



NORTH ATLANTIC COUNCIL

CONSEIL DE L'ATLANTIQUE NORD

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Releasable to Finland and Sweden

16 December 2022

**DOCUMENT**

PO(2022)0503-AS1 (INV)

**IBAN AUDIT REPORT ON THE AUDIT OF 2021 FINANCIAL STATEMENTS OF  
NATO COMMUNICATIONS AND INFORMATION ORGANIZATION (NCIO)**

**ACTION SHEET**

On 15 December 2022, under the silence procedure, the Council noted the RPPB report and approved its conclusions and recommendations as outlined in PO(2022)0503 (INV).

(Signed) Jens Stoltenberg  
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to PO(2022)0503 (INV).

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09 December 2022

**DOCUMENT**  
PO(2022)0503 (INV)  
**Silence Procedure ends:**  
**15 Dec 2022 – 17:30**

To: Permanent Representatives (Council)

From: Secretary General

**IBAN AUDIT REPORT ON THE AUDIT OF 2021 FINANCIAL STATEMENTS OF  
NATO COMMUNICATIONS AND INFORMATION ORGANIZATION (NCIO)**

1. I attach the Resource Policy and Planning Board (RPPB) report on the International Board of Auditors for NATO (IBAN) Report on the audit of the 2021 financial statements of the NATO Communications and Information Organisation (NCIO). This IBAN Audit Report sets out a qualified opinion on both the financial statements and on compliance of the NCIO for the 2021 financial year.
2. I do not believe this issue requires further discussion in the Council. Therefore, **unless I hear to the contrary by 17:30 hours on Thursday, 15 December 2022**, I shall assume the Council noted the RPPB report and approved its conclusions and recommendations.

(Signed) Jens Stoltenberg

1 Annex  
2 Enclosures

Original: English

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## **IBAN AUDIT REPORT ON THE AUDIT OF 2021 FINANCIAL STATEMENTS OF NATO COMMUNICATIONS AND INFORMATION ORGANISATION (NCIO)**

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

#### **References:**

A.	IBA-AR(2022)0015	IBAN Audit Report on the audit of 2021 financial statements of the NATO Communications and Information Organisation (NCIO)
B.	C-M(2022)0002-AS1	Action Sheet on the IBAN Audit Report on the audit of 2020 consolidated Financial Statements of NATO Communications and Information Organisation (NCIO)
C.	AC/335-D(2022)0055 (INV)	Handling arrangements for 2021 Financial Statements Audit Reports
D.	C-M(2015)0025	NATO Financial Regulations (NFR) and Financial Rules and Procedures (FRP)
E.	C-M(2015)0023	NATO Accounting Framework (NAF)
F.	PO(2015)0052	Wales Summit tasker on transparency and accountability

## **INTRODUCTION**

1. This report by the Resource Policy and Planning Board (RPPB) addresses the IBAN Audit Report on the audit of 2021 financial statements of the NCIO. The IBAN Audit Report sets out a qualified opinion on both the financial statements and on compliance of the NCIO for financial year 2021 (reference A).

### **AIM**

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

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

## **OBSERVATIONS**

4. During the audit, the IBAN made four observations with recommendations for the NCIO, including one observation on the material incompleteness of Property, Plant and Equipment (PP&E) and intangible assets that impacted the audit opinion on the financial statements and on compliance. Other three observations relate to strengthening internal controls related to cash management, disclosure of a provision of EUR 5.1 million related to

the NATO Security Investment Programme (NSIP) receivables and weaknesses regarding Enterprise Business Applications (EBA) user access rights and segregation of duties controls. These three observations did not impact the audit opinion on the financial statements or on compliance. Also, the IBAN followed up on the status of observations and recommendations from the previous years' audits and agreed to close six observations (two are superseded by this year's observations) and two remain in-progress. In 2021, the IBAN closed the observations on the estimated financial impact of Resolute Support Mission, control process for the preparation and quality of financial information, internal control over accrual estimates as well as on the changing and delayed contract requirement definition and weak coordination between the NCIA and the Investment Committee (IC). Observations are detailed in document at reference A.

4.1. Observation 1 (basis for a qualified opinion on the financial statements and on compliance): The RPPB supports IBAN's recommendation that the NCIO recognise and disclose all PP&E and Intangible Assets, including assets under construction, in the financial statements in accordance with the NAF (reference E) and establish and maintain their comprehensive accounting records in accordance with the NFRs.

4.2. Observation 2: The RPPB supports IBAN's recommendation that the NCIO include bank interests received on NSIP funds (IC bank deposits) and any profit and loss in a special miscellaneous account, and presents them in the NSIP Call for Contribution, in coordination with the NATO Office of Resources (NOR). In addition, the RPPB supports the IBAN's recommendation that the NCIO ensure that the treasury procedures cover the management of IC and Budget Committee (BC) related bank accounts, transfers and sharing of interests. Finally, the RPPB supports IBAN's recommendation that the NCIO implement the Treasury Management System in order to fully integrate treasury management into the EBA.

4.3. Observation 3: The RPPB supports IBAN's recommendation that the NCIO complete its review of the unreconciled NSIP receivable, agree amounts with the NOR, take corrective action as necessary and ensure that unreconciled receivables/provisions or other doubtful balances or balances/transactions are clearly disclosed in the notes to the financial statements.

4.4. Observation 4: The RPPB supports IBAN's recommendation that the NCIO develop an action plan with regard to recommendations expressed in internal audit reports, enhance segregation of duties controls and perform an analysis for staff members changing positions or departments within the Agency, to ensure that the new roles and responsibilities comply with the segregation of duties principle.

4.5. Observations in-progress or open for more than three years for the financial year 2020: In the document at reference B, the Council invited the NCIO to provide an action plan with deadlines on the implementation of 2016 financial year recommendation on the changing and delayed contract requirement definition and weak coordination between NCIA and the IC. The NCIA implemented this recommendation in 2021 as part of implementing the common funded capability delivery governance model.

## **DISCUSSION**

5. As per the agreed handling agreements (reference C), the NCIO presented to the RPPB its status update on the IBAN Audit Report on the audit of 2021 NCIO financial statements. Furthermore, the ASB Finance Committee presented to the Board its activities to find suitable solutions to the IBAN observations, especially in resolving the qualified opinion.

5.1. The RPPB recognises the NCIO's continuing efforts and strong commitment to apply appropriate solutions to implement the remaining IBAN's recommendations.

5.2. Furthermore, the RPPB welcomes significant progress in addressing the number of IBAN observations but at the same time expresses its concerns with regard to the new IBAN observations stemming from the audit of NCIO 2021 financial statements.

5.3. As regards the disclosure of a provision of EUR 5.1 million unreconciled receivables related to historical NSIP transactions dating back to 2014, the RPPB acknowledges that due to the error in reconciliation between the NOR and NCIA, the NCIA intends to submit a formal request to ASB Finance Committee to apply the write-off, without entailing any further loss. As confirmed by the NCIO Financial Controller at the table, this amount is already provisioned in the NCIO 2021 financial statements and therefore the write-off would have no impact on the Operating Fund.

5.4. The RPPB notes that for the observation related to the qualified opinion on the NCIO financial statements (material incompleteness of PP&E and intangible assets, including assets under construction) outstanding since 2013 when the first consolidated NCIO financial statements were prepared, the improvements have been made with disclosure note included in the NCIO financial statements for prior 2018 asset under construction and the establishment of the Asset Management Program Office. The RPPB is aware that in order to close this observation the NCIA needs to migrate several inventory databases that manage a large number of assets into the new EBA and track the assets with support of other stakeholders, such as the Allied Command Operations.

5.5. In this regard, as the outcome of the discussion, the RPPB expects the NCIO to meet all the necessary requirements to address the remaining observations, and in particular given its interdependence with cyber component Asset, Configuration, Patching and Vulnerability (ACPV) management to implement the outstanding recommendation that led to qualified audit opinion by the end of 2022.

## **CONCLUSIONS**

6. The IBAN Audit Report sets out qualified audit opinion on both the financial statements and on compliance of the NCIO in 2021. In total, the IBAN raised four observations in the NCIO audit report during the audit of 2021 financial year for which the first observation impacts the audit opinion on both the financial statements and on compliance.

7. As of the date of the respective IBAN Audit Report on the 2021 financial statements, six prior year observations were closed (including two superseded) and two were in-progress. The RPPB notes the improvements made by the NCIO and supports the NCIO management commitment to continue its corrective actions with an aim to promptly implement pending recommendations. Prior years' in-progress and closed observations are detailed in document at reference A.

8. The RPPB supports IBAN's recommendation that improvements are needed in recognition and disclosure of all PP&E and intangible assets in the NCIO's financial statements, strengthening internal controls related to cash management, disclosure of a provision related to NSIP receivables and enhancing EBA user access rights and segregation of duties.

9. The RPPB expects NCIO to implement the IBAN's recommendation that led to qualified audit opinion by the end of 2022.

## **RECOMMENDATIONS**

10. The Resource Policy and Planning Board recommends that the Council;

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

10.2. approve the conclusions at paragraphs 6 to 9;

10.3. agree the public disclosure of the 2021 financial statements for the NCIO, its associated IBAN Audit Report and this report in line with agreed policy at reference F.



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

Enclosure 1 to  
PO(2022)0503 (INV)

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

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

Subject: ***International Board of Auditors for NATO (IBAN) Audit Report on the audit of the NATO Communications and Information Organisation's (NCIO) Financial Statements for the year ended 31 December 2021 – IBA-AR(2022)0015***

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

IBAN's report sets out a qualified opinion on the Financial Statements of the NCIO and on compliance for financial year 2021.

