	NATO	NORTH ATLANTIC COUNCIL
	OTAN	CONSEIL DE L'ATLANTIQUE NORD

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16 December 2020

**DOCUMENT**  
C-M(2020)0048-AS1

**IBAN AUDITOR'S REPORT ON THE 2019 FINANCIAL YEAR STATEMENTS OF  
INTERNATIONAL MILITARY STAFF (IMS) AND NATO DEFENCE COLLEGE (NDC)**

**ACTION SHEET**

On 15 December 2020, under the silence procedure, the Council noted the RPPB report attached to C-M(2020)0048, agreed its conclusions and recommendations, and agreed to the public disclosure of this report, the IBAN Auditor's Reports and associated 2019 financial statements of IMS and NDC.

(Signed) Jens Stoltenberg  
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2020)0048.

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8 December 2020

**DOCUMENT**  
C-M(2020)0048  
**Silence Procedure ends:**  
**15 Dec 2020 17:30**

**IBAN AUDITOR'S REPORT ON THE 2019 FINANCIAL YEAR STATEMENTS OF  
INTERNATIONAL MILITARY STAFF (IMS) AND NATO DEFENCE COLLEGE (NDC)**

**Note by the Secretary General**

1. I attach the International Board of Auditors for NATO (IBAN) Auditor's Report on the 2019 financial statements of International Military Staff (IMS) and NATO Defence College (NDC). The IBAN Auditor's Reports set out unqualified opinions on both the 2019 financial statements and on compliance for IMS and NDC.
2. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB) (see Annex 1).
3. I do not believe this issue requires further discussion. Therefore, **unless I hear to the contrary by 17:30 hours on Tuesday, 15 December 2020**, I shall assume the Council noted the RPPB report, agreed its conclusions and recommendations, and agreed to the public disclosure of this report, the IBAN Auditor's Reports and associated 2019 financial statements of IMS and NDC.

(Signed) Jens Stoltenberg

1 Annex  
1 Enclosure

Original: English

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**IBAN AUDITOR'S REPORT ON THE 2019 FINANCIAL YEAR STATEMENTS OF  
INTERNATIONAL MILITARY STAFF (IMS) AND NATO DEFENCE COLLEGE (NDC)**

**Report by the Resource Policy and Planning Board (RPPB)**

References:

- |    |                     |   |
|----|---------------------|---|
| A. | IBA-A(2020)0073     | IBAN's Auditor's Report on the audit of 2019 financial statements of the International Military Staff (IMS) |
| B. | IBA-A(2020)0064     | IBAN's Auditor's Report on the audit of 2019 financial statements of the NATO Defense College (NDC)         |
| C. | C-M(2015)0025       | NATO Financial Regulations (NFR)  |
| D. | BC-D(2015)0260-REV1 | Financial rules and procedures (FRP)  |
| E. | PO(2015)0052        | Wales Summit tasker on transparency and accountability  |

**INTRODUCTION**

1. This report by the Resource Policy and Planning Board (RPPB) addresses the International Board of Auditors for NATO (IBAN) Auditor's Reports on the 2019 financial statements and compliance of International Military Staff (IMS) and NATO Defence College (NDC). The IBAN Auditor's Reports set out unqualified opinions on the financial statements and on compliance of IMS and NDC in 2019 (references A and B).

**AIM**

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

**DISCUSSION**

3. In 2019, IBAN issued four new observations with recommendations for IMS and NDC none of which impacted the audit opinions on the financial statement or on compliance. The four observations covered the need for IMS and NDC to set up an effective Risk Management Policy and procedures for temporary loans. Also, IBAN followed up on the status of outstanding recommendations from the previous years' audits for IMS and one for NDC. For IMS, IBAN noted that one outstanding recommendation was in progress. For NDC, IBAN noted that one recommendation was closed and one remains in-progress.

3.1. IMS and NDC Observations 1: Although notable progress has been made in the area of internal control, risk management and internal audit, IBAN found that the IMS and NDC risk management policy is not effective. The Board supports IBAN's recommendation

for IMS and NDC to reinforce risk management procedures and welcomes an evaluation by Internal Auditors as per FRP XI (5) for monitoring and validation purposes.

3.2. IMS and NDC Observations 2: IBAN found that internal control processes related to the temporary loans among NATO Reporting Entities are not included in the written procedures for the IMS and NDC. Temporary loans are aimed at solving a temporary liquidity problem for Reporting Entities within the IMS Budget Group (comprising the IMS, NDC and the Science and Technology Organisation (STO)) whereas the transfer of appropriations of the IMS Budget Group is aimed at reallocating appropriations between budgets.

3.3. IMS and NDC did not fully concur with the observation because this practice has been in place for a number of years and governance (including the Budget Committee) has been informed. Nevertheless, the IMS and NDC should consider adding clarification to Finance Standard Operating Procedures. The Board took note of the IMS and NDC points and supports the IBAN recommendations citing that if recurring temporary loans are granted by IMS to NDC and STO, it is important that the process and associated terms and conditions are included in a procedure approved by the Financial Controller and the Heads of NATO Bodies in compliance with Article 12 of the NFRs on internal control. Additionally, the Board recommend that the topic of granting temporary loans is included in the upcoming review of NATO Financial Regulations (NFRs).

3.4. NDC prior year closed observation: The introduction of a duly implemented risk management policy resulted in the closure of the observation. Although implemented, the IBAN subsequently found that the IMS and NDC risk management policy is not effective and raised a new observation, as depicted in paragraph 3.1.

3.5. IMS and NDC prior year observations in-progress: IBAN observed that improvements were still required in the area of internal control, risk management and internal audit. In particular, further improvements are needed to document the internal controls and associated risks in place and assess the compliance with the framework chosen, and to conduct an internal audit that fully evaluates the effectiveness of the system of internal control and risk management. Although IMS and NDC have shown progress in respect of the 2017 findings, the Board supports IBAN recommendations that IMS and NDC continue with their notable improvements in the areas of internal control, risk management and internal audit.

## CONCLUSIONS

4. None of the new observations impacted the audit opinion for IMS and NDC in 2019. Four new observation were raised for IMS and NDC. As of the date of the respective IBAN Auditor's Reports on the 2019 financial statements two prior year observation for IMS and NDC were in-progress.

5. IBAN recommended that the IMS and NDC Risk Management Policy should be more effective and that a procedure for temporary loans between NATO reporting bodies should be formally agreed. In this sense, the Board supports the IBAN recommendation for IMS and NDC to address identified deficiencies in the Risk Management Policy and add clarification for temporary loans in the Finance Standard Operating Procedures. The Board recommends that the issue of temporary loans is included in the forthcoming discussion of the NFR review.

6. In respect of prior year observations, the Board notes the improvement made by IMS and NDC and supports the IBAN recommendation that IMS and NDC continue with their progress in the area of internal control, risk management and internal audit.

## **RECOMMENDATIONS**

7. The Resource Policy and Planning Board recommend that the Council;
- 7.1. note this report and the IBAN Auditor's Reports at references A and B;
- 7.2. agree the conclusions at paragraphs 4 to 6; and
- 7.3. agree to the public disclosure of the 2019 financial statements for IMS and NDC, its associated IBAN Auditor's Reports and this report in line with agreed policy at reference E.



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

Enclosure to  
C-M(2020)0048

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IBA-A(2020)0073  
22 July 2020

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

Cc: NATO Permanent Representatives  
Director General, International Military Staff  
Financial Controller, International Military Staff  
Chairman, Resource Policy & Planning Board  
Branch Head, Secretariat and Finance Branch, NATO Office of Resources  
Private Office Registry

Subject: ***International Board of Auditors for NATO (IBAN) Auditor's Report and Letter of Observations and Recommendations on the audit of the International Military Staff (IMS) 's Financial Statements for the year ended 31 December 2019 – IBA-AR(2020)0005***

IBAN submits herewith its approved Auditor's Report (Annex 2) and Letter of Observations and Recommendations (Annex 3) with a Summary Note for distribution to the Council (Annex 1).

IBAN's report sets out a/an qualified/unqualified opinion on the Financial Statements of the International Military Staff (IMS) and on Compliance for financial year 2019.

Yours sincerely,

Daniela Morgante  
Chairman

Attachments: As stated above.

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**Summary Note for Council  
by the International Board of Auditors for NATO (IBAN)  
on the audit of the Financial Statements of the  
International Military Staff (IMS)  
for the year ended 31 December 2019**

The International Military Staff (IMS) is the core military staff in NATO HQ. It is the executive body of the Military Committee (MC), NATO's senior military authority. The role of the IMS is to provide strategic military advice and staff support for the MC. The IMS is also tasked with ensuring that the policies and decisions of the MC are implemented by the appropriate NATO bodies.

The other component parts of the IMS Reporting Entity are:

- The NATO Standardisation Office (NSO) which is an independent NATO office composed of Military and Civilian staff headed by a Director. The mission of the NSO is to initiate, co-ordinate, and support and administer the standardisation activities conducted under the authority of the NATO Committee for Standardisation.
- The IMS Outreach, which includes partnership activities with nations in North Africa (Mediterranean Dialogue), the Middle-East (Istanbul Cooperation Initiative), and with Afghanistan, Iraq, Pakistan and the African Union (Other Military Cooperation).

The above components are incorporated into one set of financial statements, which is the subject of this report.

The total expenses of the IMS, the NSO and Outreach Activities for the year ended 31 December 2019 were EUR 27.9 million.

IBAN issued an unqualified opinion on the financial statements and on compliance for the year ended 31 December 2019.

During the audit, IBAN made two observations and recommendations. These findings are in the Letter of Observations and Recommendations (Annex 3).

The main findings are listed below and do not impact the audit opinion on the financial statements and on compliance:

1. Effectiveness of the IMS Risk Management Policy.
2. Temporary loans between NATO Reporting Entities.

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

The Auditor's Report and the Letter of Observations and Recommendations were issued to the International Military Staff (IMS) whose comments have been included, with the IBAN's position on those comments where necessary, see the Appendix to Annex 3.

The observations and recommendations raised during the audit as well as the follow-up of the previous years' observations, which have not been included in the IBAN's Letter of Observations and Recommendations are included in a Management Letter addressed to the International Military Staff (IMS) management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under the International Military Staff (IMS) executive responsibility.



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ANNEX 2  
IBA-AR(2020)0005

22 July 2020

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE  
INTERNATIONAL MILITARY STAFF**

**(IMS)**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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**INDEPENDENT AUDITOR'S REPORT  
TO THE NORTH ATLANTIC COUNCIL**

**Report on the Audit of the Financial Statements**

**Opinion on the Financial Statements**

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of the International Military Staff (IMS), for the 12 month period ended 31 December 2019, issued under document reference IMSTAM(FC)-0011-2020, and submitted to IBAN on 27 March 2020. These Financial Statements comprise the Statement of Financial Position as at 31 December 2019, 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 2019, 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 2019.

In our opinion, the Financial Statements give a true and fair view of the financial position of the International Military Staff (IMS) as at 31 December 2019, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2019, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework.

**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 Standards of Supreme Audit Institutions (ISSAIs 1000-1810) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

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

## **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 International Military Staff (IMS) 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<sup>st</sup> March following the end of the financial year.

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

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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

We are required to communicate with the bodies charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

## **Report on 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 Standards of Supreme Audit Institutions (ISSAI 4000) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

### **Management's Responsibility for Compliance**

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

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

### **Auditor's Responsibilities for Compliance**

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

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

Brussels, 22 July 2020



Daniela Morgante  
Chairman

22 July 2020

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**LETTER OF OBSERVATIONS AND RECOMMENDATIONS**

**FOR THE INTERNATIONAL MILITARY STAFF**

**(IMS)**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

## **Introduction**

The International Board of Auditors for NATO (IBAN) audited the International Military Staff (IMS) Financial Statements for the year ended 31 December 2019, and issued an unqualified opinion on the financial statements and an unqualified opinion on compliance.

## **Observations and Recommendations:**

During the audit, IBAN made two observations and recommendations.

These observations do not impact the audit opinion on the financial statements and on compliance:

1. Effectiveness of the IMS Risk Management Policy.
2. Temporary loans between NATO Reporting Entities.

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

The observations and recommendations raised during the audit as well as the follow-up of the previous years' observations, which have not been included in the IBAN's Letter of Observations and Recommendations are included in a Management Letter addressed to the IMS management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under the IMS executive responsibility.

## OBSERVATIONS AND RECOMMENDATIONS

### 1. EFFECTIVENESS OF THE IMS RISK MANAGEMENT POLICY

#### Reasoning

1.1 According to Article 11 of the NFRs, the Secretary General, the Supreme Commanders, subordinate commanders by delegation and the other Heads of NATO bodies shall:

- a) Ensure effective, efficient and economical risk management procedures are in place to support the achievement of objectives as set by the Nations;
- b) Identify, assess and mitigate the risks to the achievement of these objectives.

1.2 In accordance with NATO Financial Rules and Procedures (FRPs) XI (5), Internal Audit shall periodically monitor and evaluate the effectiveness of the organization's risk management processes.

#### Observations

1.3 IMS outsourced its internal audit function to the NATO Communications and Information Agency (NCIA) Internal Audit department in 2019. As part of the internal audit plan for 2019, the NCIA Internal Auditor evaluated the effectiveness of the IMS Risk Management Policy that is in place. The IMS Risk Management Policy was approved by the Director General of IMS on 13 December 2018 (Ref. IMSTAM(EXCO)0076-2018).

1.4 Based on the internal audit procedures performed, the NCIA Internal Auditor made recommendations in multiple areas of the IMS risk management processes that were shared with IMS Management in November 2019. The outcome of the internal audit has been reflected in the IMS Statement of Internal Control as per 2019 Financial Statements.

1.5 According to the IMS Statement on Internal Control, the Internal Auditor identified “[...] *a number of observations whose aim was to strengthen the existing risk management policy by explicitly defining the responsibilities for risk owners and the scoring and escalating criteria for better risk measurement*”.

1.6 The absence of clearly defined scoring criteria, escalation criteria and responsibilities of risk owners, could undermine the effective implementation of the IMS Risk Management Policy as required by Article 11 of the NFRs.



## Recommendations

1.7 IBAN recommends that IMS strengthens its risk management procedures in order to ensure their effectiveness in accordance with Article 11 of the NFRs, and subsequently requests an evaluation by the IMS Internal Auditor as per FRP XI (5) for monitoring and validation purposes.

## 2. TEMPORARY LOANS BETWEEN NATO REPORTING ENTITIES

### Reasoning

2.1 IMS is part of the IMS Budget Group, which includes IMS, the NATO Defense College (NDC) and the Science and Technology Organisation (STO) as reporting entities. STO as a reporting entity consists out of two separate entities: the Collaboration Support Office (STO-CSO) and the Centre for Maritime Research and Experimentation (STO-CMRE). These three reporting entities have the same Financial Controller, however they fall under the responsibility of separate Heads. Accordingly, IMS, STO and NDC are autonomous entities in terms of overall responsibility and accountability.

