset controlled by NCI Agency. Assets, of which PPE is a type, are defined by IPSAS as "Resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity". Control of an asset is defined by IPSAS as arising "when the entity can use or otherwise benefit from the asset in pursuit of its objectives, and can exclude or otherwise regulate the access of others to that benefit." In addition, the NATO Accounting Framework has established criteria as to assist in assessing the level of control that any NATO Reporting Entity has for reporting assets in its financial statements. Even so, for CIS assets, NCIO's Charter stipulates that NCIO is considered the owner of these assets and thus NCIO is to report them in their financial statements. In some cases this is linked to the Handover/Takeover process - see below.

Per the NATO Accounting Framework (NAF) – adapted IPSAS 17, NCIO has adapted its accounting for 2012 and 2013 in considering all PPE acquired prior to 1 Jan 2013 as fully expensed. Per the NAF, a brief description of such PPE is presented as an Annex to this document

NCIO Charter and related Handover/Takeover (HO/TO) process

Per the NCIO Charter, NCIO is to assume ownership of all IT assets and IT infrastructure from the NATO commands. For those assets taken over, NCIO has considered those acquired prior to 2013 as fully expensed per the NATO Accounting Framework - adapted IPSAS 17 standard.

Property, Plant and Equipment (PPE)

NCIO controlled PPE is recognised at cost. Cost includes the purchase price, (including import duties, non-refundable purchase taxes, and deducting trade discounts and rebates) and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating, such as costs of site preparation, initial delivery and handling costs and installation costs. For each category of PPE capitalisation threshold values per item are defined. Items with a value below the applicable threshold will be expensed.

Depreciation is provided on all items of PPE so as to reduce its carrying value over the expected useful economic lives. The expected lives of PPE have been revised upwards

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to align with the NATO Accounting Framework (NAF) and their associated capitalisation thresholds per item are:

<i>Sub-categories</i>	PP&E Thresholds	Economic Life Time	Annual Deprec. %
CLASS 1.: INFRASTRUCTURE, PLANT AND EQUIPMENT			
CATEGORY 1.1.: AUTOMATIC DATA PROCESSING EQUIPMENT (NAF: AUTOMATED INFORMATION SYSTEMS)	50,000	3	33.33%
CATEGORY 1.2.: COMMUNICATION SYSTEMS (NAF: COMMUNICATIONS)	50,000	3	33.33%
CATEGORY 1.3.: MACHINERY (NAF: MACHINERY)	30,000	10	10.00%
CATEGORY 1.4.: INSTALLED EQUIPMENT (NAF: INSTALLED EQUIPMENT)	30,000	10	10.00%
CATEGORY 1.5.: FURNITURE (NAF: FURNITURE)	30,000	10	10.00%
CATEGORY 1.6.: TRANSPORT EQUIPMENT (NAF: VEHICLES)	10,000	5	20.00%
CATEGORY 1.7.: MISSION EQUIPMENT (NAF: MISSION EQUIPMENT)	50,000	3	33.33%
CLASS 2.: LAND AND BUILDINGS			
CATEGORY 2.1.: LAND (NAF: LAND)	200,000	NA	NA
CATEGORY 2.2.: BUILDINGS (NAF: BUILDINGS)	200,000	40	2.50%
CATEGORY 2.3.: INFRASTRUCTURE (NAF: OTHER INFRASTRUCTURE)	200,000	40	2.50%
CLASS 3.: INTANGIBLE ASSETS			
CATEGORY 3.1.: SOFTWARE (NAF: COMPUTER SOFTWARE (COMMERCIAL OFF THE SHELF); COMPUTER DATABASE, INTEGRATED SYSTEM)	50,000	4	25.00%
CATEGORY 3.2.: RIGHTS OF WAY, INTELLECTUAL PROPERTY RIGHTS (IPR'S), ADMINISTRATIVE CONCESSION RIGHTS (NAF: COPYRIGHTS, INTELLECTUAL PROPERTY RIGHTS)	50,000	NA	NA
CATEGORY 3.3.: INVESTMENTS IN RESEARCH AND DEVELOPMENT (R&D) (NAF: SOFTWARE DEVELOPMENT)	50,000	NA - tested annually for impairment	NA
CATEGORY 3.4.: SOFTWARE (NAF: COMPUTER SOFTWARE (BESPOKE);	50,000	10	10.00%

The Agency re-aligned Property Plant and Equipment (PPE) and Intangible Asset capitalization thresholds with the NATO Accounting Framework upper ceilings as from Financial Year 2019. That accounting policy change has been made to facilitate comparability with other NATO Bodies of similar size and nature that are already applying upper ceilings of NATO Accounting Framework (NAF) accounting policy for Property Plant and Equipment (PP&E).

Assets under Construction/Development (AuC) will be presented as an additional line to the existing PPE subcategories (PPE Table) as long the development phase is not finalised and/or the tangible or intangible asset produced is not put in service.

Following cost Elements are eligible for capitalization towards the AuC ; Cost of Material, Site preparation costs, Installation and assembly costs, Project management costs, Project service costs, Internal engineering service costs, Professional fees (Architecture and Engineering fees), Direct Attributable labour cost and any other direct attributable cost. Depreciation on AuC is not applied.

Land and Buildings

The NCIO occupies buildings and facilities at various locations NATO wide (and in the locations of NATO operations) and all provided for free by the Host Nation or the hosting Organisation. As of 2013, even though some buildings were previously valued and recognised as assets, under the NAF the NCIO elected to show these as expensed when acquired prior to 1 Jan 2013.

Depreciation and Amortisation

Assets are depreciated or amortised in the year of purchase but not the year of disposal. Depreciation is also calculated on a full year basis, i.e. regardless of whether an item was available for use at the beginning of the year or at the end.

Inventories

Inventories are assets in the form of materials or supplies to be consumed or distributed in the production process or in the rendering of services or held for sale or distribution in the ordinary course of operations or in the process of production for sale or distribution. Inventories are measured at the lower of cost or current replacement cost. The cost of standard items of inventories is measured by using the weighted average cost formula.

Under the full Customer Funding regime as of 2014, and per its Charter, NCIO is now considered as procurement principal for the inventories and as a result, now accounts for all inventories. NCIO is applying the NATO Accounting Framework – adapted IPSAS 12 – except for the element of adjusting the inventory balances for all inventory acquired prior to 1 Jan 2013.

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NCIO has no capitalisation thresholds for Inventory.

Provisions

NCIO recognises provisions for liabilities of uncertain timing or amount including those for legal disputes. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

Contingent Liabilities

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

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

Net Equity and Operating Fund

Net Equity is, per the NAF/IPSAS, reflected in the Agency's Annual Financial Statements under the Statement of Financial Position, equalling the balance between total Assets and total Liabilities.

Net Equity are subdivided into:

- Retained Earnings, considered as accumulated surplus and deficit available for distribution
- Reserved Earnings, considered as accumulated surplus and deficit that are reserved for a specific purpose, and thus not available for distribution

NCI Agency operates under Customer Funding Regulatory Framework, approved by Council. The approved policies and procedures of this Customer Funding financial regime that authorise and regulate the use of the NCI Agency Operating Fund during this reporting period are the NFRs (C-M(2015)0025 dated 4 May 2015) and the FRPs (AC/337-D(2016)0014-REV1 dated 24 October 2018), and the Customer Funding Regulatory Framework approved by the Council in 2015 (PO(2015)0394-AS1 dated 16 July 2015).

Oversight of the performance and use of the Fund is the responsibility of the Nations.

End of 2016, the Agency Supervisory Board (ASB) Finance Committee tasked the Agency to develop a paper on the Operating Fund for discussion. During its meeting on 12 and 13 October 2017, the Agency Supervisory Board (ASB) Finance Committee decided⁶ as follows:

- The need for an Operating Fund as a risk management tool.
- The definition of Operating Fund as the accumulated surplus or deficit fund equalling the sum of retained earnings, but no longer comprising of depreciation reserve.
- The target level of the Operating Fund at 10M EUR, excluding depreciation reserve.
- Agreed on the pro rata distribution of potential surplus Operating Fund based upon the Military Budget and the NATO Security Investment Programme share in the Agency revenue via the call for contributions mechanism, with the understanding that the adjustment mechanism be revised within a year (up until then any surplus was returned through a reduction in Customer Rates).

Per the above and as of the 2019 Financial Statements the Operating Fund, per Nations guidance, is considered equal to the Retained Earnings.

⁶ AC/337(FC)DS(2017)0004

NOTES TO THE FINANCIAL STATEMENTS

Critical Accounting Estimates and Judgements

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

Legal proceedings both real and possible

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

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

A. Notes to the NCIO Statement of Financial Position

1. Cash and Cash Equivalents

Cash available on demand is considered to be cash that can accessed at very short notice (e.g. 1 working day) while a short-term deposit is invested from typically one to three months. Cash and cash equivalents includes amounts advanced by Customers for future usage. Cash balances are restricted to the use for which Customers have provided the cash.

Given the limitations on the size and use of the Operating Fund, the NCI Agency relies on the Customer provided funding via advance payments and timely payment of invoices to provide the cash flow for daily operations.

(All amounts in Euro)

		NCIO	
		2020	2019 - restated
Cash and Cash Equivalents			
100	Cash in hand	12,953	64,377
101	Current bank clearing accounts and internal transfers	0	9,098
102	Current bank accounts - Euro	116,814,163	48,425,545
104	Current bank accounts - Non-Euro	34,337,749	14,533,868
106	Current investments accounts - Euro	10,000,615	0
108	Current investments accounts - Non-Euro	10,546,969	407,812
		171,712,449	63,440,700

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2. Accounts Receivable

Receivables total 209.9 MEUR. Trade receivables are impacted by the NSIP Quarterly Accounting Financial Report (QAFR) bookings. The NCI Agency has adapted its accounting treatment in line with prior years IBAN observation, so that advances received from the NSIP Programme are netted against the amounts to be received from the same programme. This represents more clearly and accurately the position of the NCI Agency against the programme at year-end. Without these impacted QAFR bookings, trade receivables total 121.1 MEUR which include billed but not yet received amounts from Customers.

Trade receivables from accrued revenue amounts to 144.8 MEUR.

		2020	2019 - restated
Receivables			
11001	Customer receivables (A/R) - Common funded - NATO and NATO entities	136,016,062	187,728,361
11002	Customer receivables (A/R) - Not common funded	21,337,215	40,041,217
1107	Customer receivables - Bad debts	197,124	(336,812)
11000	Customer receivables (A/R) - Common funded - NSIP	(95,974,210)	(88,729,547)
111	Customer receivables - Consolidated entities	0	75,519
113	Customer receivables - Recoverable expenses	93,234	(471)
115	Current receivables - Tax or personnel related	3,376,186	3,246,761
116	Current receivables - Accrued, unbilled revenue	144,762,388	230,214,278
119	Current receivables – Other	15,895	8,756
		209,823,894	372,248,062

NSIP related trade receivables from nations are 57.1 MEUR and trade receivables from accrued revenue amounts to 63.9 MEUR, resulting in a total 121.0 MEUR, that is netted against the balance of advances through the QAFR pay sheets of 153.1 MEUR leading to a net position of liability towards the NSIP at 31/12/2020 of 32.0 MEUR as per the below table.

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Explanation on restated 2019 figures in the table below

2019 comparatives included in the 2020 Financial Statements disclose the closing balance on the account 116020 within the note whereas 2019 financial statements presented the in-year net movement on that account. In 2020 the legacy balance that was migrated to the account got fully investigated and reversed to facilitate easier reconciliation with the revenue recognition process.