Yours sincerely,

Daniela Morgante  
Chair

Attachments: As stated above.

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**Summary Note for Council  
by the International Board of Auditors for NATO (IBAN)  
on the audit of the Financial Statements of the  
NATO Communications and Information Organisation (NCIO)  
for the year ended 31 December 2021**

NCIO comprises an Agency Supervisory Board (ASB) and an Executive Body, the NATO Communications and Information Agency (NCIA). NCIA's mission is to deliver to NATO secure, coherent, cost effective and interoperable communications and information systems and services in support of consultation, command and control (C3) and enabling intelligence, surveillance and reconnaissance capabilities. It includes information technology support to NATO Headquarters, the Command Structure and NATO Agencies. In 2021, NCIO generated revenues of EUR 817 million and incurred expenses of EUR 791 million, resulting in a surplus of EUR 26 million.

IBAN issued a qualified opinion on the Financial Statements and on compliance for the year ended 31 December 2021.

We were not able to obtain sufficient evidence in respect to the completeness of Property, Plant and Equipment (PP&E), Intangible Assets, and assets under construction, reported in the 2021 Financial Statements.

PP&E and Intangible Assets related to Computer Information Systems (CIS) controlled by NCIO from 1 January 2013 were not capitalised in the Statement of Financial Position, as required by the NATO Accounting Framework. In addition, CIS assets that were under construction as of 1 January 2018, including existing ones that continue after 1 January 2018, were not capitalised in the Statement of Financial Position. A similar issue led to a qualification of the 2018, 2019 and 2020 NCIO Financial Statements.

Additions in 2021 to CIS assets that were under construction from 1 January 2018, were fully expensed in the 2021 Statement of Financial Performance rather than capitalised in the Statement of Financial Position. As a result, we were not able to obtain sufficient evidence in respect to the fair presentation of expenses and, given the agency's no-profit/no-loss model, of its associated revenue.

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

IBAN made four observations and recommendations listed below.



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

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

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

2. Strengthening Internal Controls related to Cash Management.
3. Disclosure of a provision of EUR 5.1 million related to NSIP receivables.
4. Weakness regarding EBA User Access Rights and Segregation of Duties.

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

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

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30 August 2022

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

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

**FOR THE YEAR ENDED 31 DECEMBER 2021**

PUBLICLY DISCLOSED - PDN(2023)0009 - MIS EN LECTURE PUBLIQUE

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IBA-AR(2022)0015

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

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of NATO Communications and Information Organisation (NCIO), for the 12 month period ended 31 December 2021, issued under document reference NCIA/FC/2022/003, and submitted to IBAN on 31 March 2022. These Financial Statements comprise the Statement of Financial Position as at 31 December 2021, 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 2021, 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 2021.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the Financial Statements give a true and fair view of the financial position of NCIO as at 31 December 2021, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2021, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

**Basis for Qualified Opinion on the Financial Statements**

We were not able to obtain sufficient evidence in respect to the completeness of Property, Plant and Equipment (PP&E), Intangible Assets, and assets under construction, reported in the 2021 Financial Statements.

PP&E and Intangible Assets related to Computer Information Systems (CIS) controlled by NCIO from 1 January 2013 were not capitalised in the Statement of Financial Position, as required by the NATO Accounting Framework. In addition, CIS assets that were under construction as of 1 January 2018, including existing ones that continue after 1 January 2018, were not capitalised in the Statement of Financial Position. A similar issue led to a qualification of the 2018, 2019 and 2020 NCIO Financial Statements.

Additions in 2021 to CIS assets that were under construction from 1 January 2018, were fully expensed in the 2021 Statement of Financial Performance rather than capitalised in the Statement of Financial Position. As a result, we were not able to obtain sufficient evidence in respect to the fair presentation of expenses and, given the agency's no-profit/no-loss model, of its associated revenue.

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO

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bodies and reporting entities pursuant to the North Atlantic Treaty shall be performed by IBAN.

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

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

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

### **Management's Responsibility for the Financial Statements**

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

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when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

## **Compliance**

### **Qualified Opinion on Compliance**

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

### **Basis for Qualified Opinion on Compliance**

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

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

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

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

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

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

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

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

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(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, 30 August 2022



Daniela Morgante  
Chair

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**OBSERVATIONS AND RECOMMENDATIONS**

IBAN made four observations and recommendations.

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

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

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

2. Strengthening Internal Controls related to Cash Management.
3. Disclosure of a provision of EUR 5.1 million related to NSIP receivables.
4. Weakness regarding EBA User Access Rights and Segregation of Duties.

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

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

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

### **Reasoning**

1.1 The NATO Accounting Framework (NAF) states that, if NCIO is acting as a service provider to NATO Commands (including the International Staff and International Military Staff) for Computer Information Systems (CIS) or Automated Information Systems (AIS) assets, then NCIO has control over those assets. The NAF requires that NATO Reporting Entities shall capitalise in their Statement of Financial Position all controlled Property, Plant and Equipment (PP&E) and Intangible Assets purchased on or after 1 January 2013 above certain capitalisation thresholds.

1.2 For PP&E and Intangible Assets held prior to 1 January 2013, and not previously recognised as an asset, the NAF also requires that NATO Reporting Entities provide a brief description of these assets in the notes to the financial statements. Such disclosure should include as a minimum the types of assets held, locations where assets are held and the approximate number of items per asset category.

1.3 According to the NAF, NCIO may consider CIS assets under construction prior



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

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

1.5 Also, the NATO Accounting Policy for PP&E and Equipment AC/335-N(2016)0088-REV3 (INV) under paragraph 9.3.2 states: *This information does not have to be itemised but can be summarised for each asset category which has been defined.*

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

### Observations

1.7 IBAN maintains its qualified opinions of 2018, 2019 and 2020 regarding PP&E, Intangible Assets and assets under construction on NCIO's 2021 Financial Statements. The qualification relates to both the disclosure requirements of the NAF and compliance with the NFRs. The assets concerned mainly relate to NATO Security Investment Programme (NSIP) projects. For example, amongst others, assets related to the Air Command and Control System (ACCS), crypto equipment and CIS related to the New NATO Headquarters. The reasons for qualification are outlined in the paragraphs below.

1.8 We found that PP&E and Intangible Assets related to Computer Information Systems (CIS) controlled by NCIO from 1 January 2013 were materially incomplete, as they were not capitalised in the Statement of Financial Position, as required by the NATO Accounting Framework. This is partly because PP&E and Intangible Assets recorded in the legacy accounting systems have not yet been fully migrated into the new Enterprise Business Applications (EBA) system and reported in the NCIO 2021 Financial Statements.

1.9 In addition, CIS assets that were under construction as of 1 January 2018, including existing ones that continue after 1 January 2018, were not capitalised in the Statement of Financial Position. Additions in 2021 to assets that were under construction from 1 January 2018 were fully expensed in the 2021 Statement of Financial Performance, rather than capitalised in the Statement of Financial Position. As a result, we were not able to obtain sufficient evidence in respect to the fair

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presentation of expenses and, given the agency's no-profit/no-loss model, of its associated revenue.

1.10 We found improvements in the note disclosures required by the NAF. Similar to 2020, NCIO included a note in the Financial Statements outlining the PP&E and Intangible Assets held prior to 1 January 2013. This included the types of PP&E and Intangible Assets held, locations and the approximate number of items per asset category. In addition, unlike 2020, NCIO included a new note to the financial statements on the types and the locations of CIS assets that were under construction prior to 1 January 2018 and were still assets under construction at 31 December 2021.

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

## Recommendations

1.12 IBAN recommends that NCIO:

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

## 2. STRENGTHENING INTERNAL CONTROLS RELATED TO CASH MANAGEMENT

### Reasoning

2.1 Article 4 of the NATO Financial Regulations (NFRs) on Financial Management states that: *"The financial administration of NATO bodies must be based on clear delegations of authority and ensure the most cost efficient, cost effective and economic use of resources incorporating the following principles:*

- (a) propriety;*
- (b) sound governance;*
- (c) accountability;*
- (d) transparency;*
- (e) risk management and internal control"*
- [...]*

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2.2 Furthermore, NCIO Financial Rules and Procedures (FRPs) Article XI states that: *“The Financial Controller will be responsible to:*

- (a) the General Manager for financial risk management in the NCI Agency;*
- (b) to the ASB Chairperson with respect to the financial risk management in the Independent Secretariat.*

*The Financial Controller will establish financial risk management standards. This will include an appropriate Internal Control framework to be reviewed by Internal Audit”.*

2.3 Also, NCIO FRPs Article XXVII on Provision of Cash Flow mention that “19) *The NCI Agency aims for a positive cash flow position during the delivery of a service or during the execution of a project”.*

2.4 Finally, the Investment Committee document AC/4-D/2663 on the Accounting Method to be followed by the Agencies for Infrastructure Accounts states in the Annex, Operating Instructions for NATO Agencies “Handling of Infrastructure Funds” under paragraph 3 on Interest and Profits and Losses or Exchange:

- (a) As in the past, the Agencies will include profits and losses due to rates of exchange, with the interests received on bank deposits, in a special Miscellaneous Account [...]. The results of this operation will be transferred directly to the credit (debit) of the host countries [...] and also introduced in the paysheet at the appropriate time;*
- (b) For this purpose, as in the past, the report containing this special Miscellaneous Account will be submitted to the Payments and Progress Committee for approval;*

## Observations

2.5 NCIA manages its treasury through two different bank account groupings: Budget Committee (BC) and Investment committee (IC) bank accounts. The ‘IC’ bank accounts are used for bank transactions related to NSIP funds. The ‘BC’ bank accounts are used for all other type of transactions.