2.2 Article 6 of the NFRs states that “*the management of appropriated funds is a responsibility of the Financial Controller.*” IMS appropriated funds are intended to be used for purposes covering the activities as per the IMS approved budget. In order to implement these activities, the IMS Financial Controller is authorised to transfer appropriations between budget headings in accordance with Article 26 of the NFRs and FRP XXVI. The IMS Financial Controller is also authorised to transfer appropriations between the three reporting entities under his/her responsibility in accordance with those same regulations and rules.

2.3 The nature of a transfer of appropriations among entities of the IMS Budget Group differs from the nature of a temporary loan granted by IMS to another reporting entity of the IMS Budget Group. This is because a transfer is aimed at reallocating appropriations between budgets in order to allow for the funds to be committed in a different way than initially agreed upon, while the loans are aimed at solving a temporary liquidity problem and should not impact the final commitment of the appropriated funds.

2.4 Although the NFRs and the IMS Financial Controller Delegation of Authority for Financial Matters are very clear regarding the rules applicable to transfers of appropriations, they do not include any specific rules or responsibilities concerning providing or receiving temporary loans or similar payments between NATO Reporting Entities. In the absence of an explicit regulation or rule, Article 12 – Internal Control of the NFRs therefore allocates the ultimate responsibility to safeguard assets, including cash, to the Head of NATO Reporting Entities.

**Observations**

2.5 Within the IMS Budget Group, NDC and STO-CSO face recurring cash flow difficulties due to a schedule for the receipt of advances and contributions that does not correspond to the timing of their disbursements.

2.6 For multiple years IMS has granted temporary loans to NDC and STO-CSO, if they issued a request for receiving funds to cover for their cash shortfalls. This allowed NDC and STO-CSO to achieve their strategic objectives as foreseen without delays, and allowed both entities to make payments in a timely manner.

2.7 The IMS Financial Controller informed the Budget Committee (BC) in the past of the need for requesting and granting loans among entities of the IMS Budget Group due to liquidity problems. The BC noted this information, as documented in decision sheets BC-DS(2016)0038 and BC-DS(2017)0036.

2.8 IMS granted temporary loans of EUR 750 thousand and EUR 400 thousand to NDC in April 2019 and November 2019 to cover NDC cash shortfalls, pending the payment of their calls for funds. Similar loans amounting to EUR 750 thousand and EUR 800 thousand in total were respectively granted by IMS to NDC in 2018 and 2017.

2.9 IMS also granted a temporary loan of EUR 500 thousand to STO-CSO in November 2019 to cover a STO-CSO cash shortfall, pending the payment of their final call for funds. Loans amounting to EUR 1.35 million and EUR 2 million were respectively granted by IMS to STO-CSO in 2018 and 2017.

2.10 The temporary loans granted to NDC and STO-CSO by IMS were fully reimbursed to IMS before the end of the financial year. This was also the case in 2019, 2018 and 2017. IMS did not face any cash shortfalls itself during 2019, 2018 and 2017. The IMS cash position and the IMS capacity to grant loans have therefore correctly been assessed by the Financial Controller.

2.11 The process followed for the request and approval of the temporary loan is that the Head of Budget and Finance of NDC and STO-CSO request the loan in writing to the IMS Financial Controller. The funds are transferred upon written approval by the Office of the Financial Controller. The IMS Financial Controller supervises the loan granting and receiving internal control process.

2.12 Although the Office of the Financial Controller has approved the temporary loan, the process followed by IMS for granting loans to NDC and STO-CSO was not included in a procedure approved by the IMS Director General, nor was the process of receiving loans from IMS included in a procedure approved by the Heads of the Reporting Entity of NDC and STO-CSO in accordance with Article 12 of the NFRs.

2.13 If recurring temporary loans are granted by IMS to NDC and STO-CSO, it is important that the process and associated terms and conditions (e.g. duration, guarantees, and obligations) are included in a procedure approved by the Financial Controller and the Heads of the NATO Reporting Entities involved in compliance with Article 12 of the NFRs on internal control.

### **Recommendations**

2.14 IBAN recommends that IMS clarifies the internal control process related to the approval and payment of temporary loans, by ensuring that this process and associated loan terms and conditions are included in a written procedure approved by the IMS Director General.

**FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS**

IBAN followed up on the status of observations from the previous years' audit. The observations, 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><b>1) IMS FY 2017</b> <b>IBA-AR(2018)0005, paragraph 1</b></p> <p><b>IMPROVEMENTS REQUIRED IN THE AREA OF INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT</b></p> <p><b>IBAN's Recommendation</b></p> <p>a) Prepare an entity-wide risk management policy, including financial risk management, applicable throughout the organization,</p> <p>b) Document the internal controls and associated risks in place for main processes within the IMS operations and assess the compliance with the framework chosen,</p>	<p><b>Status: Observation Closed as per IBA-AR(2019)0008</b></p> <p>IMS has not implemented an internal control framework yet. In May 2019, the IMS contracted the NCIA Internal Audit department to develop a high-level proposal for the implementation of an internal control framework at the IMS Budget Group Entities. Due to time constraints and prioritising the assessment of the effectiveness of the IMS risk management policy, the NCIA internal auditor was not able to develop this proposal as part of their contract for 2019 with IMS.</p> <p><b>Status: In-Progress</b></p>	<p>Observation <b>In-Progress</b></p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>c) Improve the disclosure of information in the Statement of Internal Controls to ensure compliance with the FRPs Article 12,</p> <p>d) Conduct an internal audit, through outsourcing if considered more appropriate, that fully evaluates the effectiveness of the system of internal control and risk management throughout the IMS.</p>	<p><b>Status: Observation Closed as per IBA-AR(2019)0008</b></p> <p>This recommendation concerns both the system of internal control and the risk management policy of IMS.</p> <p>The IMS internal audit function was outsourced to NCIA in 2019. In accordance with the 2019 internal audit plan for IMS, the NCIA internal auditor fully evaluated the effectiveness of the IMS Risk Management Policy.</p> <p>An internal audit, which fully evaluates the effectiveness of the system of internal control, was not part of the 2019 internal audit plan, and has not been conducted yet.</p> <p><b>Status: In-Progress</b></p>	

**INTERNATIONAL MILITARY STAFF (IMS) FORMAL COMMENTS  
ON THE LETTER OF OBSERVATIONS AND RECOMMENDATIONS AND  
THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS**

**OBSERVATION 1:  
EFFECTIVENESS OF THE IMS RISK MANAGEMENT POLICY**

***IMS's Formal Comments***

*Agreed.*

*This was also the result of the internal audit report discussed at the IMS Budget Group Conference held on 21 November 2019. Although further action is required, initial steps and actions have already been taken to address these recommendations.*

**OBSERVATION 2:  
TEMPORARY LOANS BETWEEN NATO REPORTING ENTITIES**

***IMS's Formal Comments***

*Do not concur with the observation.*

*IMS does not fully concur with the IBAN observation. The process has been in place for a number of years, Nations at the Budget Committee have been informed of this long-standing practice several times. While the NFRs are largely silent on cash advances, they give the Financial Controller responsibilities for the management of appropriated and non-appropriated funds and the authority to make transfers of approved authorizations permissible in accordance with article 26. However, with the aim of complying with best management practice, the IMS Financial Controller will consider adding additional clarification to Finance Standard Operating Procedures across the IMS Budget Group (comprising of the IMS, NDC and STO).*

## **GLOSSARY OF TERMS**

In accordance with auditing standards, 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.



INTERNATIONAL MILITARY STAFF  
ETAT-MAJOR MILITAIRE INTERNATIONAL



27 March 2020

IMSTAM(FC)-0011-2020

CHAIR, INTERNATIONAL BOARD OF AUDITORS FOR NATO (IBAN)

**INTERNATIONAL MILITARY STAFF (IMS) FINANCIAL STATEMENTS 2019**

1. Please find attached the 2019 International Military Staff (IMS) Financial Statements, issued in accordance with NATO Financial Regulation (NFR) Article 35.1.
2. I can confirm that, in accordance with NFR Financial Rules and Procedures (FRP) XXXV (4), the IMS can agree to public disclosure of these Financial Statements.
3. Notwithstanding the above, as stated in C-M(2012)0041, public disclosure of IBAN Audit Reports is a matter for Council decision, based upon the recommendation of the RPPB. Decisions are informed by the NATO policy on public disclosure of documents (C-M(2008)0116).
4. The IBAN Audit Report covering these Financial Statements has not been issued, but should be presented to Council no later than 31 August 2020 (NFR 15.2). As such, the IMS is not yet in a position to anticipate any potential representations that may be made to the RPPB, regarding the Audit Report.
5. The IMS therefore reserves its position on public disclosure of the eventual IBAN Audit Report.

RUI M.M. DA SILVA  
PRTCV  
Financial Controller  
International Military Staff &  
Science and Technology Organisation

Enclosure:

1. IMS Financial Statements FY 2019

Copy To: DIRECTOR NHQC3S, DIRECTOR CS, DIRECTOR NSO, EXCO,  
MA DG IMS, FC, RECORDS

Action Officer: Ms A. MUEFFKE, Principal Administrator (Finance) to FC IMS, (4593)





# **INTERNATIONAL MILITARY STAFF (IMS) FINANCIAL STATEMENTS 2019**

**Incorporating  
IMS (301), NSO (302) and Outreach (501) Budgets**



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## INTRODUCTION TO THE 2019 IMS FINANCIAL STATEMENTS

The International Military Staff (IMS) is the core Military Staff in NATO HQ. It is the executive body of the Military Committee (MC), NATO's senior military authority.

The role of the IMS is to provide strategic military advice and staff support for the MC, which advises the North Atlantic Council, NATO's principal political decision-making body, on military aspects of policy, operations, and transformation within the Alliance. The IMS also ensures that the appropriate NATO military bodies implement NATO decisions and policies on military matters.

The IMS Financial Statements 2019 are in accordance with the NATO Accounting Framework, based on the International Public Sector Accounting Standards (IPSAS) as adapted by NATO. The Financial Statements are also in accordance with the NATO Financial Regulations (NFRs) and presented in a commonly adopted layout.

The expenses were charged over three budgets covering the IMS (Budget Code – BC 301), NATO Standardization Office (NSO) (BC 302); and Outreach (BC 501). The Statements also cover the NATO Iraq Trust Fund.

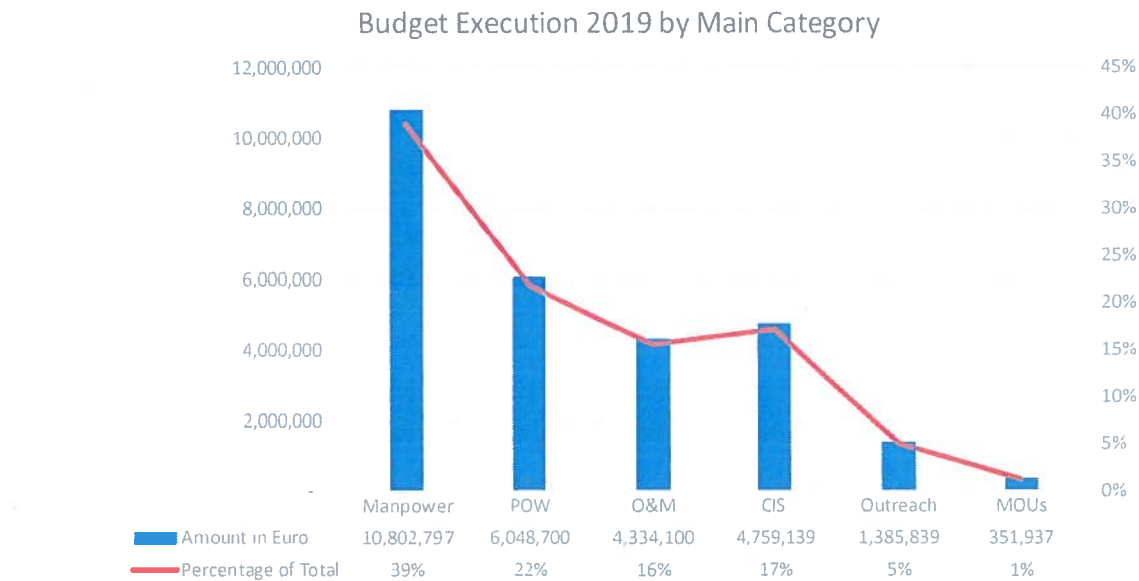
The budgetary expenses are recorded on an accrual basis, meaning in the period in which the goods or services are delivered. Any exception to that principle is outlined in Annex 1 to the Financial Statements, which provides a comparison between the Budget Execution and IPSAS.

The table below (in Euros) is a summary of the final budget execution over the last five years.

<b>IMS</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Final Budget	20,118,452	19,217,045	21,067,040	21,983,382	24,155,099
Execution	20,071,925	18,871,201	20,767,657	21,983,382	23,317,763
Execution %	100%	98%	99%	100%	97%
<b>NSO</b>					
Final Budget	2,380,966	2,337,693	2,475,112	2,594,705	3,021,629
Execution	2,380,966	2,320,458	2,474,553	2,594,705	2,978,911
Execution %	100%	99%	100%	100%	99%
<b>OUTREACH</b>					
Final Budget	1,466,379	1,530,464	1,144,000	1,506,269	1,544,000
Execution	1,466,379	1,404,488	855,707	1,195,331	1,385,839
Execution %	100%	92%	75%	79%	90%
<b>TOTAL</b>					
Final Budget	23,965,797	23,085,202	24,686,152	26,084,356	28,720,728
Execution	23,919,270	22,596,147	24,097,917	25,773,417	27,682,514
Execution %	100%	98%	98%	99%	96%

The execution is stable for the IMS and NSO budgets and more volatile in the Outreach Budget, which is highly dependent on political decisions by NATO and Partner Nations. Since 2016, the execution consists almost completely of actual expenses, with very limited carry forward amounts.

As presented in the chart below personnel costs represent the largest category with 39% of the total amount spent. The IMS Consultation, Command and Control (C3) Programme of Work (PoW) comes second with 22% and costs for communication and information services (CIS) are the third largest category with 17% of the total, followed by operational costs (mostly facility management and maintenance) with 16%. Outreach activities and other costs related to the execution of multiple memoranda of understanding (MOUs) represent 5% and 1% respectively. To efficiently and effectively execute its BC 501 budget the IMS delegates certain Outreach activities to the NDC and the STO.



The IMS Financial Controller (FC) is also the FC of the Science and Technology Organization (STO) and the NATO Defense College (NDC). The IMS, STO and NDC are therefore related parties under a common Financial Controller.