		2020	2019 - restated
110021	Customer receivables (A/R) - NATO Nations	57,132,306	44,027,690
110002	Customer receivables (A/R) - NSIP - QFR Advances on approved forecast (BS 10)	(153,106,516)	(132,757,237)
116020	Accrued, unbilled	63,921,126	136,520,162
		(32,053,084)	47,790,615

3. Prepayments and Miscellaneous Assets

		2020	2019 - restated
Prepayments and Miscellaneous Assets			
130	Prepayments	6,482,729	19,737,257
		6,482,729	19,737,257

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

4. Inventories

		2020	2019 - restated
Inventory			
14000	Inventory - Consumables	17,628,287	17,832,873
14001	Inventory - Spare parts and Minor Equipment	25,133,462	28,911,036
		42,761,749	46,743,909

The inventory ending balance amounts to 42.8 MEUR which is a decrease of 3.9M EUR when compared to the 2019 balance of 46.7 MEUR.

Since 2014 NCI Agency is considered the principal for procurement of CIS assets for NSIP and non-NSIP and is therefore taking the primary responsibility and risk for the related inventory items. Inventories reported are those inventories mainly held at NCI Agency's depot at CSSC Brunssum and are valued with the weighted average cost method. Prior to 2014 inventories, were not reported as being the service provider to the NATO Command Structure (NCS), the NCI Agency operated under delegated budget agreements as a procurement agent for the NCS. Since the NCI Agency became fully Customer Funded as of 1 Jan 2014 inventories are fully disclosed, as the NCI Agency is no longer acting as an agent on behalf of a third party but rather as a principal in rendering services to its Customers.

The Agency has agreed with IBAN to assess the legacy NDSS converted data/NAF adjustment with the objective to have a more reliable value to bring into the statement of position by the end of 2019 hence;

- The inventory value reported in the 2018 Financial Statements was restated by 42.8 MEUR, to adjust the inventory balances in line with IPSAS 12 regulations and reflects the correct value on stock.
- A count has been conducted by CSSC as a the regular annual exercise on the inventory and 'buffer stocks', and in the same time, CSSC updated the Items on stock that required WAC price adjustments based at the best fair value.
- The inventory balances within the statement of position were brought in line with the Inventory balances counted within the Inventory module.

The reversal of priory year NAF adjustment and WAC validation did not affect the statement of performance and its counterpart has been reflected within the Net Assets. The regular inventory variance of the year is reflected within the statement of performance into the contractual supplies and services expenses.

5. Work In Progress

		2020 2019 - restated	
Work in Progress			
145	Work in progress	5,757,711	1,995,874
		5,757,711	1,995,874

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

Pre-financed projects totalling €759,848 are governed by existing binding arrangements (overarching framework agreements such as Memorandum of Understanding – MOU) between the Agency and its main sponsors. All existing pre-finance authorisations are granted as per the terms and conditions prescribed in the FRPs specifically developed for the Agency operating under its Customer Funding Regime. The decision to pre-finance projects is assessed by the Chief Operating Officer (COO), Production Directors and the Financial Controller prior to being approved on a case-by-case basis by the Financial Controller. Accordingly this not considered as a technical contingent asset.

For projects sponsored by NSIP, APFs may be authorised to cover the initial cost for writing the full project price proposal (TBCE). In some cases the APFs are insufficient to cover this initial effort in which case the NCI Agency capitalises the shortfall pending approval of the Project Service Cost (PSC). Funds expended during this stage are capitalised as work in progress for a total amount of €218,013.

In the course of executing projects, sometimes the Customer requests changes in specifications, scope, or duration that results in the costs exceeding the contracted revenue. Similarly to APF over-runs, for these recoverable exceptions, costs are capitalised until the exceptions are contractually regularised. The total capitalised amount of recoverable exceptions is €4,779,850.

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6. Other Current Assets

		2020	2019 - restated
Other Current Assets			
1559	Transitory asset accounts - Clearing accounts	0	12,744
		0	12,744

This amount concerns different transactions that are pending a resolution/final booking in 2021.

7. Non-current Receivables

		2020	2019 - restated
Non-current Receivables			
160	Non-current financial assets	1,201,631	766,962
		1,201,631	766,962

These are prepaid deposits on long term programmes for the Agency.

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

The NCI Agency capitalises all PP&E which it controls. The NCI Agency has applied the NATO Accounting Framework (NAF), adapting IPSAS 17 on PP&E, in that respect all PP&E acquired prior to 1 Jan 2013 are considered expensed.

NCIO Statement of Property, Plant and Equipment and Intangible Assets

As of 31 December 2020

(all figures are in Euro)



Note	ACQUISITION					DEPRECIATION				BOOK VALUE	
	31-Dec-2019 Restated	Current Year	Disposals / Adjustm.	Transfers / Reversals	Revaluation	31-Dec-2020	31-Dec-2019 Restated	Current Year	Disposals / Adjustm.	31-Dec-2020	31-Dec-2020
PLANT, PROPERTY AND EQUIPMENT											
	1,711,861	1,840,774	0	0	0	3,552,634	(1,450,187)	(817,317)	0	(2,267,504)	1,285,130
	465,355	134,585	0	0	0	599,940	(430,103)	(62,488)	0	(492,591)	107,350
	684,859	185,259	0	0	0	870,119	(310,599)	(257,440)	0	(568,039)	302,080
	140,000	0	0	0	0	140,000	(45,500)	(10,500)	0	(56,000)	84,000
	357,705	0	0	0	0	357,705	(357,705)	0	0	(357,705)	0
	0	0	0	0	0	0	0	0	0	0	0
	409,234	0	0	0	0	409,234	(376,295)	(13,031)	0	(389,326)	19,908
	3,769,013	2,160,618	0	0	0	5,929,631	(2,970,388)	(1,160,776)	0	(4,131,164)	1,798,467
	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0
	3,769,013	2,160,618	0	0	0	5,929,631	(2,970,388)	(1,160,776)	0	(4,131,164)	1,798,467
	0	0	0	0	0	0	0	0	0	0	0
	3,769,013	2,160,618	0	0	0	5,929,631	(2,970,388)	(1,160,776)	0	(4,131,164)	1,798,467
	3,769,013	2,160,618	0	0	0	5,929,631	(2,970,388)	(1,160,776)	0	(4,131,164)	1,798,467
	3,769,013	2,160,618	0	0	0	5,929,631	(2,970,388)	(1,160,776)	0	(4,131,164)	1,798,467
		2,160,618	0	0	0	2,160,618		(1,160,776)	0	(1,160,776)	999,842
	1,444,158	1,816,135	0	0	0	3,260,292	(912,971)	(952,417)	0	(1,865,388)	1,394,904
		1,816,135	0	0	0	1,816,135	0	(952,417)	0	(952,417)	863,718

In line with the prior year IBAN audit observation on PPE (see Financial Statements Overview, section External Audit) the Agency at the time of the publication of the Financial Statements undertook further actions to incorporate the Asset under Construction and Intangible assets disclosures. The Assets under Construction(AuC)/development consist mainly of NSIP (IC) projects these AuC will result (when placed into service) in tangible or intangible assets addition (to be depreciated over its useful lifetime as per the accounting policy on PPE). The latest simulation on running the capitalization of AuC would result in an increase the statement of Position asset balance with 775.3 MEUR and would decrease the statement of Performance personnel expenses with 139.7 MEUR, Acquisition Cost/Contractual Supplier with 699.4 MEUR and increase the depreciation cost for

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63.8 MEUR. Illustrative NCIO Statement of Financial Position and Performance is attached in ANNEX A (this annex is not publicly disclosed). The Agency is continuing efforts to ensure the robustness of those numbers and will incorporate the element for public disclosure when process and data quality are sufficiently mature.

The Agency re-aligned Property Plant and Equipment (PPE) and Intangible Asset capitalization thresholds with the NATO Accounting Framework upper ceilings as from Financial Year 2019. The relevant comparative balances have been restated and the impact on the Financial Statements line items of prior year has been presented in section E. Restated Financial Statements 2019.

9. Payables

		2020	2019 - restated
Payables			
2000	Supplier payables - Accounts payable	35,175,546	56,747,459
2004	Supplier payables - Accrued supplier invoices	78,674,872	141,736,530
2006	Supplier payables - Warranties received	1,270,053	1,445,119
		115,120,471	199,929,108

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

10. Deferred Revenue and Advances

		2020	2019 - restated
Deferred Revenue and Advances			
211	Current deferred revenue	163,288,633	125,675,063
215	Current advances and prepayments received	53,868,895	82,980,507
		217,157,528	208,655,570

The Deferred/Unearned Revenue and Advances of 217.2 MEUR are composed of:

- Revenue is billed for ongoing projects and services, however revenue earned is determined through the stage of completion resulting in 163.3 MEUR of revenue billed but not yet recognised as earned.
- Advances and prepayments of 53.9 MEUR refer to deposits from customers and IC nations for projects and services that will be delivered by the agency.

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11. Other Current Liabilities

		2020	2019 - restated
Other Current Liabilities			
250	Current tax and personnel related liabilities	103,498	126,883
251	Current retirement and pensions related liabilities	0	3,810
254	Current other liabilities	827,847	2,003,189
		931,345	2,133,882

Other current liabilities include:

- Refundable surpluses amount to 0.8 MEUR and represent mostly funds to be returned to the IC from acquisition projects and to the BC for results (lapses/financial/miscellaneous) on budgets - mostly prior year budgets - since the Agency is Customer Funded as of 2014.
- Other liabilities related to personnel amount to 103.5 KEUR.

12. Provisions

		2020	2019 - restated
Provisions			
2901	Provisions - Major risks and costs	19,826,486	14,388,488
2902	Provisions - Personnel related risks and costs	11,401,191	8,770,951
		31,227,677	23,159,439

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

Major risks and Costs:

- Projects are constantly monitored and deviations from the original cost estimates and authorised budgets are reported and analysed. At year-end closing a thorough cost-to-complete exercise is carried out to determine what the current status is in terms of costs and revenue to date, and to estimate what the cost-to-complete will be for multiple year projects. If, as a result of this process, the project management together with the NCI Agency Capability Development's financial management come to the conclusion that the project is likely to generate a loss at completion, then a provision will be made to cover that potential future loss. Analysis conducted at a later stage may result in a change of estimates which translates in an increase or decrease of the provision built up in prior years. The total provision for the Customer Funded projects amounts to 2.3 MEUR.

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- Provision on the outcome of (legal/contractual) claims of suppliers and other major risks for an amount of 16.8 MEUR.
- Provision for bad debts of 0.7 MEUR

Personnel related risks and costs:

- The NCI Agency provision for the untaken leave days outstanding at year end, in accordance with IPSAS 25 Employee benefits, constitutes a liability towards the future for 11.3 MEUR. This provision is calculated on a rolling basis, i.e. the prior year provision is reversed at the beginning of the year and a new provision calculated, thus charging the change for the year to the Statement of Financial Performance.
- Provision made for 140 KEUR for JFC Naples for “Trattamento di Fine Rapporto (TFR)” in application of the Italian Law and of IPSAS 19. TFR is a vested benefit payable to the employee for a part of his / her salary deferred in time to the moment when termination of the contract takes place. The calculation of the value of this liability takes place annually and includes interests for the loan forcedly made by the employee to the employer given the fact that payment is deferred to a later time. In view of the foregoing, TFR has to be considered as one extra monthly instalment of the annual pay.

13. Net Assets/Equity

Under its Customer Funding model, the NCI Agency is allowed to have an Operating Fund (OF) which represents its retained earnings accumulated over the years. The use of this OF is regulated, as detailed earlier in this report, by the Customer Funding Regulatory Framework approved by Council in 2015. Further information is presented under the note related to the Statement of Change/Equity (OF).

B. Notes to the NCIO Statement of Financial Performance**14. Projects and Service Support Revenue**

		2020	2019 - restated
Project and Support Services Revenue			
500	Project services revenue	106,236,350	111,275,786
501	Support services revenue	225,782,323	185,227,618
		332,018,673	296,503,404

With the introduction of full Customer Funding as of 1 Jan 2014, the 2020 operations revenue can be categorised as either Project Services Revenue for 106,2 MEUR and Services Revenue for 225.8 MEUR, coming from signed Service Level Agreements (Service Support Costs) and other Service Agreements, all agreed and calculated at approved Customer Rates.

