	NATO	NORTH ATLANTIC COUNCIL
	OTAN	CONSEIL DE L'ATLANTIQUE NORD

NATO UNCLASSIFIED
Releasable to Sweden

12 January 2024

DOCUMENT
PO(2023)0472-AS1 (INV)

**IBAN AUDIT REPORT ON THE 2022 FINANCIAL STATEMENTS OF IS, DCPS,
RMCF, MSIAC, NCPS, NFO AND DIANA**

ACTION SHEET

On 12 January 2024, under the silence procedure, the Council noted the RPPB report and the IBAN Audit Report attached to PO(2023)0472 (INV), approved the conclusions in the RPPB report, and approved the public disclosure of the 2022 Financial Statements of IS, DCPS, RMCF, MSIAC, NCPS, NFO and DIANA enclosed to PO(2023)0472 (INV).

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to PO(2023)0472 (INV).

NATO UNCLASSIFIED





NATO UNCLASSIFIED
Releasable to Sweden

20 December 2023

DOCUMENT
PO(2023)0472 (INV)
Silence Procedure ends:
12 Jan 2024 - 15:30

To: Permanent Representatives (Council)

From: Secretary General

**IBAN AUDIT REPORT ON THE 2022 FINANCIAL STATEMENTS OF IS, DCPS, RMCF,
MSIAC, NCPS, NFO AND DIANA**

1. I attach the Resource Policy and Planning Board (RPPB) report on the International Board of Auditors for NATO (IBAN) Audit Report on the 2022 Financial Statements of the NATO International Staff (IS), NATO Defined Contribution Pension Scheme (DCPS), NATO Retirees Medical Claims Fund (RMCF), Munitions Safety Information Analysis Center (MSIAC), NATO Coordinated Pension Scheme (NCPS), NATO FORACS Office (NFO), and Defence Innovation Accelerator for the North Atlantic (DIANA). The IBAN issued unqualified opinions on the Financial Statements and on compliance for the year ended 31 December 2022 of the IS, DCPS, RMCF, MSIAC, NCPS, NFO and DIANA.

2. I do not believe this issue requires further discussion in Council. Therefore, **unless I hear to the contrary by 15:30 hours on Friday, 12 January 2024**, I shall assume the Council noted the RPPB report and the IBAN Audit Report, approved the conclusions in the RPPB report, and approved the public disclosure of the 2022 Financial Statements of IS, DCPS, RMCF, MSIAC, NCPS, NFO and DIANA.

(Signed) Jens Stoltenberg

1 Annex
2 Enclosures

Original: English



**IBAN AUDIT REPORT ON THE 2022 FINANCIAL STATEMENTS OF IS, DCPS, RMCF,
MSIAC, NCPS, NFO AND DIANA**

Report by the Resource Policy and Planning Board (RPPB)

References:

A.	IBA-AR(2023)0015	IBAN Audit Report on the 2022 Financial Statements of the International Staff (IS) for the year ended on 31 December 2022
B.	IBA-AR(2023)0021	IBAN Audit Report on the 2022 Financial Statements of the NATO Defined Contribution Pension Scheme (DCPS) for the year ended on 31 December 2022
C.	IBA-AR(2023)0020	IBAN Audit Report on the 2022 Financial Statements of the Retirees Medical Claims Fund (RMCF) for the year ended on 31 December 2022
D.	IBA-AR(2023)0009	IBAN Audit Report on the 2022 Financial Statements of the Munitions Safety Information Analysis Center (MSIAC) for the year ended on 31 December 2022
E.	IBA-AR(2023)0019	IBAN Audit Report on the 2022 Financial Statements of the NATO Coordinated Pension Scheme (NCPS) for the year ended on 31 December 2022
F.	IBA-AR(2023)0010	IBAN Audit Report on the 2022 Financial Statements of the NATO FORACS Office (NFO) for the year ended on 31 December 2022
G.	IBA-AR(2023)0023	IBAN Audit Report on the 2022 Financial Statements of the DefenceInnovation Accelerator for the North Atlantic (DIANA) for the year ended on 31 December 2022
H.	PO(2022)0518	IBAN Audit Reports on the audit of 2021 Financial Statements of IS, DCPS, RMCF, MSIAC, NCPS and NFO
I.	C-M(2015)0025	NATO Financial Regulations (NFR)
J.	C-M(2016)0023	NATO Accounting Framework (NAF)
K.	PO(2015)0052	Wales Summit tasker on transparency and accountability

INTRODUCTION

1. This report by the Resource Policy and Planning Board (RPPB) addresses the IBAN Audit Reports on the 2022 Financial Statements of International Staff (IS), NATO Defined Contribution Pension Scheme (DCPS), Retirees Medical Claims Fund (RMCF), Munitions Safety Information Analysis Center (MSIAC), NATO Coordinated Pension Scheme (NCPS), NATO FORACS Office (NFO) and Defence Innovation Accelerator for the North Atlantic (DIANA). The IBAN issued unqualified opinions on the Financial Statements and on compliance for the year ended 31 December 2022 (references A to G).

2. In line with Financial Controller (FC) responsibilities laid out in Article 35 (FRPXXXV) of the NATO Financial Regulations (NFR) (reference I), the IS FC is accountable for signing and overseeing the development of the 2022 Financial Statements for all NATO reporting entities covered under this report.

3. To help NATO Nations distinguish among the seven different NATO reporting entities, the main highlights for the IS, DCPS, RMCF, MSIAC, NCPS, NFO and DIANA are covered in their respective Chapters.

AIM

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

OBSERVATIONS AND RPPB VIEW

5. During the audit of 2022 Financial Statements, the IBAN made in total three observations and recommendations for the IS, DCPS and DIANA. They relate to the need to strengthen internal controls concerning dual signature obligations and rights for bank transfers, improvement needed in the internal control process for the preparation of Financial Statements, and to the need to establish internal controls over the preparation of the Financial Statements, respectively. These observations and recommendations did not affect the audit opinion on the Financial Statements, neither on compliance.

6. Also, the IBAN followed up on the status of observations and recommendations from the previous years' audits and found that eight were in-progress, four were open and seven were closed in total for seven NATO entities. Observations are detailed in documents at reference A to G.

CHAPTER 1 IS

7. During the audit, IBAN made one observation and recommendation for the IS. The observation relates to the need to strengthen internal controls concerning dual signature obligations and rights for bank transfers. The IBAN followed up on the status of observations and recommendations from the previous years' audits and found that two were closed, two remain open and one remains in-progress. The IBAN closed observations related to the need for instruction on the implementation of extra duties allowance and on the need to strengthen internal controls over the preparation of the Financial Statements and the Budget Execution Statement. Observations are detailed in the document at reference A.

7.1. RPPB's view: The IBAN recommends that the IS strengthen internal controls concerning the principle of segregation of duties and specifically regarding the requirement of dual signature obligations and rights regarding bank transfers on Wells Fargo (WF) platform. In its formal comments, the IS disagreed with the observation and recommendation. According to the IS, they apply the principle of segregation of duties and the creation and dual signature of a payment file are duly separated. Although the WF platform processes a limited number of low value transactions, the IS indicated that dual

signature in WF will be implemented but with an additional cost. The IBAN acknowledges that the IS has put in place mitigating internal controls before the payment batches are run in the banking system. However, these controls do not preclude that one single person can perform bank transfers in the online banking system, which indicates an internal control weakness concerning the segregation of duties principle. Therefore, the RPPB supports IBAN's recommendation that the IS strengthen internal controls concerning the principle of segregation of duties and specifically regarding the requirement of dual signature obligations and rights regarding bank transfers.

CHAPTER 2 DCPS

8. In 2022, the IBAN made one observation and recommendation for the DCPS. The observation relates to the improvement needed in the internal control process for the preparation of Financial Statements. The IBAN followed up on the status of observations and recommendations from the previous years' audits and found that the remaining one was closed. The IBAN closed observation related to the insufficient evidence to support a receivable and provision in the Financial Statements. Observations are detailed in the document at reference B.

8.1. RPPB's view: The RPPB supports IBAN's recommendation that the Office of Financial Control (OFC) strengthen internal controls over the preparation of the Financial Statements when converting foreign currency balances into Euro.

CHAPTER 3 RMCF

9. During 2022, the IBAN made no observations and recommendations for the RMCF. The IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one was closed and two remain in-progress. The IBAN closed the observation associated with the need for NATO as a whole to disclose post-employment liabilities to comply with the NATO Accounting Framework (IPSAS 39 Employee Benefits). Observations are detailed in the document at reference C.

9.1. IBAN previous years' recommendations for RMCF in-progress or open for more than three years: For the 2012 financial year, the IBAN made an observation and recommendation on the RMCF net assets inadequate to fund promised future expected benefits. The RPPB notes that this recommendation still remains in-progress and recalls the discussion in the RPPB on 17 November 2022 when the RMCF presented its action plan to implement this recommendation in 2023. The RPPB welcomes the RMCF's efforts to continue applying remedial actions with the aim to address this IBAN recommendation in 2023, as set out in the action plan submitted last year.

CHAPTER 4 MSIAC

10. The IBAN made no observations and recommendations for the MSIAC during the 2022 financial year. The IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one was closed and one remains in-progress. The IBAN closed the observation on the improvement needed in the internal control process for the preparation of Financial Statements and the Statement of Budget Execution. Observations are detailed in the document at reference D.

10.1. IBAN previous years' observations and recommendations for MSIAC in-progress or open for more than three years: For the 2015 financial year, IBAN made an observation and recommendation on the efforts to achieve compliance with the revised NFR, particularly articles on internal control, risk management and internal audit.¹ Given that MSIAC Risk Management Policy, Procedures and Internal Controls as well as Risk Register were approved in March 2023, the IBAN closed its sub-recommendation that MSIAC issue a risk management policy and that risk registers are developed and employed. However, the sub-recommendation for the MSIAC to ensure internal audit activities are evaluating MSIAC risk management and internal control remained in-progress.

10.1.1. In order to implement this recommendation, the MSIAC Project Manager has sought the support of NATO's Office of Internal Audit and Risk Management (OIARM) whose Audit Plan is determined on a risk-based methodology and has not yet included the MSIAC in the internal audit activities. Furthermore, the RPPB notes that the MSIAC Project Manager will bring the matter of outsourcing an internal audit to the Steering Committee for consideration as an alternative to the OIARM activity.

10.1.2. RPPB's view: The RPPB notes that this recommendation still remains in-progress and recalls the discussion in the RPPB on 17 November 2022 when the RPPB concluded the following: *"taking into account that the NFRs requirements on internal audit are applicable for all NATO entities, the RPPB supports IBAN's recommendation that the MSIAC needs to comply with the NFRs Article 13 in relation to the internal audit and consequently recommend the MSIAC to continue with its efforts to achieve compliance with the NFRs"* (reference H). As the MSIAC is not operating within the RPPB conclusions, the RPPB considers that the MSIAC should urgently apply remedial actions in order to implement this recommendation as soon as possible.

¹ C-M(2018)0070-AS1; IBAN audit on the 2017, 2016 and 2015 financial statements of NATO Munitions Safety Information Analysis Centre (IBA-AR(2018)0001, paragraph 6); recommendation: *"The Board recommends that MSIAC...d) Through outsourcing if considered to be more cost effective, ensure internal audit activities are evaluating MSIAC risk management and internal control."*

CHAPTER 5 NCPS

11. For the financial year 2022, the IBAN made no observations and recommendations for the NCPS. The IBAN followed up on the status of observations and recommendations from the previous years' audits and found that two were closed, one remains open and two remain in-progress. In 2022, the IBAN closed the observation on the need for NATO as a whole to disclose post-employment liabilities to comply with the NATO Accounting Framework (NAF) (IPSAS 39 Employee Benefits) (reference J) and on the need to strengthen internal controls over the preparation of the Financial Statements and the Budget Execution Statement. Observations are detailed in the document at reference E.

CHAPTER 6 NFO

12. For the financial year 2022, IBAN made no observations and recommendations for the NFO. The IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one remains open and two remain in-progress. Observations are detailed in the document at reference F.

12.1. IBAN previous years' observations and recommendations to NFO in-progress or open for more than three years: For the 2015 financial year, IBAN made an observation and recommendation on the efforts to achieve compliance with the revised NFR, particularly articles on internal control, risk management and internal audit.² Therefore, the NFO Project Manager has sought the support of NATO OIARM to conduct an independent internal audit of the NFO's risk management and COSO Internal Control Framework. As the OIARM's Audit Plan is determined on a risk-based methodology, NFO will be included at an appropriate time. As no improvement has been made at the time of the audit, the sub-recommendation for the NFO to ensure internal audit activities are evaluating NFO risk management and internal control remained in-progress.

12.1.1. RPPB's view: The RPPB notes that this recommendation still remains in-progress and recalls the discussion in the RPPB on 17 November 2022 when the RPPB concluded the following: *"taking into account that the NFRs requirements on internal audit are applicable for all NATO entities, the RPPB supports IBAN's recommendation that the MSIAC needs to comply with the NFRs Article 13 in relation to the internal audit and consequently recommend the MSIAC to continue with its efforts to achieve compliance with the NFRs"* (reference H). The RPPB takes note that, according to IS, the OIARM recently started to conduct the internal audit engagement in NFO and therefore expects this recommendation to be implemented as soon as possible.

² C-M(2018)0032-AS1; IBAN audit on the 2015 and 2016 financial statements of the NATO FORACS Office; (IBA-AR(2017)22, paragraph 7, 4d): *"IBAN recommends that NFO...through outsourcing if considered to be more cost effective, ensure internal audit activities are evaluating NFO risk management and internal control."*

CHAPTER 7 DIANA

13. In 2022, the IBAN made one observation and recommendation for DIANA. The observation relate to the need to establish internal controls over the preparation of the Financial Statements. Observation is detailed in the document at reference G.

13.1. RPPB's view: The RPPB supports IBAN's recommendation that DIANA establish internal controls over the preparation of the Financial Statements to provide a reasonable basis for obtaining assurance that Financial Statements are free from material misstatements by ensuring compliance with the NAF and NFR.

CONCLUSIONS

IS

14. The IBAN issued an unqualified opinion on the Financial Statements and on compliance for the IS. One observation and recommendation was raised for the IS. As of the date of the IBAN Audit Report, two previous years' observations were closed, two remain open and one remains in-progress.

15. The RPPB notes that this recommendation is relevant only for one banking platform with limited transactions and limited access whose implementation will come with an additional cost. However, the RPPB supports IBAN's recommendation that the IS strengthen internal controls concerning dual signature obligations and rights for bank transfers.

DCPS

16. The IBAN issued an unqualified opinion on the Financial Statements and on compliance for the DCPS. The IBAN made one observation for the DCPS. As of the date of the IBAN Audit Report, the remaining observation and recommendation was closed.

17. The RPPB supports IBAN's recommendation that the OFC strengthen internal controls over the preparation of the Financial Statements when converting foreign currency balances into Euro.

RMCF

18. The IBAN issued an unqualified opinion on the Financial Statements and on compliance for the RMCF. The IBAN made no observations for the RMCF. As of the date of the IBAN Audit Report, one previous years' observations was closed and two remain in-progress.

19. The RPPB recalls the discussion in the RPPB on 17 November 2022 when the RMCF presented its action plan to implement the IBAN 2012 financial year recommendation in 2023. The RPPB welcomes the RMCF's efforts to continue applying remedial actions with an aim to address this recommendation in 2023, as set out in the action plan submitted last year.

MSIAC

20. The IBAN issued an unqualified opinion on the Financial Statements and on compliance for the RMCF. The IBAN made no observations for the MSIAC. As of the date of the IBAN Audit Report, one previous years' observation for the MSIAC was closed and one remains in-progress.

21. As per IBAN's financial year 2015 recommendation on the effort to achieve compliance with the revised NFR, particularly those Articles on internal control, risk management and internal audit, the RPPB recalls the discussion in the RPPB on 17 November 2022 and considers that the MSIAC should urgently apply remedial actions in order to implement this recommendation as soon as possible.

NCPS

22. The IBAN issued an unqualified opinion on the Financial Statements and on compliance for the NCPS. The IBAN made no observations for the NCPS. As of the date of the IBAN Audit Report, two previous years' observations for the NCPS were closed, two remain in-progress and one remains open.

NFO

23. The IBAN issued an unqualified opinion on the Financial Statements and on compliance for the NFO. The IBAN made no observations for the NFO. As of the date of the IBAN Audit Report, two previous years' observations for the NFO remain in-progress and one remains open.

24. As per IBAN's financial year 2015 recommendation on the effort to achieve compliance with the revised NFR, particularly those Articles on internal control, risk management and internal audit, the RPPB recalls the discussion in the RPPB on 17 November 2022 and expects the NFO to implement this recommendation as soon as possible.

DIANA

25. The IBAN issued an unqualified opinion on the Financial Statements and on compliance for the DIANA. One observation and recommendation was raised for the DIANA. The RPPB supports IBAN's recommendation that DIANA establish internal controls over the preparation of the Financial Statements to provide a reasonable basis for obtaining assurance that Financial Statements are free from material misstatements by ensuring compliance with the NAF and NFR.

RECOMMENDATIONS

26. The Resource Policy and Planning Board recommend that the Council;
- 26.1. note this report and the IBAN Audit Reports at reference A to G;
- 26.2. approve the conclusions at paragraphs 14 to 25;
- 26.3. approve the public disclosure of the 2022 Financial Statements of IS, DCPS, RMCF, MSIAC, NCPS, NFO and DIANA, the associated IBAN Audit Reports (reference A to G) and this report in line with agreed policy at reference K.



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

Brussels - Belgium



NATO UNCLASSIFIED

IBA-A(2023)0081
29 August 2023

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

Cc: NATO Permanent Representatives
Assistant Secretary General, Executive Management Division
Financial Controller, International Staff
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 International Staff's (IS) Financial Statements for the year ended 31 December 2022 – IBA-AR(2023)0015***

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

IBAN's report sets out an unqualified opinion on the Financial Statements of the International Staff (IS) and on compliance for financial year 2022.

Yours sincerely,

Radek Visinger
Chair

Attachments: As stated above.

NATO UNCLASSIFIED

-1-

**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Financial Statements of the
International Staff (IS)
for the year ended 31 December 2022**

The International Staff (IS) supports the work of the North Atlantic Council and its Committees. The total expenses disclosed in the 2022 Financial Statements was EUR 338 million.

IBAN issued an unqualified opinion on the Financial Statements and on compliance for the year ended 31 December 2022.

IBAN made one observation and recommendation. This observation does not impact the audit opinion on the financial statements and on compliance:

1. Need to strengthen internal controls concerning dual signature obligations and rights for bank transfers.

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

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

NATO UNCLASSIFIED

IBA-AR(2023)0015

29 August 2023

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE
INTERNATIONAL STAFF**

(IS)

FOR THE YEAR ENDED 31 DECEMBER 2022

PUBLICLY DISCLOSED - PDN(2024)0007 - MIS EN LECTURE PUBLIQUE

NATO UNCLASSIFIED

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

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of International Staff (IS), for the 12 month period ended 31 December 2022, issued under document reference FC(2023)0065, and submitted to IBAN on 31 March 2023. These Financial Statements comprise the Statement of Financial Position as at 31 December 2022, 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 2022, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a Budget Execution Statement for the 12 month period ended 31 December 2022.

In our opinion, the Financial Statements give a true and fair view of the financial position of International Staff (IS) as at 31 December 2022, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2022, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

Basis for Opinion on the Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies and reporting entities pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Organisation of Supreme Audit Institutions (INTOSAI) Principles as per our Charter, and standards consistent with the International Standards of Supreme Audit Institutions (ISSAI 2000-2899).

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter.

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

Management's Responsibility for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Compliance

Opinion on Compliance

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

Basis for Opinion on Compliance

We have conducted our compliance audit in accordance with the International Organisation of Supreme Audit Institutions (INTOSAI) Principles as per our Charter,

and standards consistent with the International Standards of Supreme Audit Institutions (ISSAI 4000-4899).

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

Management's Responsibility for Compliance

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

The Secretary General 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, 29 August 2023



Radek Visinger
Chair

OBSERVATIONS AND RECOMMENDATIONS

IBAN made one observation and recommendation. This observation does not impact the audit opinion on the Financial Statements and on compliance:

1. Need to strengthen internal controls concerning dual signature obligations and rights for bank transfers.

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

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

1. NEED TO STRENGTHEN INTERNAL CONTROLS CONCERNING DUAL SIGNATURE OBLIGATION AND RIGHTS FOR BANK TRANSFERS

Reasoning

1.1 According to Article 12.2. of the NATO Financial Regulations (NFRs) *"In order to meet the desired internal control standards the Financial Controller shall:*

(a) establish a system of internal financial and budgetary control, embracing all aspects of financial management including transactions for which appropriations have been approved and those funded from such non-appropriated fund accounts as they may authorize within their jurisdiction."

1.2 Article 12.3 of the NFRs states *that "Internal control activities shall include, but not be limited to: (a) segregation of duties; (...)"*

1.3 Article 31 of the NFRs further describes the principles concerning the deposit and investment of funds owned by NATO bodies.

1.4 The management of bank accounts and the aspects related to signature rights and reporting are further detailed under the NATO Financial Rules and Procedures (FRPs) section XXXI:

"Management of Bank Accounts

1)The Financial Controller shall be responsible for the establishment and overall management of all bank and short term low risk investment accounts to be operated by the Treasury and Disbursing Officers designated pursuant to FRP VI."

"Dual Signature

2) Transfers and withdrawals from bank and short term low risk investment accounts operated by Treasury and Disbursing Officers (where such posts exist) shall be authorised by two signatories designated by the Financial Controller.”

Observations

1.5 We identified one International Staff (IS) bank for which there was no requirement of dual signature for bank transfers in the online banking system. This bank account was opened in US Dollars and had a year-end balance of EUR 87,683.

1.6 The IS Accounts Payable service provides the Treasury service with a payment instruction file. This file is then signed outside the online banking system. Later, the transaction is signed in the banking system by the single designated authorised signatory.

1.7 Although IS has put in place mitigating internal controls, to be done before the payment batches run in the banking system, those do not preclude that one single person can perform bank transfers. This indicates an internal control weakness concerning the segregation of duties principle referred to under Article 12 of the NFRs and also not compliant with the provisions of the FRPs section XXXI (2).

Recommendations

1.8 IBAN recommends that the IS strengthen internal controls concerning the principle of segregation of duties and specifically regarding the requirement of dual signature obligations and rights (hard copy and online) regarding bank transfers.

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) IS FY 2021 IBA-AR(2022)0034, paragraph 1.8</p> <p>NEED TO STRENGTHEN INTERNAL CONTROLS OVER THE PREPARATION OF THE FINANCIAL STATEMENTS AND THE BUDGET EXECUTION STATEMENT</p> <p>IBAN's Recommendation IBAN recommends that International Staff (IS):</p> <p>a) Strengthen internal controls over the preparation of the financial statements to provide a reasonable basis for obtaining assurance that financial statements are in compliance with the NATO Accounting Framework and NATO Financial Regulations.</p> <p>b) Clarify the internal control process related to the approval of cash at bank and investment transfers between NATO Reporting Entities within the responsibilities of the OFC, by ensuring that this process and associated rules are included in a written procedure approved by the Head of the NATO Body.</p>	<p>a) No errors were identified during this year's audit, which indicates that internal controls have been strengthened.</p> <p>b) IS has approved written procedures to address the investment transfers between NATO Reporting Entities.</p>	<p>Observation Closed.</p>
<p>(2) IS FY 2021 IBA-AR(2022)0034, paragraph 2.9</p> <p>EMPLOYEE NOTE DISCLOSURE CANNOT BE RECONCILED TO INFORMATION PROVIDED BY HUMAN RESOURCES</p> <p>IBAN's Recommendation IBAN recommends that the International Staff (IS) improve the effectiveness of internal controls over the preparation of the note of the financial statements on employee disclosure. This can be achieved by developing a quality control checklist to document the reconciliation exercise between the employee disclosures in the financial statements and supporting evidence provided by the Human Resources Division.</p>	<p>The note on employee disclosure in the IS 2022 financial statements cannot be reconciled to information provided by Human Resources.</p>	<p>Observation Open.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(3) IS FY 2021 IBA-AR(2022)0034, paragraph 3.9</p> <p>STANDARDISATION OF THE OVERTIME PLANNING, RECORDING AND APPROVAL PROCESSES</p> <p>IBAN's Recommendation IBAN recommends that International Staff (IS) Human Resources to:</p> <p>a) Standardise the overtime planning, review and approval process across IS and establish overtime guidelines.</p> <p>b) Ensure that the planning, review and approval of overtime are performed in the ERP system. The ERP system should be adapted to accommodate the requirement to manage the overtime of all Divisions/Independent Offices and the HQ Security Force in the system.</p> <p>c) Ensure that the respective responsibilities of IS Human Resources and Divisions/Independent Offices be made clear in the overtime guidelines with regard to overtime being authorised in advance, and overtime hours worked entered into the ERP system on a weekly basis and matched to the overtime hours planned and approved.</p> <p>d) Review the current regulation in the CPRs Article 17.2.2 in order to provide clarification in which exceptional circumstances and events a staff member can be allowed to work more than 15 hours overtime in any one week, or more than 30 hours in any one month, taking into consideration the health and safety aspects generated by the overtime.</p>	<p>a) to d) The IS informed us that due to workload issues and understaffing in both the NATO Office of Security (NOS) and EM-HR, this work has not started.</p>	<p>Observation Open.</p>
<p>(4) IS FY 2020 IBA-AR(2021)0034, paragraph 1.7</p> <p>NEED FOR INSTRUCTION ON THE IMPLEMENTATION OF EXTRA DUTIES ALLOWANCE</p> <p>IBAN's Recommendation IBAN recommends that IS Human Resources (HR) issue instructions regarding the implementation of extra duties allowances as per Article 32 in the</p>	<p>IS HR issued an Office Notice (ON) in December 2022 (ON(2022)0059) on Extra Duties Allowance. This ON</p>	<p>Observation Closed.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
CPRs. The instructions should include clearly defined criteria in order to assess which duties and responsibilities a staff member replacing an incumbent can assume and for what period of time.	sets out the criteria in order to assess which duties and responsibilities a staff member replacing an incumbent can assume and for what period of time.	
<p>(5) IS FY 2019 IBA-AR(2020)0013, paragraph 3</p> <p>UNRECONCILED CASH AND CASH EQUIVALENTS</p> <p>IBAN's Recommendation IBAN recommends that IS should:</p> <p>a) Verify the amounts reported by NATO Satellite Offices before the issuance of the financial statements.</p> <p>b) Ensure that the month-end petty cash balances of NATO Satellite Offices do not exceed the EUR 500 ceiling and are zero on 31 December each year.</p> <p>c) Write-off the loss in petty cash Account n° 570104, after a full investigation as required by article 17 of the NFRs.</p>	<p>a) This year, No errors were identified, which indicates that the amounts reported were verified before the issuance of the financial statements. Observation: Closed.</p> <p>b) We found instances where the NATO Satellite Offices Petty Cash balances on 31 December 2021 was not zero. Observation: In-Progress.</p> <p>c) This sub-observation was closed in IBA-AR(2021)0034. Observation: Closed.</p>	<p>Observation In-Progress.</p>

INTERNATIONAL STAFF (IS) FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

OBSERVATION 1: NEED TO STRENGTHEN INTERNAL CONTROLS CONCERNING DUAL SIGNATURE OBLIGATION AND RIGHTS FOR BANK TRANSFERS

IS' Formal Comments

Not Agreed.

The IS disagrees with the observation and recommendation.

NATO IS applies the principle of segregation of duties; the creation and dual signature of a payment file is duly separated.

NATO IS has a modus operandi that is in line with the Financial Rules and Procedures (FRP XXXI (2)). This modus operandi is established considering NFR Article 4 whereby the financial administration ensures the most efficient, cost effective and economic use of resources.

IBAN's Position

IBAN acknowledges that IS has put in place mitigating internal controls before the payment batches are run in the banking system. However, these controls do not preclude that one single person can perform bank transfers in the online banking system, which indicates an internal control weakness concerning the segregation of duties principle. IBAN therefore maintains its recommendation.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(1) IS FY 2021

IBA-AR(2022)0034, paragraph 1.8

NEED TO STRENGTHEN INTERNAL CONTROLS OVER THE PREPARATION OF THE FINANCIAL STATEMENTS AND THE BUDGET EXECUTION STATEMENT

IS' Formal Comments

Agreed.

None.

(2) IS FY 2021

IBA-AR(2022)0034, paragraph 2.9

EMPLOYEE NOTE DISCLOSURE CANNOT BE RECONCILED TO INFORMATION PROVIDED BY HUMAN RESOURCES

IS' Formal Comments

Agreed.

EM-HR considers the matter of urgency and in this respect a new Team Data Analytics is established within EM-HR to address the issue of data quality and consistency with HR data coming from different disconnected IT Tools.

(3) IS FY 2021

IBA-AR(2022)0034, paragraph 3.9

STANDARDISATION OF THE OVERTIME PLANNING, RECORDING AND APPROVAL PROCESSES

IS' Formal Comments

Agreed.

EM-HR initiated steps in addressing the recommendation.

Taking into consideration the priority areas of EM-HR and NOS, it is expected that the matter will be addressed by June 2025.

The overall objective remains to have overtime of all staff managed in the same way through the ERP.

This requires to develop and implement guidelines, setting up systems, testing and implementation.

(4) IS FY 2020

IBA-AR(2021)0034, paragraph 1.7

NEED FOR INSTRUCTION ON THE IMPLEMENTATION OF EXTRA DUTIES ALLOWANCE

IS' Formal Comments

Agreed.

None.

(5) IS FY 2019
IBA-AR(2020)0013, paragraph 3
UNRECONCILED CASH AND CASH EQUIVALENTS

IS' Formal Comments

Agreed.

As part of the year end closing process, NATO IS reminds and instructs the divisions and NASOs to bring the petty cash balances of the NATO Satellite Offices to zero at year end.

The situation in Ukraine prevented staff to deposit the cash holdings in the bank account.

Additionally, the OFC envisages to update of the NASO handbook in line with good business practices and the specificities of the different NASOs.

GLOSSARY OF TERMS

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

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

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

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



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

Brussels - Belgium



NATO UNCLASSIFIED

IBA-A(2023)0080
29 August 2023

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

Cc: NATO Permanent Representatives
Assistant Secretary General, Executive Management Division
Financial Controller, International Staff
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 Defined Contribution Pension Scheme's (DCPS) Financial Statements for the year ended 31 December 2022 – IBA-AR(2023)0021***

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

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO DCPS and on compliance for financial year 2022.

Yours sincerely,

Radek Visinger
Chair

Attachments: As stated above.

NATO UNCLASSIFIED

-1-

**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Financial Statements of the
NATO Defined Contribution Pension Scheme (DCPS)
for the year ended 31 December 2022**

The International Board of Auditors for NATO (IBAN) audited the NATO Defined Contribution Pension Scheme (DCPS), which is a money purchase pension scheme that includes contributions from staff recruited on or after 1 July 2005, as well as employer contributions from NATO. The value of the NATO DCPS's net assets available for benefits at 31 December 2022 was EUR 680 million (at the end of 2021, EUR 743 million). The DCPS had 5,483 members at 31 December 2022 (at the end of 2021, 5,162 members).

IBAN issued an unqualified opinion on the Financial Statements and on compliance for the year ended 31 December 2022.

IBAN made one observation and recommendation. This observation does not impact the audit opinion on the Financial Statements and on compliance:

1. Improvement needed in the internal control process for the preparation of financial statements.

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

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

NATO UNCLASSIFIED

IBA-AR(2023)0021

29 August 2023

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE

NATO DEFINED CONTRIBUTION PENSION SCHEME

(DCPS)

FOR THE YEAR ENDED 31 DECEMBER 2022

PUBLICLY DISCLOSED - PDN(2024)0007 - MIS EN LECTURE PUBLIQUE

NATO UNCLASSIFIED

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

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of the NATO Defined Contribution Pension Scheme (DCPS), for the 12 month period ended 31 December 2022, issued under document reference FC(2023)0060, and submitted to IBAN on 31 March 2023. These Financial Statements comprise the Statement of Net Assets Available for Benefits as at 31 December 2022, the Statement of Changes in Net Assets Available for Benefits for the period ended 31 December 2022 and the Explanatory Notes, including a summary of significant accounting policies.

In our opinion, the Financial Statements give a true and fair view of the Statement of Net Assets Available for Benefits of the NATO Defined Contribution Pension Scheme as at 31 December 2022, and of its Statement of Changes in Net Assets Available for Benefits for the period ended 31 December 2022, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF) including via the hierarchy in International Public Sector Accounting Standards (IPSAS) 3 with International Accounting Standard (IAS) 26, Accounting and Reporting by Retirement Benefit Plans.

Basis for Opinion on the Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies and reporting entities pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Organisation of Supreme Audit Institutions (INTOSAI) Principles as per our Charter, and standards consistent with the International Standards of Supreme Audit Institutions (ISSAI 2000-2899).

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter.

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

Management's Responsibility for the Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of the NATO Defined Contribution Pension Scheme are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council and International Accounting Standard (IAS) 26, Accounting and Reporting by Retirement Benefit Plans. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31 March following the end of the financial year.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional

omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Compliance

Opinion on Compliance

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

Basis for Opinion on Compliance

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

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

Management's Responsibility for Compliance

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

The Secretary General 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, 29 August 2023



Radek Visinger
Chair

OBSERVATIONS AND RECOMMENDATIONS

IBAN made one observation and recommendation. This observation does not impact the audit opinion on the Financial Statements and on compliance:

1. Improvement needed in the internal control process for the preparation of financial statements.

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

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

1. IMPROVEMENT NEEDED IN THE INTERNAL CONTROL PROCESS FOR THE PREPARATION OF FINANCIAL STATEMENTS

Reasoning

1.1 According to IPSAS 1, the *“Financial Statements shall present fairly the Financial Position, Financial Performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSAS.”*

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

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

Observations

1.4 The Office of Financial Control (OFC) converts foreign currency bank balances into Euro using the NATO parity rates at year-end. We found that for one DCPS bank account, the conversion from Turkish Lira to Euro was not correct as a subsequent journal entry that was not included in the final revaluation.

1.5 The impact in the Statement of Net Assets Available for Benefits is as follows: 'Cash and cash equivalents' is overstated by EUR 22,650 and 'Cumulated surplus unrealized financial results' is understated by same the amount.

Recommendations

1.6 IBAN recommends that the OFC strengthen internal controls over the preparation of the financial statements when converting foreign currency balances into Euro.

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) DCPS FY 2015 IBA-AR(2016)28, paragraph 3</p> <p>INSUFFICIENT EVIDENCE TO SUPPORT A RECEIVABLE AND PROVISION IN THE FINANCIAL STATEMENTS</p> <p>IBAN's Recommendation The Board recommends the Secretary General, responsible for the administration and management of the DCPS, review this situation as soon as possible in order to clarify NATO's agreement to this proposed compensation, which NATO reporting entity has the right to it, and, if received, who the funds should ultimately be returned to (e.g. nations, DCPS participants, etc.).</p>	<p>In December 2018, the Secretary General recommended that one third of the compensatory payment from the Insurer (EUR 1.726 million) should be distributed to those affiliates who actively contributed to the major risk insurance during the period between 1 January 2012 and 31 December 2015. This amount was paid by the Insurer to DCPS in May 2019.</p>	<p>Observation Closed.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
	<p>The DCPS Action Plan, AC/335-D(2022)0055 (INV), was presented to the Resource Policy and Planning Board (RPPB) on 17 November 2022. The RPPB concluded that, in their view, sufficient work had been done to close the recommendation.</p> <p>As the remaining balance is not significant, we have concluded that this recommendation can be closed.</p> <p>Observation: Closed</p>	

**INTERNATIONAL STAFF (IS) FORMAL COMMENTS ON THE AUDIT REPORT
AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS**

**OBSERVATION 1:
IMPROVEMENT NEEDED IN THE INTERNAL CONTROL PROCESS FOR THE
PREPARATION OF FINANCIAL STATEMENTS**

IS' Formal Comments

Agreed.

The OFC agrees with the IBAN recommendation to strengthen the internal controls over the preparation of the financial statements.

The OFC will continue to further increase and strengthen its internal controls.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(1) DCPS FY 2015

IBA-AR(2016)0028, paragraph 3

**INSUFFICIENT EVIDENCE TO SUPPORT A RECEIVABLE AND PROVISION IN
THE FINANCIAL STATEMENTS**

IS' Formal Comments

Agreed.

None.

GLOSSARY OF TERMS

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

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

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

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



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

Brussels - Belgium



NATO UNCLASSIFIED

IBA-A(2023)0083
29 August 2023

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

Cc: NATO Permanent Representatives
Assistant Secretary General, Executive Management Division
Financial Controller, International Staff
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 Retirees Medical Claim Fund's (RMCF) Financial Statements for the year ended 31 December 2022 – IBA-AR(2023)0020***

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

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO Retirees Medical Claim Fund (RMCF) and on compliance for financial year 2022.

Yours sincerely,

Radek Visinger
Chair

Attachments: As stated above.

NATO UNCLASSIFIED

-1-

**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Financial Statements of the
NATO Retirees Medical Claims Fund (RMCF)
for the year ended 31 December 2022**

The NATO Retirees Medical Claims Fund (RMCF) was set up with effect from 1 January 2001 pursuant to Council approval of PO(2000)123. The purpose was to establish a reserve to ensure that sufficient funds are available for the years to come to enable NATO to meet its obligations to pay the medical expenses of eligible retired staff members and their recognised dependants.

The fund has a Supervisory Committee established to oversee the management of the fund. The Committee meets at least twice a year.

In 2022, contributions from NATO Reporting Entities and staff were EUR 35 million. Insurance premiums paid out of these receipts were EUR 32 million in 2022. At the end of 2022, the fund manager held EUR 366 million on behalf of NATO.

IBAN issued an unqualified opinion on the Financial Statements and on compliance for the year ended 31 December 2022.

IBAN made no observations and recommendations.

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

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

NATO UNCLASSIFIED

IBA-AR(2023)0020

29 August 2023

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE

NATO RETIREES MEDICAL CLAIMS FUND

(RMCF)

FOR THE YEAR ENDED 31 DECEMBER 2022

PUBLICLY DISCLOSED - PDN(2024)0007 - MIS EN LECTURE PUBLIQUE

NATO UNCLASSIFIED

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

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of the NATO Retirees Medical Claims Fund (RMCF), for the 12 month period ended 31 December 2022, issued under document reference FC(2023)0074, and submitted to IBAN on 31 March 2023. These Financial Statements comprise the Statement of Net Assets Available for Benefits as at 31 December 2022, the Statement of Changes in Net Assets Available for Benefits for the period ended 31 December 2022 and the Explanatory Notes, including a summary of significant accounting policies.

In our opinion, the Financial Statements give a true and fair view of the Statement of Net Assets Available for Benefits of the NATO Retirees Medical Claims Fund as at 31 December 2022, and of its Statement of Changes in Net Assets Available for Benefits for the period ended 31 December 2022, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF) including via the hierarchy in International Public Sector Accounting Standards (IPSAS) 3 with International Accounting Standard (IAS) 26, Accounting and Reporting by Retirement Benefit Plans.

Basis for Opinion on the Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies and reporting entities pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Organisation of Supreme Audit Institutions (INTOSAI) Principles as per our Charter, and standards consistent with the International Standards of Supreme Audit Institutions (ISSAI 2000-2899).

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter.

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

Management's Responsibility for the Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of RMCF 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 31 March following the end of the financial year.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional

omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Compliance

Opinion on Compliance

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

Basis for Opinion on Compliance

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

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

Management's Responsibility for Compliance

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

The Secretary General 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, 29 August 2023



Radek Visinger
Chair

OBSERVATIONS AND RECOMMENDATIONS

IBAN made no observations and recommendations.

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

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

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) RMC FY 2020 IBA-AR(2021)0035, paragraph 1</p> <p>DISCLOSURE OF PRIOR PERIOD ERRORS IN THE ESTIMATION OF THE POST-EMPLOYMENT MEDICAL SCHEME OBLIGATION</p> <p>IBAN's Recommendation IBAN recommends the IS to strengthen internal controls over the reporting of Post-Employment Obligations by establishing and documenting a procedure which:</p> <p>a) Introduces specific internal controls over the completeness and accuracy of data provided to the ISRP for the annual actuarial report;</p> <p>b) Ensures the availability of a complete audit trail of all data received from NATO entities and sent</p>	<p>a) and b) The Human Resources Division is working on a methodology to ensure the completeness and accuracy of the data provided by other NATO bodies on the number of affiliates to the RMC. This is in order to improve the quality of data</p>	<p>Observation: In-Progress.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
to the ISRP as input for the preparation of the annual actuarial report;	provided to the International Service for Remunerations and Pensions (ISRP). To date, no formal information has been provided to IBAN or the Office of Financial Control on this matter. As a result, IBAN will review progress on the implementation of this recommendation as part of its audit of the RMCF 2023 Financial Statements. Observation: Open.	
c) Strengthens existing internal controls over the financial reporting process in order to disclose key information included in the annual actuarial report prepared by the ISRP.	c) This sub-observation was closed in IBA-AR(2022)0025. Observation: Closed.	
<p>(2) RMCF FY 2018 IBA-AR(2019)0026, paragraph 1</p> <p>NEED FOR NATO AS A WHOLE TO DISCLOSE POST-EMPLOYMENT LIABILITIES TO COMPLY WITH THE NATO ACCOUNTING FRAMEWORK (IPSAS 39 EMPLOYEE BENEFITS)</p> <p>IBAN's Recommendation IBAN recommends that the IS OFC, being the Financial Controller of the RMCF, define the recognition criteria for the post-employment liability, ensuring that this liability is recognised in accordance with the NATO Accounting Framework (IPSAS 39 Employee Benefits).</p>	<p>On 16 June 2023, Council approved (PO(2023)0194-AS1 (INV)) that <i>"In order to address the IBAN's observation on disclosure of post-employment liabilities, [...] individual NATO bodies should not recognise their share of the post-employment liability and the IS OFC should continue with the current practice to centrally disclose post-employment pension and medical care accrued liabilities in the notes to the financial statements of the [...] RMCF."</i></p> <p>Taking into account the above Council decision, IBAN concludes that this recommendation can be closed.</p>	Observation: Closed.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(3) RMCF FY 2012 IBA-AR(2013)0025, paragraph 5</p> <p>RETIREES MEDICAL CLAIMS FUND (RMCF) NET ASSETS INADEQUATE TO FUND PROMISED FUTURE EXPECTED BENEFITS</p> <p>IBAN's Recommendation The Board draws the attention of the Council that there are currently not sufficient funds available to enable NATO to meet its promised future obligations as was the intention of the plan, and recommends that, as was proposed in SG(2009)0302, on the basis of the results of the asset and liability study presented in the December 2012 Supervisory Committee and the related final report issued dated 30 April 2013, that the IS provides an estimate of the minimum financial injection necessary to make the RMCF sustainable.</p> <p>The Board recommends also that the IS provides all necessary information and any remedial actions undertaken to limit the level of obligations. This should be presented to the nations as soon as possible in order to allow for appropriate remedial actions, where still feasible, to be made.</p>	<p>The Supervisory Committee of the RMCF has requested to the International Service for Remunerations and Pensions (ISRP) an update of the RMCF Asset and Liability Management study ('Estimated future expenses versus income and Investment Return').</p> <p>A preliminary report was delivered to the Supervisory Committee in May 2022 by ISRP. The draft study, document: RMCF-N(2022)0004 was discussed during supervisory committee meeting on 12 December 2022. The draft report considers the evolution of the fund since 2013 and considers various scenarios, and presents several conclusions. It notes that close supervision of costs is recommended with the insurance service provider, that the cost of reimbursement can be reduced by claiming through the national insurance before asking for the top-up benefit from the insurance service provider and that an increase in contributions from active staff and pensioners can help ease the future financial burden. Since the process remains in the study phase, remedial actions undertaken to limit the level of obligations have not yet been implemented. As a result, IBAN will review progress on the implementation of this recommendation as part of its audit of the RMCF 2023 Financial Statements.</p>	<p>Observation: In-Progress.</p>

**INTERNATIONAL STAFF (IS) FORMAL COMMENTS ON THE AUDIT REPORT
AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS**

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(1) RMCF FY 2020

IBA-AR(2021)0035, paragraph 1

**DISCLOSURE OF PRIOR PERIOD ERRORS IN THE ESTIMATION OF THE POST-
EMPLOYMENT MEDICAL SCHEME OBLIGATION**

IS' Formal Comments

Agreed.

EM considers the matter of urgency and in this respect a new Team Data Analytics is established within EM-HR to address the issue of data quality and consistency with HR data coming from different disconnected IT Tools.

Nevertheless, it is to be noted that data entered into PMIS are under the responsibility of the HR offices in NATO bodies. While IS can access and extract the information from PMIS, IS is not in the position to scrutinize the local situation of each NATO body and specific payroll centre. Each payroll centre closely administers their individual data.

(2) RMCF FY 2018

IBA-AR(2019)0026, paragraph 1

**NEED FOR NATO AS A WHOLE TO DISCLOSE POST-EMPLOYMENT
LIABILITIES TO COMPLY WITH THE NATO ACCOUNTING FRAMEWORK
(IPSAS 39 EMPLOYEE BENEFITS)**

IS' Formal Comments

Agreed.

None.

(3) RMCF FY 2012

IBA-AR(2013)25, paragraph 5

**RETIREES MEDICAL CLAIMS FUND (RMCF) NET ASSETS INADEQUATE TO
FUND PROMISED FUTURE EXPECTED BENEFITS**

IS' Formal Comments

Agreed.

As a result of previous IBAN observations, the Organisation has implemented remedial actions (cost containment in medical reimbursement as of 1 January 2016), increased the number of contributors (change in the NCPR, approved by the NAC, as of 1 August 2016), and monitored the evolution of the fund via an update of the ISRP study.

The JCB discussed the matter in its meeting of 30 March 2023, and it was agreed that work is launched by year-end 2023 to assess possible mitigating measures to be implemented to address the matter.

GLOSSARY OF TERMS

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

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

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

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



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

Brussels - Belgium



NATO UNCLASSIFIED

IBA-A(2023)0070
29 August 2023

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

Cc: NATO Permanent Representatives
Chair, MSIAC Steering Committee
Project Manager, MSIAC
Financial Controller, International Staff
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 Munitions Safety Information Analysis Center's (MSIAC) Financial Statements for the year ended 31 December 2022 – IBA-AR(2023)0009***

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

IBAN's report sets out an unqualified opinion on the Financial Statements of the MSIAC and on compliance for financial year 2022.

Yours sincerely,

Radek Visinger
Chair

Attachments: As stated above.

NATO UNCLASSIFIED

-1-

**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Financial Statements of the
Munitions Safety Information Analysis Center (MSIAC)
for the year ended 31 December 2022**

The Munitions Safety Information Analysis Center (MSIAC) provides a focal point within NATO to assist national and NATO munitions development programmes. The MSIAC project is directed and administered by a Steering Committee and a Project Manager. Budget authorisations for the year 2022 (including amounts brought forward) amounted to EUR 2 million, while budget expenditure amounted to EUR 2 million.

IBAN made no observations and recommendations.

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

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

NATO UNCLASSIFIED

IBA-AR(2023)0009

29 August 2023

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE
MUNITIONS SAFETY INFORMATION ANALYSIS CENTER**

(MSIAC)

FOR THE YEAR ENDED 31 DECEMBER 2022

PUBLICLY DISCLOSED - PDN(2024)0007 - MIS EN LECTURE PUBLIQUE

NATO UNCLASSIFIED

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

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of MSIAC, for the 12 month period ended 31 December 2022, issued under document reference FC(2023)0055, and submitted to IBAN on 28 March 2023. These Financial Statements comprise the Statement of Financial Position as at 31 December 2022, 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 2022, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a Budget Execution Statement for the 12 month period ended 31 December 2022.

In our opinion, the Financial Statements give a true and fair view of the financial position of MSIAC as at 31 December 2022, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2022, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

Basis for Opinion on the Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies and reporting entities pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Organisation of Supreme Audit Institutions (INTOSAI) Principles as per our Charter, and standards consistent with the International Standards of Supreme Audit Institutions (ISSAI 2000-2899).

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter.

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

Management's Responsibility for the Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of MSIAC 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 Project Manager and the Financial Controller. In signing the Financial Statements, the Project Manager and the Financial Controller confirm the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Compliance

Opinion on Compliance

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

Basis for Opinion on Compliance

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

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

Management's Responsibility for Compliance

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

The Project Manager 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, 29 August 2023



Radek Visinger
Chair

OBSERVATIONS AND RECOMMENDATIONS

IBAN made no observations and recommendations.

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

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

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) MSIAC FY 2020 IBA-AR(2021)0025, paragraph 1</p> <p>IMPROVEMENT NEEDED IN THE INTERNAL CONTROL PROCESS FOR THE PREPARATION OF FINANCIAL STATEMENTS AND THE STATEMENT OF BUDGET EXECUTION</p> <p>IBAN's Recommendation IBAN recommends that MSIAC improves internal controls and develops cross review procedures of its final Financial Statements before their issuance, to be able to correct potential errors and ensure accuracy of information disclosed in MSIAC Financial Statements.</p>	<p>No errors were identified during this year's audit.</p>	<p>Observation Closed.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(2) MSIAC FY 2015 IBA-AR(2018)0001, paragraph 6</p> <p>EFFORTS TO ACHIEVE COMPLIANCE WITH THE REVISED NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT</p> <p>IBAN's Recommendation IBAN recommends that MSIAC:</p> <p>a) Issues a risk management policy and that risk registers are developed and employed.</p> <p>b) As required by FRP XII 3) (e), chooses a specific internal control framework that it will use to assess its system of internal control. The assessment is required by Article 12 of the NFRs. Since other NATO entities, including ACT and NAPMA, have already adopted COSO as their internal control framework, and it is a framework that can be used by entities of all sizes, MSIAC should consider adopting COSO as their internal control framework.</p> <p>c) In coordination with the International Staff where applicable, begins the work of assessing and documenting the system of internal control and risk management procedures to support compliance with NFR Articles 11 and 12, FRPs XI and XII, and the internal control framework that it chooses.</p> <p>d) Through outsourcing if considered to be more cost effective, ensure internal audit activities are evaluating MSIAC risk management and internal control.</p>	<p>a) In March 2022, MSIAC completed the MSIAC Risk Management Policy, Procedures and Internal Controls. A formal Risk Register document was also finalised. Both were approved in March 2023. Observation: Closed.</p> <p>b) This sub-observation was closed in IBA-AR(2021)0025. Observation: Closed.</p> <p>c) This sub-observation was closed in IBA-AR(2022)0008. Observation: Closed.</p> <p>d) IBAN notes that the MSIAC Project Manager has engaged with the Head of NATO's Office of Internal Audit and Risk Management (OIARM) regarding an independent assessment of the COSO Internal Control framework adopted by MSIAC. As the OIARM's Audit Plan is determined on a risk-based</p>	<p>Observation In-Progress.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
	methodology, MSIAC will be included at an appropriate time. IBAN will reassess the progress done by MSIAC as part of the audit of the 2023 Financial Statements. Observation: In-progress.	

**MUNITIONS SAFETY INFORMATION ANALYSIS CENTER (MSIAC) AND
INTERNATIONAL STAFF (IS) FORMAL COMMENTS ON THE AUDIT REPORT
AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS**

MSIAC's Formal comments

MSIAC concurred with the findings and had no further comments on the report and previous year observations.

IS' Formal Comments

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(1) MSIAC FY 2020

IBA-AR(2021)0025, paragraph 1

**IMPROVEMENT NEEDED IN THE INTERNAL CONTROL PROCESS FOR THE
PREPARATION OF FINANCIAL STATEMENTS AND THE STATEMENT OF
BUDGET EXECUTION**

IS' Formal Comments

Agreed.

None.

(2) MSIAC FY 2015

IBA-AR(2018)0001, paragraph 6

**EFFORTS TO ACHIEVE COMPLIANCE WITH THE REVISED NATO FINANCIAL
REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL,
RISK MANAGEMENT AND INTERNAL AUDIT**

IS' Formal Comments

Recommendation a): Agreed.

None.

Recommendation d): Not agreed.

Regarding internal audit activities, action in respect of this recommendation is considered complete.

OIARM's Audit Plan is determined on a risk-based methodology and MSIAC has not yet been included in the internal audit activities.

The MSIAC PM will bring the matter of outsourcing an internal audit to the

Steering Committee for consideration as an alternative to the OIARM activity.

IBAN's Position

The IS Office of Internal Audit and Risk Management (OIARM) may provide outsourced audit services to MSIAC according to the NFRs. As MSIAC is a separate reporting entity from IS, MSIAC needs to ensure that internal audit activities are conducted to evaluate its risk management and internal control based on its own risk-based methodology. IBAN therefore maintains its recommendation.

GLOSSARY OF TERMS

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

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

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

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



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

Brussels - Belgium



NATO UNCLASSIFIED

IBA-A(2023)0079
29 August 2022

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

Cc: NATO Permanent Representatives
Assistant Secretary General, Executive Management Division
Financial Controller, International Staff
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 Coordinated Pension Scheme's (DBPS) Financial Statements for the year ended 31 December 2022 – IBA-AR(2023)0019***

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

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO Coordinated Pension Scheme and on compliance for financial year 2022.

Yours sincerely,

Radek Visinger
Chair

Attachments: As stated above.

NATO UNCLASSIFIED

-1-

**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Financial Statements of the
NATO Coordinated Pension Scheme (DBPS)
for the year ended 31 December 2022**

The NATO Coordinated Pension Scheme is an unfunded, defined benefit plan and applies to all NATO Staff recruited between 1 July 1974 and 30 June 2005. Members of staff recruited prior to July 1974 are members of the Provident Fund. Staff members recruited after 1 July 2005 are members of the Defined Contribution Pension Scheme.

The NATO Member states jointly guarantee the payment of benefits. The total net decrease in net assets under the Pension Scheme for 2022 amounted to EUR 10 million.

IBAN issued an unqualified opinion on the financial statements and on compliance for the year ended 31 December 2022.

IBAN made no observations and recommendations.

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

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

NATO UNCLASSIFIED

IBA-AR(2023)0019

29 August 2023

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE
NATO COORDINATED PENSION SCHEME (DBPS)
FOR THE YEAR ENDED 31 DECEMBER 2022**

PUBLICLY DISCLOSED - PDN(2024)0007 - MIS EN LECTURE PUBLIQUE

NATO UNCLASSIFIED

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

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of the NATO Coordinated Pension Scheme, also referred to as the Defined Benefit Pension Scheme (DBPS), for the 12 month period ended 31 December 2022, issued under document reference FC(2023)0071, and submitted to IBAN on 31 March 2023. These Financial Statements comprise the Statement of Net Assets Available for Benefits as at 31 December 2022, the Statement of Changes in Net Assets Available for Benefits for the period ended 31 December 2022 and the Explanatory Notes, including a summary of significant accounting policies.

In our opinion, the Financial Statements give a true and fair view of the Statement of Net Assets Available for Benefits of the NATO Coordinated Pension Scheme as at 31 December 2022, and of its Statement of Changes in Net Assets Available for Benefits for the period ended 31 December 2022, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF) including via the hierarchy in International Public Sector Accounting Standards (IPSAS) 3 with International Accounting Standard (IAS) 26, Accounting and Reporting by Retirement Benefit Plans.

Basis for Opinion on the Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies and reporting entities pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Organisation of Supreme Audit Institutions (INTOSAI) Principles as per our Charter, and standards consistent with the International Standards of Supreme Audit Institutions (ISSAI 2000-2899).

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter.

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

Management's Responsibility for the Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of NATO Coordinated Pension Scheme are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council and International Accounting Standard (IAS) 26, Accounting and Reporting by Retirement Benefit Plans. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31st March following the end of the financial year.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional

omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Compliance

Opinion on Compliance

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

Basis for Opinion on Compliance

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

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

Management's Responsibility for Compliance

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

The Secretary General 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, 29 August 2023



Radek Visinger
Chair

OBSERVATIONS AND RECOMMENDATIONS

IBAN made no observations and recommendations.