Hans-Werner Wiermann  
Lieutenant General, German Army  
Director General  
International Military Staff

Rui M.M. da Silva  
Financial Controller  
International Military Staff &  
Science and Technology Organisation

## STATEMENT ON INTERNAL CONTROL FY 2019

The Director General, International Military Staff (IMS), exercises overall responsibility for IMS Risk Management and Internal Control systems, in accordance with Articles 11.1 and 12.1 of the NATO Financial Regulations (NFRs).

The IMS Financial Controller is responsible for financial risk management and for establishing financial risk management standards (NFR Financial Rules and Procedures XI.3 and XI.4). In addition, the Financial Controller is responsible for the system of internal financial and budgetary control (NFR 12.2).

The systems of Risk Management and Internal Financial Control are based on an on-going process designed to identify the principal risks to the achievement of IMS policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 December 2019 and up to the date of these Financial Statements.

The systems of Risk Management and Internal Financial Control are designed to manage and minimize rather than entirely eliminate risk at the IMS. Risk Management and Internal Financial Controls can therefore provide only a reasonable, but not absolute, assurance of effectiveness. The risks addressed at the IMS include risks to: IMS operational aims and objectives; compliance with the NFRs; the reliability of financial information; and the safeguarding of assets.

The Risk Management and Financial Control processes at the IMS provide a network of internal controls that can be assessed using the five key components of the COSO Framework:

### Control Environment

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

Oversight is provided by the NATO Military Committee (MC), supported by various subcommittees, who routinely scrutinize IMS Senior Management reports on strategic operational matters.

On Financial matters, interim Budgetary Execution Reports are presented to and reviewed by, the NATO Budget Committee two times a year. In addition, IMS financial requirements comprising the yearly budget proposals are screened and reviewed by the Nations at various oversight fora.

The current management structure of the IMS was reviewed by a panel of military experts in support of the Military Committee and was re-established under the authority of the NATO Secretary General in May 2016. The overall structure of the IMS incorporates clearly defined responsibilities and authorities in the pursuit of operational objectives.



### Risk Assessment

The Director General has appointed a Risk Management coordinator in accordance with NFR Article 11. The IMS Executive Management Board regularly monitors actions mitigating the significant risks identified. Risk Management processes continue to be developed, with the assistance of external consultants when necessary.

### Control Activities

The IMS operates a 'Tasker Tracker' mechanism: The mechanism uses software to launch, monitor and control ongoing progress towards management's operational requirements, in accordance with deadlines and operational priorities.

In the financial domain, the IMS finance and accounting system - 'FinS' - has built-in approval workflows and controls, together with audit trails. The controls are designed in order that transactions are recorded consistently, accurately and in accordance with the applicable rules and regulations.

IMS leadership is supported by an Executive Management Board meeting routinely to review internal processes and to inform decision making.

### Information and Communication

IMS internal communications are enhanced by strong reporting lines, based on military principles. The IMS has an extensive Standard Operating Policy (IMSSOP 6) on the management of information and communications. This provides for effective communications in pursuit of operational objectives.

Communication also provides for the effective functioning of internal control. The Audit Advisory Panel, for example, reports to the Director General.

The IMS also communicates externally on matters affecting the functioning of internal control mechanism include the Statement on Internal Control, comprising part of the Financial Statements, which is released to the general public. External Audits include examinations of internal controls and compliance. The results of these audits are made available and discussed by various oversight authorities.

### Monitoring

An outsourced Internal Audit service provider is engaged on a periodic basis, to undertake internal audit assignments on behalf of the IMS Financial Controller. The IMS is also subject to annual external audit from the International Board of Auditors for NATO (IBAN).

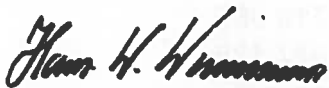
Recommendations and observations arising from audits are assessed by the Audit Advisory Panel reporting to the Director General. The results are then assessed by the Executive Management Board, who initiate any appropriate actions.

The Director General of the IMS and the Financial Controller have a collective responsibility for reviewing the effectiveness of the system of internal control. Our review is informed by the above five COSO components and by the work of IMS Senior Managers, External Audits and Internal Audits.

No significant issues regarding financial or operational matters were raised in 2019. The IBAN External Audit of the 2018 Financial Statements - undertaken in 2019 - resulted in an unqualified opinion, only observing on the need for more formal documentation on risk management and internal financial control. The entity is in the process to address the formal documentation and as such has issued the IMS Risk Management Policy in December 2018.

In 2019, the internal auditor of the NCIA Agency has further assessed the risk management processes at the IMS. The outcome of the audit was a number of observations whose aim was to strengthen the existing risk management policy by explicitly defining the responsibilities for risk owners and the scoring and escalating criteria for better risk measurement.

Overall, we are satisfied that the Risk Management and Internal Financial Control systems in operation across the IMS during the year 2019 were reasonably adequate and effective, while acknowledging the risk management areas for improvement as identified by the internal auditor. We are confident that adequate action to tackle those recommendations will be undertaken in 2020.



Hans-Werner Wiermann  
Lieutenant General, German Army  
Director General  
International Military Staff



Rui M.M. da Silva  
Financial Controller  
International Military Staff &  
Science and Technology Organisation

**IMS**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2019**

(in euro)

	Notes	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	2	11,025,871	12,827,256
Receivables	3	63,674	55,653
Prepayments	4	892,378	813,881
		<u>11,981,923</u>	<u>13,696,790</u>
<b>Non-current Assets</b>			
Property Plant and Equipment	5	14,207	32,408
Intangible assets	6	82,797	87,857
		<u>97,004</u>	<u>120,265</u>
<b>TOTAL ASSETS</b>		<u><b>12,078,927</b></u>	<u><b>13,817,055</b></u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Payables	7	5,197,878	6,719,665
Deferred revenue	8	6,784,045	6,977,125
		<u>11,981,923</u>	<u>13,696,790</u>
<b>Non-current Liabilities</b>			
Deferred revenue	8	97,004	120,265
<b>TOTAL LIABILITIES</b>		<u><b>12,078,927</b></u>	<u><b>13,817,055</b></u>



Hans-Werner Wiermann  
 Lieutenant General, German Army  
 Director General  
 International Military Staff



Rui M.M. da Silva  
 Financial Controller  
 International Military Staff &  
 Science and Technology Organisation



**IMS**  
**STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**  
(in euro)

	Notes	<u>2019</u>	<u>(restated) 2018</u>
<b>Revenue</b>			
Revenue	9	27,784,836	25,670,102
Financial Revenue	9	-	7,196
Other revenue	9	71,673	116,554
<b>Total Revenue</b>		<u>27,856,509</u>	<u>25,793,853</u>
<b>Expenses</b>			
Personnel	10	(11,016,358)	(10,877,364)
Contractual supplies and services	11	(16,768,478)	(14,792,738)
Depreciation and amortization	5,6	(71,673)	(116,554)
Finance costs	9	-	(7,196)
<b>Total Expenses</b>		<u>(27,856,509)</u>	<u>(25,793,853)</u>
<b>Surplus/(Deficit) for the period</b>		<u>-</u>	<u>-</u>

**IMS**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**  
(in euro)

	Notes	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<i>Surplus/(Deficit) for the period</i>		-	-
<b>Non-cash movements</b>			
Depreciation and Amortization		71,673	116,554
(Decrease) / Increase in payables		(1,521,787)	3,085,926
(Decrease) / Increase in other current liabilities		(193,080)	4,135
(Increase)/ Decrease in receivables		(8,021)	2,623,645
Losses on transfer of property, plant and equipment			2,015
(Increase)/Decrease in other current assets		(78,497)	(10,807)
(Decrease)/Increase in Long-Term provisions		(23,261)	(118,569)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>(1,752,972)</b>	<b>5,702,899</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property plant and equipment	6	(48,413)	-
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(48,413)</b>	<b>-</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>-</b>	<b>-</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(1,801,385)</b>	<b>5,702,899</b>
Cash and Cash Equivalents at the beginning of the period	2	12,827,256	7,124,357
Cash and Cash Equivalents at the end of the period		11,025,871	12,827,256

**IMS**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**  
(in euro)

	Total
<b>Balance at 31 December 2017</b>	-
Surplus/(Deficit) for the period	-
<b>Change in net assets/equity for the year ended 2018</b>	-
<b>Balance at 31 December 2018</b>	-
Surplus/(Deficit) for the period	-
<b>Change in net assets/equity for the year ended 2019</b>	-
<b>Balance at 31 December 2019</b>	-

## NOTES

### **Note 1: Significant Accounting Policies**

#### *1. Basis of preparation*

The Financial Statements 2019 have been prepared in accordance with the NATO Accounting Framework. This Accounting Framework is based on International Public Sector Accounting Standards (IPSAS), as adapted by NATO. The financial statements comply with the financial requirements of the NATO Financial Regulations (NFRs) and the associated Financial Rules and Procedures (FRPs) as well as with the IMS directives and policies.

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

In accordance with Article 2 of the NFRs, the financial year covered by these financial statements is 1 January 2019 to 31 December 2019.

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

#### *2. Accounting estimates and judgements*

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

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

#### *3. Changes in accounting policy and standards*

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set in IPSAS 3. For the 2019 financial statements, the accounting policies have been applied consistently throughout the reporting period. In order to align with NATO Budget Committee instructions some presentational changes have been made. As of 2019 some contractor and MOU expenses are charged to General Support and Mission Support (Chapter 2)

instead of to Employment of Personnel (Chapter 1). The balances related to these changes have been restated accordingly for the 2018 comparative information. Further detail is provided in the relevant notes.

#### *4. Changes in pronouncements*

IPSAS 40 (Public Sector Combinations) became effective 1 January 2019. This standard has immaterial effect on the financial statements of the IMS.

At the date of authorisation of these financial statements, the IMS has not applied the following new and revised IPSAS that have been issued but are not yet effective:

- IPSAS 41 Financial Instruments
- IPSAS 42 Social Benefits

It is not expected that the adoption of these standards will have a material impact on the financial statements of the IMS in future periods.

#### *5. Foreign currency transactions*

These financial statements are prepared in Euro, which is the functional and reporting currency of the IMS. Foreign currency transactions 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 are assessed for materiality and if material are translated into Euro using the NATO rates of exchange applicable as at 31 December 2019. Realized and unrealized gains and losses resulting from the settlement of such transactions and from the revaluation at the reporting dates of monetary assets and liabilities denominated in foreign currencies are recognized in the Statement of Financial Position and Performance. An assessment was made of all assets and liabilities in foreign currencies as of 31 December 2019. The amount of unrealized gains is deemed immaterial.

#### *6. Consolidation*

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

While Morale & Welfare activities are under the control of the head of the NATO body, in accordance with the NATO Accounting Framework, they have not been consolidated into these financial statements. A separate activity report as required by the NFRs is submitted to the Military Budget Committee.

#### *7. Services in Kind*

The IMS received services in-kind in the form of military personnel provided by the NATO nations. Such personnel are assigned to specific, military positions on the Peacetime Establishments (PE) of the IMS (see Note 10). In these financial statements, services in kind are recognized neither as revenue nor as an asset.

## 8. *Financial instruments*

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

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

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

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

The maximum exposure as at 31 December 2019 is equal to the total amount of bank balances, short-term deposits, and receivables disclosed in the Statement of Financial Position. If receivables are considered uncollectible, they are adequately provided for. There is a very limited credit risk associated with the realization of these instruments.

**Currency risk:** The IMS's exposure to foreign currency exchange risk is very limited, as most of its transactions are dealt with in Euros.

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

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

## 9. *Leases*

Leases are classified as finance leases whenever the terms of the lease transfers substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under lease contract are recognized as an expense in the statement of financial performance on a straight line basis over the lease term.

## 10. *Cash and Cash Equivalents*

Cash and cash equivalents are defined as short-term assets. They include cash in hand, deposits held with banks, pre-paid credit cards and other short term highly liquid investments.

*11. Receivables*

Receivables are stated at net realizable value, after provision for doubtful and uncollectible debts.

Contributions receivable are recognized when a call for contribution has been issued to the member Nations. No allowance for loss is recorded with respect to Member countries' assessed contributions receivable except for exceptional and agreed technical reasons.

*12. Prepayments*

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

*13. Property, plant and equipment*

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

*14. Intangible Assets*

Intangible assets with finite useful lives that are acquired separately are carried at initial cost less accumulated amortization and any recognized impairment losses. Amortization is recognized on a straight line basis over their estimated useful lives. Full amortization is charged in the month of acquisition and nil in the month of disposal. The estimated useful lives, residual values and amortization method are reviewed at the end of each reporting period with the effect of any changes in estimate accounted for on a prospective basis. Intangible assets are derecognized when no future economic benefit is expected. The cost and any related accumulated amortization are removed from the accounting records.

*15. Impairment of tangible and intangible assets*

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

## *16. Payables*

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

## *17. Deferred revenue and Advances*

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

## *18. Employee Benefits – Post Employment benefits*

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

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

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

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

**Continued Medical Coverage:** Some qualifying retirees may also benefit from Continued Medical Coverage (CMC).

## *19. Revenue recognition*

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



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

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

Bank interests earned and accrued as of 31 December 2019, exchange rate revenue due to transactions in foreign currency and realized exchange rate revenue in accordance with the entity Policy IPSAS 4 - Effect of the foreign exchange rate - are recognized as financial revenue.

## *20. Trust Funds*

The IMS manages the NATO-Iraq Trust Fund on behalf of the contributing nations. NATO recognizes an asset when it controls access to the asset and gains economic benefit or service potential but matches this to an equal liability. In its Statements of Financial Performance, the IMS does not recognize any expenditure or revenue in relation to the Trust Funds which it does not control.

**Note 2: Cash and Cash Equivalents**

	2019	2018
Petty Cash	700	1,200
Advances	15,000	15,000
Current Bank Accounts IMS	10,498,478	12,257,427
Current Bank Accounts NATO Iraq Trust	138,780	181,125
Cash Equivalents	372,914	372,504
<b>Total Cash and Cash Equivalents</b>	<b>11,025,872</b>	<b>12,827,256</b>

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

Cash Equivalents are held in Euros and are funds invested on a short term deposit or business account.

During the year, cash advances amounting to 1,650,000 EUR were provided to other entities in the IMS Budget Group in order to cover temporary shortfalls related to the calls for contributions. As of 31 of December 2019 all of these advances have been repaid.

**Note 3: Receivables**

	2019	2018
Receivables Budget Increases	-	32,326
Receivables from Staff Members	-	3,900
VAT Receivable	-	12,768
Accrued Revenue	410	410
Receivables from Third Parties	63,264	6,248
<b>Total Receivables</b>	<b>63,674</b>	<b>55,653</b>

Accrued revenue consists of bank interest earned in 2019, but for which the cash is received in 2020.