For all Customer Funded revenue, revenue is recognised, in accordance with IPSAS 9 and 11, by reference to the stage of completion or the cost burn rate, depending on the type of funding agreement; firm fixed price or cost reimbursable. This revenue recognition was already in place in 2013 for that part of the NCI Agency’s business Customer Funded at that time but has now been expanded to nearly all its revenues. In applying this revenue recognition a “cost to complete” is calculated based on either inputs from the project manager as to the resources required to complete the project/deliverables or either based on information from the financial system as to the legal liabilities incurred per the end of 2020, but not yet accrued or expended, and which nevertheless form part of the 2020 services signed with the Customers through the Service Level Agreements.

15. External CIS Revenue

The total revenue per service as specified in the Service Level agreements have two revenue components. There is the Service Support Revenue element that is based on effort charged at approved customer rates (see the note above) and the External CIS Revenue of 249.4 MEUR in 2020 that represents the revenue charged to customers to cover the contractual supplies and services delivered by industry required by the NCI Agency to provide its CIS services.

		2020	2019 - restated
External Services Revenue			
5100	External CIS revenue – Billed	268,691,551	233,747,614
5105	External CIS revenue - Accrued, unbilled (CY)	27,376,049	7,850,372
5106	External CIS revenue - Deferred revenue reversal (CY)	(1,816,135)	12,574,847
5109	External CIS revenue - Deferred (CY) (-)	(44,812,842)	(17,898,417)
		249,438,623	236,274,416

16. Acquisition Revenue

		2020	2019 - restated
Acquisition Revenue			
5110	Acquisition revenue - Billed	294,095,747	251,014,591
5115	Acquisition revenue - Accrued, unbilled (CY)	69,803,374	171,315,428
5119	Acquisition revenue - Deferred (CY) (-)	(174,645,672)	(156,271,599)
		189,253,449	266,058,420

Acquisition Revenue is earned as Host Nation for the NSIP, and for other NATO entities and Nations. Included here are the Acquisition Revenues for the AirC2 and BMD programmes.

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

Explanation on restated 2019 figures

At the time of producing the Financial Statements 2019, which was the first production year of EBA, the deferred and accrued split within the Acquisition Revenue could not be sufficiently validated therefore the net accrued position has been presented in the note. Following detailed validation exercise in 2020 the detailed split encompassing the comparative figures of 2019 as well has been determined. That resulted in reclassification of 13.9M EUR into the billed revenue and the line level split of accrued and deferred revenue has been presented of 2019 comparatives in the Financial Statements of 2020 to ensure comparability between 2020 and 2019 information in line with IPSAS 1.

17. Other Operating Revenue

		2020	2019 - restated
Other Operating Revenue			
52	Other operations revenue	2,051,007	1,354,266
541	Inventory variation - (Increase)/Decrease	0	429,387
545	Other revenue	(1,179,495)	1,794,802
		871,511	3,578,455

Other Operating Revenue consists of elements such as:

- Revenue from the support to and hosting of Agencies such as NAGSMA;
- Revenue from 2020 budget for the ASB Independent Secretariat for a total of 0.9 MEUR. Details and their Budget Execution Statement can be found under section D of the Notes to the Financial Statements.

18. Revenue Details

In summary the NCI Agency total operating revenue, excluding financial revenue for the period ending 31 December 2020 was 771.6 MEUR broken-down as:

- 770.7 MEUR of Operating revenue excluding other operating revenue is:
 - 189.3 MEUR Acquisition Revenue earned in the execution of procurements for NSIP and non-NSIP;
 - 249.4 MEUR External CIS Revenue earned in the execution of CIS Service Level Agreements for goods and services procured from industry;
 - 332.0 MEUR Operating Revenue earned through the rendering of capability development and delivery of CIS services by Agency resources; and
- 0.9 MEUR Other operating revenue

Financial and other (non-operating) revenue results in an amount of 1.6 MEUR

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19. Cost of Acquisitions

		2020	2019 - restated
Cost of Acquisition			
727	Contractors, general services and supplies	154,907,520	210,657,881
727	Contractors, general services and supplies	33,661,774	55,762,686
		188,569,294	266,420,567

The NCI Agency procures significant amounts of goods and services using funds provided by all its sponsors but principally the IC. Expense recognition is based upon actual payments made together with accrued expenses which are based on the value of work completed by contractors where invoices are not yet received.

As for the revenue, the cost of acquisitions does not include the Project Service Costs (PSCs) of the NCI Agency to enact the procurements on behalf of sponsors. These professional fees are accounted for through the Project and Service Support Revenue as they relate to the NCI Agency work across the C4ISR lifecycle. It must be noted that there is not a direct relationship for any financial year between the PSCs with the specific acquisition payments and costs associated with major acquisitions. This is due to the fact that PSCs are recognisable when the service is provided and not when the actual acquisition transactions occur, particularly as the subsequent receipt of goods and payment to Vendors can occur over many years when downstream activity is minimal.

20. Personnel Costs

		2020	2019 - restated
Personnel Costs			
710	Salaries, allowances and other remunerations	174,679,010	162,275,906
711	Interim Workforce Capacity (IWC)	78,420,661	66,809,886
712	Recruitment costs and installation and separation allowances	1,892,335	3,577,196
713	Clothing costs and allowances	93,045	148,683
715	Medical examinations and general personnel related insurances	17,055,188	15,650,176
716	Education and training	3,921,592	3,625,704
717	Employer contributions to pensions; loss of job and other personnel contracts related indemnities	290,697	1,891,519
718	NATO Pensions (Pension funds)	11,799,255	10,314,589
719	Capitalized cost	(5,396,165)	
		282,755,618	264,293,659

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

21. Employee Disclosures

Staff Numbers

At 31 December 2020 - 777 (2019: 851) military posts and 1750 (2019: 1624) NATO civilian posts were filled.

Retirement benefits

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

The NCI Agency does not control or manage any of the schemes or scheme assets and is not exposed to the risks and rewards of the schemes and hence does not record any assets or liabilities of the schemes on its Statement of Financial Position. In 2020 the NCI Agency contributed 11.8 MEUR (2019: 10.4 MEUR) to the various NATO pension schemes.

Further to an analysis covering the last years of the history of death in service risks in relation to premiums paid by the Organisation during 2012-2015, a compensation of EUR 6 million at the NATO-wide level was agreed by the insurance company. End 2018, the NATO Secretary General decided that a fraction of this amount (circa EUR 1.7 million) should be paid to NATO staff who were members of the DCPS during the period 2012-2015 in proportion to the contributions they made to the DCPS. Staff employed by "NATO body" during the period 2012-2015 and affiliated to the DCPS are therefore entitled to a payment to be made from the NATO DCPS accounts.

In the course of 2019 staff members have received direct compensation based on the above. The NCI Agency has been awarded the compensation amounting to EUR 601,336.32 which has been settled in 2020.

22. Related Party Transactions

NCIO has no related party relationships where significant influence or control of the related party exists from a financial reporting perspective. The NCIO is providing CIS support and C3 capabilities and which exists for its Member Nations and partners. Many Member nations and partner countries have financial and operating control, or, significant influence over suppliers based in their territories; as such the NCIO can trade with suppliers which may be controlled or influenced by its Member Nations. However, NCIO trades with such suppliers at "arms-length" and under transparent procurement regulations; while it aims to get the best value for money for its Customers it does not do this through exerting control or significant influence over its suppliers.

The NCIO is an integral part of NATO and it transacts in its normal business activities with other NATO bodies and these transactions occur at cost or under a firm fixed price.

Related Party Transactions of Members of Boards and Committees

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

Representative Allowance of the General Manager

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

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

The total entitlement to representation allowance for the NCI Agency GM was 10,000 EUR. The actual expenses during 2020: 2,586 EUR (2019: 2,678 EUR) were as follows:

- Rental supplement: € 0.00
- Functions: € 2,586.00
- Total representation allowance: € 2,586.00

Key Management Personnel

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

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

Euro (A7/A6)	2020	2019
Basic salaries	923,734	710,175
Allowances	230,329	148,104
Post-employment benefits	0	0
Employer's contribution to Insurance	110,095	79,355
Employer's contribution to Pension	70,023	46,801
Total	1,334,181	984,435

FTE	2020	2019
General Manager	1	1
Directors (A6/OF6/OF7)	6.08	4.67

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Name	Nationality	Role	Grade and step at year-end	Loans received from NCIA	Family members receiving income from NCIA	Other revenue from NCIA or NATO
<i>Kevin Scheid</i>	<i>USA</i>	<i>General Manager</i>	<i>A7 step 5</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>MGEN Göksel Sevindik</i>	<i>TUR</i>	<i>Chief of Staff</i>	<i>OF-7</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Ludwig Decamps</i>	<i>BEL</i>	<i>Chief Operating Officer</i>	<i>A6 Step 8</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Jennifer Upton (arrived 01 Mar 20)</i>	<i>USA</i>	<i>Director Acquisition</i>	<i>A6 Step 1</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Antoine Pailhès</i>	<i>FRA</i>	<i>Financial Controller</i>	<i>A6 Step 4</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Garry Hargreaves (arrived 01 Aug 20)</i>	<i>GBR</i>	<i>Director of the Academy</i>	<i>A6 step 1</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Michael Stoltz</i>	<i>DEU</i>	<i>Director Air and Missile Defence Command & Control</i>	<i>A6 Step 7</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Simona ROCCHI (left 31 Oct 20)</i>	<i>ITA</i>	<i>Legal Advisor</i>	<i>A6 Step 7</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>

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

Out of the Key Management, none had family members who were employed as interns and/or in a temporary position with the Agency.

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23. Contractual Supplies and Services

		2020	2019 - restated
Contractual Supplies and Services			
720	Rent and operational leasing costs	47,229,965	34,281,537
721	Maintenance and repair (Services)	139,640,274	155,096,783
722	Consumables and spare parts (Supplies)	509,262	3,218,389
723	Minor equipment and Investment costs	25,424,970	12,776,148
724	Utilities, postal and courier services, travel and transportation	20,943,834	16,924,942
725	Facilities management, environment, safety and security	7,420,730	16,110,789
726	Public relations, representation, hospitality and moral and welfare	185,725	345,448
727	Contractors, general services and supplies	28,363,662	14,740,149
730	Investment costs	12,434,337	0
		282,152,759	253,494,185

Contractual supplies and services contain both direct and indirect costs:

- Rent and leasing costs only concern either rental costs or operating leases per IPSAS 13; the NCI Agency does not have finance leases.

24. Depreciation and Amortisation

		2020	2019 - restated
Depreciation and Amortisation			
740	Amortisation and depreciation	1,160,776	724,393
		1,160,776	724,393

For Fixed Assets, the NCI Agency takes into account the current year depreciation as a cost which amounts to 1.2 MEUR. Full detail on the 2020 annual depreciation and retirement by asset category can be found in the Table under note 8.

25. Provisions

		2020	2019 - restated
Provisions			
7461	Provisions - Major risks and costs	5,437,999	7,523,957
7462	Provisions - Personnel related risks and costs	2,630,240	(31,128)
		8,068,239	7,492,829

Details can also be found under note 13. IPSAS defines a provision as “a liability of uncertain timing or amount”

NCIO has made the following provisions:

Provisions – Major risks and costs

- Provisions were made for future losses for active projects/services. The expected loss was recognised as an expense immediately (IPSAS 9 and 11). For reasons of commercial confidentiality, details of which programmes/projects are not disclosed the net effect is an increase of 4.8 MEUR.

Provisions – Personnel Related

- Provision for untaken leave of own personnel of 3 MEUR increase: personnel leave days untaken at the end of the year can be transferred to the next year and taken before the end of the first quarter. This constitutes a liability towards the next year since staff will not be available for service during this period of time. The provision is calculated on a rolling basis based on actual days of untaken leave outstanding and the average cost of a day of untaken leave per grade level. Significant increase has been caused by COVID-19 measures that affected ability of employees to utilize the leave in 2020.
- Provision for Loss Of Job Indemnity (LOJI); the provision balance of LOJI 2020 reported on the statement of financial position was reduced by 1 MEUR.
- Provision for “Trattamento di Fine Rapporto (TFR)” in application of the Italian Law and of IPSAS 19 has not changed compared to prior year.