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

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

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) DBPS FY 2021 IBA-A(2022)0023, paragraph 1</p> <p>NEED TO STRENGTHEN INTERNAL CONTROLS OVER THE PREPARATION OF THE FINANCIAL STATEMENTS AND THE BUDGET EXECUTION STATEMENT</p> <p>IBAN's Recommendation IBAN recommends that the NATO Coordinated Pension strengthen internal controls over the preparation of the financial statements to provide a reasonable basis for obtaining assurance that financial statements are in compliance with the NATO Accounting Framework and NATO Financial Regulations.</p>	<p>The internal controls over the preparation of the financial statements were found to be effective and no material errors were found.</p>	<p>Observation Closed.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(2) DBPS FY 2021 IBA-A(2022)0023, paragraph 2</p> <p>NEED TO STRENGTHEN INTERNAL CONTROLS OVER RECORD KEEPING OF PENSIONERS FILES</p> <p>IBAN's Recommendation IBAN recommends that the International Staff Pensions Unit strengthen internal controls over record keeping of pensioners' files. This can be achieved by maintaining an adequate audit trail ensuring that these files are complete, filed centrally and available on request in a timely manner.</p>	<p>Key documents relating to pensioners' files were not available to us during the course of our audit, such as the DBPS pensioners' annual questionnaires to confirm that pensioners tested are not deceased, providing assurance over the completeness and accuracy of the pensioners' database.</p>	<p>Observation Open.</p>
<p>(3) DBPS FY 2021 IBA-A(2022)0023, paragraph 3</p> <p>IMPROVEMENTS NEEDED IN THE DISCLOSURE OF THE NUMBER OF BENEFICIARIES</p> <p>IBAN's Recommendation IBAN recommends that the International Staff Pensions Unit in cooperation with the Office of Financial Control:</p> <p>a) Improve the effectiveness of internal controls over the preparation of financial statements, in order to avoid errors in the financial statements and its notes related to number of DBPS beneficiaries. This can be achieved by developing a quality control checklist to document the reconciliation exercise between the number of DBPS beneficiaries in the financial statements and the underlying database of pensioners by the Human Resources Division.</p> <p>b) Provide, in a timely manner, the breakdown of affiliate data by NATO entity to support financial statements disclosure.</p>	<p>a) Although we noted improvements in the reconciliation of affiliated data, the reconciliation exercise between the number of DBPS beneficiaries in the financial statements and the underlying database of pensioners was not formally documented. Observation: In-progress</p> <p>b) A breakdown of affiliate data by NATO entity to support financial statements disclosure was not provided. Observation: Open</p>	<p>Observation In-progress.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(4) DBPS FY 2019 IBA-A(2021)0036, paragraph 1</p> <p>IMPROVEMENTS REQUIRED IN THE MONITORING, PRESENTATION AND DISCLOSURE OF OVERDUE ACCOUNTS RECEIVABLE AND PAYABLE</p> <p>IBAN's Recommendation IBAN recommends that the Office of the Financial Controller:</p> <p>a) Disclose the amount of overdue accounts receivable and payable in the notes to the financial statements for the amounts that are more than 1 year, more than 2 years and more than 5 years old. This will improve the fair disclosure of overdue accounts receivable and payable for the user of the Coordinated Pension Scheme's Financial Statements.</p> <p>b) Finalise the detailed analysis of the overdue accounts receivable and payable, jointly with the NATO Office of the Legal Advisor and determine the necessary actions to be taken.</p>	<p>a) No disclosure of overdue accounts receivables and payables were made in the notes to the financial statements. Observation: Open</p> <p>b) The Office of the Financial Controller prepared an Action Memo providing a preliminary analysis of the overdue accounts. As a result, IBAN will review progress on the implementation of this recommendation as part of its audit of the RMCF 2023 Financial Statements. Observation: In-progress</p>	<p>Observation In-progress.</p>
<p>(5) DBPS FY 2018 IBA-AR(2019)0028, paragraph 1</p> <p>NEED FOR NATO AS A WHOLE TO DISCLOSE POST-EMPLOYMENT LIABILITIES TO COMPLY WITH THE NATO ACCOUNTING FRAMEWORK (IPSAS 39 EMPLOYEE BENEFITS)</p> <p>IBAN's Recommendation IBAN recommends that the IS OFC, being the Financial Controller of the NATO Coordinated Pension Scheme, define the recognition criteria for the post-employment liability, ensuring that this liability is recognised in accordance with the NATO Accounting Framework (IPSAS 39 Employee Benefits).</p>	<p>On 16 June 2023, Council approved (PO(2023)0194-AS1 (INV)) that <i>"In order to address the IBAN's observation on disclosure of post-employment liabilities, [...] individual NATO bodies should not recognise their share of the post-employment liability and the IS OFC should continue with the</i></p>	<p>Observation Closed.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
	<p><i>current practice to centrally disclose post-employment pension and medical care accrued liabilities in the notes to the financial statements of the NCPS [...].”</i></p> <p>Taking into account the above Council decision, IBAN concludes that this recommendation can be closed.</p>	

**INTERNATIONAL STAFF (IS) FORMAL COMMENTS ON THE AUDIT REPORT
AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS**

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(1) DBPS FY 2021

IBA-A(2022)0023, paragraph 1

**NEED TO STRENGTHEN INTERNAL CONTROLS OVER THE PREPARATION OF
THE FINANCIAL STATEMENTS AND THE BUDGET EXECUTION STATEMENT**

IS' Formal Comments

Agreed.

None.

(2) DBPS FY 2021

IBA-A(2022)0023, paragraph 2

**NEED TO STRENGTHEN INTERNAL CONTROLS OVER RECORD KEEPING OF
PENSIONERS FILES**

IS' Formal Comments

Agreed.

EM-HR Pensions' Unit continues to improve its processes for:

- Pensioners' files are to be kept up to date. - Justification related to individual entitlement changes are to be kept. - All pensioners' files are kept in the same place and are available at any time.*
- Annual questionnaires will be kept electronically or in paper, depending on how they are received.*
- Personal Management Information System (PMIS) is up to date to reflect the pensioner situation and used to proceed the pension payment.*

In addition, building upon the NATO IS Information and Knowledge management policy, EM-HR will consider introducing during 2024 a more digital based filing and archiving that should contribute to facilitate the management of personnel and retirees files.

(3) DBPS FY 2021

IBA-A(2022)0023, paragraph 3

IMPROVEMENTS NEEDED IN THE DISCLOSURE OF THE NUMBER OF BENEFICIARIES

IS' Formal Comments

Agreed.

EM-HR continues to enhance its processes and systems to increase data quality, provided through its Data Analytics team which is currently being established.

Improvement has been observed but continued effort will be put in to further refine HR related data for reporting purposes.

Meanwhile EM-HR is implementing good business practices and system improvements.

(4) DBPS FY 2019

IBA-A(2021)0036, paragraph 1

IMPROVEMENTS REQUIRED IN THE MONITORING, PRESENTATION AND DISCLOSURE OF OVERDUE ACCOUNTS RECEIVABLE AND PAYABLE

IS' Formal Comments

Agreed.

EM-HR initiated steps in addressing the recommendation.

The complexity of the matter requires an assessment of the way forward in view of managing the issue. A decision will be taken by ASG EM on the way ahead on a proposal from HR and NATO Pensions' Unit.

(5) DBPS FY 2018

IBA-AR(2019)0028, paragraph 1

NEED FOR NATO AS A WHOLE TO DISCLOSE POST-EMPLOYMENT LIABILITIES TO COMPLY WITH THE NATO ACCOUNTING FRAMEWORK (IPSAS 39 EMPLOYEE BENEFITS)

IS' Formal Comments

Agreed.

None.

GLOSSARY OF TERMS

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

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

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

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



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

Brussels - Belgium



NATO UNCLASSIFIED

IBA-A(2023)0074
29 August 2023

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

Cc: NATO Permanent Representatives
Chair, NATO FORACS Office Steering Committee
Project Manager and Technical Director, NATO FORACS Office
Financial Controller, International Staff
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 Naval Forces Sensor and Weapons Accuracy Check Sites Office's (NATO FORACS Office (NFO)) Financial Statements for the year ended 31 December 2022 – IBA-AR(2023)0010***

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

IBAN's report sets out an unqualified opinion on the Financial Statements of the NFO and on compliance for financial year 2022.

Yours sincerely,

Radek Visinger
Chair

Attachments: As stated above.

NATO UNCLASSIFIED

-1-

**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Financial Statements of the
NATO Naval Forces Sensor and Weapons Accuracy Check Sites Office
(NATO FORACS Office (NFO))
for the year ended 31 December 2022**

The International Board of Auditors for NATO (IBAN) audited the NATO Naval Forces Sensors and Weapon Accuracy Check Sites Office (NATO FORACS) Financial Statements for the year ended 31 December 2022. The NATO Naval Forces Sensors and Weapon Accuracy Check Sites Office (NATO FORACS) provide a comprehensive calibration of sensors associated with the weapon systems of NATO naval units such as surface ships, submarines and anti-submarines helicopters. These tests are conducted at three FORACS ranges under the jurisdiction of Norway, Greece, and the United States of America.

The Financial Statements relate to NFO, which is a NATO Reporting Entity only in respect of activities carried out by the International Staff in relation to it. The audit competence regarding the financial information related to the NATO FORACS Ranges (NATO FORACS Atlantic Undersea Test and Evaluation Center (AUTEC), NATO FORACS Greece (NFG) and NATO FORACS Norway (NFN)), falls under the responsibility of the competent national audit authorities.

The overall management of the programme is under the responsibility of the FORACS Steering Committee. The NATO FORACS Office (NFO) is located at the NATO Headquarters in Brussels and serves as the executive staff of the Steering Committee. The NFO budget for 2022 (including brought forward credits) amounted to EUR 2.2 million while budget expenses amounted to EUR 1.3 million.

IBAN issued an unqualified opinion on the financial statements and on compliance for the year ended 31 December 2022.

IBAN made no observations and recommendations.

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

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

NATO UNCLASSIFIED

IBA-AR(2023)0010

29 August 2023

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE

**NATO NAVAL FORCES SENSOR AND WEAPONS
ACCURACY CHECK SITES OFFICE**

(NATO FORACS OFFICE (NFO))

FOR THE YEAR ENDED 31 DECEMBER 2022

PUBLICLY DISCLOSED - PDN(2024)0007 - MIS EN LECTURE PUBLIQUE

NATO UNCLASSIFIED

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

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of NATO FORACS Office (NFO), for the 12 month period ended 31 December 2022, issued under document reference FC(2023)0077, and submitted to IBAN on 31 March 2023. These Financial Statements comprise the Statement of Financial Position as at 31 December 2022, 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 2022, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a Budget Execution Statement for the 12 month period ended 31 December 2022.

In our opinion, the Financial Statements give a true and fair view of the financial position of NATO FORACS Office (NFO) as at 31 December 2022, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2022, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

Basis for Opinion on the Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies and reporting entities pursuant to the North Atlantic Treaty shall be performed by IBAN.

The Financial Statements relate to NATO FORACS Office (NFO), which is a NATO Reporting Entity only in respect of activities carried out by the International Staff in relation to it. The audit competence regarding the financial information related to the NATO FORACS Ranges (NATO FORACS Atlantic Undersea Test and Evaluation Center (AUTEC), NATO FORACS Greece (NFG) and NATO FORACS Norway (NFN)), falls under the responsibility of the competent national audit authorities.

We have conducted our audit in accordance with the International Organisation of Supreme Audit Institutions (INTOSAI) Principles as per our Charter, and standards consistent with the International Standards of Supreme Audit Institutions (ISSAI 2000-2899).

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter.

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

Management's Responsibility for the Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of NATO FORACS Office (NFO) 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 NFO Project Manager and the Financial Controller. In signing the Financial Statements, the NFO Project Manager and the Financial Controller confirm the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not

detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Compliance

Opinion on Compliance

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

Basis for Opinion on Compliance

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

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

Management's Responsibility for Compliance

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

The Project Manager 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, 29 August 2023



Radek Visinger
Chair

OBSERVATIONS AND RECOMMENDATIONS

IBAN made no observations and recommendations.

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

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

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) FORACS FY 2021 IBA-AR(2022)0007, paragraph 1</p> <p>IMPROVEMENT NEEDED IN YEAR-END CONFIRMATIONS OF BUDGETARY SURPLUSES OF THE RANGES.</p> <p>IBAN's Recommendation IBAN recommends that NFO:</p> <p>a) Requests the NATO FORACS Steering Committee to consider amending the FORACS MOU to reflect the NATO FORACS Standing Instructions and current practices regarding accounting and audit.</p>	<p>a) During the May 2022 meeting, the NATO FORACS Steering Committee (NFSC) agreed that the NFSC's acceptance of current accounting and audit practice is recorded in the NFSC Minutes of the May 22 meeting.</p> <p>Additionally, the NFO Project Manager (PM) produced an update to the associated NATO FORACS Standing Instructions</p>	<p>Observation In-Progress.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>b) Requests national authorities responsible for the Ranges to confirm directly to IBAN that the budgetary accounts presented to the Steering Committee and surpluses to be included in Other Liabilities in the NFO financial statements, were subject to independent external audit in accordance with national rules and that no audit findings were raised regarding these accounts.</p> <p>c) Ensures with the IS OFC that all account balances and disclosures in the financial statements and notes are supported by sufficient and appropriate documentation.</p>	<p>(NFSI) that clarifies this position and removes any apparent inconsistency with the MOU. This amendment was presented to the 97th Steering Committee in October 2022. National Representatives (NR) on the committee accepted the changes by June 2023. Observation: Closed.</p> <p>b) c) As part of the NFSI amendment above, NFO (PM) proposed a Standard Range Account Confirmation Report (SRACR) to IBAN which would provide:</p> <ol style="list-style-type: none"> 1. confirmation of independent external audit by Range Host Nation authorities; 2. confirmation that the Range surpluses agree with those provided in the NFO FS and 3. details of any audit findings arising. GRC and NOR have already provided its 2022 audit report in this format. NFO (PM) is pursuing provision of SRACRs with USA. <p>Observation: In-Progress.</p>	
<p>(2) FORACS FY 2019 IBA-AR(2021)0012, paragraph 2</p> <p>INSUFFICIENT DOCUMENTATION IN SUPPORT OF THE NOTE TO THE FINANCIAL STATEMENTS ON RELATED PARTIES</p> <p>IBAN's Recommendation IBAN recommends that NFO:</p>	<p>IBAN notes that according to the Resource Policy and Planning Board (RPPB) Report agreed by Council, (PO(2022)0119-AS1), <i>the observation regards obtaining related party declarations from key management personnel will be assessed following a NATO-wide review of the interpretation of key management personnel [...].</i></p> <p>Heads of NATO bodies are, in</p>	<p>Observation Open.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
	<p>accordance with Article 12 of the NATO Financial Regulations, responsible to ensure that necessary internal management functions are in place to support effective internal control, which includes maintaining adequate audit trails.</p> <p>In the absence of signed declarations concerning related party relationships or transactions, NFO does not maintain an adequate audit trail in order to demonstrate the accuracy of the disclosures made in its financial statements. Such a statement would provide minimum assurance that NFO has included in its internal control system a procedure to verify the absence of conflicts of interest and is able to identify related party relationships that could affect its operations. IBAN therefore maintains the status of this recommendation as open.</p>	
a) Implements a procedure for identifying related party transactions and monitor the absence of conflicts of interest in support of the disclosure notes to the financial statements.	<p>a) NFO has not yet implemented a procedure for identifying related party transactions and monitoring the absence of conflicts of interest. Observation: Open.</p>	
b) Complies with the NATO Accounting Framework (IPSAS 20) by ensuring that all members of key management personnel, including Steering committee members, complete and sign declarations concerning related party relationships or transactions that could affect the operation of the reporting entity.	<p>b) The FORACS Programme Manager and NFO staff have signed the declarations. However the NFO Steering Committee members did not sign declarations or provide suitable alternative evidence concerning related party relationships or transactions. Observation: Open.</p>	

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(3) FORACS FY 2015 IBA-AR(2017)22, paragraph 7</p> <p>EFFORT TO ACHIEVE COMPLIANCE WITH THE REVISED NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT</p> <p>IBAN's Recommendation IBAN recommends that NFO:</p> <p>a) Ensures its risk management policy and risk registers include financial reporting and compliance risks.</p> <p>b) As required by FRP XII 3) (e), choose a specific internal control framework that it will use to assess its system of internal control. The assessment is required by Article 12 of the NFRs. Since other NATO entities have already adopted COSO as their internal control framework, and it is a framework that can be used by entities of all sizes, the NFO should consider adopting COSO as their internal control framework.</p> <p>c) In coordination with the IS where applicable, begin the work of assessing and documenting the system of internal control and risk management procedures to support compliance with NFR Articles 11 and 12, FRPs XI and XII, and the internal control framework that it chooses.</p> <p>d) Through outsourcing if considered to be more cost effective, ensure internal audit activities are evaluating NFO risk management and internal control.</p> <p>e) Ensures that the supplementary budget</p>	<p>This sub-observation was closed in IBA-AR(2022)0007.</p> <p>This sub-observation was closed in IBA-AR(2021)0012.</p> <p>This sub-observation was closed in IBA-AR(2022)0007.</p> <p>d) IBAN notes that the NFO Project Manager has engaged with the Head of NATO's Office of Internal Audit and Risk Management (OIARM) regarding an independent assessment of the COSO Internal Control framework adopted by NFO in 2019. As the OIARM's Audit Plan is determined on a risk-based methodology, NFO will be included at an appropriate time. Outsourcing is not considered from NFO as an option. Observation: In-progress.</p> <p>This sub-observation was</p>	<p>Observation In-Progress.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
credits are only used to enter into commitments for goods and services to be rendered during the financial year. Contract authority should be used for goods and services to be received in future years.	closed in IBA-AR(2019)0022.	

NATO FORACS OFFICE (NFO) FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(1) FORACS FY 2021

IBA-AR(2022)0007, paragraph 1

IMPROVEMENT NEEDED IN YEAR-END CONFIRMATIONS OF BUDGETARY SURPLUSES OF THE RANGES.

NFO's Formal Comments

Recommendation 1 b): Agreed.

As noted by IBAN, the NATO FORACS Steering Committee has approved the adoption of a Standard Range Account Confirmation Report (SRACR).

Reports in this format have already been provided by GR and NO in support of the 2022 audit. The US has agreed to provide a report in this format, however this has been delayed due to the misalignment in US/NATO Financial Years.

It will be submitted to IBAN directly once complete. NFO is content that this action remains in progress until the US SRACR has been received in the revised format.

Recommendation 1 c): Agreed.

As above, NFO is content that this action remains in progress until the US SRACR has been received in the revised format.

(2) FORACS FY 2019

IBA-AR(2021)0012, paragraph 2

INSUFFICIENT DOCUMENTATION IN SUPPORT OF THE NOTE TO THE FINANCIAL STATEMENTS ON RELATED PARTIES

NFO's Formal Comments

Recommendation 2 a): Not agreed.

NFO considers that this action is substantively complete.

NFO notes that IBAN records the RPPB position, agreed by the Council, that observations regarding related party declarations will be assessed following a NATO-wide review of the interpretation of key management personnel.

IBAN's Position

Given that there is no NATO-wide interpretation of key management personnel in force, IBAN continues to apply the definition provided by the NATO Accounting Framework. Since NFO has not implemented a procedure for identifying related party transactions and monitoring the absence of conflicts of interest, IBAN maintains its recommendation.

Recommendation 2 b): Not agreed.

In anticipation of this review, the NFO has already moved ahead to implement formal signed declarations from all NFO staff (4) who constitute the Project's key management personnel, in their role as the executive staff of the NATO FORACS Steering Committee.

This aligns with the RPPB's report to the NAC (AC/335-D(2021)0040, which supported that NFO implement a procedure proportional to the scale of the Project's operations scale, for identifying related party transactions and monitoring the absence of conflicts of interest.

Nevertheless, during periodic COSO framework assessments, we will continue to investigate whether any change can be introduced to the process of gathering information, in terms of improving the effectiveness and efficiency of the administrative process and possible added value.

As previously noted, IPSAS 20—Related Party Disclosures does not prescribe any particular method in which the information to be disclosed should be gathered. We believe that the current system of gathering information on related parties is adequate to the governance structure of the entity and that the disclosures in the Financial Statements, being in line with IPSAS 20, provides a reliable and true picture.

IBAN's Position

The FORACS Programme Manager and NFO staff have signed declarations. However the NFO Steering Committee members did not sign declarations or provide suitable alternative evidence concerning related party relationships or transactions. Alternative evidence may include for example recording on an annual basis in the minutes of a Steering Committee meeting, the confirmation of the absence of conflict of interest. IBAN therefore maintains its recommendation.

(3) FORACS FY 2015**IBA-AR(2017)22, paragraph 7****EFFORT TO ACHIEVE COMPLIANCE WITH THE REVISED NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT***Recommendation 3 d): Not agreed.*

Action in respect of this recommendation is considered to be complete. The NFO Project Manager has engaged with the Head of NATO's Office of Internal Audit and Risk Management (OIARM) regarding an independent assessment of the COSO Internal Control framework adopted by NFO in 2019. A further updated has been provided to OIARM following a recent NFO/OFC joint review of ongoing compliance. As the OIARM's Audit Plan is determined on a risk-based methodology, NFO will be included at an appropriate time. Outsourcing of this activity is not considered to be cost effective, given that this oversight is within the purview of OIARM and its accepted approach to audit scheduling.

IBAN's Position

The IS Office of Internal Audit and Risk Management (OIARM) may provide outsourced audit services to NFO according to the NFRs. Nevertheless, given that NFO is a separate NATO reporting entity from IS, NFO needs to ensure that internal audit activities are conducted in line with the NFRs to evaluate its risk management and internal control based on its own risk-based methodology. IBAN therefore maintains its recommendation.

GLOSSARY OF TERMS

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

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

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

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



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

Brussels - Belgium



NATO UNCLASSIFIED

IBA-A(2023)0082
29 August 2023

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

Cc: NATO Permanent Representatives
Chair, Board of Directors, Defence Innovation Accelerator for the North Atlantic
Managing Director, Defence Innovation Accelerator for the North Atlantic
Interim Financial Controller, Defence Innovation Accelerator for the North Atlantic
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 Defence Innovation Accelerator for the North Atlantic's (DIANA) Financial Statements for the year ended 31 December 2022 – IBA-AR(2023)0023***

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

IBAN's report sets out an unqualified opinion on the Financial Statements of the Defence Innovation Accelerator for the North Atlantic (DIANA) and on compliance for financial year 2022.

Yours sincerely,

Radek Visinger
Chair

Attachments: As stated above.

NATO UNCLASSIFIED

-1-

**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Financial Statements of the
Defence Innovation Accelerator for the North Atlantic (DIANA)
for the year ended 31 December 2022**

The Defence Innovation Accelerator for the North Atlantic (DIANA) is instructed to accelerate civil-military emerging and disruptive technological solutions to critical transatlantic defence and security challenges, leveraging existing elements from NATO nations and NATO bodies and guided by relevant NATO Strategies and Frameworks. DIANA expenses in 2022 was EUR 601,452.

IBAN issued an unqualified opinion on the financial statements and on compliance for the year ended 31 December 2022.

IBAN made one observation and recommendation. This observation does not impact the audit opinion on the financial statements and on compliance:

1. Need to establish internal controls over the preparation of the financial statements.

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

NATO UNCLASSIFIED

IBA-AR(2023)0023

29 August 2023

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE
DEFENCE INNOVATION ACCELERATOR FOR THE NORTH ATLANTIC
(DIANA)**

FOR THE YEAR ENDED 31 DECEMBER 2022

PUBLICLY DISCLOSED - PDN(2024)0007 - MIS EN LECTURE PUBLIQUE

NATO UNCLASSIFIED

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

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of DIANA, for the 12 month period ended 31 December 2022, issued under document reference (FC(DIA)(2023)0002), and resubmitted under document reference (FC(DIA)(2023)0002-REV1) to IBAN on 13 July 2023. These Financial Statements comprise the Statement of Financial Position as at 31 December 2022, 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 2022, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the Financial Statements give a true and fair view of the financial position of DIANA as at 31 December 2022, and of its financial performance and its cash flows for the 12 month period ended 31 December 2022, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

Basis for Opinion on the Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies and reporting entities pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Organisation of Supreme Audit Institutions (INTOSAI) Principles as per our Charter, and standards consistent with the International Standards of Supreme Audit Institutions (ISSAI 2000-2899).

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter.

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

Management's Responsibility for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Compliance

Opinion on Compliance

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

Basis for Opinion on Compliance

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

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

Management's Responsibility for Compliance

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

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

Auditor's Responsibilities for Compliance

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

This responsibility includes performing procedures to obtain independent assurance about whether funds have been properly used for the settlement of 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, 29 August 2023



Radek Visinger
Chair

OBSERVATIONS AND RECOMMENDATIONS

IBAN made one observation and recommendation. This observation does not impact the audit opinion on the financial statements and on compliance.

The Audit Report was issued to the Defence Innovation Accelerator for the North Atlantic (DIANA) whose comments have been included, with the IBAN's position on those comments where necessary.

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

Reasoning

1.1 According to the NATO Accounting Framework (NAF), IPSAS 1: *“Financial statements shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSASs. The application of IPSASs, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.”*

1.2 According to the NATO Financial Regulations (NFRs) articles 25.2 and 25.3: *“25.2 Appropriated funds which have been committed and for which goods and services have been rendered but the invoice has not been received by the end of the financial year, shall be recorded as an accrued liability and the commitment shall be reduced. There is no carry forward in these circumstances since the appropriated funds have been used for their intended purpose.*

25.3 Appropriated funds which have been committed, supported by a legal obligation, and for which goods and services have not yet been rendered by the end of the financial year shall be automatically carried forward to be used as soon as possible within the next two following financial years. Appropriated funds committed and carried forward shall be used only for the requirement, supported by a legal obligation, for which they were originally approved.”

1.3 According to the NFRs article 34.1: *“NATO bodies shall adhere to the accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council”.*

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

1.5 The DIANA Charter was approved in April 2022. As DIANA is a newly established entity, the NATO International Staff Financial Controller was appointed as interim Financial Controller for DIANA. This interim arrangement will apply until DIANA has a Financial Controller on its staff.

Observations

1.6 IBAN identified material misstatements during the audit of the 2022 DIANA Financial Statements first submitted to IBAN on 28 March 2023, as described below. These were corrected in the Resubmitted Financial Statements submitted to IBAN on 13 July 2023.

1.7 The initially submitted DIANA Financial Statements included an overstatement of expenses related to Contractual supplies and services and the related Payables by EUR 20,388. This overstatement comprised an amount of EUR 17,030 for committed services that were rendered in 2023. This amount should have been disclosed as a carry forward in Note 19 on 2022 Transition Costs. The remaining balance amounting to EUR 3,358 relates to an overstatement of accruals resulting from services that were rendered at a lower amount than the committed amounts. This balance should have been cancelled at year-end.

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

Recommendations

1.9 IBAN recommends that DIANA establish internal controls over the preparation of the financial statements to provide a reasonable basis for obtaining assurance that financial statements are free from material misstatements by ensuring compliance with the NATO Accounting Framework and NATO Financial Regulations.

**DEFENCE INNOVATION ACCELERATOR FOR THE NORTH ATLANTIC (DIANA)
FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL
BOARD OF AUDITORS (IBAN) POSITIONS**

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

DIANA's Formal Comments

Agreed.

DIANA agrees with the IBAN recommendation to strengthen the internal controls over the preparation of the financial statements.

GLOSSARY OF TERMS

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

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

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

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

NATO UNCLASSIFIED

FC(2023)0065

NATO INTERNATIONAL STAFF
FINANCIAL STATEMENTS

For the year ended
31 December 2022

Annexes

- | | |
|---|---|
| 1 | Statement of Financial Position |
| 2 | Statement of Financial Performance |
| 3 | Cash Flow Statement |
| 4 | Changes in Net Assets |
| 5 | Budgetary Execution Statements |
| 6 | Explanatory Notes to the Financial Statements |



Jens STOLTENBERG
Secretary General



Mirosława BORYCZKA
Financial Controller

NATO UNCLASSIFIED

NATO INTERNATIONAL STAFF Statement of Financial Position

As at 31 December 2022

(All amounts in EUR)

	<u>Notes</u>	<u>2022</u>	<u>2021</u>
Assets			
Current assets			
Cash and cash equivalents	3	219,098,955.24	170,756,264.69
Short term investments	4	100,000,000.00	35,000,000.00
Receivables	5	49,458,535.20	42,221,939.96
Prepayments	6	2,379,838.83	4,391,511.01
Other current assets	7	2,223,406.06	2,125,035.65
Inventories	8	523,072.96	508,622.33
		373,683,808.29	255,003,373.64
Non-current assets			
Receivables	9	0.00	0.00
Property, plant & equipment	10	774,646,331.86	820,092,931.68
Intangible assets	11	3,035,151.88	2,634,505.32
Non-current financial assets	12	0.00	40,000,000.00
Other non-current assets	12	6,637,770.40	7,508,838.50
		784,319,254.14	870,236,275.50
Total Assets		1,158,003,062.43	1,125,239,649.14
Liabilities			
Current liabilities			
Payables	13	42,980,225.15	32,312,392.29
Deferred revenue	14	228,077,035.16	61,706,465.40
Advances	15	90,209,409.79	72,374,516.43
Short term provisions	16	193,173.96	429,403.98
Other current liabilities	17	14,074,333.46	90,020,269.40
		375,534,177.52	256,843,047.50
Non-current liabilities			
Payables	18	0.00	0.00
Long term provisions	18	500,000.00	500,000.00
Deferred revenue	19	777,681,483.74	822,727,437.00
Other non-current liabilities	20	3,839,831.00	43,839,831.00
		782,021,314.74	867,067,268.00
Total Liabilities		1,157,555,492.26	1,123,910,315.50
Net assets			
	21		
Capital assets		0.00	0.00
Reserves		0.00	0.00
Current year Surplus / (Deficits)		-881,763.47	304,482.67
Accumulated surpluses / (deficits) prior year		1,329,333.64	1,024,850.97
Total net Assets / Equity		447,570.17	1,329,333.64

NATO INTERNATIONAL STAFF Statement of Financial Performance

As at 31 December 2022

(All amounts in EUR)

	<u>Notes</u>	<u>2022</u>	<u>2021</u>
Revenue			
Non exchange revenue	22	317,721,319.12	273,747,844.20
Exchange revenue	23	16,763,791.62	18,865,779.91
Other revenue	24	2,062,206.17	6,355,638.59
Financial revenue	25	834,981.87	499,147.76
Total Revenue		<u>337,382,298.78</u>	<u>299,468,410.46</u>
Expenses			
Personnel	26	145,786,635.57	133,610,111.33
Contractual supplies and services	26	143,906,909.50	116,513,686.82
Depreciation and amortization	26	48,266,951.66	48,229,816.26
Impairment	26	0.00	0.00
Provisions	26	-227,786.13	391,030.45
Long Term Provisions	26	0.00	0.00
Other expenses	26	0.00	0.00
Finance costs	26	531,351.65	419,282.93
Total Expenses		<u>338,264,062.25</u>	<u>299,163,927.79</u>
Surplus/(Deficit) for the period	27	<u>-881,763.47</u>	<u>304,482.67</u>

NATO INTERNATIONAL STAFF Statement of Cash Flow

As at 31 December 2022
(All amounts in EUR)

	Notes	2022	2021
Cash Flow from Operating Activities	28		
Surplus/(Deficit)		(881,763.47)	304,482.67
Non-cash movements		(881,763.47)	304,482.67
Depreciation/ Amortisation		48,266,951.66	48,229,816.26
Impairment			
Increase /(decrease) in payables, deferred revenue and advances		194,873,295.98	23,040,395.85
Increase/ (decrease) in other current and non current liabilities		(160,991,889.20)	24,763,322.60
Increase/ (decrease) in provisions		(236,230.02)	(4,590,720.69)
(Gains)/losses on sale of property, plant and equipment			
Decrease/ (Increase) in other current assets		(45,436,700.19)	(41,112,737.62)
Decrease/ (Increase) in receivables, prepayments and inventories		(5,239,373.69)	56,308.75
Decrease/ (Increase) in other non current assets		85,917,021.36	42,360,414.48
Net Cash Flow from Operating Activities		117,153,075.90	92,746,799.63
Cash Flow from Investing Activities			
Purchase of property plant and equipment / Intangible assets		(2,928,621.88)	(1,712,652.70)
Proceeds from sale of property plant and equipment			
Net Cash Flow from Investing Activities		(2,928,621.88)	(1,712,652.70)
Cash Flow from Financing Activities		-	-
Net Cash Flow from Financing Activities			
Net Increase/(Decrease) in Cash and Cash Equivalents		113,342,690.55	91,338,629.60
Cash and Cash Equivalent at the Beginning of the Period		205,756,264.69	114,417,635.09
Cash and Cash Equivalent at the End of the Period		319,098,955.24	205,756,264.69

NATO INTERNATIONAL STAFF
Statement of Changes in Net Assets/Equity

As at 31 December 2022

(All amounts in EUR)

Balance at the beginning of the period 2021	1,024,850.97
Changes in accounting policy	
Restated balance	
Net (gains)/losses recognised directly in net assets/equity	
Exchange difference on translating foreign operations	
Gain on property revaluation	
Surplus/(deficit) for the period	304,482.67
Change in net assets/equity for the year ended 2021	304,482.67
Balance at the end of the period 2021	1,329,333.64
Balance at the beginning of the period 2022	1,329,333.64
Changes in accounting policy	
Restated balance	
Net (gains)/losses recognised directly in net assets/equity	
Exchange difference on translating foreign operations	
Gain on property revaluation	
Surplus/(deficit) for the period	-881,763.47
Change in net assets/equity for the year ended 2022	-881,763.47
Balance at the end of the period 2022	447,570.17

(amounts in euro)

PUBLICLY DISCLOSED - PENDING

INTERNATIONAL STAFF
Statement of Budget Execution as at 31 December 2021

(amounts in euro)

	Initial Budget	Increase / Decrease	Revised Budget	Transfers	Frozen Budget	Final budget	Commitments	Expenses	Total spent	Carry forward	Special carry forward	Lapsed
CIVIL BUDGET												
Chapter 1	138,369,312.30	2,102,774.30	140,472,086.60	(447,124.00)	-	140,024,962.60	691,315.55	136,970,942.67	137,662,258.22	691,315.55		2,362,704.38
Chapter 2	69,775,019.94	(1,825,062.20)	67,949,957.74	369,929.00	-	68,319,886.74	1,876,595.69	65,365,312.40	67,241,908.09	1,876,595.69		1,077,978.65
Chapter 3	2,095,694.00	(350,705.00)	1,744,989.00	111,500.00	-	1,856,489.00	267,194.24	1,133,976.28	1,401,170.52	267,194.24		455,318.48
Chapter 4	23,375,253.00	(1,767,007.10)	21,608,245.90	(34,305.00)	-	21,573,940.90	4,255,131.80	16,131,763.46	20,386,895.26	4,255,131.80		1,187,045.64
Total FY 2021	233,615,279.24	(1,840,000.00)	231,775,279.24	0.00	-	231,775,279.25	7,090,237.28	219,601,994.81	226,692,232.09	7,090,237.28	-	5,083,047.16
CIVIL BUDGET												
Chapter 1	683,254.96	-	683,254.96	-	-	683,254.96	131,243.63	453,032.16	584,275.79	131,243.63	-	98,979.17
Chapter 2	1,988,828.54	-	1,988,828.54	-	-	1,988,828.54	140,288.46	1,117,461.12	1,257,749.58	140,288.46	-	731,078.96
Chapter 3	370,496.78	-	370,496.78	-	-	370,496.78	47,965.55	301,091.06	349,056.61	47,965.55	-	21,440.17
Chapter 4	6,210,260.97	-	6,210,260.97	-	-	6,210,260.97	1,172,250.27	3,660,543.94	4,832,794.21	1,172,250.27	-	1,377,466.76
Total FY 2020	9,252,841.25	-	9,252,841.25	-	-	9,252,841.25	1,491,747.91	5,532,128.28	7,023,876.19	1,491,747.91	-	2,228,965.06
CIVIL BUDGET												
Chapter 1	162,031.07	-	162,031.07	-	-	162,031.07	-	34,328.97	34,328.97	-	-	127,702.10
Chapter 2	335,123.65	-	335,123.65	-	-	335,123.65	-	167,292.68	167,292.68	-	-	167,830.97
Chapter 3	20,094.89	-	20,094.89	-	-	20,094.89	-	334.89	334.89	-	-	19,760.00
Chapter 4	1,211,259.04	-	1,211,259.04	-	-	1,211,259.04	-	769,723.20	769,723.20	-	-	441,535.84
Total FY 2019	1,728,508.65	-	1,728,508.65	-	-	1,728,508.65	-	971,679.74	971,679.74	-	-	756,828.91
CIVIL BUDGET												
Chapter 1	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 4	46,325.55	-	46,325.55	-	-	46,325.55	-	37,892.35	37,892.35	-	-	8,433.20
Total FY 2018	46,325.55	-	46,325.55	-	-	46,325.55	-	37,892.35	37,892.35	-	-	8,433.20
SPECIAL CARRY FORWARDS												
Chapter 1	1,342,304.76	-	1,342,304.76	-	-	1,342,304.76	14,422.10	815,894.42	830,316.52	14,422.10	418,000.00	93,988.24
Chapter 2	937,309.56	-	937,309.56	-	-	937,309.56	9,603.03	873,840.31	883,443.34	9,603.03		53,866.22
Chapter 3	966,521.83	-	966,521.83	-	-	966,521.83	405,073.67	376,080.38	781,154.05	405,073.67	100,000.00	85,367.78
Chapter 4	96,849.01	-	96,849.01	-	-	96,849.01	11,000.01	61,662.00	72,662.01	11,000.01	-	24,187.00
Total SPECIAL CARRY FORWARDS	3,342,985.16	-	3,342,985.16	-	-	3,342,985.16	440,098.81	2,127,477.11	2,567,575.92	440,098.81	518,000.00	257,409.24
	247,985,939.85	(1,840,000.00)	246,145,939.85	0.00	-	246,145,939.86	9,022,084.00	228,271,172.29	237,293,256.29	9,022,084.00	518,000.00	8,334,683.57

NATO HR Shared Services
Statement of Budget Execution as at 31 December 2022

	Initial budget	Increase	BA2	Transfers	BA3	Transfers	Final budget	Actuals	Carry forward	Lapsed
(amounts in euro)										
HRSS										
Chapter 1	2,412,622	-	2,412,622	-	2,412,622	-	2,412,622	2,180,134	4,259	228,229
Chapter 2	184,695	86,473	271,168	-	271,168	-	271,168	200,724	760	69,685
Chapter 3	-	-	-	-	-	-	-	-	-	-
Total FY 2022	2,597,317	86,473	2,683,790	-	2,683,790	-	2,683,790	2,380,858	5,019	297,913
HRSS										
Chapter 1	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-
Total FY 2021	-	-	-	-	-	-	-	-	-	-
HRSS										
Chapter 1	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-
Total FY 2020	-	-	-	-	-	-	-	-	-	-
Total All Budgets	2,597,317	86,473	2,683,790	-	2,683,790	-	2,683,790	2,380,858	5,019	297,913

NATO HR Shared Services
Statement of Budget Execution as at 31 December 2021

	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final budget	Actuals	Carry forward	Lapsed
(amounts in euro)										
HRSS										
Chapter 1	929,079	-	929,079	-	929,079	-	929,079	659,995	-	269,084
Chapter 2	230,000	-	230,000	-	230,000	-	230,000	221,240	-	8,760
Chapter 3	-	-	-	-	-	-	-	-	-	-
Total FY 2021	1,159,079	-	1,159,079	-	1,159,079	-	1,159,079	881,235	-	277,844
HRSS										
Chapter 1	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-
Total FY 2020	-	-	-	-	-	-	-	-	-	-
HRSS										
Chapter 1	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-
Total FY 2019	-	-	-	-	-	-	-	-	-	-
Total All Budgets	1,159,079	-	1,159,079	-	1,159,079	-	1,159,079	881,235	-	277,844

**EXPLANATORY NOTES TO NATO INTERNATIONAL STAFF
2022 FINANCIAL STATEMENTS****NOTE 1: GENERAL INFORMATION**

NATO's essential purpose is to safeguard the freedom and security of its members through political and military means. Politically, NATO promotes democratic values and encourages consultation and cooperation on defense and security issues to build trust and, in the long run, prevent conflict. Militarily, NATO is committed to the peaceful resolution of disputes. If diplomatic efforts fail, it has the military capacity needed to undertake crisis-management operations. These are carried out under Article 5 of the Washington Treaty - NATO's founding treaty - or under a United Nations mandate, alone or in cooperation with other countries and international organizations.

The International Staff (IS) was created in 1951 to support the North Atlantic Council (NAC) (Council resolution D-D(51)30). The "Agreement on the Status of the North Atlantic Treaty Organization" defined its status, which National Representative and International Staff negotiated and signed in September of 1951.

The IS is an advisory and administrative body whose primary role is to support the national delegations of the 30 member states at NATO Headquarters. It produces policy papers, background notes and reports on issues relevant to NATO's political and military agenda and, in doing so, supports the process of consensus building and decision-making in the Alliance. The IS then helps to implement the decisions taken in NATO's committees and liaises closely with the nations and NATO's International Military Staff (IMS).

Headed by the Secretary General, the IS includes eight divisions, each headed by an Assistant Secretary General and a number of Independent Offices headed by Directors. Some 1,000 civilians work within the IS at NATO Headquarters in Brussels, Belgium. They owe their allegiance to the Alliance throughout the period of their appointment. They are either recruited directly by the Organization or seconded by their governments and each appointment is approved by the Secretary General.

The financial statements cover the budgetary and financial operations relating to the NATO International Staff (IS) budgeted and non-budgeted functions and programs.

NOTE 2: ACCOUNTING POLICIES

The IS applies the NATO IS Accounting Policies which have been published through ON(2021)0079 and updated through FC(CAF)(2023)0001.

Declaration of conformity

The IS financial statements have been prepared in accordance with the NATO Accounting Framework which adapts a small number of IPSAS standards to better suit the specific requirements of the Alliance (as originally approved by nations under C-M(2013)0039 on 26 July 2013 and revised under C-M(2016)0023 on 29 April 2016) and with the NATO Financial Regulations (NFR) and respective Financial Rules and Procedures (FRP).

Basis of preparation

The financial statements have been prepared on a going-concern basis: the IS will continue in operation for the foreseeable future.

The amounts shown in these financial statements are presented in EUR.

The financial year begins on 1 January and ends on 31 December of the same year.

The following IPSAS have no material effect on the 2021 financial statements of the IS:

- IPSAS 5: Borrowing Costs
- IPSAS 7: Investments in Associates.
- IPSAS 8: Interests in Joint Ventures
- IPSAS 10: Financial Reporting in Hyperinflationary Economies
- IPSAS 11: Construction Contracts
- IPSAS 16: Investment Property
- IPSAS 21: Impairment of non-cash generating assets
- IPSAS 26: Impairment of Cash-Generating Assets
- IPSAS 27: Agriculture
- IPSAS 32: Service Concession Arrangements: Grantor

Segment Reporting

A segment is a distinguishable activity or group of activities for which it is appropriate to separately report financial information. For the IS the segment information is based on principal activities and different sources of financing for different categories of activities of the organisation. To this end, the following segments have been adopted: Civil Budget, Reimbursable Expenses, Human Resources Shared Services (which includes inter alia the Personnel Management Information System and the NATO Talent Acquisition Platform), Extra-Budgetary Funds, Partners' Accommodation, Refurbishment of the Manfred Wörner Building (formerly known as Building Z), the Morale, Welfare and Recreational Activities (MWR), the Long Term Programme Budget (LTPB) under closure and the Office of the Senior Civilian Representative (OSCR) Security and Real-Life Support Services (SRLS) Suspense Account.

Manfred Wörner Building Project Financing Model

The Manfred Wörner Building project was initiated in 2012 through DPRC-DS(2012)0012, whereby nations agreed to offer space to partner missions in the Building Z. The projects comprises two strains of works; the Standard and Reinvestment works (refurbishment and security enhancements) and the individual partners missions Optional works. The funding of the latter are a responsibility of the respective partner nations and thus paid upfront. As for the Standard and Reinvestment works, Allies decided through DPRC-DS(2014)0084-REV3 and DPRC-N(2014)0070-REV1, that these will be pre-financed by IS cash liquidity and later reimbursed by Partner Nations.

Morale, Welfare and Recreation

The financial closure of the former NATO Staff Centre took place on 31 December 2018 and as of 1 January 2019 all its assets and liabilities were transferred to the NATO International Staff accounts. The new management model adopted by Nations (PO(2018)0329), and the prevailing regulations (C-M(2019)0026) concerning Morale, Welfare and Recreation (MWR) activities, requires the consolidation of MWR accounts into the NATO International Staff financial statements.

MWR activities are financed from various sources deriving from commercial activities (sport facilities, concessionaires/retailers), special contributions from MWR stakeholder entities (incl. NATO IS, IMS, NCIA) and tax-free fuel operations. The surplus/deficit on the MWR activities is a liability towards the stakeholders.

Long Term Programme Budget (LTPB) under closure

The LTPB Project budget was established in 2000 following the 1999 Washington Summit where Heads of State of the NATO member countries decided to build a new NATO Headquarters. In November 2020, the Budget Committee (BC) decided through BC-D(2020)0198-AS1 to discontinue the LTPB per 31 December 2020.

As stated in C-M(2020)0058, with the closure of the NNHQ project financial books on 31 December 2020, the open balances and net assets of the LTPB were transferred to earmarked IS accounts on 31 December 2020 to allow proper accounting and reporting during the period needed for its final closure.

The LTPB under closure operations are reported in the IS 2022 Financial Statements as a separate segment.

Office of the Senior Civilian Representative (OSCR) Security and Real-Life Support Services (SRLS) Suspense Account

The Budget Committee (BC) authorized through BC-DS(2021)0022 and BC-DS(2021)0026 the creation of the Office of the NATO Senior Civilian Representative (OSCR) Security and Real-Life Support Services (SRLS) Suspense Account to charge the costs incurred until the end of 2021 by IS for the provision of security and real life support services to the Senior Civilian Representative Office in Kabul and contracts intended to be taken over from the NATO Military Authorities (NMA).

The IS has registered all operations covered by the OSCR SRLS Suspense Account in line with the prevailing regulations and the NATO IS Accounting Policy.

All incurred expenses have been reimbursed by the Alliance Operations and Missions (AOM) budget. For one claim a settlement was reached during 2022, no other formal claims have been received. During 2023 the continuation of OSCR SRLS Suspense Account will be evaluated.

Changes in Accounting Policy

The accounting policy has been aligned with the NATO Civilian Personnel Regulations (NCPRs) with regards to annual leave that is not taken.

The NCPRs stipulate in article 42.3.3 that no compensation is paid for annual leave not taken. Only in exceptional cases, determined by the Head of the NATO body, payment in lieu may be authorized. Consequently, no provision is considered by NATO-IS Group Entities unless such decision has been taken.

Restatement of Financial Statements of Previous Years

Based on the above mentioned change in accounting policy, below is the 2021 restated Statement of Financial Position for comparative purposes:

	Notes	2021 REPORTED	2021 - RESTATED	Impact
Assets				
Current assets				
Cash and cash equivalents	3	170,756,264.69	170,756,264.69	0.00
Short term investments	4	35,000,000.00	35,000,000.00	0.00
Receivables	5	42,221,939.96	42,221,939.96	0.00
Prepayments	6	4,391,511.01	4,391,511.01	0.00
Other current assets	7	7,125,393.31	2,125,035.65	5,000,357.66
Inventories	8	508,622.33	508,622.33	0.00
		260,003,731.30	255,003,373.64	5,000,357.66
Non-current assets				
Receivables	9	0.00	0.00	0.00
Property, plant & equipment	10	820,092,931.68	820,092,931.68	0.00
Intangible assets	11	2,634,505.32	2,634,505.32	0.00
Non-current financial assets	12	40,000,000.00	40,000,000.00	0.00
Other non-current assets	12	7,508,838.50	7,508,838.50	0.00
		870,236,275.50	870,236,275.50	0.00
Total Assets		1,130,240,006.80	1,125,239,649.14	5,000,357.66
Liabilities				
Current liabilities				
Payables	13	32,312,392.29	32,312,392.29	0.00
Deferred revenue	14	61,706,465.40	61,706,465.40	0.00
Advances	15	72,374,516.43	72,374,516.43	0.00
Short term provisions	16	5,429,761.64	429,403.98	5,000,357.66
Other current liabilities	17	90,020,269.40	90,020,269.40	0.00
		261,843,405.16	256,843,047.50	5,000,357.66
Non-current liabilities				
Payables	18	0.00	0.00	0.00
Long term provisions	18	500,000.00	500,000.00	0.00
Deferred revenue	19	822,727,437.00	822,727,437.00	0.00
Other non-current liabilities	20	43,839,831.00	43,839,831.00	0.00
		867,067,268.00	867,067,268.00	0.00
Total Liabilities		1,128,910,673.16	1,123,910,315.50	5,000,357.66
Net assets				
Capital assets	21	-	0.00	0.00
Reserves		-	0.00	0.00
Current year Surplus / (Deficits)		(52,946.68)	-52,946.68	0.00
Accumulated surpluses / (deficits) prior year		1,077,797.65	1,077,797.65	0.00
Total net Assets / Equity		1,024,850.97	1,024,850.97	0.00

Below is the 2021 restated Statement of Financial Performance for comparative purposes:

	Notes	2021 REPORTED	2021 RESTATED	Impact
Revenue				
Non exchange revenue	22	273,747,844.20	273,747,844.20	0.00
Exchange revenue	23	18,865,779.91	18,865,779.91	0.00
Other revenue	24	6,374,132.23	6,355,638.59	-18,493.64
Financial revenue	25	499,147.76	499,147.76	0.00
Total revenue		299,486,904.10	299,468,410.46	-18,493.64
Expenses				
Personnel	26	133,610,111.33	133,610,111.33	0.00
Contractual supplies and services	26	116,513,686.82	116,513,686.82	0.00
Depreciation and amortization	26	48,229,816.26	48,229,816.26	0.00
Impairment	26	0.00	0.00	0.00
Provisions	26	409,524.09	391,030.45	-18,493.64
Other expenses	26	0.00	0.00	0.00
Finance costs	25	419,282.93	419,282.93	0.00
Total expenses		299,182,421.43	299,163,927.79	-18,493.64
Surplus for the period	27	304,482.67	304,482.67	0.00

Use of estimates

In accordance with generally accepted accounting principles, the financial statements include amounts based on estimates and assumptions by management, according to the most reliable information available, judgement and assumptions. Estimates include accrued revenue and expenses. Actual results could differ from those estimates. Changes in estimates are reflected in the period in which they become known.

The IS estimates the value of provisions for bad debts and is notionally posted for the long outstanding receivables at year-end, however it is reversed in the beginning of the following year. Debts from Member Nations in lieu with Common Funded calls are excluded, since in case of default they shall be collectively covered (by all Allies) as per NATO's charter. The percentages applicable for provision for bad debts have been reviewed as part of the formalization of the NATO IS accounting policies.

Foreign currency transactions

The IS budget is authorized and managed in EUR so contributions are called in EUR. The same situation prevails for the other segments which are budget driven such as the Human Resources Shared Services (HRSS). Foreign currency transactions as required are accounted for at the NATO exchange rates prevailing on the date of the transaction. Monetary assets and liabilities at year-end which were

denominated in foreign currencies were converted into EUR using the NATO exchange rates applicable at 31 December of the fiscal year.

Realised and unrealised profit and loss resulting from the settlement of such transactions and from the revaluation at the reporting dates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Financial Performance.

Financial risks

NATO-IS uses only non-derivative financial instruments as part of its normal operations. These financial elements include cash, bank accounts and deposit accounts.

All the financial instruments are recognised in the Statement of Financial Position at their fair value.

The Organisation is exposed to a variety of financial risks, including foreign exchange risk, credit risk, currency risk, liquidity risk and interest rate risk.

a. Foreign currency exchange risk

The exposure to foreign currency risk is limited as the majority of the NATO-IS's expenditures are made in EUR. The current bank accounts are held in EUR, CAD, CHF, DKK, GBP, NOK and USD. There are transactions in foreign currencies for the NATO Satellite Offices. The currency risk associated with these holdings is considered limited in consideration of the level of the aggregated amount held in these accounts.

The maximum exposure as at year end is equal to the total amount of bank balances, short term deposits and receivables. There is very limited credit risk associated with the realization of these elements.

b. Credit risk

Concerning cash and cash equivalent, the IS credit risk is managed by holding current bank accounts and short term highly liquid deposits that are readily convertible to a known amount of cash held with accredited banking institutions.

Table below presents the short term credit ratings, for every banking institutions in which IS holds cash and cash equivalents at 2022 year-end:

BANK NAME	COUNTRY OF HQ	SHORT TERM RATINGS					
		FITCH		S&P GLOBAL		MOODY'S	
		Rating	Last review date	Rating	Last review date	Rating	Last review date
ING BANK	NE	F1+	15-Nov-22	A-1	28-Jun-22	P-1	02-Oct-22
BNPP FORTIS	Belgium	F1	13-Sep-22	A-1	25-Apr-22	P-1	16-Dec-20
Credit Agricole	France	F1	19-Oct-22	A-1	19-Oct-22	P-1	15-Dec-21
Credit Mutuel ARKEA	France	F2	19-Oct-22	A-1	21-Oct-22	P-1	09-Apr-21
Wells Fargo	US	F1	06-Jun-22	A-1	13-Sep-22	P-1	16-Feb-22
Intesa SanPaolo	Luxembourg	F2	29-Nov-22	A-2	29-Jul-22	P-2	09-Aug-22

The IS holds also a current bank account with AION but without significant cash holdings.

c. Liquidity risk

The liquidity risk, also referred to as funding risk, is based on the assessment as to whether the Organisation will encounter difficulties in meeting its obligations associated with financial liabilities. A liquidity risk could arise from a short term liquidity requirement. There is a very limited exposure to liquidity risk because of the funding mechanism which guarantees contributions in relation to the approved budgets. Some limited risk could be due to the accuracy of budget forecasts. However, past history shows that this process results in surpluses, and the budgetary rules provide for revised budgets.

Segments relying on revenue from their commercial operations (i.e. MWR) have proven to be more exposed to liquidity risk.

d. Interest rate risk

Except for certain cash and cash equivalent balances, the IS financial assets and liabilities do not have associated interest rates. The IS is restricted from entering into borrowings and investments, and, therefore, there is an insignificant interest rate risk. Interest earned is not a budgetary resource but contributes to the surplus owed to Nations.

Current Assets

a. Cash and cash equivalents

Cash and cash equivalents are defined as short-term assets. They include cash in hand, deposits held with banks, other short term highly liquid investments. This includes funds managed on behalf of third parties which are held in cash and are presented as a liability. They are accounted for when cash is effectively received. Funds held by NATO IS on behalf of the reporting entities served by the NATO IS Office of Financial Control are included.

b. Receivables

Receivables are stated at net realisable value. Contributions receivable are recognised when a call for contribution, based on the approved budget, has been issued to the funding Nations. These receivables represent the uncollected contributions from Member Nations. No allowance for loss is recorded with respect to Member countries assessed contributions receivable.

c. Prepayments

A prepayment is a payment in advance of the period to which it pertains and is mainly in respect of advance payments made to third parties. This item may include advances made to NATO staff in accordance with NATO Civilian Personnel Regulations (such as advances on salaries or on education allowance).

d. Other Current Assets

Other Current Assets correspond to miscellaneous amounts due to NATO IS such as accrued income, rent related deposits, and other assets that do not result from the standard order to cash process, such as miscellaneous transactions to be regularized, including between entities managed by the IS Office of Financial Control, and advances made to non-consolidated NATO entities, generally in order to ease their treasury situation.

e. Inventories

As mentioned above, NATO's adaptations of IPSAS are spelled out in C-M(2016)0023 of April 2016, which included IPSAS 12 Inventories. Furthermore, C-M(2017)0043 of September 2017 approved the NATO Accounting Policy for Inventory.

When it comes to assessing the control of NATO Inventory, these documents define a set of 10 criteria to be used in assessing the level of control of an Inventory asset. A positive response on six of the criteria will lead to the asset being capitalized in the financial statements if it is above the capitalization threshold. This is applied from January, 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 2013.

Criteria that may indicate control of an asset:

- The act of purchasing the asset carried out (or resulted from instructions given) by the NATO Reporting Entity.
- The legal title is in the name of the NATO Reporting Entity.
- The asset is physically located on the premises or locations used by the NATO Reporting Entity.
- The asset is physically used by staff employed by the NATO Reporting Entity or staff working under the NATO Reporting Entity's instructions.
- The fact that the NATO Reporting Entity can decide on an alternative use of the asset.
- The fact that the NATO Reporting Entity can decide to sell or to dispose the asset.
- The fact that the NATO Reporting Entity, if it has to remove or destroy the asset, can take the decision to replace it.
- The fact that a representative of the NATO Reporting Entity regularly inspects the asset to determine its current condition.
- The fact that the asset is used in achieving the objectives of the NATO Reporting Entity.
- The fact that the asset will be retained by the NATO Reporting Entity at the end of the activity.