Receivables from third parties include several invoices for procurement and services on behalf of third parties. The most significant being a reimbursement for the DCPS group insurance overcharge by Allianz.

**Note 4: Prepayments**

	2019	2018
Prepaid Expenses	229,378	131,108
Advances and Prepayments to suppliers	663,000	682,773
<b>Total Prepayments</b>	<b>892,378</b>	<b>813,881</b>

The most significant element of prepaid expenses is the 2020 portion of the instalments for education allowances that cover the entire school year 2019-2020.

The advances relate to the provision of contractually agreed Working Capital for research projects.

**Note 5: Property, plant and equipment**

	Furniture		Vehicles		Installed Equipment		Total	
Reporting Period	2019	2018	2019	2018	2019	2018	2019	2018
Cost Opening Balance	-	9,193	358,880	358,880	-	7,800	358,880	375,873
Disposals		(9,193)	(42,919)	-		(7,800)	(42,919)	(16,993)
<b>Cost Closing Balance</b>	<b>-</b>	<b>-</b>	<b>315,961</b>	<b>358,880</b>	<b>-</b>	<b>-</b>	<b>315,961</b>	<b>358,880</b>
Accumulated Depreciation Opening Balance	-	9,193	326,473	290,090	-	5,525	326,473	304,808
Current Year Depreciation			18,201	36,382		260	18,201	36,642
Retired Depreciation		(9,193)	(42,919)	-		(5,785)	(42,919)	(14,978)
<b>Accumulated Depreciation Closing Balance</b>	<b>-</b>	<b>-</b>	<b>301,754</b>	<b>326,473</b>	<b>-</b>	<b>-</b>	<b>301,754</b>	<b>326,473</b>
<b>Net Carrying Amount</b>	<b>-</b>	<b>-</b>	<b>14,207</b>	<b>32,408</b>	<b>-</b>	<b>-</b>	<b>14,207</b>	<b>32,408</b>

The following useful lives are used in the calculation of depreciation.

- Furniture – 10 years
- Installed Equipment – 10 years
- Vehicles – 5 years

The depreciation charge for the year was 18,201 EUR (2018: 36,642 EUR).

In 2019, there are no write-offs that meet the disclosure criteria in the NATO Financial Regulations. Proceeds of sale of property plant and equipment amounting to 4,793 EUR were realised in 2019. They are included under payables to nations to be reimbursed under the call for contributions rules.

**Note 6: Intangible Assets**

	Software	
Reporting Period	2019	2018
Cost Opening Balance	360,630	360,630
Additions	48,413	-
Disposals	-	-
<b>Cost Closing Balance</b>	<b>409,043</b>	<b>360,630</b>
Accumulated Amortization Opening Balance	272,773	192,861
Current Year Amortization	53,473	79,912
<b>Accumulated Amortization Closing Balance</b>	<b>326,246</b>	<b>272,773</b>
<b>Net Carrying Amount</b>	<b>82,797</b>	<b>87,857</b>

For software systems, the useful life used in the calculation of amortisation is 4 years.

In general, software is considered to be internally developed, however an assessment is made for each individual case to determine whether the asset can be considered as acquired off the shelf.

During the period, cash payments of 48,413 EUR were made to purchase intangible assets.

The amortisation charge for the year was 53,473 EUR (2018: 79,912 EUR).

#### Note 7: Payables

	2019	2018
Payables to Suppliers	584,381	364,222
Accruals	3,180,356	5,284,434
Payables to Nations	1,429,049	1,069,529
Payables to Staff Members	1,995	1,479
Other Payables	2,097	-
<b>Total Payables</b>	<b>5,197,878</b>	<b>6,719,665</b>

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

Accruals are mainly related to goods and services received on the scientific projects of the IMS.

The Payables to Nations are appropriations that have not been spent or miscellaneous income that are due to the Nations. They include lapses, miscellaneous income from operational results, financial results and any budget over- and under calls.

#### Note 8: Deferred Revenue

	2019	2018
Current Deferred Revenue	6,784,045	6,977,125
Non-Current Deferred Revenue	97,004	120,265

Current deferred revenue consists mostly of budget deferred revenue or advanced contributions for the next financial year, but for which corresponding expenses will be incurred after the reporting date. Another component is the deferred revenue for trust funds, which is the corresponding liability for the cash received by nations to fund the NATO-Iraq Trust Fund.

Non-Current deferred revenue represents the net carrying amount of PP&E and Intangible Assets as of 31 December 2019. The revenue will be recognized in the year when the depreciation and amortization expense will be recognized.

**Note 9: Revenue**

	2019	2018
Revenue from Contributions	27,784,836	25,670,102
Financial Revenue	-	7,196
Revenue released from Deferred Revenue	71,673	116,554
<b>Total Revenue</b>	<b>27,856,509</b>	<b>25,793,853</b>

Revenue from contributions is the revenue received from the member nations to cover the operational expenses of the IMS.

Financial Revenue represents bank interest and realized currency gains. Financial Revenue is used to cover finance costs to the extent possible. In 2019 the finance costs were significantly in excess of revenue. The whole immaterial balance has been netted off against payables to Nations.

Revenue released from deferred revenue represents revenue released in respect of PP&E depreciation and amortization of intangible assets.

**Reconciliation between Budget Revenue and Deferred Revenue:** The table below explains to what extent the deferred revenue from previous years and the net calls made in 2019 for the annual budgets are recognized as budget operating revenue in the fiscal year. The remaining balance is deferred revenue for the funds that are carried forward to future years, payables for the annual budgets credits that are lapsed, payables for budget decreases and receivables for budget increases.

	2019	2018
<b>Budget Deferred revenue opening balance</b>		<b>296,000</b>
Contributions called for 2019		
Call 1	21,540,546	
Call 2	7,180,182	
Total Contributions Called	<b>28,720,728</b>	
Budget expenses in 2019	(27,833,249)	
Lapses	(1,038,214)	
<b>Budget Deferred revenue Closing Balance</b>	<b>145,265</b>	

**Note 10: Personnel Expenses**

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

**Peacetime Establishment (PE):**

	Total Approved PE - IMS	Filled Positions - IMS	Total Approved PE - NSO	Filled Positions - NSO	Total PE IMS/NSO	Total Filled Positions IMS/NSO
Civilians (MBC)	85	77	16	16	101	93
Military	317	284	26	20	343	304
Voluntary National Contribution (VNC)	25	17	0	0	25	17
National Manpower Overage (NMO)	23	22	0	0	23	22
Host Nation	2	1	0	0	2	1
PFP	11	8	2	1	13	9
Local Wage Rate (LWR)	1	1	0	0	1	1
Civilians (CBC)	16	16	0	0	16	16
Legacy post (LEG)	0	0	0	0	0	0
IS CIV-VNC	15	15	0	0	15	15
Twinned posts (TP)	4	4	2	2	6	6

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

	2019				(restated) 2018			
	IMS	NSO	Outreach	Total	IMS	NSO	Outreach	Total
Employment of Personnel	8,598,283	1,714,352	111,903	10,424,538	8,535,908	1,723,206	93,478	10,352,592
Recruitment and Separation	42,996	7,748	-	50,744	13,640	333	-	13,973
Clothing	1,200	-	-	1,200	1,200	-	-	1,200
Training	97,666	2,473	-	100,139	69,110	10,910	-	80,020
Post Employment Benefits	376,287	63,451	-	439,737	359,732	69,847	-	429,579
<b>Total Expenses</b>	<b>9,116,431</b>	<b>1,788,024</b>	<b>111,903</b>	<b>11,016,358</b>	<b>8,979,590</b>	<b>1,804,296</b>	<b>93,478</b>	<b>10,877,364</b>

In order to align with NATO Budget committee instructions some presentational changes have been made. As of 2019, some contractor and MOU expenses are charged to Chapter 2 instead of Chapter 1. The balances related to these changes have been restated accordingly for the 2018 comparative information. The total impact of these changes is summarised below.

From	To	Amount
Employment of Personnel	General Support	130,720
	Mission Support	5,398,715
		<b>5,529,436</b>

**Untaken Leave:** The balance of untaken leave at the end of 2019 was 576 days (2018: 517 days) for IMS and 93 days (2018: 71 days) for NSO. The associated cost is recognized as an accrual.

**Note 11: Contractual Supplies and Services**

Contractual Supplies and Services are expenses required for administrative support to the Military Committee. General Support expenses mainly include costs for facility and infrastructure operation and maintenance, while Mission support mainly costs for CIS and scientific research contracts. The expenses are further broken down as follows:

	2019				(restated) 2018			
	IMS	NSO	Outreach	Total	IMS	NSO	Outreach	Total
General Support	3,129,317	596,950	35,572	3,761,839	3,529,784	484,821	17,574	4,032,179
Mission Support	10,604,917	540,687	159,022	11,304,625	8,756,027	240,541	91,390	9,087,958
Travel Transportation	569,421	53,251	132,269	754,940	614,665	65,048	136,756	816,470
Grants and Subsidies	-	-	932,025	932,025	-	-	843,316	843,316
Miscellaneous Costs	-	-	15,049	15,049	-	-	12,815	12,815
<b>Total Expenses</b>	<b>14,303,654</b>	<b>1,190,887</b>	<b>1,273,937</b>	<b>16,768,478</b>	<b>12,900,477</b>	<b>790,410</b>	<b>1,101,852</b>	<b>14,792,738</b>

**Operating Leases:** All leases of the IMS are cancellable and are recognized as an expense on a straight-line basis over the lease term. They have been classified as operating leases as they do not transfer substantially all the risks and rewards incidental to ownership. The classification has been based on the fact that the ownership is not transferred by the end of the lease term, the lease term is not for the majority of the item's estimated economic life and the leases do not contain a bargain purchase option.

In 2019 the IMS had one contract for lease of a vehicle with an annual cost of 79,200 EUR (2018: 81,259 EUR).

## Note 12: Related Parties

The key management personnel includes: the Director General IMS, Directors, the Financial Controller and the Procurement and Contracting officer. They are all rotated, typically every three years, and with the exception of the Financial Controller, have only management oversight of routine operating and maintenance activities. The detailed work related to these tasks tends to be undertaken by staff officers. The IMS Financial Controller is also the Financial Controller of the Science and Technology Organization (STO) and the NATO Defense College (NDC), forming together the IMS Budget Group. The IMS, STO and NDC are therefore related parties under a common Financial Controller.

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

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

## Note 13 Representation Allowance

Representation Allowance is available to certain designated NATO high officials whose position entails responsibility for maintaining relationships of value to NATO. Representation Allowance is available to support social events and catering and can be used to complement national funds. In 2019, three senior IMS officials received Representation Allowances.

The total entitlement amounted to 39,000 EUR (2018: 37,000 EUR) and the actual expenses to 31,502 EUR (2018: 29,000 EUR).

**IMS**  
**BUDGET EXECUTION STATEMENT**  
**FOR THE YEAR END 31 DECEMBER 2019**  
(in euro)

EURO	Initial Budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total Spent	Carry Forward	Lapsed
<b>BUDGET 301 (IMS)2019</b>												
Chapter 1	8,891,757	-	8,891,757	225,000	9,116,757	51,599	9,168,356	-	9,116,431	9,116,431	-	51,925
Chapter 2	15,263,342	-	15,263,342	(285,000)	14,978,342	(50,262)	14,928,080	86,602	14,056,067	14,142,669	86,602	785,411
Chapter 3	-	-	-	60,000	60,000	(1,337)	58,663	58,663	-	58,663	58,663	-
<b>TOTAL</b>	<b>24,155,099</b>	<b>-</b>	<b>24,155,099</b>	<b>-</b>	<b>24,155,099</b>	<b>-</b>	<b>24,155,099</b>	<b>145,265</b>	<b>23,172,498</b>	<b>23,317,763</b>	<b>145,265</b>	<b>837,336</b>
<b>BUDGET 302 (NSO)2019</b>												
Chapter 1	1,790,410	-	1,790,410	-	1,790,410	-	1,790,410	-	1,788,024	1,788,024	-	2,386
Chapter 2	1,231,219	-	1,231,219	-	1,231,219	-	1,231,219	-	1,190,887	1,190,887	-	40,332
<b>TOTAL</b>	<b>3,021,629</b>	<b>-</b>	<b>3,021,629</b>	<b>-</b>	<b>3,021,629</b>	<b>-</b>	<b>3,021,629</b>	<b>-</b>	<b>2,978,911</b>	<b>2,978,911</b>	<b>-</b>	<b>42,718</b>
<b>BUDGET 501 (OTRCH)2019</b>												
Chapter 1	163,547	-	163,547	-	163,547	(7,448)	156,099	-	111,903	111,903	-	44,196
Chapter 2	1,380,453	-	1,380,453	-	1,380,453	7,448	1,387,901	-	1,273,937	1,273,937	-	113,964
<b>TOTAL</b>	<b>1,544,000</b>	<b>-</b>	<b>1,544,000</b>	<b>-</b>	<b>1,544,000</b>	<b>-</b>	<b>1,544,000</b>	<b>-</b>	<b>1,385,839</b>	<b>1,385,839</b>	<b>-</b>	<b>158,161</b>
<b>TOTAL FY2019</b>	<b>28,720,728</b>	<b>-</b>	<b>28,720,728</b>	<b>-</b>	<b>28,720,728</b>	<b>-</b>	<b>28,720,728</b>	<b>145,265</b>	<b>27,537,249</b>	<b>27,682,514</b>	<b>145,265</b>	<b>1,038,214</b>
<b>BUDGET 301 (IMS)2018</b>												
Chapter 1	296,000	-	296,000	-	296,000	-	296,000	-	296,000	296,000	-	-
<b>TOTAL</b>	<b>296,000</b>	<b>-</b>	<b>296,000</b>	<b>-</b>	<b>296,000</b>	<b>-</b>	<b>296,000</b>	<b>-</b>	<b>296,000</b>	<b>296,000</b>	<b>-</b>	<b>-</b>
<b>TOTAL FY2018</b>	<b>296,000</b>	<b>-</b>	<b>296,000</b>	<b>-</b>	<b>296,000</b>	<b>-</b>	<b>296,000</b>	<b>-</b>	<b>296,000</b>	<b>296,000</b>	<b>-</b>	<b>-</b>
<b>TOTAL ALL BUDGETS</b>	<b>29,016,728</b>	<b>-</b>	<b>29,016,728</b>	<b>-</b>	<b>29,016,728</b>	<b>-</b>	<b>29,016,728</b>	<b>145,265</b>	<b>27,833,249</b>	<b>27,978,514</b>	<b>145,265</b>	<b>1,038,214</b>

The budget covers the financial year from 1 January 2019 to 31 December 2019 and includes the following budgets: 301 (IMS), 302 (NSO) and 501 (Outreach). The Initial Budgets and subsequent revisions are reviewed and issued by the Budget Committee.