2.6 The NCIA Treasury operates mainly in EUR, USD, GBP and NOK currencies. Cash and cash equivalents amounted to EUR 186.7 million as at 31 December 2021, EUR 171.7 million as at 31 December 2020, and EUR 63.4 million as at 31 December 2019.

2.7 NCIA operates 19 bank accounts and 4 virtual bank accounts. Virtual bank accounts are bank sub-accounts with a specific international bank account number. This high number of bank accounts can partially be explained by the use of different currencies (EUR, USD, GBP and NOK), risk mitigation to cover a disruption of one of the web-based banking platforms used by NCIA, and to avoid the payment of negative interests.

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Improvements needed to the Treasury Policy

2.8 NCIA treasury procedures including process descriptions, risks and controls are in place and reviewed once a year by the Head of Treasury. We understand that the Financial Controller reviewed existing treasury documentation and formally approved a Treasury Policy Document in April 2022. However, we note that this Treasury Policy does not address the management of the IC and BC accounts, associated transfers between these accounts and sharing of bank interests received.

Lack of a Treasury Management System (TMS) fully integrated into the Agency Enterprise Business Application (EBA)

2.9 NCIA Treasury works primarily with three different banking platforms. When setting up its Enterprise Business Applications (EBA) system, the Agency did not acquire the full components of a Treasury Management Module. A Treasury Management Module is a software application between the different banking platforms and EBA that would automate the process of managing the Agency's significant financial operations.

2.10 A Treasury Management Module would assist NCIA in managing its financial activities automatically, such as their cash flows and financial transactions, strengthening internal controls in the process. The Agency cash at bank data may be available in EBA today but not in a way, that facilitates cash management. Therefore, the Agency still uses multiple manual spreadsheets to have a more detailed overview of bank balances and cash flow forecasts.

2.11 Below are the main treasury processes not yet fully automated in EBA (non-exhaustive list):

- Bank position and payment automation: automatic interfaces to the bank to obtain daily account balances and movements, to send payments to be executed and to receive customer and other payments/charges, including further reconciliation with accounts receivable and payable,
- Short and long-term position forecast: liquidity reports and short/long term positions based on the system information.

2.12 Implementing fully automated treasury processes reduces the risks of mistakes and irregularities and improves the reliability of the data. In the absence of fully automated treasury processes, NCIA Treasury seeks to mitigate these risks by implementing regular manual controls on the bank balances and cash flow forecasts. We understand that the Finance Division finalised a business case on the Treasury Management System (TMS) of the Agency end of March 2022 but that further internal coordination is still required.

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Interest, Profits, Losses or Exchange related to NSIP funds

2.13 According to IC document AC/4-D/2663, Annex: Operating Instructions for NATO Agencies "Handling of Infrastructure Funds" paragraph 3, NCIA should include profits and losses due to rates of exchange with the interests received on IC bank deposits related to NSIP funds in a special Miscellaneous Account. This paragraph also states that the results of this operation "[...] *will be transferred directly to the credit (debit) of the host countries [...] and introduced in the paysheet [NSIP Call for Contribution] at the appropriate time*".

2.14 The Agency does not calculate a 'virtual' bank interest in order to estimate an equivalent interest received on IC bank deposits (NSIP funds). Therefore, NCIA may not comply with the above IC approved instruction if part of the bank deposits on 'IC' accounts holding NSIP funds are transferred to 'BC' accounts.

2.15 However, we found that the Agency regularly transfers bank deposits between 'IC' and 'BC' accounts. This is done in order to avoid payment of negative interests when bank deposits are above the zero charge ceiling, to pay for common 'IC' and 'BC' costs (such as salaries) and to avoid liquidity shortfalls. Over the past years, these transfers were mostly made from 'IC' bank accounts holding NSIP funds to 'BC' bank accounts.

2.16 As an illustration, up until December 2021, EUR 139 million were transferred from 'IC' bank accounts to 'BC' bank accounts. Conversely, Treasury transferred EUR 77.5 million from 'BC' bank accounts to 'IC' bank accounts. In December 2021, a balance of EUR 61.5 million of NSIP funds were deposited on 'BC' bank accounts.

2.17 Due to these bank transfers, NCIA is not in a position to comply with IC agreed procedures stipulated in AC/4-D/2663, Annex: Operating Instructions for NATO Agencies "Handling of Infrastructure Funds" paragraph 3, as the Agency is not able to account for the profits and losses due to exchange rates and for the interests received on 'IC' related bank deposits.

**Recommendations**

2.18 IBAN recommends that NCIO:

- a) Comply with AC/4-D/2663, Annex paragraph 3 by including bank interests received on NSIP funds ('IC' bank deposits) and any profit and loss in a special Miscellaneous Account, and by regularly introducing the result of this operation in the NSIP Call for Contribution, in coordination with the NATO Office of Resources;
- b) Ensure that the treasury procedures approved by the NCIA Financial Controller cover the management of 'IC' and 'BC' related bank accounts, associated transfers between these accounts and sharing of interests received;

- c) Implement the Treasury Management System (TMS) in order to fully integrate treasury management into the Enterprise Business Application (EBA).

### 3. DISCLOSURE OF A PROVISION OF EUR 5.1 MILLION RELATED TO NSIP RECEIVABLES

#### Reasoning

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

3.2 In addition, Article 12.3 of the NFRs states that “*Internal control activities shall include [...] adequate audit trails and data confidentiality, integrity and availability in information systems.*”

3.3 According to paragraph 29 of IPSAS 1, in addition to compliance with applicable IPSASs, a fair presentation also requires an entity to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.

3.4 NSIP funds held by NCIA may accumulate surpluses and deficits due to fluctuations in exchange rates and bank interest.

3.5 The Investment Committee (IC) document AC/4-D/2663 on Accounting Method to be followed by the Agencies for Infrastructure Accounts, Annex, Operating Instructions for NATO Agencies “Handling of Infrastructure Funds” states, that the income resulting from NSIP operations should be accounted for in a special dedicated account and transferred to the Nations in due course, in practice by offsetting future calls for contributions. A report containing the balance of such miscellaneous income should be submitted to the IC for approval.

3.6 The status of refundable income (or loss) is presented in the IC’s annual NSIP Financial Activity Report. This report includes a cumulative aged balance of the remaining amounts to be redistributed to the Nations based on the declarations provided by the NCIA, which must therefore be made according to the same annual calendar.

3.7 Amounts owed to or owing from Nations should be clearly shown in NCIO’s financial statements as either assets or liabilities and clearly explained in the notes supporting the financial statements.

## Observation

3.8 IBAN's Audit Report on NCIO's 2020 financial statements contained an observation related to miscellaneous income owed by NCIA to NSIP. We recommended that NCIO provide the NATO Office of Resources (NOR) with regular financial information on NSIP surpluses and deficits, reconciled with account balances, for disclosure to the IC.

3.9 Following IBAN's 2020 observation, the NOR and NCIO have investigated unreconciled surplus/deficits related to NSIP funds provided to the Agency going back several years. The NOR and NCIO agreed on some of the amounts owed and owing and have taken action as necessary. These transactions are reflected in the NCIO 2021 Financial Statements. However, the 2021 Financial Statements also contain a receivable of EUR 5.1 million related to unreconciled receivables (NSIP funds owed to NCIO) yet to be validated as correct by NCIO and confirmed with the NOR. In previous financial statements, the unreconciled amounts were disclosed as debit balances in liabilities, which are credit balances. However, as of the 2021 Financial Statements, the unreconciled balance is correctly accounted for as a receivable. In addition, a provision and related expenses were recognised in the Financial Statements to cover possible losses related to this amount.

3.10 The EUR 5.1 million of unreconciled receivables relate to historical NSIP transactions dating back to 2014 shortly after the NCIO was formed from existing agencies and programme offices. It appears to partly relate to the Air Command and Control (former NACMA) NSIP administrative budget. In addition, it could partly relate to NSIP transactions on the former NATO Ballistic Missile Defence programme office. NCIO's internal audit is now investigating the unreconciled balance by examining historical accounting data.

3.11 NCIO's 2021 Financial Statements disclose receivables and provisions within the Statement of Financial Position. However, the notes to the Financial Statements, relating to receivables and provisions do not show the unreconciled balance separately or provide an explanation as to the nature of the balances. In addition, the Agency did not disclose to IBAN the unreconciled amount in its management representation letter supporting the 2020 Financial Statements. We believe this should have been brought to our attention in the management representation letter.

## Recommendations

3.12 IBAN recommends that NCIO:

- a) Complete its review of the unreconciled NSIP receivable, agree amounts with the NOR, and take corrective action as necessary prior to publishing the 2022 Financial Statements; and
- b) Ensure, in future, that unreconciled receivables/provisions or other doubtful balances or balances/transactions under review are clearly disclosed in the

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notes to the financial statements. In addition, such amounts should be formally brought to the attention of IBAN and the appropriate governing body once known by the Agency.