26. Contingent Liabilities

IPSAS defines a contingent liability as “A possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or, a present obligation that arises from past events, but is not recognised because: 1) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or 2) The amount of the obligation cannot be measured with sufficient reliability”. The Agency has a process to capture information on provisions and contingent liabilities at year-end from all the organisational elements, and is implementing a process to capture that information throughout the year.

The execution of some of the transition large programmes the Agency is undertaking carry, due to its complexity and interdependencies, significant risks in terms of scope, schedule and costs.

(1) ITM - mostly for reasons outside the Agency’s control, the Agency has also identified the need to approach this very large and far reaching “project” as a programme as well as the need to expand the scope of the programme to cover for the migration of the applications and dual operations during the transition period;

27. Financial Revenue and Expenses

		2020	2019 - restated
Financial Revenue and Expenses			
550	Foreign exchange surpluses	1,598,062	1,982,466
555	Other financial surpluses	(11,238)	297,919
750	Foreign exchange deficits	(7,131,025)	(1,000,992)
7550	Financial costs - Current liabilities	(93,374)	(189,325)
7555	Financial costs – Other	(5,958)	36,325
		(5,643,533)	1,126,393

The total result from financial revenue and expenses is a loss of 5.6 MEUR. This amount is primarily composed of a net realised foreign exchange gain of 1.6 MEUR and foreign exchange deficits 7.1 MEUR. For IC acquisition activity the financial result is borne by NSIP and is thus not included here.

28. Other Expenses

		2020	2019 - restated
Other Expenses			
760	Fixed assets – Surplus/Deficits	0	6,558,848
		0	6,558,848

The amount FY 2019 concerns the one-off asset retirement charge following the increase of the depreciation thresholds. Details can be found at Section E. 2019 Restated Statement of Financial Position and Performance).

29. Financial Instruments

NCIO's financial requirements are met from its Customers who are members or partners of NATO. NCIO has no powers to borrow money or to invest surplus funds. Other than financial assets and liabilities which are generated by day-to-day operational activities, no financial instruments are held.

Liquidity risk

NCIO's financial requirements and capital expenditure are met by its Customers and are typically funded in advance. NCIO is therefore not exposed to material liquidity risks.

Credit risk

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

Foreign currency risk

NCIO has limited exposure to foreign currency because only a limited amount of its work is denominated in currencies other than the Euro. Most the risk of foreign currency is ultimately born by the NCIO's Customers who are members or partners of NATO.

30. Write-offs

Per the applicable NCIO Financial Rules and Procedures (document AC/337-D(2017)0014-AS1);

FRP XVII 1) the amount of the write-off will be based on the net book value.

FRP XVII 5) Write-offs of cash up to a maximum of half Level A of the EFL (€5,000) and write-offs of receivables including anticipatory commitments(pre-financing) up to two times Level B of the EFL (€40,000) can be authorised by the General Manager through the Financial Controller.

FRP XVII 6) Write-off of cash losses in excess of half Level A of the EFL (€5,000) need to be authorised by the FinCom. The FinCom needs to authorise the write-off of receivables/anticipatory commitments exceeding two times Level B of the EFL (€40,000).

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

For the period between 01 January 2020 and 31 December 2020 the NCI Agency has written off:

- CIS assets with total net book value of 0 EUR.
- Accounts receivable with a total value of 2,598 EUR.
- Work In Process (WIP) (Pre-Fin write off) with total value of 104,448 EUR.

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

Under its Charter and its Customer Funding model, the NCIO is allowed to have an Operating Fund (OF) which represents its retained earnings accumulated over the years. The use of the OF is regulated by the Customer Funding Regulatory Framework approved by Council in 2015 (PO(2015)0394-AS1) and are part of the NCIO Financial Rules and Procedures (FRPs) that were approved by the Agency Supervisory Board (ASB) in 2018 (AC/337-D(2016)0014-REV1).

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

The Financial Controller is responsible to recommend the size of the OF and the planned annual action to increase or to reduce it. Any surplus or deficit for 2019 is to be attributed to the OF with Nations deciding on its use.

In October 2017, Nations at the ASB Finance Committee: (1) confirmed the continued need for an Operating Fund as a risk management tool, (2) agreed to no longer include the depreciation reserve as part of the Operating Fund, (3) confirmed to the target level being 10.0 MEUR with increases based on risk assessment to be justified (4) agreed on the pro rata distribution of potential surplus from the Operating Fund based upon the Military Budget and the NATO Security Investment Programme share in the Agency revenue via the call for contributions mechanism (previously any surplus was applied as a rebate/reduction to the customer rates i.e. 5.6 MEUR for 2017 Customer Rates and 2.8 MEUR for 2018 Customer Rates).

In order to fund its transition activities between 2014 and 2018, the Agency requested 18,980 KEUR of common funding and 8,570 KEUR of the OF. The subsequent IC/BC decision sheet (AC/4 (PP) D/27275 – ADD1 and BC-D(2013)0214) authorised 17,009 KEUR of common funding and 7,245 KEUR from the Agency OF. The latter has been reserved to pay for backfill consultancy cost and travel of the NCI Agency personnel involved in activities related to the Transition Programme as per the decision sheet. The difference between the RPPB approved amount (8.6 MEUR) and the detailed amount approved by the IC/BC (7.2 MEUR), has also been reserved for future possible use.

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

31. Reserves at the End of the Period.

		2020	2019 - restated
Reserved Earnings			
310	Reserves - General purpose	1,798,467	798,625
311	Reserves - Special programmes	2,373,359	2,501,144
312	Reserves - Inventory	42,755,943	42,755,943
		46,927,769	46,055,712

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- 1,798,467 EUR of earnings remain reserved for the assets not yet fully depreciated, thus increasing the depreciation reserve in 2020 with 1 MEUR.
- 6,196,641 EUR of accumulated transition expenses are booked against the Special Transition Reserve thus decreasing from a total 8,570,000 EUR at 31 December 2013 to 2,373,359 EUR at 31 December 2020.
- 42,755,942 EUR Inventory balances adjusted as per the NATO accounting Framework.

		2020	2019 - restated
Reserves Special programmes			
311000	Special programmes reserves - Transition projects - Approved and authorised - Prior years	1,048,083	1,175,868
311001	Special programmes reserves - Transition projects - Approved, not authorised - Prior years	1,325,276	1,325,276
		2,373,359	2,501,144

Transition Expenses

	Authorised	Spent < 2020	Spent 2020	Total Spent	Remaining
Transition OF funded	7,244,724	6,068,855	127,785	6,196,640	1,048,083

The Transition Programme was approved in December 2013, and authorised by the IC with the amount of EUR 15,123,072 to spend on investments and EUR 1,848,928 to spend on project service costs (EUR 7,245,000 approved for backfills). This authorisation was below the amounts requested by the Agency to run the planned Transition Programme. As a consequence, the planned scope of the Transition Programme required an internal assessment, restructuring and re-planning of the funded and unfunded activities. This re-planning effort delayed the formal start-up of execution of the associated Transition Programme project activities.

In addition, the Enterprise Business Application (EBA), previously faced significant delays thereby negatively affecting the implementation schedule for all EBA-related activities. Upon completion of Phase 1 of the project in early 2017, it became apparent the cost estimate for implementing EBA was considerably above the authorised cost, as such an alternative implementation scenario was designed to reduce external implementation cost and maximise efficiencies. Implementation has since started to deliver the Customer Funding Core Capability in early 2018. In 2016, an additional 6,754,436 EUR and 857,940 EUR was approved for EBA. In March 2018, Core HR of Release 1 was delivered and the Initial Operating Capability of the Finance, Project Accounting, Asset Management and Acquisitions part of Release 1 began at the end of 2018. There has been an additional amount of funding for the EBA project during 2018 of 2,622,182 EUR. EBA system went live with the Final Operating Capability (FOC) in February 2019 for Release 1 while some implementation activities are still to be completed.

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Against NCI Agency OF Reserve for transition

Group	Projectcode	Project Description	A	B	C	D	E	F	G	H	
			External baseline Lifecycle	Net Labor	Consultancy *	Other Expenses	Travel	Investments	Total spent	Available (A-G)	
Group A - Enabling Services and Enterprise Business Applications	NCA009223	91-09223_901	Group A - Enabling Services (ES)	1.180.852.00	143.842.01	1.016.104.28	-	12.616.20	-	1.172.562.49	8.289.51
	NCA009224	91-09224_901	Group A Enterprise Business Application (EBA)	3.339.706.00	1.663.943.66	1.420.833.08	5.238.21	136.248.32	-	3.226.263.27	113.442.73
				4.520.558.00	1.807.785.67	2.436.937.36	5.238.21	148.864.52	-	4.398.825.76	121.732.24
Group B - Demand Management, Account Management and Demand	NCA009225	No EBA	DEMAND MANAGEMENT (DM) - CLOSED	666.728.00	-	438.311.48	2.083.95	31.506.47	-	471.901.90	194.826.10
				666.728.00	-	438.311.48	2.083.95	31.506.47	-	471.901.90	194.826.10
Group C - Service Strategy	NCA009226	No EBA	Service Strategy (SS) - CLOSED	1.828.790.00	164.877.92	1.108.735.21	401.02	26.904.24	-	1.300.918.39	527.871.61
				1.828.790.00	164.877.92	1.108.735.21	401.02	26.904.24	-	1.300.918.39	527.871.61
Group D - Transition / Education and Training	NCA009229	No EBA	Transition Management (TP12-000.2) - CLOSED	228.648.00	8.844.97	-	16.149.54	-	-	24.994.51	203.653.49
				228.648.00	8.844.97	-	16.149.54	-	-	24.994.51	203.653.49
			7.244.724.00	1.981.508.56	3.983.984.05	23.872.72	207.275.23	-	6.196.640.56	1.048.083.44	

32. Retained Earnings:

		2020	2019 - restated
Retained Earnings			
5	Revenue	773,169,081	804,695,080
7	Expenses	(769,937,043)	(800,138,473)
	Surplus (Deficits) Current Year	3,232,038	4,556,607
	Surplus (Deficits) Current Year distributed to Retained Earnings	2,359,981	7,330,926
300	Surplus (Deficits) carried forward - Prior Years	25,813,858	18,482,932
	Retained Earnings (OF)	28,173,839	25,813,858

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Period year 2015-2020

NCIO Reconciliation of Net Assets/Equity

For the year ended 31 December

2020

(all figures are in Euro)

	Property, Plant and Equipment (PP&E) & Intangible Assets		Reserves - Special Purpose	Reserves - Special Progr.	Reserves - Inventory	RESERVED EARNINGS	OF RETAINED EARNINGS	NET ASSETS/EQUITY	
	Acq. Value	Depreciation	Book Value					Surpl./ (Def.) Yr	Yr-end Balance
2018 as Published	16,174,964	-12,974,730	3,200,234	2,873,854		6,074,088	18,482,932	-476,473	-476,473
31-Dec-18	16,174,964	-12,974,730	3,200,234	2,873,854		6,074,088	18,482,932		24,557,020
2018 as Published Restated	16,174,964	-12,974,730	3,200,234	2,873,854	42,755,943	48,830,031	18,482,932	-476,473	-476,473
31-Dec-18	16,174,964	-12,974,730	3,200,234	2,873,854	42,755,943	48,830,031	18,482,932		67,312,963
2019 as Published	21,056,598	-16,777,873	4,278,724	2,501,144	42,755,943	49,535,811	21,057,428	3,280,277	3,280,277
31-Dec-19	21,056,598	-16,777,873	4,278,724	2,501,144	42,755,943	49,535,811	21,057,428		70,593,240
2019 Restated (Unaudited)	3,769,013	(2,970,388)	798,625	2,501,144	42,755,943	46,055,712	25,813,856	4,556,607	4,556,607
31-Dec-19	3,769,013	-2,970,388	798,625	2,501,144	42,755,943	46,055,712	25,813,856		71,869,571
2020 as Published (Unaudited)	5,929,631	-4,131,164	1,798,467	2,373,359	42,755,943	46,927,772	28,173,839	3,232,038	3,232,038
31-Dec-20	5,929,631	-4,131,164	1,798,467	2,373,359	42,755,943	46,927,772	28,173,839		75,101,611