Capitalization thresholds relevant to the financial statement are as follow:

Category	Threshold	Basis
Consumables	€50,000	Per location/warehouse
Spare Parts	€50,000	Per location/warehouse
Ammunition	€50,000	Per location/warehouse
Strategic stocks	€50,000	Per location/warehouse

Slow moving inventory – Assuming turnover of stock is over a 12 month period, any items not used over a 36 month period will be deemed to be slow moving.

Strategic stock – Some complex elements of slow moving stock can be identified as strategic if they are deemed essential to the effective operation of an asset and cannot be readily replaced by commercial off the shelf items or cannot be purchased due to market decisions to close production lines of key inventory items due to the advanced age of the strategic asset to which the stock relates.

The IS capitalizes inventory which it controls in its financial statements. Where there is a conflict between more than one NATO Reporting Entity as to the control of inventory, only the end-user entity will report the inventory in its financial statements, based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities.

The IS will include transportation costs involved in bringing the inventories to their present location and condition in the initial valuation of inventory. These costs will be measured on the actual cost of transportation per item of inventory or by using an apportionment of the global transportation costs of bringing the inventories to their present location and condition across all inventory items in the period. Transportation costs involved in the subsequent movement of inventory which brings them into operational use will not be included in the value of inventory.

The IS considered inventory acquired prior to 1 January 2013 as fully expensed.

Where this adaptation conflicts with another requirement of IPSAS this adaptation shall apply. For the remainder, IPSAS 12 shall apply.

At year end, the IS assesses its inventories under IPSAS 12, against the materiality thresholds defined by the NATO policy, based on this assessment the IS decides whether to capitalize or fully expense its inventories.

The materiality will be assessed each year in relation to the inventories held across the IS HQ. Inventories in external offices abroad are not considered to be material.

Fixed assets (Property, Plant & Equipment and Intangible Assets)**a. Property, Plant & Equipment**

NATO's adaptation of IPSAS are spelled out in C-M(2016)0023 of April 2016 among which were specific items addressing IPSAS 17 PPE. Furthermore, C-M(2017)0022(INV) approved the NATO accounting policy for Property, Plant and Equipment.

When it comes to assessing the control of NATO over PPE these documents define a set of 10 criteria to be used in assessing the level of control of a tangible asset. A positive response on six of the criteria will lead to the asset being capitalized in the financial statements if it is above the capitalization threshold. This is applied from January 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 2013

Capitalization thresholds relevant to the financial statement are as follow:

Category	Threshold	Depreciation Life	Method
Land	€200,000	N/A	N/A
Buildings	€200,000	40 years	Straight line
Other infrastructure	€200,000	40 years	Straight line
Installed equipment	€ 30,000	10 years	Straight line
Machinery	€ 30,000	10 years	Straight line
Vehicles	€ 10,000	5 years	Straight line
Aircraft	€200,000	Dependent on type	Straight line
Vessels	€200,000	Dependent on type	Straight line
Mission equipment	€ 50,000	3 years	Straight line
Furniture	€ 30,000	10 years	Straight line
Communications	€ 50,000	3 years	Straight line
Automated information Systems	€ 50,000	3 years	Straight line

In light of the move to the New NATO HQ in 2018, it was decided, that core PPE relating to the previous HQ and the Manfred Wörner Building will be fully expensed as will any fixed equipment and furniture that is not to be transferred to the current HQ. Only movable items purchased with a view to being used again in the current HQ/ the Manfred Wörner Building environment would continue to be capitalized.

Where and as appropriate, the value of specific pieces of PPE (for example buildings), will be broken down into component parts to allow depreciation of different parts of the asset at different rates. The IS has considered PP&E acquired prior to 1 January 2013 as fully expensed. For PPE held prior to 1 January 2013 and not previously recognized as an asset, the IS provides a brief description under Note 10.

b. Intangible Assets

As mentioned above, NATO's adaptations of IPSAS are spelled out in C-M(2017)0023 of April 2013, which included IPSAS 31 Intangible Assets. Furthermore, C-M(2017)0044 approved the NATO accounting policy for intangible assets.

When it comes to assessing the control of NATO over Intangible Assets, these documents define a set of 10 criteria to be used in assessing the level of control of an Intangible asset – they are the same as mentioned above under Inventory. A positive response on six of the criteria will lead to the asset being capitalized in the Financial Statements if it is above the capitalization threshold. This is applied from January 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 2013.

NATO Intangible Assets Capitalization Thresholds – the IS will capitalize each intangible asset item that is above the following agreed NATO thresholds:

Category	Threshold	Depreciation Life	Method
Computer software (commercial off the shelf)	€50,000	4 years	Straight line
Computer software (bespoke)	€50,000	10 years	Straight line
Computer database	€50,000	4 years	Straight line
Integrated system	€50,000	4 years	Straight line

The IS capitalizes all controlled intangible assets above the NATO Intangible Asset Capitalization Threshold. For anything below the threshold, the IS has the flexibility to expense specific items. NATO-IS capitalizes integrated systems and include research, development and implementation, and can include both software and hardware elements. But the IS does not capitalize the following types of intangible assets in its financial statements:

- rights of use (air, land and water);
- landing rights;
- airport gates and slots;
- historical documents; and,
- publications

The IS capitalizes other types of intangible assets acquired after 1 January 2013 including:

- Copyright
- Intellectual Property Rights
- Software development

The IS considers intangible assets acquired prior to 1 January 2013 as fully expensed.

The IS reports controlled intangible assets in its financial statements. Where there is a conflict between more than one NATO Reporting Entity as to the control of intangible assets, only the end-use entity will capitalize the intangible asset in its financial statements based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities.

For intangible assets held prior to the 1 January 2013 and not previously recognized as an asset, the IS should provide a brief description of intangible assets held in its intangible asset recording systems in the notes to the financial statements. Such disclosure will include as a minimum the types of intangible assets held, locations where they are held, and the approximate number of items held per asset category. However NATO does not possess any such items

If an intangible asset is upgraded after 1 January 2013, only the portion related to the modification will be capitalized.

Where this adaptation conflicts with another requirement of IPSAS, this adaptation will apply. For the remainder, IPSAS 31 shall apply. This adaptation is effective for financial reporting periods beginning on 1 January 2013.

Non-Current Financial Assets

This item includes financial investments held by NATO IS for a period of more than 1 year on behalf of the reporting entities served by the NATO IS Office of Financial Control .

Current liabilities

a. Payables

Payables are amounts due to Nations in relation with budget rules or to third parties for goods received and services provided that remain unpaid. This includes an estimate of accrued obligations to third parties for goods and services received but not yet invoiced.

b. Advances and Unearned revenue

Funds are always called in advance of need because the IS has no capital that would allow it to pre-finance any of its activities.

Unearned revenue represents participating Nations' contributions which have been called for current budgets but that have not yet been recognised as revenue in the absence of matching expenses.

Advances are recognised when calls in relation to future year budgets are issued. Advances made by contributing nations outside of the call for contributions process are recorded when cash is received.

c. Provisions

Estimates of present obligations resulting of a past event if resulting of a possible payment or loss of a foreseeable value are presented under Provisions. This item includes, inter alia, a Bad Debts Provision.

d. Other Current Liabilities

Amounts corresponding to the current year budgetary surplus, i.e. lapsed credits, net interest and miscellaneous income, are considered a liability towards the contributing nations. The settlement does not follow the normal accounts payable process, since the standard approach is to return them to contributing nations via a deduction of the following year's call for budget contributions. This liability is therefore classified under Other Current Liabilities.

This item includes financial liability resulting from the funds held by NATO IS for maximum one year on behalf of the reporting entities served by the NATO IS Office of Financial Control as the current IS assets.

This item may include other liabilities that do not result from the standard procure to pay process, such as miscellaneous transactions to be regularized between entities managed by the IS Office of Financial Control.

Non-Current Liabilities

The long term unearned revenue is unearned revenue in relation to net carrying amounts of Property, Plant and Equipment and Intangible Assets. Revenue is recognised over the estimated life cycle of the Property, Plant and Equipment and the Intangible Assets.

This item also includes financial liability resulting from the funds held by the NATO IS for more than one year on behalf of the reporting entities served by the NATO IS Office of Financial Control as the IS non-current asset.

Net Assets

Net Assets correspond to cumulative surpluses/deficits of non-budgetary activities such as Partner Accommodation where income follows a process that is relatively independent from the actual level of expenses, and does not automatically balance expenses as in the standard NATO budget process. For such activities, the yearly execution results in a surplus or a deficit.

Leases

IS does not enter into financial leases. All IS leases are operational leases. Lease contracts are in place for vehicles, office equipment, etc.

Revenue and expense recognition

a. Revenue from non-exchange transactions

Revenue from non-exchange transactions comprises contributions from Participating Nations when they are based on officially approved cost shares or on a voluntary basis that are not approximately equal to the proportion of value received. This applies to all budget driven segments or entities (e.g. Civil Budget) and to Extra Budgetary Funds.

Civil Budget contributions to be called from Member Nations, based on the budget approved by the North Atlantic Council, are initially recorded as unearned revenue liabilities. Because contributions are subject to conditions that, if unfulfilled, require the return of the transferred resources, the entity recognises a liability until the condition is fulfilled.

Assessed contributions for the IS Civil Budget are accounted for as unearned revenue when called; revenue is recognised and the liability is discharged when the conditions are fulfilled. Revenue is recognised in that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. The balance of unspent contributions and other revenues which relate to future periods are deferred accordingly.

Voluntary contributions such as pledges in relation to Extra Budgetary Funds are accounted for as unearned revenue when confirmed by the donor; revenue is recognised and the liability is discharged when the conditions are fulfilled.

In-kind contributions of services or goods are currently not recognised in the Statement of Financial Performance. The number of Voluntary National Contributions (VNCs) staff is disclosed under note 36 "Employee Disclosure".

b. Revenue from exchange transactions

Resources of revenue from exchange transactions are measured at fair value of the consideration received or receivable and are recognised when goods and services are delivered. This is revenue in relation to the reimbursement of administrative support and common operating costs, Refundable Expenses, Human Resources Shared Services (HRSS) and Partners' Accommodation costs. It also includes revenue from audits performed by IBAN on Multi-nationally funded entities and MWR activities.

c. Long term unearned revenue

The budget resources provided by Nations for the funding of capital expenditure are recognised as a liability in the Statement of Financial Position as long term unearned revenue. Earned revenue will be progressively recognised from long term unearned revenue, in an amount equal to annual depreciation of the related non-current assets, as future economic benefits and service potential will flow to IS when the asset is operational.

NOTE 3: CASH AND CASH EQUIVALENTS

The current bank accounts at NATO HQ are held in EUR, CAD, CHF, DKK, GBP, NOK and USD. Deposits are held in bank current accounts that are immediately available.

The IS has satellite offices for Moldova, Ukraine, and Georgia which hold bank accounts with their local banks.

Cash is also held for Extra Budgetary Funds for which the IS is the executing agent and therefore acts as the principal, or for which the IS acts as Treasurer. These projects are not financed by the common funding principle. These Extra Budgetary Funds managed on behalf of third parties are held in cash or as a receivable if they correspond to an unpaid non-budgetary contribution in relation to nationally funded elements. The corresponding amounts are presented as a current liability.

NATO IS reports also minor cash held on behalf of the Defined Benefits Pension Scheme .

Since 1 January 2021, the IS manages also LTPB under closure bank accounts, until its final closure.

NATO Reimbursable Expenses, Partners' Accommodation, HRSS, the Manfred Wörner Building Refurbishment Project and the OSCR SRLS Suspense Account use the same bank account as the IS.

While the consolidated IS cash position is positive, the implicit position of some segments may be negative, in case they find themselves in a cash shortage position such as Reimbursable Expenses and the Manfred Wörner Building Project.

The table below presents a breakdown of all Cash and Cash equivalents under the control of the IS:

Amounts in EUR

	2022	2021
NATO-IS	62,244,259.56	118,730,877.60
NATO Satellite Offices	641,712.79	179,768.62
NATO Petty Cash	700.00	251.79
NATO Reimbursable Expenses	(551,423.60)	(825,102.68)
HR Shared Services	(455,414.67)	(107,609.60)
Office of Shared Services	829,632.37	829,632.37
Extra Budgetary Funds	153,146,285.09	53,208,823.98
Partners Accomodation	425,020.73	896,149.35
Manfred Wörner Building	(2,495,073.63)	(3,101,782.91)
LTPB under closure	3,591,483.35	1,265,295.28
OSCR SRLS	-	(1,569,990.20)
Morale and Welfare Recreational Activities (Staff Centre)	1,721,773.25	1,249,951.09
Total	219,098,955.24	170,756,264.69

Negative balance of the Manfred Wörner Building in 2022 is the result of the pre-financing operations with the use of IS cash liquidity. The negative balances for Reimbursable Expenses and HRSS are due to expenses that either have been charged back but not yet paid or are awaiting to be charged back. The OSCR SRLS Suspense Account expenses have been reimbursed from the AOM budget during the year.

NOTE 4: SHORT TERM INVESTMENTS

Short term investments are made in highly liquid deposits in consideration of the situation of interest rates. These include cash from the IS and also from other segments over which the IS exerts control.

At 2022 year-end there was MEUR 100 cash held as short-term investments (MEUR 35 in 2021), MEUR 60 of Extra Budgetary Funds were invested through a NATO IS bank account; the remaining MEUR 40 belongs to NATO IS..

The table below provides comparative data on this item over two consecutive years:

Amounts in EUR

	2022	2021
NATO-IS	40,000,000.00	20,000,000.00
EBF funds invested through IS	60,000,000.00	9,000,000.00
LTPB under closure	-	6,000,000.00
Total	100,000,000.00	35,000,000.00

NOTE 5: CURRENT ASSETS: ACCOUNTS RECEIVABLE

Accounts receivable are mainly outstanding contributions for the IS Civil Budget related to the call issued at the end of the year and amounts due by other bodies and member Nations for services rendered by the International Staff (Accommodation costs and Administrative Support).

Contributions receivable from NATO Member Nations are essentially funds requested from the Nations to finance the Civil Budget and the advances called in relation to the following year Civil Budget that remain unpaid at year end. In accordance with the standard procedure, one advance for the following year's budget is called at the end of the current year and two calls for contributions are issued during year, usually in February and in November. Other receivables from NATO Member Nations correspond mainly to amounts due in relation to common operating costs, administrative support and rental of office accommodation.

Receivables from Member or Partner Nations and others correspond to amounts due in relation to accommodation costs, administrative support, accommodation fees of Partner buildings, items procured on behalf of third parties, contributions to the Von Karman Institute etc. They also correspond to outstanding amounts in relation to the funding of specific requirements concerning the refurbishment of the Manfred Wörner Building and the Moral, Welfare and Recreation activities. Extra-Budgetary Funds receivables are pledged funds not yet received.

The table below provides comparative data of the Receivables balances, taking into account the eliminations, at year-end, for two consecutive years:

Amounts in EUR

	2022	2021
International Staff	45,284,364.15	35,944,772.13
Refundable Expenses	1,128,852.52	1,463,498.36
HR Shared Services	880,639.54	281,073.54
Extra Budgetary Funds	355,034.63	386,656.26
Partner Accommodation	322,711.39	821,971.28
Manfred Wörner Building	904,955.00	1,122,454.00
OSCR SRLS	-	1,572,890.20
Moral, Welfare and Recreation	581,977.97	628,624.19
TOTAL	49,458,535.20	42,221,939.96

NOTE 6: PREPAYMENTS

Prepayments to suppliers relate to expenses paid in advance.

Prepayments to staff members correspond to advances to be regularised (mainly education allowances for the following year but also travel on duty, advances and loans, as provided by the CPRs).

In 2021 the LTPB under closure has granted a cash advance to the IS to partially fund the 2021 summit (BC-D(2021)0055). In 2022 the Budget Committee has forgiven the IS to reimburse the cash advance to the LTPB under closure (BC-DS(2022)0022).

The tables below provide comparative data of the Prepayment balances at year-end, for two consecutive years:

Amounts in EUR

	2022	2021
International Staff	2,273,367.16	1,676,455.57
Refundable Expenses	0.00	7,156.00
Extra Budgetary Funds	52,280.45	1,200.04
LTPB Under closure	54,191.22	2,706,699.40
TOTAL	2,379,838.83	4,391,511.01

NOTE 7: OTHER CURRENT ASSETS

These consist essentially of cash advances to the DCPS, inter-entity regularizations and pending litigations receivables that were passed on to the IS after the closure of the old site Staff Centre entity.

NATO IS will sell in 2022 its green certificates that have been granted in 2021, 6,354.1 units, through the negotiated contract with the electricity provider at a unit price of EUR 94, amounting to EUR 597,285.40.

The deferred expense relate to the invoices received late 2022 but for expenses of the next fiscal year.

The below table provides a breakdown of the year-balances for the segment IS, for two consecutive years:

Amounts in EUR

	2022	2021
Inter-entity cash advances	975,867.86	698,344.29
Green certificates to realize in 2023	597,285.40	0.00
Deferred expenses	368,056.85	11,900.51
Litigation Receivable	284,236.86	284,236.86
Receivable towards NATO Body	18,092.97	4,094.49
Warranty	2,896.03	2,896.03
Untaken Leave provision	0.00	5,000,357.66
Total	2,246,435.97	6,001,829.84

NOTE 8: INVENTORIES

The table below provides insight on the movements as well as the balances of Inventories at year-end:

Amounts in EUR

Description	Stock Value per 31 Dec 21	2022 Yearly Issues	2022 Yearly Purchases	Stock Value per 31 Dec 22
Office Supplies	225,290.18	77,099.32	81,421.04	229,611.90
Buildings & Infrastructure Supplies	231,134.76	198,578.24	207,853.82	240,410.34
NOS Consumables	52,197.34	39,084.67	39,938.00	53,050.67
Total				523,072.91

NOTE 9: NON-CURRENT ASSETS: RECEIVABLES

Nothing to report.

NOTE 10: PROPERTY, PLANT AND EQUIPMENT

The following principles have been applied.

Property, Plant and Equipment (PPE)

Infrastructure, plant and equipment are stated under the accounting principles mentioned in Note 2 above.

Land and buildings

Land and buildings are shown at fair value, based on internal valuation and judgment on each reporting date.

During the first half of 2018, NATO moved to its new premises, the current NATO HQ, further to the handover from the Host Nations (Belgium and NCIA) to NATO of all of the main elements of the projects that enabled operations in the new building. As a consequence, and as per the provisions of the NATO Accounting Framework (C-M(2016)0023), all assets that were recorded as work in progress in the "New NATO HQ" financial statements have been transferred to the NATO International Staff, or the NCIA (for the IT assets).

The value of the current HQ building includes items considered as Common Funded and items considered as Nationally Funded. The reasoning stems from a number of factors. The current HQ building constitutes a coherent and global building whose purpose is to bring together member nations in order to enable an efficient and effective consultation process. This situation whereby dedicated National Representations are present on site is very specific to NATO and does not always exist in other comparable international organizations. The member nations are not considered, from a legal perspective, as having direct property rights on the parts of the building corresponding to their own delegation premises, but rather having an exclusive right of use. In this respect the different funding mechanisms cannot be deemed a factor justifying a specific accounting treatment. The situation also carries certain restrictions, such as the inability to execute works affecting or altering the basic structure of the building, or to use the premises for purposes different than housing their national delegation to NATO, or to independently sell their premises. Additionally, it is difficult to accurately distinguish the value between these common and nationally funded elements. Their inclusion provides useful and clear information which contributes to financial transparency. Common funded and nationally funded construction works were managed as a single project. The economic benefit or the service potential is measured by the contribution to consensus building and therefore it cannot be separated from NATO's purpose. Therefore, this would not justify a separate accounting treatment.

It should be noted that this approach does not apply to the national fit-out segment, for which four nations decided to act separately.

Items purchased prior to 1 January 2013:

Material and non-recorded items purchased prior to 1 January 2013 are the fourth wing of the Manfred Wörner Building, assessed at the historical cost of EUR 2.566 million, and the Secretary General's residence with an assessed market value of EUR 12,000,000 as at October 2020.

PPE and Land and Buildings disclosures

The table below shows the status of the PPE and Land and Buildings in the IS segment at year-end:

(amounts in EUR)	Carrying Amount end 2021	Additions	Disposals	Depreciation	Reclass	Impairment	Carrying Amount end 2022
COMMON FUNDED							
Land & Building	608,140,473.41			(16,699,533.75)			591,440,939.66
Installed equipment	190,285,171.59	147,168.29		(29,655,127.22)			160,777,212.66
Machinery	274,145.40	6,710.45		(53,244.68)			227,611.17
Transportation Equipment	421,099.30	32,890.08		(140,310.60)			313,678.78
Communications	117,900.91	282,527.86		(105,621.94)			294,806.83
Furniture and Office Equipment	-	309,300.00		(15,465.00)			293,835.00
IT Equipment	78,660.13	248,659.60		(96,935.82)			230,383.91
TOTAL	799,317,450.74	1,027,256.28	-	(46,766,239.01)	-	-	753,578,468.01

As for the Manfred Wörner Building, all expenditures are accrued under a "Fixed Assets Under Construction" account until the finalization of the project when the project accumulated cost will be finally recognized as Land & Buildings.

The table below shows the status of the PPE and Land and Buildings in the Manfred Wörner Building segment at year-end:

Amounts in EUR

Manfred Wörner Building	2022	2021
Assets under construction	21,067,863.85	20,775,480.94

Total Warranty Contract

In December 2018 the IS signed with COFELY (currently: EQUANS SERVICES) a nine years contract (expires in 30/11/2027) for the maintenance of the IS HQ equipment's and technical installations. This contract is referred to as a Total Warranty Contract.

The below table disclose the items that were replaced by EQUANS SERVICES during 2022, as part of the contract execution:

EQUANS SERVICES TOTAL WARRANTY REPLACEMENTS 2022	
ITEMS REPLACED	COST
REPLACEMENT CLAPET COUPE-FEU MWB	33,910.90
REPLACEMENT ISOLATIONS ANTIVIBRATOIRES MF S3	2,985.77
REPLACEMENT ECRAN UTGE ICT1	3,230.95
REPLACEMENT POPE CIRCUIT SUD MWB	2,869.83
REPARATION MOTEUR GRUNDFOS MGE180	2,039.46
TRAVAUX TUYAUTERIES CHAUDES SUITE AU DESEMBOUAGE DES CIRCUITS	77,796.15
REPARATION FRIGO 3	5,668.67
REPLACEMENT ARMOIRE CONDENSATEURS MWB	7,488.80
REPLACEMENT ECRAN UGTE DANS CHT 4	3,230.95
REPLACEMENT POMPE FUEL CH2	4,594.20
UNITE DE COMMANDE FLAMCO SPC-LW	2,110.19
REPLACEMENT ECHANGEUR GP CI 4A	60,609.50
REPLACEMENT POMPE DOSEUSE	1,872.39
REPLISSAGE FROGOS YORK	17,578.26
REPARATION FRIGO YORK	15,316.76
RPL BATTERIES UPS GHN EOR	5,972.58
TOTAL	247,275.36

After an analysis, the OFC decided that since all acquired items falls under the consumable/spare part category, in 2022 the IS shall not recognize EQUANS SERVICES's replaced items as PP&E.

The contract also stipulates that the difference between the costs paid by EQUANS SERVICES and the contractual annual replacements ceilings are captured under a "Solde du Fonds de Réserve" and that at the end of the ninth year of contract, the IS will get back one half of the funds not spent. However, if the balance is negative, NATO will not pay EQUANS SERVICES any compensatory payment.

As per NFR's when and if this income realizes, it shall be returned to Nations as Miscellaneous Income of the year concerned.

The balance of the "Solde du Fonds de Réserve" at 31 December 2022, shows a positive balance of EUR 349,741.85 (EUR 319,697.20 as per end 2021).

However, since the settlement of the "Solde du Fonds de Réserve" is receivable only at the end of the contract (30/11/2027), the OFC does not recognize any related asset/liability in lieu with the Total Warranty Contract.

NOTE 11: INTANGIBLE ASSETS

Intangible assets are stated at historical cost minus accumulated depreciation and any recognized impairment loss.

The table below shows the status of Intangible Assets in the IS segment at year-end:

(amounts in EUR)	Carrying Amount end 2021	Additions	Disposals	Depreciation	Reclass	Impairment	Carrying Amount end 2022
COMMON FUNDED							
Intangible assets							
ILS RELATED COSTS: IMPLEMENTATION, SW, PROJECT STAFF	11,793.78			(5,896.90)			5,896.88
WCM RELATED COSTS: IMPLEMENTATION, SW, PROJECT STAFF	166,369.20			(166,369.20)			-
PPM RELATED COSTS: IMPLEMENTATION, SW, PROJECT STAFF	126,131.91	114,456.70		(41,337.16)			199,251.45
EIM RELATED COSTS: IMPLEMENTATION, SW, PROJECT STAFF	-	933,300.50	-	(38,887.52)	-	-	894,412.98
DAMS RELATED COSTS: IMPLEMENTATION, SW, PROJECT STAFF (2)	16,254.50		-	(16,254.50)	-	-	-
ERP RELEASE II + OBI	0.36						0.36
ERP RELEASE III (HR, Programs, SharePoint)	1,199,995.58		-	(847,854.90)		-	352,140.68
ERP RELEASE IV (Travel)	319,236.25	21,475.00		(107,271.04)			233,440.21
ERP UPGRADE	613,857.40	394,751.40		(176,584.68)			832,024.12
TASK TRACKER	-	266,185.00		(4,436.41)			261,748.59
OTHER ASSETS	180,859.95	171,197.00	-	(95,820.34)		-	256,236.61
TOTAL	2,634,498.93	1,901,365.60	0	(1,500,712.65)	-	0	3,035,151.88
Intangible assets under construction	6.39					(6.39)	(0.00)
TOTAL	2,634,505.32	1,901,365.60	-	(1,500,712.65)	-	(6.39)	3,035,151.88

During 2022, the ERP Constellation project, release 4b associated investment cost has been capitalized (EUR 440,226.40). The functional changes to the Tabular Model and LARF replacement of Project Portfolio Management System (CIRIS) went live as well, resulting in an additional capitalization of EUR 114,456.70 investment costs.

The implementation of Task Tracker (HYDI) (EUR 266,185) and Enterprise Information System (EIM) Implementation (EUR 933,300.50) was finalized in 2022.

Depreciation

Straight-line depreciation method is used for all categories, with the life cycles in keeping with those stated in the accounting policy.

Impairment of fixed assets

The carrying amounts of fixed assets are reviewed for impairment if events or changes of circumstances indicate that they may not be recoverable. If any such indication exists, the recoverable amount of the

asset is estimated in order to determine the impairment loss. Any provision for impairment losses is charged against the Statement of Financial Performance in the year concerned.

NOTE 12: NON-CURRENT FINANCIAL ASSETS AND OTHER NON-CURRENT ASSETS

In 2020, in the context of negative interest rates imposed by the European Central Bank (ECB), the Budget Committee authorized as per BC-DS(2020)0002 all NATO common-funded entities a deviation from FRP Article XXXI 1) to allow for exceptional term deposits not to exceed four years and up to MEUR 400, on the condition that the deposited funds can be claimed at any time during the investment period with no impact on the original invested amounts.

The deviation from FRP Article XXXI 1) only remained in effect for as long as negative interest rates were imposed by the ECB.

The ECB increased the interest rates in the second half of 2022 resulting in a positive interest, the investment for more than one year, MEUR 40, from the NATO Defined Benefits Pension Scheme (DBPS) has been disinvested and transferred to the DBPS bank account.

Other non-current assets covers the amount of MEUR 2.329 and is the balance of pre-financing the cost of refurbishment and re-investment works in the Manfred Wörner Building Occupancy fees to be charged to future occupants including the NATO International Staff will offset this amount.

By the end of 2022 the IS has been awarded 11,347.7 green certificates, for the production of eco-friendly or green energy. Those green certificates can be sold on the market through different channels: either via an energy supplier, a broker or Elia, the Belgian's Electricity System Operator.

In 2022 the IS negotiated a contract for electricity supply which includes the sale of the granted green certificates at a unit price of EUR 94. Assumption is that the certificates granted by the end of 2021 (6,354.1 units) will be sold during 2023, the remainder (4,993.6 units) in 2024. As a consequence, EUR 597,285.40 is recognized under Other Current Assets while EUR 469,398.40 under Other Non-Current Assets.

In 2021, during the yearly calculation of the NATO social contributions for active staff (medical premiums for fiscal year 2020) a surplus of premiums over the medical costs amounting to EUR 3,839,831.00 was observed.

In line with the NATO Civilian Personnel Regulations (NCPRs) Chapter X, by way of an exception, the 2020 surplus was used to create a "Stability Fund" within the NATO-wide Medical Scheme. This "Stability Fund" will prevent unforeseen increases in social contributions (medical premiums) for active staff. This fund is kept by Allianz on behalf of NATO and is therefore recognized as Non-Current Assets under HRSS.

By the end of 2022, the "Stability Fund" has not been used to buffer for unforeseen increases in social contributions, leaving the balance as per 31 December 2022 unchanged.

NOTE 13: PAYABLES

Payables and accrued expenses may be to commercial suppliers, staff, Member Nations, other NATO bodies and Partner Nations.

Payable to suppliers

Payable to suppliers relates to goods and services for which an invoice has been received, checked, and queued for payment but for which payment was still pending at year-end.

Payable to personnel

Payable to personnel relates to amounts due to staff in relation to travel expenses and hospitalities.

Payable to Nations

There is a payable in relation to the reimbursable salaries due to certain countries (United States, Norway and the Netherlands) for civilian staff members who are paid directly by their governments. This amount payable can be used by the nations in question applying it against any calls for contributions.

Payable to other NATO bodies

This includes amounts received from NATO bodies in support of projects funded by the Civil Budget.

Accruals

Accrued expenses correspond to the estimated obligation to third parties for goods and services received but not yet invoiced.

The table below presents detailed breakdown of payables at year-end for the IS segment for two consecutive years:

Amount in EUR

	2022	2021
Suppliers	12,323,735.26	19,692,505.77
Personnel Related	388,581.52	36,104.31
Member Nations	2,356,932.40	1,607,771.05
Accruals	8,008,089.38	5,259,013.04
Total	23,077,338.56	26,595,394.17

Morale, Welfare and Recreation

At the end of 2022, the MWR showed a payable position to NATO International Staff amounting to EUR 2,536,753.65 and corresponds to the unpaid accommodation costs from 2020 until 2022.

MWR cash holdings are not sufficient to cover this liability.

Extra-Budgetary Funds

Payables in this segment relate to invoices due mainly to the NATO Support and Procurement Agency (MEUR 12) and NATO Communications and Information Agency (MEUR 2.6) within the Ukrainian Comprehensive Assistance Package trust fund.

NOTE 14: DEFERRED/UNEARNED REVENUE

Civil Budget:

Unearned revenue corresponds to contributions called for the current or previous years that NATO IS plans to use as originally intended, but for which corresponding expenses will be incurred after the reporting date.

Unearned revenue includes principally those amounts of contributions which will be spent in subsequent years on the NATO Civil Budget as credits carried-forward resulting from the budget execution in accordance with the NATO Financial Regulations. If the funds are not spent by the end of the second year following the year for which they were approved, these funds will lapse unless a specific decision is taken by member nations for a further carry-forward.

Extra Budgetary Funds:

Unearned Revenue corresponds essentially to contributions received in relation to Trust Funds for which the related project activities are not yet completed. These amounts should be spent in future years as the projects evolve. It also includes contributions for the funding of the trust fund management costs as described in the interim funding solution document with reference PO(2021)0478. These amounts will be regularized, at the latest, when the final funding mechanism is approved by Nations.

Other segments:

Other segments that also present Unearned Revenue balances are the Manfred Wörner Building project (Assets under Construction) and LTPB under closure.

The table below presents a breakdown of the Deferred/Unearned Revenue balances at 2022 year-end:

Amounts in EUR

	2022	2021
NATO IS	12,648,011.06	9,533,241.76
Extra Budgetary Funds	214,724,981.88	51,186,225.65
Manfred Wörner Building	603,539.15	895,922.06
LTPB under closure	100,503.07	91,075.93
Total	228,077,035.16	61,706,465.40

NOTE 15: ADVANCES

The standard call for budget contributions process includes an advance on the following year's budget. In addition, some Nations may make ad hoc voluntary advances for budget contributions, ahead of the call issue. Under the new MWR mandate there are advances received in lieu with services.

The IS provides administrative personnel services to the NATO Communications and Information Organisation (NCIO) including the payments to staff and third parties. NATO Communications and Information Agency (NCIA) placed, on behalf of NCIO, an advance to cover for the expenditures that are regularized ex-post and on a monthly basis.

The LTPB under closure has granted a cash advance to the IS to partially fund the 2021 summit (BC-D(2021)0055) for an amount of EUR 2,642,428.56. In 2022, the BC decided for the LTPB to donate this advance to the IS (BC-DS(2022)0022).

The table below discloses detailed breakdown of the advances at the year-end for the IS segment for two consecutive years:

Amounts in EUR

	2022	2021
Advances called on next year Budget	80,000,000.00	68,000,000.00
Voluntary Advances from nations	9,607,486.85	1,222,032.48
LTPB Cash Advance	-	2,642,428.56
Advance NCIA for NCIO	94,604.00	97,706.33
Total	89,702,090.85	71,962,167.37

NOTE 16: SHORT TERM PROVISIONS

At year end 2022, Bad Debts Impairments in the IS amount to EUR 125,481.09 (EUR 64,388.84 in 2021) (which has no impact on the current budgets).

Under the MWR segment, the provision recognized for debts under dispute as at 31 December 2021 has been released in 2022. The MWR only holds a Bad Debts Impairment at the end of 2022.

NOTE 17: OTHER CURRENT LIABILITIES:**Other Current Liabilities Linked to the Budget Process**

Amounts corresponding to the current year budgetary surplus, i.e. lapsed credits, net interest and miscellaneous income, are considered a liability towards the contributing nations. The settlement does not follow the normal accounts payable process, since the standard approach is to return them to contributing nations via a deduction of the following year's call for budget contributions. Nations may also decide that part or all of the budgetary surplus is made available for use in future years (see Note on Budget Information).

Lapsed credits are budget funds for which no legal liability exists. They cannot be spent in subsequent years. Lapsed credits are deducted from the contributions due from Nations to fund the Civil Budget in the second call of the following year. For the HRSS, lapsed credits are deducted from the amounts due by the NATO participating entities while shortfalls are added to the amounts due by the NATO participating entities for the following year. The other activities do not follow the standard budget process.

For the Civil Budget, receipts linked to interest, realized foreign exchange difference gains or losses and bank charges are deducted from the contributions due by Nations to fund the Civil Budget in the following year; the deduction is made in the second call.

Miscellaneous receipts correspond to amounts collected by the IS for services rendered to staff or services rendered to and works performed for entities, including Delegations, present on the HQ site (e.g. telephone, refurbishment works, cabling). They also include amounts related to Science for Peace and Security (SPS) grants returned to the IS. These receipts come as a deduction in the calculation of the contributions due from nations to fund the Civil Budget in the following year; the deduction is made in the second call.

There can occasionally be an under-call or over-call of contributions. This was the case in 2018 since the information related to operations and maintenance amounts to be called from occupants of the HQ building was not complete or available at the moment of the issuance of the last call for budget contributions. The 2021 over-call of contributions was related to the newly introduced Asset Replacement Plan ring-fenced account concept.

In 2021 the LTPB under closure advanced the IS EUR 2,642,428.56 to fund part of the 2021 Summit expenditures. In 2022 the BC has forgiven the IS to reimburse the cash advance to the LTPB under closure (BC-DS(2022)0022).

The table below discloses year-end comparative data for the IS segment (materiality concern), for two consecutive years:

Amounts in EUR

	2022	2021
Lapsed Appropriations	6,647,726.54	8,334,683.57
Miscellaneous Income	2,482,165.09	2,521,183.19
Overcall	-	4,845,217.00
Net Financial Income	(14,754.79)	(31,853.07)
Total	9,115,136.84	15,669,230.69

The lapsed appropriations amounting to EUR 6,647,726.54 stem from previous year lapses (EUR 3,083,669.57) combined with current year lapses (EUR 3,564,056.97). These lapses are retained in line with C-M(2021)0034 and PO(2022)0513 (INV).

Miscellaneous income is mainly the valuation of the green certificates, the impact of over-accruals stemming from previous year(s) and amounts returned related to grants.

The increase in financial income is caused by accrued interest from short term investments.

Other Current Liabilities linked to closed or ad-hoc projects

Other Current Liabilities consist of funds initially contributed by Nations relating to balances of closed Extra Budgetary Funds for which NATO-IS is awaiting instructions on the redistribution of funds and to the settlement of the closure of former NATO entities and projects: HAWK Agency, Office of Shared Services and to ad-hoc contributions by some Nations to specific projects.

Hawk Management Office

In 2019 the OFC issued to IBAN a report on the financial closure of the former NATO Hawk Management Office (FC(2019)00133). The report discloses an asset of EUR 1,028,655.59, and a breakdown of the individual amounts to be returned to the former members of the HAWK Agency.

In 2021, formal closure of the NATO Hawk Management Office took place (FC(2021)0162). During 2022, the majority of the assets were offset against calls for contribution or returned to Participating Nations. At the end of 2022 the instruction from one Participating Nation (the return of EUR 1,214.42) is still pending.

Office of Shared Services

After the closure of the Office of Shared Services (OSS) in 2016, some residual actions continued to take place, namely under the General Procurement Shared Services initiative under the aegis of NSPA. However, since 2018 there was no further funding requirements to be covered by the OSS budget. Since 2018, EUR 942,678.71 are kept under IS control and remain as such at 2019 year-end.

As per C-M(2017)0063 the BC noted that the OSS pre-financing was put in place with the expectation it would not be required beyond 2018. And in 2018 (BC-D(2018)0197) the BC noted the proposal not to return amounts concerned until further guidance is issued. As a consequence, the funds are held by the IS and reported as a liability.

No payments have taken place in 2022, leaving the balance of EUR 829,632.37 unchanged.

Stikker Fund

The Stikker Fund originates from a donation made by former Secretary General D.U. Stikker in the 1960s. In accordance with the conditions laid down by the donor, the Fund is used for special financial aid to NATO staff in exceptional and distressing circumstances (EUR 43,447.22).

No use was made of the Stikker Fund during 2022, leaving the balance unchanged.

Global overview

The table below presents detailed breakdown of Other Current Liabilities at for the IS segment only, for two consecutive years.

Amounts in EUR

	2022	2021
Current Year Surplus	9,115,136.84	15,669,230.69
Closed Operations (Trust Funds, Projects or Entities)	1,665,804.34	2,277,102.30
Stikker Fund	43,447.22	43,447.22
Funds held by IS on behalf of other entities	60,096,993.42	69,008,334.92
Inter-entity Liability	42,997.01	50,138.64
Other	840,866.89	629,212.54
Total	71,805,245.72	87,677,466.31

The EUR 840,866.89 ("Other") refers mainly to stock inventory (EUR 523,072.96).

NOTE 18: NON-CURRENT LIABILITIES: LONG TERM PROVISIONS

The LTPB under closure held at the end of 2022 a provision for soil decontamination of the previous NATO Headquarters and was estimated at EUR 500,000. Payment is expected in the future and is therefore maintained in these financial statements.

NOTE 19: NON-CURRENT LIABILITIES: DEFERRED REVENUE

Long term unearned revenue is unearned revenue in relation to net carrying amounts of PP&E and intangible assets. Revenue is recognised over the estimated life cycle of the PP&E and the intangible assets when PP&E and intangible assets are recognized.

NOTE 20: OTHER NON-CURRENT LIABILITIES

Note 12 describes the "Stability Fund" that is held by Allianz on behalf of NATO. If this "Stability Fund" was to be dissolved and returned to NATO it would become a payable to the contributors of this social contribution. This liability is recognized under Other Non-Current Liabilities under the HRSS segment.

NOTE 21: NET ASSETS

Corresponds to miscellaneous accumulated surpluses/deficits generated outside of the budget execution context, essentially Partners Accommodation.

When the funding policy for Partners Accommodation (referred to as "Annex IV") was established in 1997 (BC-DS(97)18 Revised), Annex IV had budgetary credits authorised to provide for Partner accommodation on site. These were expanded to create offices in the previous Manfred Wörner Building. The Civil Budget Committee then decided to have the Partners reimburse the total rent and operational costs in proportion to the space they occupied. Further, Nations agreed that financing of Annex IV should be treated separately from the Civil Budget. They also agreed that Annex IV would, in future, be funded by Partners' rental payments, therefore Annex IV is not subject to the lapse rules foreseen in NATO's Financial Regulations. Over time, this process resulted in surpluses.

In 2022, the Partners Accommodation produced a deficit of EUR 881,763.47, resulting in an accumulated surplus of EUR 447,570.17 as of 31 December 2022. The deficit is caused by the increase

in energy prices and the regularization of Partners' accommodation costs related to previous year. The deficit will be addressed through the following year regularization.

NOTE 22: REVENUE FROM NON-EXCHANGE TRANSACTIONS

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the result can be measured reliably.

The total revenue from non-exchange transactions is essentially related to budget (or equivalent) driven segments and the contributions. For MWR segment non-exchange revenue derives from: contributions from the MWR stake holders (NATO entities) and the revenue from Gym membership and tax-free fuel operations.

Budget contributions, when called, are booked as unearned revenue and subsequently recognised as revenue when earned. The revenue recognition is matched with the recognition of expenses against the budgets. For Extra Budgetary Funds: revenue is matched to the costs of activities undertaken.

NOTE 23: REVENUE FROM EXCHANGE TRANSACTIONS

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the result can be measured reliably.

The total revenue from exchange transactions is broken down as follows:

- For the IS: revenue in relation to the reimbursement to the Civil Budget of administrative support and common operating costs, revenue received from concessions, miscellaneous income;
- For the Reimbursable Expenses and the OSCR SRLS Suspense Account; revenue in relation of reimbursement of expenses;
- For the HRSS: contributions from other NATO bodies to cover the expenses of the HRSS operations according to their proportion of established posts;
- For Partners' Accommodation: rent charged principally to Partner Countries for office space; and
- For MWR: rents from concessionaires and retailers and other miscellaneous operations.

NOTE 24: OTHER REVENUE

In the case of the Manfred Wörner Building, Other Revenue is the balancing element in order to capitalize all expenses related to this project.

In 2022, this item consists also of over-accruals and other miscellaneous revenue from previous years, e.g. return of grants.

An amount of EUR 653,667.30 has been recognized for the number of green certificates awarded by the end of 2022 at the negotiated price in the contract with the electricity provider (see: note 12).

NOTE 25: FINANCIAL REVENUE

Financial revenue (principally from the Civil Budget) is measured at fair value received or receivable for interest and foreign exchange gains.

In 2022 the major sources of financial income came from the IS (EUR 435,463.14) and Extra-Budgetary Funds (EUR 399,518.73) segments due to increased, positive, interest rates set by ECB.

These amounts include EUR 505,829.81 of Unrealized Profit originating from the year-end revaluation of cash and cash equivalents held in foreign currency and EUR 38,257.00 that is charged to Partner

Nations who have opted to pay back the IS for the Manfred Wörner Building refurbishment works over multiple years.

NOTE 26: EXPENSES

Wages, salaries and employee benefits

The personnel related costs include all staff expenses, as well as other non-salary related expenses in support of common funded activities. The amounts include expenses for salaries and emoluments for approved NATO-IS positions and temporary personnel, for other salary related and non-related allowances including overtime, medical exams, recruitment, installation and removal and for contracted consultants and training in accordance with Civilian Personnel Regulations.

Operating costs: rents, supplies and consumables used

The operating costs relate primarily to costs necessary to the day to day operation of the HQ, as well as travel expenses. This item includes expenses classified as Capital expenditure from a budget perspective (to include items such as IT, security, television and radio studios etc.) but that did not qualify as capital according to IPSAS or NATO Accounting Framework.

Programmes and grants

The majority of grants are considered expended upon notification to the beneficiary of the decision to attribute the grant/award. Programmes and grants is a broad term that covers activities with Partners and NATO nations ranging from funding seminars and conferences through NGOs, to bringing groups of experts to NATO HQ for briefings and attributing grants in the framework of the Science for Peace Security Programme (the latter being the main component).

Programmes and grants expenses include advances paid to beneficiaries of grants.

Depreciation and amortization

Depreciation and amortization expenses are not budgeted for.

Financial costs

Financial costs include expenses for banking costs and foreign exchange losses.

Other expenses

Are miscellaneous expenses that do not fall under any of the above categories.

NOTE 27: RESULT OF THE PERIOD (SURPLUS/DEFICIT)

The surplus/deficit is realised from the activities in support of Partner accommodation.

In 2022, the Partners Accommodation produced a deficit of EUR 881,763.47 (Note 21).

NOTE 28: CASH FLOW STATEMENT

In accordance with the new NATO Accounting Framework, the cash flow statement is presented based on the indirect method.

NOTE 29: BUDGET INFORMATION**Presentation of budget information in the financial statements**

For the purposes of these financial statements, the term “budget” is understood as corresponding to a formal approval of expense limits by the North Atlantic Council or the Budget Committee. It does not correspond to situations where the term “budget” may be used for more managerial purposes and/or is used to forecast expenditure rather than limit its allocations.

From a budget perspective, the International Staff Financial Statements include the budget transactions of the following budget entities: the NATO Civil Budget and the HRSS.

Presently, none of these budgets is publicly available.

The actual amounts referred to by IPSAS 24 (“amounts that result from execution of the budget”) are considered to be the actuals and the commitment of appropriations when the corresponding services or goods could not be received in the course of the year.

Budget Execution Rules and Principles

The following comments relate to the Civil Budget since it is the most important entity. The analysis and processes apply to a very large extent to the other two budget entities.

The initial approved budget corresponds to total appropriations authorised by the North Atlantic Council, normally at the end of the previous financial year. During the year the budget is adjusted as required. The final authorisation is the approved appropriations’ situation as reported at the end of the financial year including budgetary increases/decreases approved by the Budget Committee and transfers approved by the Budget Committee or by the Financial Controller, depending on established thresholds.

The budgets are prepared for the same period (1 January to 31 December) and encompass the NATO International Staff and the HRSS.

The NATO Financial Regulations have in particular instilled an accruals based approach to budget preparation and budget execution.

Despite a stronger emphasis on the principle of annual budgets, the approved and executed budget cannot be considered as fully accruals-based, since the regulations allow for a number of exceptions, such as carrying forward commitments for goods and services that were expected to be delivered in the course of the year but for various reasons were not, or authority given to the member Nations to allow for special carry forward of appropriations unused at year-end or a further carry-forward of commitments not expended after having been carried-forward twice.

The Civil Budget is prepared and executed as follows:

- 1) The commitment of appropriations is the advance acceptance and recording of the financial consequence resulting from a legal obligation incurred during the financial year. As a consequence appropriations are allocated, and commitments are approved, for goods, services and works to be delivered at a later stage. Commitments are settled when the service is rendered or goods delivered as is the case for expenses under accrual accounting.
- 2) Unliquidated commitments are carried forward and added to the budget of the following financial year in relation to an existing legal commitment or if a special agreement is given by the Budget Committee. Under the new regulations they correspond to services not received or goods not delivered, at year-end, for specific circumstances. Outstanding commitments can be carried forward for two years. As a consequence, the services or goods received may relate to a commitment of appropriations from previous years’ budgets. The carry-forward should be justified by a reason for which the services or goods could not be received in the course of the year. In addition, in accordance with Financial Regulations, member Nations may agree to a further carry-forward of commitments that were already carried forward twice.

- 3) Commitments, because they are an advance acceptance, and because payments cannot be made above approved credit levels, typically include an estimation factor and are (if only slightly) higher than the actual amount eventually paid. This results in commitments being higher than the actual expenses and in appropriations eventually lapsing.
- 4) Commitments are only made in respect of expenses relating to the initial purpose of the commitment. Commitments for capital expenditures are normally made in the year during which the purchase order is issued. In accrual accounting, the related costs would not appear in the Statement of Financial Performance but in the Balance Sheet and only upon reception of the works, goods or services. Conversely, there is no budgetary commitment of appropriations for non-cash transactions such as capital depreciation or provisions which would normally appear in the Statement of Financial Performance under accrual accounting.
- 5) On an exceptional basis, the NATO Member Nations may approve the special carry-forward of appropriations without any prior legal commitment, for instance for projects at their initiation stage or planned expenditures. In accrual accounting there would be no expense recorded.
- 6) The balance of unused budgetary appropriations (not committed) lapses and is returned to Member Nations at year-end, unless differently agreed by Member Nations. Lapses may include cases where a project was eventually not completed or started, and therefore led to no expense.

The NATO Civil Budget

The Civil Budget is based on an Objective Based Budgeting (OBB) system which links financial and human resources to Global Objectives. Contributions to these Global Objectives by IS Divisions and Independent Offices are broken down into Operational Objectives. The OBB system is based on eight Global Objectives which are defined at a political and strategic level of the Organization.

The eight objectives are set out below:

- Crisis Management & Operations
- Collective Defense
- Cooperative Security
- Public Relations
- Consultation Process
- Operational Environment of the Headquarters Site
- Governance and Regulation
- Headquarters Security

The budget classification is also based on the economic nature of the expenses broken down into four Resource Pools as follows:

Resource Pool 1	Personnel
Resource Pool 2	Operations and Maintenance
Resource Pool 3	Capital
Resource Pool 4	Programmes

All budget transactions, commitments and expenses are tracked according to a classification by Objective and by Resource Pool.

Initial Civil Budget – Revised Civil Budget

In December 2021, Council approved the 2022 Civil Budget of EUR 244,931,673, including the Defined Contribution Pensions Scheme (DCPS) and excluding the Defined Benefit Pension Scheme (DBPS), the latter reported outside the IS Financial Statements. Initial budget comprised the core 2022 Civil Budget of EUR 237,033,073 and DCPS of EUR 7,898,600. The Budget Committee froze EUR

3,579,329 of 2022 appropriations and EUR 1,266,844 out of EUR 1,382,808 of Budget Committee-approved special carry forward into 2022.

Following Russia's unprovoked war against Ukraine and the 2022 Extraordinary Summit, the Budget Committee approved EUR 3,847,283 of the financial impact on the Civil Budget as well as its funding from the 2021 Civil Budget overcall.

During 2022 the Budget Committee unfroze (1) ERP consultancy-related appropriations of EUR 55,000 and a special carry forward of EUR 518,009 (2) EUR 366,182 of travel-related appropriations (3) EUR 100,000 of Afghanistan-related funds repurposing them for temporary staff (4) EUR 104,824.50 to fund the Morale, Welfare and Recreation (MWR)-related operating and maintenance costs (5) EUR 889,975 for the NATO Communication and Information Agency asset replacements (6) EUR 589,822 to cover the shortfall of morale, welfare and recreation-related activities in the previous year (7) EUR 1,176,016 of personnel-related appropriations and repurposed them to fund the Loss of Job Indemnity, overtime and temporary staff-related costs (8) EUR 512,132 of Afghanistan-related and EUR 270,375 of programme travel-related appropriations and repurposed both for temporary staff and higher than expected utilities costs as well as (9) EUR 104,825 to fund MWR-related operating and maintenance costs.

With the revision of the 2022 budget, the Budget Committee approved a total of EUR 4,374,432 of Civil Budget changes comprising a EUR 1,174,332 increase of the core and a EUR 3,200,100 increase of pensions' budget while agreeing to fund both from the remaining 2021 Civil Budget overcall refundable surplus and lapsed appropriations at the end of 2021.

An analysis of budget execution for the NATO Civil Budget is provided at Annex 5.

Civil Budget reconciliation between Budget Execution and Statement of Financial Performance

The tables below provide an overview of the reconciliation of for the two last consecutive years:

2022

EXPENSES RECONCILIATION		
		Amounts
Budget Execution Statement Total Costs		244,181,060.75
Depreciation & Amotisation Charges + PP&E Recognition	+	45,338,329.78
Impairments PP&E, Intangible Assets and Stock	+	
Impairments Receivables	+	
Stock Variation	+	-14,450.63
NBV Fixed Assets Losses	+	
Financial Costs	+	338,251.12
Non-Budgetary Provisions	+	55,410.57
Advance LTPB Summit 2021	+	0.00
Statement of Financial Performance Costs		289,898,601.59

2021

EXPENSES RECONCILIATION		
		Amounts
Budget Execution Statement Total Costs		228,271,172.29
Depreciation & Amotisation Charges + PP&E Recognition	+	46,768,960.22
Impairments PP&E, Intangible Assets and Stock	+	
Impairments Receivables	+	
Stock Variation	+	61,491.18
NBV Fixed Assets Losses	+	
Financial Costs	+	193,012.10
Non-Budgetary Provisions	+	96,322.44
Statement of Financial Performance Costs		275,390,958.23

Human Resources Shared Services

The Human Resources Directorate within Executive Management was appointed as the provider of NATO-wide Human Resources Shared Services (HRSS). In this context, a wide variety of services will be provided over time. Until 2021, the scope of the HRSS covered the extant services related to the Integrated Payroll Personnel Management Information System (PMIS), operations related to the NATO Talent Acquisition Platform (NTAP) and the Young Professionals Programme (YPP). In terms of financial reporting, those categories of services are recorded in this HR Shared Services segment.

Through BC-D(2021)0024 + Addenda the BC agreed to use the HRSS fund for all shared systems and programmes developed in the context of HRSS. The BC also agreed that as of 2022, the IS will submit the expenditure limits in one single request.

Through BC-DS(2021)0058 and BC-D(2022)0110 (INV) the BC approved the 2022 HRSS expenditure limits.

Funding is provided through contributions by the NATO bodies that participate in the programme. Invoices are adjusted by the amount of previous year's surplus or deficit.

A budget execution statement is provided at Annex 5. The lapsed amounts correspond to the difference between the approved budget or expenditure limit and the actual expenses.

Manfred Wörner Building Refurbishment Project

In 2022, NATO continued the refurbishment works in the Manfred Wörner Building in conjunction with the move to the current NATO Headquarters. Partner Nations have been asked to pay in advance for the works corresponding to their specific requests (called Optional Programme) in addition to the basic refurbishment. NATO Members agreed that the rest of the works would be pre-financed by the IS treasury. During 2022 KEUR 495 has been paid back by Partner Nations.

All expenses are capitalized.

The table below provides information about the evolution of the Manfred Wörner Building budget (DPRC-N(2019)0021-REV3 (INV)) which hasn't changed since 2020:

Manfred Wörner Budgetary Ceilings * (EUR)		
	2022	2021
Optional Programme	3,801,939	3,801,939
NATO Pre-Financed	17,868,149	17,868,149

*Budgetary ceiling for the totality of the refurbishment project (irrespective of the execution in previous financial years).

NOTE 30: SEGMENTS

The tables below provide segment information for financial performance and financial position statements for two consecutive years. The following segments have been adopted: Civil Budget, the Summit Cash Advance, Reimbursable Expenses, HRSS, Extra-Budgetary Funds, Partners' Accommodation, Refurbishment of Manfred Wörner Building, the Morale, Welfare and Recreational Activities (MWR), the LTPB (under closure) and the OSCR SRLS Suspense Account.

In the below Statements of Financial Position and Performance, eliminations or neutralizations correspond essentially to movements between segments.