#### 4. WEAKNESS REGARDING EBA USER ACCESS RIGHTS AND SEGREGATION OF DUTIES

##### Reasoning

4.1 Article 12.1 of the NFRs states that *the Secretary General, the Supreme Commanders, subordinate commanders by delegation and the other Heads of NATO bodies shall ensure the necessary internal management functions are in place to support effective internal control, designed to provide reasonable assurance that the NATO body will achieve its objectives in the following categories:*

- a) safeguard assets;*
- b) verify the accuracy and reliability of accounting data and records;*
- c) promote operational efficiency; and*
- d) compliance with established managerial and command policies.*

4.2 Article 12.3 also provides that internal control activities shall include, but not be limited to:

- a) segregation of duties;*
- b) avoidance of conflicts of interests;*
- c) adequate audit trails and data confidentiality, integrity and availability in information systems;*
- d) procedures for monitoring of performance and for follow-up of identified internal control weaknesses and deviations from the procedures laid down in the internal control system;*
- e) periodic assessment and review of the risk and the sound functioning of the internal control system;*
- f) formal approval process and authorisation for transactions.*

4.3 Segregation of Duties (SOD) is a basic building block of sustainable risk management and internal controls in a business. The principle of SOD is based on shared responsibilities of a key process that disperses the critical functions of that process to more than one person or department. Without this separation in key processes, fraud and error risks are far less manageable.

4.4 The most practical way to document segregation is by preparing a segregation of duties matrix. It lists potential conflicts to determine what risk may be realised and whether a user should have access or authorisations to a combination of functions. The segregation of duties matrix should include the process or process steps and authorisations checked.



## Observations

4.5 The following observations were made during the audit:

*Absence of detailed action plan with regard to the recommendations from NCIA Internal Audit.*

4.6 The Enterprise Business Application (EBA) is the Enterprise Resource Programme (ERP) software within the Agency. It includes modules such as Finance, Human Resources, Asset Management and Acquisition. The implementation of the EBA system went live in February 2019.

4.7 NCIA Internal Audit (IA) performed a readiness audit on EBA in 2018 and a follow-up audit in 2019. The objective of the latter was to determine the extent to which the recommendations made by IA in the first audit were implemented, and evaluate how issues (existing and new ones) were handled since the system went live.

4.8 A number of observations and recommendations were made in the following areas: (i) Data Migration, (ii) Business Continuity, (iii) Business Change, (iv) Contractual Amendments, (v) EBA User Access and Responsibilities, and (vi) Issue Management.

4.9 We found that a detailed action plan with regard to the recommendations made by IA could not be provided to us. We are therefore not in a position to assess the progress made in implementing the recommendations from IA.

*Absence of a segregation of duties matrix.*

4.10 In the specific context of EBA User Access and Responsibilities, IBAN found that there is a control in place in order to verify that only legitimate users access the application EBA. This control is currently executed once a year as part of the annual closure and under the coordination of the Finance Internal Control Officer. In 2021, the review was expanded to also include users in other Functional Areas such as Acquisition and Human Resources (HR).

4.11 NCIA was however not in a position to provide a detailed segregation of duties matrix as well as a clear description of the roles and responsibilities within EBA in order to ensure that approvers, requesters and reviewers understand all of them. As a result, there is an increased risk that conflicting roles and responsibilities assigned to a same user account remains unspotted for a certain amount of time.

*User access to the system not revoked in a timely manner.*

4.12 We found several instances where user access to the system was not revoked although the staff members left the Agency several months earlier. At the time of the audit, the Agency intended to revoke these accesses during the next yearly User Access Review.

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**Recommendations**

4.13 IBAN recommends that NCIO:

- a) Systematically develop and maintain a detailed action plan with regard to recommendations expressed in internal audit reports.
- b) Enhance segregation of duties by creating:
  - i. appropriate documentation on all roles and responsibilities in EBA and
  - ii. a Segregation of Duties matrix identifying all conflicting roles and responsibilities.
- c) Revoke roles and responsibilities for leavers at the time of departure.
- d) Perform, for staff members changing positions or departments within the Agency, an analysis in order to ensure that the new roles and responsibilities comply with the segregation of duties principle.

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

IBAN followed up on the status of observations from the previous years' audit. The observations and recommendations, the actions taken by the auditee as reviewed by IBAN, and their status are summarised in the table below.

The Open status is used for recommendations that are open and for which no notable progress has been achieved to date. The In-progress status is used for open recommendations when the NATO Reporting Entity has started to implement the recommendation or when some (but not all) sub-recommendations are closed. The Closed status is used for recommendations that are closed because they have been implemented, are superseded, or have lapsed. In the case where there are sub-recommendations, the status related to each sub-recommendation is indicated in the Action Taken column.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<b>(1) NCIA FY 2020</b> <b>IBA-AR(2021)0016</b>  <b>MATERIAL INCOMPLETENESS OF PROPERTY, PLANT AND EQUIPMENT (PP&amp;E) AND INTANGIBLE ASSETS</b>  <b>IBAN's Recommendation</b> IBAN recommends that NCIO:  a) Recognises all PP&E and Intangible Assets, including assets under	Superseded by this year's observation.	Observation Closed

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OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>construction, in the Financial Statements in accordance with the NATO Accounting Framework.</p> <p>b) Establishes and maintains comprehensive accounting records of all PP&amp;E, Intangible Assets, and assets under construction in accordance with Article 12 of the NFRs.</p>		
<p><b>(2) NCIA FY 2020</b> <b>IBA-AR(2021)0016</b></p> <p><b>THE ESTIMATED FINANCIAL IMPACT OF RESOLUTE SUPPORT (RS) WITHDRAWAL NOT YET AVAILABLE</b></p> <p><b>IBAN's Recommendation</b> IBAN recommends that NCIO:</p> <p>a) Finalise the analysis of the estimated financial impact of the RS withdrawal as soon as possible and inform all stakeholders hereof.</p> <p>b) For other on-going NATO missions, establish procedures to ensure that an updated analysis and overview of the financial impact of possible restructuring or closure of an operation is readily available, at a minimum annually.</p>	<p>a) During the audit, we did not find any instances regarding the financial impact of the RS withdrawal that were not considered by the Agency.</p> <p>Contracts were amended to reflect final termination conditions, in line with contract terms and conditions.</p> <p>Financial information was reported to the Customer (ACO) at the end of 2021 as part of the RS mission closure report. <b>Closed</b></p> <p>b) Although no procedures are formally established, NCIA review on an ongoing basis the financial impact of possible restructuring or closure of operations as part of the Enterprise Risk Management (ERM) system and the associated Corporate and Directorate Risk Registers. In addition, the process on the Reporting of Provisions, Contingent Liabilities/Assets, and Events After the Reporting Period also covers such events. Furthermore, bi-monthly meetings with Legal, Acquisition and Finance take place to</p>	<p>Observation <b>Closed</b></p>

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OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
	identify any risks that could materialise in a provision and or contingent liability. <b>Closed</b>	
<p><b>(3) NCIA FY 2020</b> <b>IBA-AR(2021)0016</b></p> <p><b>MISCELLANEOUS INCOME OWED BY NCIA TO NSIP</b></p> <p><b>IBAN's Recommendation</b> IBAN recommends that NCIO:</p> <p>a) Recognises a liability in its Statement of Financial Position regarding amounts owed by NCIA to NSIP, which reconciles with the information prepared by the NATO Office of Resources for the Investment Committee.</p> <p>b) Provides the International Staff's NATO Office of Resources for disclosure to the Investment Committee, regular financial information on the amounts and flows of refundable miscellaneous income owed relating to NSIP; including the underlying transactions reconciling with the account balances.</p>	Superseded by this year's observation.	Observation <b>Closed</b>
<p><b>(4) NCIA FY 2020</b> <b>IBA-AR(2021)0016</b></p> <p><b>IMPROVEMENT NEEDED IN THE CONTROL PROCESS FOR THE PREPARATION OF FINANCIAL STATEMENTS AND THE QUALITY OF FINANCIAL INFORMATION DISCLOSED</b></p> <p><b>IBAN's Recommendation</b> IBAN recommends NCIO to strengthen its system of internal control by improving the preparation, review and reporting process of the Financial Statements. This includes documenting:</p> <p>a) The reconciliation of the primary financial statements and the notes with the trial balance.</p> <p>b) The reconciliation of prior year balances in the financial statements with the previous year's audited financial statements.</p> <p>c) The verification of factual accuracy and completeness of all disclosures included in</p>	a), b), c), The internal controls related to the preparation of the financial statements and the quality of financial information disclosed were improved and IBAN did not find significant inconsistencies and errors in the 2021 NCIO Financial Statements.	Observation <b>Closed</b>

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OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
the notes to the financial statements.		
<p><b>(5) NCIA FY 2020 IBA-AR(2021)0016</b></p> <p><b>IMPROVEMENT NEEDED TO THE NCIO COST TO COMPLETE (CTC) MODEL FOR REVENUE RECOGNITION</b></p> <p><b>IBAN's Recommendation</b> While IBAN acknowledges the improvement in the cost to complete (CTC) revenue recognition model since 2018 through the implementation of the EBA and that, at a high level, no material inconsistencies were found, IBAN recommends that NCIO:</p> <p>a) Replaces the Excel based process with an EBA model tailored to NCIO's operations, which should guarantee the traceability, integrity and security of data;</p> <p>b) Strengthens internal controls to ensure the completeness and integrity of the actual costs allocated to each project in the CTC calculation;</p> <p>c) Establishes a sign-off on the responsibility and validation of the final cost at completion estimates embedded within the EPM-EBA interface and integrates the project management document in support</p>	<p>a) NCIA still applies an Excel based process. Finance requested in the EBA Requirements for the General Ledger (GL) to have the Project Task dimension embedded within the GL. This would enable the Agency to extract the GL trial balance per project/task that would provide a transparent audit trail for the current CTC file. This functional EBA requirement has not yet materialised within EBA. <b>In-progress</b></p> <p>b) NCIO has strengthened internal controls to ensure overall completeness and integrity of the overall actual costs in the CTC calculation. We have received sufficient information regarding the reconciliation of the GL, Time Accounting System (TAS) with the CTC at an aggregated level. This is a significant progress compared to last year. However, this exercise cannot be performed at a project level. <b>In-progress</b></p> <p>c) Improvements are still needed in order to ensure the completeness and integrity of the costs at the project level. This recommendation requires</p>	<p>Observation <b>In-progress</b></p>