NATO UNCLASSIFIED

YEAR-END BALANCES	Year-end Balance	Destination						NET ASSETS/EQUITY	
		Property, Plant and Equipment (PP&E) & Intangible Assets		Reserves - Special Purpose	Reserves - Special Progr.	Reserves - Inventory	RESERVED EARNINGS		OF RETAINED EARNINGS
		Acq. Value	Acc. Deprec.	Book Value				Yr-end Balance	
31-Dec-05	5,064,289	6,352,418	-1,746,915	4,605,503	0		4,605,503	458,786	5,064,289
31-Dec-06	6,780,419	11,440,622	-3,721,092	7,719,530	0		7,719,530	-939,111	6,780,419
31-Dec-07	15,448,855	13,272,399	-6,289,891	6,982,508	0		6,982,508	8,466,347	15,448,855
31-Dec-08	16,813,862	16,337,520	-9,760,847	6,576,673	0		6,576,673	10,237,189	16,813,862
31-Dec-09	11,869,058	20,011,958	-13,481,609	6,530,349	0		6,530,349	5,338,709	11,869,058
31-Dec-10	4,183,086	23,524,061	-18,064,656	5,459,406	0		5,459,406	-1,276,320	4,183,086
31-Dec-11	9,913,025	24,356,808	-20,925,008	3,431,799	0		3,431,799	6,481,225	9,913,025
31-Dec-12	15,770,863	43,368	0	43,368	0		43,368	15,727,495	15,770,863
31-Dec-13	18,350,285	1,043,893	-227,169	816,725	8,570,000		9,386,725	8,963,561	18,350,285
31-Dec-14	20,280,170	8,276,385	-3,906,195	4,370,190	7,817,315		12,187,505	8,092,665	20,280,170
31-Dec-15	26,122,091	11,373,573	-7,445,917	3,927,656	6,217,986		10,145,642	15,976,449	26,122,091
31-Dec-16	23,945,958	9,493,472	-5,229,501	4,263,972	5,532,909		9,796,881	14,149,077	23,945,958
31-Dec-17	25,033,493	12,869,784	-9,340,075	3,529,709	4,187,407		7,717,116	17,316,377	25,033,493
31-Dec-18	24,557,020	16,174,964	-12,974,730	3,200,234	2,873,854		6,074,088	18,482,932	24,557,020
31-Dec-18 Restated	67,312,963	16,174,964	-12,974,730	3,200,234	2,873,854	42,755,943	48,830,031	18,482,932	67,312,963
31-Dec-19	70,593,240	21,056,598	-16,777,873	4,278,724	2,501,144	42,755,943	49,535,811	21,057,428	70,593,239
31-Dec-19 Restated	71,869,571	3,769,013	-2,970,388	798,625	2,501,144	42,755,943	46,055,712	25,813,856	71,869,568
31-Dec-20	75,101,609	5,929,631	-4,131,164	1,798,467	2,373,359	42,755,943	46,927,772	28,173,839	75,101,611

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INCR./ (DECR.) FOR THE YEAR	Surplus/(Def.) for the Year	Destination						NET ASSETS/EQUITY Surpl./ (Def.) Yr	
		Property, Plant and Equipment (PP&E) & Intangible Assets		Reserves - Special Purpose	Reserves - Special Progr.	Reserves - Inventory	RESERVED EARNINGS		RETAINED EARNINGS OF
		Acq. Value Yr	Deprec. Yr	Δ Book Value					
31-Dec-05 (*)	5,064,289	6,352,418	-1,746,915	4,605,503	0		4,605,503	458,786	5,064,289
31-Dec-06	1,716,130	5,088,204	-1,974,177	3,114,027	0		3,114,027	-1,397,897	1,716,130
31-Dec-07	8,668,436	1,831,777	-2,568,799	-737,022	0		-737,022	9,405,457	8,668,436
31-Dec-08	1,365,007	3,065,121	-3,470,956	-405,835	0		-405,835	1,770,842	1,365,007
31-Dec-09	-4,944,804	3,674,438	-3,720,762	-46,324	0		-46,324	-4,898,480	-4,944,804
31-Dec-10	-7,685,972	3,512,104	-4,583,047	-1,070,943	0		-1,070,943	-6,615,029	-7,685,972
31-Dec-11	5,729,939	832,746	-2,860,353	-2,027,606	0		-2,027,606	7,757,545	5,729,939
31-Dec-12	5,857,838	-24,313,440	20,925,008	-3,388,431	0		-3,388,431	9,246,270	5,857,838
31-Dec-13	2,579,422	1,000,525	-227,169	773,357	8,570,000		9,343,357	-6,763,934	2,579,422
31-Dec-14	1,929,885	7,232,492	-3,679,027	3,553,465	-752,685		2,800,780	-870,895	1,929,885
31-Dec-15	5,841,921	3,097,188	-3,539,722	-442,534	-1,599,329		-2,041,863	7,883,783	5,841,921
31-Dec-16	-2,176,133	-1,880,101	2,216,417	336,316	-685,077		-348,762	-1,827,371	-2,176,133
31-Dec-17	1,087,535	3,376,312	-4,110,574	-734,262	-1,345,502		-2,079,764	3,167,299	1,087,535
31-Dec-18	-476,473	3,305,179	-3,635,230	-329,475	-1,313,553		-1,643,028	1,166,555	-476,473
31-Dec-18 Restated	-476,473	3,305,179	-3,635,230	-329,475	-1,313,553		-1,643,028	1,166,555	-476,473
31-Dec-19	3,280,277	4,881,634	-3,803,143	1,078,490	-372,710	0	705,780	2,574,497	3,280,277
31-Dec-19 Restated	4,556,608	-12,405,951	10,004,342	-2,401,609	-372,710	0	-2,774,319	7,330,924	4,556,605
31-Dec-20	3,232,038	2,160,618	-1,160,776	999,842	-127,785	0	872,057	2,359,981	3,232,041

33. Events after the financial reporting date of 31 December 2020

NCIO is required to disclose events, both favourable and unfavourable, that occurred between the reporting date of 31 December 2020 and the date when these Financial Statements were authorised for issue by the General Manager. IPSAS requires two types of events which should be identified:

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

The Agency considers the decision from the 14th of April 2021 as material non-adjusting event requiring the additional disclosure.

NATO decided on 14 April 2021 to start withdrawing forces from the Resolute Support Mission in Afghanistan by May 1, with plans to complete the drawdown of all troops within a few months. An estimate of its financial effect cannot presently be made as financial data is currently not present neither complete to provide a reliable estimate of its impact. Initial assessment confirms that potential liabilities and financial impacts would be limited considering the staffing, funding model of the Agency and the accounting treatment of assets in support of missions.

34. MWA disclosure

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

Revenue generated throughout the year for MWA activities amounted to 200 EUR and related to prior year's refunds. Full amount of 75,000 EUR has been provisioned for external parties receivables pending further information on its collectability. Total expenses for the events organized in 2020 amounted 45,193 EUR (2019: 45,834 EUR), and the overall Morale and Welfare Activities generated a loss of 120,940 EUR.

Main assets of the MWA consists of cash balance in the bank of 107,057 EUR (2019: 102,649 EUR) and receivables of 75,719 EUR (2019: 79,595 EUR), while liabilities of 130,533 EUR (2019: 10,235 EUR) relate primarily to accrued expenses for the organized events in 2020 and the provision for doubtful debts of 75,000 EUR.

D. Notes on the NCIO Budget Execution Statements

Although NCIO is fully Customer Funded as of 2014, it still has two components that are budget funded in 2019 and for which it thus produces a Budget Execution Statement:

- The NCIO Independent Secretariat Budget, as per the Charter of the NCIO, approved by Council on 19 June 2012 under C-M(2012)0049, the NCIO is composed of an ASB and an executive body composed of a General Manager and his/her staff (the NCI Agency). Per Article 26 (e) of the Charter, the chairperson of the ASB is supported by an Independent Secretariat that is only responsible to the chairperson. Per Article 50 (c) and per AC/337-D(2014)0007-AS1 dated 9 May 2014, the ASB approved core funding (distinct and separate from NATO common funding) for the NCIO Independent Secretariat. The ASB approved the structure and an annual budget based on the Military Budget cost share model.
- The NCI Agency Budget for workforce/reorganisation adjustments as a result of the Transition Programme - BC 877 Budget (NATO common funding)

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Expenses amount include accrued expenses as reported in the Statement of Financial Performance; budget execution/financial statement are thus presented on a comparable basis and in compliance with IPSAS24. Lapsed amounts represent budget funds that were not used (unspent) during the course of the financial year. Carry forward amounts are the net Commitments at the end of the financial year that have not been converted into expenses at the end of the financial year. Chapter 1 represents – Personnel cost, Chapter 2 represents Contractual Supplies and Services and Chapter 3 represents Investments.

NCIO (ASB Secretariat) Budget Execution Statement

For the year ended 31 December

2020

(all figures are in Euro)

NCIO

	Initial Budget	Transfers	BA2	Transfers	Final Budget	Net Commitment	Expenses	Total Spent	Carry Forward	Lapsed
BUDGET										
Chapter 1	771,940	0	0	0	771,940	0	745,178	745,178	0	26,762
Chapter 2	99,154	0	0	0	99,154	0	86,825	86,825	0	12,330
Chapter 3	0	0	0	0	0	0	0	0	0	0
Total current year	871,094	0	0	0	871,094	0	832,002	832,002	0	39,092
Chapter 1	0	0	0	0	0	0	0	0	0	0
Chapter 2	438	0	0	0	438	0	438	438	0	0
Chapter 3	0	0	0	0	0	0	0	0	0	0
Total prior year	438	0	0	0	438	0	438	438	0	0
Chapter 1	0	0	0	0	0	0	0	0	0	0
Chapter 2	0	0	0	0	0	0	0	0	0	0
Chapter 3	0	0	0	0	0	0	0	0	0	0
Total 2 years ago	0	0	0	0	0	0	0	0	0	0
TOTAL	871,532	0	0	0	900,138	0	832,440	832,440	0	39,092

NAF IMPACT PRIOR 1 JAN 2013 EXPENSED PPE/INVENTORY and PRIOR 1 JAN 2018 ASSETS UNDER CONSTRUCTION

1. Property Plant and Equipment and Intangible Assets

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

NATO infrastructure assets are composed of PPE and intangible elements. The NCIA was responsible as a Host Nation for 516 infrastructure projects operational as at 31st December 2012. The NCIA was established July 1st 2012, following the merger of three legacy NATO agencies (NACMA, NC3A, and NCSA). The projects were instigated by the legacy NATO agencies, prior to the formation of the NCIA.

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

Infrastructure Assets put in Service prior to 01 January 2013

Location of Project ⁽¹⁾	Number ⁽²⁾	Type of Project
ACO and former ACE area	48	Networking and Command and Control Capabilities for Military Commands.
ACT and former Aclant area	33	Networking and Command and Control Capabilities for Military Commands.
Former Yugoslavia	98	Communication networks and installations in theatre.
ISAF	96	Communications and Information Systems support for the NATO mission in Afghanistan.
Peace Support Operations	32	CIS support for Peace Support Operations in Afghanistan and Former Yugoslavia.
SATCOM	23	Military Satellite Communications projects.
Various Networking Projects	186	NATO-wide networking infrastructure.
TOTAL	516	

(1) Project defined as Infrastructure Committee slice serials.

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

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

2. INVENTORY

For the reporting year 2020 Inventory balances have been fully disclosed in the Statement of Position and within the notes hence special disclosure as stipulated in the NAF for inventory is not applicable.