In accordance with the NFRs, all the changes between the initial and the final budget which were due to transfers of appropriations, were either authorized by the Budget Committee or were within the authority of the IMS Financial Controller. These changes are presented in



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the Budget Execution Statement. The lapses are mainly due to lower than expected SLA costs as well as by the cancellation of activities in the NATO Defence College as well as the fluctuating and difficult to predict partner participation rate.

As required by the NATO Financial Regulations and the FRPs the credits carried forward are presented in the Budget Execution Statement. They represent the unexpended balances at year end for which there is a legal liability or a Budget Committee decision and are equal to the closing Budget Deferred Revenue (see also Note 9).

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

	Financial Performance	Budget	Difference
Total Expenses	27,856,509	27,833,249	(23,261)
Personnel	11,016,358	11,016,358	-
Contractual Supplies and Services	16,768,478	16,816,891	(48,413)
Depreciation Expense	71,673	-	71,673
Difference			<b>0</b>

**NATO-Iraq Trust Fund Status  
as of 31<sup>st</sup> December 2019  
(In euro)**

FISCAL YEAR	IN COUNTRY COURSES	OUT OF COUNTRY COURSES			TOTAL
	EXPENSES	EXPENSES	SLOTS OFFERED	SLOTS TAKEN	
2005	133,235	1,494,235	123	200	1,627,470
2006	966,684	1,355,890	444	253	2,322,574
2007	745,024	1,230,390	223	197	1,975,414
2008	2,900,068	1,105,880	230	208	4,005,948
2009	200,557	1,263,332	220	208	1,463,889
2010	218,647	1,737,842	412	336	1,956,489
2011	44,135	1,733,875	468	420	1,778,010
2012	-	23,366	23	15	23,366
2013	-	176,359	42	42	176,359
2014	-	10,340			10,340
2015		301,817	62	62	301,817
2016		1,565,362	340	268	1,565,362
2017		55,568	4	4	55,568
2018		99,180	7	7	99,180
2019		42,345	4	4	42,345
<b>TOTAL</b>	<b>5,208,350</b>	<b>12,195,781</b>			<b>17,404,131</b>

NATO-IRAQ TRUST FUND STATUS AS OF 31 DEC 2018	
FUND DONATED	17,176,421
INTEREST EARNED (net of finance costs)	366,490
FUND USED	17,404,131
FUND AVAILABLE	138,780

**NOTE:** The expenses in 2019 were for two NRCC course at the NATO Defence College in Rome. The funds available are equal to the cash as of 31 of December 2019.



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

**NATO UNCLASSIFIED**

IBA-A(2020)0064  
9 July 2020

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

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

Subject: ***International Board of Auditors for NATO (IBAN) Auditor's Report and Letter of Observations and Recommendations on the audit of the NATO Defense College's Financial Statements for the year ended 31 December 2019 – IBA-AR(2020)0006***

IBAN submits herewith its approved Auditor's Report (Annex 2) and Letter of Observations and Recommendations (Annex 3) with a Summary Note for distribution to the Council (Annex 1).

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO Defense College and on Compliance for financial year 2020.

Yours sincerely,

Daniela Morgante  
Chairman

Attachments: As stated above.

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**Summary Note for Council  
by the International Board of Auditors for NATO (IBAN)  
on the audit of the Financial Statements of the  
NATO Defense College (NDC)  
for the year ended 31 December 2019**

The International Board of Auditors for NATO (IBAN) audited the NATO Defense College (NDC), which is responsible for organising courses and other programmes designed to prepare selected officers and officials for important NATO and NATO-related appointments, and to disseminate awareness of NATO initiatives and interests. The total expenses for the NDC for the year ended 31 December 2019 were EUR 10.269 million.

IBAN issued an unqualified opinion on the financial statements and on compliance for the year ended 31 December 2019.

During the audit, IBAN made two observations and recommendations. These findings are in the Letter of Observations and Recommendations (Annex 3).

The main findings are listed below and do not impact the audit opinion on the financial statements and on compliance:

1. Effectiveness of the NDC Risk Management Policy.
2. Temporary loans between NATO Reporting Entities.

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 Auditor's Report and the Letter of Observations and Recommendations were issued to the NATO Defense College (NDC) whose comments have been included, with the IBAN's position on those comments where necessary, see the Appendix to Annex 3.

The observations and recommendations raised during the audit as well as the follow-up of the previous years' observations, which have not been included in the IBAN's Letter of Observations and Recommendations are included in a Management Letter addressed to the NATO Defense College (NDC) management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under the NATO Defense College (NDC) executive responsibility.

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ANNEX 2  
IBA-AR(2020)0006

9 July 2020

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE  
NATO DEFENSE COLLEGE  
(NDC)**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

**NATO UNCLASSIFIED**

**INDEPENDENT AUDITOR'S REPORT  
TO THE NORTH ATLANTIC COUNCIL**

**Report on the Audit of the Financial Statements**

**Opinion on the Financial Statements**

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of the NATO Defense College (NDC), for the 12 month period ended 31 December 2019, issued under document reference IMSTAM(FC)-0009-2020, and submitted to IBAN on 24 March 2020. These Financial Statements comprise the Statement of Financial Position as at 31 December 2019, 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 2019, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a budget execution report for the 12 month period ended 31 December 2019.

In our opinion, the Financial Statements give a true and fair view of the financial position of the NATO Defense College (NDC) as at 31 December 2019, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2019, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework.

**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 Standards of Supreme Audit Institutions (ISSAIs 1000-1810) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

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

## **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 Defense College (NDC) are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31<sup>st</sup> March following the end of the financial year.

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

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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

We are required to communicate with the bodies charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

## **Report on 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 Standards of Supreme Audit Institutions (ISSAI 4000) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

### **Management's Responsibility for Compliance**

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

The Head of 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, 9 July 2020



Daniela Morgante  
Chairman

**NATO UNCLASSIFIED**

ANNEX 3  
IBA-AR(2020)0006

9 July 2020

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**LETTER OF OBSERVATIONS AND RECOMMENDATIONS**

**FOR THE NATO DEFENSE COLLEGE**  
**(NDC)**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

**NATO UNCLASSIFIED**

## **Introduction**

The International Board of Auditors for NATO (IBAN) audited the NATO Defense College (NDC) Financial Statements for the year ended 31 December 2019, and issued an unqualified opinion on the financial statements and an unqualified opinion on compliance.

## **Observations and Recommendations:**

During the audit, IBAN made two observations and recommendations.

These observations do not impact the audit opinion on the financial statements and on compliance:

1. Effectiveness of the NDC Risk Management Policy.
2. Temporary loans between NATO Reporting Entities.

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

The observations and recommendations raised during the audit as well as the follow-up of the previous years' observations, which have not been included in the IBAN's Letter of Observations and Recommendations are included in a Management Letter addressed to the NATO Defense College (NDC) management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under the NATO Defense College (NDC) executive responsibility.

## OBSERVATIONS AND RECOMMENDATIONS

### 1. EFFECTIVENESS OF THE NDC RISK MANAGEMENT POLICY

#### Reasoning

1.1 According to Article 11 of the NATO Financial Regulations (NFRs), the Secretary General, the Supreme Commanders, subordinate commanders by delegation and the other Heads of NATO bodies shall:

- a) Ensure effective, efficient and economical risk management procedures are in place to support the achievement of objectives as set by the Nations;
- b) Identify, assess and mitigate the risks to the achievement of these objectives.

1.2 In accordance with the Financial Rules and Procedures (FRP) Article XI (5), Internal Audit shall periodically monitor and evaluate the effectiveness of the organization's risk management processes.

#### Observations

1.3 NDC outsourced its internal audit function to the NCIA Internal Audit department in 2019. As part of the internal audit plan for 2019, the NCIA Internal Auditor evaluated the effectiveness of the NDC Risk Management Policy that is in place.

1.4 The NDC Risk Management Policy was approved by the NDC Commandant on 4 July 2019 (Ref. NDC/1497). In its Risk Management Policy, NDC formalised and centralised all the risk management procedures and practices that were already in place at NDC prior to the introduction of the NDC Risk Management Policy. Along with that, NDC made additions and adjustments to the existing procedures where necessary in order to fully comply with the NFRs and to implement open recommendations from IBAN and the internal auditor.

1.5 Based on the internal audit procedures performed, the NCIA Internal Auditor made observations and recommendations in multiple areas of the NDC risk management processes that were shared with NDC Management in November 2019. The outcome of the internal audit has been reflected in the NDC Statement of Internal Control as per 2019 Financial Statements.

1.6 According to the NDC Statement on Internal Control, the Internal Auditor identified “[...] a number of observations whose aim was to strengthen the existing Risk Management policy by explicitly defining the responsibilities for risk owners and better weighting the scoring criteria for risks measurement. The auditor’s observations also pointed the way towards a periodical review of the risk register and its mitigating measures in order to enhance the value obtained from risk management”.

1.7 The absence of a periodical review of the risk register together with the absence of clearly defined scoring criteria, escalation criteria and responsibilities of risk owners, could undermine the effective implementation of the NDC Risk Management Policy as required by Article 11 of the NFRs.

## Recommendations

1.8 IBAN recommends that NDC strengthens its risk management procedures in order to ensure their effectiveness in accordance with Article 11 of the NFRs, and subsequently requests an evaluation by the NDC Internal Auditor as per FRP XI (5) for monitoring and validation purposes.

## 2. TEMPORARY LOANS BETWEEN NATO REPORTING ENTITIES

### Reasoning

2.1 NDC is part of the International Military Staff (IMS) Budget Group, which includes NDC, the Science and Technology Organisation (STO) (including the Collaboration Support Office (CSO) and Centre for Maritime Research and Experimentation (CMRE)) and IMS. These three reporting entities have the same Financial Controller, however they fall under the responsibility of separate Heads. Accordingly, IMS, STO and NDC are autonomous entities in terms of overall responsibility and accountability.

2.2 Article 6 of the NFRs states that “*the management of appropriated funds is a responsibility of the Financial Controller*”. The appropriated funds of each IMS budget group entity are intended to be used for purposes covering the activities as per the approved budget for each entity. In order to implement these activities, the IMS Financial Controller is authorised to transfer appropriations between budget headings and between the budgets of the three reporting entities under his/her functional authority, in accordance with Article 26 of the NFRs and FRP XXVI.

2.3 The nature of a transfer of appropriations among entities of the IMS Budget Group differs from the nature of a temporary loan received from or granted by another reporting entity of the IMS Budget Group. This is because a transfer is aimed at reallocating appropriations between budgets in order to allow for the funds to be committed in a different way than initially agreed upon, while the loans are aimed at solving a temporary liquidity problem and should not impact the final commitment of the appropriated funds.

2.4 Although the NFRs and the IMS Financial Controller Delegation of Authority for Financial Matters are very clear regarding the rules applicable to transfers of appropriations, they do not include any specific rules or responsibilities concerning providing or receiving temporary loans or similar payments between NATO Reporting Entities. In the absence of an explicit regulation or rule, Article 12 of the NFRs on

internal control therefore allocates the ultimate responsibility to safeguard assets, including cash, to the Head of NATO Reporting Entities.

## **Observations**

2.5 NDC faces recurring cash flow difficulties due to a schedule for the receipt of advances and contributions that does not correspond to the timing of its disbursements.

2.6 For multiple years, NDC has received temporary loans from IMS after issuing a request for receiving funds to cover for its cash shortfalls. This allowed NDC to achieve its strategic objectives as foreseen without delays, and allowed NDC to make payments in a timely manner.

2.7 The IMS Financial Controller informed the Budget Committee (BC) in the past of the need for requesting and granting loans among entities of the IMS Budget Group due to liquidity problems. The BC took note of this information, as documented in decision sheets BC-DS(2016)0038 and BC-DS(2017)0036.

2.8 NDC received temporary loans of EUR 750 thousand and EUR 400 thousand from IMS in April 2019 and November 2019 to cover its cash shortfalls, pending the payment of its calls for funds. Similar loans amounting to EUR 750 thousand and EUR 800 thousand in total were respectively received by NDC from IMS in 2018 and 2017.

2.9 The temporary loans were fully reimbursed by NDC to IMS before the end of the financial year. This was the case in 2019, 2018 and 2017. IMS did not face any cash shortfalls itself during 2019, 2018 and 2017. The IMS cash position and the IMS capacity to grant loans have therefore correctly been assessed by the Financial Controller.

2.10 The process followed for the request and approval of the temporary loan is that the Head of Budget and Finance of NDC requests the loan in writing to the IMS Financial Controller. The funds are transferred upon written approval by the Office of the Financial Controller. The IMS Financial Controller supervises the loan granting and receiving internal control process.

2.11 Although the Office of the Financial Controller has approved the temporary loan, the process followed by NDC for requesting and receiving loans from IMS was not included in a procedure approved by the NDC Commandant, nor was the process followed by IMS for granting loans to NDC included in a procedure approved by the IMS Director General in accordance with Article 12 of the NFRs.

2.12 If recurring temporary loans are requested and received by NDC from IMS, it is important that the process and associated terms and conditions (e.g. duration, guarantees, and obligations) are included in a procedure approved by the Financial

Controller and the Heads of the NATO Reporting Entities involved in compliance with Article 12 of the NFRs on internal control.

**Recommendations**

2.13 IBAN recommends that NDC clarifies the internal control process related to the request, receipt and repayment of temporary loans, by ensuring that these processes and associated loan terms and conditions are included in a written procedure approved by the NDC Commandant.

**FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS**

IBAN followed up on the status of observations from the previous years' audit. The observations, 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><b>(1) NDC FY 2018</b>  <b>IBA-AR(2019)0007, paragraph 1</b></p> <p><b>IMPROVEMENTS REQUIRED IN THE AREA OF RISK IDENTIFICATION AND COMMUNICATION</b></p> <p><b>IBAN's Recommendation</b>  IBAN recommends that NDC ensures that all its risks are incorporated in the risk register by establishing a formal communication, review and approval process of the risk register, at least on an annual basis, with the involvement of NDC key stakeholders.</p>	<p>NDC introduced a formal risk management policy on 4 July 2019 (Ref. NDC/1497). In its risk management policy, NDC defines the risk register as the key document to facilitate the identification, recording and assessment of risks within NDC.</p> <p>According to the policy, the risk register is to be updated and reviewed regularly in order to remove risks and record the implementation of suitable mitigation measures. The policy further describes where the register can be found, how the risk register can be edited, which information should be included in the register and identifies a non-exhaustive list of risk owners.</p>	<p>Observation <b>Closed</b></p>



OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(2) NDC FY 2017 IBA-AR(2018)0006, paragraph 1</p> <p><b>IMPROVEMENTS REQUIRED IN THE AREA OF INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT</b></p> <p><b>IBAN's Recommendations</b> IBAN recommends NDC to:</p> <p>a) prepare and formally approve an entity-wide risk management policy, including financial risk management, applicable throughout the organization.</p> <p>b) continue to develop and improve the risk register ensuring all risks throughout the organization is captured in it.</p> <p>c) improve the disclosure of information in the Statement of Internal Controls to ensure compliance with the FRPs Article 12.</p> <p>d) document the internal controls and associated risks in place for the main processes within NDC operations and assess the compliance with the framework chosen.</p> <p>e) conduct internal audit activities, through outsourcing if considered more appropriate, that fully evaluates the effectiveness of the</p>	<p>IBAN found that NDC prepared a risk management policy, which was formally approved and introduced by the NDC Commandant on 4 July 2019 (Ref. NDC/1497).</p> <p><b>Status: Observation Closed</b></p> <p><b>Status: Observation Superseded as per IBA-AR(2019)0007</b></p> <p><b>Status: Observation Closed as per IBA-AR(2019)0007</b></p> <p>As in previous years, the risk register lists the mitigating actions taken (e.g. introduction of additional guidance, creation of a new policy, change of service provider, etc.). However, the risk register does not contain any information on how the actions taken are mitigating the identified risks. The actual internal controls in place for each identified risk as per risk register are not documented yet.</p> <p><b>Status: Observation In-Progress.</b></p> <p><b>Status: Observation Closed as per IBA-AR(2019)0007</b></p>	<p>Observation <b>In-Progress</b></p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
system of internal control and risk management throughout the NDC.		

**NATO DEFENSE COLLEGE (NDC) FORMAL COMMENTS  
ON THE LETTER OF OBSERVATIONS AND RECOMMENDATIONS AND  
THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS**

**OBSERVATION 1:  
EFFECTIVENESS OF THE NDC RISK MANAGEMENT POLICY**

***NDC's Formal comments***

*Agreed.*

*NDC will keep improving its internal risk management processes by ensuring a periodical review of the risk register together with a clearer definition of the scoring criteria, escalation criteria and responsibilities of risk owners, in order to strengthen the effective implementation of the NDC Risk Management Policy as required by Article 11 of the NFRs.*

**OBSERVATION 2:  
TEMPORARY LOANS BETWEEN NATO REPORTING ENTITIES**

***NDC's Formal comments***

*Do not concur with the observation.*

*In line with the IMS Financial Controller position on this recommendation, NDC does not fully concur with the IBAN observation. The process has been in place for a number of years, Nations at the Budget Committee have been informed of this long-standing practice several times. While the NFRs are largely silent on cash advances, they give the Financial Controller responsibilities for the management of appropriated and non-appropriated funds and the authority to make transfers of approved authorizations permissible in accordance with article 26. However, with the aim of complying with best management practice, the IMS Financial Controller will consider adding additional clarification to Finance Standard Operating Procedures across the IMS Budget Group (comprising of the IMS, NDC and STO).*

**IBAN's Position**

In our view, the provisions of Article 26 do not apply to loaning funds between NDC and IMS. IBAN therefore reiterates its recommendation that NDC ensure, with the Financial Controller, that processes and associated conditions regarding such loans are included in a written procedure approved by the NDC Commandant.

## **GLOSSARY OF TERMS**

In accordance with auditing standards, 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.



INTERNATIONAL MILITARY STAFF  
ETAT-MAJOR MILITAIRE INTERNATIONAL



24 March 2020

IMSTAM(FC)-0009-2020

CHAIR, INTERNATIONAL BOARD OF AUDITORS FOR NATO (IBAN)

**NATO DEFENSE COLLEGE (NDC) FINANCIAL STATEMENTS 2019**

1. Please find attached the 2019 NATO Defense College Financial Statements, issued in accordance with NATO Financial Regulation (NFR) Article 35.1.
2. I can confirm that, in accordance with NFR Financial Rules and Procedures XXXV (4), the NDC can agree to public disclosure of these Financial Statements.
3. Notwithstanding the above, as stated in C-M(2012)0041, public disclosure of IBAN Audit Reports is a matter for Council decision, based upon the recommendation of the RPPB. Decisions are informed by the NATO policy on public disclosure of documents (C-M(2008)0116).
4. The IBAN Audit Report covering these Financial Statements has not been issued, but should be presented to Council no later than 31 August 2020 (NFR 15.2). As such, the NDC is not yet in a position to anticipate any potential representations that may be made to the RPPB, regarding the Audit Report.
5. The NDC therefore reserves its position on public disclosure of the eventual IBAN Audit Report.

RUI M.M. DA SILVA  
PRTCV  
Financial Controller  
International Military Staff &  
Science and Technology Organisation

Enclosure:

1. NDC Financial Statements FY 2019

Copy To: COMMANDANT NDC, HEAD OF FINANCE NDC, FC, RECORDS

Action Officer: Ms A. MUEFFKE, Principal Administrator (Finance) to FC IMS, (4593)



# **NATO DEFENSE COLLEGE FINANCIAL STATEMENTS (BUDGET 303)**

## **2019**



Presented by: Head Budget and Finance Branch

Via Giorgio Pelosi, 1  
00143 Rome  
ITALY

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## NDC Statement of Internal Control FY 2019

The Commandant of the NATO Defense College (NDC) exercises overall responsibility for the maintenance of a sound system of Risk Management and Internal Control, in accordance with Articles 11.1 and 12.1 of the NATO Financial Regulations (NFRs).

The NDC Financial Controller is responsible for financial risk management and for establishing financial risk management standards (NFR Financial Rules and Procedures XI.3 and XI.4). In addition, the Financial Controller is responsible for the system of internal financial and budgetary control (NFR 12.2).

The systems of Risk Management and Internal Financial Control are based on an on-going process designed to identify the principal risks to the achievement of NDC policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 December 2019 and up to the date of these Financial Statements.

The systems of Risk Management and Internal Financial Control are designed to manage and reduce - rather than entirely eliminate - risk at the NDC. Risk Management and Internal Financial Controls can therefore provide only a reasonable, but not absolute, assurance of effectiveness. The risks addressed at the NDC include risks to: NDC operational aims and objectives; compliance with the NFRs; the reliability of financial information; and the safeguarding of assets.

The Risk Management and Financial Control processes at the NDC provide a network of internal controls that can be assessed using the five key components of the COSO<sup>1</sup> Framework:

### Control Environment

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

Oversight is provided by the NATO Military Committee (MC), its various sub-committees, who routinely scrutinize NDC Senior Management reports on strategic operational matters.

On Financial matters, interim Budgetary Execution Reports are presented to, and reviewed by, the NATO Budget Committee two times a year. In addition, NDC financial requirements comprising the yearly budget proposals are screened and reviewed by the Nations at various oversight fora.

The overall mission and structure of the NDC was recently reviewed by the Military Committee, resulting into a revised "Policy Guidance for the NATO Defense College" (Document MC 123/10) noted by the North Atlantic Council (NAC) in July 2019.

### Risk Assessment

The NDC continues to develop internal Risk Management policies and procedures. Risk Management will be undertaken throughout all staff Divisions.

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<sup>1</sup> Committee of Sponsoring Organizations of the Treadway Commission.



### Control Activities

The NDC, through its Command Group (CG) and “Commandant Update Brief” (CUB) monitors and controls ongoing progress towards management’s operational requirements, in accordance with deadlines and operational priorities.

In the financial domain, the NDC accounting system -‘FinS’- has built-in approval workflows and controls, together with audit trails. The controls are designed in order that transactions are recorded consistently, accurately and in accordance with the NFRs.

### Information and Communication

NDC internal communications are enhanced by strong reporting lines, based on military principles. The NDC has a Standard Operating Procedure (SOP 97) for a secure user access to Communication & Information resources. This provides for effective communications in pursuit of operational objectives.

Communication also provides for the effective functioning of internal control. The Audit Advisory Panel, for example, reports directly to the Commandant.

The NDC also communicates externally on matters affecting the functioning of internal control. Mechanisms include the Statement of Internal Control, comprising part of the Financial Statements, which is released to the general public. External audits include examinations of internal controls and compliance with applicable rules and regulations. The results of these audits are presented to various oversight authorities outside the NDC and for disclosure to the general public.

### Monitoring

An outsourced Internal Audit service provider is engaged on a periodic basis, to undertake internal audit assignments. The NDC is also subject to annual external audit from the International Board of Auditors for NATO (IBAN).

Recommendations and observations arising from audits are assessed by the Audit Advisory Panel reporting to the Commandant. The results are then assessed, and appropriate actions initiated, in accordance with the provisions of NFRs Article 16.

The 2015 NATO Financial Regulations and Financial Rules and Procedures (FRPs) are important pillars of the NDC internal control framework. The NFRs were endorsed by the Nations in May 2015, and the FRPs were approved by the Budget Committee in February 2016. In May 2018 a revision of the Financial Rules and Procedures (FRPs) was issued.

The Commandant of the NDC and the Financial Controller, have a collective responsibility for reviewing the effectiveness of the system of internal control. Our review is informed by the above five COSO components and by the work of NDC Senior Managers, External Audit, and Internal Audits.

No significant issues regarding financial or operational matters were raised in 2019. The IBAN External Audit of the 2018 Financial Statements -undertaken in 2019- resulted in an unqualified opinion. However, one observation was raised by the IBAN that NDC ensures that all its risks are incorporated in the risk register by establishing a formal communication, review and approval process of the risk register, at least on an annual basis, with the involvement of NDC key stakeholders.

The Internal Auditor of NCI Agency has further assessed in 2019 the Risk Management processes of NDC. The outcome of the audit was a number of observations whose aim was to strengthen the existing Risk Management policy by explicitly defining the responsibilities

for risk owners and better weighting the scoring criteria for risks measurement. The auditor's observations also pointed the way towards a periodical review of the risk register and its mitigating measures in order to enhance the value obtained from risk management.

Overall, we are satisfied that the Risk Management and Internal Financial Control systems in operation across the NDC during the year 2019 were reasonably adequate and effective. We also acknowledge the above mentioned areas for improvement as identified by the Internal Auditors and are confident that adequate action to tackle those areas will be undertaken by the College in 2020.

The year 2019 was the third full year under the new NFR/FRP regime. The NDC continues to be compliant with the NFRs and FRPs.



Chris WHITECROSS  
Lieutenant General Royal Canadian Air Force  
Commandant  
NATO Defense College



Rui Mendes DA SILVA  
Financial Controller  
NATO Defense College  
International Military Staff  
Science and Technology Organization

### **Introduction by the Financial Controller**

1. The NATO Defense College's (NDC) mission and organisation is formally established by the Military Committee. The mission is to contribute to the effectiveness and cohesion of the Alliance by serving as the cornerstone of Alliance education, playing a strong role in public outreach efforts, acting as a forum of excellence for transatlantic security studies and conducting research projects contributing to the identification and analysis of issues important for the Alliance.
2. The IMS Budget Group covers a number of budgets and entities linked together for financial management purposes by a Financial Controller. The IMS Financial Controller is also the Financial Controller of the Science and Technology Organisation (STO). The STO and IMS are therefore related parties under a common Financial Controller.
3. These Financial Statements are specific to the NDC. The NDC statements reflect the financial position, the financial performance, the budget execution, the cash flow and the change in net assets for the reporting period. Notes provide further disclosures on key transactions following the materiality principle. The financial statements have been prepared primarily using the common IMS Budget Group accounting software (FinS), where the NDC has a separate set of financial books. The statements cover the execution of the main NDC budget (BC 303), and include the elements of Outreach budgets and Trust Funds (Non-BC 303) for which the NDC has operational control.
4. The Financial Statements 2019 have been produced in accordance with the NATO Accounting Framework. This Accounting Framework is based on International Public Sector Accounting Standards (IPSAS), as adapted by NATO. The Financial Statements are also produced in accordance with the NATO Financial Regulations and presented in a commonly adopted layout.
5. As the NATO Accounting Framework is continuously evolving, compliance is a dynamic process that requires staff to keep updating their knowledge. Also it requires that the accounting tools are suitably maintained and, when appropriate, upgraded. An on-going challenge is that NATO entities undertake financial reporting in a consistent way. Therefore the NDC, through the IMS FC and his Office, maintains a dialogue with the other NATO entities and plays a full part in the NATO Accounting Working Group and the Working Group of Financial Controllers. The NDC remains committed to developing its Financial Reporting expertise and producing Financial Statements fully compliant with the applicable standards and instructions as issued by Nations. The NDC will also continue to work openly and constructively with the IBAN.



Rui Mendes Da Silva  
PRTCV - Financial Controller  
International Military Staff &  
Science and Technology Organisation

**NATO DEFENSE COLLEGE  
STATEMENT OF FINANCIAL POSITION**

As at 31 December 2019  
(in EUR)

	<i>Notes</i>	<u><b>2019</b></u>	<u><b>2018</b></u>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	2	3,194,335	2,929,973
Receivables	3	51,598	36,022
Advances and other Current Assets	4	15,385	5,149
<b>Non-Current Assets</b>			
Fixed Assets - Property, Plant & Equipment	5	12,876,240	13,049,302
<b>TOTAL ASSETS</b>		<u><b>16,137,558</b></u>	<u><b>16,020,445</b></u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Payables	6	(548,324)	(442,964)
Unearned Revenue & Advance Contributions	7	(2,712,995)	(2,528,179)
<b>Non-Current Liabilities</b>			
Deferred Revenue	8	(12,876,240)	(13,049,302)
<b>TOTAL LIABILITIES</b>		<u><b>(16,137,558)</b></u>	<u><b>(16,020,445)</b></u>
<b>TOTAL NET ASSETS/EQUITY</b>		<u><b>-</b></u>	<u><b>-</b></u>



Chris WHITECROSS  
Lieutenant General, CANAF  
Commandant



Rui Mendes DA SILVA  
PRTCV  
NDC/IMS/STO Financial Controller

# **NATO DEFENSE COLLEGE** **STATEMENT OF FINANCIAL PERFORMANCE**

for the year ended 31 December 2019  
(in EUR)

	<i>Notes</i>	<u><b>2019</b></u>	<u><b>2018</b></u>
<b>Revenue</b>	9	<u><b>(10,268,775)</b></u>	<u><b>(10,123,317)</b></u>
<b>Expenses</b>			
BCode 303 Expenses			
Personnel	10.1.1	5,423,692	5,535,425
Contractual Supplies and Services	10.1.2	3,154,022	3,049,214
Capital and Investments Budgeting	10.1.3	229,988	140,806
Total BCode 303 Expenses		<u><b>8,807,702</b></u>	<u><b>8,725,446</b></u>
Non-BCode 303 Expenses			
Personnel	10.2.1	111,903	93,520
Contractual Supplies and Services	10.2.2	886,536	866,099
Total Non-BCode 303 Expenses		<u><b>998,438</b></u>	<u><b>959,619</b></u>
Financial Expenses		-	882
Depreciation PP & E	5	<u><b>462,635</b></u>	<u><b>437,370</b></u>
<b>Total Expenses</b>		<u><b>10,268,775</b></u>	<u><b>10,123,317</b></u>
<b>SURPLUS / DEFICIT FOR THE PERIOD</b>		<u><b>-</b></u>	<u><b>-</b></u>