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OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
hereof.	an integrated project accounting module embedded into EBA. <b>In-progress</b>	
<p><b>(6) NCIA FY 2019 IBA-AR(2020)0021</b></p> <p><b>IMPROVEMENTS NEEDED ON THE INTERNAL CONTROL OVER ACCRUAL ESTIMATES</b></p> <p><b>IBAN's Recommendation</b> IBAN recommends that NCIO:</p> <p>a) Develops documented internal control procedures to detect incorrect estimates of accrued expenses, in particular with regard to the erroneous validation of the receipt of purchase orders in EBA.</p> <p>b) Defines a mandatory list of documents to be uploaded in EBA by operational project staff in order to justify the accrual amounts or estimates and dates of validation of the receipts of goods and services.</p>	<p>a) In 2021, the Agency developed new financial instructions and guidance for internal controls over accruals. This document provides clear instructions to project managers to verify accruals and identify potential errors in validation of receipts of goods or services in EBA. Furthermore, end of year controls on receipts, accrual estimates, and roles and responsibilities are clearly described. <b>Closed</b></p> <p>b) The mandatory list of documents to be uploaded in EBA by operational project staff are defined in the new financial instructions developed in 2021. <b>Closed</b></p>	Observation <b>Closed</b>
<p><b>(7) NCIA FY 2019 IBA-AR(2020)0021</b></p> <p><b>IMPROVEMENTS NEEDED TO THE NCIO CUSTOMER RATES AND OVERHEAD ASSUMPTIONS</b></p> <p><b>IBAN's Recommendation</b> IBAN recommends that NCIO improves the accuracy and transparency of assumptions underlying customer rates, including overheads. This can be achieved by:</p>	<p>IBAN acknowledges that the Agency has developed significant documentation regarding the customer rates (CR) process. However, based on our audit work for the Financial Statements ending 31 December 2021, IBAN found that these sub-recommendations were not fully implemented in the 2021</p>	Observation <b>In-progress</b>

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OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>a) Clarifying roles, responsibilities and accountabilities of internal stakeholders involved in the business assumptions that influence customer rates and overhead calculations;</p> <p>b) Providing detailed qualitative information supporting the rationale of each business assumption taken by Management;</p> <p>c) Applying a fair and consistent approach regarding travel costs for services delivered, that should be directly charged to customers and not be included in the Agency overheads;</p>	<p>Financial Statements.</p> <p>a) The 2022 CR clarifies roles, responsibilities and accountabilities of internal stakeholders involved in the business assumptions that influence customer rates and overhead calculations. This document does not impact the 2021 financial year as it only takes effect in January 2022. However, this information is not included in the 2023 CR. In IBAN's view, roles, responsibilities and accountabilities should be included in a permanent policy document, as the annual CR documents are modified on an annual basis. <b>In-progress.</b></p> <p>b) NCIA provided information in a document entitled "Cost Accounting Study-2023 Customer Rates Simulation" and a document entitled "2023 Customer Rates" respectively issued in March and May 2022. These documents provide information supporting the rationale of business assumptions including variance analysis for the 2023 CR. This information was not included in the 2021 CR. We will assess the accuracy of the information supporting the rationale of each business assumption taken by Management based on the 2022 NCIO Financial Statements, as part of next year's audit. <b>In-progress</b></p> <p>c) IBAN notes that the 2022 CR methodology was developed excluding travel costs for services delivered. IBAN notes that these costs were still included in the 2021 CR. We will assess the implementation of this sub-recommendation as part of next year's audit. <b>In-progress</b></p>	

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OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>d) Using the Time Accounting System to compare prior year's assumptions and actuals in order to support, assess and improve the accuracy of business assumptions (i.e. activity ratios per staff category, resource classification billable or non-billable information, FTE projections, etc.), and</p> <p>e) Reporting significant variances between approved customer and overhead rates and actuals to the ASB Finance Committee.</p>	<p>d) Same as b) above. <b>In-progress</b></p> <p>e) NCIO reported significant variances to the ASB Finance Committee. <b>Closed</b></p>	
<p><b>(8) NCIO FY 2016 IBA-AR(2017)15</b></p> <p><b>CONTRACTOR CLAIM RESULTING FROM CHANGING AND DELAYED CONTRACT REQUIREMENT DEFINITION AND WEAK COORDINATION BETWEEN NCIA AND THE INVESTMENT COMMITTEE</b></p> <p><b>IBAN's Recommendation</b> The Board reminds NCIO and the funding committees of the recommendations of the IBAN Special Performance Audit Reports to Council on the need to improve NATO's capability package process, including:</p> <p>a) For the Agency, improving information management and transparency by rationalizing and modernizing the processes and information technology used to manage Capability Package work.</p> <p>b) For the funding committees, unifying, strengthening and clarifying governance roles to ensure capability requirements reflect needs and enable capability delivery as closely as possible to agreed plans.</p>	<p>a) Information management and transparency related to Capability Package work were addressed by NCIA as part of implementing the new governance model for common funded capability delivery. <b>Closed</b></p> <p>b) This is part of the new governance model for common funded capability delivery. <b>Closed</b></p>	<p>Observation <b>Closed</b></p>

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**NATO COMMUNICATIONS AND INFORMATION ORGANISATION (NCIO)  
FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL  
BOARD OF AUDITORS (IBAN) POSITIONS**

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

***NCIO's Formal Comments***

*Agreed.*

*The Agency concurs with the findings and recommendation. We appreciate the noted improvement by IBAN on the Finding 1.10 – NAF required disclosure on Assets under Construction prior 2018.*

*The Agency has taken steps in 2021, towards lifting IBAN's qualifications. NCIO established an Asset Management Programme Office (AMPO) in October 2021 in order to clean and capture asset data and to transfer all asset data to a single asset register.*

*For 2022 some of the key initiatives of the AMPO:*

- Implementation of a scanning solution to capture asset data in an automated way towards EBA.*
- Validation of Crypto assets as part of the ongoing completeness of the asset register.*

*Furthermore the Agency intend to disclose initial Assets under Construction data within the NCIO financial Statements of FY2022.*

**OBSERVATION 2:  
STRENGTHENING INTERNAL CONTROLS RELATED TO CASH MANAGEMENT**

***NCIO's Formal Comments***

*Agreed.*

*The Agency has implemented the current treasury pooling practice to reduce costs associated to negative interest rates for Nations. In practice, interest revenues are returned to Nations through the Operating Fund and subsequent rebates to Customer Rates.*

*The Agency concurs that current practice is not in line with the spirit of the AC/-D/2663, Article3, by including interests received/paid on IC bank deposits*

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*in a special Miscellaneous Account, and by transferring the result of this operation to NSIP host countries.*

*However, a straightforward implementation is not simple as our accounting practice is now based on accruals (NATO Accounting Framework) and not on cash accounting which was the standard previously. Ensuring compliance will require refining the method and principles.*

*The Agency will approach the NOR to discuss the AC/4-D/2663, Article 3 pragmatic options/solutions.*

*The Agency will update the Treasury procedure to include the management/transfer of bank accounts and the handling of interest received that need to be reimbursed to Nations (related to AC/4-D/2663).*

*In 2022-23 the Agency will implement a treasury management system that will integrate with EBA.*

**OBSERVATION 3:  
DISCLOSURE OF A PROVISION OF EUR 5.1 MILLION RELATED TO NSIP  
RECEIVABLES**

**NCIO's Formal Comments**

*Agreed.*

*The Agency concurs with the findings, and continue the efforts to implement the recommendation. The Agency has put significant effort to try to identify the origin of this difference. Having exhausted all possible means within the Finance Team, in 2021 FC called upon the support of Internal Audit. Internal Audit will investigate the difference and provide a report in the course of FY2022.*

**OBSERVATION 4:  
WEAKNESS REGARDING EBA USER ACCESS RIGHTS AND SEGREGATION OF  
DUTIES**

**NCIO's Formal Comments**

*Agreed.*

*a) The Agency concurs with the findings and recommendation. By the end of FY2019 under the leadership of the FC and GM the Agency internal EBA 'stabilisation' Programme was setup with clear goals. This programme is focused on specific work strands and actions that would*

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*address the most pressing issues and prior observations raised.*

*b) On the segregation of Duties recommendation, the Agency has a list of EBA user roles and responsibilities. The access associated with the EBA user roles and responsibilities will be further reviewed in detail, the Segregation of Duties matrix will be formalized and appropriate documentation will be formalised in FY2022-2023. A request for a specific EBA toolset will be included in Financial Plan and MYIP for 2023.*

*The User Access Management processes for revoking roles for leavers and staff changing positions will be implemented in FY2022-2023.*

## FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

**(5) NCIA FY 2020**

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**IMPROVEMENT NEEDED TO THE NCIO COST TO COMPLETE (CTC) MODEL FOR REVENUE RECOGNITION*****NCIO's Formal Comments***

*Agreed.*

*The Agency concurs with the findings and recommendation and continues the efforts to implement the recommendations. Once the remaining improvements are implemented, BI will be able to produce the revenue recognition calculations.*