3. Assets under Construction/Development

In accordance with the NATO Accounting Framework (C-M(2017)0022 APPENDIX 1 ANNEX 1); For the NCIO controlled CIS Assets under construction built before 1 January 2018, the NAF prescribes as a minimum, further disclosures on the types and locations of CIS assets that were under construction prior to 1 January 2018 for the NATO Command Structure as well as for IS and IMS.

At the time of the publication of the unaudited 2020 NCIO Financial Statements reliable historical data was not available for disclosure. In case the NCIO can provide reliable information during the audit cycle of these 2020 NCIO Financial statements, NCIO intend to disclose the data/note in the audited 2020 NCIO Financial Statements.

E. 2019 Restated Statement of Financial Position and Performance

The Agency re-aligned Property Plant and Equipment (PPE) and Intangible Asset capitalization thresholds with the NATO Accounting Framework upper ceiling from Financial Year 2019. That accounting policy change has been made to facilitate readers of the Financial Statements comparability with other NATO Bodies of similar size and nature that are already applying upper ceilings of NATO Accounting Framework (NAF) accounting policy for Property Plant and Equipment (PP&E).

The restatement of the Statement of Financial Position, Financial Performance and Cash Flow Statement has been made due to the accounting policy change with respect of new PPE thresholds and previously incorrect deferral of PPE entry not reversed in 2019 for 1.6 MEUR.

The PPE Net Book Value dropped from 4.3 MEUR to 0.8 MEUR in 2019, which is explained by the additional retirement of assets that fall under the recognition threshold amounting 6.5 MEUR and release of the depreciation of 3.0M EUR linked to those retired assets.

The resulting loss from the asset retirement was almost fully neutralized by the reversal of accumulated deferral PPE revenue linked to the retired assets with a net impact amounting to a loss of 0.3M EUR.

The above restatements impact the prior year accumulated earnings with an addition surplus of 1.3 MEUR.

IPSAS 3 requires that restated Statement of Financial Performance for 2019 should show the expenses corresponding to the de-recognition of the capitalised assets carried out exclusively in 2019 and secondly the impact of the cancellation of assets depreciation previously recognised over this period.

IPSAS 3 contains however the notion of Impracticability in Respect of Retrospective Application and Retrospective Restatement and permits deviation from retrospective application. Due to impracticability cause by system limitation, loss of audit trail and data integrity the restatement has been fully accounted in the Statement of Financial Performance 2019.

System limitations

Fixed Asset module in Oracle (EBA) is a module that cannot be retrospectively re-opened. The system is calculating full impact of asset retirement in the current active period (which occurred in the Fiscal Year 2020) and includes the full impact in the Statement of Financial Performance. All reasonable efforts have been made to identify and validate the system entries generated and prepare corrections to be processed in the General Ledger module. However 2019 Fixed Asset module cannot be adjusted.

Audit trail and data integrity

At the moment of processing the corrections in the accounting system General Ledger module a timing reconciliation difference has been introduced in the Trial Balance of 2019 and 2020 in light of the reallocation of Oracle generated entries from Fiscal Year 2020 to Fiscal Year 2019. However the original audit trail with system generated entries that solely impact Statement of Financial Performance has been retained.

Full application of the IPSAS 3 on the retrospective application and processing the asset retirement acquired prior to 2019 through reserves will in addition to the timing reconciliation difference introduce a permanent reconciliation difference when compared to system generated entries. It has to be noted that those calculations would need to be carried outside of the Oracle asset repository inhibiting audit trail in EBA. Moreover it has to be noted that January 2019 opening balances in Oracle are conversion balances and to maximum possible extent the Agency strived not to enter manual corrections in that period given the utmost importance to maintain audit trail with the legacy financial systems.

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The approach taken by the Agency results in the full impact of the restatement being shown on the other expenses, depreciation expenses as well as ECIS revenue lines related to PPE deferral within the Fiscal Year 2019 in the statement of Financial Performance.

However the vast majority of the assets with acquisition date prior to 2019 are customer funded assets, meaning that unwinding of ECIS revenue deferral linked to those retired assets fully offsets the corresponding expense movement neutralizing the resulting net profit impact,

In addition to the above there is an overcharge of 35k EUR in 2019 Statement of Financial Performance and undercharge of the same amount in 2020 related to the change of useful lives estimates (related to the same decision on updating PPE thresholds and useful lives with the NAF), which for the reasons of retention of audit trail with Fixed Asset module has not been reallocated.

The above outlined treatment has been applied due to practicality reasons outlined and to ensure that adequate audit trail, data integrity, traceability and availability in information systems is maintained between sub-ledger and the general ledger.

It has to be noted that closing balances of Fiscal Year 2020 are not impacted by the above outlined treatments with the exception of timing difference on 35k EUR described above.

NCIO Statement of Financial Position

As of 31 December 2019
(all figures are in Euro)
(restated)

	NCIO		
	2019 – as published	Restatement	2019 - Restated
ASSETS			
<i>Current Assets</i>			
Cash and Cash Equivalents	63,440,700	0	63,440,700
Receivables	372,248,062	0	372,248,062
Prepayments and Miscellaneous Assets	19,737,257	0	19,737,257
Inventory	46,743,909	0	46,743,909
Work in Progress	1,995,874	0	1,995,874
Other Current Assets	12,744	0	12,744
Total Current Assets	504,178,546	0	504,178,546
<i>Non-Current Assets</i>			
Financial Assets	0	0	0
Non-current Receivables	766,962	0	766,962
Property, Plant and Equipment	4,275,287	(3,476,662)	798,625
Intangible Assets	3,437	0	3,437
Total Non-Current Assets	5,045,686	(3,476,662)	1,569,024
TOTAL ASSETS	509,224,232	(3,476,662)	505,747,570

NCIO Statement of Financial Position

As of 31 December 2019
(all figures are in Euro)
(restated)

	NCIO		
	2019 – as published	Restatement	2019 - Restated
LIABILITIES			
<i>Current Liabilities</i>			
Payables	199,929,108	0	199,929,108
Deferred Revenue and Advances	213,408,563	(4,752,993)	208,655,570
Other Current Liabilities	2,133,882	0	2,133,882
Total Current Liabilities	415,471,553	(4,752,993)	410,718,560
<i>Non-Current Liabilities</i>			
Non-Current Payables	0	0	0
Non-Current Deferred Revenue and Advances	0	0	0
Non-Current Borrowings	0	0	0
Provisions	23,159,439	0	23,159,439
Total Non-Current Liabilities	23,159,439	0	23,159,439
TOTAL LIABILITIES	438,630,992	(4,752,993)	433,877,999
NET ASSETS/EQUITY			
Retained Earnings	21,057,428	1,276,331	22,333,759
Reserved Earnings	49,535,812	0	49,535,812
TOTAL NET ASSETS/EQUITY	70,593,240	1,276,331	71,869,571
TOTAL LIABILITIES AND NET ASSETS/EQUITY	509,224,232	(3,476,661)	505,747,570

NCIO Statement of Financial Performance

For the year ended 31 December 2019

(all figures are in Euro)

(restated)

REVENUE

Project and Support Services Revenue
External Services Revenue
Acquisition Revenue
Other Operating Revenue
TOTAL OPERATING REVENUE
Financial Revenue
TOTAL REVENUE

EXPENSES

Cost of Acquisition
Personnel Costs
Contractual Supplies and Services
Depreciation and Amortisation
Provisions
Financial Expenses
Other Expenses
TOTAL EXPENSES

SURPLUS/(DEFICIT)

Retainable Earnings
Refundable Earnings
SURPLUS/(DEFICIT) FOR THE PERIOD
Revaluation of Assets

NCIO		
2019 – as published	Restatement	2019 - Restated
296,503,404	0	296,503,404
231,667,623	4,606,793	236,274,416
266,058,420	0	266,058,420
3,578,455	0	3,578,455
797,807,902	4,606,793	802,414,695
2,280,385	0	2,280,385
800,088,287	4,606,793	804,695,080
(266,420,567)	0	(266,420,567)
(264,293,659)	0	(264,293,659)
(253,643,820)	149,635	(253,494,185)
(3,803,143)	3,078,750	(724,393)
(7,492,829)	0	(7,492,829)
(1,153,992)	0	(1,153,992)
0	(6,558,848)	(6,558,848)
(796,808,010)	(3,330,463)	(800,138,473)
3,280,277	1,276,330	4,556,607
0	0	0
3,280,277	1.276.330	4,556,607
0	0	0

NCIO Statement of Cash Flows

For the year ended 31 December 2019 (all figures are in Euro)
(restated)

CASH FLOWS FROM OPERATING ACTIVITIES

Surplus/(Deficit) for the Period
Depreciation and Amortisation
Revaluation of Assets

Decr./((Incr.) Receivables
Decr./((Incr.) Prepayments and Miscellaneous Assets
Decr./((Incr.) Inventory
Decr./((Incr.) Work in Progress
Decr./((Incr.) Other Current Assets
Incr./((Decr.) Payables
Incr./((Decr.) Deferred Revenue and Advances
Incr./((Decr.) Borrowings
Incr./((Decr.) Other Current Liabilities
Incr./((Decr.) Provisions

NET CASH FLOWS FROM OPERATING ACTIVITIES**CASH FLOWS FROM INVESTING ACTIVITIES**

Decr./((Incr.) Financial Assets
Decr./((Incr.) Non-current Receivables
Decr./((Incr.) PP&E and Intangible Assets
Decr./((Incr.) Other Non-Current Assets

NET CASH FLOWS FROM INVESTING ACTIVITIES**CASH FLOWS FROM FINANCING ACTIVITIES**

Incr./((Decr.) Non-Current Payables
Incr./((Decr.) Non-Current Deferred Revenue and Advances
Incr./((Decr.) Non-Current Borrowings
Incr./((Decr.) Other Non-Current Liabilities

NET CASH FLOWS FROM FINANCING ACTIVITIES**NET INCR./((DECR.) CASH AND CASH EQUIVALENTS****CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD**

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

CASH AND CASH EQUIVALENTS AT END OF PERIOD

	NCIO		
	2019 – as published	Restatement	2019 - Restated
	3,280,277	1,276,330	4,556,607
	3,803,143	(3,078,751)	724,393
	0	0	0
	(99,420,592)	0	(99,420,592)
	(16,629,570)	0	(16,629,570)
	4,081,557	0	4,081,557
	1,149,384	0	1,149,384
	2,671	0	2,671
	41,963,262	0	41,963,262
	(25,162,617)	(4,752,994)	(29,915,610)
	0	0	0
	232,642	0	232,642
	7,492,829	0	7,492,829
	(79,207,014)	(6,555,415)	(85,762,427)
	0	0	0
	(765,036)	(3,433)	(768,470)
	(4,881,634)	6,558,847	1,677,213
	0	0	0
	(5,646,670)	6,555,415	908,743
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	(84,853,684)	0	(84,853,684)
	148,294,384	0	148,294,384
	(84,853,684)		(84,853,684)
	63,440,700	0	63,440,700

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NCIO Statement of Change in Net Assets/Equity (Operating Fund)

For the year ended 31 December 2019
(all figures are in Euro)
(restated)

	NCIO	
	2019 – as published	2019 - Restated
BALANCE AT BEGINNING OF PERIOD	67,312,963	67,312,963
Variations due to restatement	0	1,276,331
Restated balance	67,312,963	68,589,294
Net gains/(losses) not recognised in the Statement of Financial Performance	0	0
Net surplus/(deficit) for the period	3,280,277	3,280,277
BALANCE AT END OF PERIOD	70,593,240	71,869,571
RESERVES AT BEGINNING OF PERIOD	48,830,031	48,830,031
Net increase/(decrease) of book value of property, plant and equipment	1,078,491	(2,401,606)
Net increase/(decrease) of reserves	(372,710)	(372,710)
Net increase/(decrease) of Inventory reserves	0	0
Net increase/(decrease) of currency translation differences	0	0
RESERVES AT END OF PERIOD	49,535,812	46,055,715
SURPLUSES/(DEFICITS) CARRIED FORWARD	21,057,428	25,813,856
NET ASSETS/EQUITY AT END OF PERIOD	70,593,240	71,869,571