Statement of Financial Position segment based:

PUBLICLY DISCLOSED - PDN(2024)0007 - MIS EN LECTURE PUBLIQUE

	Notes	IS	Refundable Expenses	HR Shared Services	Extra Budgetary Funds	PARTNER ACCOMODATION	MW Building	MWR	LTPB under closure	OSCR SRLS	Elimination	2022	2021
Assets													
Current assets													
Cash and cash equivalents	3	63,716,304.72	-551,423.60	-455,414.67	153,146,285.09	425,020.73	-2,495,073.63	1,721,773.25	3,591,483.35	0.00		219,098,955.24	170,756,264.69
Short term investments	4	80,000,000.00			20,000,000.00				0.00			100,000,000.00	35,000,000.00
Receivables	5	48,129,588.07	1,128,852.52	880,639.54	355,034.63	322,711.39	904,955.00	581,977.97	0.00	0.00	2,845,223.92	49,458,535.20	42,221,939.96
Prepayments	6	2,273,367.16	0.00		52,280.45				54,191.22			2,379,838.83	4,391,511.01
Other current assets	7	2,246,435.97	0.00		60,087,498.26			774.08			60,111,302.25	2,223,406.06	2,125,035.65
Inventories	8	523,072.96										523,072.96	508,622.33
		196,888,768.88	577,428.92	425,224.87	233,641,098.43	747,732.12	-1,590,118.63	2,304,525.30	3,645,674.57	0.00	62,956,526.17	373,683,808.29	255,003,373.64
Non-current assets													
Receivables	9											0.00	0.00
Property, plant & equipment	10	753,578,468.01					21,067,863.85					774,646,331.86	820,092,931.68
Intangible assets	11	3,035,151.88										3,035,151.88	2,634,505.32
Non-current financial assets	12	0.00										0.00	40,000,000.00
Other non-current assets	12	2,797,939.40		3,839,831.00			2,328,541.00				2,328,541.00	6,637,770.40	7,508,838.50
		759,411,559.29	0.00	3,839,831.00	0.00	0.00	23,396,404.85	0.00	0.00	0.00	2,328,541.00	784,319,254.14	870,236,275.50
Total Assets		956,300,328.17	577,428.92	4,265,055.87	233,641,098.43	747,732.12	21,806,286.22	2,304,525.30	3,645,674.57	0.00	65,285,067.17	1,158,003,062.43	1,125,239,649.14
Liabilities													
Current liabilities													
Payables	13	23,077,338.56	281,739.33	336,805.72	18,495,543.08	291,477.61	102,144.42	2,725,822.43	514,577.92	0.00	2,845,223.92	42,980,225.15	32,312,392.29
Deferred revenue	14	12,648,011.06			214,724,981.88		603,539.15	0.00	100,503.07			228,077,035.16	61,706,465.40
Advances	15	89,702,090.85	282,899.89		19,873.05			163,909.94	40,636.06			90,209,409.79	72,374,516.43
Short term provisions	16	125,481.09	12,789.70	694.00		8,684.34	32,738.80	12,786.03	0.00			193,173.96	429,403.98
Other current liabilities	17	71,805,245.72	0.00	87,725.15	400,700.42		-597,993.10	2,489,957.52			60,111,302.25	14,074,333.46	90,020,269.40
		197,358,167.28	577,428.92	425,224.87	233,641,098.43	300,161.95	738,422.37	2,304,525.30	3,145,674.57	0.00	62,956,526.17	375,534,177.52	256,843,047.50
Non-current liabilities													
Payables	18											0.00	0.00
Long term provisions	18								500,000.00			500,000.00	500,000.00
Deferred revenue	19	756,613,619.89					21,067,863.85					777,681,483.74	822,727,437.00
Other non-current liabilities	20	2,328,541.00		3,839,831.00							2,328,541.00	3,839,831.00	43,839,831.00
		758,942,160.89	0.00	3,839,831.00	0.00	0.00	21,067,863.85	0.00	500,000.00	0.00	2,328,541.00	782,021,314.74	867,067,268.00
Total Liabilities		956,300,328.17	577,428.92	4,265,055.87	233,641,098.43	300,161.95	21,806,286.22	2,304,525.30	3,645,674.57	0.00	65,285,067.17	1,157,555,492.26	1,123,910,315.50
Net assets													
Capital assets	21											0.00	0.00
Reserves												0.00	0.00
Current year Surplus / (Deficits)						-881,763.47						-881,763.47	304,482.67
Accumulated surpluses / (deficits) prior year						1,329,333.64						1,329,333.64	1,024,850.97
Total net Assets / Equity		0.00	0.00	0.00	0.00	447,570.17	0.00	0.00	0.00	0.00	0.00	447,570.17	1,329,333.64

NATO UNCLASSIFIED

6-33

ANNEX 6 to
FC(2023)0065

Notes												2021	2020
	IS	Summit Cash Advance	Refundable Expenses	HR Shared Services	Extra Budgetary Funds	PARTNER ACCOMODATION	MW Building	MWR	LTPB under closure	OSCR SRLS	Elimination		
Assets													
Current assets													
Cash and cash equivalents	3	119,740,530.38	-825,102.68	-107,609.60	53,208,823.98	896,149.35	-3,101,782.91	1,249,951.09	1,265,295.28	-1,569,990.20		170,756,264.69	74,917,635.09
Short term investments	4	29,000,000.00							6,000,000.00			35,000,000.00	39,500,000.00
Receivables	5	40,850,132.93	1,463,498.36	281,073.54	386,656.26	821,971.28	1,122,454.00	1,877,946.24	10,566.81	1,572,890.20	6,165,249.66	42,221,939.96	45,101,756.69
Prepayments	6	1,676,455.57	7,156.00		1,200.04				2,706,699.40			4,391,511.01	1,506,511.85
Other current assets	7	6,001,829.84	73,753.00		1,179,552.13			8,443.89			138,185.55	7,125,393.31	7,529,461.59
Inventories	8	508,622.33										508,622.33	570,113.51
		197,777,571.05	0.00	719,304.68	173,463.94	54,776,232.41	1,718,120.63	-1,979,328.91	3,136,341.22	9,982,561.49	2,900.00	6,303,435.21	260,003,731.30
Non-current assets													
Receivables	9											0.00	0.00
Property, plant & equipment	10	799,317,450.74					20,775,480.94					820,092,931.68	865,368,539.37
Intangible assets	11	2,634,505.32										2,634,505.32	3,204,531.61
Non-current financial assets	12	40,000,000.00										40,000,000.00	40,000,000.00
Other non-current assets	12	3,669,007.50		3,839,831.00			3,255,991.00				3,255,991.00	7,508,838.50	4,023,619.00
		845,620,963.56	0.00	0.00	3,839,831.00	0.00	24,031,471.94	0.00	0.00	0.00	3,255,991.00	870,236,275.50	912,596,689.98
Total Assets													
		1,043,398,534.61	0.00	719,304.68	4,013,294.94	54,776,232.41	1,718,120.63	22,052,143.03	3,136,341.22	9,982,561.49	2,900.00	9,559,426.21	1,130,240,006.80
Liabilities													
Current liabilities													
Payables	13	26,595,394.17	519,647.5	133,285.92	3,255,304.22	344,628.76	345,515.33	3,186,131.94	4,094,834.07	2,900.00	6,165,249.66	32,312,392.29	26,056,601.53
Deferred revenue	14	9,533,241.76			51,186,225.65		895,922.06		91,075.93			61,706,465.40	61,606,872.21
Advances	15	69,319,738.81	2,642,428.56	183,671.66	15,000.00			168,833.58	44,843.82			72,374,516.43	55,689,504.53
Short term provisions	16	5,064,746.50	15,985.48	694.00		44,158.23	35,224.70	268,952.73	0.00			5,429,761.64	5,020,124.67
Other current liabilities	17	87,677,466.31	-2,642,428.56	0.00	39,484.02	319,702.54	0.00	-487,577.03	5,251,807.67		138,185.55	90,020,269.40	23,751,143.82
		198,190,587.55	0.00	719,304.68	173,463.94	54,776,232.41	388,786.99	1,276,662.09	9,482,561.49	2,900.00	6,303,435.21	261,843,405.16	172,124,246.76
Non-current liabilities													
Payables	18											0.00	0.00
Long term provisions	18								500,000.00			500,000.00	0.00
Deferred revenue	19	801,951,956.06					20,775,480.94					822,727,437.00	868,573,070.98
Other non-current liabilities	20	43,255,991.00		3,839,831.00							3,255,991.00	43,839,831.00	40,000,000.00
		845,207,947.06	0.00	0.00	3,839,831.00	0.00	20,775,480.94	0.00	500,000.00	0.00	3,255,991.00	867,067,268.00	908,573,070.98
Total Liabilities													
		1,043,398,534.61	0.00	719,304.68	4,013,294.94	54,776,232.41	388,786.99	22,052,143.03	3,136,341.22	9,982,561.49	2,900.00	9,559,426.21	1,128,910,673.16
Net assets													
Capital assets	21											0.00	0.00
Reserves												0.00	0.00
Current year Surplus / (Deficits)						304,482.67						304,482.67	-52,946.68
Accumulated surpluses / (deficits) prior year						1,024,850.97						1,024,850.97	1,077,797.65
Total net Assets / Equity													
		0.00	0.00	0.00	0.00	0.00	1,329,333.64	0.00	0.00	0.00	0.00	1,329,333.64	1,024,850.97

NATO UNCLASSIFIED

6-33

Statement of Financial Performance segment based:

		IS	Refundable Expenses	HR Shared Services	Extra Budgetary Funds	Partner Accommodation	MW Building	MWR	LTPB under closure	OSCR SRLS	Elimination		
	Notes											2022	2021
Revenue													
Non exchange revenue	22	278,758,424.84			36,810,919.69			2,170,246.65	-18,272.06			317,721,319.12	273,747,844.20
Exchange revenue	23	8,871,658.52	2,913,262.03	2,391,671.65	44,295.31	2,264,791.00		258,113.11		20,000.00		16,763,791.62	18,865,779.91
Other revenue	24	1,833,055.09					292,382.91	944,069.69	0.00		1,007,301.52	2,062,206.17	6,355,638.59
Financial revenue	25	435,463.14			399,518.73				0.00			834,981.87	499,147.76
Total Revenue		289,898,601.59	2,913,262.03	2,391,671.65	37,254,733.73	2,264,791.00	292,382.91	3,372,429.45	-18,272.06	20,000.00	1,007,301.52	337,382,298.78	299,468,410.46
Expenses													
Personnel	26	143,338,901.52	534,290.97	1,199,660.18	609,427.45			104,355.45				145,786,635.57	133,610,111.33
Contractual supplies and services	26	97,899,086.72	2,378,971.06	1,192,011.47	36,455,073.58	3,182,028.36	292,382.91	3,514,163.68	-19,506.76	20,000.00	1,007,301.52	143,906,909.50	116,513,686.82
Depreciation and amortization	26	48,266,951.66										48,266,951.66	48,229,816.26
Impairment	26											0.00	0.00
Provisions	26	55,410.57				-35,473.89		-247,722.81	0.00			-227,786.13	391,030.45
Long Term Provisions	26											0.00	0.00
Other expenses	26											0.00	0.00
Finance costs	26	338,251.12			190,232.70			1,633.13	1,234.70			531,351.65	419,282.93
Total Expenses		289,898,601.59	2,913,262.03	2,391,671.65	37,254,733.73	3,146,554.47	292,382.91	3,372,429.45	-18,272.06	20,000.00	1,007,301.52	338,264,062.25	299,163,927.79
Surplus/(Deficit) for the period	27	0.00	0.00	0.00	0.00	-881,763.47	0.00	0.00	0.00	0.00	0.00	-881,763.47	304,482.67

		IS	Summit Cash Advance	Refundable Expenses	HR Shared Services	Extra Budgetary Funds	Partner Accommodation	MW Building	MWR	LTPB under closure	OSCR SRLS	Elimination		
		Notes												
Revenue														
Non exchange revenue	22	264,532,854.08				6,927,913.28			1,260,844.10	1,026,232.74			273,747,844.20	259,744,963.73
Exchange revenue	23	8,714,385.15		4,649,314.89	721,122.99	73,365.70	3,043,086.00		806,629.13		1,572,890.20	715,014.15	18,865,779.91	14,523,221.91
Other revenue	24	1,883,674.05	2,642,428.56		332,107.75			841,152.45	664,596.53	10,172.89			6,374,132.23	13,950,905.93
Financial revenue	25	260,044.95				238,451.22			0.06	651.53			499,147.76	321,961.18
Total Revenue			275,390,958.23	2,642,428.56	4,649,314.89	1,053,230.74	7,239,730.20	3,043,086.00	841,152.45	2,732,069.82	1,037,057.16	1,572,890.20	715,014.15	299,486,904.10
288,541,052.75														
Expenses														
Personnel	26	131,459,209.89		756,190.23	391,529.71	909,426.19			93,755.31				133,610,111.33	128,270,517.29
Contractual supplies and services	26	95,412,597.54	2,642,428.56	3,893,124.66	661,089.58	6,107,504.56	2,694,852.78	841,152.45	2,368,267.38	1,034,793.26	1,572,890.20	715,014.15	116,513,686.82	108,687,466.97
Depreciation and amortization	26	48,229,816.26											48,229,816.26	48,258,224.09
Impairment	26												0.00	18,753.70
Provisions	26	96,322.44			611.45		43,750.55		268,952.53	-112.88			409,524.09	2,975,996.17
Long Term Provisions	26												0.00	0.00
Other expenses	26												0.00	0.00
Finance costs	26	193,012.10				222,799.45			1,094.60	2,376.78			419,282.93	383,041.21
Total Expenses			275,390,958.23	2,642,428.56	4,649,314.89	1,053,230.74	7,239,730.20	2,738,603.33	841,152.45	2,732,069.82	1,037,057.16	1,572,890.20	715,014.15	299,182,421.43
288,593,999.43														
Surplus/(Deficit) for the period	27		0.00	0.00	0.00	0.00	0.00	304,482.67	0.00	0.00	0.00	0.00	0.00	304,482.67
														-52,946.68

NOTE 31: LEASES

All leases in IS are classified as operating leases. Fees payable under these lease agreements are accounted as expenses in the Statement of Financial Performance on a straight-line basis over the relevant lease term.

Host Nation Belgium has granted to NATO by way of concession a plot of land on which NATO has been authorized to erect all necessary buildings and facilities related to the NATO Headquarters. The annual fee is EUR 250. NATO is the full owner of all constructions made. Host Nation Belgium remains the sole and full owner of the land, which is military public domain. The concession ends 180 days after NATO has left the buildings and facilities. In such case, if Host Nation Belgium would decide to use the building and facilities, it shall pay a fair indemnity to NATO. If Host Nation Belgium should decide to demolish them, it will not be obliged to pay an indemnity to NATO neither will NATO have to contribute to the demolition cost. At the end of the concession, there would be no property rights transferred to NATO. As a consequence, given the indefinite economic life of land and the specific nature of concessions, the use of the land is classified as an operational lease.

The operating leases at the reporting date can be classified into three main categories: transport equipment and photocopiers.

The table below provides an overview of the existing operational lease contracts as of 31 December 2022:

Contract No (CPA)	ASSET LEASED	AMOUNT PAID IN 2022	AMOUNT TO PAY FOR 2023	AMOUNT TO PAY IN 2024-2027	AMOUNT TO PAY AFTER 2027	RENEWAL OR PURCHASE OPTION/RESTICTION
12331	Printing machines	260,916.00	164,029.00	290,000.00	-	
17271	Vehicle (CPA no. 43419)	76,300.00	-	-	-	
17272	Vehicle (CPA no. 43420)	80,266.67	-	-	-	
17273	Vehicle (CPA no. 43421)	49,725.00	-	-	-	
41061	Vehicle	3,650.10	8,477.64	13,305.18	-	
41062	Vehicle	8,071.20	8,071.20	15,773.57	-	
41063	Vehicle	8,641.92	8,641.92	11,306.50	-	
48648	Vehicle	18,262.57	65,745.24	113,227.91	-	
49717	Vehicle	39,950.00	95,880.00	151,810.00	-	
49718	Vehicle	39,950.00	95,880.00	151,810.00	-	

NOTE 32: RESTRICTIONS ON FIXED ASSETS

There are no restrictions on fixed assets.

NOTE 33: CONTINGENT LIABILITIES

An assessment was made on the possible provisions, contingent liabilities that could impend over IS.

In line with IPSAS 19, the IS discloses contingent liabilities, of an estimated value of KEUR 70 which may derive from Administrative Tribunal litigations.

For the OSCR SRLS Suspense Account an estimated value of KEUR 460 is disclosed and relates to potential claims and contractual settlements following the conclusion of the NATO presence in Afghanistan.

NOTE 34: WRITE OFF

The table below summarizes the write-off procedures for IS assets in 2022.

Serial	Ref. Document	Date	Location	Type of Items	Acquisition Value	Net Book Value	Reason for Write-off	Disposal Method
1	Dossier 001-2022	06/07/2022	IS HQ	1 VW Mini-bus	17,910.00	-	Purchased in 2005. Vehicle no longer meeting the current environmental regulations	Donation to a Romanian NGO
3	FC(CAF)(2022)0001	11/01/2022	NIO Moscow	Vehicles	71,117.00	-	Closure NIO	Locally disposed
TOTALS					89,027.00	-		

NOTE 35: CONTINGENT ASSETS

In addition to the potential income generated through the Total Warranty Contract with Equans Services (Note 10), NATO IS was informed about interest allocation, for reporting purposes, on amounts prepaid to NATO Support and Procurement Agency for the period between 2012 and 2018.

NOTE 36: EMPLOYEE DISCLOSURE**Employee status**

There are 5 different hire categories: NATO Civilians, Voluntary National Contributions (VNC), Temporary Staff, Interns and Consultants.

VNC's represent "in kind" services provided by nationally funded personnel. VNCs may work for the IS in the HQ but also at the NATO Satellite Offices. At the end of 2022 there were 169 VNCs that worked for NATO IS, including the NATO Satellite Offices.

The tables below provide comparative data for two consecutive years for NATO Civilians, Temporary Staff, Interns and Consultants:

Position by HQ	NATO Civilians	
	31/12/2022	31/12/2021
Total Approved PE	1215	1196
Total Filled Positions	1063	1063
Arrivals in the year	93	121
Departures in the year	114	107

Position by HQ	Total Approved PE	Total Filled Positions
Civilian (PE)	1215	1063
Short term (Temps)		230
Interns		60
Others – explain (consultant)	-	4

The approved establishment contains the Afghan National Army Trust Fund (ANA TF) under closure projects posts that are fully funded by the ANA TF for which NATO-IS acts as agent (Note 38).

Pension Schemes

The NATO-IS manages centrally three pension schemes, namely the Defined Benefit Pension Scheme (DBPS), the Defined Contribution Pension Scheme (DCPS), as well as the Retirees Medical Claims Fund (RMCF), covering staff employed by all NATO bodies.

As for the DBPS, a deduction of 11.8% of staff salaries is made and contributed to the annual financing of this plan. The funding mechanism of the DBPS provides that Nations contribute, in the course of a given year, for the difference between amounts due to pensioners and staff contributions received.

The DCPS affiliated staff make a compulsory contribution of 8% of basic salary to the Scheme. Staff may make additional voluntary contributions to the Scheme up to 5% of basic salary. NATO pays employer contributions of 12% of the basic salary of each active scheme member. Contributions to the DCPS are part of the payroll and are made monthly.

NATO wide financial statements are issued by the IS Office of Financial Control for the two remaining pension schemes and the RMCF; therefore, no related assets or liabilities are recognised in IS financial statements.

The table below provide comparative data about the staff affiliation to the different pension schemes for two consecutive years:

IS Staff Pension Scheme Affiliation Statistics		
Pension Scheme	2022	2021
DBPS	271	309
DCPS	789	754

The table below indicates the contributions made by IS to the two pension schemes:

Amounts in EUR

		2022	2021
DBPS	Staff	3,347,163.76	3,467,355.88
	Employer		
	Total	3,347,163.76	3,467,355.88
DCPS	Staff	5,689,709.50	5,002,665.83
	Employer	7,846,681.53	6,932,644.66
	Total	13,536,391.03	11,935,310.49
TOTAL	Staff	9,036,873.26	8,470,021.71
	Employer	7,846,681.53	6,932,644.66
	Total	16,883,554.79	15,402,666.37

Reimbursable Staff

Reimbursable staff are employees that are paid by their own nations on a reimbursable basis. Their salary is paid directly by their national governments using national salary scales and accruing pension rights under their national pension systems, in return the IS reimburses their countries in an amount corresponding to the grade of the post occupied by the staff member in the IS establishment.

Currently the IS has active agreements with the US and Norway.

The table below provide comparative data about this type of staff for two consecutive years:

Statistics on number of IS Reimbursable Staff		
Country	2022	2021
US	3	6
Norway	3	3

Leave

Paid leave is an employee benefit and as such part of overall personnel expenses. In accordance with personnel regulations, the remaining balance at year end may be carried forward but must be taken before 30 April of the following year. It can be exceptionally extended to 31 October in accordance with Civilian Personnel Regulations art. 42.3.5 and 42.3.6. After this date it lapses and is not paid to staff. Consequently, no provision for untaken leave is recorded.

NOTE 37: KEY MANAGEMENT PERSONNEL

The North Atlantic Council is the governing body of NATO. It approves the Civil Budget further to screening and recommendation by the Budget Committee (BC) and the Resource Policy and Planning Board (RPPB). Members of the North Atlantic Council, the BC and the RPPB are nominated by their respective national authorities. They are paid on the basis of applicable national pay scales. They do not receive from NATO any additional remuneration for their responsibilities or access to benefits.

For the purposes of IPSAS 20 implementation, key management personnel of the International Staff are the Secretary General, the Deputy Secretary General, the Director of the Private Office, the eight Assistant Secretary Generals and the three Directors of Independent Offices (Security, Resources and Financial Control). The aggregated remuneration of the 13 staff members considered as Key Managers (14 in 2021) was EUR 3,593,393.87 (EUR 3,905,480.04 in 2021).

The variation in the aggregated remuneration is essentially due the closure of Special Civilian Representative Office in Kabul, the rotation of posts during the year and to changes in the individual situation (e.g. family situation) of newly recruited members.

The Secretary General (SG) is provided with accommodation at no cost in premises belonging to the Organisation. The SG Residence is serviced by three established posts. The cost of operations and maintenance of the SG Residence (including renovations), suffer annual variations derived from the residence annual work plan.

The Deputy Secretary General is provided with an approved special allowance to contribute towards the lease of accommodation suitable for representation at the Ministerial and distinguished visitor level.

The Secretary General is entitled upon departure to a special leaving allowance, equal to one year's basic salary if a full four year term was served.

On 1 June, 2013, the NAC approved changes to the Representation Allowance system. A key element was that in lieu of monthly allowances being paid out and then reimbursed by the recipients if unused, recipients now submit receipts and are then reimbursed up to the allocated ceiling. The OFC is responsible for the day to day verification, with IBAN able to disallow expenses if deemed necessary. Unused funds and disallowed expenses are returned to the Organization.

Several senior staff positions are entitled to a Representation Allowance, the use of which is subject to a specific control by the OFC. This includes: the Secretary General, Deputy Secretary General, Director of the Private Office, Eight Assistant Secretary Generals, PASP Deputy Assistant Secretary General and the NATO Spokesperson. The amount of Representation Allowance paid in 2022 was EUR 60,810.99 (EUR 24,401.21 in 2021).

Key management staff have access to a pool of vehicles and drivers for official business.

There is no other remuneration or benefit to key management personnel and their family members. Key management personnel is entitled to receive loans which are also available to other members of the NATO International Staff.

NOTE 38: RELATED PARTIES

There have been the following related party relations.

Member Nations and NATO bodies

The IS performs certain administrative support and provides charge back common operating costs for which it is reimbursed by National delegations and other NATO entities that share the use of the NHQ compound.

The IS also charges back the Morale, Welfare and Recreational Activities (MWR), Operational and Maintenance (O&M) costs, attributable to the Staff Center and commercial retailers and concessions that operate within the HQ compound.

These amounts represent a deduction to the budget contributions due from Nations to fund the Civil Budget and as such are a non-common funded source of income of the Civil Budget.

In 2022 the IS has invoiced under these income categories, the following amounts:

Amount in EUR

Type of Income	2022	2021
Accommodation Costs	8,425,807	8,645,941
Admin and HR Shared Services	2,753,605	2,718,863
Moral Welfare and Recreation	813,751	456,008
Commercial Entities	193,551	259,006

Host Nation Belgium

Host Nation Belgium provides military personnel in support of activities related to security (Delegation Militaire de la Sécurité Technique), that are charged by the Belgian Ministry of Defence and paid by the Civil Budget. Below there is comparative data of the associated costs for two consecutive years:

Belgium – Delegation Militaire de la Sécurité Technique		
Amounts in EUR	2022	2021
Costs	644,323.25	636,549.41

There are also personnel provided by nations under a reimbursable basis or as VNCs. (see note 36)

Extra Budgetary Funds

The OFC is the Treasurer for the operations related to a number of Extra Budgetary Funds. Trust Funds were authorized under NATO's Partnership for Peace Programme, the Mediterranean Dialogue Programme, the NATO-Russia Council, the NATO-Ukraine Commission and the NATO-Georgia Commission. The OFC also received financial resources on a bilateral ad-hoc basis from nations in support of specific activities conducted by the IS or as a complement to the Civil Budget funding for certain activities. For Extra Budgetary Funds, including Trust Funds, a Lead Nation (NATO member) is normally designated. Partner Nations can also participate in such additional funding.

Council approved, through PO(2021)0477 and PO(2021)0478, the transition of cooperative security trust funds into compliance with the NATO Trust Fund and Extra-Budgetary Funds overarching guidance (PO(2020)0140), together with an interim solution to fund Extra-Budgetary Funds management costs. Both the transition package and funding solution have been implemented in 2022.

Appendix 1 presents a breakdown of the Statements of Financial Position and of Financial Performance for the Extra Budgetary Funds.

Afghan National Army Trust Fund (ANA TF)

In 2022, a memorandum of understanding between NATO IS, Supreme Headquarters Allied Powers Europe (SHAPE) and Department of Defense (DoD) of the United States of America was established regarding the implementation of the closure and disestablishment of the ANA TF (PO(2022)-REV1) following the collapse of the Government of the Islamic Republic of Afghanistan.

NATO IS is responsible for coordinating the closure of the Trust Fund and in particular the closure and financial reconciliation of the all projects implemented by NATO Support and Procurement Agency (NSPA), United Nations Office for Project Services (UNOPS) and Asian Development Bank (ADB).

NATO IS acts as an agent in its role related to the closure activities of the ANA Trust Fund, all administrative costs are fully borne by the ANA TF.

The ANA TF is governed by the ANA TF Board and meets regularly, an annual report is issued.

Employee Benefits

The IS is responsible for the management at the NATO-wide level for the two pension systems (Defined Benefit Pension Scheme, Defined Contribution Pension Scheme) and the Retirees Medical Claims Fund. Separate financial statements are issued by the OFC. No management fees corresponding to the related costs incurred by the IS are charged to these entities.

Under the HRSS segment, NATO supports legal proceedings of one ongoing precedential court case of a former DCPS affiliate.

Staff Centre

The previous NATO HQ Staff Centre, which was a separate NATO entity issuing separate financial statements, was officially closed in September 2018 and therefore it is no longer a going concern. Further to its financial closure on 31 December 2018 its net assets were transferred to the IS. All former Staff Centre pending assets/liabilities in 31 December 2018, were settled during 2019 and the remaining receivables related with an old litigation with Grand Optical and Carrefour, were transferred to the IS (see Note 7).

NATO UNCLASSIFIED

6-42

APPENDIX 1 to
ANNEX 6 to
FC(2023)0065

Statement of Financial Position as at 31 December 2022, EBFs.

(All amounts in EUR)

Assets**Current assets**

Cash and cash equivalents	127,106.79	558,905.69	1,617,440.01	319,421.65	278,931.36	23,615.34	4,086.69	3,224,880.99	82,569.77	-80,138,434.58	813.16	63,715.56	82,984.73	52,473.82
Short term investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	20,000,000.00	0.00	0.00	0.00	0.00
Receivables	217,235.38	0.00	15,000.00	53,685.00	0.00	0.00	0.00	0.00	0.00	53,879.83	0.00	0.00	0.00	0.00
Prepayments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other current assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	64,983,643.08	0.00	0.00	0.00	0.00
Inventories	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	344,342.17	558,905.69	1,632,440.01	373,106.65	278,931.36	23,615.34	4,086.69	3,224,880.99	82,569.77	4,899,088.33	813.16	63,715.56	82,984.73	52,473.82

Non-current assets

Receivables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Property, plant & equipment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Intangible assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other non-current assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Total assets

Total assets	344,342.17	558,905.69	1,632,440.01	373,106.65	278,931.36	23,615.34	4,086.69	3,224,880.99	82,569.77	4,899,088.33	813.16	63,715.56	82,984.73	52,473.82
---------------------	-------------------	-------------------	---------------------	-------------------	-------------------	------------------	-----------------	---------------------	------------------	---------------------	---------------	------------------	------------------	------------------

Liabilities**Current liabilities**

Payables	127,106.79	55,353.84	0.00	70,000.00	0.33	0.00	137,402.30	65,724.48	0.00	119,275.63	0.00	0.00	0.00	0.00
Deferred revenue	217,235.38	546,166.47	1,604,816.84	301,207.43	0.00	23,615.34	-133,315.61	3,142,654.19	82,569.77	4,753,520.14	813.16	63,715.56	82,984.73	51,995.70
Advances	0.00	0.00	19,873.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Short term provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other current liabilities	0.00	-42,614.62	7,750.12	1,899.22	278,931.03	0.00	0.00	16,502.32	0.00	26,292.56	0.00	0.00	0.00	478.12
Total	344,342.17	558,905.69	1,632,440.01	373,106.65	278,931.36	23,615.34	4,086.69	3,224,880.99	82,569.77	4,899,088.33	813.16	63,715.56	82,984.73	52,473.82

Non-current liabilities

Payables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Long term provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other non-current liabilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Total liabilities

Total liabilities	344,342.17	558,905.69	1,632,440.01	373,106.65	278,931.36	23,615.34	4,086.69	3,224,880.99	82,569.77	4,899,088.33	813.16	63,715.56	82,984.73	52,473.82
--------------------------	-------------------	-------------------	---------------------	-------------------	-------------------	------------------	-----------------	---------------------	------------------	---------------------	---------------	------------------	------------------	------------------

Net assets

Capital assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reserves	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Current year Surplus / (Deficits)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Accumulated surpluses / (deficits) prior year	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Total net assets/ equity

Total net assets/ equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
---------------------------------	-------------	-------------	-------------	-------------	-------------	-------------	-------------	-------------	-------------	-------------	-------------	-------------	-------------	-------------

NATO UNCLASSIFIED

6-42

NATO UNCLASSIFIED

6-43

APPENDIX 1 to
ANNEX 6 to
FC(2023)0065

(All amounts in EUR)

	TF UKRAINE MCT	TF UKRAINE L&S	TF NATO Defense & Security Campaign –Pilot phase	TF Communic ation Activities in W- Balkans	TF Ukraine Disposal of Radioactive Waste II	Pandemic Relief TF	3SAS	NATO Innovation Fund	TF NRC CAI IV	TF Montenegro	TF UK Stratcom	Women, Peace and Security	Ukraine TF	Partnership TF	DCB TF	Neutralisation of Internal Transactions	2022
Assets																	
Current assets																	
Cash and cash equivalents	120.41	20,342.92	2,195.30	14,410.90	600,000.00	3,717,678.02	6,674,121.07	6,071,534.00	12,342.75	162,949.54	6,255.55	313,759.30	174,555,840.15	6,604,943.46	28,091,280.74		153,146,285.09
Short term investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		20,000,000.00
Receivables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	86.48	0.00	68.48	3,263.33	11,816.13		355,034.63
Prepayments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	50,817.99	1,462.46		52,280.45
Other current assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1,130,049.87	25,405.68	941,825.51	6,993,425.88	60,087,498.26
Inventories	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00
	120.41	20,342.92	2,195.30	14,410.90	600,000.00	3,717,678.02	6,674,121.07	6,071,534.00	12,342.75	162,949.54	6,342.03	313,759.30	175,685,958.50	6,684,430.46	29,046,384.84	6,993,425.88	233,641,098.43
Non-current assets																	
Receivables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	✓	0.00
Property, plant & equipment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	✓	0.00
Intangible assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	✓	0.00
Other non-current assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total assets	120.41	20,342.92	2,195.30	14,410.90	600,000.00	3,717,678.02	6,674,121.07	6,071,534.00	12,342.75	162,949.54	6,342.03	313,759.30	175,685,958.50	6,684,430.46	29,046,384.84	6,993,425.88	233,641,098.43
Liabilities																	
Current liabilities																	
Payables	0.00	0.00	2,194.80	0.00	0.00	455,022.45	1,638,371.06	11,959.32	12,338.61	0.00	0.00	488.57	14,991,200.38	336,633.73	472,470.79		18,495,543.08
Deferred revenue	120.41	20,342.92	0.50	14,337.58	600,000.00	3,248,081.80	5,001,580.01	6,028,609.86	4.14	162,949.54	3,584.16	304,215.23	156,504,280.43	4,157,301.71	27,941,594.49		214,724,981.88
Advances	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		19,873.05
Short term provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00
Other current liabilities	0.00	0.00	0.00	73.32	0.00	14,573.77	34,170.00	30,964.82	0.00	0.00	2,757.87	9,055.50	4,190,477.69	2,190,495.02	632,319.56	6,993,425.88	400,700.42
	120.41	20,342.92	2,195.30	14,410.90	600,000.00	3,717,678.02	6,674,121.07	6,071,534.00	12,342.75	162,949.54	6,342.03	313,759.30	175,685,958.50	6,684,430.46	29,046,384.84	6,993,425.88	233,641,098.43
Non-current liabilities																	
Payables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	✓	0.00
Long term provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	✓	0.00
Deferred revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	✓	0.00
Other non-current liabilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total liabilities	120.41	20,342.92	2,195.30	14,410.90	600,000.00	3,717,678.02	6,674,121.07	6,071,534.00	12,342.75	162,949.54	6,342.03	313,759.30	175,685,958.50	6,684,430.46	29,046,384.84	6,993,425.88	233,641,098.43
Net assets																	
Capital assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reserves	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Current year Surplus / (Deficits)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Accumulated surpluses / (deficits) prior year	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total net assets/ equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

NATO UNCLASSIFIED

6-43

Statement of Financial Performance as at 31 December 2022, EBFs.

(All amounts in EUR)

	Von Karman Institute	US Tramil	EW Trial Air	EW Trial Nav	Audit of Multi- Nationally Funded Bodies	TF Moldova III	TF Azerbaijan (PFP Proj JCP)	TF CNAD VNCF	TF Jordan III	Global NAF&Management fees	TF Ukraine II SALW Mun. Destr.	TF Mauritania II	TF Building Integrity	TF SPS- DEXTER
Revenue														
Non exchange revenue	0.00	1,117,475.36	7,762.40	71,906.66	-28,149.75	0.00	521,094.15	527,621.57	0.00	177,019.08	0.00	0.00	0.00	41,970.88
Exchange revenue	0.00	0.00	0.00	0.00	44,295.31	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Financial revenue	0.00	31,930.06	0.00	0.00	0.00	0.00	0.00	35,189.71	0.00	109,071.90	0.00	0.00	0.00	0.00
Total revenue	0.00	1,149,405.42	7,762.40	71,906.66	16,145.56	0.00	521,094.15	562,811.28	0.00	286,090.98	0.00	0.00	0.00	41,970.88
Expenses														
- Personnel	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	82,608.79	0.00	0.00	0.00	24,472.56
Contractual supplies and services	0.00	1,114,773.24	7,750.12	71,899.22	16,145.56	0.00	521,094.15	527,753.66	0.00	201,863.19	0.00	0.00	0.00	17,498.32
Depreciation and amortization	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Impairment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other expenses	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Finance costs	0.00	34,632.18	12.28	7.44	0.00	0.00	0.00	35,057.62	0.00	1,619.00	0.00	0.00	0.00	0.00
Total expenses	0.00	1,149,405.42	7,762.40	71,906.66	16,145.56	0.00	521,094.15	562,811.28	0.00	286,090.98	0.00	0.00	0.00	41,970.88
Surplus/(Deficit) for the period	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

(All amounts in EUR)

	TF UKRAINE MCT	TF UKRAINE L&S	TF NATO Defense & Security Campaign –Pilot phase	TF Communica tion Activities in W- Balkans	TF Ukraine Disposal of Radioactive Waste II	Pandemic Relief TF	3SAS	NATO Innovation Fund	TF NRC CAI IV	TF Montenegro	TF UK Stratcom	Women, Peace and Security	Ukraine TF	Partnership TF	DCB TF	Neutralisation of Internal Transactions
Revenue																
Non exchange revenue	0.00	85,884.09	2,194.80	1,933.32	0.00	2,287,488.55	1,698,419.99	42,924.14	0.00	0.00	59,456.18	143,423.11	23,857,374.85	709,496.88	5,485,623.43	36,810,919.69
Exchange revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	44,295.31
Other revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Financial revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	229.97	659.74	156,304.73	65,068.41	1,064.21	399,518.73
Total revenue	0.00	85,884.09	2,194.80	1,933.32	0.00	2,287,488.55	1,698,419.99	42,924.14	0.00	0.00	59,686.15	144,082.85	24,013,679.58	774,565.29	5,486,687.64	37,254,733.73
Expenses																
Personnel	0.00	0.00	0.00	0.00	0.00	63,924.38	0.00	8,653.68	0.00	0.00	59,373.35	140,797.38	34,211.77	136,081.80	59,303.74	609,427.45
Contractual supplies and services	0.00	85,884.09	2,194.80	1,933.32	0.00	2,223,564.17	1,698,419.99	34,270.46	0.00	0.00	312.80	3,285.47	23,930,442.07	577,498.82	5,418,490.13	36,455,073.58
Depreciation and amortization	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Impairment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other expenses	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Finance costs	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	49,025.74	60,984.67	8,893.77	190,232.70
Total expenses	0.00	85,884.09	2,194.80	1,933.32	0.00	2,287,488.55	1,698,419.99	42,924.14	0.00	0.00	59,686.15	144,082.85	24,013,679.58	774,565.29	5,486,687.64	37,254,733.73
Surplus/(Deficit) for the period	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

NATO UNCLASSIFIED

FC(2023)0060

**NATO DEFINED CONTRIBUTION PENSION SCHEME
FINANCIAL STATEMENTS**

For the year ended 31 December 2022

Annexes

- | | |
|---|---|
| 1 | Statement of Net Assets Available for Benefits |
| 2 | Statement of Changes in Net Assets Available for Benefits |
| 3 | Notes to the Financial Statements |



Jens STOLTENBERG
Secretary General



Mirosława BORYCZKA
Financial Controller

NATO UNCLASSIFIED

NATO DEFINED CONTRIBUTION PENSION SCHEME
Statement of Net Assets Available for Benefits

(all amounts in EUR)

	Notes	Current Year			Prior Year (restated)		
		31-Dec-22			31-Dec-21		
		Investments	Benefits	Total	Investments	Benefits	Total
Assets							
Cash and cash equivalents	3	9,657,500.02	534,390.74	10,191,890.76	7,705,064.30	393,119.56	8,098,183.86
Funds held by investment manager	4	669,969,628.44	-	669,969,628.44	734,900,251.14	-	734,900,251.14
Accounts receivable	5	9,849.19	201,310.24	211,159.43	165.89	167,240.20	1,834,247.52
Total Assets		679,636,977.65	735,700.98	680,372,678.63	742,605,481.33	560,359.76	744,832,682.52
Liabilities							
Accounts payable	6	(420,093.25)	(744,791.68)	(1,164,884.93)	(319,082.71)	(562,306.03)	(2,548,230.17)
Other payables	6	(16,329.28)	-	(16,329.28)	-	(456.35)	(456.35)
Surplus investment/desinvestment	7	(80,016.59)	-	(80,016.59)	(80,016.59)	-	(80,016.59)
Cumulated surplus unrealized financial results	8	857,057.41	-	857,057.41	644,579.93	-	644,579.93
Total Liabilities		340,618.29	(744,791.68)	(404,173.39)	245,480.63	(562,762.38)	(1,984,123.18)
Net Assets Available for Benefits		679,977,595.94	(9,090.70)	679,968,505.24	742,850,961.96	(2,402.62)	742,848,559.34

NATO DEFINED CONTRIBUTION PENSION SCHEME
Statement of Changes in Net Assets Available for Benefits

(all amounts in EUR)

	Notes	Current Year			Prior Year (restated)		
		31-Dec-22			31-Dec-21		
		Investments	Benefits	Total	Investments	Benefits	Total
Increase in Net Assets							
Net unrealized profit in market value of investments	9	-	-	-	106,635,857.82	-	106,635,857.82
Contributions	10	94,184,461.62	-	94,184,461.62	81,724,675.07	-	81,724,675.07
Inward transfers of pension rights	11	1,979,517.25	-	1,979,517.25	1,737,513.53	-	1,737,513.53
Transfers from insurer	12	-	1,702,463.24	1,702,463.24	-	1,478,477.34	1,478,477.34
Transfers from annuity provider	12	-	121,490.16	121,490.16	-	121,760.78	121,760.78
Contributions for tax adjustments due	16	-	189,539.09	189,539.09	-	142,571.36	142,571.36
Miscellaneous receipts (realized financial gains)	17	45,341.66	562.13	45,903.79	30,297.77	812.97	1,293.15
Total Increase in Net Assets Available for Benefits		96,209,320.53	2,014,054.62	98,223,375.15	190,128,344.19	1,743,622.45	191,842,149.05
Decrease in Net Assets							
Net unrealized loss in market value of investments	9	86,854,531.56	-	86,854,531.56	-	-	-
Accounts closed (staff)	13	38,255,222.86	-	38,255,222.86	32,240,809.40	-	32,240,809.40
Housing withdrawals	13	33,300,662.95	-	33,300,662.95	10,402,371.12	-	10,402,371.12
Outward transfers of pension rights	13	652,065.62	-	652,065.62	284,979.77	-	284,979.77
Transfers to insurer and annuity providers	14	-	-	-	-	-	-
Pension benefits	15	-	122,838.95	122,838.95	-	122,076.97	122,076.97
Invalidity, survivor and dependant benefits	15	-	1,559,036.80	1,559,036.80	-	1,345,527.99	1,345,527.99
Tax adjustments paid to beneficiaries	16	-	189,539.09	189,539.09	-	142,571.36	142,571.36
Employer contributions to DCPS	15	-	142,077.65	142,077.65	-	126,946.48	126,946.48
Miscellaneous expenses (realized financial losses)	17	20,203.56	7,250.21	27,453.77	25,040.11	6,979.83	6,979.83
Total Decrease in Net Assets Available for Benefits		159,082,686.55	2,020,742.70	161,103,429.25	42,953,200.40	1,744,102.63	44,672,262.92
Net Increase for the Year		(62,873,366.02)	(6,688.08)	(62,880,054.10)	147,175,143.79	(480.18)	147,174,663.61
Net Assets Available for Benefits, Beginning of Year		742,850,961.96	(2,402.62)	742,848,559.34	595,675,818.17	(1,922.44)	595,673,895.73
Net Assets Available for Benefits, End of Year		679,977,595.95	(9,090.70)	679,968,505.25	742,850,961.96	(2,402.62)	742,848,559.34

**EXPLANATORY NOTES
NATO DEFINED CONTRIBUTION PENSION SCHEME****NOTE 1: GENERAL INFORMATION****Description of the Fund**

The NATO Defined Contribution Pension Scheme (DCPS) was implemented with effect from 1 July 2005 based on Council's approval of C-M(2000)53 and C-M(2005)0057. The DCPS aims to provide retirement benefits for NATO staff who are employed for the minimum six-year vesting period and to make cash payments to staff who leave before satisfying the vesting requirement. All new entrants recruited on or after 1 July 2005 are compulsorily affiliated to the NATO DCPS.

The DCPS is a cash purchase pension scheme. Both staff and NATO contribute to the Scheme. There is no long-term liability for NATO related to the DCPS.

An account is opened for each member of the Scheme. Contributions are invested according to the member's instructions within the eleven funds currently available, described below. Members can check the status of their accounts and give instructions via a secure web portal.

Upon departure, the member's account is disinvested. Until 20 December 2012, the effective date of changes to related NATO Civilian Personnel Regulations (CPR), if the member had vested in the Scheme and was at least 50 years old, the member could take up to 25% of the proceeds as a cash lump sum and the balance had to be applied to the purchase of a retirement pension from a commercial provider. In 2009, the vesting period was five years; in 2010 the vesting period was increased to six years. Members who leave the NATO employer prior to vesting withdraw the entire proceeds as a cash lump sum.

On 20 December 2012 the NATO Council approved the current disinvestment rules which provide choice and flexibility for affiliates regarding their retirement benefits. There is no upper or lower limits on ages at which affiliates can take benefits. Affiliates leaving the DCPS may take any percentage of their holdings in cash. Affiliates' accounts no longer have to be closed when they reach 65. Affiliates may remain indefinitely as passive investors, with no further investments or switches until full disinvestment, beyond the age of 65.

As at 31 December 2022, there were 5483 NATO DCPS affiliates (members). Note 21 provides a summary of the evolution of the membership since inception.

Financing

Staff make a compulsory contribution of 8% of basic salary to the Scheme. Staff may make additional voluntary contributions to the Scheme up to 5% of basic salary. NATO pays employer contributions of 12% of basic salary of each active scheme member. Contributions to the DCPS are part of pay and are made monthly.

Scheme members may, under certain circumstances, transfer into their DCPS account any amounts corresponding to pension rights accrued under the pension scheme to which they were previously affiliated.

Governance

The DCPS is administered in accordance with NATO Civilian Personnel Regulations (CPRs), Annex VI, governing the DCPS approved by the Council under C-M(2005)0057.

The Secretary General is responsible for the administration and management of the Scheme, assisted by a consultative committee, the DCPS Management Board, whose Chairman is appointed by the Secretary General.

The committee also includes: seven representatives of the Administrative Services for the International Staff, the International Military Staff, the NATO Standardization Agency and the NATO Defense College, the Assistant Secretary General (ASG) Executive Management and the Financial Controller of the International Staff or their representatives; two representatives of the Administrative Services for the NATO Production and Logistics Organizations and other bodies not listed above; a representative from SHAPE J1 Manpower and Personnel, and the Financial Controller, Allied Command Operations, or their representatives; one representative from the Administrative Services of a NATO military body in Allied Command Transformation; six representatives nominated by the Confederation of NATO Civilian Staff Committees from among the members of the Scheme. At least one representative shall be a member of the NATO International Staff; one representative of retired NATO staff nominated by the Confederation of NATO Retired Civilian Staff Associations.

The Assistant Secretary General for Executive Management was appointed permanent Chairperson of the DCPS Management Board in late 2010 and remains as such since then.

The members of the DCPS Management Board, who are also NATO staff members, receive no additional remuneration or benefits in return for their participation.

Investments

The Management Board oversees the investment options of the Scheme.

Members of the NATO DCPS invest in their choice of several funds, consisting of equity, bond and cash funds. Investments are made in units in the respective funds; the unit price fluctuates according to its market value. Four additional investment funds, passively-managed (indexed) funds offered by Vanguard were selected by the NATO Contract Awards Committee in consultation with the DCPS Management Board in November 2013 and became available to DCPS affiliates in February 2014.

Affiliates of the DCPS can move their investments between the available funds. Such transfers between funds are known as switches. Until 2020 switches were executed on a bi-weekly basis. From 2021 onwards, switches are effected on a weekly basis.

The funds are available in EUR and/or in USD, as presented in the table below:

	ISIN*
Equity Funds:	
Mellon Global Equity Portfolio EUR C	IE00B82M6789
Mellon Global Equity Portfolio USD C	IE00B7X4LZ98
Vanguard Global Stock Index Fund EUR	IE00B03HD191
Vanguard Global Stock Index Fund USD	IE00B03HD209
Bond Funds:	
Mellon Global Bond Portfolio EUR C	IE0003932385
Mellon Global Bond Portfolio USD C	IE0003932492
Mellon Euroland Bond Portfolio EUR C	IE0032722484
Vanguard Global Bond Index Fund USD	IE00B18GCB14
Vanguard Euro Government Bond Index Fund EUR	IE0007472990
Cash Funds:	
Mellon Universal Liquidity Funds – Liquidity Plus USD	IE0032713202
BNP Paribas InstiCash Fund – EUR	LU0094219127

* *International Securities Identification Number*

NATO shall not be held responsible for any losses on investments incurred by movement in the investment markets (Annex VI, Article 10.3 of the NATO Civilian Personnel Regulations).

Benefits

Upon retirement of a staff member, transfers are made to the pension provider in order to purchase the annuity for members who leave the DCPS and choose to take a DCPS retirement pension.

Until 30 June 2017 the insurer's company was responsible for annuity payments in cases of death in service and had a claim on the proceeds of the redemption of the affected deceased staff member's holdings. Nowadays the redemption proceedings are paid to the person(s) designated by the deceased staff member and the survivors' benefits, in cases of eligibility, are covered by the insurance. Since July 2020 the benefits for paid to orphans have increased.

Contributions, in the case of invalidity, are made to the DCPS and invested, until the beneficiary reaches retirement age. In the case of invalidity, contributions for medical insurance are also paid as required.

Retirement annuities received from commercial pension providers pending augmentation by the adjustment related to income tax and further transfer to the retired beneficiary are held in a separate bank account separate from that of the Investment element of the DCPS. The benefits received from the insurer pending augmentation plus the adjustment related to income tax are subject to a follow-on transfer to the survivor or disabled beneficiary.

Benefits are paid for retirement, survivor and invalidity pensions. They are paid at the end of each month. Note 15 provides information for each category.

Housing Withdrawals

Since 2021 active members of the DCPS may, up to two times during their NATO employment, withdraw not more than 95% of from their DCPS holdings to finance a primary residence or to reduce the amount owing on an existing property.

In 2022, a total amount of EUR 29,083,059.89 and USD 4,431,368.97 has been processed for active staff members as housing withdrawals.

Pension Tax Adjustment

The Scheme is not subject to income tax under the terms of Articles IX and X of the Agreement on the Status of the North Atlantic Treaty Organization signed in Ottawa on 20 September 1951 (the Ottawa Treaty).

In accordance with Annex VI, Article 15 of the CPRs, beneficiaries are subject to tax by national authorities on their annuity receipts and receive an adjustment equivalent to 50% of the amount by which the recipient's pension would theoretically need to be increased, were the balance remaining after deduction of the amount of national income tax or taxes on the total to correspond to the amount of the pension calculated in accordance with the CPRs. This adjustment is paid out of the DCPS Retirement Pensions and Invalidity accounts and is funded by specific calls for contributions handled in the NATO Coordinated Pension Scheme accounts. Related information is disclosed in the Financial Statements of the NATO Coordinated Pension Scheme.

Amounts paid are disclosed in the Statement of Change in Net Assets.

Management of the DCPS

Previnet SPA (Italy) was selected as the Third Party Administrator of the DCPS at the introduction of the Scheme in July 2005, and has been administering the scheme on behalf of NATO since that date. Previnet is responsible for the individual accounts administration, benefit administration, reporting, customer services and maintenance of the DCPS web site with on-line facilities for the scheme members.

Previnet tracks contributions and individual holdings of scheme members. It also provides aggregated accounting data and investment instructions destined for NATO-IS and the Investment Managers.

NATO-IS Office of Financial Control (OFC) receives the monthly contributions from the various NATO body payroll centers in a custodial bank account and its bank converts the funds, based on the instructions prepared by the Scheme Administrator, into EUR or USD, as required, for the investment accounts. The OFC is responsible for transfer of the funds from the relevant bank account to the appropriate accounts with the Investment Managers, BNY Mellon, Vanguard and BNP Paribas, based on the Scheme Administrator's reconciliation of the global amount and validation of the amounts to be invested for each staff member.

NATO-IS Executive Management Human Resources Pensions Unit reconciles the number of units per member received from the Scheme Administrator against the accounts of the staff members leaving the scheme. OFC then transfers the redemption/lump sum amounts as per the bank account instructions provided by the leaving scheme members.

DCPS amounts redeemed for the purchase of pension annuities and amounts due from an outside insurer for invalidity pensions of former DCPS members are administered by the OFC. The member's holdings are transferred to the relevant pension provider when a leaving DCPS member has instructed NATO to purchase an annuity. OFC also transfers monthly invalidity pensions and the adjustments related to income tax to former DCPS members who qualify.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The DCPS applies the NATO IS Accounting Policies which have been published through ON(2021)0079 and updated through FC(CAF)(2023)0001.

Declaration of conformity

The financial statements of the NATO DCPS have been prepared in accordance with the NATO Financial Regulations and International Accounting Standard 26, "Accounting and Reporting by Retirement Benefit Plans". The NATO Accounting Framework, which is an adapted version of the International Public Sector Accounting Standards (IPSAS), does not have a specific standard for accounting and reporting by retirement benefit plans.

The accounting system used by the NATO DCPS is accrual based.

Basis of presentation

The financial statements have been prepared on a going-concern basis: the DCPS will continue in operation for the foreseeable future.

The amounts shown in these financial statements are presented in EUR.

Changes in accounting policy

None in 2022.

Restatement of financial statements for previous years

Previous year's Financial Statements did not include under "Net Assets Available for Benefits" the realized financial result.

NATO UNCLASSIFIED

ANNEX 3 to
FC(2023)0060

3-6

Below is the 2021 restated Statement of Net Assets Available for Benefits for comparative purposes:

(all amounts in EUR)		Notes	REPORTED			RESTATED		
			31-Dec-21			31-Dec-21		
			Investments	Benefits	Total	Investments	Benefits	Total
Assets								
Cash and cash equivalents	3	7,705,064.30	393,119.56	8,098,183.86	7,705,064.30	393,119.56	8,098,183.86	
Funds held by investment manager	4	734,900,251.14	-	734,900,251.14	734,900,251.14	-	734,900,251.14	
Accounts receivable	5	165.89	167,240.20	167,406.09	165.89	167,240.20	167,406.09	
Other receivables		-	-	-	-	-	-	
Total Assets		742,605,481.33	560,359.76	743,165,841.09	742,605,481.33	560,359.76	743,165,841.09	
Liabilities								
Payable	6	- 319,082.71	- 562,306.03	- 881,388.74	- 319,082.71	- 562,306.03	- 881,388.74	
Other payables	6	-	- 456.35	- 456.35	-	- 456.35	- 456.35	
Surplus investment/desinvestment	7	- 80,016.59	-	- 80,016.59	- 80,016.59	-	- 80,016.59	
Cumulated surplus unrealized financial results	8	434,304.46	2,402.62	436,707.08	644,579.93	-	644,579.93	
Total Liabilities		35,205.16	- 560,359.76	- 525,154.60	245,480.63	- 562,762.38	- 317,281.75	
Net Assets Available for Benefits		742,640,686.49	-	742,640,686.49	742,850,961.96	- 2,402.62	742,848,559.34	

Below is the 2021 restated Statement of Changes in Net Assets Available for Benefits for comparative purposes:

(all amounts in EUR)		Notes	REPORTED			RE-STATED		
			31-Dec-21			31-Dec-21		
			Investments	Benefits	Total	Investments	Benefits	Total
Increase in Net Assets								
Net unrealized profit in market value of investments	9	106,635,857.82	-	106,635,857.82	106,635,857.82	-	106,635,857.82	
Contributions	10	81,724,675.07	-	81,724,675.07	81,724,675.07	-	81,724,675.07	
Inward transfers of pension rights	11	1,737,513.53	-	1,737,513.53	1,737,513.53	-	1,737,513.53	
Transfers from insurer	12	-	1,478,477.34	1,478,477.34	-	1,478,477.34	1,478,477.34	
Transfers from annuity provider	12	-	121,760.78	121,760.78	-	121,760.78	121,760.78	
Contributions for tax adjustments due	16	-	142,571.36	142,571.36	-	142,571.36	142,571.36	
Miscellaneous receipts (realized financial gains)	17	-	1,293.15	1,293.15	30,297.77	812.97	1,293.15	
Total Increase in Net Assets Available for Benefits		190,098,046.42	1,744,102.63	191,842,149.05	190,128,344.19	1,743,622.45	191,842,149.05	
Decrease in Net Assets								
Net unrealized loss in market value of investments	9	-	-	-	-	-	-	
Accounts closed (staff)	13	32,240,809.40	-	32,240,809.40	32,240,809.40	-	32,240,809.40	
Housing withdrawals	13	10,402,371.12	-	10,402,371.12	10,402,371.12	-	10,402,371.12	
Outward transfers of pension rights	13	284,979.77	-	284,979.77	284,979.77	-	284,979.77	
Transfers to insurer and annuity providers	14	-	-	-	-	-	-	
Pension benefits	15	-	122,076.97	122,076.97	-	122,076.97	122,076.97	
Invalidity, survivor and dependant benefits	15	-	1,345,527.99	1,345,527.99	-	1,345,527.99	1,345,527.99	
Tax adjustments paid to beneficiaries	16	-	142,571.36	142,571.36	-	142,571.36	142,571.36	
Employer contributions to DCPS	15	-	126,946.48	126,946.48	-	126,946.48	126,946.48	
Miscellaneous expenses (realized financial losses)	17	-	6,979.83	6,979.83	25,040.11	6,979.83	6,979.83	
Total Decrease in Net Assets Available for Benefits		42,928,160.29	1,744,102.63	44,672,262.92	42,953,200.40	1,744,102.63	44,672,262.92	
Net Increase for the Year								
Net Increase for the Year		147,169,886.13	-	147,169,886.13	147,175,143.79	- 480.18	147,174,663.61	
Net Assets Available for Benefits, Beginning of Year								
Net Assets Available for Benefits, Beginning of Year		595,470,800.36	-	595,470,800.36	595,675,818.17	- 1,922.44	595,673,895.73	
Net Assets Available for Benefits, End of Year								
Net Assets Available for Benefits, End of Year		742,640,686.49	-	742,640,686.49	742,850,961.96	- 2,402.62	742,848,559.34	

NATO UNCLASSIFIED

3-6

In 2021 a realized financial result of EUR 5,257.66 is recognized in the Statement of Changes in Net Assets Available for Benefits. The accumulated realized financial result as at 31 December 2021 amounts up to EUR 210,274.42.