*a) The requirements for the General Ledger (GL) to have the Project Task dimension embedded within the GL is under review.*

*b) This is well taken into account and will be covered while addressing point a above.*

*c) Agency is looking at means to further reinforce controls and integration.*

**(7) NCIA FY 2019**

IBA-AR(2020)0021

**IMPROVEMENTS NEEDED TO THE NCIO CUSTOMER RATES AND OVERHEAD ASSUMPTIONS*****NCIO's Formal Comments***

*Not agreed.*

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IBA-AR(2022)0015

*a) Agency concurred with the 2019 recommendation and has implemented it as part of the CR 2022 published in 2021.*

*b) Agency agreed with the initial 2019 observation and has already implemented it in 2021 for CR 2022. Improvements related to the Cost Accounting Study will be implemented but in our view are going beyond the initial requirement set in that observation.*

*c) Agency agreed with the initial 2019 observation and has already implemented it in 2021 in the approved CR 2022.*

*d) Agency agreed with the initial 2019 observation and has already implemented it in 2021 for CR 2022.*

**IBAN's Position**

**IBAN notes that the Agency considers that it has already implemented sub-recommendations a) to d) in 2021.**

**IBAN acknowledges that the Agency has developed significant documentation regarding the customer rates process.**

**However, based on our audit work for the Financial Statements ending 31 December 2021, we found that these sub-recommendations were not fully implemented in the 2021 Financial Statements.**

**IBAN therefore maintains the status of these sub-recommendations as in-progress.**

## GLOSSARY OF TERMS

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

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

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

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

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NCIA/FC/2022/003397  
31 March 2022

To: Distribution

Subject: **NATO Communications and Information Organisation (NCIO)  
Financial Statements for the year ended 31 December 2021**

1. This letter forwards the Financial Statements for the NCIO for the period 01 January to 31 December 2021. The statements include the financial information for the NCI Agency and NCIO Secretariat.
2. The Financial Statements as submitted are unaudited. In accordance with the NCIO Charter, once the outcome of the IBAN audit is received, the Financial Statements will be forwarded to the Agency Supervisory Board for approval taking into account the IBAN report and the advice of the Audit Committee on responses.
3. The NCI Agency is already working with the IBAN on audit fieldwork, and stands ready to provide all necessary further support to the audit team including reports, documents and associated reconciliations and explanations.
4. At the Wales Summit of 2014, the nations tasked NATO bodies to increase their financial transparency. While we are content for all the information in the financial statements to be publically disclosed, the decision on what to make publically available rests with the North Atlantic Council.

Ludwig Decamps  
General Manager

Antoine Pailhès  
Financial Controller

Enclosure:

1. NCIO Financial Statements for the year ended 31 December 2021

Distribution:

External

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

Internal

Members Executive Management Board



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



NCIA/FC/2022/03389

# **NATO Communications and Information Organisation**

## **Financial Statements 2021**

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

I am pleased to present the Financial Statements (FS) for the NCI Agency for the financial year 2021. These are the first FS I am issuing as General Manager and have seen the progression of the financial process and quality of the information maturing. Through the ASB's Strategic Direction and Guidance, the NCIA's Strategic Plan and the Functional Areas' Operational Plans, we will continue to focus on maturing these processes to enable excellence in delivery to our customers.

During 2021 the COVID-19 crisis endured, presenting both risks and opportunities. Risks materialised and certain programmes were delayed due to imposed travel restrictions reducing access to implementation sites, challenges with industry in delivering the contracted work and emerging supply chain issues. However, by the end of 2021, the Agency assessed that COVID-19 impacts decreased from 100 to 20 NSIP projects out of 234 active projects.

The Agency however maintained its financial and business continuity, with its mobile and committed workforce delivering on projects and services. Secure remote working solutions were also enabled and delivered to many of Agency customers and stakeholders.

Financial statements are an important element confirming the sound and prudent financial management. Overall, the NCI Agency's 2021 total revenue amounts to 816.5 MEUR, this is a 5.3% increase compared to the previous year. In 2021, the net operating result shows a surplus of 25.5 MEUR, of which 21.2 MEUR will go to the Operating Fund (2.6 % of the total revenue).

This increase in overall Agency revenue is mainly due to a NSIP Acquisition Revenue, largely in relation to few major NSIP projects/programmes such as a portion of the POLARIS/ITM Programme, ACCS, Cyber Technical Refresh, and SATCOM, Resolute Support Electronic Counter Measures and delivery on non-NSIP projects.

The Project and Service Revenues were up 7.5% compared to prior year, an indication of higher fulfilment of incoming demand for project and service delivery.

Finally, the net operating result for 2021 amounting 25.5 MEUR will contribute:

- 4.3 MEUR to Reserved Earnings: mainly the carry-over of funds for approved investments Braine l'Alleud and EBA Release 4, and other adjustments to the depreciation reserve and transition reserve;
- 21.2 MEUR to Retained Earnings (Agency Operating Fund) mainly resulting from lower expenditures on External Services, reduction in provisions for contractual disputes, lower expenditures for Operations and Maintenance for Braine l'Alleud, travel, other facilities and training.

The Agency will continue to exercise prudent financial management, increase fidelity in our Corporate Planning and provide traceability to the Board to achieve break-even in line with the Financial Plan. The Agency will provide training for our staff to implement these processes while driving efficiencies within the processes.

### Agency Internal accomplishments include:

#### Finance Function Transformation

- Finance Transformation efforts resulted in tangible improvements:
  - Finalised the Finance organisation end state design;
  - Established a Finance Transformation organizational pillar driving strategy, policies, procedures, processes, system, internal controls, change management, continuous improvement;
  - Created an extended Finance Community of Practice to foster consistent standards and streamlined processes;
  - Secured second level controls by Finance within end-to-end processes e.g. corporate planning processes, revenues and costs planning, execution and forecasting, workforce planning;
  - Operated efficient central transactions processing within Corporate Accounting Services; and
  - Instantiated the Business Controller and Partnership roles with direct interface to Service Lines, Corporate Functions.
- Progressed Finance Transformation work strands, with particular emphasis on Corporate Planning and Execution, Business Intelligence, Assets under Construction.
- Continued to actively address and closeout IBAN and Internal Audit observations.
- Continued to progress the NCIO Internal Control Framework.
- In support of the Finance Committee Tiger Team defined a sustainable funding mechanism and reserve for NCI Agency Internal Investments.

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- Delivered the assessment required to implement the NCIA Customer Rates and Overhead study recommendations.
- Supported the Customer Funding Regulatory Framework review and progressing the implementation of the follow-on actions.
- Further improved Agency accounting policy with NATO standards to bring more transparency and to improve information to the Financial Statements.

Business Operations Management Improvements

- Developed the NCIA Strategic Plan to achieve the ASB's Strategic Direction and Guidance, with implementation through the Functional Area Operational Plans.
- Continued improving Corporate Planning process to allow for early consultation with the ASB for guidance.
- Delivered during 2021 the Agency's third Multi-Year Investment Plan 2022 – 2026, embedded within the 2022 – 2024 Business Plan<sup>1</sup> and reflected in the 2022 – 2024 Financial Plan<sup>2</sup>.
- Continued the Agency's risk management process that removes hierarchical barriers and allows timely decision-making for the successful delivery of planned objectives and milestones.
- Reached Initial Operating Capability of the Enterprise Service Operations Centre.
- Outsourced the Agency's Customer Satisfaction Survey and the results indicated some progress has been made, while certain gaps remain.
- Matrix team professionalized Acquisition as a pilot, developed the high-level Professionalization Framework and is transitioning to Chief People Officer for implementation across the Agency's professions.
- Matured the Crisis Management and Business Continuity function.

Facilities Upgrades

- Completed several important facilities upgrade milestones in cooperation with the Agency's Host Nations (HNs):
  - Completed staff and technical asset moves into the renovated building at The Hague, vacated the TNO building.

- Continued to collaborate on the design of the NCIA Digital Enterprise Centre (NDEC) facility in Camp Casteau, Mons with the HN Belgium.
- Executed the lease and began implementation of works for the Interim Facility at Braine l'Alleud.

**Some specific NCI Agency Capability Development and Service Delivery accomplishments include:**Operations & Exercises

- NATO operations and exercises remain the Agency's priority. Overall, in 2021, the Agency deployed over 332 staff, including NATO civilians, military staff, and contractors.
- Provided CIS support until the end of the Resolute Support Mission Retrograde, compiled NCIA Lessons Learned and contributed to the wider NATO Lessons Learned process.
- The Agency delivered technology and expertise to support NATO and national exercises, including DYNAMIC MANTA 21, GRIFFIN LIGHTNING 21, JPOW 21, STEADFAST ARMOUR 21, STEADFAST INTEREST 21-2, STEADFAST JUPITER 21, STEADFAST JACKAL 21, and STEADFAST LEDA 21.
- The COVID-19 pandemic continued to impact the conduct of the exercises for 2021.

Capability/Service Delivery

- In the area of new capability delivery, major achievements included, among others, ACCS Theatre Missile Defence Capability Final System Acceptance, IT Modernization Bridging Solution, Recovery Inc. 1 Project Proposal, Bridging Solution delivered hardware, Comprehensive AirC2 Capability Architecture, enabled Crisis Management, AGS Connectivity to NS WAN, Technological and architectural support to NATO HQ for new AI project, Academy training of 8,500 students, delivery of AirC2 Voice Communications equipment to Allied Nations, installed NS VTC and VoSIP for Allied Nations, delivered CIS Hardware to Allied Nations, and NATO to

<sup>1</sup> AC/337-D(2020)0032 dated 11 December 2020 and AC/337-D(2020)0032-AS1 dated 18 December 2020

<sup>2</sup> AC/337-D(2020)0031-FINAL dated 15 January 2021 and AC/337-D(2020)0031-AS1 dated 18 December 2020

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Nation Gateways installed and implemented supporting Alliance Federation.