## NATO DEFENSE COLLEGE STATEMENT OF CASH FLOWS

for the year ended 31 December 2019

(in EUR)

	<i>Notes</i>	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<i>Surplus/Deficit for the period</i>		-	-
<b>Non-cash movements</b>			
Depreciation / Amortization	5	462,635	437,370
<u>Increase</u> - (Decrease) in payables		105,360	(235,972)
<u>Increase</u> - (Decrease) in other current liabilities		184,816	55,826
<u>(Increase)</u> - Decrease in receivables		(15,577)	29,477
<u>(Increase)</u> - Decrease in other current assets		(10,237)	(810)
Increase - <u>(Decrease)</u> in Long-term Provisions		(173,062)	134,447
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<u>553,934</u>	<u>420,338</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property plant and equipment	13	(289,572)	(571,817)
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<u>(289,572)</u>	<u>(571,817)</u>
<b>Net <u>Increase</u> - (Decrease) in cash and cash equivalents</b>		<u><b>264,362</b></u>	<u><b>(151,479)</b></u>
Cash and cash equivalents at the beginning of the period		<u>2,929,973</u>	<u>3,081,452</u>
Cash and cash equivalents at the end of the period		<u>3,194,335</u>	<u>2,929,973</u>

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

for the year ended 31 December 2019

(in EUR)

	Total
<b>Balance at the beginning of the period 2018</b>	0
Surplus / (deficit) for the period	
<b>Change in net assets/equity for the year ended 2018</b>	0
<b>Balance at the beginning of the period 2019</b>	0
Surplus / (deficit) for the period	
<b>Change in net assets/equity for the year ended 2019</b>	0
<b>Balance at the end of the period 2018</b>	0
<b>Balance at the end of the period 2019</b>	0

**NATO DEFENSE COLLEGE**  
**STATEMENT OF THE BUDGET EXECUTION FOR THE YEAR ENDED 31 DECEMBER 2019**  
(Annex as per the NFRs para 34.4)

Budget Currency EURO	ADJ1-19	MAY-19		AUG-19		ADJ3-19		Commitments	Expenses	Total Spent	Carry Forward	Lapsed
	Initial Budget BA-1	Transfers	BA-2	Transfers	BA-3	Transfers	Final Budget					
BUDGET 303 - 2019												
Chapter 1	5,735,476	0	5,735,476	0	5,735,476	(225,500)	5,509,976	0	5,423,692	5,423,692	0	86,284
Chapter 2	3,260,596	(5,000)	3,255,596	0	3,255,596	125,500	3,381,096	0	3,261,980	3,261,980	0	119,116
Chapter 3	597,285	0	597,285	0	597,285	0	597,285	200,000	397,285	597,285	200,000	0
TOTAL FY 2019	9,593,357	(5,000)	9,588,357	0	9,588,357	(100,000)	9,488,357	200,000	9,082,957	9,282,957	200,000	205,400
BUDGET 303 - 2018												
Chapter 1	0	0	0	0	0	0	0	0	0	0	0	0
Chapter 2	4,303	0	4,303	0	4,303	0	4,303	0	2,078	2,078	0	2,225
Chapter 3	12,298	0	12,298	0	12,298	0	12,298	0	12,239	12,239	0	58
TOTAL FY 2018	16,601	0	16,601	0	16,601	0	16,601	0	14,317	14,317	0	2,283
BUDGET 303 - ALL FYs												
Chapter 1	5,735,476	0	5,735,476	0	5,735,476	(225,500)	5,509,976	0	5,423,692	5,423,692	0	86,284
Chapter 2	3,264,899	(5,000)	3,259,899	0	3,259,899	125,500	3,385,399	0	3,264,059	3,264,059	0	121,341
Chapter 3	609,583	0	609,583	0	609,583	0	609,583	200,000	409,524	609,524	200,000	58
GRAND TOTAL BUDGET 303 ALL FYs	9,609,958	(5,000)	9,604,958	0	9,604,958	(100,000)	9,504,958	200,000	9,097,274	9,297,274	200,000	207,683

Expenses are recognized / recorded on an accrual basis



## NATO DEFENSE COLLEGE NOTES TO THE FINANCIAL STATEMENTS

### 1. Significant Accounting Policies

#### 1.1. Basis of Preparation

The Financial Statements 2019 have been produced in accordance with the NATO Accounting Framework. This Accounting Framework is based on International Public Sector Accounting Standards (IPSAS), as adapted by NATO under C-M(2016)0023 dated 21 April 2016. The NATO Financial Regulations were amended by the Nations in May 2015 (C-M(2015)0025), and the associated Financial Rules and Procedures (FRPs) were approved by the Budget Committee in February 2016 (BC-D(2015)0260-REV1). The Financial Statements are presented in the improved common layout applying the RPPB Notice AC/335-N(205)0088 dated 11 December 2015. All amounts have been rounded to the unit without decimal digits. As a consequence some totals shown in the financial statements might differ from the sum of the rounded figures on which the total was based.

The Financial Statements have been prepared on a going-concern basis.

In accordance with Article 2 of the NATO Financial Regulations (NFRs), the financial year at the NDC begins on 1 January and ends on 31 December of the year.

The accounting principles recognized as appropriate for the recognition, measurement and reporting of the financial position, performance and cash flows on an accrual based accounting using historical costs have been applied consistently throughout the reporting period to ensure that the financial statements provide information that is relevant to the decision-making and reliable, comparable, and understandable in light of the qualitative characteristics of financial reporting as well as of the principle of the right balance between the benefits derived from the information and the costs of providing it as required by IPSAS 1.29 and further summarized in Appendix A of IPSAS 1. The principle accounting policies are set out below.

#### 1.2. Significant Accounting Judgments and Estimates

In accordance with Generally Accepted Accounting Principles, the Financial Statements necessarily include amounts based on estimates and assumptions made by the management and based on historical experience as well as on the most reliable information available. In exercising the judgments to make the estimates, a degree of caution was included in light of the principle of 'prudence' required by IPSAS in order not to overstate assets or revenue or understate liabilities or expenses.

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

#### 1.3. New and revised pronouncements in issue but not yet effected

No accounting standard has been adopted earlier than the application date as stated in the IPSAS standards. The following IPSASs are either not relevant for the NDC Financial Statements 2019 or have immaterial impact on the presentation of the Financial Statements: IPSAS 5, 10, 11, 16, 18, 26, 27, 32, 34, 35, 36, 37, 38 and IPSAS 40 (Public Sector Combinations - effective 1 January 2019).

At the date of authorization of these financial statements, the NDC has not applied IPSAS 41 (Financial Instruments) and 42 (Social Benefits) that have been issued but are not yet effective. It is not expected that the adoption of those Standards will have a material impact on the financial statements of the NDC in future periods.

#### 1.4. Foreign Currency Transactions

The functional and reporting currency used throughout these Financial Statements is the Euro (EUR - €).

Transactions in currencies other than the functional currency are converted into Euro at the NATO exchange rates prevailing at the time of the transaction.

Realized gains and losses resulting from the settlement of such transactions are recognized in the

## Statement of Financial Performance.

### 1.5. Services In-Kind

Services in-kind are services provided by individuals to public sector entities in a non-exchange transaction. These services meet the definition of an asset because the entity controls a resource from which future economic benefits or service potential is expected to flow to the entity. An entity may, but is not required to, recognize services in-kind as revenue and as an asset, and a decrease in an asset and an expense upon consumption of the service in-kind. Due to many circumstances surrounding services in-kind, including the ability to exercise control over the services, and measuring the fair value of the services, IPSAS does not require the recognition of services in-kind.

### 1.6. Financial Instruments Disclosure/Presentation

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

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

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

- Holding current account bank balances and short-term deposits with registered banking institutions, concentrating assets in bank(s) with a minimum rating of "B";
- Maintaining credit control procedures over receivables.

The maximum exposure as at 31 December 2019 is equal to the total amount of bank balances, short-term deposits, and receivables disclosed in the Statement of Financial Position. Receivables considered uncollectible are adequately provided for. There is a very limited credit risk associated with the realization of these instruments.

**Currency risk:** The NDC's exposure to foreign currency exchange risk is very limited, as most of its transactions are dealt with in Euros. A limited number of transactions are paid to suppliers in foreign currencies.

**Liquidity risk:** The liquidity risk is based on the assessment whether the organization will encounter difficulties in meeting its obligations associated with financial liabilities. There is a limited exposure to liquidity risk because of the budget funding mechanism that guarantees contributions in relation to approved budgets. The risks are primarily the validity and timeliness of forecasts that result in the calls for contributions. Loans within the IMS Budget Group minimize the liquidity risk.

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

### 1.7. Cash and Cash Equivalents

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

### 1.8. Receivables

Receivables are stated at net realizable value, after provision for doubtful and uncollectible debts.

In accordance with IPSAS, receivables are broken down into amounts receivable from user charges, taxes, receivables from related parties, etc.

Contributions receivable are recognized when a call for contribution has been issued to the member nations. No allowance for loss is recorded with respect to Member countries' assessed contributions receivable except for exceptional and agreed technical reasons.

### 1.9. Prepayments

This reflects prepayments given to suppliers and to other NATO entities in advance of the period to which it pertains.

## 1.10. Property, Plant and Equipment

### Basic Principles:

- Buildings are offered to be used by the NDC by the MOD Italy. The amounts shown represent the historic cost as provided by the MOD Italy and will be revalued whenever any relevant information is received from the MOD Italy;
- All other property, plant and equipment are stated at historical cost less accumulated depreciation and any recognized impairment loss;
- No external evaluator to set values for assets except Buildings (MOD IT, see above);
- No grouping of assets;
- Depreciation is calculated on a straight-line basis;
- Full depreciation / amortization in the month of acquisition, and nil in the month of disposal.
- As an accounting principle, land cannot be depreciated. The land value shown represents its fair value after internal investigation.

PP&E categorizations for purposes of determining the appropriate useful life of the assets listed in the tables below - the categories for both tangible and intangible assets complete with the years in which the asset is to be depreciated.

Straight-line depreciation method is used for all categories; however the useful life of an asset is dependent on the particular category it is in.

For assets acquired on or after 1 January 2013 the NATO Accounting Framework has been applied, which includes adaptations to IPSAS 17 PPE. NDC continues to recognize assets acquired pre-2013.

### Capitalization Thresholds.

Taking account of the above mentioned control criteria, and the guidance in IPSAS 17, the IMS (including the NSA) and NDC shall capitalize each item of PPE above the following thresholds (per item and no-grouping) and apply the stated useful life below:

Category	Capitalization Threshold	Useful life	Method
Land	€ 200,000	N/A	N/A
Buildings	€ 200,000	40 years	Straight line
Installed equipment (e.g. aircon)	€ 5,000	10 years	Straight line
Machinery	€ 5,000	10 years	Straight line
Furniture	€ 5,000	10 years	Straight line
Automated information systems	€ 5,000	3 years	Straight line

## 1.11. Impairment of tangible assets

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

## 1.12. Leases (IPSAS 13)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rental payments under such leases are charged and presented in the Statement of Financial Performance. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term and are included in Contractual Supplies and Services expenses.

## 1.13. Payables

Payables are amounts due to third parties for goods received or services provided that remain unpaid as of the reporting date. Accruals are estimates of the cost for goods and services received at year-end but not yet invoiced. They are recognized at their fair value.

#### 1.14. Unearned Revenue and Advances

Unearned revenue represents contributions from Nations and/or third parties that have been called for current or prior years' budgets but that have not yet been recognized as revenue. Contributions called for following-year budgets are recorded as advances.

#### 1.15. Provisions - Including Long-term Provisions for PP&E

Provisions are recognized when the entity has a legal or constructive obligation as a result of past event, and where it is probable that an outflow of resources will be required to settle the obligation, and where a reliable estimate of the amount of the obligation can be made.

Long-term Provisions are non-current liabilities of uncertain value or timing.

They can also derive from the recognition of the fixed assets' present net value to be spent in the form of depreciation/amortization, which is not due for at least one fiscal year and perhaps will not be settled until many years in the future.

#### 1.16. 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. Contributions when called are booked as unearned revenue and subsequently recognized as revenue when it is earned.

Revenue comprises contributions from Member Nations and other customers to fund the entity's budgets. It is recognized as revenue in the Statement of Financial Performance when such contributions are used for their intended purpose as envisioned by operational budgets. 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 balance of unspent contributions and other revenues that relate to future periods are deferred accordingly.

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

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

Bank interests earned as of 31 December 2019, exchange rate revenue due to transactions in foreign currency and realized exchange rate revenue in accordance with the entity Policy IPSAS 4 - Effect of the foreign exchange rate - are *presented* as financial liability to the Nations.

#### 1.17. Employee benefits

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

The assets and liability for the above NATO pension schemes and the Retirees Medical Contribution Fund (RMCF) are accounted for centrally at NATO Headquarters by the International Staff and therefore are not recognized in these financial statements.

Certain employees are members of the NATO-wide Defined Contribution Pension Scheme (DCPS). The assets of the plans are held separately from those of NDC in funds under the control of independent trustees or an Administrator. The NDC is required to contribute a specified percentage of payroll costs to the DCPS to fund the benefits. Payments to the DCPS are recognized as an expense when employees have rendered service entitling them to the contributions. The only obligation of NDC with respect to the DCPS is to make the specified contributions.

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

## 2. Cash and Cash Equivalents

	31-Dec-2019	31-Dec-2018
a. Cash Accounts	19,193	71,408
b. Petty Cash and Advances	1,500	1,500
c. Current Bank Accounts in Euros	3,173,642	2,857,065
<b>Total</b>	<b>3,194,335</b>	<b>2,929,973</b>

Cash and cash equivalents are short-term liquid assets. They include the current bank accounts, deposit accounts, credit card accounts and cash in hand.

During the year, cash advances amounting to 1,150,000 EUR were received from the IMS in order to cover temporary shortfalls related to the calls for contributions. As of 31 December 2019 all of these advances have been repaid.

## 3. Accounts Receivable

	31-Dec-2019	31-Dec-2018
a. Receivables from NATO Entities	50,902	17,322
b. Receivables from Governments / Gov. Agencies	696	18,699
<b>Total</b>	<b>51,598</b>	<b>36,022</b>

Receivables mainly include reimbursements from other NATO entities. None of the balances are past their due date.

## 4. Prepayments and Miscellaneous Assets

Advances 15,385 EUR are mainly related to prepaid travel arrangements (2018: 5,149 EUR).