NCIO Statement of Property, Plant and Equipment and Intangible Assets

As of 31 December 2019 Restated

(all figures are in Euro)

NCIO

Note	ACQUISITION					DEPRECIATION				BOOK VALUE	
	31-Dec-2018	Current Year	Disposals / Adjustm.	Transfers / Reversals	Revaluation	31-Dec-2019 Restated	31-Dec-2018	Current Year	Disposals / Adjustm.	31-Dec-2019 Restated	31-Dec-2019 Restated
PLANT, PROPERTY AND EQUIPMENT											
ADP Equipment	10,197,278	3,041,132	(11,526,550)	0	0	1,711,861	(8,077,712)	(426,213)	7,053,739	(1,450,187)	261,674
Comms Equipment	3,653,320	865,567	(4,053,532)	0	0	465,355	(2,992,176)	(35,899)	2,597,973	(430,103)	35,252
Mission Equipment	582,529	796,992	(694,662)	0	0	684,859	(382,908)	(202,214)	274,522	(310,599)	374,260
Machinery	231,924	125,176	(217,101)	0	0	140,000	(186,568)	(10,500)	151,568	(45,500)	94,500
Installed Equipment	699,214	15,990	(357,499)	0	0	357,705	(637,050)	0	279,345	(357,705)	0
Office Furniture	0	7,150	(7,150)	0	0	0	0	0	0	0	0
Passenger Vehicles	349,608	29,626	0	0	0	409,234	(341,024)	(35,271)	0	(376,295)	32,939
Infrastructure, plant and equipment	15,743,873	4,881,634	(16,856,493)	0	0	3,769,013	(12,617,438)	(710,097)	10,357,147	(2,970,388)	798,625
NCIA Main Building The Hague - Enhancements	142,950	0	(142,950)	0	0	0	(85,770)	(14,295)	100,065	0	0
Land and buildings - Leasehold improvements	142,950	0	(142,950)	0	0	0	(85,770)	(14,295)	100,065	0	0
Software Licences	288,141	0	(288,141)	0	0	0	(271,524)	0	271,524	0	0
Intangible assets	288,141	0	(288,141)	0	0	0	(271,524)	0	271,524	0	0
TOTAL PLANT, PROPERTY AND EQUIPMENT - CAPITALISED	16,174,964	4,881,634	(17,287,584)	0	0	3,769,013	(12,974,732)	(724,392)	10,728,737	(2,970,388)	798,625
Capital expenditures pending capitalisation - Accrued	0	0	0	0	0	0	0	0	0	0	0
TOTAL PLANT, PROPERTY AND EQUIPMENT	16,174,964	4,881,634	(17,287,584)	0	0	3,769,013	(12,974,732)	(724,392)	10,728,737	(2,970,388)	798,625
DEPRECIATION RESERVE	16,174,964	4,881,634	(17,287,584)	0	0	3,769,013	(12,974,732)	(724,392)	10,728,737	(2,970,388)	798,625
INCREASE/(DECREASE) DEPRECIATION RESERVE		4,881,634	(17,287,584)	0	0	(12,405,950)		(724,392)	10,728,737	10,004,344	(2,401,606)
DEFERRED REVENUE	12,351,528	4,315,472	(10,999,627)	0	0	1,444,158	(5,477,192)	(573,320)	5,137,541	(912,971)	531,186
INCREASE/(DECREASE) DEFERRED REVENUE		4,315,472	(10,999,627)	0	0	(6,684,155)	0	(573,320)	5,137,541	4,564,211	(2,119,935)

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Note 2 - restatement

Explanation on restated 2019 figures in the table below

2019 comparatives included in the 2020 Financial Statements disclose the closing balance on the account 116020 within the note whereas 2019 financial statements presented the in-year net movement on that account due to legacy balance being migrated to the account that got fully investigated in 2020 and reversed to facilitate easier reconciliation with the revenue recognition data.

		2019 – as published	2019 - restated
110021	Customer receivables (A/R) - NATO Nations	44,027,690	44,027,690
110002	Customer receivables (A/R) - NSIP - QFR Advances on approved forecast (BS 10)	(132,757,237)	(132,757,237)
116020	Accrued, unbilled	75,409,706	136,520,162
		(13,319,840)	47,790,615

Note 16 - restatement

Explanation on restated 2019 figures

At the time of producing the Financial Statements 2019, which was the first production year of EBA, the deferred and accrued split within the Acquisition Revenue could not be sufficiently validated therefore the net accrued position has been presented in the note. Following detailed validation exercise in 2020 the detailed split encompassing the comparative figures of 2019 as well has been determined. That resulted in reclassification of 13.9M EUR into the billed revenue and the line level split of accrued and deferred revenue has been presented of 2019 comparatives in the Financial Statements of 2020 to ensure comparability between 2020 and 2019 information in line with IPSAS 1.

		2019 – as published	2019 - restated
Acquisition Revenue			
5110	Acquisition revenue - Billed	237,110,248	251,014,591
5115	Acquisition revenue - Accrued, unbilled (CY)	28,948,172	171,315,428
5119	Acquisition revenue - Deferred (CY) (-)	0	(156,271,599)
		266,058,420	266,058,420



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NCIA/FC/2021/03395
31 March 2021

Subject : **Statement of Internal Control
NATO Communications and Information Organisation (NCIO)
Financial Statements for the period 01 January 2020 to
31 December 2020**

1. This Statement of Internal Control applies to the NCIO Financial Statements for the year ended 31 December 2020. Internal control is driven by the requirement of the NATO Financial Regulations, the NCIO Financial Rules and Procedures, the NATO Accounting Framework, the NCIO Internal Control Framework and good business practices. Internal control is to ensure that NATO assets are utilized for the purposes intended and that the transactions relating to their usage reflect the highest standards of integrity to justify continued confidence of the NATO Member Nations.
2. The NCIO system of internal control is based on an ongoing process effected by the Board, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance. As part of the process, identified risks to the achievement of NCI Organisation goals and objectives, are managed efficiently, effectively and economically. In detail:
 - a. The ASB has the responsibility to: (1) ensure that effective risk management measures are in place and monitor performance execution on that basis; (2) exercise management control by comparison of the NCIA activities with applicable ASB directives; (3) oversee the delivery of

results against targets; (4) evaluate the performance against objectives of the NCIA; (5) benchmark the NCIA against comparable organisations;

- b. The ASB has established an Audit Committee (AC) comprising 30 members of NATO nations. The AC assists the Board in fulfilling its oversight responsibilities in the areas of internal controls, risk management, internal and external audits, financial reporting, and regulatory compliance. In 2020, the AC carried out three meetings in plenary session, of which one was discharged under Finance Committee (FinCom) arrangement prior to the AC Charter approval.
- c. The Chairman of the ASB is responsible to maintain a sound system of internal control that supports the ASB Secretariat and ensures it delivers on its mandate;
- d. The General Manager (GM) is responsible to maintain a sound system of internal control that supports the NCI Agency and ensures it delivers on its Chartered mandate;
- e. The Chief Operating Officer (COO) is responsible to maintain a sound system of internal control for business planning together with the related business intake and capacity management, as well as monitoring programme/project exceptions;
- f. The Director Acquisition is responsible to maintain a sound system of internal control that ensures the integrity of the procurement process;
- g. The Head of Human Resources is responsible to maintain a sound system of internal control relating to the recruitment and departure of staff and associated payment of salaries and allowances;
- h. The Financial Controller is responsible for the correct use and accounting of funds made available to the NCI Agency and the ASB Independent Secretariat and for maintaining a sound system of internal financial controls.

The control environment continues to improve with the ongoing stabilisation of EBA Release 1. The Agency needs to continue improving its internal control

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framework to focus its effort on timeliness of financial management reporting and reinforce alignment of business and financial corporate planning processes. As highlighted by the IBAN, the Agency has remaining deficiencies to address in the area of asset management processes to ensure completeness of inventory in EBA Release 1 and proper safeguarding of assets. These deficiencies need to be addressed in a programmatic way and with sufficient resources within the Agency for the Property Accounting Officers and with the support from the Agency Governance.

Apart from the above, no weaknesses in internal control that require disclosure in the 2020 Financial Statements were identified. Considering the statements above, senior management and the Financial Controller can provide confirmation that, except for the aspects related to assets management, the system of internal control of the Agency is in general effective.

The implementation of the NCIO Internal Control Framework is an ongoing process, which the Agency is focusing on with priority. In line with its provisions, an Internal Control Panel (ICP) is established to ensure an effective, systematic and coordinated implementation of this framework within the Organization.

3. The main aspects of the NCIO's system of internal control for 2020 are as follows:

- a. All funds received are recorded, accounted and managed through a set of information systems, which include: enterprise-wide project management; a time accounting system and the Oracle R 12 based tool Enterprise Business Applications (EBA)¹. Controls are in place at transactional level to control use and disbursement of funds.
- b. The Independent Secretariat has its budget approved and funded by ASB Member Nations.
- c. The NCI Agency annually updates its Customer Rates based on the ASB approved Customer Rates Principles and Methodology². These are endorsed by the ASB, and approved by the NATO Budget Committee on behalf of all Customers.

- d. The NCI Agency also annually updates its Services Rates (based on Customer Rates for the Agency's professional services element) and these are validated by the ASB and NATO Budget Committee.
- e. The NCI Agency has an integrated planning process comprising the Strategic Plan; Business Plan; the Multi-Year Investment Plan; and Financial Plan. It prepares annually a Financial Plan (three years planning horizon) covering revenue and expenses related to Customer Funding, which is signed-off by the Executive Management Board, chaired by the GM. The Financial Plan is approved by the ASB.
- f. Agreements with Customers are in writing and are usually concluded on a Firm Fixed Price and/or Cost Reimbursable basis.
- g. Procurement activities are under the responsibility of the Director of Acquisition with the specific involvement of the GM. For some deviations from normal competition the Agency has a designated Competition Advocate - Director Service Strategy who advises the GM.
- h. Through its Service Lifecycle Management Board (SLMB) chaired by the COO, the Agency oversees the operational environment with a focus on early identification and quantification of risks which affect services and projects to allow for timely management oversight and/or assistance to mitigate.
- i. The Agency has Enterprise-wide Risk Management Policy and Framework which sets out the risk management processes in place and details the roles and responsibilities of staff in relation to risk. This policy has been issued to all staff who are expected to work within the Agency's risk management policies, to alert management on emerging risks and control weaknesses and assume responsibility for risks and controls within their own area of work. There are regular reviews by senior management of key risks and related controls.
- j. The Agency has an Internal Audit Function with an approved risk-based three years audit plan which reviews, amongst other areas, internal

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

² AC/337(FC)D(2018)0003-REV1

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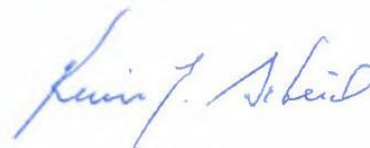
control and risk mitigation. Internal Audit reports to the GM and provides regular updates to the ASB-Audit Committee.

- k. The Agency has a Fraud Prevention and Detection function. It reports to the GM and provides regular updates on lessons learned at the Internal Control Panel. In 2020, no instance of fraud was detected.
- l. In order to support the NCI Agency Management and the ASB in undertaking internal control responsibilities, an Internal Control Questionnaire and Assessment (ICQA) is used to serve as a management self-assessment and evaluation tool. This questionnaire is in line with the provisions of the NCIO Internal Control Framework which was developed based on the guidance issued by the Committee of Sponsoring Organizations of the Tread way Commission (COSO) and approved by ASBS in November 2016. Management has continued work on developing the internal control framework within the Finance Directorate by employing a risk based methodology to design process controls in line with the COSO guidance.
- m. All new joiners to the Agency participate in an Induction Programme that includes education about Agency procedures and behaviour standards. Moreover, the Agency has a Code of Conduct for all staff, as well as an Anti-Fraud Directive, and staff must undergo training in ethical behaviour and appropriate use of resources.