- There were 14 framework agreements signed in 2021 with Nations, Multinational and other NATO Organizations for cooperation on Consultation, Command, Control, Communications, Intelligence, Surveillance and Reconnaissance (C4ISR) activities, Programmes of Work and Service Support.
- In 2021, the Agency delivered services in accordance with 189 separate agreements with Commands, Nations, Partners, Multi-National Organizations, and others.
- The number of signed Service Support Packages (SSPs) has exceeded the one from past year, becoming the highest number ever reached. The Agency will work with Nations to consolidate multiple agreements developed for one Nation, as appropriate to streamline the process.

#### Capability Development

- In 2021, POLARIS/ITM the IT Modernization Bridging Solution, Recovery Inc. 1 Project Proposal was delivered to the Investment Committee.
- Other areas of important development included Air Command and Control and Ballistic Missile Defence with delivery of the ACCS Theatre Missile Defence Capability, Alliance Ground Surveillance, Next Generation Satellite Communication Services, and Cyber Security with the delivery of Security Incident and Event Management capability, a high-capacity system to help cyber defenders track what occurs on NATO's networks.

#### External Stakeholder Engagement

- In 2021 and as part of the NCIA's Strategic Plan Goal Building Partnerships, the Agency continued to invest in its relations with Allied industries across the Atlantic by hosting its second virtual industry event, NITEC Connect. The event was attended by more than 1,400 participants and attracted more than 450 new companies. It focused on enhancing NATO's resilience through stronger partnerships. Different kinds of collaboration were explored, ranging from NATO's relationships with industry partners, to a new framework for collaborating with not-for-profit organisations.
- The Agency also hosted a NATO Space Pitch Day in partnership with the NATO Space Centre. Six top qualifying teams pitched their proposals to improve space situational awareness at the event. The winner had the

opportunity to interact closely with the NATO space operational community, providing further demonstrations and increasing common understanding of requirements and capabilities.

#### **Future Challenges**

The Alliance continued to experience challenges in 2021, as did the rest of the world, with the enduring COVID-19 pandemic. This caused uncertainties surrounding public health, the economy, global security and movement and emerging supply chain issues with key manufacturers struggle to secure orders and/or rising costs. We will monitor the supply chain issues closely to mitigate throughout the duration and its potential further deterioration.

This is not the first or last crises NATO and the Agency will need to manage. Indeed, while events over the last two years have dramatically shifted our ways of working, they also made clear that our staff is vital to NCI Agency's endurance and ability to face challenges. They also support the NCIO/NCI Agency vision of remaining a strong, fully digital NATO enterprise focused on ensuring consultation and collective defence.

Regarding POLARIS and ACCS, we will continue to prioritize and address these in partnership with the Strategic Commands and Nations. In an effort to refocus the Agency on capability development, we will rebalance the staff and take a number of initiatives to optimize delivery on-time, within scope and cost. We are committed to build and strengthen our partnerships with other NATO bodies and Agencies and to progress in line with the our customers' and Nations' expectations.

Lastly, proactive financial risk management will be exercised during 2022 to ensure a balanced financial performance and secure the Agency's financial fundamentals.

Ludwig Decamps

General Manager

NATO Communications and Information Agency

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

The NATO Communications and Information Agency – or NCI Agency – acts as NATO's principal Consultation, Command and Control (C3) deliverer and Communications and Information Systems (CIS) provider. It also provides IT-support to NATO Headquarters, the NATO Command Structure and NATO Agencies.

The NCI Agency acquire, deploy and defend communications systems for NATO's political decision-makers and Commands.

The Agency is on the frontlines against cyber-attacks and works closely with governments and industry to prevent future debilitating attacks. The Agency is working to deliver a secure, modern digital infrastructure to NATO – wherever the Alliance is working.

In addition, the Agency conducts the central planning, system engineering, implementation and configuration management for the NATO Air Command and Control System (ACCS) Programme.

The NCI Agency, led by a General Manager, is headquartered in Brussels, Belgium. It has major locations in The Hague, the Netherlands, Mons, Belgium and Oeiras, Portugal.

The Agency is the executive arm of the NATO Communication and Information Organisation (NCIO), which aims to achieve maximum effectiveness in delivering C3 capabilities to stakeholders, while ensuring their coherence and interoperability, and ensuring the provision of secure CIS services at minimum cost to Allies – individually and collectively.

NCIO is managed by an Agency Supervisory Board (ASB) composed of representative from each NATO nation. The ASB oversees the work of the NCIO. After consulting with the NATO Secretary General, NCIO's ASB appoints the General Manager of the Agency. All NATO nations are members of the NCIO.

The ASB, which reports to the North Atlantic Council (NAC), issues directives and makes general policy decisions to enable NCIO to carry out its work. Its decisions on fundamental issues such as policy, finance, organization and establishment require unanimous agreement by all member countries.

At the Lisbon Summit in November 2010, NATO Heads of State and Government agreed to reform the 14 existing NATO Agencies, located in seven member states. In particular, Allies agreed to streamline the agencies into three major programmatic themes: procurement, support, and communications and information. The reform aims to enhance efficiency and effectiveness in the delivery of capabilities and services, to achieve greater synergy between similar functions and to increase transparency and accountability.

As part of the reform process, the NCI Agency was created on 1 July 2012 through the merger of the NATO C3 Organisation, NATO Communication and Information Systems Services Agency (NCSA), NATO Consultation, Command and Control Agency (NC3A), NATO Air Command and Control System Management Agency (NACMA), and NATO Headquarters Information and Communication Technology Service (ICTM).

For 65 years, the NATO Communications and Information Organisation and Agency and their predecessors have worked tirelessly in providing the means that enable the connectedness and togetherness that keep our Alliance strong. There is a long legacy of dedication to our mission and commitment to our customers. Our fundamental role as enshrined in the NCIO Charter is to act as NATO's principal C3 capability deliverer and CIS service provide for the full range of its entitled requirements holders and customers.

Yet NATO is in a period of change. The environment in which we operate is evolving rapidly. The Alliance, as part of its continuous adaptation, has embarked upon an ambitious new transatlantic agenda – NATO 2030 – to make a strong Alliance even stronger, and to ensure our collective readiness for the future.

With Strategic Direction and Guidance 2022-2026<sup>3</sup>, the Agency Supervisory Board established its ambition to ensure the Agency effectiveness and future relevance by adapting our organisational knowledge, structures and processes to our core business functions. The expectations set upon the Agency are clear: to respond efficiently to customer's needs and enable the delivery of modern CIS capabilities across four focal areas: Strengthen NCI Agency Core Business, Adaptive Support to NATO Core Tasks, Strengthen Cyber Security and Cyber Resilience, and Enhancement of Digital Modernization.

<sup>3</sup> AC/337-D(2020)0023-REV1 dated 10 December 2020 and AC/337-D(2020)0023-REV1-AS1 dated 18 December 2020

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The Strategic Plan 2022-2026 currently under approval by the Agency Supervisory Board structures the Agency efforts and aligns its resources according to four strategic goals:

1. Excellence in Delivery. Our success is weighed against how we fulfil the demands and requirements of our customers; when our projects and services fall short of target, we fundamentally fall short in our mission.
2. Support NATO's Ambitious Agenda. The speed of technological change has never been higher, and delivery for today must be adaptable to ensure success for tomorrow.
3. Hire, Train, and Retain the Best. Delivering success depends upon having the right personnel with the right skillsets, experience, and motivation in the right place at the right time, hosted in modern, secure, and sustainable facilities
4. Strong and Lasting Partnerships across the NATO Enterprise. Our best success comes when we work together with our strategic partners in an environment of trust, transparency, and close cooperation.

The Strategic Plan and Strategic Goals are being underpinned by Operational Plans, which define how the Functional Areas will deliver on their assigned outputs that contribute to the achievement of the strategic goals, as well as increasing their processes maturity. Strengthening Corporate Planning Processes and being a Data Driven Enterprise are among the specific outputs in support of achieving Excellence in Delivery strategic goal.

As a customer funded organization, sound financial systems, processes and controls are essential for all parts of Agency's business, be it towards customer delivery or in its enabling functions. The Customer Funding Regulatory Framework comprehensive review<sup>4</sup> undertaken in 2020 – 2021 confirmed the framework contains the necessary elements, is built on sound principles and objectives, and has essentially assigned roles and responsibilities to the right stakeholders and governance bodies. Its operationalisation will be further strengthened through a specific set of actions approved by the ASB.

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

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

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

The Agency continues to evolve from an asset based to a service based provider and is maturing Customer Funding application through the Agency's Costed Customer Service Catalogue (CCSC) approach. Following screening by the Agency's governance bodies and Working Group of National Technical Experts (WGNTE), the 2021 Service Rates were used as a basis to price services to Commands, Headquarters and the Nations. Service Rates were reviewed in 2021 as part of an IBAN performance audit and follow-on actions are taken in terms of benchmarking of catalogue services, updating costing methodology, starting to harmonise and document the process of the effort assessment and validation, initiating zero-based budgeting for selected services.