Use of estimates

In the application of accounting policies, described below, management is required to make judgments, estimates and assumptions about carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Foreign currency transactions

Contributions are made in the currency of the respective payroll center. Investments are made in USD and in EUR as chosen by the scheme member. NATO Parity Rates do not apply to purchases or sales in the DCPS. All bank transactions are processed at the market rate. Contributions received in currencies other than EUR and USD are converted in the latter at investment dates and payments to the Investment Managers are made in EUR and USD. Balance sheet amounts at year-end are reported using the NATO Parity Rates in effect on 31 December.

Cash and Cash Equivalents

Cash and cash equivalents are defined as short-term assets. They include short term deposits held with banks and short term highly liquid investments.

Investments

Investments reported under these DCPS financial statements consist of equity funds, bond funds and cash funds. These investments are non-current assets with respect to the purpose of the DCPS.

Investments are recorded at market value on the reporting date.

Receivables

Receivables are stated at net realizable value. No allowance for loss is recorded for receivables relating to NATO bodies' statutory contributions.

Payables

Payables are amounts due to third parties based on services provided that remain unpaid. This includes, as required, an estimate of accrued obligation for services provided but not yet invoiced.

Net Assets Available for Benefits

The net assets available for benefits at year-end correspond mainly to the investments at market value plus receivables and contributions awaiting investment less open payables.

It also includes interest earned on the custodial bank accounts, surpluses gained on transactions with the insurance company and realized exchange rate gains. Bank charges and exchange rate losses resulting from paid annuities are offset against the income. This has

resulted, since its inception, in a surplus that provisions for financial costs related to the operations of the DCPS.

Financial Risks

The DCPS uses only non-derivative financial instruments as part of its normal operations. These financial elements include cash, investment funds, bank accounts and accounts receivable.

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

The DCPS is exposed to a variety of financial risks, including credit risk, market (price) risk and liquidity risk. The maximum exposure as at year end is equal to the total amount of bank balances and receivables. NATO shall not be held responsible for any losses on investments incurred by movement in the investment markets (Annex VI, Article 10.3 of the NATO Civilian Personnel Regulations).

Credit risk

The DCPS incurs credit risks from cash and cash equivalent held with banks and receivables. There is very limited credit risk associated with the realization of these elements.

Concerning cash and cash equivalent the DCPS credit risk is managed by holding current bank accounts and short term liquid deposits that are readily convertible to a known amount of cash held with ING Bank (Belgium) which has the following short-term credit ratings:

BANK NAME	COUNTRY OF HQ	SHORT TERM RATINGS					
		FITCH		S&P GLOBAL		MOODY'S	
		Rating	Last review date	Rating	Last review date	Rating	Last review date
ING BANK	Netherlands	F1+	15/11/2022	A-1	28/06/2022	P-1	02/10/2022

Concerning receivables, the credit risk is managed by maintaining control procedures over receivables. These consist essentially of contributions due by NATO bodies' payroll centers. This risk is considered limited since these bodies are primarily funded by member nations which are considered creditworthy.

Price risk

The DCPS individual member holdings are exposed to equity and bond securities market risk. NATO shall not be held responsible for any losses on investments incurred by movement in the investment markets (Annex VI, Article 10.3 of the NATO Civilian Personnel Regulations).

Currency risk

The DCPS is exposed to a limited foreign currency exchange risk arising from fluctuations in currency rates. The contributions received in various currencies are converted into EUR or USD as required by the members' investment decisions. The converted amounts are invested in funds held in EUR or USD accordingly. With regards to benefits there is a limited currency risk since payments are sometimes made in another currency than the amounts received from the insurer or the annuity provider. However, so far, such costs have been immaterial.

Liquidity risk

A liquidity risk could arise from a short term liquidity requirement in relation to amounts due to departing staff. There is a very limited exposure to liquidity risk because the amounts due to departing staff are equal to their holdings, and because amounts transferred to the investment manager are equal to the contributions received from the payroll centers of NATO bodies which receive resources from member states funding the related budgets, or income from their customers which generally are other NATO bodies funded through their approved budgets.

However, there is a limited liquidity risk in relation to the payment of annuities to eligible members. These transactions are handled on bank accounts separate from those used for investments and disinvestments. Amounts due by the insurers arrive later than when annuities are due to members. Pension Adjustment is paid in advance from contributions due by the Coordinated Pension Scheme. This situation is managed through cash advances from the NATO International Staff (IS).

Below table provides the evolution on the standing advances DCPS has received from IS at year-end for the last 3 years.

End of Year	Cash Advance in EUR
2020	550,000.00
2021	550,000.00
2022	720,000.00

The level of cash advances, used to manage the liquidity risk during the year, has increased by EUR 170,000 since 2021.

Interest rate risk

The DCPS is restricted from entering into borrowings.

A portion of DCPS is invested in bond funds. The market value of bonds fluctuates according to market perception of the issuer's creditworthiness and to projected interest rates. The value of DCPS individual member accounts is therefore subject to some interest rate risk.

Statement of Net Assets Available for Benefits**NOTE 3: CASH AND CASH EQUIVALENTS**

The various NATO entities pay their contributions into custodial bank accounts. Those accounts serve to effect the transfer of funds to be invested by the Investment Manager and to receive redemptions for departing staff or housing withdrawals. The total presented in the financial statements corresponds mainly to contributions received in December and awaiting transfer to the Investment Managers.

Separate bank accounts are held for transactions relating to the payment of pension and invalidity benefits.

NOTE 4: FUNDS HELD BY THE INVESTMENT MANAGER**Investments at Market Value**

BNY Mellon is the Investment Manager for six of the funds listed below; BNP Paribas Investment Partners manages the BNP Paribas InstiCash Fund in Euro, while Vanguard Asset Management manages the four index funds.

Table below provides comparative data on the Investments at Market Value for two consecutive years:

	ISIN	2022		2021
		EUR or EUR equivalent of USD	USD	EUR or EUR equivalent of USD
Equity Funds:				
Mellon Global Equity Portfolio EUR C	IE00B82M6789	277,947,939.77		343,153,262.62
Mellon Global Equity Portfolio USD C	IE00B7X4LZ98	23,800,614.73	25,223,891.48	30,722,216.69
Vanguard Global Stock Index Fund EUR	IE00B03HD191	94,122,867.48		94,442,764.72
Vanguard Global Stock Index Fund USD	IE00B03HD209	24,581,322.33	26,051,285.41	27,382,857.07
Bond Funds:				
Mellon Global Bond Portfolio EUR C	IE0003932385	42,720,490.78		42,747,844.56
Mellon Global Bond Portfolio USD C	IE0003932492	5,368,062.96	5,689,073.14	6,392,945.08
Mellon Euroland Bond Portfolio EUR C	IE00BF8HK850	12,081,343.60		14,670,541.99
Vanguard Global Bond Index Fund USD	IE00B18GCB14	7,484,475.10	7,932,046.72	7,649,304.40
Vanguard Euro Government Bond Index Fund EUR	IE0007472990	14,920,145.45		17,566,902.86
Cash Funds:				
Mellon Universal Liquidity Funds – Liquidity Plus USD	IE0032713202	17,941,314.43	19,014,205.07	11,233,692.78
BNP Paribas InstiCash Fund – EUR	LU0094219127	149,001,051.81		138,937,918.37
TOTAL		669,969,628.44		734,900,251.14

Dividends stemming from BNY Mellon equity investments funds are received the following year. For 2022, the dividends amount to EUR 2,019,209.42 and USD 180,690.24 and will be reflected in the price of the accumulated share class at distribution date of 10 February 2023.

Unit Price per Fund

New investments and redemptions take place between the funds and the unit price for each fund fluctuates continuously. Income is therefore not reported by fund in absolute terms. The appropriate performance measure per fund is the unit price. The unit prices for each of the funds at year-end and the resulting annualized income per unit were as follows:

	ISIN	2022	2021	Annualized Income per Unit
Equity Funds:				
Mellon Global Equity Portfolio EUR C	IE00B82M6789	1.5979	1.9032	-0.3053
Mellon Global Equity Portfolio USD C	IE00B7X4LZ98	1.5179	1.9167	-0.3988
Vanguard Global Stock Index Fund EUR	IE00B03HD191	34.3320	39.3940	-5.0620
Vanguard Global Stock Index Fund USD	IE00B03HD209	36.8115	45.0074	-8.1959
Bond Funds:				
Mellon Global Bond Portfolio EUR C	IE0003932385	1.8239	2.0471	-0.2232
Mellon Global Bond Portfolio USD C	IE0003932492	2.1691	2.5813	-0.4122
Mellon Euroland Bond Portfolio EUR C	IE0032722484	1.0183	1.2188	-0.2005
Vanguard Global Bond Index Fund USD	IE00B18GCB14	144.5954	166.2024	-21.6070
Vanguard Euro Government Bond Index Fund EUR	IE0007472990	196.1477	240.0118	-43.8641
Cash Funds:				
Mellon Universal Liquidity Funds – Liquidity Plus USD	IE0032713202	1.2850	1.2647	0.0203
BNP Paribas InstiCash Fund – EUR	LU0094219127	137.1109	137.2172	-0.1063

NOTE 5: RECEIVABLES

(amounts in EUR)	2022			2021		
	Investments	Benefits	Total	Investments	Benefits	Total
Contributions from NATO bodies	1,617.70	-	1,617.70	-	-	-
Reimbursement of Tax Adjustment Paid	-	189,539.09	189,539.09	-	145,701.36	145,701.36
Insurer	-	50.00	50.00	-	21,404.24	21,404.24
Beneficiaries	-	11,721.15	11,721.15	-	134.60	134.60
Other Receivables	8,231.49	-	8,231.49	165.89	-	165.89
Total	9,849.19	201,310.24	211,159.43	165.89	167,240.20	167,406.09

Contributions for further investment are paid on a monthly basis by NATO bodies to the DCPS account. The process normally results in no such contributions receivable, or of limited amount, at year-end. Some transactions may still be pending regularization.

Tax adjustment payments are made to beneficiaries from the DCPS Benefits (Retirement, Invalidity and Survivor) accounts as an advance to be settled by the NATO Coordinated Pension Scheme budget which handles all tax adjustment operations NATO-wide and calls the related contributions by the nations concerned (i.e. in which the beneficiaries paid their income taxes). This resulted in amounts receivable from the NATO Coordinated Pension Scheme.

Amounts receivable from the insurer and the pension provider relate to individual cases to be settled.

Amounts receivable from beneficiaries relate to overpayment of specific allowances attached to their monthly benefits.

Other receivables stem from interest gained on bank accounts held in USD and GBP.

NOTE 6: PAYABLES AND OTHER PAYABLES

Accounts payable in EUR	2022			2021		
	Investments	Benefits	Total	Investments	Benefits	Total
NATO International Staff	-	720,000.00	720,000.00	134.76	550,000.00	550,134.76
Departing Staff	309,506.49	-	309,506.49	14,665.52	-	14,665.52
Housing Withdrawals	20,900.77	-	20,900.77	172,341.30	-	172,341.30
Insurer	-	-	-	-	8,301.41	8,301.41
Allianz Refund & Payables 3rd Parties	89,685.99	24,791.68	114,477.67	131,941.13	4,004.62	135,945.75
Total	420,093.25	744,791.68	1,164,884.93	319,082.71	562,306.03	881,388.74

Payables to NATO International Staff (IS) correspond to cash advances made by IS to allow for the timely payment of pension and invalidity benefits, tax adjustments.

Payables to Departing Staff and Housing Withdrawals to be paid to Staff are transactions pending final payment.

In cases where Allianz has made overpayments to beneficiaries, these need to be reimbursed to the insurer. These cases are included under the item Insurer payable.

Allianz Refund and Payables 3rd parties correspond mainly to the payments to former DCPS affiliates for the compensatory payment received from Allianz, accruals and unpaid invoices to suppliers. In 2022 the distribution of the Allianz compensatory payment to NATO staff who were members of the DCPS during the period 2012-2015 continued. As per 31 December, the not yet distributed amount was EUR 87,622.17. This amount corresponds to the dues towards non active DCPS members whereby the NATO Pensions Unit has to reach out to each individual to obtain correct data in order to proceed with the payment. The latter has proven to be a cumbersome, lengthy and time-consuming process and will continue in 2023.

Other payables in EUR	2022			2021		
	Investments	Benefits	Total	Investments	Benefits	Total
Insurer	-	-	-	-	456.35	456.35
NATO International Staff	16,329.28	-	16,329.28	-	-	-
Total	16,329.28	-	16,329.28	-	456.35	456.35

Other payables to the NATO-IS relate to the IS Wells Fargo funds used to refund the Allianz compensatory payment to non-active DCPS members and retirement benefits in the US.

NOTE 7: SURPLUS INVESTMENT/DESINVESTMENT

Until 1 July 2017, in cases of death in service, the insurance company providing the survivor's annuity had a claim on the proceeds of the redemption of the affected member's holdings in an amount equal to the lesser of the member's holdings on 31 October of the previous year or the insurer's previously established cost of that annuity. Until that date no shortfalls have occurred and the accumulated excess, amounting to EUR 80,016.59, has been kept on a suspense account.

NOTE 8: CUMULATED UNREALIZED FINANCIAL RESULT

The DCPS cumulated unrealized financial result stems from the mandatory foreign currency assets/liabilities revaluation at 31 December 2022.

Below we present a table with comparative figures for the unrealized result:

(amounts in EUR)	31/12/2022	31/12/2021
Investments	857,057.41	644,579.93
Benefits	0.00	0.00
Total	857,057.41	644,579.93

Statement of Changes of Net Assets Available for Benefits**NOTE 9: NET UNREALIZED PROFIT OR LOSS IN MARKET VALUE INVESTMENTS**

Unrealized profit or loss in the market value of investments vary according to the volume of contributions invested, redemptions, currency fluctuations, and changes in the unit prices of the investment funds.

Below we present a table with comparative figures for the end 2021 and end 2022:

(amounts in EUR)	2022	2021
Net unrealized result in market value investments	-86,854,531.56	106,635,857.82

The below table shows the share value and the number of shares of each of the investments funds compared to 2021, additionally the share price fluctuation and its respective share in the total investment portfolio:

	2022		2021		Share Price	Portfolio Share at
	Share Price	Number of Shares	Share Price	Number of Shares	Fluctuation in 2022	31/12/2022
Equity Funds:						78.25%
Mellon Global Equity Portfolio EUR C	1.5979	173,945,766.17	1.9032	180,303,311.59	-16.04%	70.16%
Mellon Global Equity Portfolio USD C	1.5179	16,617,624.01	1.9167	17,989,014.34	-20.81%	6.70%
Vanguard Global Stock Index Fund EUR	34.3320	2,741,549.21	39.3940	2,397,389.57	-12.85%	1.11%
Vanguard Global Stock Index Fund USD	36.8115	707,694.21	45.0074	682,816.17	-18.21%	0.29%
Bond Funds:						15.34%
Mellon Global Bond Portfolio EUR C	1.8239	23,422,605.83	2.0471	20,882,147.70	-10.90%	9.45%
Mellon Global Bond Portfolio USD C	2.1691	2,622,780.48	2.5813	2,779,530.57	-15.97%	1.06%
Mellon Euroland Bond Portfolio EUR C	1.0183	11,864,228.22	1.2188	12,036,873.97	-16.45%	4.79%
Vanguard Global Bond Index Fund USD	144.5954	54,856.84	166.2024	51,652.77	-13.00%	0.02%
Vanguard Euro Government Bond Index Fund EUR	196.1477	76,065.87	240.0118	73,191.83	-18.28%	0.03%
Cash Funds:						6.41%
Mellon Universal Liquidity Funds – Liquidity Plus USD	1.2850	14,797,046.75	1.2647	9,969,006.66	1.61%	5.97%
BNP Paribas InstiCash Fund – EUR	137.1109	1,086,719.23	137.2172	1,012,540.11	-0.08%	0.44%

In 2022 the financial markets were subject to the war in Ukraine and the risks to Europe's energy supply together with the rising inflation. This had an adverse impact on the financial investments.

NOTE 10: CONTRIBUTIONS

A minimum of 8% is deducted from staff emoluments monthly and transferred to DCPS together with the NATO employers' contributions of 12% of emoluments. Staff may make additional voluntary contributions up to 5%, therefore bringing to 13% the maximum contribution that a staff member can pay into its DCPS account (8% mandatory + 5% voluntary).

There is also an employer contribution to the DCPS, paid by the insurance company, for the cases of invalidity benefits.

The normal trend is that both contributions increase every year due to the combined effect of increased membership and annual salary adjustments.

NOTE 11: INWARD TRANSFERS OF PENSION RIGHTS

The NATO Civilian Personnel Regulations (Annex VI, Article 6) provide that staff may, under certain circumstances, arrange for payment to the Organization of any amounts corresponding to the retirement pension rights accrued under the pension scheme to which the staff member was previously affiliated in so far as that scheme allows such a transfer. These payments are called inward transfers.

NOTE 12: TRANSFERS FROM INSURER AND ANNUITY PROVIDER

Transfers are received from the insurer in relation to amounts due to staff entitled to invalidity and survivors' benefits (spouses and dependent children of serving staff who are DCPS members who died in service) together with funds received from the annuity provider to pay retirement benefits.

NOTE 13: ACCOUNTS CLOSED (STAFF), HOUSING WITHDRAWALS AND OUTWARD TRANSFERS OF THE PENSION RIGHTS

These correspond to accounts of former staff members leaving DCPS that are closed and the proceeds paid in whole or in part either to the former staff member.

Housing withdrawals are amounts withdrawn by active members of the DCPS from their holdings to finance a primary residence or to reduce the amount owing on an existing property (CPR Annex VI, Article 21).

Outward transfers are also allowed, in which cases the proceeds of ex-DCPS member's closed account are paid to the eligible pension scheme (CPR Annex VI, Article 11).

NOTE 14: TRANSFERS TO INSURER OR ANNUITY PROVIDER

These correspond to staff holdings transferred to the pension provider in order to purchase the annuity for members who leave the DCPS and take a DCPS retirement pension.

When these transactions occur, they are duly disclosed in the Statement of Changes in Net Assets Available for Benefits.

NOTE 15: PENSION, INVALIDITY, SURVIVOR AND DEPENDANT BENEFITS

Benefits are paid for retirement, survivor and invalidity pensions. They are paid at the end of each month. The following table gives the number of beneficiaries per category of benefits.

As per end	Retirement	Survivor & Orphan	Invalidity	Total
2013	4	3	3	10
2014	8	4	6	18
2015	8	5	7	20
2016	9	12	9	30
2017	10	12	10	32
2018	10	12	12	34
2019	12	11	11	34
2020	12	20	20	52
2021	12	24	21	57
2022	12	29	23	64

In case of invalidity, for eligible staff, an employer contribution is made to the DCPS holdings of the individual concerned.

NOTE 16: PENSION TAX ADJUSTMENT

More information on this item is provided under Note 1 (Pension Tax Adjustment).

NOTE 17: REALIZED FINANCIAL RESULT

This corresponds to the interest earned on the custodial bank accounts, bank charges and exchange rate differences resulting from payments of annuities.

NOTE 18: CONTINGENT LIABILITIES

There are no material contingent liabilities arising from legal actions and claims that are likely to result in significant liability to the DCPS.

Adjustments related to income tax may be due to certain annuity recipients. The amounts are yet to be determined but the total of possible obligations relating to this item is not expected to be material.

NOTE 19: CONTINGENT ASSETS

None to report.

NOTE 20: RELATED PARTY TRANSACTIONS

Members of the DCPS Management Board receive no additional remuneration or benefits in return for their participation. The Chairperson of the DCPS Management Board is the Assistant Secretary General for Executive Management. The NATO International Staff (IS) Financial Controller is a member of the DCPS Management Board.

NATO International Staff, in particular Executive Management and the Office of Financial Control, are responsible for the day-to-day management of the DCPS. No management fees corresponding to the related costs are charged to the DCPS. In the global framework of the Administrative Support process, the NATO bodies are charged by the IS on a pro rata basis for these costs, including the fees paid to the Third Party Administrator. The related income reduces the contributions due from Nations to fund the NATO Civil Budget.

NATO International Staff, under Human Resources Shared Services (HRSS), supports legal proceedings of one ongoing precedential court case of a former DCPS affiliate whose lump sum payment, received upon departure, has been taxed.

Since DCPS does not have its own cash holdings to pay the benefits, advances are made by NATO-IS, to allow the timely payment of annuities for Pensioners, Invalids and Survivors.

The table below provides an overview of the extant Cash advances at year-end, for the last 3 years.

End of Year	Cash Advance in EUR
2020	550,000.00
2021	550,000.00
2022	720,000.00

Conversely, tax adjustment payments are made to beneficiaries from the DCPS Retirement and Invalidity accounts as an advance to be settled by the Defined Benefit Pension Scheme budget, which handles all tax adjustment operations NATO-wide. This resulted in amounts receivable from the latter.

As provided for by the CPRs (Annex VI, articles 13 and 14), survivors' benefits for the surviving spouses and dependent children of serving staff who die in service and invalidity benefits to serving staff are funded (partially for survivor benefits, totally for invalidity benefits) through the payment of insurance premiums which are paid directly by the NATO bodies to the insurance company and are not accounted for in the present financial statements. The table below provides comparative data on the insurance premiums paid for Death and Invalidity, over last two years.

Death and Invalidity Premiums in EUR		
	2022	2021
Death	5,415,737.33	4,750,955.59
Invalidity	5,962,941.69	5,230,992.71

NOTE 21: KEY MANAGEMENT PERSONNEL

For the purposes of these financial statements, Key Management Personnel are considered to be the NATO International Staff (IS) Assistant Secretary General for Executive Management and the Financial Controller. Their remuneration is totally covered by the NATO International Staff.

Members of the DCPS Management Board do not receive any additional remuneration or benefits in return for their responsibilities. The DCPS Management Board is chaired by the Assistant Secretary General for Executive Management. The IS Financial Controller is a member of the Board.

NOTE 22: STATISTICAL INFORMATION

Evolution of DCPS memberships (number of affiliates)				
Year	Members Joined	Members Departed	Members Cancelled	Total
2005	274	0	0	274
2006	527	6	0	795
2007	501	23	0	1,273
2008	511	43	0	1,741
2009	443	71	0	2,113
2010	477	208	0	2,382
2011	454	260	0	2,576
2012	274	188	0	2,662
2013	310	190	0	2,782
2014	433	214	0	3,001
2015	345	174	0	3,172
2016	454	207	0	3,419
2017	469	220	0	3,668
2018	547	241	0	3,974
2019	618	240	0	4,352
2020	644	200	1	4,795
2021	642	275	0	5,162
2022	600	279	0	5,483

NATO UNCLASSIFIED

FC(2023)0074

**NATO RETIREES MEDICAL CLAIMS FUND
FINANCIAL STATEMENTS**

For the year ended
31 December 2022

Annexes

- | | |
|---|---|
| 1 | Statement of Net Assets Available for Benefits |
| 2 | Statement of Changes in Net Assets Available for Benefits |
| 3 | Notes to the Financial Statements |


Jens STOLTENBERG
Secretary General


Mirosława BORYCZKA
Financial Controller

NATO UNCLASSIFIED

NATO RETIREES MEDICAL CLAIMS FUND
Statement of Net Assets Available for Benefits

(All amounts in EUR)		Notes	Current Year	Prior Year
			31-Dec-22	31-Dec-21
Assets				
	Cash and cash equivalents	(4)	7,383,256.06	3,385,393.35
	Investments at market value	(5)	365,990,132.66	428,123,983.08
	Accounts receivable	(6)	785,292.18	654,026.21
Total Assets			374,158,680.90	432,163,402.64
Liabilities				
	Accounts payable	(7)	7,190,222.32	4,218,652.58
Total Liabilities			7,190,222.32	4,218,652.58
Net Assets Available for Benefits			366,968,458.58	427,944,750.06

NATO RETIREES MEDICAL CLAIMS FUND
Statement of Changes in Net Assets Available for Benefits

(All amounts in EUR)	Notes	Current Year	Prior Year
		31-Dec-22	31-Dec-21
Increase in net assets			
Net unrealized gain in market value of investments	(5)	0.00	49,297,682.20
Contributions for current year	(8)	34,764,713.97	30,770,769.55
Fund rebates	(5)	220,126.06	231,379.25
Interest income	(10)	0.00	0.00
Miscellaneous	(12)	3,349.85	13,420.09
Total Increase in Net Assets Available for Benefits		34,988,189.88	80,313,251.09
Decrease in net assets			
Net unrealized loss in market value of investments	(5)	62,353,976.48	0.00
Insurance premiums	(11)	31,952,030.00	29,053,337.00
Insurance management fee	(11)	1,623,175.20	1,554,446.16
Fund purchase fees/financial costs	(12)	20,156.52	21,571.33
Miscellaneous	(12)	15,143.16	191.96
Total Decrease in Net Assets Available for Benefits		95,964,481.36	30,629,546.45
Net Increase for the Year		-60,976,291.48	49,683,704.64
Net Assets Available for Benefits, Beginning of Year		427,944,750.06	378,261,045.42
Net Assets Available for Benefits, End of Year		366,968,458.58	427,944,750.06

**EXPLANATORY NOTES TO THE
2022 FINANCIAL STATEMENTS OF THE
NATO RETIREES' MEDICAL CLAIMS FUND**

NOTE 1: GENERAL INFORMATION

The Retirees' Medical Claims Fund (RMCF) was set up with effect from 1 January 2001 pursuant to Council approval of PO(2000)123. The purpose was to establish a reserve to ensure that sufficient funds are available for the years to come to enable NATO to meet its obligations to pay the medical expenses of eligible retired staff members and their recognised dependants.

Description of the Fund

Staff leaving the Organization after 10 consecutive years of service and having reached the age of 55 are eligible to reimbursement of medical costs for themselves and their recognized dependants (Article 51.2 of the Civilian Personnel Regulations (CPR)).

Until 31 December 2000, any staff who had at least 10 years consecutive service and reached the age of 65, was covered for life for their medical expenses through Organization's insurers. However, with the rise in the number of retirees and the increasing medical costs, the insurers were no longer able to cover the expenses. Accordingly, the Organization assumed this responsibility as from 1 January 2001.

For this purpose, the Retirees' Medical Claims Fund was set up with effect from 1 January 2001 pursuant to Council approval of PO(2000)123. The Council agreed to the establishment of a reserve to ensure that sufficient funds are available for the years to come to enable NATO to meet its obligations.

However, on the date of the creation of the RMCF there existed a potential liability towards staff who filled the age and service conditions mentioned above but had not yet retired. No asset was provided to fund this initial liability; therefore, from its inception the RMCF was underfunded.

The Fund only finances retirees from the age of 65. Former staff between the ages of 55 and 65 are insured under a different financing scheme.

The RMCF is maintained primarily by the annual premiums paid as continuing insurance. The surplus funds collected are invested with the Investment Manager. Funds are disinvested when the due premiums exceed the collected funds.

Financing

The Fund receives the following contributions:

- 4.5% of the active agents' emoluments (1/3 borne by the staff, 2/3 by NATO).
- 5% of the last basic salary of the retirees who are required to contribute (1/3 borne by the staff, 2/3 by NATO).

Only staff who were recruited before 1 January 2001 and who have contributed to the group insurance scheme for a minimum of 25 years and have retired from service by 3 August 2016 does not pay the contribution after the age of 65.

Governance

The rules and principles governing the RMCF are provided at Annex XIII of the NATO CPRs. A consultative committee, called the Supervisory Committee, oversees the management of the RMCF with the object of ensuring that sufficient funds will always be available to cover medical costs until the last NATO pensioner or his/her dependants die. It acts as advisor to the NATO Secretary General.

The composition of the Supervisory Committee is as follows: a Chair appointed by the Secretary General (Director of Economics or Financial Controller, NATO-IS - the Chair shall be neutral); one representative of the International Staff (Director of Economics or Financial Controller, NATO-IS); two representatives for the NATO Production and Logistics Organisations; one representative for bodies governed by the Paris Protocol; two staff representatives appointed by the Confederation of NATO Civilian Staff Committees and two representatives appointed by the Confederation of NATO Retired Civilian Staff Associations.

The Fund, held in the name of NATO, is entrusted to an independent Investment Manager.

The Supervisory Committee determines the investment strategy and decides in which funds to invest. The Investment Manager executes purchases and sells according to instructions received from NATO-IS Treasury within the Office of Financial Control, which are in accordance with Supervisory Committee decisions.

The Investment Manager keeps the Supervisory Committee informed of all matters relating to the composition and performance of the funds through regular meetings with the Committee members.

Members of the RMCF Supervisory Committee do not receive any additional remuneration or benefits in return for their responsibilities.

Investment strategy

For 2022, as since 2009, the Supervisory Committee left unchanged the strategy of investing in index funds and maintaining holdings approximately as follows:

- 50% in European government (sovereign) bonds
- 25% in global equities
- 25% in European equities

With a tolerance of 3% for equities (22-28%) and 5% for bonds (45-55%).

Vanguard Investment Series plc, a prominent index-fund manager, known as the Investment Manager, buys and sells bonds and equities on behalf of the Fund within the objectives and restrictions set out in the contract signed with the Organization. Investments are in Euro.

Management of the RMCF

NATO International Staff, in particular Executive Management – Human Resources and the Office of Financial Control, are responsible for the day-to-day management of the RMCF. Financial services are provided by the Office of Financial Control, NATO-IS. Administrative services and secretarial support are provided by Human Resources, Staff Services.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

RMCF applies the NATO IS Accounting Policies which have been published through ON(2021)0079 and updated through FC(CAF)(2023)0001.

Declaration of conformity

The financial statements of the NATO RMCF have been prepared in accordance with the NATO Financial Regulations and International Accounting Standard 26 (IAS 26), “Accounting and Reporting by Retirement Benefit Plans”. The NATO Accounting Framework, which is an adapted version of the International Public Sector Accounting Standards (IPSAS), does not have a specific standard for accounting and reporting for post-employment benefits.

The accounting system used by the NATO RMCF is accrual based.

The financial statements summarize the transactions and net assets of the Fund. The statements do not take into account the liability to pay benefits that fall due after the year end of the reporting period. The actuarial position of the NATO RMCF, which takes these liabilities into account, is disclosed in Note 3.

Basis of presentation

The financial statements have been prepared on a going-concern basis: the RMCF will continue in operation for the foreseeable future.

The amounts shown in these financial statements are presented in EUR.

Changes in accounting policy

There are no changes to report.

Use of estimates

In the application of accounting policies, which are described below, management is required to make judgments, estimates and assumptions about carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Estimates include, but are not limited to: the long term obligation of the continued medical coverage and contingent assets.

Foreign currency transactions

The insurance premiums are calculated and paid in EUR and the accounting is in EUR. Since mid-2009, contributions are made in EUR; consequently, foreign currency transactions are not material. Realized profit and loss resulting from such transactions appear in the Statement of Changes in Net Assets Available for Benefits.

Cash and Cash Equivalents

Cash and cash equivalents are defined as short-term assets. They include deposits held with banks and short term highly liquid investments.

Investments

Investments reported under these RMCF financial statements consist of equities and government bonds in indexed investment funds. These investments are reported as non-current assets reflecting the long term financial strategy of the RMCF.

An index fund is a collective investment scheme that aims to replicate the movements of an index of a specific financial market, regardless of market conditions. It does not aim to out-perform the market. Index funds are commonly composed of a representative sample rather than all the securities in a given market, in appropriate weights. They are subject to a form of passive management rather than active management.

At the end of each reporting period a valuation is made by the Investment Manager at fair value by reference to official prices quoted on the day of valuation. The Account Statement received from Vanguard's transfer agent uses the Generally Accepted Accounting Principles (GAAP) methodology to calculate the Daily Net Asset Value (Daily NAV), a tradable, realisable value on the last trading day of the month. These are the values generally reported in financial statements by fund investors.

Amounts are net of purchase costs and increased by rebates.

Receivables

Receivables are stated at net realisable value. No allowance for loss is recorded for receivables relating to NATO bodies' statutory contributions.

Payables

Payables are amounts due to third parties based on goods received or services provided that remain unpaid. This includes, as required, an estimate of accrued obligation for goods received or services provided but not yet invoiced.

Net Assets

The net assets available at year-end correspond essentially to the surplus contributions that were not used to pay the insurance premiums and were invested with the Investment Manager or awaiting transfer.

Financial Risks

The RMCF uses only non-derivative financial instruments as part as its normal operations. These financial elements include cash, indexed investment funds, bank accounts, deposit accounts and accounts receivable.

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

The RMCF is exposed to a variety of financial risks, including credit risk, market (price) risk and liquidity risk. The maximum exposure as at 31 December 2022 is equal to the total amount of bank balances, short term deposits, investment funds, and receivables.

Credit risk

The RMCF incurs credit risks from cash and cash equivalent held with banks and receivables. There is very limited credit risk associated with the realization of these elements.

Concerning cash and cash equivalent the RMCF credit risk is managed by holding current bank accounts and short term highly liquid deposits that are readily convertible to a known amount of cash held with ING Bank (Belgium) which has the following short term credit ratings:

BANK NAME	COUNTRY OF HQ	SHORT TERM RATINGS					
		FITCH		S&P GLOBAL		MOODY'S	
		Rating	Last review date	Rating	Last review date	Rating	Last review date
ING BANK	Netherlands	F1+	15/11/2022	A-1	28/06/2022	P-1	02/10/2022

Concerning receivables, the credit risk is managed by maintaining control procedures over receivables. These consist essentially of contributions due by NATO payroll centers and the NATO Coordinated Pension Scheme. This risk is considered limited since these entities are funded by member nations which are considered credit worthy.

Price risk

The RMCF is exposed to equity securities market risk.

The two index equity funds in which RMCF funds are invested are not rated. The European Government Bond Index Fund is comprised of bonds with ratings as indicated below:

Rating	AAA	AA	A	BBB	<BBB	Not rated	Cash
At 31.12.2022	25.84%	37.91%	14.50%	20.81%	0.00%	0.94%	0.00%

Credit ratings are derived from Moody's, S&P and Fitch. When ratings from all three are available, the median rating is used. When ratings are available from two of the agencies, the lower rating is used. When one rating is available, that rating is used.

Currency risk

Since mid-2009, RMCF is not exposed to foreign currency exchange risk arising from fluctuations in currency rates. The scheme receives contributions only in EUR. As explained above, funds are invested in EUR and insurance premiums are due in EUR.

Liquidity risk

A liquidity risk could arise from a short term liquidity requirement. There is a very limited exposure to liquidity risk in short and medium term. Contributions from NATO payroll centers are received on a monthly basis, are still higher than the insurance premiums and are paid by NATO bodies; the NATO bodies receive either contributions from their member states or income from their customers, generally other NATO bodies funded through their approved budgets. The excess funds (after payment of insurance premiums) that are invested with Vanguard Investment Series plc, the Investment Manager, are to be disinvested to cover the liquidity needs if required.

In 2022 the RMCF did not make any investments nor disinvestments.

Interest rate risk

The RMCF is restricted from entering into borrowings.

A portion of RMCF is invested in bonds. The market value of bonds fluctuates according to market perception of the issuer's creditworthiness and to projected interest rates. The value of assets available for benefits is therefore subject to some interest rate risk.

NOTE 3: ACTUARIAL VALUATION

The ISRP Actuarial Study Introduction

The International Service for Remunerations and Pensions (ISRP) is an organization that provides statistical, mathematical and actuarial support to the following organizations:

- North Atlantic Treaty Organization (NATO)
- Council of Europe (CoE)
- Organization for Economic Cooperation and Development (OECD)
- European Space Agency (ESA)
- European Centre for Medium-Range Weather Forecast (ECMWF)
- European Organization for the Exploitation of Meteorological Satellites (EUMETSAT)

In accordance with the requirements of the Letter of Mission (LM/SIRP/NATO(2012)35) signed by NATO and the ISRP, the later performed an actuarial study aiming at:

- Estimating the accrued pension and medical coverage liabilities at 31 December 2022 according to the International Public Sector Accounting Standards (IPSAS); and
- Producing the IPSAS accounting disclosures related to these liabilities.

The study is based on comprehensive data of the affiliated population at the end of 2022 provided to ISRP by NATO.

NATO has also supplied data regarding RMCF cash flows over 2022 and asset information for the RMCF up to 31 December 2022.

NATO believes that the results of this report represent a reasonable measure of the RMCF underlying liabilities.

The previous full valuation was performed as at 31 December 2021.

The study has been conducted in accordance with generally accepted actuarial practices, in close collaboration with NATO. Whilst the report complies with IPSAS 39, RMCF financial statements are prepared under IAS 26.

Actuarial Valuation Method

ISRP used the Projected Unit Credit approach.

Only the rights accrued up to the valuation date have been taken into account. The rights of employees with less than 10 years of service are taken into account proportionally.

For the calculation of NATO's medical liabilities, the expected post-retirement reimbursements of the current DBPS and DCPS population have been estimated, and the expected post-retirement contributions from current and future pensioners have been subtracted.

Actuarial Assumptions

Actuarial assumptions can be classified as either financial or demographic assumptions. Financial assumptions impact the amount of benefits to be paid over time and the net present value whilst demographic assumptions reflect the likelihood of payment and factors internal to NATO.

Financial Assumptions

The below financial assumptions were considered:

Assumption	Assumption as at 31 December 2021	Assumption as at 31 December 2022
Discount Rate		
- Post-Employment Medical Scheme	0.11%	2.48%
Price Inflation	2.00%	2.00%
- Medical Inflation	4.00%	4.00%

The discount rate used was the Euro area AAA Government Yield Curve, expressed in euros, as published by the European Central Bank, as at 31 December 2022. The change in discount rate is due to the change in financial market conditions over 2021.

In accordance with past practice, as a long-term inflation rate, the European Central Bank's long-term inflation rate target of 2.0% is used.

Medical inflation is calculated as a 2.0% increase to the derived rate of inflation.

Demographic Assumptions

The demographics at this year-end are the same as those used for the previous year end.

Mortality tables are a set of probabilities of a person dying within the year at a specific age and are an important assumption for the calculation of pension obligations. The ISRP, have produced mortality tables specific to international civil servants based in Europe since 2008 in order to have more appropriate results, compared to national or regional tables, on the life expectancy of the relevant population. This series of tables is known as the International Civil Servants Life Table (ICSLT).

Set out below is a comparison of life expectancies based on the ICSLT 2018 mortality table projected from 2018 and the ICSLT 2018 projected from 2022:

	ICSLT 2018 (2021 Projection)	ICSLT 2018 (2022 Projection)
Males		
60 year old	28.5	28.6
40 year old now at 60	29.0	29.0
Females		
60 year old	31.2	31.2
40 year old now at 60	31.5	31.5

RMCF Specific Assumptions

The medical inflation assumption remains at 4.0%, like previous year.

The administrative costs are estimated at 5.4%, previously estimated at 6.6%, of medical reimbursements paid to pensioners.

100% of the current active staff, who become vested deferred members after age 55, are assumed to return to claim medical benefits during their retirement.

Results for RMCF current obligation

The RMCF obligation as estimated at the end year 2022 is KEUR 2,712,648 or approximately a decrease of 42% compared to last year valuation.

The estimation of the present value of the Post-Employment Medical Scheme Obligation at the end of 2021 was KEUR 4,675,135. The change in the liability during 2022 can be summarized as follows:

(amount in KEUR)	2022
Obligation at 1 January 2022	4,675,135
Interest Cost	5,128
Current Service Cost	273,767
Benefits Paid	-27,268
Actuarial (Gains)/Losses	-2,214,114
Obligation at 31 December 2022	2,712,648

Overall, the currently estimated medical obligation is lower by KEUR 1,962,487 than estimated last year. The decrease is principally due to the significant increase in the discount rate.

An actuarial gain of KEUR 2,214,114 on the liabilities is calculated for 2022. This is explained mainly by the increased discount rate.

An analysis of the impact of the actuarial gain is included below:

Impact of change in ...	Type of Loss/(Gain)	Amount KEUR	% of 2022 YE Liability
Population	Experience	59,627	2.2%
Updated medical administration costs	Experience	-56,132	-2.1%
Financial Assumptions	Financial	-2,217,609	-81.8%
Total actuarial loss/(gain)		-2,214,113	-81.6%

NATO UNCLASSIFIED

ANNEX 3 to
FC(2023)0074

3-10

NOTE 4: CASH AND CASH EQUIVALENTS

The various NATO entities and pensioners pay their contributions into the RMCF account. This account serves to pay insurance premiums and effect the transfers of funds to be invested by the Investment Manager. Short term investments are made as required.

NOTE 5: FUNDS HELD BY THE INVESTMENT MANAGER

Distribution of Assets as of 31 December:

	2022		2021	
	EUR	%	EUR	%
Vanguard Euro Government Bond Index Fund - EUR Acc - IE0007472990	169,869,855.40	46.41%	207,772,894.20	48.53%
Vanguard European Stock Index Fund - EUR Acc - IE0007987708	99,447,557.04	27.17%	109,538,182.13	25.59%
Vanguard Global Stock Index Fund - EUR Acc - IE00B03HD191	96,672,720.22	26.41%	110,812,906.75	25.88%
TOTAL	365,990,132.66	100.00%	428,123,983.08	100.00%

Details of the changes in investment fund balances available for benefits over the past two years are as follows:

in EUR	Euro Govt Bond Index Fund	Europe Stock Index Fund	Global Stock Index Fund	TOTAL
31 Dec 2020 balance	172,399,712.15	95,456,436.14	110,738,773.34	378,594,921.63
Purchases before purchase fees	42,000,000.00	0.00	0.00	42,000,000.00
Withdrawals	0.00	-10,000,000.00	-32,000,000.00	-42,000,000.00
Distributions	0.00	0.00	0.00	0.00
Rebates received	70,465.68	42,878.55	118,035.02	231,379.25
Purchase Fees	0.00	0.00	0.00	0.00
2021 net transactions	42,070,465.68	-9,957,121.45	-31,881,964.98	231,379.25
Sum of 31 Dec 2020 balance and 2021 net transactions	214,470,177.83	85,499,314.69	78,856,808.36	378,826,300.88
Increase/decrease in market value excluding 2021 net transactions	-6,697,283.63	24,038,867.43	31,956,098.39	49,297,682.20
31 Dec 2021 balance	207,772,894.20	109,538,182.13	110,812,906.75	428,123,983.08
Purchases before purchase fees	0.00	0.00	0.00	0.00
Withdrawals	0.00	0.00	0.00	0.00
Distributions	0.00	0.00	0.00	0.00
Rebates received	75,501.75	40,435.12	104,189.19	220,126.06
Purchase Fees	0.00	0.00	0.00	0.00
2022 net transactions	75,501.75	40,435.12	104,189.19	220,126.06
Sum of 31 Dec 2021 balance and 2022 net transactions	207,848,395.95	109,578,617.25	110,917,095.94	428,344,109.14
Increase/decrease in market value excluding 2021 net transactions	-37,978,540.55	-10,131,060.21	-14,244,375.72	-62,353,976.48
31 Dec 2022 balance	169,869,855.40	99,447,557.04	96,672,720.22	365,990,132.66

Fund's Overall Performance

In 2022, Vanguard Investment Series plc index funds tracked their respective benchmarks during the period. Their returns, net of expenses and including the effect of reinvested dividends, are compared below to that of the corresponding benchmarks for the past two years:

Returns						
Vanguard index fund				Benchmark		
ISIN*	Fund name	2022	2021		2022	2021
IE0007472990	Euro Gov't Bond Index Fund EUR Institutional Shares	-18.28%	-3.49%	Spliced Euro Govt Float Adj Bond Index	-18.22%	-3.39%
IE0007987708	European Stock Index Fund EUR Institutional Shares	-9.25%	25.49%	MSCI Europe	-9.49%	25.13%
IE00B03HD191	Global Stock Index Fund EUR Institutional Shares	-12.85%	30.98%	MSCI World	-12.78%	31.07%

The number of units and daily NAV per unit for the RMCF at year end, together with the resulting year-end market values, were as follows:

	2022			2021		
	Units	NAV in EUR	Market Value in EUR	Units	NAV in EUR	Market Value in EUR
Vanguard Euro Government Bond Index Fund	866,030.32	196.1477	169,869,855.40	865,677.83	240.0118	207,772,894.20
Vanguard European Stock Index Fund	3,957,859.68	25.1266	99,447,557.04	3,956,260.89	27.6873	109,538,182.13
Vanguard Global Stock Index Fund	2,815,819.65	34.332	96,672,720.22	2,812,938.69	39.394	110,812,906.75
TOTAL			365,990,132.66			428,123,983.08

The below table provides comparative data of the movement in market value for the last two consecutive years:

Amounts in EUR	2022	2021
Increase/(Decrease) in Market Value	-62,353,976.48	49,297,682.20
Investments/(Redemptions)	0.00	0.00

In 2022 the financial markets were subject to the war in Ukraine and the risks to Europe's energy supply together with the rising inflation. This resulted in a substantial decrease in the unrealized profit, bringing the 2022 market value of the investments below the 2021 market value at year end.

NOTE 6: ACCOUNTS RECEIVABLE

Receivables at year-end were as follows:

(amounts in EUR)	2022	2021
Contributions	785,292.18	622,944.21
Receivable from insurer	0.00	31,082.00
Total accounts receivable	785,292.18	654,026.21

Contributions are paid on a monthly basis. At the date of issuance of these financial statements, no contributions were a year or more past due.

There are profit sharing agreements in place for the periods 2012-2016, 2017-2021 and 2022-2026 (see note 9). The RMCF is not entitled to a profit share for 2022.

NOTE 7: ACCOUNTS PAYABLE

The table below provides comparative data of the amounts payable at year-end for the last two consecutive years:

(amounts in EUR)	2022	2021
Insurance Premiums	6,992,030.00	4,093,337.00
Insurer Management Fee	183,175.20	114,446.16
Miscellaneous	15,017.12	10,869.42
Total accounts payable	7,190,222.32	4,218,652.58

For 2022, the RMCF has net payable position of EUR 7,175,205.20 to the insurer. This equals to the final 2022 settlement whereby the advances paid to the insurer are regularized against the 2022 actual insurance premium and management cost.

Miscellaneous amounts correspond to operations to be regularised with contributors and accrued bank fees. There are also costs, funded out of the 2020 profit share, for the Asset and Liability Management (ALM) study conducted by the International Service for Remunerations and Pensions (ISRP).

NOTE 8: CONTRIBUTIONS RECEIVED

Contributions received in the course of the year were as follows:

Contributions (in EUR)	2022	2021
Active Staff and NATO Employer	33,389,758.00	29,676,433.55
Retired Staff from DBPS (Defined Benefit Pension Scheme)	1,221,781.92	986,180.91
Retired Staff from DCPS (Defined Contribution Pension Scheme)	25,042.59	19,895.97
Other Retired Staff	128,131.46	88,259.12
Total	34,764,713.97	30,770,769.55

NOTE 9: PROFIT SHARING AGREEMENT WITH INSURER

A profit-sharing arrangement has been entered into, covering the period 2017-2021, whereby NATO would be refunded the totality of the difference Premiums X 97% – Reimbursements, if it is positive.

A similar arrangement is in place covering the period 2022-2026, being tacitly renewed annually.

No profit share has been awarded for 2022.

NOTE 10: INTEREST

Interest is earned on the bank account for the period during which cash holdings are pending investment.

No interests were earned in 2022.

NOTE 11: INSURANCE PREMIUMS AND MANAGEMENT FEES

The insurance premium to cover the medical expenses of the retirees is subject to the NATO Group Insurance Policy agreement.

The value of the insurance premium paid to the insurance company is essentially based on the number and age of the beneficiaries.

The Management Fee is payable annually to the third party administrator, i.e. Allianz.

In accordance with the group insurance contract, NATO IS pays a monthly advance to the third party administrator. Around February of the following year, when the final costs are known, these are offset against the advances paid during the year.

The below table provides comparative data on the insurance premiums and management fee costs over the last two consecutive years:

(amounts in EUR)	2022	2021
Contributions	34,760,356.97	30,770,769.55
Insurance Premiums	31,952,030.00	29,053,337.00

The increase in insurance premiums and management fees between 2021 and 2022 is caused by increased number of affiliates and the aging factor.

The table below provides comparative data for the two last consecutive years of the net result:

(amounts in EUR)	2022	2021
Contributions	34,760,356.97	30,770,769.55
Insurance Premiums	31,952,030.00	29,053,337.00
Management Fees	1,623,175.20	1,554,446.16
Net Result	1,185,151.77	162,986.39

In 2022 the contributions have sufficiently covered the insurance premium and management fee for the year.

NOTE 12: MISCELLANEOUS

Corresponds to miscellaneous transactions essentially the cost of the ALM study by the ISRP and the net financial results including foreign exchange results.

NOTE 13: CONTINGENT ASSETS

None to report.

NOTE 14: CONTINGENT LIABILITIES

There are no material contingent liabilities arising from legal actions and claims that are likely to result in significant liability to the RMCF.

NOTE 15: RELATED PARTY TRANSACTIONS

The following related party transactions took place during the year ended 31 December 2022.

NATO International Staff, in particular Executive Management – Human Resources and the Office of Financial Control, are responsible for the day-to-day management of the RMCF. None of the costs related to the administrative services provided by NATO International Staff are charged to the RMCF.

NOTE 16: KEY MANAGEMENT PERSONNEL

For the purpose of these financial statements, key management personnel are considered to be the Assistant Secretary General for Executive Management and the Financial Controller of the International Staff. Their remuneration is entirely covered by the International Staff.

Members of the RMCF Supervisory Committee do not receive any additional remuneration or benefits in return for their responsibilities. The International Staff Financial Controller is the Chairperson of the Supervisory Committee.

The Fund does not hold any securities of the employer sponsor or, directly, of its related parties.

NOTE 17: STATISTICAL INFORMATION

Evolution of RMCF (number of beneficiaries)			
Year	Joined	Departed	Total
2001	166	0	166
2002	250	1	415
2003	229	4	640
2004	242	14	868
2005	328	15	1,181
2006	258	27	1,412
2007	259	25	1,646
2008	333	37	1,942
2009	330	32	2,240
2010	316	37	2,519
2011	401	39	2,881
2012	265	27	3,119
2013	268	63	3,324
2014	533	62	3,795
2015	386	163	4,018
2016	729	136	4,611
2017	286	211	4,686
2018	305	146	4,845
2019	350	214	4,981
2020	392	227	5,146
2021	347	123	5,370
2022	347	35	5,682

NATO UNCLASSIFIED

FC(2023)0055

NATO MSIAC
FINANCIAL STATEMENTS
Financial Year 2022

Annexes:

- 1 Statement of Financial Position
- 2 Statement of Financial Performance
- 3 Cash Flow Statement
- 4 Statement of Changes in Net Assets
- 5 Statement of Budget Execution
- 6 Explanatory notes to the financial statements



C. DENHAM
Project Manager MSIAC



M. BORYCZKA
Financial Controller NATO-IS

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX 1 to
FC(2023)0055

NATO MSIAC

Statement of financial position

As at 31 December 2022

(in EUR)

	Notes	Current Year 2022	Prior Year 2021	Variance CY - PY
Assets				
Current assets				
Cash and cash equivalents	3	793,772.60	1,024,909.70	-231,137.10
Short term investments	3	0.00	0.00	0.00
Receivables	4	127,382.53	800.00	126,582.53
Prepayments	5	13,963.73	13,817.33	146.40
Other current assets	5	0.00	353.30	-353.30
Inventories	6			0.00
		935,118.86	1,039,880.33	-104,761.47
Non-current assets				
Receivables	8	0.00	0.00	0.00
Property, plant & equipment	7	0.00	0.00	0.00
Intangible assets	7	0.00	0.00	0.00
Other non-current assets	8	0.00	0.00	0.00
		0.00	0.00	0.00
Total assets		935,118.86	1,039,880.33	-104,761.47
Liabilities				
Current liabilities				
Payables	9	141,798.09	295,681.07	-153,882.98
Deferred revenue	10	15,504.30	43,374.97	-27,870.67
Advances	11	9,976.22	0.00	9,976.22
Provisions	12	0.00	120.00	-120.00
Other current liabilities	13	243,588.52	53,613.91	189,974.61
		410,867.13	392,789.95	18,077.18
Non-current liabilities				
Payables	14	0.00	0.00	0.00
Long term provisions	14	0.00	0.00	0.00
Non Current Deferred revenue	14	0.00	0.00	0.00
Other non-current liabilities	14	0.00	0.00	0.00
		0.00	0.00	0.00
Total liabilities		410,867.13	392,789.95	18,077.18
Net assets				
Capital assets				
Reserves				
Accumulated surplus / (deficit)		513,251.73	470,077.16	43,174.57
Current year surplus / (deficit)		11,000.00	177,013.22	-166,013.22
Total net assets/ equity	15	524,251.73	647,090.38	-122,838.65

NATO UNCLASSIFIED

1-1

NATO MSIAC Statement of financial performance

As at 31 December 2022

(in EUR)				
	Notes	Current Year 2022	Prior Year 2021	Variance CY - PY
Revenue				
Non exchange revenue	16	1,900,295.87	1,809,564.25	90,731.62
Services, Joining Fees and Early Access Contributions		11,000.00	177,013.22	-166,013.22
Exchange revenue		0.00	0.00	0.00
Other revenue		5,381.06	8,697.33	-3,316.27
Financial revenue		196.62	43.79	152.83
Total revenue		1,916,873.55	1,995,318.59	-78,445.04
Expenses				
Personnel	17	1,467,574.41	1,394,296.73	73,277.68
Contractual supplies and services		437,915.77	420,814.85	17,100.92
Depreciation and amortization		0.00	0.00	0.00
Impairment		0.00	0.00	0.00
Provisions		-120.00	120.00	-240.00
Other expenses		0.00	0.00	0.00
Finance costs		503.37	3,073.79	-2,570.42
Total expenses		1,905,873.55	1,818,305.37	87,568.18
Surplus/(Deficit) for the period		11,000.00	177,013.22	-166,013.22

NATO UNCLASSIFIED

2-1

NATO UNCLASSIFIED

ANNEX 3 to
FC(2023)0055

NATO MSIAC
Statement of cash flow

As at 31 December 2022

	2022	2021
	(in EUR)	
Cash flow from operating activities		
Surplus/(Deficit)	11,000.00	177,013.22
Non-cash movements		
Depreciation/ Amortisation		
Impairment		
Use of Cash Reserves	-133,838.65	-127,491.78
Increase /(decrease) in Payables	-153,882.98	-27,770.58
Increase/ (decrease) in Other current liabilities	189,974.61	-91,459.66
Increase/ (decrease) in Advances and Deferred Revenue	-17,894.45	8,374.40
Increase/ (decrease) in Provisions	-120.00	-58,843.38
(Gains)/losses on sale of Property, plant and equipment		
Decrease/ (Increase) in Other current assets	206.90	76,648.05
Decrease/ (Increase) in Receivables	-126,582.53	82,297.75
Decrease/ (Increase) in Other non-current assets		
Net cash flow from operating activities	-231,137.10	38,768.02
Cash flow from investing activities		
Purchase of Property plant and equipment / Intangible assets		
Proceeds from sale of Property plant and equipment	0.00	0.00
Net cash flow from investing activities	0.00	0.00
Cash flow from financing activities		
Net cash flow from financing activities	0.00	0.00
Net increase/(decrease) in cash and cash equivalents	-231,137.10	38,768.02
Cash and cash equivalent at the beginning of the period	1,024,909.70	986,141.68
Cash and cash equivalent at the end of the period	793,772.60	1,024,909.70

NATO UNCLASSIFIED

3-1

NATO UNCLASSIFIED

ANNEX 4 to
FC(2023)0055

NATO MSIAC
Statement of Change in Net Assets/Equity

As at 31 December 2022

	(in EUR)
Balance at the beginning of the period 2021	597,568.94
Changes in accounting policy	
Restated balance	
Net gains/(losses) recognised directly in net assets/equity	
Exchange difference on translating foreign operations	
Gain on property revaluation	
Use of Cash Reserves	-127,491.78
Surplus/(deficit) for the period	177,013.22
Change in net assets/equity for the year ended 2021	647,090.38
Balance at the beginning of the period 2022	647,090.38
Changes in accounting policy	
Restated balance	
Exchange difference on translating foreign operations	
Gain on property revaluation	
Use of Cash Reserves	-133,838.65
Surplus/(deficit) for the period	11,000.00
Change in net assets/equity for the year ended 2022	524,251.73
Balance at the end of the period 2022	524,251.73

NATO UNCLASSIFIED

4-1

NATO UNCLASSIFIED

ANNEX 5 to
FC(2023)0055

NATO MSIAC
Statement of Budget Execution
as at 31 December 2022

(Amounts in euro)

Budget 2022

	Initial budget	Transfers	BA2	Transfers	BA3	Increase/Decrease	Final budget	Actuals	Carry forward	Lapsed
Chapter 1	1,300,700	0	1,300,700	144,874	1,445,574	22,000	1,467,574	1,446,993	0	20,581
Chapter 2	607,300	0	607,300	-144,874	462,426		462,426	434,055	15,504	12,867
Chapter 3	0		0		0		0			0
Chapter 4	0		0		0		0			0
Total FY 2022	1,908,000	0	1,908,000	0	1,908,000	22,000	1,930,000	1,881,047	15,504	33,448

Budget 2021

Chapter 1	0		0		0		0	0	0	0
Chapter 2	43,375		43,375		43,375		43,375	24,443	0	18,932
Chapter 3	0		0		0		0			0
Chapter 4	0		0		0		0			0
Total FY 2021	43,375	0	43,375	0	43,375	0	43,375	24,443	0	18,932

Budget 2020

Chapter 1	0		0		0		0	0	0	0
Chapter 2	0		0		0		0	0	0	0
Chapter 3	0		0		0		0			0
Total FY 2020	0	0	0	0	0	0	0	0	0	0

Total all budgets

1,951,375	0	1,951,375	0	1,951,375	22,000	1,973,375	1,905,490	15,504	52,380
------------------	----------	------------------	----------	------------------	---------------	------------------	------------------	---------------	---------------

NATO UNCLASSIFIED

NATO UNCLASSIFIED

6-1

ANNEX 6 to
FC(2023)0055

**EXPLANATORY NOTES TO MSIAC
2022 FINANCIAL STATEMENTS**

NOTE 1: GENERAL INFORMATION

At the October 1990 Conference of National Armaments Directors (CNAD) meeting, the MOU establishing NATO Insensitive Munitions Information Centre (NIMIC) as a Project Office under CNAD was signed. The project transitioned to cover the wider aspects of Munition Safety in 2004 becoming the Munitions Safety Information Analysis Centre (MSIAC)

MSIAC is a member nations' funded and directed NATO Project office. Its goal is to help nations reduce and eliminate the risk to personnel and materiel from explosive incidents associated with own munitions. To help nations realise this goal, the project exchanges and analyses information and technology related to munition safety. MSIAC plays a central role in facilitating member nation's efforts to safely store, design, develop, procure and use safer munitions.