4. During its last Financial Statements audit, the International Board of Auditors for NATO (IBAN) made three observations and recommendations related to the 2019 NCIO Financial Statements. These findings are in the Letter of Observations and Recommendations (Annex 3). One observation and recommendation impacts the audit opinion on both the Financial Statements and on compliance: (1) Material incompleteness of Property, Plant and Equipment (PP&E) and Intangible Assets. The other two observations and recommendations do not impact the audit opinion on the Financial Statements and compliance: (2) Improvements needed on the internal control over accrual estimates and (3) Improvements needed to the NCIO customer rates and overhead assumptions. IBAN followed up on the status of observations and recommendations from the previous years' audits and found that eight were closed and five remain in progress.

The NCIO remains focused and committed to resolving all IBAN observations and recommendations. The Agency will present in 2021 a remediation plan to

address IBAN observations related to asset management and their associated resource implications. Additional areas of improvement identified by management as a focus for Financial Year 2021 is the EBA Stabilization Initiative.



Kevin J. Scheid
General Manager



Antoine Pailhès
Financial Controller

Distribution:

External

- Chairman Board of Auditors for NATO
- Chairman NCIO Agency Supervisory Board

Internal

- Members Executive Management Board



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:

NCIA/FC/2021/03400REV1
12 May 2021

Subject: **Financial Controller's Certification -
NATO Communications and Information Organisation (NCIO)
Financial Statements for the period 01 January 2020 to
31 December 2020**

1. The 2020 Financial Statements for the NCIO are submitted to the International Board of Auditors for NATO (IBAN) and the Agency Supervisory Board (ASB) as required by the NATO Financial Regulations and the NCIO Charter.
2. The Financial Statements were prepared in accordance with the following Reference documents:
 - a. C-M(2012)0049, Charter of the NATO Communications and Information Organisation, approved by Council, dated 14 June 2012.
 - b. C-M(2015)0025), NATO Financial Regulations, approved by Council, dated 4 May 2015;
 - c. PO(2015)0394, NATO Communications & Information Agency Customer Funding Regulatory Framework, approved by Council, dated 16 July 2015;
 - d. C-M(2016)0023, revised NATO Accounting Framework (IPSAS adaptation), approved by Council, dated 29 April 2016;
 - e. AC/337-D(2016)0014-REV1, NCIO Financial Rules and Procedures, approved by the ASB, dated 20 November 2018;

3. I certify that the NCIO 2020 Financial Statements:

- a. present fairly the NCIO's financial position, financial performance, cash flows and changes in net assets/equity during the period;
- b. can be publicly disclosed.

Digitally signed
by Antoine
Pailhès
Date: 2021.05.11
11:20:36 +02'00'
AGENCY

Antoine Pailhès
Financial Controller

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ACRONYMS

ACO	ALLIED COMMAND OPERATIONS
ACT	ALLIED COMMAND TRANSFORMATION
AIR C2	AIR COMMAND AND CONTROL
APF	ADVANCE PLANNING FUNDS
ASB	AGENCY SUPERVISORY BOARD
FinCom	AGENCY SUPERVISORY BOARD FINANCE COMMITTEE
BC	NATO BUDGET COMMITTEE
BMD	BALLISTIC MISSILE DEFENCE
CIS	COMMUNICATION INFORMATION SYSTEMS
CPR	NATO CIVILIAN PERSONNEL REGULATIONS
EBA	ENTERPRISE BUSINESS APPLICATIONS
ESPE	END STATE PEACETIME ESTABLISHMENT
FRP	FINANCIAL RULES AND PROCEDURES
GM	GENERAL MANAGER
HO/TO	HANDOVER/TAKEOVER
IBAN	INTERNATIONAL BOARD OF AUDIT FOR NATO
IC	NATO INVESTMENT COMMITTEE
ICTM	INFORMATION COMMUNICATIONS TECHNOLOGY MANAGEMENT
IMS	INTERNATIONAL MILITARY STAFF
IS	INTERNATIONAL STAFF
ISAF	INTERNATIONAL SECURITY ASSISTANCE FORCE
ISPAS	INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

MC	MILITARY COMMITTEE
MWA	MORALE AND WELFARE ACTIVITIES
IWC	INTERIM WORKFORCE CAPACITY
NAC	NORTH ATLANTIC COUNCIL
NAF	NATO ACCOUNTING FRAMEWORK
NATO	NORTH ATLANTIC TREATY ORGANISATION
NCI Agency	NATO COMMUNICATIONS AND INFORMATION AGENCY
NCIO	NATO COMMUNICATIONS AND INFORMATION ORGANISATION
NCS	NATO COMMAND STRUCTURE
NFR	NATO FINANCIAL REGULATIONS
NIC	NATO INTERNATIONAL CIVILIAN
NSIP	NATO SECURITY INVESTMENT PROGRAMME
OF	OPERATING FUND
PE	PEACETIME ESTABLISHMENT/PERSONNEL ESTABLISHMENT
PP&E	PROPERTY PLANT and EQUIPMENT
PSC	PROJECT SERVICE COSTS
QAFR	QUARTERLY ACCOUNTING FINANCIAL REPORT
RPPB	NATO RESOURCE POLICY AND PLANNING BOARD
RS	RESOLUTE SUPPORT
SLA	SERVICE LEVEL AGREEMENT
SSC	SERVICE SUPPORT COST

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Annex A : Simulated Impact of disclosing Assets under construction *(not for public disclosure)*

This annex does not form inherent part of the 2020 NCIO Financial Statements. It is provided for illustrative purposes and includes simulated impact of disclosing Assets under Construction in the NCIO Statement of Financial Position and Statement of Financial Performance.

NCIO Statement of Financial Position

(all figures are in Euro)

	NCIO Statement of Financial Position			NCIO Statement of Financial Position (including Assets under Construction)		
	2020	2019 - Restat.	2018 - Restat.	2020	2019 - Restat.	2018 - Restat.
ASSETS						
Current Assets						
Cash and Cash Equivalents	171,712,449	63,440,700	148,294,384	171,712,449	63,440,700	148,294,384
Receivables	209,823,894	372,248,062	272,827,470	209,823,894	372,248,062	272,827,470
Prepayments and Miscellaneous Assets	6,482,729	19,737,257	3,107,687	6,482,729	19,737,257	3,107,687
Inventory	42,761,749	46,743,909	50,825,466	42,761,749	46,743,909	50,825,466
Work in Progress	5,757,711	1,995,874	3,145,258	5,757,711	1,995,874	3,145,258
Other Current Assets	-	12,744	15,415	-	12,744	15,415
Total Current Assets	436,538,532	504,178,546	478,215,680	436,538,532	504,178,546	478,215,680
Non-Current Assets						
Financial Assets	-	-	-	-	-	-
Non-current Receivables	1,201,631	766,962	1,925	1,201,631	766,962	1,925
Property, Plant and Equipment	1,798,467	798,625	3,183,617	777,078,014	557,518,507	291,073,586
Intangible Assets	-	3,437	16,617	-	3,437	16,617
Other Non-Current Assets	-	-	-	-	-	-
Total Non-Current Assets	3,000,098	1,569,024	3,202,159	778,279,645	576,766,938	3,202,159
TOTAL ASSETS	439,538,630	505,747,570	481,417,839	1,214,818,177	1,080,945,484	769,307,808

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	NCIO			NCIO (including Assets under Construction)		
	2020	2019 - Restat.	2018 - Restat.	2020	2019 - Restat.	2018 - Restat.
LIABILITIES						
<i>Current Liabilities</i>						
Payables	115,120,471	199,929,108	157,965,846	115,120,471	199,929,108	157,965,846
Deferred Revenue and Advances	217,157,528	208,655,570	238,571,180	992,437,075	783,853,483	526,461,149
Borrowings	-	-	-	-	-	-
Other Current Liabilities	931,346	2,133,882	1,901,241	931,346	2,133,882	1,901,241
Total Current Liabilities	333,209,345	410,718,560	398,438,267	1,108,488,892	985,916,473	686,328,236
<i>Non-Current Liabilities</i>						
Non-Current Payables	-	-	-	-	-	-
Non-Current Deferred Revenue and Advances	-	-	-	-	-	-
Non-Current Borrowings	-	-	-	-	-	-
Provisions	31,227,677	23,159,439	15,666,610	31,227,677	23,159,439	15,666,610
Other Non-Current Liabilities	-	-	-	-	-	-
Total Non-Current Liabilities	31,227,677	23,159,439	15,666,610	31,227,677	23,159,439	15,666,610
TOTAL LIABILITIES	364,437,022	433,877,999	414,104,877	1,139,716,569	1,009,075,912	701,994,846
NET ASSETS/EQUITY						
Retained Earnings	28,173,837	25,813,856	18,482,932	28,173,837	25,813,856	18,482,932
Reserved Earnings	46,927,772	46,055,715	48,830,031	46,927,772	46,055,715	48,830,031
TOTAL NET ASSETS/EQUITY	75,101,609	71,869,571	67,312,963	75,101,609	71,869,571	67,312,963
TOTAL LIABILITIES AND NET ASSETS/EQUITY	439,538,630	505,747,570	481,417,840	1,214,818,178	1,080,945,483	769,307,809

NATO UNCLASSIFIED

NCIO Statement of Financial Performance

(all figures are in Euro)
(Prior Year restated)

	NCIO Statement of Financial Performance			NCIO Statement of Financial Performance (including Assets under Construction)		
	2020	2019 – Restat.	2018 – Restat.	2020	2019 – Restat.	2018 – Restat.
REVENUE						
Project and Support Services Revenue	332,018,673	296,503,404	288,260,703	287,425,443	249,122,526	247,757,863
External Services Revenue	249,438,623	236,274,416	236,769,744	249,438,623	236,274,416	236,769,744
Acquisition Revenue	189,253,449	266,058,420	330,985,358	33,765,046	26,131,353	83,598,229
Other Operating Revenue	871,511	3,578,455	4,238,758	869,611	3,578,455	4,238,758
TOTAL OPERATING REVENUE	771,582,257	802,414,695	860,254,563	571,498,723	515,106,751	572,364,594
Financial Revenue	1,586,824	2,280,385	2,336,200	1,586,824	2,280,385	2,336,200
Other Revenue	-	-	-	-	-	-
TOTAL REVENUE	773,169,081	804,695,080	862,590,763	573,085,547	517,387,136	574,700,794
EXPENSES						
Cost of Acquisition	(188,569,294)	(266,420,567)	(329,592,123)	(9,510,508)	(5,122,653)	(70,539,270)
Personnel Costs	(282,755,618)	(264,293,659)	(260,825,316)	(234,992,022)	(214,418,613)	(218,797,034)
Contractual Supplies and Services	(282,152,759)	(253,494,185)	(260,053,734)	(278,335,056)	(253,494,185)	(260,053,734)
Depreciation and Amortisation	(1,160,776)	(724,393)	(3,687,789)	(31,719,228)	(24,589,408)	(16,878,955)
Provisions	(8,068,239)	(7,492,829)	(7,734,531)	(8,068,239)	(7,492,829)	(7,734,531)
Financial Expenses	(7,230,357)	(1,153,992)	(1,129,659)	(7,230,357)	(1,153,992)	(1,129,659)
Other Expenses	-	(6,558,848)	(44,083)	-	(6,558,848)	(44,083)
TOTAL EXPENSES	(769,937,043)	(800,138,473)	(863,067,235)	(569,855,410)	(512,830,528)	(575,177,266)
SURPLUS/(DEFICIT)						
Retainable Earnings	3,232,038	4,556,607	(476,472)	3,232,038	4,556,607	(476,472)
Refundable Earnings	-	-	-	-	-	-
SURPLUS/(DEFICIT) FOR THE PERIOD	3,232,038	4,556,607	(476,472)	3,232,038	4,556,607	(476,472)