## 5. Property, Plant and Equipment

Property, Plant and Equipment contain the book value of the NDC's following assets:

	AIS and Communication Systems	Furniture	Machinery	Installed Equipment	Land	Building	Totals
<b>Cost</b>							
Balance at 1 January 2018	157,517	26,961	75,550	1,926,932	7,718,220	7,047,696	16,952,875
Additions	6,500	0	7,888	485,699	0	71,730	571,817
Disposals/deletions	-11,505	0	0	-13,539	0	0	-25,044
Balance at 31 December 2018	152,512	26,961	83,438	2,399,093	7,718,220	7,119,426	17,499,649
Additions	65,206	0	0	224,367	0	0	289,572
Disposals/deletions	-56,880	-26,961	0	-74,990	0	0	-158,830
Balance at 31 December 2019	160,838	0	83,438	2,548,470	7,718,220	7,119,426	17,630,391
<b>Accumulated depreciation</b>							
Balance at 1 January 2018	-72,747	-24,265	-38,637	-809,032	0	-3,093,340	-4,038,020
Depreciation expense	-42,932	-2,696	-7,621	-206,136	0	-177,986	-437,370
Disposals/deletions	11,505	0	0	13,539	0	0	25,044
Balance at 31 December 2018	-104,174	-26,961	-46,258	-1,001,629	0	-3,271,325	-4,450,347
Depreciation expense	-37,110	0	-8,199	-239,340	0	-177,986	-462,635
Disposals/deletions	56,880	26,961	0	74,990	0	0	158,830
Balance at 31 December 2019	-84,404	0	-54,457	-1,165,979	0	-3,449,311	-4,754,151
<b>Net book value</b>							
Balance at 31 December 2018	48,338	0	37,180	1,397,464	7,718,220	3,848,101	13,049,302
Balance at 31 December 2019	76,433	0	28,981	1,382,490	7,718,220	3,670,115	12,876,240

The depreciation charge for the year was 462,635 EUR (2018: 437,370 EUR)

## 6. Payables

	31-Dec-2019	31-Dec-2018
a. Payables to Suppliers	160,808	54,792
b. Payable Accruals	287,515	348,172
c. Payable Budget Decrease thru IYR BC 28/29N	100,000	40,000
<b>Total</b>	<b>548,324</b>	<b>442,964</b>

Payables are short-term (less than 1 year) liabilities to third parties directly related to the activities and operations of the NDC.

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

## 7. Unearned Revenue and Advances

	31-Dec-2019	31-Dec-2018
a. Unearned Revenue BCode 303	200,000	16,601
b. Liabilities to Nations	262,995	261,578
c. BC Advance Contributions	2,250,000	2,250,000
<b>Total</b>	<b>2,712,995</b>	<b>2,528,179</b>

Unearned Revenue consists of contributions and other transfers received or receivable, but for which corresponding charges will be incurred after the reporting date (carry-forward credits).

Breakdown of liabilities to Nations:

	31-Dec-2019	31-Dec-2018
a. Operational Result	77,566	30,412
b. Financial Result	-22,255	-12,571
c. Lapsed Budget Authorization	207,683	243,738
<b>Total</b>	<b>262,995</b>	<b>261,578</b>

## 8. Deferred Revenue: PP&E and Intangible Assets

The deferred revenue for the capitalization of property, plant and equipment represents depreciation not yet expended. The revenue will be recognized in the year that the depreciation expenses will be recognized.

## 9. Revenue

Revenue recognition is based on the accounting policies, outlined in note 1.16. Revenue for depreciation represents revenue released in respect of PPE depreciation.

The table below shows the breakdown of the operating revenue between different sources:

	31-Dec-2019	31-Dec-2018
a. Revenue from BCode 303 Operating Activities	8,807,702	8,725,446
b. Revenue from Non-BCode 303 Operating Activities	998,438	959,619
c. Revenue from Financial Activities	-	882
d. Revenue for Depreciation	462,635	437,370
<b>Total</b>	<b>10,268,775</b>	<b>10,123,317</b>

### 9.1. Revenue from BCode 303 Operating Activities

The revenue is recognized in line with the expenses exclusively against the NATO Defense College Budget (303). The amount is net of the capitalized PP&E.

## 9.2. Revenue from Non-BCode 303 Operating Activities

The revenue from NATO/Other Entities and Trust Funds is aligned to the recognition of expenses (see note 10.2.) for several activities such as:

- Outreach/Cooperation activities (PfP, MED, ICI and OMC) – 956,093 EUR
- Reimbursable Activities (Trust Funds) – 42,345 EUR

## 9.3. Revenue for Depreciation

The revenue for the depreciation is recognized in line with the revenue earned from the consumption of the Assets which is compliant with the Accrual Accounting assumption in IPSAS 1 and the income method described in IAS 20 (see note 5).

### Reconciliation between Revenue and Unearned Revenue

The table below explains to what extent the unearned revenue from previous years and the net calls in the current year are recognized as operating revenue in the current year. The remaining balance is unearned revenue for the funds that are carried-forward to future years.

<b>Unearned Revenue Opening Balance 01-Jan-2019</b>		<b>16,601</b>
a.	Contributions called for the year detailed by call	
	1 <sup>st</sup> - FC(CC)(2019)0012 (MB-01) - Funds received from Italy	7,195,018
	2 <sup>nd</sup> - FC(CC)(2019)0012 (MB-02) - Funds received from Italy	2,393,339
	Total Contributions called	9,588,357
b.	Revenue earned in 2019 (Budget Execution including Chapter 73)	-9,097,274
c.	Assessment call for next year – Decrease of the Budget Authorization	-100,000
d.	Lapses 31/12/2019	-207,683
<b>Unearned Revenue Closing Balance 31-Dec-2019</b>		<b>200,000</b>

## 10. Expenses

### 10.1. BCode 303 Expenses

#### 10.1.1. Personnel Expenses

All civilian Personnel expenses as well as other non-salary related expenses, in support of common funded activities, include expenses for salaries and emoluments for approved NATO permanent civilian positions and temporary personnel; other salary related and non-related allowances, such as overtime; medical examinations; recruitment; installation; removal expenses etc. The line also includes outsourced consultants / contractors / experts.

Employees in the NDC are compensated for the service they provide in accordance with rules and amounts established by NATO.

#### Peacetime Establishment (PE)

	<b>Authorized PE</b>	<b>Filled Positions</b>
Civilians	53	51
Military (IMP)	52	46
Voluntary National Contribution (VNC)	1	1
Host Nation	32	32
Partnership Posts	4	4
<b>Total</b>	<b>142</b>	<b>134</b>



The breakdown of salaries and employee benefits are as follows:

	31-Dec-2019	31-Dec-2018
a. Employee benefits	4,180,931	4,193,110
b. DCPS	221,702	212,501
c. Other non-salary related items	1,021,059	1,129,814
<b>Total</b>	<b>5,423,692</b>	<b>5,535,425</b>

The untaken leave at the end of 2019 is 505 days (2018: 486.5 days). Since the estimated amount involved (83,341 EUR) is considered not material (less than 1% of the budget), no adjusting entry has been recorded for untaken leave. (165.03 €/per day)

### 10.1.2. Contractual Supplies and Services

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

### 10.1.3. Capital and Investments

In accordance with the Budget instructions the expenditures costing more than 50% of level A of the EFL have to be included in Capital & Investments (Chapter 73). Only items above capitalization threshold (see note 1.10.) are capitalized; the others are treated as expenses during the year.

## 10.2. Non-Budget Code 303/Reimbursable Expenses

These expenses are funded through various sources to include the IMS Cooperation/Outreach Budget 501 (PfP-MD-ICI-OMC), which is treated as Reimbursable Budget. Other portions are funded as Reimbursable Expenses from other NATO Entities, Partner Entities and Trust Funds for several activities.

Field Study Program's expenses paid on behalf of Nations are not included.

For the detailed presentation see the Non-BCode 303/Reimbursable Budgets' Execution Statement.

### 10.2.1. Personnel

Personnel costs refer to Experts, Lecturers, Interpreters and Language Teachers. No Salary related credits are included in the Non-BCode 303/Reimbursable Budgets.

## 11. Related Parties Disclosure

The key management personnel of the NDC includes: the Commandant, the Dean, the Director of Management, the Chief Personnel & Administration Branch, the Purchasing & Contracting Officer and the Head of Budget & Finance Branch. The key management personnel of the entity have no significant known related party relationships that could affect the operation of the reporting entity. Key management is remunerated in accordance with the applicable National or NATO pay scales. They do not receive from NATO any additional remuneration for Board responsibilities or access to preferential benefits such as the entitlement to receive loans over and above those available to all NATO personnel under normal rules.

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

During the year, the NDC entered into immaterial transactions with other NATO entities outside the IMS Budget Group.

## 12. Representation Allowance

Representation Allowance is allocated to high level officials having the responsibility to establish and maintain relationships of value with external individuals. The 2019 budget allocation was 4,317 EUR and only 55.8% of it has been expensed in accordance with the set rules.



### 13. Budget Execution

The Budget Execution Statement shows the budget allocations and their execution status for the financial year 2019.

There are two budget execution statements, one for the BCode 303 NDC Budget and another one for various reimbursable budgets and reimbursable expenses.

In accordance with the NFRs, all the changes between the initial and the final budget, which were due to reallocations, were either authorized by the BC or were within the authority of the Financial Controller. These changes are presented in the Budget Execution Statement that is prepared on a modified-cash basis.

#### Reconciliation between the NDC Budget Execution Report and the NDC Statement of Financial Performance:

	Statement of Financial Performance	Budget Execution Statement	Difference
a. Personnel	5,423,692	5,423,692	0
b. Contractual Supplies and Services	3,154,022	3,264,059	-110,037
c. Capital & Investments	229,988	409,524	-179,536
<b>Total</b>	<b>8,807,702</b>	<b>9,097,274</b>	<b>-289,573</b>

The difference is due to the inclusion of the capitalized expenditures (new items/additions) in the Budget Execution Statement.

### 14. Write-Off - Donations

In accordance with the NATO Financial Regulations (NFR Art. 17.4), upon request of the Italian Infantry School and after the Budget Committee's approval in 2019, the NDC donated the equipment no longer serviceable.

In accordance with the NATO Financial Regulations (NFR Art. 17.1), an annual summary of property written-off in 2019 is annexed to the annual financial statements at the following table. The table refers to items which were physically disposed in 2019 being no longer serviceable, and include both capitalized and non-capitalized items.

Items (Quantity)	Purchased in	Net Book value	Total cost	Report of Survey	Reason for write-off
Audio / Visual (216)	1982 → 2014	0	178,172	01-09/2019	Special Disposal
CIS (545)	1999 → 2006	0	303,730	03-08/2019	
Furniture (64)	1967 → 2006	0	29,098	04-06-07/2019	Beyond state of repair. No longer serviceable
Mission/Mess Items (11)	1999 → 2005	0	23,428	02-05/2019	
Books (300)	→ 1999	0	300	LKC 1-2-3/2019	
<b>Total</b>		<b>0</b>	<b>534,728</b>		

In 2019 no cash was written-off.

### 15. Operating Lease

The NDC has 1 rental/lease contract which started in 2019 that has been classified as cancelable operating lease as it does not transfer substantially all the risks and rewards incidental to ownership. This approach is reviewed every year. The rental/lease Contract NDC 01/2019 for copiers signed in December 2019 for a period of 5 years with a yearly cost of 32,883 EUR is included in the Contractual Supplies and Services expenses.

## **16. Morale & Welfare Activity**

Some Morale & Welfare Activities (MWA) are conducted at the NATO Defense College. The majority of transactions refer to petrol products, rationed items and a small shop offering mementoes and other few items.

## **17. Field Study Program**

The Field Study Program is part of the Courses' curriculum which foresees 3 field studies per Senior Course and 1 per NRCC, in total 6 plus 2. The Field Study Program's expenses not related to transportation are paid for by the Nations entrusting the centralized administration to the NDC, whereas the NDC acts as a "Procurement Agent" for those services i.a.w. IPSAS 9, Paragraph 12 - Revenue from Exchange Transactions. The 2019 total of all Field Studies is 1,152 MEUR (2018: 1,068 MEUR).

**NATO DEFENSE COLLEGE**  
**STATEMENT OF NON BCode 303 / REIMBURSABLE BUDGET EXECUTION**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

Budget Currency EURO	Initial Budget	Transfers Adjustments	Final Budget	Commitments	Expenses	Total Spent	Lapsed
<b>REIMBURSABLE BUDGETS</b>							
BUDGET 2019 ZNC (501/IMS - PfP)*	499,480.00	(73,829.55)	425,650.45	0	425,650.45	425,650.45	0
BUDGET 2019 ZNC (501/IMS - MD)*	307,885.00	5,929.50	313,814.50	0	313,814.50	313,814.50	0
BUDGET 2019 ZNC (501/IMS - ICI)*	62,835.00	(15,156.88)	47,678.12	0	47,678.12	47,678.12	0
BUDGET 2019 ZNC (501/IMS - OMC)*	330,800.00	(161,849.85)	168,950.15	0	168,950.15	168,950.15	0
<b>TOTAL 2019</b>	<b>1,201,000.00</b>	<b>(244,906.78)</b>	<b>956,093.22</b>	<b>0</b>	<b>956,093.22</b>	<b>956,093.22</b>	<b>0</b>
<b>TOTAL REIMBURSABLE BUDGETS</b>	<b>1,201,000.00</b>	<b>(244,906.78)</b>	<b>956,093.22</b>	<b>0</b>	<b>956,093.22</b>	<b>956,093.22</b>	<b>0</b>
(*) According to the IMS Directives, since Budget 501 (Outreach PfP, MD, ICI and OMC) is reimbursable, the accrued and carried forward amounts are shown in both IMS and NDC books. Expenses are recognized / recorded on an accrual basis							
<b>REIMBURSABLE EXPENSES</b>							
BUDGET 2019 N04 (TRUST FUNDS)	30,000.00	12,344.99	42,344.99	0	42,344.99	42,344.99	0
<b>TOTAL 2019</b>	<b>30,000.00</b>	<b>12,344.99</b>	<b>42,344.99</b>	<b>0</b>	<b>42,344.99</b>	<b>42,344.99</b>	<b>0</b>
<b>TOTAL REIMBURSABLE EXPENSES</b>	<b>30,000.00</b>	<b>12,344.99</b>	<b>42,344.99</b>	<b>0</b>	<b>42,344.99</b>	<b>42,344.99</b>	<b>0</b>
<b>TOTAL REIMBURSABLE BUDGETS &amp; EXPENSES</b>	<b>1,231,000.00</b>	<b>(232,561.79)</b>	<b>998,438.21</b>	<b>0</b>	<b>998,438.21</b>	<b>998,438.21</b>	<b>0</b>