At the end of 2022, MSIAC had sixteen participating countries: Australia, Belgium, Canada, Finland, France, Germany, Italy, the Netherlands, Norway, Spain, Sweden, Switzerland, the United Kingdom, the United States, Poland and the Republic of Korea.

MSIAC allows other nations to participate in selected MSIAC sponsored courses or training events. These are called MSIAC Partner Nations.

The MSIAC Steering Committee (one representative per member nation) is the governing body of the MSIAC. Steering Committee members are nominated by their respective national authorities.

For administrative purposes only, MSIAC is attached to the Defence Investment Division of the IS.

The member countries pay all operational and administrative costs relating to the Project office, in accordance with an agreed cost-sharing formula which is based on a share value. As of 2019, the cost share amounts to EUR 88,000.

In 2022, there were 12 nations paying 1 share and 4 nations paying 2 shares. In total there are 20 shares from official members.

NATO UNCLASSIFIED

6-1

NOTE 2: ACCOUNTING POLICIES

MSIAC applies the NATO IS Accounting Policies which have been published through ON(2021)0079 and updated through document FC(CAF)(2023)0001.

Declaration of Conformity

The MSIAC financial statements have been prepared in accordance with NATO Financial Regulations (NFR), the Financial Rules and Procedures (FRP) and the NATO Accounting Framework, which is an adapted version of the International Public Sector Accounting Standards (IPSAS).

Basis of Preparation

These financial statements have been prepared on a going-concern basis. The assumption is that MSIAC is a going concern and will continue in operation and meet its objectives and obligations for the foreseeable future.

The financial year is from 1 January to 31 December.

The amounts shown in these financial statements are presented in EUR.

MSIAC applied IPSAS 9 Revenue from exchange transactions and IPSAS 23 Revenue from non-exchange transactions.

The following IPSAS have no material effect on the 2022 MSIAC financial statements:

- IPSAS 5: Borrowing Costs
- IPSAS 6: Consolidated and Separate Financial
- IPSAS 7: Investments in Associates.
- IPSAS 8: Interests in Joint Ventures
- IPSAS 10: Financial Reporting in Hyperinflationary Economies
- IPSAS 11: Construction Contracts
- IPSAS 16: Investment Property
- IPSAS 21: Impairment of non-cash generating assets
- IPSAS 26: Impairment of Cash-Generating Assets
- IPSAS 27: Agriculture
- IPSAS 32: Service Concession Arrangements: Grantor

NATO UNCLASSIFIED

NATO UNCLASSIFIED

6-3

ANNEX 6 to
FC(2023)0055

Changes in accounting policy

The accounting policy has been aligned with the NATO Civilian Personnel Regulations with regards to the annual leave that is not taken.

The NATO Civilian Personnel Regulations (NCPRs) stipulate in article 42.3.3 that no compensation is paid for annual leave not taken. Only in exceptional cases, determined by the Head of the NATO body, payment in lieu may be authorized. Hence no provision is considered by NATO-IS Group Entities unless such decision has been taken.

Reclassification of Financial Statements of Previous Years

None.

Restatement of Financial Statements of Previous Years

As a result of to the above mentioned change in accounting policy, below you can find the 2021 restated Statement of Financial Position for comparative purposes:

		(in EUR)		
	Notes	2021 REPORTED	2021 RESTATED	Impact
Assets				
<i>Current assets</i>				
Cash and cash equivalents	3	1,024,909.70	1,024,909.70	0.00
Short term investments	3	0.00	0.00	0.00
Receivables	4	800.00	800.00	0.00
Prepayments	5	13,817.33	13,817.33	0.00
Other current assets	5	67,577.86	353.30	67,224.56
Inventories	6			0.00
		<u>1,107,104.89</u>	<u>1,039,880.33</u>	<u>67,224.56</u>
Total assets		1,107,104.89	1,039,880.33	67,224.56
Liabilities				
<i>Current liabilities</i>				
Payables	9	295,681.07	295,681.07	0.00
Deferred revenue	10	43,374.97	43,374.97	0.00
Advances	11	0.00	0.00	0.00
Provisions	12	67,344.56	120.00	67,224.56
Other current liabilities	13	53,613.91	53,613.91	0.00
		<u>460,014.51</u>	<u>392,789.95</u>	<u>67,224.56</u>
Total liabilities		460,014.51	392,789.95	67,224.56

NATO UNCLASSIFIED

6-3

NATO UNCLASSIFIED

6-4

ANNEX 6 to
FC(2023)0055

Below you find the 2021 restated Statement of Financial Performance for comparative purposes:

(in EUR)				
	Notes	2021 REPORTED	2021 RESTATED	Impact
Revenue	16			
Non exchange revenue		1,809,564.25	1,809,564.25	0.00
Services, joining Fees and Early Access Contributions		177,013.22	177,013.22	0.00
Exchange revenue		0.00	0.00	0.00
Other revenue		16,958.51	8,697.33	8,261.18
Financial revenue		43.79	43.79	0.00
Total revenue		2,003,579.77	1,995,318.59	8,261.18
Expenses	17			
Personnel		1,394,296.73	1,394,296.73	0.00
Contractual supplies and services		420,814.85	420,814.85	0.00
Depreciation and amortization		0.00	0.00	0.00
Impairment		0.00	0.00	0.00
Provisions		8,381.18	120.00	8,261.18
Other expenses		0.00	0.00	0.00
Finance costs		3,073.79	3,073.79	0.00
Total expenses		1,826,566.55	1,818,305.37	8,261.18
Surplus/(Deficit) for the period		177,013.22	177,013.22	0.00

Use of Estimates

in accordance with generally accepted accounting principles, the financial statements include amounts based on estimates and assumptions by management, according to the most reliable information available, judgement and assumptions. Estimates include accrued revenue and expenses. Actual results could differ from those estimates. Changes in estimates are reflected in the period in which they become known.

Foreign Currency Transactions

The MSIAC budget is authorized and managed in EUR so contributions called are made in EUR. Foreign currency transactions as required are accounted for at the NATO exchange rates prevailing on the date of the transactions. Monetary assets and liabilities at year-end which were denominated in foreign currencies were converted into EUR using the NATO rates of exchange applicable at year end.

NATO UNCLASSIFIED

NATO UNCLASSIFIED

၅၂၆

ANNEX 6 to

FC(2023)0055

Realised and unrealised gains and losses resulting from the settlement of such transactions and from the revaluation of monetary assets at the reporting dates, and liabilities denominated in foreign currencies are recognised in the Statement of Financial Performance.

MSIAC does not have any unrealised gains and losses resulting from the translation of statements.

Financial Risks

MSIAC uses only non-derivative financial instruments as part of its normal operations. These financial instruments include cash, bank accounts and deposit accounts.

All the financial instruments are recognised in the Statement of Financial Position at their fair value.

The organisation is exposed to a variety of financial risks, including foreign exchange risk, credit risk, currency risk, liquidity risk and interest rate risk.

a. Foreign currency exchange risk

The exposure to foreign currency risk is limited as the majority of the NATO-MSIAC's expenditures are made in EUR, the currency of its budget. The current bank accounts are held in EURO.

b. Credit risk

NATO MSIAC incurs credit risks from cash and cash equivalent held with banks and from receivables.

The maximum exposure as of year-end is equal to the total amount of bank balances, short-term deposits and receivables. There is very limited credit risk associated with the realization of these elements.

Concerning cash and cash equivalent NATO MSIAC credit risk is managed by holding current bank accounts and short-term, highly liquid deposits that are readily convertible to a known amount of cash held with ING Bank (Belgium) which has the following short-term credit ratings:

BANK NAME		COUNTRY OF HQ	SHORT TERM RATINGS AS AT 31/12/2022					
			FITCH		S&P GLOBAL		MOODY'S	
			Rating	Last review date	Rating	Last review date	Rating	Last review date
ING BANK	Netherlands	F1+	15/11/2022	A-1	28/06/2022	P-1	02/10/2022	

The MSIAC outstanding accounts receivable are managed by maintaining control procedures over receivables. Most cash receivables are due from Member Nations, which are considered credit worthy.

c. Liquidity risk

The liquidity risk, also referred to as funding risk, is based on the assessment as to whether the Organisation will encounter difficulties in meeting its obligations associated with financial liabilities. A liquidity risk could arise from a short-term liquidity requirement. There is a very limited exposure to liquidity risk since MSIAC funding mechanism guarantees contributions in relation to approved budgets. Some limited risk could be due to the accuracy of budget forecasts. However, history shows that the budgetary process results in surpluses and, in any case, the applicable rules allow the revision of budgets.

NATO UNCLASSIFIED

၇၆

NATO UNCLASSIFIED

6-7

ANNEX 6 to

FC(2023)0055

Criteria that may indicate control of an asset:

- The act of purchasing the asset carried out (or resulted from instructions given) by the NATO Reporting Entity.
- The legal title is in the name of the NATO Reporting Entity.
- The asset is physically located on the premises or locations used by the NATO Reporting Entity.
- The asset is physically used by staff employed by the NATO Reporting Entity or staff working under the NATO Reporting Entity's instructions.
- The fact that the NATO Reporting Entity can decide on an alternative use of the asset.
- The fact that the NATO Reporting Entity can decide to sell or to dispose the asset.
- The fact that the NATO Reporting Entity, if it has to remove or destroy the asset, can take the decision to replace it.
- The fact that a representative of the NATO Reporting Entity regularly inspects the asset to determine its current condition.
- The fact that the asset is used in achieving the objectives of the NATO Reporting Entity.
- The fact that the asset will be retained by the NATO Reporting Entity at the end of the activity.

Capitalization thresholds relevant to the financial statement are as follows:

Category	Threshold	Basis
Consumables	€50,000	Per location/warehouse
Spare Parts	€50,000	Per location/warehouse
Ammunition	€50,000	Per location/warehouse
Strategic stocks	€50,000	Per location/warehouse

The MSIAC will capitalize inventory which it controls in its financial statements. Where there is a conflict between more than one NATO Reporting Entity as to the control of inventory, only the end-user entity will report the inventory in its financial statements, based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities.

The MSIAC will include transportation costs involved in bringing the inventories to their present location and condition in the initial valuation of inventory. These costs will be measured on the actual cost of transportation per item of inventory or by using an apportionment of the global transportation costs of bringing the inventories to their present location and condition across all inventory items in the period. Transportation costs involved in the subsequent movement of inventory which brings them into operational use will not be included in the value of inventory. The method of measuring these costs will be disclosed.

The MSIAC considers inventory acquired prior to 1 January 2013 as fully expensed.

NATO UNCLASSIFIED

6-7

NATO UNCLASSIFIED

9-08

ANNEX 6 to
FC(2023)0055

For inventory held prior to 1 January 2013, and not previously recognized as an asset, the MSIAC will provide a brief description of inventory held within their inventory recording systems in the notes to the financial statements. Such disclosure will include as a minimum the types of inventories held, locations where inventories are held and the approximate number of items held per asset category.

Where this adaptation conflicts with another requirement of IPSAS this adaptation shall apply. For the remainder, IPSAS 12 shall apply.

The MSIAC assesses inventories under IPSAS 12. The outcome of this assessment is that the value of the inventories is immaterial both in value and in terms of the nature of the items held. Consequently, inventory is fully expensed on receipt. The materiality will be assessed each year.

In consideration of all the above, MSIAC currently has no inventory.

Non-current assets - Fixed assets (Property, Plant & Equipment and Intangible Assets)

a. Property, Plant & Equipment

NATO's adaptation of IPSAS are spelled out in C-M(2016)0023 of April 2016 among which are specific items addressing IPSAS 17 PPE. Furthermore, C-M(2017)0022 (INV) approved the NATO Accounting Policy for Property, Plant and Equipment.

When it comes to assessing the control of NATO over PPE, these documents define a set of 10 criteria to be used in assessing the level of control of a tangible asset. A positive response on six of the criteria will lead to the asset being capitalized in the Financial Statements if it is above the capitalization threshold. This is applied from January 2013 under the initial NATO Accounting Framework C-M(2013)0039 of July 2013.

NATO UNCLASSIFIED

9-8

NATO UNCLASSIFIED

6-9

ANNEX 6 to
FC(2023)0055

Capitalization thresholds relevant to the financial statement are as follows:

Category	Threshold	Depreciation Life	Method
Land	€200,000	N/A	N/A
Buildings	€200,000	40 years	Straight line
Other infrastructure	€200,000	40 years	Straight line
Installed equipment	€ 30,000	10 years	Straight line
Machinery	€ 30,000	10 years	Straight line
Vehicles	€ 10,000	5 years	Straight line
Aircraft	€200,000	Dependent on type	Straight line
Vessels	€200,000	Dependent on type	Straight line
Mission equipment	€ 50,000	3 years	Straight line
Furniture	€ 30,000	10 years	Straight line
Communications	€ 50,000	3 years	Straight line
Automated information systems	€ 50,000	3 years	Straight line

The MSIAC considers PPE acquired prior to 1 January 2013 as fully expensed. However, existing accounting policies will continue to be applied for any PPE assets already capitalized prior to 1 January 2013. For PPE upgraded after 1 January 2013, only the portion related to the modification will be capitalized.

In consideration of the above thresholds, MSIAC currently has no PPE.

b. Intangible Assets

NATO's adaptations of IPSAS are spelled out in C-M(2017)0023 of April 2013, which includes IPSAS 31 Intangible Assets. Furthermore, C-M(2017)0044 approved the NATO Accounting Policy for Intangible Assets.

When it comes to assessing the control of NATO over Intangible Assets, these documents define a set of 10 criteria to be used in assessing the level of control of an Intangible Asset – they are the same as mentioned above under Inventory. A positive response on six of the criteria will lead to the asset being capitalized in the Financial Statements if it is above the capitalization threshold. This is applied from January, 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 2013.

NATO UNCLASSIFIED

6-9

ANNEX 6 to
FC(2023)0055

MSIAC will capitalize each intangible asset item above the following agreed NATO thresholds:

Category	Threshold	Depreciation Life	Method
Computer software (commercial off the shelf)	€50,000	4 years	Straight line
Computer software (bespoke)	€50,000	10 years	Straight line
Computer database	€50,000	4 years	Straight line
Integrated system	€50,000	4 years	Straight line

For anything below the threshold, the MSIAC will have the flexibility to expense specific items.

MSIAC will capitalize integrated systems and include research, development, implementation and can include both software and hardware elements. But the MSIAC will not capitalize the following types of intangible assets in their financial statements:

- rights of use (air, land and water);
- landing rights;
- airport gates and slots;
- historical documents; and,
- publications

MSIAC will capitalize other types of intangible assets acquired after 1 January 2013 including:

- Copyright
- Intellectual Property Rights
- Software development

MSIAC considers Intangible Assets acquired prior to 1 January 2013 as fully expensed.

MSIAC will report controlled intangible assets in its financial statements. Where there is a conflict between more than one NATO Reporting Entity as to the control of intangible assets, only the end-use entity will capitalize the intangible asset in its financial statements based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities.

For intangible assets held prior to the 1 January 2013, and not previously recognized as an asset, MSIAC will provide a brief description of intangible assets held in its intangible asset recording systems in the notes to the financial statements. Such disclosure will include as a minimum the types of intangible held, locations where intangible assets are held and the approximate number of items held per asset category.

NATO UNCLASSIFIED

6-11

ANNEX 6 to
FC(2023)0055

If an intangible asset is upgraded after 1 January 2013, only the portion related to the modification will be capitalized.

Where this adaptation conflicts with another requirement of IPSAS this adaptation will apply. For the remainder, IPSAS 31 shall apply. This adaptation is effective for financial reporting periods beginning on 1 January 2013.

In consideration of the above thresholds, MSIAC has no Intangible Assets.

Non-Current Assets other than PPE

In case there are any non-current assets, these will be disclosed in the Statement of Financial Position.

Current Liabilities

a. Payables

Payables are amounts due to third parties, including Member Nations, based on goods received or services provided that remain unpaid. These include estimates of accrued obligations to third parties for goods and services received but not yet invoiced. Amounts due to Member Nations in the context of their budget contributions are booked under Other Current Liabilities.

b. Advances and Unearned revenue

Advances are contributions received related to future year's budgets. Funds are called in advance of their need because MSIAC has no capital that would allow it to pre-finance any of its activities.

Unearned revenue represents Member Nations contributions which have been called for current budgets but that have not yet been recognised as revenue in the absence of any related budgetary expenditure.

c. Other Current Liabilities

Amounts corresponding to the current budgetary surplus (lapsed credits + net interests + miscellaneous income) are considered a liability towards the Member Nations. The settlement does not follow the normal accounts payable process, since the standard approach is to return them to Member Nations via a deduction of the following year's call for budget contributions. This liability is therefore classified under Other Current Liabilities.

This item may include other liabilities that do not result from the standard procure-to-pay process, such as miscellaneous transactions to be regularized between entities managed by the IS Office of Financial Control.

Non-Current Liabilities

The MSIAC has no non-current liabilities.

Net Assets

Net Assets correspond to MSIAC's Project Accumulated Surplus. Project Accumulated Surplus relates to funds resulting from past years' contributions by MSIAC member Nations in excess of budget execution

NATO UNCLASSIFIED

6-11

NATO UNCLASSIFIED

6-12

ANNEX 6 to

FC(2023)0055

that the Steering Committee decided not to redistribute to the member nations but keep for the needs of MSIAC. It is held at the direction of the Steering Committee.

Revenue Recognition

Revenue comprises contributions from Member Nations, pro-rated contributions (partial calls), joining fees from new Member Nations and services, such as training sessions, provided.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. The balance of unspent contributions and other revenues that relate to future periods are deferred accordingly.

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

Contributions to be called from Member Nations, based on the budget they approved, are initially recorded as unearned revenue liabilities. They are recognised as revenue in the statement of financial performance when such contributions are used for their intended purpose as envisioned in the approved Budget.

On the other hand, calls related to non-budgeted contributions (new membership early access, access during the year, and joining Fees from new Member Nations) are recognized when they are issued and as Non-Exchange revenue in the Statement of Financial Performance, considering that it is not possible to directly identify and value the consideration provided by MSIAC directly in return for the resources received. There are no expenses to be matched against these resources which are not refundable to nations.

Segment Reporting

A segment is a distinguishable activity or group of activities for which it is appropriate to separately report financial information. There is no segment in MSIAC.

NATO UNCLASSIFIED

6-12

NATO UNCLASSIFIED

6-13

ANNEX 6 to

FC(2023)0055

Statement of Financial Position

NOTE 3: CASH AND CASH EQUIVALENTS – SHORT TERM INVESTMENTS

The current bank accounts are held in EUR. Cash deposited is immediately available. There are no short-term investments.

Below is a snapshot of MSIAC's cash and cash equivalents at the year-end:

Amounts in EUR	
	2022
Cash at bank	793,772.60
Petty cash	-
Total	793,772.60

NOTE 4: ACCOUNTS RECEIVABLE

Below is a snapshot of MSIAC's receivables at the year-end:

Amounts in EUR	
	2022
	2021
Others	127,382.53
Total	127,382.53
	800.00
	800.00

The receivables correspond to one open invoice to be paid by the United States Department of Defense Explosives Safety Board.

NOTE 5: PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and Other Current Assets relate to miscellaneous amounts due to the Project Office in relation to services to be received in the following years and advances made to staff in relation to benefits of the following year (essentially advances to staff for education allowances or for travel, etc.).

Following table presents a snapshot of MSIAC's Prepayments at the year-end:

Amounts in EUR	
	2022
Prepayments to Staff	13,963.73
Total	13,963.73

Prepayments to staff correspond to Education Allowance advances for an amount of EUR 13,963.73.

NATO UNCLASSIFIED

6-13

NATO UNCLASSIFIED

6-14

ANNEX 6 to
FC(2023)0055

NOTE 6: INVENTORIES

Nothing to report, inventories are not considered material.

NOTE 7: PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

MSIAC does not hold any property, plant and equipment. Nor does MSIAC hold any intangible assets.

NOTE 8: NON-CURRENT RECEIVABLES AND OTHER NON-CURRENT ASSETS

MSIAC has registered no non-current receivables or other non-current assets.

NOTE 9: PAYABLES

Payables and accrued expenses may relate to commercial suppliers, staff, other NATO bodies or MSIAC Member Nations.

Payable to suppliers relates to goods and services for which an invoice has been received, checked, and queued for payment but for which payment was still pending at year-end.

Accrued expenses correspond to EUR 42,539.13 and is the estimated accrual obligation to third parties for goods and services received but not yet invoiced.

Payable to nations

The payable to Member Nations is linked to the reimbursable salaries and represents the amount due to the United States (US) for one civilian staff member who is paid directly by the US government. This amount remains to be regularised. At the end of 2021, this payable account showed a balance of EUR 94,218.98. The open amount has been offset in 2022.

NATO UNCLASSIFIED

6-14

NATO UNCLASSIFIED

6-15

ANNEX 6 to
FC(2023)0055

Below is a snapshot of MSJAC's payables at the year-end:

Amounts in EUR

	2022	2021
Suppliers	117,397.91	132,557.10
Member Nations	-	94,218.98
Accruals	24,400.18	68,904.99
Total	141,798.09	295,681.07

NOTE 10: DEFERRED REVENUE

Deferred revenue corresponds to contributions called for the current year or before (received or receivable) that MSJAC intends to use for its initial purpose, but for which corresponding goods or services could not be received in the course of the current budget year but will be incurred after the end of the reporting period. If these amounts carried forward are not spent by the end of the second year following the year for which they were approved, these funds lapse, unless a specific decision is taken by Member Nations for a further carry-forward. At the end of 2022 there were no appropriations subject to a special carry-forward.

NOTE 11: ADVANCES

In 2022, the United States paid a voluntary advance of EUR 9,976.22 to be offset against the call for contributions for 2023.

NOTE 12: PROVISIONS

None.

NOTE 13: OTHER CURRENT LIABILITIES

Other Current Liabilities include the Current Year Budget Surplus. Amounts corresponding to the current year budgetary surplus of MSJAC, i.e. lapsed credits, net interests, miscellaneous income, are considered a liability towards the Member Nations. The settlement does not follow the standard accounts payable process, since the surplus is to be returned to Member Nations via a deduction of the following year's call for budget contributions. To date, the agreed practice of the MSJAC Steering Committee has been to add these amounts to the Project Accumulated Surplus (see note on Net Assets).

An advance is received from the United States Department of Defense Explosives Safety Board to solicit the services of a private consultant to support the activities related to Explosive Safety Munitions Risk Management. The amount available at the end of 2022 is EUR 185,625.97.

NATO UNCLASSIFIED

6-15

NATO UNCLASSIFIED

6-16

ANNEX 6 to
FC(2023)0055

Below is a snapshot of MSIAC's other current liabilities at the year-end:

Amounts in EUR

	2022	2021
Lapsed Appropriations	52,380.47	30,614.02
Net Financial Result	- 306.75	- 3,030.00
Miscellaneous Result	5,501.06	8,577.33
Cash Advance Received from US DoD ESB	185,625.97	16,938.06
Others	387.75	514.50
Total	243,588.50	53,613.91

NOTE 14: NON-CURRENT LIABILITIES AND LONG TERM UNEARNED REVENUE

The long term unearned revenue is unearned revenue in relation to net carrying amounts of Property, Plant and Equipment and intangible assets. Revenue is recognised over the estimated life cycle of the Property, plant and equipment and the intangible assets.

There are no non-current liabilities.

NOTE 15: TOTAL NET ASSETS / EQUITY

Net Assets correspond to MSIAC's Project Accumulated Surplus from previous years and the surplus (deficit) from the current year.

Project Accumulated Surplus relates to funds resulting from past contributions by MSIAC Member Nations in excess of budget execution that the Steering Committee decided not to redistribute to the Member Nations but keep for the needs of MSIAC. This reserve also includes the former surpluses originating, for instance, from non-budgeted new membership contributions and joining fees paid by incoming Member Nations to contribute to the products and services developed over the entire lifespan of MSIAC operations. It is held at the direction of the Steering Committee. The Steering Committee may use these funds to contribute to future costs associated with MSIAC operations, or in case of emergency funding needs for the Project. The growth in accumulated surplus over previous years reflects more Nations entering the Project but zero growth in Project staff. A five-year plan is agreed yearly and incrementally reduces this fund to target levels agreed by the MSIAC Steering Committee.

In May 2020 a deviation from Articles 24.2 and 29.3 of the NATO Financial Regulations has been approved by Council. As per C-M(2020)0012 the decision entails the use of MSIAC accumulated surpluses in an emergency fund and as an operational reserve up to a limit of EUR 650,000.00.

NATO UNCLASSIFIED

6-16

NATO UNCLASSIFIED

6-17

ANNEX 6 to
FC(2023)0055

Amounts in EUR

	2022	2021
Cumulated Surplus beginning of the year	647,090.38	597,568.94
+ Lapses from previous year	30,614.02	46,668.88
+ Net Financial Result (Interest, Bank Fees) previous year	- 3,030.00	90.07
+ Miscellaneous Result previous year	8,577.33	7,849.27
- Surplus allocated to current year budget	- 170,000.00	- 182,100.00
Cumulated Surplus end of the year	513,251.73	470,077.16
Current Year Surplus	11,000.00	177,013.22
Net Assets as off 01 Jan 2023	524,251.73	647,090.38

NATO UNCLASSIFIED

6-17

Statement of Financial Performance

NOTE 16: REVENUE

Non-Exchange Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably.

Revenue from Member Nations' budgetary contributions is considered as non-exchange revenue in consideration of the fact that the contributions by Member Nations are based on the number of shares and not in proportion of the service they receive. Non-exchange revenue is matched with expenses stemming from budget execution.

Below a snapshot of the 2022 non-exchange revenue breakdown:

		2022	2021
Budget Execution		1,905,490.20	1,815,111.58
	Current Year Budget	1,930,000.00	1,854,100.00
	Automatic carry forward from previous year	43,374.97	35,000.57
	Lapses at year end	-52,380.47	-30,614.02
	Automatic carry forward into next year	-15,504.30	-43,374.97
Financial Result		-306.75	-3,030.00
	Financial result	-306.75	-3,030.00
Miscellaneous Result		5,501.06	8,577.33
	Current year income		
	Overaccrual	5,381.06	8,697.33
	Provision Bad Debt	120.00	-120.00
Non Exchange Revenue		1,900,295.89	1,809,564.25

Services, Joining Fees and Early Access Contributions

Services, joining Fees and Early Access Contributions are non-budgeted contributions (new membership early access, access during the year, training fees, and joining Fees from new Member Nations) whilst being also recognized as Non-exchange revenue, do not follow the matching principle since it is not possible to directly identify and value the consideration provided by MSIAC directly in return for the resources received. There are no expenses to be matched against this revenue and thus is not refundable to nations. Therefore, this is not recognized as non-exchange revenue.

In 2022, MSIAC collected EUR 11,000 of training fees, which is recognized as a period surplus.

NATO UNCLASSIFIED

6-19

ANNEX 6 to
FC(2023)0055

Exchange Revenue

Nothing to report.

Other Revenue

This includes the regularization of overestimated accruals from previous years.

Financial Revenue

This includes exchange rate differences.

NOTE 17: EXPENSES

Wages, Salaries and Employee Benefits

The personnel costs include all civilian personnel expenses as well as other non-salary related expenses in support of funded activities. They also include expenses for salaries and emoluments for approved NATO permanent civilian positions and temporary personnel, for other salary related and non-related allowances including overtime, medical examinations, recruitment, installation and removal, and for contracted consultants and training.

Services rendered, Supplies and Consumables Used

This item may also include expenses attributed to Capital Expenses (Property, Plant and Equipment) from a budget perspective, if they do not meet the criteria of PPE or Intangible Assets.

Provisions

During 2022, all long outstanding receivables have been collected. The provision for bad debts has been released reflecting this change. .

Other Expenses

There are no such expenses in 2022.

Finance Costs

This item comprises miscellaneous financial costs like bank charges, exchange rates losses, etc.

NOTE 18: BUDGET INFORMATION

NATO MSIAC Budget

Presently, the NATO MSIAC Budget is not publicly available.

The actual amounts referred to by IPSAS 24 ("amounts that result from execution of the budget") are expenses incurred during the execution of the budget and appearing under the heading "Actuals" in the Budget Execution Statement.

NATO UNCLASSIFIED

6-19

NATO UNCLASSIFIED

6-20

ANNEX 6 to
FC(2023)0055

Presentation of budget information in the financial statements

An analysis of the budget execution for the current and the previous year carry-forward amounts is provided in Annex 5. The MSIAC budget execution compares the budget's authorized credits against the amounts committed and expended.

The MSIAC budget classification is based on the economic nature of the expenses broken down into three chapters as follows:

Chapter I	:	Personnel Expenses
Chapter II	:	Operating Expenses
Chapter III	:	Capital Costs

The MSIAC Budget is prepared for the same period (1 January to 31 December) and encompasses the same entity as these financial statements.

Changes to the budgetary regulations were introduced by the North Atlantic Council in 2015 in approving a new set of NATO Financial Regulations. They have in particular instilled an accruals based approach to budget preparation and budget execution, whereas before the approach was largely commitment and cash based.

Despite a stronger emphasis on this principle in annual budgets, the approved and executed budget cannot be considered as fully accruals-based, since the new regulations allow for a number of exceptions, such as carrying forward commitments for goods and services that were expected to be delivered in the course of the year but for various reasons were not, or authority given to the member Nations to allow for special carry forward of appropriations unused at year-end.

The MSIAC budget is prepared and executed as follows:

- 1) The commitment of appropriations is the advance acceptance and recording of the financial consequence resulting from a legal obligation incurred during the financial year. Therefore, appropriations are allocated, and commitments are approved, for goods, services and works to be delivered at a later stage. Commitments are settled when the service is rendered or goods delivered as is the case for expenses under accrual accounting.
- 2) Approved Commitments for which no goods could be received or services rendered at year-end will normally lapse. However, if they are supported by a legal obligation and correspond to goods or services that could not be received during the course of the year for specific reasons, they may be carried forward and added to the budget of the following financial year. Uncommitted appropriations may be subject of a special carry forward to the following year if a specific agreement is given by the Steering Committee. Outstanding commitments can be carried forward for two years. As a consequence, the services or goods received may relate to a commitment of appropriations from previous years' budgets. The carry-forward should be justified by a reason for which the services or goods could not be received in the course of the year. In addition, in accordance with Financial Regulations, Member Nations may agree to a further carry-forward of commitments that were already carried forward twice.

NATO UNCLASSIFIED

6-20

NATO UNCLASSIFIED

6-21

ANNEX 6 to
FC(2023)0055

- 3) Commitments, because they are an advance acceptance, and because payments cannot be made above approved appropriations levels, typically include an estimation factor and are (if only slightly) higher than the actual amount eventually paid. This results in commitments being higher than the actual expenses and in appropriations eventually lapsing.
- 4) Commitments are only made in respect of expenses relating to the initial purpose of the commitment. Commitments for capital expenditures are normally made in the year during which the purchase order is issued. In accrual accounting, the related costs would not appear in the Statement of Financial Performance but in the Balance Sheet and only upon reception of the works, goods or services. Conversely, there is no budgetary commitment of appropriations for non-cash flow transactions such as capital depreciation or provisions which would normally appear in the Statement of Financial Performance under accrual accounting.
- 5) On an exceptional basis, the Steering Committee may approve the special carry-forward of credits without any prior legal commitment, for instance for projects at their initiation stage or planned expenditures. In accrual accounting there would be no expense recorded.
- 6) The balance of unused budgetary appropriations (not committed) lapses and is returned to Member Nations at year-end. Lapses may include cases where a project was eventually not completed or started, and therefore lead to no expense.
- 7) As per Council decision, C-M(2020)0012, surpluses can be accumulated in an emergency fund and as an operational reserve up to a limit of EUR 650,000.00.

Reconciliation between Budget Execution and Statement of Financial Performance

BUDGET EXECUTION			
Total Budget (including carried-forward from previous year)	(a)		1,973,375
Credits Carried Forward in Following Year	(b)		15,504
Lapsed Appropriations	(c)		52,380
Budget Execution Expenses	(d) = (a-b-c)		1,905,490

RECONCILIATION			
Financial Performance Expenses (Excluding financial costs)	(e)		1,905,370
Increase in Non-Current Assets	(f)		-
Provisions	(g)		(120)
Other Expenses	(h)		-
Sub-Total	(i)=(e+f-g-h)		1,905,490

Difference to Budget Expenses	(d-i)		0
-------------------------------	-------	--	---

NATO UNCLASSIFIED

6-21

NATO UNCLASSIFIED

6-22

ANNEX 6 to
FC(2023)0055

Budget execution

The MSIAC budget execution for the current year appropriations and previous year carry-forwards is shown at Annex 5, which compares the budget's authorized appropriations against the amounts committed and expended.

Credits are transferred under the authority delegated to the NATO-IS Financial Controller by the NATO Financial Regulations and Financial Rules and Procedures.

Reconciliation between Budget and Calls for Contributions

The funding of the budget is made of a call for contributions, carried over credits and a part of previous years' surplus. There is one call for contributions per year, which is usually issued at the beginning of the year. No advances are called for the following financial year.

Member Nations' contributions are assessed based on a share value of EUR 88,000. In 2022, twelve nations paid 1 share and four nations paid 2 shares.

As directed by the Steering Committee, the calls covered EUR 1,760,000 in 2022. The remainder of the budget, EUR 170,000 is financed from the refundable surplus reported for financial year 2021.

During 2022, MSIAC also collected 11,000 EUR of training fees, due to training provided to staff of a partner nation.

These proceedings are considered non-budgetary revenue, recognizable directly as a period surplus and will be moved to equity, see also note 16.

NATO UNCLASSIFIED

6-22

NATO UNCLASSIFIED

6-23

ANNEX 6 to
FC(2023)0055

The below table details the MSIAC 2022 contributions and other revenue (including Services, Joining Fees and Early Access Contributions):

Amounts in EUR

	Contributions	Other Revenue	Total
1 - Member Nations	1,320,000.00	0.00	1,320,000.00
Belgium	88,000.00		88,000.00
Canada	88,000.00		88,000.00
France	176,000.00		176,000.00
Germany	176,000.00		176,000.00
Italy	88,000.00		88,000.00
Netherlands	88,000.00		88,000.00
Norway	88,000.00		88,000.00
Poland	88,000.00		88,000.00
Spain	88,000.00		88,000.00
United Kingdom	176,000.00		176,000.00
United States	176,000.00		176,000.00
2 - Partner Nations and Participants in training services	440,000.00	11,000.00	451,000.00
Australia	88,000.00		88,000.00
Finland	88,000.00		88,000.00
Republic of Korea	88,000.00		88,000.00
Sweden	88,000.00		88,000.00
Switzerland	88,000.00		88,000.00
Latvian National Armed Forces		4,000.00	4,000.00
ROKETSAN ROKET SAN. VE TIC. A.Ş.		2,000.00	2,000.00
Direção de Formação Portugal		1,000.00	1,000.00
Direcao de Aquisicoes/Portugese Army		1,000.00	1,000.00
Aurelija Budzyle		1,000.00	1,000.00
Defence Science & Technology Agency		2,000.00	2,000.00
Grand Total	1,760,000.00	11,000.00	1,771,000.00

NATO UNCLASSIFIED

6-23

NATO UNCLASSIFIED

6-24

ANNEX 6 to
FC(2023)0055

The table below reconciles the approved budget by the Steering Committee and the sources of funding:

Amounts in EUR			
	2022	2021	
Initial Budget	1,908,000.00	1,796,100.00	
Revised Budget	22,000.00	58,000.00	
Total Annual Budget	1,930,000.00	1,854,100.00	
Advance called previous year	-	-	
Call in current year	1,760,000.00	1,672,000.00	
Total Cash Calls	1,760,000.00	1,672,000.00	
Use of Previous Year's Surplus	-	-	
Use of Project Accumulated Surplus	170,000.00	182,100.00	
Other Funding Sources	170,000.00	182,100.00	
Total Funding	1,930,000.00	1,854,100.00	

NOTE 19: WRITE-OFFS

There are no write-offs to report in 2022.

NOTE 20: LEASES

MSIAC does not have any financial leases.

NOTE 21: RESTRICTIONS ON FIXED ASSETS

There are no restrictions on fixed assets.

NOTE 22: CONTINGENT LIABILITIES

There have been no contingent liabilities identified that would be expected to result in a material obligation.

NOTE 23: CONTINGENT ASSETS

Nothing to report in 2022.

NATO UNCLASSIFIED

6-24

NOTE 24: EMPLOYEE DISCLOSURE

Accounting for employee benefits is accounting for any liability in relation to all forms of consideration given by an entity in exchange of service rendered by employees.

Paid leave is an employee benefit and as such part of overall personnel expenses. In accordance with personnel regulations, the remaining balance at year-end may be carried forward but must be taken before 30 April of the following year. It can be exceptionally expanded to 31 October in accordance with Civilian Personnel Regulations art. 42.3.5 and 42.3.6. After this date it lapses and is not paid to staff. For these financial statements, untaken leave is specifically reported if its monetary value is more than 10% of the total annual leave entitlement. The cost of untaken leave days is usually absorbed during the year through the monthly salaries; leave to be taken carried forward into the next year constitutes a liability towards the future and would notionally require funding from Member Nations.

MSIAC's employee breakdown as of 31 December 2022, is shown below:

	Total Approved PE	Total Filled Positions
Civilian (PE)	10	8
VNC	0	0
Short term	0	0
Interns	0	3
Others - explain	0	0

For 2022, MSIAC had an approved Personnel Establishment of 10 positions funded by the MSIAC budget.

It should be noted that the NATO-IS is managing centrally two pension programmes, namely the Defined Benefit Pension Scheme (DBPS) and the Defined Contribution Pension Scheme (DCPS) as well as the Retirees Medical Claims Fund (RMCf), covering staff employed by all NATO bodies. NATO-wide financial statements are issued by NATO-IS Office of Financial Control for the two Pension Schemes and the RMCf, therefore, no post-employment benefit related assets or liabilities are recognised in the MSIAC financial statements.

End 2022, all 8 staff members (10 in 2021) participated in the Defined Contribution Pension Scheme (DCPS) administered by NATO. The DCPS provides that the MSIAC budget makes a 12 percent monthly matching contribution to the staff members' contributions for current service.

NATO UNCLASSIFIED

6-26

ANNEX 6 to
FC(2023)0055

The table below presents a list of contributions paid to the different Pension Schemes:

Amounts in EUR

	2022		2021	
	Staff		6,324.72	
Co-ordinated Pension Scheme	Employer	-	13,916.04	
	Total	-	20,240.76	
Defined Contribution Pension Scheme	Staff	85,585.04	87,438.45	
	Employer	116,536.43	106,897.44	
	Total	202,121.47	194,335.89	
TOTAL	Staff	85,585.04	93,763.17	
	Employer	116,536.43	120,813.48	
	Total	202,121.47	214,576.65	

NOTE 25: KEY MANAGEMENT PERSONNEL

The MSIAC Steering Committee (one representative per Member Nation) is the governing body of the MSIAC. Steering Committee members are nominated by their respective national authorities. They are paid on the basis of applicable national pay scales. The Steering Committee members do not receive from MSIAC or NATO any additional remuneration for Steering Committee responsibilities or access to benefits.

The key management personnel of the MSIAC Office consists of the Project Manager established post (A5). The Project Manager is responsible for the overall operational management of MSIAC.

There are no other remunerations or benefits to key management personnel or their family members.

NOTE 26: RELATED PARTIES

Key management personnel have no significant party relationships that could affect the operation of the MSIAC Office.

In 2022, NATO International Staff charged MSIAC for the following burden sharing costs:

	Burden Sharing Charges	
	2022	2021
COMOPS	34,656.00	37,571.00
Administrative Costs	47,650.46	52,495.01

NATO UNCLASSIFIED

6-26

List of acronyms:

CNAD	Conference of National Armaments Directors
DBPS	Defined Benefit Pension Scheme
DCPS	Defined Contribution Pension Scheme
IPSAS	International Public Sector Accounting Standards
IS	International Staff
MOU	Memorandum of Understanding
MSIAC	Munitions Safety Information Analysis Centre
NIMIC	NATO Insensitive Munitions Information Centre
OFC	Office of Financial Control
PPE	Property, Plant and Equipment
RPPB	Resource Planning and Prioritization Board
NAC	North Atlantic Council
RMCF	Retirees Medical Claims Fund

NATO UNCLASSIFIED

FC(2023)0071


**NATO COORDINATED PENSION SCHEME
FINANCIAL STATEMENTS**

For the year ended
31 December 2022

Annexes

- | | |
|---|---|
| 1 | Statement of Net Assets Available for Benefits |
| 2 | Statement of Changes in Net Assets Available for Benefits |
| 3 | Notes to the Financial Statements |


Jens STOLTENBERG
Secretary General


Mirosława BORYCZKA
Financial Controller

NATO UNCLASSIFIED

NATO COORDINATED PENSION SCHEME

Statement of Net Assets Available for Benefits

(All amounts in EUR)

	Notes	Current Year	Previous Year
		31-Dec-22	31-Dec-21
Assets			
Cash and cash equivalents	4	141,465,121.71	59,785,723.56
Financial assets held by NATO International Staff	5	0.00	109,000,000.00
Staff member contributions receivable	6	306,256.33	301,090.69
Employer contributions receivable	7	4,246.72	3,720.38
Nation contributions receivable	8	109,080,258.96	88,174,402.56
Pension tax adjustment contributions receivable	9	31,437,413.81	15,795,660.52
Credit for past service to be refunded by staff	10	22,152.85	33,105.37
Advance cash interfunds receivable	2,11	51,718.05	38,725.05
Other	2,11	824,880.96	1,221,672.46
Total assets		283,192,049.39	274,354,100.59
Liabilities			
Contributions called for y+1	8	202,625,400.00	189,885,700.00
Voluntary advances	8	0.00	8,856.11
Pension tax adjustments called for y+1	9	37,033,100.00	30,595,200.00
Other	12	2,104,448.35	2,093,758.28
Total Liabilities		241,762,948.35	222,583,514.39
Net Assets Available for Benefits	13	41,429,101.04	51,770,586.20

THE NATO COORDINATED PENSION SCHEME

Statement of Changes in Net Assets Available for Benefits

(All amounts in EUR)	Notes	Current Year	Previous Year
		31-Dec-22	31-Dec-21
Increase in net assets		157,354.09	120,020.13
Interest income	2,14	118,459.23	46,702.82
Transfers from other pension funds	15	0.00	0.00
Other	16	38,894.86	73,317.31
Contributions		199,868,592.25	189,508,124.05
Staff members	6	15,823,308.62	16,084,671.42
Employers	7	312,229.92	272,106.77
Nations	8	183,733,053.71	173,151,345.86
Regularizations		0.00	0.00
Tax adjustments	9	37,404,540.70	30,631,586.25
Total increase in net assets available for benefits		237,430,487.04	220,259,730.43
Decrease in net assets		210,367,431.50	186,607,104.52
Pension benefits	19	209,677,328.39	185,947,325.52
Leaving allowances	19	0.00	0.00
Other costs	2,17	529,921.15	493,679.42
Bank costs	2,14	160,181.96	166,099.58
Tax adjustments	9	37,404,540.70	30,631,586.25
Total decrease in net assets available for benefits		247,771,972.20	217,238,690.77
Net change for the year		-10,341,485.16	3,021,039.66
Net assets available for benefits, beginning of year		51,770,586.20	48,749,546.54
Net assets available for benefits, end of year		41,429,101.04	51,770,586.20

EXPLANATORY NOTES TO THE 2022 FINANCIAL STATEMENTS OF THE NATO COORDINATED PENSION SCHEME

NOTE 1: GENERAL INFORMATION

Description

The NATO Coordinated Pension Scheme is a defined benefit retirement plan that applies to NATO staff recruited between 1 July 1974 and 30 June 2005. NATO staff recruited before 1 July 1974 participated in the NATO Provident Fund, a defined contribution retirement plan. NATO staff recruited after 30 June 2005 are participants in the NATO Defined Contribution Pension Scheme (DCPS), also a defined contribution retirement plan.

NATO IS operates the Coordinated Pension Scheme for all NATO staff. This Scheme is often referred to as the NATO Defined Benefit Pension Scheme, and is hereafter referred to as the NATO DBPS.

The NATO DBPS is coordinated with five other international organizations, namely:

- The Organization for Economic Co-operation and Development (OECD)
- The Council of Europe (CoE)
- The European Space Agency (ESA)
- The European Centre for Medium-Range Weather Forecasts (ECMWF)
- The European Organization for the Exploitation of Meteorological Satellites (EUMETSAT)

These Coordinated Organizations apply a common set of rules concerning the present defined benefit retirement plan. These rules are initiated and recommended by the Coordinating Committee on Remuneration and are approved by the North Atlantic Council. They are embedded in the NATO Civilian Personnel Regulations (CPRs), Annex IV.

The scheme includes provisions for retirement, invalidity, survivor, orphan and dependent's pensions. Benefits paid are usually calculated as a proportion of the staff member's final salary, based on the number of reckonable years of service. NATO civilian staff recruited between 1 July 1974 and 30 June 2005 become eligible for a retirement pension after 10 years of service; those who depart before 10 years of service receive a leaving allowance. The details of the conditions and entitlements of each component of the NATO DBPS are laid down in Annex IV of the CPRs.

Financing Policy

The benefits of the NATO DBPS are paid from annual budgets approved by the North Atlantic Council. Funding sources consist of compulsory contributions from active staff, employer contributions of certain NATO bodies, and, as a balancing resource, budgetary contributions by NATO member Nations. Contrary to most, if not all, of the other Co-ordinated Organizations, NATO has not set aside funds to be invested to fund future costs and, therefore, NATO's funding of the Coordinated Pension Scheme is on a pay-as-you-go basis.

Staff Contributions

The rate of the staff contribution is set in order to represent the cost, in the long term, of one-third of the benefits provided at the coordinated level. Therefore, this rate is not specific to NATO; it is the same for all the Coordinated Organizations.

The staff contribution rate is adjusted in accordance with the result of an actuarial study, which is carried out every 5 years. This rate has been increasing over time. It was 7.0% from the inception of the scheme until it was brought to 8.0% in 1995. The rate was further increased to 8.3% in 2000 and to 8.9% in 2005.

As of 1 January 2010, contributions to the NATO DBPS from serving staff increased from 8.9% to 9% of their basic salary, further to a change in the method used to calculate such rates in order to take account of the closure of the pension scheme in certain Coordinated Organizations. The rate was further increased to 9.5% as from 1 January 2015.

From January 2020 the staff contribution rate is 11.8%. At the same time the annual pension payment adjustments are no longer connected to the serving staff salary increase, which has been the rule since the inception of the scheme. Instead, the DBPS annual pension payments shall be adjusted in accordance with revaluation coefficients based on the consumer price index for the country of the scale used.

Employer contributions

In specific cases, and in particular for a few NATO activities, limited either in time or in numbers of personnel, or with a specific financial basis, Nations decided that the pension liability is best discharged through a contribution equal to twice the staff contribution rate from the annual budget of the concerned activity or NATO entity (BC-WP(83)3(Revised) paragraph 5(1) and C-M(83)34). This contribution is considered as an employer's contribution. This contribution, together with the staff's, is deemed to provide the necessary funds for the subsequent pensions liability of the entities concerned. Employer contributions are due from the following NATO bodies: the Munitions Safety Information Analysis Centre (MSIAC), the NATO Naval Forces Sensor and Weapon Accuracy Check Sites (FORACS), the NATO Battlefield Information Collection and Exploitation Systems (BICES) Agency and the NATO Alliance Ground Surveillance Management Agency (NAGSMA).

Nations' contributions

The member states jointly guarantee the payment of benefits. Should a country, being a member or ex-member of the Organization, fail to comply with its obligations, the other countries shall meet the cost thereof in proportion to their contributions to the budget of the Organization as fixed annually from and after the said country's default (article 40.4 of Civilian Personnel Regulations, Annex IV).

Contributions from member states are called once a year based on the authorized annual budgets. They are calculated as the difference between the anticipated benefits due for the year under review and the main sources of funding, primarily staff contributions and employer's contributions. The NATO DBPS is funded through two separate budgets approved by the North Atlantic Council, one for the International Staff and the other for the Military Budget, which includes NATO agencies.

The related calls for contributions are issued in advance, usually towards the end of the preceding year. Costs are shared among NATO member countries based on the cost-shares applicable to the NATO body for which the staff member worked before he/she became a beneficiary of the scheme. In practice, the annual call is based on a weighted average of each NATO body's cost-share weighted by the related pension costs as per the latest available financial statements.

Management of the DBPS

Administrative services and secretarial support are provided by the Pensions Unit of NATO-IS Human Resources. The Pensions Unit assesses the entitlement to benefits payable under the DBPS for the whole NATO community. Financial services are provided by the NATO-IS Office of Financial Control (OFC). The OECD's International Service for Remunerations and Pensions (ISRP) provides overall support concerning the global NATO DBPS (actuarial studies, adjustment calculations, etc.).

An Administrative Committee on Pensions of the Coordinated Organizations (CAPOC) was set up to ensure that provisions of the Pension Scheme Rules are uniformly applied at the coordinated level. Copies of the meeting minutes can be found in the IS/EM-HR Pensions Unit.

None of the above-mentioned management services provided by NATO and the ISRP is charged to the NATO DBPS (see note on Related Parties).

Pension Tax Adjustment

The recipient of a pension is entitled to an adjustment applying to the member country of the organization in which the pension and adjustment relating thereto are chargeable to income taxes under the tax regulations in force in that country. This adjustment (sometimes referred to as "tax adjustment") concerns members of the NATO DBPS and of the DCPS. The adjustment equals 50% of the amount by which the recipient's pension would theoretically need to be increased, so that the net pension balance remaining after deduction of the amount of national income tax (or taxes) would correspond to the amount of the pension calculated in accordance with the rules of the NATO DBPS or of the DCPS.

The adjustment is borne by the country in which the recipient is subject to taxes on income for the period considered and, therefore, separate accounts are drawn up for each individual country.

For practical reasons, the operations relating to the adjustment of pensions are included in the present financial statements rather than in a separate set of financial statements.

A specific call for contributions is issued to the countries concerned.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

DBPS applies the NATO IS Accounting Policies which have been published through ON(2021)0079 and updated through FC(CAF)(2023)0001.

Declaration of conformity

The financial statements of the NATO DBPS have been prepared in accordance with the NATO Financial Regulations and International Accounting Standard 26 (IAS 26), "Accounting and Reporting by Retirement Benefit Plans". The NATO Accounting Framework, which is an adapted version of the International Public Sector Accounting Standards (IPSAS), does not have a specific standard for accounting and reporting by retirement benefit plans.

The accounting system used by the NATO DBPS is accrual based.

The financial statements summarize the transactions, net assets available for benefits and the changes in net assets available for benefits. In accordance with IAS 26, the actuarial present value of promised retirement benefits of the NATO DBPS is presented in Note 3.

Basis of presentation

The financial statements have been prepared on a going-concern basis: the NATO DBPS will continue in operation for the foreseeable future.

The amounts shown in these financial statements are presented in EUR.

Changes in accounting policy

None in 2022.

Restatement of financial statements of previous year

None in 2022.

Use of estimates

In the application of accounting policies judgments, estimates and assumptions are made about carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Estimates include, but are not limited to, the long term obligation of the NATO DBPS and receivables.

Foreign currency transactions

NATO entities pay their staff's contributions in various currencies (EUR mostly, GBP, USD, NOK, PLN and HUF) normally in the bank accounts denominated in the same currency. Contributions from the Nations to the pension budget and for the pension tax adjustment are exclusively called in EUR at the year-end for the following year and received in the EUR bank account.

Benefits are paid in various currencies. Benefits are calculated by reference to salary scales applicable to the country of the staff member's last posting. However the staff member may opt

for the scale applicable to another country if the former staff member settles subsequently: in a member country of one of the Coordinated Organizations of which he is a national, or in a member country of one of the Coordinated Organizations of which his spouse is a national, or in a country where he/she has served at least five years in one of the organizations of the Coordinated Organizations. Consequently, payments are made in a variety of currencies such as EUR, AUD, CAD, CHF, DKK, GBP, NOK, NZD, SEK, THB, TRY and USD.

Foreign currency transactions are accounted for at the NATO exchange rates prevailing on the date of transactions. The monetary assets and liabilities at year-end are reported in EUR using the NATO rates of exchange that were applicable at year-end. Profit and loss resulting from the settlement of such transactions and from the revaluation at the reporting dates of monetary assets and liabilities denominated in foreign currencies are recognized as expenses and revenues.

Cash and Cash Equivalents

Cash and cash equivalents are defined as short-term assets. They include cash in banks, term deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash.

Financial Investments

Financial investments with a fixed redemption value, acquired with the intention to be held to maturity, matching DBPS obligations or parts thereof, are recognized at ultimate redemption value.

Receivables

Receivables are stated at their book value. No allowance for loss is recorded for receivables relating to NATO bodies' statutory contributions or to national contributions.

Payables

Payables are amounts due to third parties based on rights acquired by staff or pensioners, or services provided that remain unpaid. This includes, as required, an estimate of the related accrued obligation for rights not liquidated, or services provided but not yet invoiced.

Financial instruments

The NATO DBPS uses non-derivative financial instruments as part as its normal operations. These financial elements include current bank accounts and deposit accounts.

Credit risk

The NATO DBPS incurs credit risks from cash, cash equivalents, and receivables.

Credit risk on cash and cash equivalents is managed by holding current accounts and short term highly liquid deposits that are readily convertible to a known amount of cash held with registered banking institutions with the following ratings (short term).

BANK NAME	COUNTRY OF HQ	SHORT TERM RATINGS					
		FITCH		S&P GLOBAL		MOODY'S	
		Rating	Last review date	Rating	Last review date	Rating	Last review date
ING BANK	NE	F1+	15-Nov-22	A-1	28-Jun-22	P-1	02-Oct-22
BNPP FORTIS	Belgium	F1	13-Sep-22	A-1	25-Apr-22	P-1	16-Dec-20
Credit Agricole	France	F1	19-Oct-22	A-1	19-Oct-22	P-1	15-Dec-21
Credit Mutuel ARKEA	France	F2	19-Oct-22	A-1	21-Oct-22	P-1	09-Apr-21
Wells Fargo	US	F1	06-Jun-22	A-1	13-Sep-22	P-1	16-Feb-22
Intesa SanPaolo	Luxembourg	F2	29-Nov-22	A-2	29-Jul-22	P-2	09-Aug-22

Credit risk is also managed by maintaining control procedures over receivables. These consist essentially of contributions due from NATO member countries. This risk is considered limited since these countries are generally considered creditworthy. Similarly, the risk linked to employer or staff contributions due from NATO bodies is considered limited since these bodies are directly funded by member Nations or indirectly in the case of customer funding.

The NATO Coordinated Pension Scheme holds a bank account with AION but without significant cash holdings.

Currency risk

The NATO DBPS is exposed to foreign currency exchange risk arising from fluctuations in currency rates. The scheme receives contributions in EUR from member Nations. It receives mostly EUR but also GBP, USD, NOK, PLN and DKK from NATO bodies. As explained above, benefits due to participants in the scheme are in various currencies. Payments are made mainly in EUR. Foreign currencies are purchased as needed on a monthly basis keeping foreign currency holdings at a minimum. There is therefore very little currency risk because cash and cash equivalent balances on bank accounts in foreign currencies are always a small percentage of the cash and cash equivalents.

The table below provides a breakdown of the DBPS pension related payments by currency during 2022.

Currency	Percentage/EUR
EUR	84.52%
GBP	7.78%
USD	3.72%
CAD	1.14%
NOK	1.12%
DKK	1.10%
TRY	0.30%
CHF	0.09%
AUD	0.05%
THB	0.05%
MXN	0.04%
NZD	0.03%
SEK	0.03%
CZK	0.02%
PLN	0.01%
Total	100.00%

The calls for contributions from Nations related to Pension Adjustments are in EUR. Pension Adjustments paid to pensioners are primarily in EUR. There is therefore very little currency risk.

Liquidity risk

A liquidity risk could arise from an unforeseen short-term liquidity requirement. There is a very limited exposure to liquidity risk because contributions ensure funding commensurate with budgeted benefit disbursements and are called in advance, and because member states jointly guarantee the funding of this pension scheme. Some limited risk could be due to the validity of forecasts used for the NATO DBPS budget formulation. However, history shows that this process results in surpluses.

The outflows of cash follow fairly regular paths and so do the staff and employer contributions but the latter are of a smaller amount. While the timing of member Nations' contributions is not entirely predictable, staff and employer contributions as well as benefit outflows are very stable. The budgetary surplus shields NATO DBPS from liquidity risk.

Cash, cash equivalents, and capital-guaranteed financial investments (if any) are managed to avoid liquidity risk.

The calls for contributions related to the Pension Tax Adjustments tend to be lower than the actual requirement due to difficulties in making accurate forecasts. This situation generates a liquidity risk that is managed through the excess cash on the DBPS side.

Interest rate risk

The scheme is restricted from entering into borrowings and therefore, there is no related interest rate risk.

Market risk

At the end of 2022, DBPS was not exposed to market risks.

NOTE 3: ACTUARIAL VALUATION

The ISRP Actuarial Study Introduction

The International Service for Remunerations and Pensions (ISRP) is an organization that provides statistical, mathematical and actuarial support to the following organizations:

- North Atlantic Treaty Organization (NATO)
- Council of Europe (CoE)
- Organization for Economic Cooperation and Development (OECD)
- European Space Agency (ESA)
- European Centre for Medium-Range Weather Forecast (ECMWF)
- European Organization for the Exploitation of Meteorological Satellites (EUMETSAT)

In accordance with the requirements of the Letter of Mission (LM/SIRP/NATO(2012)35) signed by NATO and the ISRP, the latter performed an actuarial study aiming at:

- Estimating the accrued pension and medical coverage liabilities at 31 December 2022 according to the International Public Sector Accounting Standards (IPSAS); and

- Producing the IPSAS accounting disclosures related to these liabilities.

The study is based on comprehensive data of the affiliated population at the end of 2022 provided to ISRP by NATO.

NATO has also supplied data regarding DBPS cash flows over 2022.

NATO believes that the results of this report represent a reasonable measure of the DBPS underlying liabilities.

The previous full valuation was performed as at 31 December 2021.

The study has been conducted in accordance with generally accepted actuarial practices, in close collaboration with NATO. Whilst the report complies with IPSAS 39, NATO DBPS financial statements are prepared under IAS 26.

Actuarial Valuation Method

ISRP used the Projected Unit Credit approach. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. In addition, where the amount of a benefit is a constant proportion of final salary for each accrued unit of rights, future salary increases will affect the amount required to settle the obligation, therefore the method requires projecting a member's salary.

Only the rights accrued up to the valuation date have been taken into account. The rights of employees with less than 10 years of service are taken into account proportionally.

Actuarial Assumptions

Actuarial assumptions can be classified as either financial or demographic assumptions. Financial assumptions impact the amount of benefits to be paid over time and the net present value whilst demographic assumptions reflect the likelihood of payment and factors internal to NATO.

The below financial assumptions were considered:

Assumption	Assumption as at 31 December 2021	Assumption as at 31 December 2022
Discount Rate		
- Pension Schemes	0.07%	2.51%
Price Inflation	2.00%	2.00%
- Salary Inflation	2.24%	2.24%
Pension Increase Rate	2.00%	2.00%

The discount rate used was the Euro area AAA Government Yield Curve, expressed in euros, as published by the European Central bank, as at 31 December 2022. The change in discount rate is due to the change in financial market conditions over 2022.

In accordance with past practice, as a long-term inflation rate, the European Central Bank's long-term inflation rate target of 2.0% is used.

Salary inflation is calculated as a 0.24% increase to the derived rate of inflation as used in the most recent actuarial study of the contribution rate for the Co-Ordinated Organizations.

The pension increase rate is in line with price inflation. As at 31 December 2022, the pension increase rate assumption is set equal to the inflation assumption of 2.0%.

Demographic Assumptions

The demographics at this year-end are the same as those used for the previous year-end.

Mortality tables are a set of probabilities of a person dying within the year at a specific age and are an important assumption for the calculation of pension obligations. The ISRP, have produced mortality tables specific to international civil servants based in Europe since 2008 in order to have more appropriate results, compared to national or regional tables, on the life expectancy of the relevant population. This series of tables is known as the International Civil Servants Life Table (ICSLT).

Set out below is a comparison of life expectancies based on the ICSLT 2018 mortality table projected from 2018 and the ICSLT 2018 projected from 2022:

	ICSLT 2018 (2021 Projection)	ICSLT 2018 (2022 Projection)
Males		
60 year old	28.5	28.6
40 year old now at 60	29.0	29.0
Females		
60 year old	31.2	31.2
40 year old now at 60	31.5	31.5

Other demographic assumption taken into consideration are:

- Turnover
- Probability to retire
- Probability of becoming invalid
- Career progression
- Probability of being married
- Age difference in couples
- Age of pension suspension for Orphans
- Family allowances

Results for DBPS current obligation.

The DBPS obligation as estimated at the end year 2022 is KEUR 6,254,767. It has decreased by approximately 30% compared to the 2021 year-end.

The change in the liability during 2022 can be summarized as follows:

(amount in KEUR)	2022
Obligation at 1 January 2022	8,930,383
Interest Cost	6,178
Current Service Cost	175,743
Benefits Paid	-209,677
Actuarial (Gains)/Losses	-2,647,858
Obligation at 31 December 2022	6,254,769

Overall, the pension obligation has decreased by KEUR 2,675,615 during 2022. This is principally due to the increase in the discount rate. This increase was somewhat offset by experience losses due to salary and pension increases being higher than expected.

The breakdown of the pension obligation by member status at 31 December 2022 is shown below:

(amount in KEUR)	2022
Actives	1,746,475
Deferreds	77,044
Pensioners	4,431,249
Obligation at 31 December 2022	6,254,769

An actuarial gain of KEUR 2,647,858 occurred during 2022. This is explained by a number of factors, including the updated population and the change in discount rate.

The analysis of the impact of the actuarial gain is as follows:

Impact of change in ...	Type of Loss/(Gain)	Amount KEUR	% of 2022 YE Liability
Population	Experience	640,635	10.2%
Financial Assumptions	Financial	-3,288,493	-52.6%
Total actuarial loss/(gain)		-2,647,858	-42.3%

NOTE 4: CASH AND CASH EQUIVALENTS

Separate bank accounts are held in various currencies (AUD, CAD, CHF, DKK, EUR, GBP, NOK and USD), namely for those currencies that represent most of the pensions paid, in order to ensure the recurring foreign currency payments. However, payments are also made in other currencies (e.g. NZD, SEK, TRY), but these are usually made from the EUR bank account.

Some cash is also held on account of third parties. These funds belong to Nations, members of former NAMSA (now NSPA), who decided that amounts credited to them further to the transfer of staff from the Provident Fund to the DBPS (validation costs) would be kept at their disposal. (see Note 12).

The below table provides an overview of DBPS's cash holdings (incl. short-term deposits) as of 31 December 2022:

(amounts in EUR)	
2022	2021
141,465,121.71	128,785,723.56

In the table below, we provide comparative data for the short-time deposits held over two consecutive years:

(amounts in EUR)	
2022	2021
0.00	79,008,334.92

NOTE 5: FINANCIAL INVESTMENTS HELD BY NATO INTERNATIONAL STAFF

The financial investments made by NATO International Staff on behalf of the DBPS have been disinvested during 2022 and transferred to DBPS bank accounts.

NOTE 6: STAFF MEMBER CONTRIBUTIONS

Staff member contributions are paid monthly by the NATO payroll centers. Since 1 January 2020 the staff contribution rate is 11.8% of basic salary while this was 9.0% until the end of 2019. In 2022, staff contributions resume the downward trend due to reduced staff contributing to the DBPS and newly recruited staff joining only the DCPS.

Outstanding amounts at year-end (Receivables) are linked to contributions due on staff salaries for December from several NATO entities, which were all received in early 2023.

The below chart provides an overview of the staff contributions over the last two consecutive years:

(amounts in EUR)	2022	2021
CIVIL	3,404,292.86	3,496,587.52
MILITARY	12,419,015.76	12,588,083.90
Total	15,823,308.62	16,084,671.42

NOTE 7: EMPLOYER CONTRIBUTIONS

Employer contributions are due from the following NATO bodies: FORACS, NAGSMA and the NATO BICES Agency. The Employer contributions are paid monthly.

The below chart provides an overview of the employer's contributions over the last two consecutive years:

(amounts in EUR)	2022	2021
CIVIL	49,950.46	58,483.28
MILITARY	262,279.46	213,623.49
Total	312,229.92	272,106.77

Notwithstanding the continued decrease in active contributors of FORACS, NAGSMA and the NATO BICES Agency, the increase in the Employers' contribution is the result of the special salary adjustment in 2022.

NOTE 8: NATION CONTRIBUTIONS

Contributions due from NATO Member Nations to fund the NATO DBPS of a given budget year are called once per year, towards the end of the preceding year. In accordance with Article XXIX 8) of the NATO Financial Rules and Procedures, amounts called are to be paid in principle within a period of one month after receipt of the request. Amounts recognized are those amounts called.

NATO UNCLASSIFIED

ANNEX 3 to
FC(2023)0071

3-12

The DBPS call for contributions is a single call issued towards the end of the year. It includes an advance on next year's pension budget and takes into account the previous year's surplus or deficit, and it also regularizes any adjustments done in the course of the budget year such as budget revisions.

The amounts called at year-end as advances for the following year (Liabilities) are:

Budget called in Y-1 (EUR)			
2023		2022	
CIVIL	MILITARY	CIVIL	MILITARY
49,775,400.00	152,850,000.00	45,215,700.00	144,670,000.00
202,625,400.00		189,885,700.00	

In terms of execution (Statements of Changes in Net Assets Available for Benefits), below is provided a reconciliation between the calls and the costs recognized against nations contributions:

(amounts in EUR)		2022	2021
CIVIL	Call Y	45,215,700.00	40,725,300.00
	Regul revised call Y	3,158,300.00	1,840,000.00
	Regul call Y-1	-5,724.74	-107,410.55
	Total	48,368,275.26	42,457,889.45
MILITARY	Call Y	144,670,000.00	137,150,000.00
	Regul revised call Y	0.00	-285,000.00
	Regul call Y-1	-9,305,221.55	-6,171,543.54
	Total	135,364,778.45	130,693,456.46
Rounding difference		0.00	-0.05
TOTAL		183,733,053.71	173,151,345.86

Uncollected budgetary contributions from Nations (Receivables) relate mainly to the call for the 2023 pension budget.

Hereunder is a breakdown of such outstanding contributions as at 31 December 2022:

Country	Amount (EUR)
ALBANIA	173,354.85
BELGIUM	4,234,721.36
BULGARIA	173,101.82
CANADA	12,829,511.55
CROATIA	149,060.17
CZECHIA	0.00
DENMARK	652,779.06
ESTONIA	241,883.64
FINLAND	-1,216.07
FRANCE	5,221,485.94
GERMANY	603,098.11
HUNGARY	378,000.68
ICELAND	0.00
ITALY	6,380,848.74
LITHUANIA	296,533.92
LUXEMBOURG	494,569.05
MONTENEGRO	14,482.97
NAMFI	26,077.87
NETHERLANDS	6,761,622.25
NORWAY	3,410,706.85
POLAND	1,486,172.27
ROMANIA	1,036,435.85
SLOVENIA	0.00
SPAIN	7,055,036.52
SWEDEN	-6,688.25
TÜRKIYE	4,893,859.51
UNITED KINGDOM	17,405,107.63
UNITED STATES	35,169,712.67
Total	109,080,258.96

On occasion, NATO member Nations may voluntarily pay supplementary advance contributions. There are no voluntarily contributions in 2022.

The table below compares these values over the last two consecutive years:

(amounts in EUR)

2022	2021
0.00	8,856.11

NOTE 9: PENSION TAX ADJUSTMENT

For practical reasons, the operations relating to the adjustment of pensions for national taxation on NATO pensions income are included in the present financial statements. Members of the DCPS are also entitled to such an adjustment. DCPS related payments are a fraction and therefore are included on DBPS's Tax adjustment call and advanced by the DBPS.

The adjustment is paid monthly by way of advance at the same time as the pension.

The following table provides the breakdown of actual payments by country for Pension Tax Adjustments as disclosed under the Statement of Changes of Net Assets Available for Benefits:

Country (amounts in EUR)	2022	2021
BELGIUM	17,732,309.53	14,518,143.00
CANADA	342,151.52	302,327.90
CZECHIA	1,788.33	1,702.22
DENMARK	718,503.83	428,237.61
FRANCE	1,680,730.00	1,497,658.00
GERMANY	3,118,476.00	2,410,167.00
GREECE	286,095.00	306,144.00
ICELAND	25,273.00	-
ITALY	3,054,086.00	3,369,403.00
LUXEMBOURG	2,394,636.00	1,741,694.00
NETHERLANDS	3,951,267.00	2,742,503.00
NORWAY	454,598.19	392,569.55
POLAND	22,340.63	17,368.48
PORTUGAL	284,332.00	182,065.00
SPAIN	630,955.10	463,501.90
UNITED KINGDOM	2,004,215.80	1,770,142.46
UNITED STATES	513,243.68	347,147.77
<i>DCPS transfers</i>	189,539.09	145,701.36
<i>Regularizations</i>	0.00	(4,890.00)
Total	37,404,540.70	30,631,586.25

The DCPS tax adjustments, as mentioned in the table above, can be broken down per country as follows:

Country (amounts in EUR)	2022	2021
BELGIUM	56,744.00	39,638.00
CANADA	24,526.34	19,021.08
GERMANY	32,066.00	19,894.00
SPAIN	8,919.00	6,072.00
FRANCE	1,200.00	1,200.00
UNITED KINGDOM	10,267.36	10,142.30
GREECE	7,800.00	7,800.00
ITALY	8,052.00	11,370.00
LUXEMBOURG	907.00	104.00
NETHERLANDS	28,793.00	22,167.00
NORWAY	8,858.49	6,752.58
UNITED STATES	1,405.90	1,540.40
Total	189,539.09	145,701.36

Pension Adjustment amounts paid to pensioners as reported in euro in the tables above are impacted by a variety of factors, among which: exchange rates, number of pensioners having their tax residence in a given country (which may be different from their country of origin or the country in which the NATO entity for which staff worked is located), household/family situation, level of the pension itself, national taxation policies, etc. As a consequence, amounts due by individual Nations may vary from one year to the other and are not related to their cost shares of the NATO entity for which staff worked.

Contributions due by Nations concerned to fund the Pension Adjustment of a given budget year are called towards the end of the preceding year. In accordance with Article XXIX 8) of the NATO Financial Rules and Procedures, amounts called are to be paid in principle within one month after receipt of the request. Amounts recognized are those amounts called.

Advances on the next year's payments of the pension adjustment are called towards the end of the current year. At year end the balance of advances (Liabilities) were:

DBPS budget called in Y-1 (EUR)			
2023		2022	
CIVIL	MILITARY	CIVIL	MILITARY
12,238,500.00	24,794,600.00	11,178,400.00	19,416,800.00
37,033,100.00		30,595,200.00	

The table below provides an overview of Nations' amounts due (Assets) in terms of tax adjustments at year-end.

Country	Amount (EUR)
BELGIUM	7,481,491.00
CANADA	162,224.21
CZECHIA	1,802.22
DENMARK	543,110.64
FRANCE	520,442.00
GERMANY	2,348,383.00
GREECE	416,916.00
HUNGARY	300.00
ITALY	4,455,443.00
LUXEMBOURG	2,099,986.00
NETHERLANDS	3,010,709.00
NORWAY	384,298.62
POLAND	9,582.38
SPAIN	769,378.00
UNITED KINGDOM	2,122,824.01
UNITED STATES	514,415.96
Total	24,841,306.04

By the end of 2022 the difference between what is called from nations and what is paid to pensioners induced an accumulated deficit of EUR 6,596,107.77.

Nations' amount due in terms of tax adjustments at year-end, classified in the Statement of Net Assets Available for Benefits as Pension Tax Adjustment Contributions Receivable, amounts to EUR 24,841,306.04.

Consequently, the total of Nations' amounts due in terms of tax adjustments at year-end totals to EUR 31,437,413.81.

NOTE 10: CREDIT FOR PAST SERVICE TO BE REFUNDED BY STAFF

This relates to amounts due from staff who had left the Organization and were paid a leaving allowance but who were later re-employed by the Organization or to staff who retroactively became members of the Coordinated Scheme further to NATO Administrative Tribunal decisions.

The table below provides an overview of such receivables in EUR for the last two consecutive years:

(amounts in EUR)

2022	2021
22,152.85	33,105.37

NOTE 11: OTHER ASSETS

Other Assets include for 607,872.40 EUR pending claims from pensioners and 187,371.17 EUR for tax adjustments due from the DCPS.

NOTE 12: OTHER LIABILITIES

These correspond to amounts relating to unrealized financial result, life insurance capital due and other miscellaneous amounts due to be regularized (including reimbursement to the DCPS of amounts paid in relation to Pension Adjustments and pensions not yet paid), and some accruals.

This item also includes funds held on behalf of certain Nations corresponding to their share of former NAMSA (now NSPA) staff members' validation costs, which date back to the date when the DBPS was established. By that time, staff who decided to transfer from the Provident Fund had to return the value of their accounts to the DBPS. The related holdings were returned to the Nations but certain Nations decided to keep the funds in the DBPS accounts. The funds left remained unchanged in 2022.

NOTE 13: NET ASSETS AVAILABLE FOR BENEFITS

The net assets available for benefits at year-end correspond essentially to the surplus or deficit linked to the budgetary process, the inward transfer of pension rights and credit for past service by staff. As explained in the introductory note on the funding of the DBPS, contrary to most, if not all, of the other Coordinated Organizations, NATO has not set aside funds to be invested to fund future costs and, therefore, NATO's funding of the Coordinated Pension Scheme is on a pay-as-you-go basis.

(amounts in EUR)	2022	2021
Credits for Past Services	22,152.85	33,105.37
Pensions Rights transferred to DBPS	42,426,534.54	42,426,534.54
Budgetary Surplus at End of Year	-1,019,586.35	9,310,946.29
Total	41,429,101.04	51,770,586.20

The deficit at year-end is the difference between the final approved pension budgets and actual amounts required to ensure the payment of benefits due for the period covered by these financial statements.

The deficit is taken into account, as an additional funding requirement, in the assessment of the net contributions to be called from member Nations for the budgets of the second year after the reporting period (the deficit at the end of 2022 will be called to Nations with the call for the 2024 budget to be issued end 2023).

NOTE 14: INTERESTS EARNED AND BANK COSTS

This corresponds to expenses and revenues related to financial operations, interests earned on cash holdings and bank charges paid on transactions.

The table below provides an overview of these costs and revenues over the last two consecutive years:

(amounts in EUR)	2022	2021
Bank Charges	160,181.96	166,099.58
Financial Income	118,459.23	46,702.82

NOTE 15: INWARD TRANSFER OF PENSION RIGHTS FROM PENSION SYSTEMS

The NATO Civilian Personnel Regulations (Annex IV, Article 12) provide that staff may, under certain circumstances, arrange for payment to the Organization of any amounts corresponding to the retirement pension rights accrued under the pension scheme to which the staff member was previously affiliated as far as that scheme allows such a transfer. Agreements can be signed with other pension systems to establish the conditions under which such transfers apply to staff in given conditions.

Until the end of 2021, the DBPS received EUR 42,426,534.54 of inward transfers.

No inward transfers occurred during 2022 leaving the accumulated balance unchanged.

In consideration of the fact that these inward transfers of rights are evaluated at the actuarial value of future benefits due to the concerned staff, the corresponding amounts have been considered as a net asset available for future benefits. They have also been included in the actuarial value of the future obligation of the NATO DBPS.

The Budget Committee approved, per BC-DS(2011)0055, that the related budgetary receipts be applied not as a lump sum to the current year but rather spread over time and should offset expenses when they occur.

NOTE 16: OTHER INCREASES IN NET ASSETS

This corresponds mainly to realized exchange gains and other miscellaneous revenues.

NOTE 17: OTHER DECREASES IN NET ASSETS

This corresponds mainly to realized exchange losses (EUR 342,799.48 and EUR 459,765.64 in 2021), the cost of the actuarial study (EUR 23,997.55 EUR and EUR22,961.26 in 2021), and other miscellaneous expenses.

This amount includes also the reimbursement for a SHAPE staff member that erroneously contributed to the pension scheme from 1 June 2013 to 31 August 2022. (EUR 152,149.30)

NOTE 18: PENSION BENEFITS

The table below provides a breakdown of payments according to the nature of pensions paid in 2022 per budget:

(amounts in EUR)	Civil	Military	Total
Retirement Pensions	38,418,989.44	114,148,673.66	152,567,663.10
Survivor's Pensions	6,058,500.80	21,422,874.89	27,481,375.69
Orphan Pensions	92,528.23	483,500.04	576,028.27
Invalidity Pension	5,036,031.18	14,692,981.46	19,729,012.64
Family Allowance	2,097,243.41	7,226,005.28	9,323,248.69
Total Pension Benefits	51,703,293.06	157,974,035.33	209,677,328.39

NOTE 19: CONTINGENT ASSETS

Nothing to report.

NOTE 20: CONTINGENT LIABILITIES

There are no material contingent liabilities arising from legal actions and claims that are likely to result in significant liability to the NATO DBPS.

NOTE 21: SEGMENT INFORMATION

Although there are only two main sources of funding (Civil Budget and Military Budgets), each of the NATO bodies has its own individual funding cost share which is taken into account when calculating the final contributions for each individual country.

Segment information is developed in the following tables to show income and expenditure by NATO body (i.e. the NATO body that was the last employer of the retired staff member on the expense side, and the NATO body that is currently employing the contributing staff member on the revenue side).

NATO UNCLASSIFIED

ANNEX 3 to
FC(2022)0053

3-20

PUBLICLY DISCLOSED - PDN(2024)0007 - MIS EN LECTURE PUBLIQUE

SEGMENT TABLE NATO BODIES 2022 (1/2)	ACO-ACT	ACO-ACT (16N)	ACO-ACT (17N)	BGOH (2N)	BGOH (8N)	BGOH (9N)	CEPMA (6N)	CEPMA (7N)	CEPMA (8N)	Ex NACISA (14N)	IMS
PAYMENTS / PAIEMENTS											
Retirement Pension / Pension d'Ancienneté	27,171,054.32	19,380,805.96	240,526.10	372,364.75	38,407.27	966,932.02	15,452.62	187,671.33	1,548,230.10	805,969.79	5,281,638.46
Survivor Pension / Pension de Survie	7,283,138.73	2,795,172.35	0.00	37,565.84	11,316.73	542,342.44	2,863.56	6,954.35	775,673.64	588,969.60	664,866.06
Orphans Pension / Pension d'Orphelins	96,674.13	37,054.18	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Invalidity Pension / Pension d'Invalidité	2,251,120.81	5,113,805.35	0.00	105,681.81	7,145.86	207,581.87	70,237.84	14,386.06	41,472.86	41,748.27	745,508.50
Family Allowance / Allocations Familiales	1,543,440.74	1,583,221.91	9,932.63	38,163.42	2,900.93	53,416.58	1,723.16	10,098.27	77,723.16	41,034.23	285,258.33
Leaving Allowance / Allocations de Départ	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Validation Costs Paid / Coûts de Validation payés	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Miscellaneous / Divers	64,368.91	48,530.14	420.43	929.60	100.33	2,971.69	151.54	367.81	4,101.13	2,480.59	11,712.46
Total Payments / Paiements	38,409,797.64	28,958,589.89	250,879.16	554,705.42	59,871.12	1,773,244.60	90,428.72	219,477.82	2,447,200.89	1,480,202.48	6,988,983.81
RECEIPTS / RECETTES											
Staff Contributions / Contributions des Agents	2,064,631.01	1,702,040.62	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	613,890.40
Employer Contributions / Contributions de l'Employeur	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	196,185.16
Validation Costs Received / Coûts de Validation reçus	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interests, Profit & Loss / Intérêts, Pertes & Profits	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Miscellaneous / Divers	-2,876.89	-2,371.65	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-1,128.77
Contributions due by Staff Center	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Receipts / Recettes	2,061,754.12	1,699,668.97	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	808,946.79
Funding Requirement / Besoin de financement	36,348,043.52	27,258,920.92	250,879.16	554,705.42	59,871.12	1,773,244.60	90,428.72	219,477.82	2,447,200.89	1,480,202.48	6,180,037.02

NATO UNCLASSIFIED

3-20

NATO UNCLASSIFIED

3-21

ANNEX 3 to
FC(2022)0053

PUBLICLY DISCLOSED - PDN(2024)0007 - MIS EN LECTURE PUBLIQUE

SEGMENT TABLE NATO BODIES 2022 (2/2)	IS	NAHEMA (5N)	NAMEADSMA (2N)	NAMMA (3N)	NAPMA (16N)	NCIA	NEFMA (4N)	NETMA (4N)	NSPA	Total
PAYMENTS / PAIEMENTS										
Retirement Pension / Pension d'Ancienneté	38,418,989.44	70,924.80	0.00	33,170.45	2,307,167.35	26,576,278.99	65,644.64	720,708.30	28,365,726.41	152,567,663.10
Survivor Pension / Pension de Survie	6,058,500.80	0.00	0.00	43,076.57	644,411.26	2,619,282.27	134,779.02	262,825.04	5,009,637.43	27,481,375.69
Orphans Pension / Pension d'Orphelins	92,528.23	0.00	0.00	0.00	9,841.74	127,972.23	0.00	17,948.62	194,009.14	576,028.27
Invalidity Pension / Pension d'Invalidité	5,036,031.18	0.00	0.00	0.00	459,783.39	1,612,192.63	88,255.70	180,334.35	3,753,726.16	19,729,012.64
Family Allowance / Allocations Familiales	2,097,243.41	4,252.76	0.00	2,930.84	177,038.02	1,690,424.35	5,652.60	42,404.32	1,656,389.03	9,323,248.69
Leaving Allowance / Allocations de Départ	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Validation Costs Paid / Coûts de Validation payés	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Miscellaneous / Divers	86,792.22	126.20	0.00	132.91	6,040.22	54,768.19	494.08	2,055.05	65,433.28	351,976.82
Total Payments / Paiements	51,790,085.28	75,303.76	0.00	79,310.77	3,604,281.98	32,680,918.66	294,826.04	1,226,275.68	39,044,921.45	210,029,305.21
RECEIPTS / RECETTES										
Staff Contributions / Contributions des Agents	3,404,292.86	0.00	19,953.64	0.00	127,321.39	4,423,895.16	0.00	0.00	3,467,283.54	15,823,308.62
Employer Contributions / Contributions de l'Employeur	49,950.46	0.00	0.00	0.00	0.00	66,094.30	0.00	0.00	0.00	312,229.92
Validation Costs Received / Coûts de Validation reçus	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interests, Profit & Loss / Intérêts, Pertes & Profits	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Miscellaneous / Divers	0.00	0.00	-27.80	0.00	-177.41	-6,256.42	0.00	0.00	-4,831.37	-17,670.32
Contributions due by Staff Center	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Receipts / Recettes	3,454,243.32	0.00	19,925.84	0.00	127,143.98	4,483,733.04	0.00	0.00	3,462,452.17	16,117,868.22
Funding Requirement / Besoin de financement	48,335,841.96	75,303.76	-19,925.84	79,310.77	3,477,138.00	28,197,185.63	294,826.04	1,226,275.68	35,582,469.28	193,911,436.99

NATO UNCLASSIFIED

3-21

NOTE 22: BUDGET EXECUTION

Presently the NATO DBPS budgets are not made available to the public. The following table compares approved budgets and actuals:

Budget Execution 2022

(amounts in EUR)	Initial Budget (a)	Revised Budget (b)	Actuals (c)	Difference (b-c)
CIVIL BUDGET				
<u>PAYMENTS / PAIEMENTS</u>				
Retirement Pension / Pension d'Ancienneté	34,535,962.00	38,466,874.00	38,418,989.44	47,884.56
Survivor Pension / Pension de Survie	6,032,684.00	6,085,797.00	6,058,500.80	27,296.20
Orphans Pension / Pension d'Orphelins	106,638.00	94,289.00	92,528.23	1,760.77
Invalidity Pension / Pension d'Invalidité	5,330,986.00	4,967,287.00	5,036,031.18	-68,744.18
Family Allowance / Allocations Familiales	1,953,409.00	2,052,980.00	2,097,243.41	-44,263.41
Leaving Allowance / Allocations de Départ	0.00	0.00	0.00	0.00
Validation Costs Paid / Coûts de Validation payés	0.00	0.00	0.00	0.00
Miscellaneous / Divers	0.00	0.00	86,792.22	-86,792.22
Total Payments / Paiements	47,959,679.00	51,667,227.00	51,790,085.28	-122,858.28
<u>RECEIPTS / RECETTES</u>				
Staff Contributions / Contributions des Agents	2,709,491.00	3,247,039.00	3,404,292.86	-157,253.86
Employer Contributions / Contributions de l'Employeur	34,488.00	46,188.00	49,950.46	-3,762.46
Validation Costs Received / Coûts de Validation reçus	0.00	0.00	0.00	0.00
Interests, Profit & Loss / Intérêts, Pertes & Profits	0.00	0.00	0.00	0.00
Miscellaneous / Divers	0.00	0.00	0.00	0.00
Contributions due by Staff Center	0.00	0.00	0.00	0.00
Total Receipts / Recettes	2,743,979.00	3,293,227.00	3,454,243.32	-161,016.32
Funding Requirement / Besoin de financement	45,215,700.00	48,374,000.00	48,335,841.96	38,158.04
MILITARY BUDGETS				
<u>PAYMENTS / PAIEMENTS</u>				
Retirement Pension / Pension d'Ancienneté	113,500,000.00	113,500,000.00	114,148,673.66	-648,673.66
Survivor Pension / Pension de Survie	20,000,000.00	20,000,000.00	21,422,874.89	-1,422,874.89
Orphans Pension / Pension d'Orphelins	620,000.00	620,000.00	483,500.04	136,499.96
Invalidity Pension / Pension d'Invalidité	15,150,000.00	15,150,000.00	14,692,981.46	457,018.54
Family Allowance / Allocations Familiales	7,300,000.00	7,300,000.00	7,226,005.28	73,994.72
Leaving Allowance / Allocations de Départ	0.00	0.00	0.00	0.00
Validation Costs Paid / Coûts de Validation payés	0.00	0.00	0.00	0.00
Miscellaneous / Divers	200,000.00	200,000.00	265,184.60	-65,184.60
Total Payments / Paiements	156,770,000.00	156,770,000.00	158,239,219.93	-1,469,219.93
<u>RECEIPTS / RECETTES</u>				
Staff Contributions / Contributions des Agents	11,937,000.00	11,937,000.00	12,419,015.76	-482,015.76
Employer Contributions / Contributions de l'Employeur	163,000.00	163,000.00	262,279.46	-99,279.46
Validation Costs Received / Coûts de Validation reçus	0.00	0.00	0.00	0.00
Interests, Profit & Loss / Intérêts, Pertes & Profits	0.00	0.00	0.00	0.00
Miscellaneous / Divers	0.00	0.00	-17,670.32	17,670.32
Total Receipts / Recettes	12,100,000.00	12,100,000.00	12,663,624.90	-563,624.90
Funding Requirement / Besoin de financement	144,670,000.00	144,670,000.00	145,575,595.03	-905,595.03
TOTAL CIVIL + MILITARY BUDGETS				
TOTAL Funding Requirement	189,885,658.00	193,044,000.00	193,911,436.99	-867,436.99

Miscellaneous payments and receipts are financial and miscellaneous expenses and revenues linked to the payment of pension benefits and to the receipt of pension contributions. Examples of these costs/revenues are:

TYPES OF DBPS FINANCIAL AND MISCELLANEOUS REVENUES/EXPENSES	
FINANCIAL	Realized exchange gains and losses
	Bank interests and charges
	Rounding differences (minor)
	Payment differences (minor)
MISCELLANEOUS	General admin support expenses
	Miscellaneous income

These miscellaneous expenses and revenues are allocated between civil and military budgets following the proportion of civil and military payments and receipts in the total amounts.

Only the expenses (whether from civil or military budget) incur financial and miscellaneous revenues and costs. For this reason, all revenues/costs have been dispatched on the payments, except for the realized exchange gains and losses. Those are prorated separately because they also regard the military budget receipts (agency contributions received in currency). No revenue/cost is prorated on civil budget receipts because all contributions are received in euros.

The chart below shows details of these proratas:

	Miscellaneous and realized financial (other then exchange) costs				Realized financial exchange costs				Total
	Budget	Expenses (EUR)	Prorata	Costs split	Budget	Expenses (EUR)	Prorata	Costs split	
			100%	59,809.03			100%	309,838.11	
Payments	CIV	51,703,293.06	25%	14,748.01	CIV	51,703,293.06	23%	72,044.21	86,792.22
	MIL	157,974,035.33	75%	45,061.02	MIL	157,974,035.33	71%	220,123.58	265,184.60
Receipts					MIL	12,681,295.22	6%	17,670.32	17,670.32

The “actual amounts” referred to by IPSAS 24 (“amounts that result from execution of the budget”) are considered to be the commitment of credits. In the case of the NATO DBPS, there are no differences between the budget and accounting bases. The notion of commitments used for the NATO DBPS budget execution corresponds to expenses incurred during the course of the year. In this respect, the NATO DBPS budget should be considered as prepared and executed on an accrual basis. There are no timing or entity differences.

The table below provides comparative data about the approved budgets and revised budgets for the two last consecutive years:

(amounts in EUR)	2022		2021	
	CIV	MIL	CIV	MIL
Budget called in Y-1	45,215,700.00	144,670,000.00	40,725,300.00	137,150,000.00
	189,885,700.00		177,875,300.00	
Regularization in Y	3,158,300.00	0.00	1,840,000.00	-285,000.00
	3,158,300.00		1,555,000.00	
Revised budget in Y	48,374,000.00	144,670,000.00	42,565,300.00	136,865,000.00
	193,044,000.00		179,430,300.00	

The difference between approved budgets and actuals for both the Civil Budget and the Military Budgets mainly concern the following items: invalidity pensions and staff contributions. Invalidity pensions do not follow regular evolution paths and prove to be more difficult to anticipate. Newly recruited staff are automatically members of the DCPS. Consequently, the number of staff contributing to the NATO DBPS is declining. The impact of this trend has proven difficult to forecast. Approved budgets are based on a principle of prudence and therefore there is a tendency to underestimate revenue.

NOTE 23: RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT PERSONNEL

During 2022, there have been the following related party transactions:

Administrative Expenses

Administrative expenses in relation to the NATO DBPS are not recognized in these financial statements, the management of all pension schemes is performed by NATO IS.

NATO's contribution towards the annual administrative costs of the International Service for Remunerations and Pensions (ISRP which took over, among others, the activities of the former Joint Pensions Administrative Section) paid to the OECD in 2022 was EUR 134,679.05..

These administrative expenses are charged to the NATO Civil Budget, which includes the IS. In the framework of the Human Resource Shared Services process applied by NATO IS to all of the other NATO bodies to which such kind of services are provided, NATO-IS charges these expenses to the other individual NATO bodies in proportion to the number of NATO established posts. The related income is returned to NATO member Nations as a deduction to the Civil Budget contributions called from them.

Key Management Personnel

For the purposes of these financial statements, Key Management Personnel are considered to be the NATO-IS Assistant Secretary General for Executive Management and the Financial Controller. Their remuneration is totally covered by the NATO International Staff.

NOTE 24: STATISTICAL INFORMATION

The following table provides information concerning the number of beneficiaries in the NATO Coordinated Pension Scheme.

Year	Retirement Pensions	Survivor and Reversion Pensions	Orphan's and Dependant's Pensions	Invalidity Pensions	Total
1995	830	330	88	155	1,403
1996	878	340	91	168	1,477
1997	926	374	97	188	1,585
1998	967	395	98	202	1,662
1999	1,020	409	104	224	1,757
2000	1,096	424	96	229	1,845
2001	1,134	432	102	248	1,916
2002	1,187	448	98	275	2,008
2003	1,243	461	103	293	2,100
2004	1,344	479	96	313	2,232
2005	1,417	500	99	336	2,352
2006	1,469	515	96	379	2,459
2007	1,548	515	90	406	2,559
2008	1,629	523	77	419	2,648
2009	1,715	537	79	452	2,783
2010	1,838	543	71	472	2,924
2011	1,950	561	68	480	3,059
2012	2,023	592	72	480	3,167
2013	2,149	609	64	491	3,313
2014	2,272	624	59	470	3,425
2015	2,380	652	58	459	3,549
2016	2,589	665	65	439	3,758
2017	2,665	684	58	436	3,843
2018	2,759	699	53	432	3,943
2019	2,863	699	41	414	4,017
2020	2,940	717	37	412	4,106
2021	3,024	731	37	389	4,181
2022	3,103	748	46	381	4,278

List of acronyms:

BICES:	Battlefield Information Collection and Exploitation Systems Agency
CPR:	Civilian Personnel Regulations
DCPS:	Defined Contribution Pension Scheme
DBPS:	Defined Benefit Pension Scheme
FORACS:	NATO Naval Forces Sensor and Weapons Accuracy Check Sites
IPSAS:	International Public Sector Accounting Standards
IS:	International Staff
ISRP:	International Service for Remunerations and Pensions
MSIAC:	Munitions Safety Information Analysis Centre
NAGSMA:	NATO Alliance Ground Surveillance Management Agency
NHQPO	New Headquarters Program Office
NSPA:	NATO Support Agency
OECD:	Organization for Economic Co-operation and Development
OFC:	Office of Financial Control

NATO UNCLASSIFIED

FC(2023)0077

NATO FORACS OFFICE
FINANCIAL STATEMENTS
Financial Year 2022

Annexes:

- 1 Statement of Financial Position
- 2 Statement of Financial Performance
- 3 Statement of Cash Flow
- 4 Statement of Changes in Net Assets/Equity
- 5 Statement of Budget Execution
- 6 Explanatory Notes to the Financial Statements



Michael MAGAN
Project Manager FORACS



Mirosława BORYCZKA
Financial Controller NATO-IS

NATO UNCLASSIFIED

NATO FORACS OFFICE

Statement of Financial Position

As at 31 December 2022

(in EUR)

	Notes	Current Year	Prior Year
		2022	2021
Assets			
Current assets			
Cash and cash equivalents	(3)	5,768,155.76	5,998,118.95
Short term investments	(4)	0.00	0.00
Receivables	(5)	1,350,893.21	812,688.66
Prepayments	(6)	1,927,837.78	1,797,887.16
Other current assets	(7)	15,087.94	249.06
Inventories	(8)		
		9,061,974.69	8,608,943.83
Non-current assets			
Receivables			
Property, plant & equipment			
Intangible assets	(9)	1,685,581.64	1,685,581.64
		1,685,581.64	1,685,581.64
Total assets		10,747,556.33	10,294,525.47
Liabilities			
Current liabilities			
Payables	(10)	139,536.79	209,903.19
Deferred revenue	(11)	251,269.24	67,578.58
Advances	(12)	6,087,801.53	5,694,733.13
Provisions	(13)	0.00	0.00
Other current liabilities	(14)	1,544,653.08	2,050,406.41
		8,023,260.64	8,022,621.31
Non-current liabilities			
Provisions		0.00	0.00
Deferred revenue	(15)	1,685,581.64	1,685,581.64
Other non-current liabilities			
		1,685,581.64	1,685,581.64
Total liabilities		9,708,842.28	9,708,202.95
Surplus/Deficit		0.00	0.00
Retained earnings	(16)	1,038,714.05	586,322.52
Reserves			
Total net assets		1,038,714.05	586,322.52

NATO FORACS OFFICE Statement of Financial Performance

As at 31 December 2022

		(in EUR)	
	Notes	Current Year	Prior Year
		2022	2021
Revenue			
Non-Exchange Revenue		1,281,948.36	1,242,554.67
Exchange revenue		0.00	0.00
Financial revenue		672.03	18,594.91
Other revenue		6,248.28	218.75
Total revenue	(17)	1,288,868.67	1,261,368.33
Expenses			
Personnel		755,366.18	697,581.36
Contractual supplies and services		518,896.51	559,117.63
Depreciation and amortization		0.00	0.00
Impairment		0.00	0.00
Provisions		0.00	0.00
Other expenses		0.00	0.00
Finance costs		14,605.98	4,669.34
Total expenses	(18)	1,288,868.67	1,261,368.33
Surplus/(Deficit) for the period		0.00	0.00

NATO FORACS OFFICE Statement of Cash Flow

As at 31 December 2022

(in EUR)

	Notes	Current Year 2022	Prior Year 2021
Cash flow from operating activities			
Surplus/(Deficit)		0.00	0.00
Non-cash movements			
Depreciation/ Amortisation		0.00	0.00
Impairment		0.00	0.00
Use of Cash Reserves		452,391.53	-122,826.51
Increase /(decrease) in payables		-70,366.40	-66,392.30
Increase/ (decrease) in deferred revenue, advances and other current liabilities		71,005.73	798,389.08
Increase/ (decrease) in provisions		0.00	-20,703.28
Increase/ (decrease) in other non current liabilities		0.00	0.00
(Gains)/losses on sale of property, plant and equipment		0.00	0.00
Decrease/ (Increase) in prepayments and other current assets		-144,789.50	-85,521.98
Decrease/ (Increase) in receivables		-538,204.55	211,108.03
Net cash flow from operating activities		-229,963.19	714,053.04
Cash flow from investing activities			
Purchase of property plant and equipment / Intangible assets		0.00	0.00
Proceeds from sale of property plant and equipment		0.00	0.00
Net cash flow from investing activities		0.00	0.00
Cash flow from financing activities			
Decrease/ (Increase) Deposit			
Net cash flow from financing activities		0.00	0.00
Net increase/(decrease) in cash and cash equivalents		-229,963.19	714,053.04
Cash and cash equivalent at the beginning of the period			
		5,998,118.95	5,284,065.91
Cash and cash equivalent at the end of the period			
		5,768,155.76	5,998,118.95

NATO UNCLASSIFIED

ANNEX 4 to
FC(2023)0077

NATO FORACS OFFICE
Statement of Changes in Net Assets/Equity

As at 31 December 2022

(in EUR)

Balance at the beginning of the period 2021	<u>(709,149.03)</u>
Changes in accounting policy	
Restated balance	
Net (gains)/losses recognised directly in net assets/equity	
Exchange difference on translating foreign operations	
Use of cash Reserves	122,826.51
Gain on property revaluation	
Surplus/(deficit) for the period	
Change in net assets/equity for the year ended 2021	<u>(586,322.52)</u>
Balance at the beginning of the period 2022	<u>(586,322.52)</u>
Changes in accounting policy	
Restated balance	
Net (gains)/losses recognised directly in net assets/equity	
Exchange difference on translating foreign operations	
Use of cash Reserves	(452,391.53)
Gain on property revaluation	
Surplus/(deficit) for the period	
Change in net assets/equity for the year ended 2022	<u>(1,038,714.05)</u>

NATO UNCLASSIFIED

NATO FORACS OFFICE
Statement of Budget Execution
As at 31 December 2022

(Amounts in EUR)	Initial budget	Budget increase	BA2	Budget Revision	BA3	Transfers	Final budget	Expenses	Total spent	Carry forward	Lapsed
Budget 2022											
Chapter 1	738,000	-	738,000	-	738,000	17,500	755,500	755,366	755,366	-	134
Chapter 2	404,389	-	404,389	301,113	705,502	(17,500)	688,002	424,140	424,140	143,144	120,719
Chapter 3	56,100	-	56,100	678,277	734,377	-	734,377	29,355	29,355	108,125	596,896
Chapter 4	-	-	-	-	-	-	-	-	-	-	-
Total	1,198,489	-	1,198,489	979,390	2,177,879	-	2,177,879	1,208,861	1,208,861	251,269	717,749
Budget 2021											
Chapter 1	-	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-	-
Chapter 3	67,578	-	67,578	-	67,578	-	67,578	65,402	65,402	-	2,177
Chapter 4	-	-	-	-	-	-	-	-	-	-	-
Total	67,578	-	67,578	-	67,578	-	67,578	65,402	65,402	-	2,177
Budget 2020											
Chapter 1	-	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-	-	-
Total All Budgets	1,266,067	-	1,266,067	979,390	2,245,457	-	2,245,457	1,274,263	1,274,263	251,269	719,926

**EXPLANATORY NOTES TO NATO FORACS OFFICE
2022 FINANCIAL STATEMENTS****NOTE 1: GENERAL INFORMATION**

NATO FORACS' mission is to measure the bearing, range, position and heading accuracy of sensors and navigation systems and to provide communications systems and interoperability testing in surface ships, submarines and maritime aircraft to satisfy national requirements and to meet NATO material readiness standards.

The NATO FORACS Memorandum of Understanding was signed in 1974 by seven NATO nations: Denmark, Germany, Greece, Italy, Norway, the United Kingdom and the United States. In September 1994, Canada became the eighth signatory. Collectively the eight nations are referred to as the Member Nations.

Three NATO FORACS (Naval Forces Sensor and Weapons Accuracy Check Sites) test Ranges were authorized under the management of a NATO FORACS Steering Committee (NFSC).

NATO FORACS Office (NFO) was established at NATO Headquarters in January 1977. This office provides technical direction for the project, quality control over test procedures, and maintains a data bank of test results for national summary reports.

NATO FORACS Norway (NFN) began routine testing in 1978.

NATO FORACS Greece (NFG) was opened for routine operation in 1985.

In 1994 the US FORACS range at AUTEC (Atlantic Underwater Test and Evaluation Center) became an affiliated NATO FORACS test range called NATO FORACS AUTEC (NFA).

Member Nations maintain oversight of the project through the NATO FORACS Steering Committee. The Steering Committee executes its responsibility through an executive Project Manager at the NFO in Brussels.

Normal operations and maintenance of NATO FORACS activities are funded by the Member Nations on a cost-sharing basis. Non-member nations utilize the resources and capabilities based on a calculated 'day rate' for services. Fixed facilities and capital costs are commonly funded through the NATO Security Investment Programme (NSIP). NATO International Staff Office of Financial Control provides accounting and budgeting for the NFO and handles annual calls to Member Nations to fund operations for the Project.

These financial statements relate only to the NFO. The three NATO FORACS Ranges (NFA, NFG and NFN, referred to also as the Ranges) are responsible for executing their own budgets and issuing their own financial statements under their national budgeting and financial rules.

NATO FORACS conducts tests for Alliance nations in response to NATO's tasking to provide mission capable platforms. This testing also supports Nation's acquisition and upgrade programmes testing ship, submarine and maritime aircraft. Having systems in ships, submarines and maritime aircraft aligned and calibrated to the same common reference and to clearly defined accuracy standards aligns with the Connected Forces Initiative and improves interoperability of maritime systems within

and between nations. FORACS adopted strategic tag line is: *Operational Confidence Through Accuracy.*

The NATO FORACS Project continues to demonstrate a quality management culture based on ISO 9001:2015 and on 22 Dec 2020 achieved recertification for a further three years.

NOTE 2: ACCOUNTING POLICIES

NFO applies the NATO IS Accounting Policies which have been published through ON(2021)0079 and updated through FC(CAF)(2023)0001.

Declaration of Conformity

The NFO financial statements have been prepared in accordance with NATO Financial Regulations (NFR), the Financial Rules and Procedures (FRP) and the NATO Accounting Framework, which is an adapted version of the International Public Sector Accounting Standards (IPSAS).

Basis of Preparation

These financial statements relate to the NATO FORACS Office (NFO). They also include transactions with the Ranges only in as much as they relate to the calls for contribution process of their respective budgets and therefore concerns cash, short term investments, receivables, payables, advances, and the Ranges' other current liabilities to the IS OFC on behalf of the NFO. Funds are called from Member Nations; receivables are recorded; funds are transferred to the Ranges upon request of the Range Managers. Cash and cash equivalents are held on separate bank accounts controlled by the IS Office of Financial Control. None of the ensuing financial transactions of the Ranges (commitments, expenses, payments, etc.) are disclosed in these financial statements since they are executed under the exclusive authority and responsibility of the Ranges in accordance with their respective national regulations. The NFO plays no role in this respect.

All budget related decisions are taken by the FORACS Steering Committee, not by the FORACS Office. The latter has no financial authority over the Ranges, which operate under national regulations for all aspects of their management (budget execution, procurement, human resources, health and safety, financial reporting, external audit, etc.). The NFO holds an executive management function but does not exercise any power over the Ranges and it does not have rights over their surpluses or assets, neither can it be considered liable for their obligations. As a consequence, the NFO exercises no control over the Ranges for financial reporting purposes and therefore its financial statements are not consolidated with those of the Ranges.

These financial statements have been prepared on a going-concern basis. The assumption is that NFO is a going concern and will continue in operation and meet its objectives and obligations for the foreseeable future.

The financial year is from 1 January to 31 December.

The amounts shown in these financial statements are presented in EUR.

FORACS applied IPSAS 9 Revenue from exchange transactions and IPSAS 23 Revenue from non-exchange transactions.

The following IPSAS have no material effect on the 2022 NFO financial statements:

- IPSAS 5: Borrowing Costs
- IPSAS 7: Investments in Associates.
- IPSAS 8: Interests in Joint Ventures
- IPSAS 10: Financial Reporting in Hyperinflationary Economies
- IPSAS 11: Construction Contracts
- IPSAS 16: Investment Property
- IPSAS 21: Impairment of non-cash generating assets
- IPSAS 26: Impairment of Cash-Generating Assets
- IPSAS 27: Agriculture
- IPSAS 32: Service Concession Arrangements: Grantor

Changes in accounting policy

The accounting policy has been aligned with the NATO Civilian Personnel Regulations with regards to annual leave that is not taken.

The NATO Civilian Personnel Regulations (NCPRs) stipulate in article 42.3.3 that no compensation is paid for annual leave not taken. Only in exceptional cases, determined by the Head of the NATO body, payment in lieu may be authorized. Hence no provision is considered by NATO-IS Group Entities.

Restatement of Financial Statements of Previous Years

As a result of to the above mentioned change in accounting policy, below is the 2021 restated Statement of Financial Position for comparative purposes:

(in EUR)				
	Notes	2021 REPORTED	2021 RESTATED	IMPACT
Assets				
Current assets				
Cash and cash equivalents	(3)	5,998,118.95	5,998,118.95	0.00
Short term investments	(4)	0.00	0.00	0.00
Receivables	(5)	812,688.66	812,688.66	0.00
Prepayments	(6)	1,797,887.16	1,797,887.16	0.00
Other current assets	(7)	20,475.57	249.06	20,226.51
Inventories	(8)			0.00
		8,629,170.34	8,608,943.83	20,226.51
Non-current assets				
Receivables				0.00
Property, plant & equipment				0.00
Intangible assets	(9)	1,685,581.64	1,685,581.64	0.00
		1,685,581.64	1,685,581.64	0.00
Total assets		10,314,751.98	10,294,525.47	20,226.51
Liabilities				
Current liabilities				
Payables	(10)	209,903.19	209,903.19	0.00
Deferred revenue	(11)	67,578.58	67,578.58	0.00
Advances	(12)	5,694,733.13	5,694,733.13	0.00
Provisions	(13)	20,226.51	0.00	20,226.51
Other current liabilities	(14)	2,050,406.41	2,050,406.41	0.00
		8,042,847.82	8,022,621.31	20,226.51

NATO UNCLASSIFIED

6-5

ANNEX 6 to
FC(2023)0077

Below is the 2021 restated Statement of Financial Performance for comparative purposes:

	Notes	2021 REPORTED	2021 RESTATED	IMPACT
Revenue				
Non-Exchange Revenue		1,242,554.67	1,242,554.67	0.00
Exchange revenue		0.00	0.00	0.00
Financial revenue		18,594.91	18,594.91	0.00
Other revenue		-258.02	218.75	-476.77
Total revenue	(17)	1,260,891.56	1,261,368.33	-476.77
Expenses				
Personnel		697,581.36	697,581.36	0.00
Contractual supplies and services		559,117.63	559,117.63	0.00
Depreciation and amortization		0.00	0.00	0.00
Impairment		0.00	0.00	0.00
Provisions		-476.77	0.00	-476.77
Other expenses		0.00	0.00	0.00
Finance costs		4,669.34	4,669.34	0.00
Total expenses	(18)	1,260,891.56	1,261,368.33	-476.77
Surplus/(Deficit) for the period		0.00	0.00	0.00

Reclassification of Financial Statements of Previous Years

None.

Use of Estimates

In accordance with generally accepted accounting principles, the financial statements include amounts based on estimates and assumptions by management, according to the most reliable information available, judgement and assumptions. Estimates include accrued revenue and expenses. Actual results could differ from those estimates. Changes in estimates are reflected in the period in which they become known.

Foreign Currency Transactions

The NFO's budget is authorized and managed in EUR so the contribution call is made in EUR. Foreign currency transactions as required are accounted for at the NATO exchange rates prevailing on the date of the transactions. Monetary assets and liabilities at year-end which were denominated in foreign currencies were converted into EUR using the NATO foreign currency exchange rates as of 31 December 2022.

Realised and unrealised gains and losses resulting from the settlement of such transactions and from the revaluation at the reporting dates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Financial Performance.

NFO does not have any unrealised gains or losses resulting from the translation of statements.

Financial Risks

NFO uses only non-derivative financial instruments as part of its normal operations. These financial instruments include cash, bank accounts and deposit accounts.

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

The organisation is exposed to a variety of financial risks, including foreign exchange risk, credit risk, currency risk, liquidity risk and interest rate risk.

a. Foreign currency exchange risk

The exposure to foreign currency risk is limited as the vast majority of NFO's expenditures are made in EUR, the currency of its budget. The current bank accounts are held in EUR.

b. Credit risk

NFO incurs credit risks from cash and cash equivalent held with banks and from receivables.

The maximum exposure as at year-end is equal to the total amount of bank balances, short term deposits and receivables. There is very limited credit risk associated with the realization of these elements.

Concerning cash and cash equivalent NFO credit risk is managed by holding current bank accounts and short term highly liquid deposits that are readily convertible to a known amount of cash held with ING Bank (Belgium) which has the following short term credit ratings:

BANK NAME	COUNTRY OF HQ	SHORT TERM RATINGS					
		FITCH		S&P GLOBAL		MOODY'S	
		Rating	Last review date	Rating	Last review date	Rating	Last review date
ING BANK	Netherlands	F1+	15/11/2022	A-1	28/06/2022	P-1	02/10/2022

The NFO outstanding accounts receivable are managed by maintaining control procedures over receivables. All cash receivables are due from NATO member nations, which are considered credit worthy.

c. Liquidity risk

The liquidity risk, also referred to as funding risk, is based on the assessment as to whether the Organisation will encounter difficulties in meeting its obligations associated with financial liabilities. A liquidity risk could arise from a short term liquidity requirement. There is a very limited exposure to liquidity risk because of the funding mechanism which guarantees contributions in relation to the approved budgets. In addition, the NFO maintains an Operational Reserve. Some limited risk could be due to the inaccuracy of budget forecasts. However, past history shows that this process results in surpluses and since the budgetary rules provide for revised budgets, it also helps risk mitigation.

The NFO incurs a liquidity risk since it collects the budget contributions for the Ranges and sends to the Ranges the funds they require, sometimes in advance of the budget year. This transfers the liquidity risk from the Ranges to the NFO and could result in a liquidity issue if contributions from Participating Nations were late.

d. Interest rate risk

Except for certain cash and cash equivalent balances, NFO's financial assets and liabilities do not have associated interest rates. NFO is restricted from entering into borrowings and investments, and, therefore, there is an insignificant interest rate risk. Interest earned is not a budgetary resource but contributes to the surplus owed to Nations. In case of negative interest rates, these are added to the amounts called from Member Nations.

Current Assets

a. Cash and cash equivalents

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

b. Funds managed for third parties

Funds managed on behalf of third parties are held in cash and are presented as a liability. They are accounted for when cash is effectively received.

c. Receivables

Receivables are stated at net realisable value, after provision for doubtful and uncollectible debts.

Outstanding budget contributions concerning the Ranges are also recorded as Receivables.

Contributions receivable are recognised when a call for contribution has been issued to the Member Nations. No allowance for loss is recorded with respect to Member Nations' assessed contributions receivable.

d. Prepayments

A prepayment is a payment in advance of the period to which it pertains and is mainly in respect of an advance payment made to a third party. This item may include advances made to staff in accordance with Civilian Personnel Regulations (such as advances on salary or on education allowance in consideration of the fact that these are advances on future staff benefits).

e. Other Current Assets

Other Current Assets relate to miscellaneous amounts due to the FORACS such as accrued interest, . This item may include other assets that do not result from the standard order to cash process, such as miscellaneous transactions to be regularized between entities managed by the IS Office of Financial Control.

f. Inventories

As mentioned above, NATO's adaptations of IPSAS are spelled out in C-M(2016)0023 of April 2016, which included IPSAS 12 Inventories. Furthermore, C-M(2017)0043 of September 2017, approved the NATO Accounting Policy for Inventory.

When it comes to assessing the control of NATO Inventory, these documents define a set of 10 criteria to be used in assessing the level of control of an Inventory asset. A positive response on six of the criteria will lead to the asset being capitalized in the Financial Statements if it is above the capitalization threshold. This is applied from January, 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 2013.

Criteria that may indicate control of an asset:

- The act of purchasing the asset carried out (or resulted from instructions given) by the NATO Reporting Entity.
- The legal title is in the name of the NATO Reporting Entity.
- The asset is physically located on the premises or locations used by the NATO Reporting Entity.
- The asset is physically used by staff employed by the NATO Reporting Entity or staff working under the NATO Reporting Entity's instructions.
- The fact that the NATO Reporting Entity can decide on an alternative use of the asset.
- The fact that the NATO Reporting Entity can decide to sell or to dispose the asset.
- The fact that the NATO Reporting Entity, if it has to remove or destroy the asset, can take the decision to replace it.
- The fact that a representative of the NATO Reporting Entity regularly inspects the asset to determine its current condition.
- The fact that the asset is used in achieving the objectives of the NATO Reporting Entity.
- The fact that the asset will be retained by the NATO Reporting Entity at the end of the activity.

Capitalization thresholds relevant to the financial statement are as follow:

Category	Threshold	Basis
Consumables	€50,000	Per location/warehouse
Spare Parts	€50,000	Per location/warehouse
Ammunition	€50,000	Per location/warehouse
Strategic stocks	€50,000	Per location/warehouse

Slow moving inventory – Assuming turnover of stock is over a 12 month period, any items not used over a 36 month period will be deemed to be slow moving.

Strategic stock – Some complex elements of slow moving stock can be identified as strategic if they are deemed essential to the effective operation of an asset and cannot be readily replaced by commercial off the shelf items or cannot be purchased due to market decisions to close production lines of key inventory items due to the advanced age of the strategic asset to which the stock relates

NFO capitalizes inventory which it controls in its financial statements. Where there is a conflict between more than one NATO Reporting Entity as to the control of inventory, only the end-user entity reports the inventory in its financial statements, based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities.

NFO includes transportation costs involved in bringing the inventories to their present location and condition in the initial valuation of inventory. These costs will be measured on the actual cost of transportation per item of inventory or by using an apportionment of the global transportation costs of bringing the inventories to their present location and condition across all inventory items in the period. Transportation costs involved in the subsequent movement of inventory which brings them into operational use will not be included in the value of inventory. The method of measuring these costs will be disclosed.

NFO considers inventory acquired prior to 1 January 2013 as fully expensed.

NFO assesses inventories under IPSAS 12. The outcome of this assessment is that the value of the inventories is immaterial both in value and in terms of the nature of the items held. Consequently, inventory is fully expensed on receipt. The materiality will be assessed each year.

In consideration of the above thresholds, the NFO currently has no inventory.

Non-Current Assets - Fixed Assets (Property, Plant & Equipment)

a. Property, Plant & Equipment

As mentioned above NATO's adaptation of IPSAS are spelled out in C-M(2016)0023 of April 2016 among which were specific items addressing IPSAS 17 PPE. Furthermore, C-M(2017)0022(INV) approved the NATO accounting policy for Property, Plant and Equipment.

When it comes to assessing the control of NATO over PPE these documents define a set of 10 criteria to be used in assessing the level of control of a tangible asset. A positive response on six of the criteria will lead to the asset being capitalized in the Financial Statements if it is above the capitalization threshold. This is applied from January 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 2013

Capitalization thresholds relevant to the financial statement are as follow:

Category	Threshold	Depreciation Life	Method
Land	€200,000	N/A	N/A
Buildings	€200,000	40 years	Straight line
Other infrastructure	€200,000	40 years	Straight line
Installed equipment	€ 30,000	10 years	Straight line
Machinery	€ 30,000	10 years	Straight line
Vehicles	€ 10,000	5 years	Straight line
Aircraft	€200,000	Dependent on type	Straight line
Vessels	€200,000	Dependent on type	Straight line
Mission equipment	€ 50,000	3 years	Straight line
Furniture	€ 30,000	10 years	Straight line
Communications	€ 50,000	3 years	Straight line
Automated information systems	€ 50,000	3 years	Straight line

NFO considers PPE acquired prior to 1 January 2013 as fully expensed. However, existing accounting policies will continue to be applied for any PPE assets already capitalized prior to 1 January 2013. For PPE upgraded after 1 January 2013, only the portion related to the modification will be capitalized.

In consideration of the above thresholds, the NFO currently has no PPE.

b. Intangible Assets

As mentioned above, NATO's adaptations of IPSAS are spelled out in C-M(2017)0023 of April 2013, which included IPSAS 31 Intangible Assets. Furthermore, C-M(2017)0044 approved the NATO accounting policy for intangible assets.

When it comes to assessing the control of NATO over Intangible Assets, these documents define a set of 10 criteria to be used in assessing the level of control of an Intangible asset – they are the same as mentioned above under Inventory. A positive response on six of the criteria will lead to the asset being capitalized in the Financial Statements if it is above the capitalization threshold. This is applied from January 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 2013.

NATO Intangible Assets Capitalization Thresholds - the NATO FORACS will capitalize each intangible asset item above the following agreed NATO thresholds:

Category	Threshold	Depreciation Life	Method
Computer software (commercial off the shelf)	€50,000	4 years	Straight line
Computer software (bespoke)	€50,000	10 years	Straight line
Computer database	€50,000	4 years	Straight line
Integrated systems	€50,000	4 years	Straight line

NATO FORACS capitalizes all controlled intangible assets above the NATO Intangible Asset Capitalization Threshold. For anything below the threshold, the NATO FORACS will have the flexibility to expense specific items.

NATO FORACS capitalizes integrated systems and include research, development, implementation and can include both software and hardware elements. But NATO FORACS will not capitalize the following types of intangible assets in their financial statements:

- rights of use(air, land and water);
- landing rights;
- airport gates and slots;
- historical documents; and,
- publications

NATO FORACS capitalizes other types of intangible assets acquired after 1 January 2013 including:

- Copyright
- Intellectual Property Rights
- Software development

NATO FORACS considers Intangible Assets acquired prior to 1 January 2013 as fully expensed.

NATO FORACS will report controlled Intangible assets in its financial statements. Where there is a conflict between more than one NATO Reporting Entity as to the control of intangible assets, only the end-use entity will capitalize the intangible asset in its financial statements based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities.

NATO FORACS has no intangible assets acquired or held prior to 1 January 2013.

If an intangible asset is upgraded after 1 January 2013, only the portion related to the modification is capitalized.

Where this adaptation conflicts with another requirement of IPSAS this adaptation will apply. For the remainder, IPSAS 31 shall apply. This adaptation is effective for financial reporting periods beginning on 1 January 2013.

In 2015, the NFO has initiated a replacement of a software required for its operations.

Integrated Data Acquisition and Test System version X (IDATSvX) achieved Initial Operational Capability (IOC) on 1 September 2021. Progress towards the formal acceptance trials required to declare Full Operational Capability (FOC) remains dependent on the availability of suitable test platforms, provided by the Member Nations. Continued unavailability of these platforms, delayed the formal IDATSvX FOC testing. This is expected to be scheduled mid 2023..

Current Liabilities

a. Payables

Payables are amounts due to third parties, including Participating Nations, based on goods received or services provided that remain unpaid. These include estimates of accrued obligations to third parties for goods and services received but not yet invoiced. Amounts due to Participating Nations in the context of their budget contributions are booked under Other Current Liabilities.

b. Advances and Deferred Revenue

Advances are contributions received related to future year's budgets. Advances include all advances linked to the budget process of the NFO and of the Ranges. This reflects the nature of the transactions since they result from the call for budgetary contributions process, handled by IS OFC, irrespective of the entity, and harmonises the approach between the NFO and the Ranges.

Deferred Revenue represents Participating Nations' contributions which have been called for current NFO budgets but that have not yet been recognised as revenue in the absence of any related budgetary expenses.

c. Other Current Liabilities

Amounts corresponding to the current year budgetary surplus of NFO, i.e. lapsed credits, net financial income and miscellaneous income, are considered a liability towards the Participating Nations. The settlement does not follow the normal accounts payable process, since the standard approach is to return them to Participating Nations via a deduction from the following year's call for budget contributions. This liability is therefore classified under Other Current Liabilities.

This item may include other liabilities that do not result from the standard procure to pay process, such as miscellaneous transactions to be regularized between entities managed by the IS Office of Financial Control.

Non-Current Liabilities

The long term unearned revenue is unearned revenue in relation to net carrying amounts of Property, Plant and Equipment and Intangible Assets. Revenue is recognised over the estimated life cycle of the Property, Plant and Equipment and The Intangible Assets.

Net Assets

Net Assets correspond to NATO FORACS' Project Accumulated Surplus. Project Accumulated Surplus relates to funds resulting from past years contributions by NATO FORACS' Member Nations in excess of budget execution that the Steering Committee decided not to redistribute to the Member Nations but keep for the needs of NATO FORACS as an operational reserve. It is held at the direction of the Steering Committee, with North Atlantic Council approval for the NFRs deviation.

Revenue Recognition

Revenue comprises contributions from NATO FORACS Member Nations and amounts due by beneficiaries of services provided by the NATO FORACS Ranges.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. The balance of unspent contributions and other revenues that relate to future periods are deferred accordingly.

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

Contributions to be called from Member Nations, based on the budget they approved, are initially recorded as unearned revenue liabilities. They are recognised as revenue in the statement of financial performance when such contributions are used for their intended purpose as envisioned in the approved Budget.

Transformational adjustments are made in calculating earned revenue and expenses in the Statement of Financial Performance.

Segment Reporting

A segment is a distinguishable activity or group of activities for which it is appropriate to separately report financial information. There is no segment in NFO. The Ranges are NATO FORACS components but are not NATO entities and do not form part of NFO, so cannot be considered as segments of NFO. Separate information concerning the Ranges is provided when appropriate, but this should not be considered as being done with the intent of complying with IPSAS 18 on Segment Reporting, which is not applicable in the case of these financial statements.

Statement of Financial Position**NOTE 3: CASH AND CASH EQUIVALENTS**

The current NFO bank accounts are held in EUR. Deposits (if any) are held in interest-bearing bank accounts, immediately available.

Overview of the cash and cash equivalents held by FORACS:

Amounts in EUR

	2022	2021
NFO	2,928,148.85	3,052,813.60
TOTAL	2,928,148.85	3,052,813.60

Funds managed for third parties

The NATO-IS Office of Financial Control holds funds, in cash, contributed to the NFG, NFA and, NFN budgets. These bank accounts are controlled by the IS Office of Financial Control, in the context of the management of FORACS financial operations, thus the closing balances are reported in the NFO's financial statements. Upon request of the Range Managers, funds are transferred to the respective Range accounts to enable the execution of Range budgets following their national rules.

The breakdown is as follows:

Amounts in EUR

	2022	2021
NFA	1,347,280.18	1,180,117.89
NFG	650,294.83	604,931.55
NFN	842,431.90	1,160,255.91
TOTAL	2,840,006.91	2,945,305.35

NOTE 4: SHORT TERM INVESTMENTS

The NFO does not hold short term investments as per 31 December 2022.

NOTE 5: ACCOUNTS RECEIVABLE

At the end of 2022 this position consists mostly of the receivable from lapsed Ranges' credits, being part of their yearly budgetary surplus.

Contributions receivable are funds requested from the Nations to finance the current and following year budgets of all the NATO FORACS components. There is normally only one call for contribution, issued during the summer period. As directed by the Steering Committee, the call includes approximately 20% of the current year's budget credits and an advance of approximately 80% for next financial year, at 2022 year-end there was one outstanding contribution receivable to report from Member Nation United States.

The amounts recorded as receivables represent the lapses of the Ranges reported in their respective Budget Execution Statements.

The below table provides an overview of open receivables at year-end for two consecutive years:

Amounts in EUR

	2022	2021
Budgetary contributions	336,182.93	13,817.30
Ranges	1,014,710.28	798,871.36
TOTAL	1,350,893.21	812,688.66

NOTE 6: PREPAYMENTS

Advance payments are made to the Ranges based on their respective budgets for the following year in accordance with the process of centralisation of all budgetary calls under the NFO umbrella.

Prepayments to NFO staff (typically advances on salaries, advances on education allowances, travel expenses) are done in accordance with the NATO Civilian Personnel Regulations. As per end of 2022, prepayments to staff are only related to education allowances.

Below table gives the breakdown of the different prepayments for the last 2 consecutive years:

Amounts in EUR

	2022	2021
Prepayments to the Ranges	1,906,474.19	1,775,977.57
Prepayments to Suppliers	-	32.91
Prepayments to Staff	21,363.59	21,876.68
TOTAL	1,927,837.78	1,797,887.16

The advances made to the Ranges are broken down as follows:

Amounts in EUR

	2022	2021
NFA	808,913.00	708,131.52
NFG	390,180.00	371,250.00
NFN	707,381.19	696,596.05
TOTAL	1,906,474.19	1,775,977.57

NOTE 7: OTHER CURRENT ASSETS

This item includes only accrued financial revenue.

Amounts in EUR

	2022	2021
Accrual bank interest	15,087.94	249.06
TOTAL	15,087.94	249.06

NOTE 8: INVENTORIES

Nothing to report, inventories are not considered material.

NOTE 9: INTANGIBLE ASSETS

The NFO is in the process of replacing the data recording and analysis software used for its operations. To this effect, end 2015, a contract was signed with the NATO Communications and Information Agency for the delivery of this project. The software is still undergoing a series of tests before it can be declared available for operational purposes, and therefore no depreciation has been recorded in 2022.

In the below chart, it is provided an overview of the projects carrying amount at the year-ends.

(amounts in EUR)	Carrying Amount end 2019	Additions	Disposals	Depreciation	Other Changes	Carrying Amount end 2020
Software	1,685,582					1,685,582
TOTAL FORACS	1,685,582	0	0	0	0	1,685,582

(amounts in EUR)	Carrying Amount end 2020	Additions	Disposals	Depreciation	Other Changes	Carrying Amount end 2021
Software	1,685,582					1,685,582
TOTAL FORACS	1,685,582	0	0	0	0	1,685,582

(amounts in EUR)	Carrying Amount end 2021	Additions	Disposals	Depreciation	Other Changes	Carrying Amount end 2022
Software	1,685,582					1,685,582
TOTAL FORACS	1,685,582	0	0	0	0	1,685,582

NOTE 10: PAYABLES

Payables and accrued expenses (accruals) are to commercial suppliers, staff, other NATO bodies, NATO FORACS Member Nations or other NATO FORACS entities.

Payable to suppliers relates to goods and services for which an invoice has been processed but for which payment was still pending at year-end. The invoices open in a currency different from the budget currency (EUR) has been revalued on 31 December 2022.

Accrued expenses (accruals) correspond to the estimated accrual obligation to third parties for goods and services received but not yet invoiced.

Below tables provide details of the payables balances for the last 2 financial years at year-end:

Amounts in EUR		
	2022	2021
Suppliers	110,624.84	82,971.66
Member Nations	-	120,205.25
Accruals	28,911.95	6,726.28
TOTAL	139,536.79	209,903.19

Payable to Participating Nations

The payable of EUR 120,205.25 at the end of 2021 was in relation to reimbursable salaries and represents the amount due to the United States (US) for civilian staff members who are or have been employed by FORACS but paid directly by the US government. The open amount has been regularized in 2022.

NOTE 11: DEFERRED REVENUE**Deferred Revenue**

This item is limited to NFO since it is the only NATO FORACS entity over which the IS Office of Financial Control exercises budgetary control.

Deferred Revenue corresponds to NFO contributions called for the current year budget or before (received or receivable) that NFO intends to use for its initial purpose, but for which corresponding goods or services could not be received in the course of the current budget year but will be incurred after the end of the reporting period. If these amounts carried forward are not spent by the end of the second year following the year for which they were approved, these funds will lapse unless a specific decision is taken by Member Nations for a further carry-forward.

There were no appropriations subject to a special carry-forward, neither to a further carry-forward.

NOTE 12: ADVANCES

The standard call for contribution process includes an advance on the following year's budgets for all NATO FORACS components. The NATO FORACS Ranges may in turn request that part or all of the advances be transferred to them. The amounts called as advances at year end were the following:

Amounts in EUR

	2022	2021
NFO	1,003,533.00	958,793.00
NFA	2,157,101.34	1,888,350.71
NFG	1,040,480.00	990,000.00
NFN	1,886,349.92	1,857,589.42
TOTAL	6,087,464.26	5,694,733.13

This item includes also a minor advance by the United States for an amount of EUR 337.27.

NOTE 13: PROVISIONS

Nothing to report.

NOTE 14: OTHER CURRENT LIABILITIES

Amounts corresponding to the current year budgetary surplus of NFO, i.e. lapsed credits, net financial income and miscellaneous income, are considered a liability towards the Participating Nations. The settlement does not follow the normal accounts payable process, since the standard approach is to return them to Participating Nations via a deduction of the following year's call for budget contributions. Up to now, the standard practice of the NATO FORACS Steering Committee has been to use these amounts to fund the NFO Supplementary Budget or to add them to the Project Accumulated Surplus (see note on Net Assets).

Below is a snapshot of NFO's current year surplus at year ends:

Amounts in EUR

	2022	2021
Lapsed Appropriations	719,925.65	1,232,431.02
Net Financial Income/(Expense)	- 14,449.24	14,574.97
Miscellaneous Income/(Expense)	6,248.28	218.75
TOTAL	711,724.69	1,247,224.74

Miscellaneous income represents an over accrual reported for 2021.

Financial income is the result of foreign exchange rate differences on the payments of the supplementary budget to the ranges NFN and NFA, payments to suppliers, bank charges and interest collected throughout the year.

Other current liabilities cover also the current year budgetary surplus of the Ranges, i.e. lapsed credits and net financial income.

Detailed breakout is presented in the table below:

Amounts in EUR

	2022	2021
NFO Current Year Budget Surplus	711,724.69	1,247,224.74
Lapses NFA	410,171.73	260,355.52
Lapses NFG	25,034.81	80,617.97
Lapses NFN	382,811.81	461,368.25
Financial Surplus Ranges	14,910.04	839.93
TOTAL	1,544,653.08	2,050,406.41

NOTE 15: NON CURRENT LIABILITIES AND LONG TERM DEFERRED REVENUE

The long term deferred revenue is unearned revenue in relation to net carrying amounts of Property, Plant and Equipment and Intangible Assets. Revenue is recognised over the estimated life cycle of the Property, Plant and Equipment and the Intangible Assets.

In the future this account will be used as a counterpart of the Integrated Data Acquisition and Test System version X (IDATSVX), once it is formally accepted and becomes available for operational use and thus recognized as an Intangible Asset and subject to yearly depreciations.

NOTE 16: RETAINED EARNINGS

Retained earnings correspond to NATO FORACS' Project Accumulated Surplus.

Project Accumulated Surplus relates to funds resulting from past contributions by NATO FORACS member Nations in excess of budget execution that the Steering Committee decided not to redistribute to the member nations but keep for the needs of the NATO FORACS project. This decision was approved by the NAC (C-M(2018)0032-AS1 dated 26 June 2018, under "Approval of FORACS Operational Reserve Fund"). It is an Operational Reserve, with a balance as per end 2022 of EUR 1,095,544.12, held at the direction of the Steering Committee essentially in the case of emergency funding needs for the Project to ensure continuity of service and also for reallocation among NATO FORACS entities when the Steering Committee approves their Supplementary Budgets. It originates from previous years' budgetary and financial operations of the various NATO FORACS entities.

Statement of Financial Performance**NOTE 17: REVENUE****Non-Exchange Revenue**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. The non-exchange revenue is matched with the expenses stemming from budget execution.

Contributions, when called, are booked as an Unearned Revenue and subsequently recognized as Non-Exchange Revenue when it is earned.

Exchange Revenue may result from services provided by NATO FORACS to entities other than the Participating Nations. This type of revenue is assessed on a calculated day rate for services.

Below there is a snapshot of the 2022 non-exchange revenue breakdown:

Amounts in EUR

		2022	2021
Budget Execution (a)		1,274,262.69	1,256,698.99
	Current Year Budget	2,177,879.00	2,456,181.00
	Automatic carry forward from previous year	67,578.58	100,527.22
	Lapses at year end	-719,925.65	-1,232,431.06
	Automatic carry forward into next year	-251,269.24	-67,578.17
Financial Result (b)		-13,933.95	13,925.57
	Financial revenue - Realized	153.32	19,244.31
	Financial cost - Realized	-14,602.56	-4,669.34
	Financial revenue - Unrealized	518.71	-649.40
	Financial cost - Unrealized	3.42	0.00
Miscellaneous Result (c)		6,248.28	218.75
	Current year income	0.00	218.75
	Overaccrual	6,248.28	0.00
Non Exchange Revenue (a-b-c)		1,281,948.36	1,242,554.67

Exchange Revenue

Nothing to report.

Financial Revenue

This includes exchange rate differences.

Other Revenue

This includes the regularization of overestimated accruals from previous year.

NOTE 18: EXPENSES**Wages, Salaries and Employee Benefits**

The personnel costs only pertain to all civilian personnel in support of funded activities. They also include expenses for salaries and emoluments for approved NATO permanent civilian positions and temporary personnel, for other salary related and non-related allowances including overtime, medical examinations, recruitment, installation and removal.

Supplies and Consumables Used

This item may also include expenses attributed to Capital Expenses (Property, Plant and Equipment and Intangible Assets) from a budget perspective, if they do not meet the criteria of PPE or Intangible Assets.

Depreciation and Amortization

Nothing to report.

Impairments

Nothing to report.

Provisions

This item includes changes in any provisions disclosed in the financial statements, and represents the change in the valuation of the Untaken Leave liability.

Other Expenses

Nothing to report.

Finance Costs

This items includes bank charges and exchange rate differences.

NOTE 19: BUDGET INFORMATION**NATO FORACS Office Budget**

Presently, the NATO FORACS Budgets are not publicly available.

The actual amounts referred to by IPSAS 24 ("amounts that result from execution of the budget") are expenses incurred during the execution of the budget and appearing under the heading "Actuals" in the Budget Execution Statement.

Presentation of budget information in the financial statements

In the present financial statements budget information is limited to NFO since it is the only entity over which the IS OFC exercises budgetary control.

NATO UNCLASSIFIED

6-21

ANNEX 6 to
FC(2023)0077

The NFO budget classification is based on the economic nature of the expenses broken down into three chapters as follows:

Chapter I	Personnel Expenses
Chapter II	Operating Expenses
Chapter III	Capital Costs

The NFO Budget is prepared for the same period (1 January to 31 December) as these financial statements.

These financial statements also include transactions with NFA, NFG and NFN in relation to their funding as components of NATO FORACS (calls for their budgets' contributions, prepayment of advances on their budgets, transfers related to budget adjustments). Their respective budget execution and control are conducted in accordance with their own national regulations. Neither the NFO nor the IS Financial Controller have any responsibility or authority in this respect. As a consequence their budget executions are not reflected in the budget execution statement of the NFO presented in these financial statements.

Changes to the budgetary regulations were introduced by the North Atlantic Council in 2015 in approving a new set of NATO Financial Regulations. The new NATO Financial Regulations were made applicable to the 2015 budget year as from 1 May 2015. They have in particular instilled an accruals based approach to budget preparation and budget execution, whereas before the approach was largely commitment and cash based.

Despite a stronger emphasis on the principle of annual budgets, the approved and executed budget cannot be considered as fully accruals-based, since the new regulations allow for a number of exceptions, such as carrying forward commitments for goods and services that were expected to be delivered in the course of the year but for various reasons were not, or authority given to the member Nations to allow for special carry forward of appropriations unused at year-end.

The NFO budget is prepared and executed as follows:

- 1) The commitment of appropriations is the advance acceptance and recording of the financial consequence resulting from a legal obligation incurred during the financial year. As a consequence appropriations are allocated, and commitments are approved, for goods, services and works to be delivered at a later stage. Commitments are settled when the service is rendered or goods delivered as is the case for expenses under accrual accounting.
- 2) Approved Commitments for which no goods could be received or services rendered at year end normally lapse. However, if they are supported by a legal obligation and correspond to goods or services that could not be received during the course of the year for specific reasons, they may be carried forward and added to the budget of the following financial year. Uncommitted appropriations may be subject of a special carry forward to the following year if a specific agreement is given by the Steering Committee. Outstanding commitments can be carried forward for two years. As a consequence, the services or goods received may relate to a commitment of appropriations from previous years' budgets. The carry-forward should be justified by a reason for which the services or goods could not be received in the course of the year. In addition, in accordance with Financial Regulations, member Nations may agree to a further carry-forward of commitments that were already carried forward twice.
- 3) Commitments, because they are an advance acceptance, and because payments cannot be made above approved appropriations levels, typically include an estimation factor and may

be (if only slightly) higher than the actual amount eventually paid. This results in commitments being higher than the actual expenses and in appropriations eventually lapsing.

- 4) Commitments are only made in respect of expenses relating to the initial purpose of the commitment. Commitments for capital expenditures are normally made in the year during which the purchase order is issued. In accrual accounting, the related costs would not appear in the Statement of Financial Performance but in the Balance Sheet and only upon reception of the works, goods or services. Conversely, there is no budgetary commitment of appropriations for non-cash flow transactions such as capital depreciation or provisions which would normally appear in the Statement of Financial Performance under accrual accounting.
- 5) On an exceptional basis, the Steering Committee may approve the carry-forward of credits without any prior legal commitment, for instance for projects at their initiation stage or planned expenditures. In accrual accounting there would be no expense recorded.
- 6) The balance of unused budgetary appropriations (not committed) lapses and is to be returned to Contributing Nations or added to the Operational Reserve at year-end (the latter being the usual practice). Lapses may include cases where a project was eventually not completed or started, and therefore lead to no expense.

Budget approval

Every year, an initial budget for Operations and Maintenance is requested in order to provide contributors with a stable level of contribution and a significant amount is planned for under the supplementary budget.

Amounts in EUR

	2022	2021
Initial Budget	1,198,489.00	1,243,403.00
Supplementary Budget	979,390.00	1,212,778.00
Additions/Reductions		0.00
Total Annual Budget	2,177,879.00	2,456,181.00

There were no frozen appropriations.

Budget execution

The NFO budget execution for the current and previous year is shown at Annex 5.

Table below compare the budget's authorized appropriations and the actual amounts committed and expended, i.e. the comparison between the Budget Execution and the expenses in the Statement of Financial Performance.

BUDGET EXECUTION		
Total Budget (including carried-forward from previous year)	(a)	2,245,457
Credits Carried Forward in Following Year	(b)	251,269
Lapsed Appropriations	(c)	719,926
Budget Execution Expenses	(d) = (a-b-c)	1,274,263
RECONCILIATION		
Financial Performance Expenses (Excluding financial costs)	(e)	1,274,263
Increase in Non-Current Assets	(f)	-
Provisions	(g)	-
Other Expenses	(h)	-
Sub-Total	(i)=(e+f-g-h)	1,274,263
Difference to Budget Expenses	(d-i)	(0)

Reconciliation between NFO Budget and Calls for Contributions

The funding of the NFO budget is made of an advance call and a call for contributions, carried over credits, the previous year's surplus, and on occasion, as directed by the Steering Committee, a contribution from/to the Project's Accumulated Surplus and/or a transfer from/to another FORACS entity's current year budget.

One call for contributions is issued every year which includes an advance concerning the budget of the following year and the remainder concerning the current year's budget (i.e. current year budget minus advance called during the previous year and any other adjustments among the FORACS entities).

The table below reconciles the approved budget and the sources of funding.

Amounts in EUR

	2022	2021
Initial Budget	1,198,489	1,243,403
Supplementary Budget	979,390	1,212,778
Total Annual Budget	2,177,879	2,456,181
Advance called previous year	958,791	997,305
Call in current year	239,698	246,098
Total Cash Calls	1,198,489	1,243,403
Use of Previous Year's Surplus	1,247,225	883,869
Use of (Contribution to) Project Accumulated Surplus		-
Transfer from (to) other FORACS entities	- 267,835	328,909
Other Funding Sources	979,390	1,212,778
Total Funding	2,177,879	2,456,181

NOTE 20: WRITE-OFFS

There were no write-offs during 2022.

NOTE 21: LEASES

NFO does not have any financial leases.

NOTE 22: RESTRICTIONS ON FIXED ASSETS

There are no restrictions on fixed assets.

NOTE 23: CONTINGENT LIABILITIES

There have been no contingent liabilities identified that would be expected to result in a material obligation.

NOTE 24: CONTINGENT ASSETS

Nothing to report.

NOTE 25: EMPLOYEE DISCLOSURE**Employee Status**

The tables below provide comparative data about FORACS staff for two consecutive years:

	NATO Civilians	
	2022	2021
Total Approved PE	4	4
Total Filled Positions	4	4
Arrivals in the year	0	0
Departures in the year	0	0

	Total Approved PE	Total Filled Positions
Civilian (PE)	4	4
VNC	0	0
Short term	0	0
Interns	0	0
Others – explain	0	0

Pension Schemes

NATO-IS is managing centrally three pension programs, namely the Defined Benefit Pension Scheme (DBS), the Defined Contribution Pension Scheme (DCPS) as well as the Retiree Medical Claims Fund (RMCF), covering staff employed by all NATO bodies.

NFO staff are covered by one of the two NATO pensions schemes (either DCPS or DBPS). The DCPS provides that the NFO budget makes a 12 percent monthly matching contribution to the staff members' contributions for current service. As for the DBPS, a deduction of 11.8% of staff salaries is made and contributed to the annual financing of this Plan. In addition, the NFO budget makes a monthly matching contribution of 23.6% to the DBPS. These contributions are expensed during the year concerned and represent the sole pension related obligation of the entity. Consequently, the NFO has neither DBPS nor DCPS liabilities for its staff members.

The table below provides comparative data about the staff affiliation to the different pension schemes for two consecutive years:

FORACS STAFF PENSION SCHEME AFFILIATION

	2022	2021
Co-ordinated Pension Scheme	2	2
Defined Contribution Pension Scheme	2	2

The table below indicates the contributions made by NFO to the various pension programs.

NATO UNCLASSIFIED

6-26

ANNEX 6 to
FC(2023)0077

Amounts in EUR

		2022	2021
Co-ordinated Pension Scheme	Staff	24,975.23	22,273.62
	Employer	49,950.46	44,567.24
	Total	74,925.69	66,840.86
Defined Contribution Pension Scheme	Staff	18,723.90	11,413.30
	Employer	28,085.92	17,119.95
	Total	46,809.82	28,533.25
TOTAL	Staff	43,699.13	33,686.92
	Employer	78,036.38	61,687.19
	Total	121,735.51	95,374.11

NOTE 26: KEY MANAGEMENT PERSONNEL

The NATO FORACS Steering Committee (one representative per member nation) is the governing body of the NFO and of the NFG, NFN and NFA. Steering Committee members are nominated by their respective National Authorities. They are paid on the basis of applicable National pay scales. The Steering Committee members do not receive from NATO any additional remuneration for Steering Committee responsibilities or access to benefits.

The key management personnel of the NFO consists of the Project Manager. The Project Manager is responsible for the overall operational management of NATO FORACS. The Project Manager reviews the three Ranges' budgets, proposed by the Range Managers, and proposes all four budgets to the Steering Committee for approval. The three sites are managed operationally by Range Managers, each nominated by the participating nation where the site is located.

There are no other remuneration or benefits to Steering Committee members or key management personnel or their family members.

NOTE 27: RELATED PARTIES

In reviewing the four budgets on an annual basis, the Steering Committee determines the budgetary credits for the initial and the Supplementary Budgets. It is in this context that funds for the O&M budget are called (Supplementary Budget funds are already held by NFO on behalf of the Project) and held in cash or cash equivalents by the NATO-IS Office of Financial Control to finance three other NATO FORACS budgets, namely NATO FORACS Greece, NATO FORACS AUTEC and NATO FORACS Norway. For more effective cash management purposes, the Steering Committee approved the call procedure whereby funds pertaining to NFG, NFA and NFN are transferred into accounts at NATO Headquarters. These bank accounts are controlled by NFO, thus the closing balances are reported in the NFO's financial statements. Upon request of the Range Managers, funds are transferred to the Greek, US and Norwegian defence authorities respectively, with whom the Range Managers engage to execute their budget following their national rules.

NATO Office of Financial Control holds the surplus funds of all the NATO FORACS entities on the NFO bank account. These funds are not controlled by the NFO Project Manager, but are approved for expenditure by the Steering Committee to enable it to implement its Supplementary Budget authorisations. Remaining funds constitute the Operational Reserve.

NATO UNCLASSIFIED

6-27

ANNEX 6 to
FC(2023)0077

Both the Steering Committee members and Key management personnel have no significant party relationships that could affect the operation of the NFO.

In 2022, NATO International Staff charged NATO FORACS for the following cost- sharing:

Amounts in EUR

	Burden Sharing Charges	
	2022	2021
Common Operating Cost	16,424.00	17,805.00
Admin Cost	36,634.83	44,816.12
Total	53,058.83	62,621.12

* * * * *

List of acronyms:

AUTEC	Atlantic Underwater Test and Evaluation Center
DOD	Department of Defense
BC	Budget Committee
FORACS	Naval Forces Sensor and Weapon Accuracy Check Sites
IPSAS	International Public Sector Accounting Standards
IS	International Staff
MOD	Ministry of Defense
MOU	Memorandum of Understanding
NCIA	NATO Communication and Information Agency
NFA	NATO FORACS AUTEC
NFG	NATO FORACS Greece
NFN	NATO FORACS Norway
NFO	NATO FORACS Office
NFSC	NATO FORACS Steering Committee
OFC	Office of Financial Control
PPE	Property, Plant and Equipment

NATO UNCLASSIFIED

FC(DIA)(2023)0002

**Defence Innovation Accelerator for the North Atlantic
(DIANA)**

**FINANCIAL STATEMENTS
Financial Year 2022**

Annexes:

- 1 Statement of Financial Position
- 2 Statement of Financial Performance
- 3 Cash Flow Statement
- 4 Explanatory Notes to the Financial Statements



D. van Weel
Interim Managing Director



M. Boryczka
Interim Financial Controller DIANA

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX 1 to
FC(DIA)(2023)0002

DIANA

Statement of Financial Position

As at 31 December 2022

	Notes	Current Year 2022
Assets		
<i>Current assets</i>		
Cash and cash equivalents	3	3,071,299.74
Receivables	4	0.00
Prepayments	5	0.00
Other current assets	6	0.00
		3,071,299.74
<i>Non-current assets</i>		
Non-current receivables	7	0.00
Property, plant & equipment	8	0.00
Intangible assets	8	0.00
Other non-current assets	9	0.00
		0.00
Total assets		3,071,299.74
Liabilities		
<i>Current liabilities</i>		
Payables	10	324,477.36
Deferred revenue	11	0.00
Advances	12	0.00
Provisions	13	0.00
Other current liabilities	14	75,501.95
		399,979.31
<i>Non-current liabilities</i>		
Payables	15	0.00
Non-current deferred revenue	15	0.00
Other non-current liabilities	15	3,292,815.00
		3,292,815.00
Total liabilities		3,692,794.31
Net assets		
Capital assets		
Reserves		0.00
Accumulated surplus / (deficit)		-621,494.57
Current year surplus / (deficit)		
Total net assets / equity	16	-621,494.57

NATO UNCLASSIFIED

1-1

DIANA
Statement of Financial Performance

As at 31 December 2022

	(In EUR)	
	Notes	Current Year
		2022
Revenue	16	
Non exchange revenue		0.00
Exchange revenue		0.00
Other revenue		0.00
Financial revenue		344.97
Total revenue		344.97
Expenses	17	
Personnel		232,953.01
Contractual supplies and services		388,463.52
Depreciation and amortization		0.00
Impairment		0.00
Provisions		0.00
Other expenses		0.00
Finance costs		423.01
Total expenses		621,839.54
Surplus/(Deficit) for the period		-621,494.57

NATO UNCLASSIFIED

ANNEX 3 to
FC(DIA)(2023)0002

DIANA
Statement of Cash Flow
As at 31 December 2022

	(in EUR)
	<u>2022</u>
Cash flow from operating activities	
Surplus/(Deficit)	-621,494.57
Non-cash movements	
Depreciation/ Amortisation	
Impairment	0.00
Use of Cash Reserves	
Increase /(decrease) in payables	324,477.36
Increase/ (decrease) in other current liabilities	75,501.95
Increase/ (decrease) in provisions	0.00
(Gains)/losses on sale of property, plant and equipment	
Decrease/ (increase) in other non-current assets	0.00
Decrease/ (increase) in receivables	0.00
Decrease/ (increase) in other non-current liabilities	3,292,815.00
Net cash flow from operating activities	3,071,299.74
Cash flow from investing activities	
Purchase of property plant and equipment / Intangible assets	
Proceeds from sale of property plant and equipment	
Net cash flow from investing activities	0.00
Cash flow from financing activities	
Net cash flow from financing activities	0.00
Net increase/(decrease) in cash and cash equivalents	3,071,299.74
Cash and cash equivalent at the beginning of the period	0.00
Cash and cash equivalent at the end of the period	3,071,299.74

NATO UNCLASSIFIED

NATO UNCLASSIFIED

6-1

ANNEX 4 to
FC(DIA)(2023)0002

EXPLANATORY NOTES TO DIANA 2022 FINANCIAL STATEMENTS

NOTE 1: GENERAL INFORMATION

In June 2021, Allied Heads of State and Government endorsed the launch of the civil-military Defence Innovation Accelerator for the North Atlantic (DIANA). DIANA will accelerate emerging and disruptive technological solutions to critical transatlantic defence and security challenges, leveraging existing elements from NATO Nations and NATO Bodies.

The Charter of DIANA was approved in March 2022 through PO(2022)0147.

DIANA's architecture is made up of Test Centres, Accelerator sites, a Rapid Adoption Service, a Trusted Capital Database and Regional Offices.

DIANA is an independent, subsidiary NATO Body that helps Allies and NATO meet security and defence needs by fostering, testing, validating, and demonstrating cutting-edge technological solutions. DIANA strengthens NATO's ability to foster technological cooperation among Allies, promote interoperability and encourage the development and adoption of technological solutions to address the military needs.

DIANA responds to the complex challenges involved in supporting the goals in the Coherent Implementation Strategy on Emerging and Disruptive technologies.

All NATO Nations are members of DIANA. DIANA is under the overall authority of the North Atlantic Council.

DIANA has a Board of Directors made up of representatives from all Allies to provide organisational governance. The Board will determine the strategic direction for DIANA's activities.

The DIANA Executive (DX), led by the DIANA's Managing Director, manages DIANA activities to achieve its mandate, executing the Allied-approved Strategic Direction through Challenge Programs.

DIANA is funded by all Allies with the same cost share arrangements for NATO common funding as set out in PO(2020)0146. Nations are committed to jointly fund the costs for DIANA's core activities.

In 2022 DIANA was still at its stand-up phase and its governance, structure, scope of operations as well as financial arrangements during that phase were established by the Allies through PO(2022)0191 and PO(2022)0277.

In 2022, Assistant Secretary General, Emerging Security Challenges fulfilled the duties of Interim DIANA Managing Director while the International Staff Financial Controller fulfilled the duties of DIANA Interim Financial Controller. The DIANA Tiger Team (DTT), established and administratively hosted by the International Staff, fulfilled the functions of interim DIANA Executive. Until the first meeting of the DIANA Board of Directors in October 2022, the Deputies Committee served as Interim DIANA Board of Directors.

NATO UNCLASSIFIED

6-1

NATO UNCLASSIFIED

6-2

ANNEX 4 to

FC(DIA)(2023)0002

In line with PO(2022)0277 and PO(2022)0398, DIANA operations during its stand-up phase and in 2023 are pre-financed from Military Budget funds.

NOTE 2: ACCOUNTING POLICIES

DIANA applies the NATO IS Accounting Policies which have been published through ON(2021)0079 and updated through FC(CAF)(2023)0001 and supplemented by the "Implementing directive on financial management during the stand-up phase" (FC(DIA)(2022)0001).

Declaration of Conformity

The DIANA financial statements have been prepared in accordance with NATO Financial Regulations (NFR) and the NATO Accounting Framework (NAF), which is an adapted version of the International Public Sector Accounting Standards (IPSAS).

The 2022 DIANA Financial Statements are the first ones prepared for this entity and DIANA had no approved budget during 2022. As a consequence, these financial statements do not include either the Statement of the Change in Net Assets/Equity nor a Budget Execution Report. Information on 2022 transition costs and the pre-funding requirements (PO(2022)0277 Appendix 1 Annex 1) is disclosed.

Basis of Preparation

These financial statements have been prepared on a going-concern basis. The assumption is that DIANA is a going concern and will continue in operation and meet its objectives and obligations for the foreseeable future.

In line with the NFR, the financial year is from 1 January to 31 December. The initial stand up of DIANA began in July 2022.

The amounts shown in these financial statements are presented in EUR.

The following IPSAS have no material effect on the 2022 DIANA financial statements:

- IPSAS 6: Consolidated and Separate Financial Statements
- IPSAS 9: Revenue from Exchange Transactions
- IPSAS 23: Revenue from Non-Exchange Transactions

Use of Estimates

In accordance with generally accepted accounting principles, the financial statements include amounts based on estimates and assumptions by management, according to the most reliable information available, judgement and assumptions. Estimates include accrued revenue and expenses. Actual results could differ from those estimates. Changes in estimates are reflected in the period in which they become known.

NATO UNCLASSIFIED

6-2

NATO UNCLASSIFIED

6-4

ANNEX 4 to
FC(DIA)(2023)0002

Directors is tasked to address the reimbursement of the DIANA related pre-financed amounts from Military Budget funds as soon as possible and by 2024 at the latest.

d. Interest rate risk

Except for certain cash and cash equivalent balances, DIANA's financial assets and liabilities do not have associated interest rates. The pre-financed amounts are to be returned interest-free.

Current Assets

a. Cash and cash equivalents

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

b. Receivables

Receivables are stated at net realisable value, after provision for doubtful and uncollectible debts.

Contributions receivable are recognised when a call for contribution has been issued to the funding nations. No allowance for loss is recorded with respect to Member countries' assessed contributions receivable.

c. Prepayments

A prepayment is a payment in advance of the period to which it pertains and is mainly in respect of an advance payment made to a third party. This item may include advances made to staff in accordance with Civilian Personnel Regulations (such as advances on salary or on education allowance in consideration of the fact that these are the advances on future staff benefits).

Non-current assets - Fixed assets (Property, Plant & Equipment and Intangible Assets)

a. Property, Plant & Equipment

NATO's adaptation of IPSAS are spelled out in C-M(2016)0023 of April 2016 among which are specific items addressing IPSAS 17 PPE. Furthermore, C-M(2017)0022 (INV) approved the NATO Accounting Policy for Property, Plant and Equipment.

When it comes to assessing the control of NATO over PPE, these documents define a set of 10 criteria to be used in assessing the level of control of a tangible asset. A positive response on six of the criteria will lead to the asset being capitalized in the Financial Statements if it is above the capitalization threshold. This is applied from January 2013 under the initial NATO Accounting Framework C-M(2013)0039 of July 2013.

NATO UNCLASSIFIED

6-4

Capitalization thresholds relevant to the financial statement are as follows:

Category	Threshold	Depreciation Life	Method
Land	€200,000	N/A	N/A
Buildings	€200,000	40 years	Straight line
Other infrastructure	€200,000	40 years	Straight line
Installed equipment	€ 30,000	10 years	Straight line
Machinery	€ 30,000	10 years	Straight line
Vehicles	€ 10,000	5 years	Straight line
Aircraft	€200,000	Dependent on type	Straight line
Vessels	€200,000	Dependent on type	Straight line
Mission equipment	€ 50,000	3 years	Straight line
Furniture	€ 30,000	10 years	Straight line
Communications	€ 50,000	3 years	Straight line
Automated information systems	€ 50,000	3 years	Straight line

In consideration of the above thresholds, DIANA currently has no PPE.

b. Intangible Assets

NATO's adaptations of IPSAS are spelled out in C-M(2017)0023 of April 2013, which includes IPSAS 31 Intangible Assets. Furthermore, C-M(2017)0044 approved the NATO Accounting Policy for Intangible Assets.

When it comes to assessing the control of NATO over Intangible Assets, these documents define a set of 10 criteria to be used in assessing the level of control of an Intangible Asset – they are the same as mentioned above under Inventory. A positive response on six of the criteria will lead to the asset being capitalized in the Financial Statements if it is above the capitalization threshold. This is applied from January, 2013, under the Initial NATO Accounting Framework C-M(2013)0039 of July 2013.

DIANA will capitalize each intangible asset item above the following agreed NATO thresholds:

Category	Threshold	Depreciation Life	Method
Computer software (commercial off the shelf)	€50,000	4 years	Straight line
Computer software (bespoke)	€50,000	10 years	Straight line
Computer database	€50,000	4 years	Straight line
Integrated system	€50,000	4 years	Straight line

For anything below the threshold, DIANA will have the flexibility to expense specific items.

NATO UNCLASSIFIED

9-9

ANNEX 4 to

FC(DIA)(2023)0002

DIANA will report controlled intangible assets in its financial statements. Where there is a conflict between more than one NATO Reporting Entity as to the control of intangible assets, only the end-use entity will capitalize the intangible asset in its financial statements based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities.

In consideration of the above thresholds, DIANA has no Intangible Assets.

Non-Current Assets other than PPE

In case there are any non-current assets, these will be disclosed in the Statement of Financial Position.

Current Liabilities

a. **Payables**

Payables are amounts due to third parties, including Member Nations, based on goods received or services provided that remain unpaid. These include estimates of accrued obligations to third parties for goods and services received but not yet invoiced. Amounts due to Member Nations in the context of their budget contributions are booked under Other Current Liabilities.

b. Other Current Liabilities

This item concerns other liabilities that do not result from the standard procure-to-pay process, such as miscellaneous transactions to be regularized between entities managed by the IS Office of Financial Control.

Non-Current Liabilities

The transitional funding arrangements from the Military budget, which will need to be reimbursed by 2024, is reported under other non-current Liabilities (PO(2022)0277).

NATO UNCLASSIFIED

9-9

NATO UNCLASSIFIED

6-7

ANNEX 4 to
FC(DIA)(2023)0002

Statement of Financial Position

NOTE 3: CASH AND CASH EQUIVALENTS

The current bank account is held in EUR. Cash deposited is immediately available. There are no short-term investments.

DIANA's cash and cash equivalents at the year-end are EUR 3,071,299.74.

NOTE 4: ACCOUNTS RECEIVABLE

Nothing to report.

NOTE 5: PREPAYMENTS

Nothing to report.

NOTE 6: OTHER CURRENT ASSETS

Nothing to report.

NOTE 7: NON-CURRENT RECEIVABLES

Nothing to report.

NOTE 8: PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

DIANA does not hold any property, plant and equipment. Nor does DIANA hold any intangible assets.

NOTE 9: OTHER NON-CURRENT ASSETS

Nothing to report.

NOTE 10: PAYABLES

Payables and accrued expenses relate to commercial suppliers, staff or other NATO bodies. Payable to suppliers relates to goods and services for which an invoice has been received, checked, and queued for payment but for which payment was still pending at year-end.

Accrued expenses correspond to EUR 266,758.95 and is the estimated accrued obligation to third parties for goods and services received but not yet invoiced.

NATO UNCLASSIFIED

6-7

NATO UNCLASSIFIED

6-8

ANNEX 4 to

FC(DIA)(2023)0002

Below is a snapshot of DIANA's payables at the year-end:

Amounts in EUR	
	2022
Suppliers	57,718.41
Accruals	266,758.95
Total	324,477.36

NOTE 11: DEFERRED REVENUE

Nothing to report.

NOTE 12: ADVANCES

Nothing to report.

NOTE 13: PROVISIONS

Nothing to report.

NOTE 14: OTHER CURRENT LIABILITIES

Other Current Liabilities include the regularizations of expenses paid by NATO-IS on behalf of DIANA for an amount of EUR 74,136.80.

The other current liabilities relate to the settlement of the Allianz Contribution for temporary staff for their December contributions. This is regularized with the January payroll cycle.

Below is a snapshot of DIANA's other current liabilities at the year-end:

Amounts in EUR	
	2022
Payable to NATO-IS	74,136.80
Allianz contribution temporary staff	1,365.15
Total	75,501.95

NATO UNCLASSIFIED

6-8

NATO UNCLASSIFIED

6-9

ANNEX 4 to
FC(DIA)(2023)0002

NOTE 15: NON-CURRENT LIABILITIES AND LONG TERM UNEARNED REVENUE

Council approved transitional arrangements for the DIANA 2022 transition costs (PO(2022)0277) and for the 2023 DIANA budget (PO(2022)0398)). These decisions were operationalised through the Memorandum of Working Arrangement between the Supreme Headquarters Allied Powers Europe (SHAPE) and DIANA (FC(DIA)(2022)0002 REV1), giving DIANA access to EUR 26,292,815 needed to transitionally finance its operations in 2022 and 2023.

The non-current liabilities represent the amount of funds provided by SHAPE and transferred to the DIANA bank account (EUR 3,292,815) during fiscal year 2022.

The DIANA Board of Directors will address the reimbursement of this loan facility by 2024 the latest.

NOTE 16: NET ASSETS

The transition costs for 2022, transitionally financed through the Military Budget funds, resulted in the current year deficit, amounting to EUR 621,494.57.

NATO UNCLASSIFIED

6-9

NATO UNCLASSIFIED

6-10

ANNEX 4 to
FC(DIA)(2023)0002

Statement of Financial Performance

NOTE 17: REVENUE

Financial Revenue

Financial revenue includes revenue from foreign exchange gains. In 2022, an exchange gain of EUR 344.97 has been recognized.

NOTE 18: EXPENSES

Personnel

The personnel costs include expenses for salaries and emoluments for approved DIANA permanent civilian positions and temporary personnel, for other salary related and non-related allowances including overtime, medical examinations, recruitment, installation and removal. In line with PO(2022)0277, those do not include VNC support and support from existing members of International Staff.

Contractual Supplies and Services

Contractual Supplies and Services include travel expenses, contracted consultants, training and other services and supplies.

Finance Costs

Financial costs include expenses for banking costs and foreign exchange losses.

NOTE 19: 2022 Transition Costs

The DIANA transition costs' classification is based on the nature of the expenses and broken down into four cost activity groups as follows:

Activity Group I	:	Personnel Expenses
Activity Group II	:	Contractors Expenses
Activity Group III	:	Operating Costs
Activity Group IV	:	DIANA Executive

NATO UNCLASSIFIED

6-10

The Activity Groups cover salaries of the transition team; contractors and consultants; operating costs (including travel) as well as the salaries for DIANA staff. In line with PO(2022)0277¹ and PO(2022)0147², the International Staff covered the costs of support provided by the existing members of the International Staff and costs of administrative support.

The below table presents the overview of the 2022 transitions costs per activity group accepted for the pre-financing requirements.

(Amounts in euro)	Funding	
	requirements	Costs
Personnel Activity Group	1,345,391.00	189,553.18
Contracter Activity Group	1,343,250.00	243,257.14
Operating Cost Activity Group	460,050.00	145,284.42
DIANA Executive Activity Group	144,123.00	43,399.83
Total	3,292,814.00	621,494.57

NOTE 20: CONTINGENT ASSETS

The DIANA Board of Directors is tasked to address the reimbursement of the DIANA related pre-financed amounts from Military Budget funds as soon as possible and by 2024 at the latest. These financial statements disclose a contingent asset (Nations contributions) to cover the 2022 transition costs, amounting to the EUR 621,494.57 and pending the recommendation of the DIANA Board of Directors.

NOTE 21: EMPLOYEE DISCLOSURE

The DIANA Tiger Team (DTT), established and administratively hosted by the International Staff, is composed of four NATO IS International Civilian, eleven temporary personnel, three Voluntary National Contributions. Additionally four staff members employed by NATO Alliance Ground Surveillance Management Organization in Liquidation (NAGSMOIL) provided part-time support free of charge.

¹ Annex 1, footnote 2

² Annex 1, Appendix 2, paragraph 26

NATO UNCLASSIFIED

6-12

ANNEX 4 to

FC(DIA)(2023)0002

NOTE 22: KEY MANAGEMENT PERSONNEL

The Assistant Secretary General for Emerging Security Challenge (ESC) is fulfilling the interim duties of the Managing Director and the IS Financial Controller fulfils the interim duties of the DIANA Financial Controller PO(2022)0191.

The Chief of Staff has been appointed within the DIANA Tiger Team (DTT).

There are no other remunerations or benefits to key management personnel or their family members.

NOTE 23: RELATED PARTIES

In 2022, as per PO(2022)0191, the DIANA Tiger Team (DTT) was established and administratively hosted by the NATO IS to reach the DIANA Initial Operational Capability (IOC) by mid-2023. The DTT is composed of the NATO IS International Civilians (3.4 FTE¹, four staff members), temporary staff (1.1 FTE), Voluntary National Contributions (3 FTE) and four staff members employed by NATO Alliance Ground Surveillance Management Organization in Liquidation (NAGSMOIL) who provide part-time support to DTT free of charge. Administrative and logistic support was provided by the International Staff. NATO Communication and Information Agency provided necessary ICTM equipment.

The Supreme Headquarters Allied Powers Europe (SHAPE) provided DIANA with an interest free loan facility, formalized via Memorandum of Working Arrangement (F/C(DIA)/(2022)0002 REV1) in order to fund the 2022 transition costs (PO(2022)0277) and the 2023 joint-funded budget (PO(2022)0398).

考考考考考

Full Time Equivalent

NATO UNCLASSIFIED

6-12