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

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

<sup>4</sup> PO(2021)0141 dated 20 April 2021 and PO(2021)0141-AS1 dated 4 May 2021

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

Governed by the Nations, the Operating Fund is a source of working capital for deficits or a repository for surpluses that arise from Agency operations. The overall target level of the Operating Fund (excluding the depreciation) has been set by the Nations at 10 MEUR. A process has been put in place to return Operating Fund surpluses over the target level back to customers through Customer Rates rebates.

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

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

The Agency's Customer Rates are based on the actual costs as disclosed in the Annual Financial Statements Year-1, or from the latest and most accurate possible execution data from Year-1. Following the Nations approval, since the 2017, the Customer Rates used are a single set of rates. This is offering more transparency and traceability of the Agency's cost structure, and allows for a more stable calculation methodology and comparison over the years. Similarly to 2020, during 2021 there was extensive scrutiny on 2021 Customer Rates by ASB Finance Committee.

Consistent with the CFRF, the Agency predominantly provides customers with CIS services based on Firm Fixed Price (FFP) agreements whereby the Agency delivers a specified set of goods or services for a fixed price. The use of FFP agreements reduce administration costs and provides customers with more stability and less risk as the Agency manages associated risks with delivering the goods or services within the agreed price unless otherwise agreed with the customer. The Agency's obligation is the delivery of goods and services in accordance with the agreed customer specifications, and the customers' obligation is the payment of the agreed amount. The Agency relies on the customer provided funding via advance payments and the timely payment of invoices to provide the cash flow for daily Agency business operations.

During 2021 and as part of the approved 2022 Business Plan and Financial Plan, the Agency provided the third iteration and a more mature Multi-Year Investment Plan covering Agency Internal Investments. In 2021, a sustainable funding via Customer Rates and reserve<sup>5</sup> mechanism was defined and approved by Nations. The 2022 funding portion of the plan was screened by the WGNTS and approved by the Finance Committee in February 2022. Further lessons learned are being incorporated in the preparation of the 2023 planning. Also the monitoring of 2022 investment projects will be strengthened and reported regularly to the governance.

Asset Management initiated in 2021 is the highest priority programme within those included within Agency Internal Investments. The programme objectives are to increase maturity of NCIA Asset Management processes, support the Agency's ability to account correctly for its assets in Financial Statements, support services and operations, inform the Asset, Configuration, Patch and Vulnerability management (ACPV) process as part of cyber defence, and inform our asset replacement initiatives. A key objective is to address the lifting of the IBAN

<sup>5</sup> AC/337-D(2021)0054 dated 10 December 2021 and AC/337-D(2021)0054-AS1 dated 17 December 2021

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observation that led to qualification of the NCIO Financial Statements. Specific progress has been achieved in the area of Assets under Constructions in defining the required processes, data, reporting and EBA system requirements and will be implemented with the Financial Statements 2022.

Under the leadership of the ASB Finance Committee Tiger Team, the Agency continued the implementation of the 2019 independent study focused on the Agency categorization and allocation of overhead cost. This work addressed the IBAN observation on Agency Customer Rates resulting from the field audit on the NCIO Financial Statements FY2019.

The Enterprise Business Applications (EBA) system, which is an essential component to support Agency management and financial internal control system, continues its roadmap of functionality releases. The programme went live with a portion of Release 2 (R2) Asset management, HR, and Acquisition, and made preparations for the subsequent releases contract award and implementation: Release 3 (R3) to provide Advanced HR functionality, and EBA Release 4 (R4) Enterprise Project Management which replaces the MS-EPM toolset. Throughout 2021, EBA Stabilization efforts related to the in-service release (R1) were prepared for implementation during 2022.

## Financial Statements Overview

### Basis of Preparation

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

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

In respect to the 2021 NCIO Financial Statements, these were prepared:

- for public disclosure<sup>6</sup>
- on a going-concern principle
- on the basis of a single entity
- on an accrual basis and a historical cost convention, except as disclosed in the accounting policies and detailed notes

Amounts in the financial statements are stated in euro.

### Compliance with Financial Regulations

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

The Financial Regulations that are applicable to NCIO are described in the Charter under Article 50: "The NCIO shall be governed by the provisions of the NATO

Financial Regulations, subject to such derogations as may be approved by the NAC upon recommendation by the Resource Policy and Planning Board".

Article 35 of the NATO Financial Regulations: "An annual financial statement for each NATO body, consolidated where applicable and appropriate, shall be submitted for audit to the International Board of Auditors for NATO by the Financial Controller not later than 31st March following the end of the financial year. The IBAN audit report, together with the associated financial statements, shall be finally noted or approved by the Council not later than 31 December."

Article 27 of the NATO Financial Regulations specifically relates to the Agency as a Customer Funded entity: "Customer-Funded bodies make agreements with customers to provide goods and services in accordance with Customer requirements. Customers' agreement will describe the requirements for how funds are to be made available to the Customer-Funded bodies and how the funds will be committed and carried forward; these requirements may be different from common-funded NATO bodies".

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

### Financial Performance and Position Highlights

Total revenues for 2021 amount to 816.5 MEUR, an increase of 41.4 MEUR or 5.3% from 2020, and include:

- 227.7 MEUR of acquisition revenue earned as Host Nation and procurement principal for NSIP, NATO Entities and Nations, an increase of 38.4 MEUR or 20.3% from previous year;
- 356.9 MEUR of operating, services and project support revenue contracted, using BC approved Customer Rates, for the provision and acquisition of CIS

<sup>6</sup> For NATO security reasons, a redacted/revised version of the Financial Statements might be released to the public.



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capabilities and services, an increase of 24.9 MEUR or 7.5% from previous year which reflects the higher demand for services and projects;

- 213.9 MEUR of operating and external CIS revenue earned in direct support of the delivery of services, a decrease of 35.5 MEUR or 14.2% from previous year ;
- 14.4 MEUR of other operating revenue earned in the provision of other support services provided to hosted entities as well as contribution revenue from the execution of the BC funded portion of the Transition Programme and NCIO Independent Secretariat core funding from Nations;
- 3.6 MEUR earned from favourable foreign exchange rate variances and, to a minor extent, interest earned from short-term deposits, typically one to three months (same as previous year).

Total expenses for 2021 amount to 791.0 MEUR, an increase of 19.1 MEUR or 2.5% from 2020 and include:

- 225.4 MEUR of acquisition costs incurred in the procurement, on behalf of the Investment Committee (IC), other NATO entities and Nations, of CIS capabilities and services from industry, increase of 36.9 MEUR or 19.6% from previous year;
- 314.7 MEUR of costs related with the civilian personnel employed during the year (in compliance with NATO Civilian Personnel Regulations, NAC approved salary scales and allowances), and Interim Workforce Contractors, temporary staff and consultants, increase of 33.6 MEUR or 11.9% from previous year;
- 241.3 MEUR of costs for Contractual Supplies and Services, a decrease of 40.9 MEUR or 14.5% from previous year, which include operating and external CIS costs in direct support of the delivery of services, costs related to the execution of capabilities' projects as well as running costs of the Agency facilities and equipment, largely due to the end of the Resolute Support mission and some delays in deliveries due to the deterioration of the global supply chain.
- 7.1 MEUR cost from an in-year provisions mainly on active projects and services the Agency is delivering.
- 1.5 MEUR of depreciation expense for fixed assets capitalised above the thresholds in line with accounting policies as adopted by NATO, increase of 0.3 MEUR from previous year;
- 0.9 MEUR of expenses from unfavourable foreign exchange rate variances, including revaluation impact of foreign exchange positions and bank transaction fees related to conversion of currencies.

Net result for the year is a surplus of 25.5 MEUR, which was distributed for 21.2 MEUR to the retained earnings and 4.3 MEUR to the reserved earnings, compared to a surplus of 3.2 MEUR in prior year.

Total assets amount to 465.1 MEUR an increase of 25.8 MEUR or 5.9% from previous year. Total Liabilities amount to 364.5 MEUR, an increase of 0.3 MEUR or 0.08% from previous year.

#### Total Net Equity and Operating Fund

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

At 31 December 2021, the Agency Total Net Equity amounts to 100.6 MEUR broken-down as follows:

- 51.3 MEUR of Reserved Earnings, composed of (1) the remaining Transition Reserve of 2.2 MEUR, for purposes of funding transition activities of the Agency; (2) Internal Investment reserve of 5.8 MEUR (new); (3) the Depreciation Reserve, amounting to 0.5 MEUR, related to assets not yet fully depreciated, and (4) the Inventory Reserves amounting 42.8 MEUR related to IPSAS12 inventory adjustments and Weighted Average Cost (WAC) price adjustments.
- 49.3 MEUR of Retained Earnings, which equal the Operating Fund (as per the IBAN guidance and ASB Finance Committee decision, depreciation reserve is no longer considered as part of the Operating Fund).

#### Internal Control Framework

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

### **Risk Management**

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

Besides the risks the Agency is reporting as key Agency-level risks, some other risks have been identified as relevant to the financial perspective and could result in either a Provision, Contingent liability or Event after reporting date. More information on Provisions, Contingent Liabilities and Event after reporting date can be found within the Financial Statements detailed notes.

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

### **External and Internal Audit**

As a chartered NATO Organisation, the Agency financial statements, performance and underlying transactions are audited by the IBAN upon mandate from the NAC. The Agency has an Internal Audit Function reporting to the ASB Audit Committee with an approved risk-based three years audit plan which reviews, amongst other areas, internal control and risk mitigation. Internal Audit reports to the GM and provides regular updates to the ASB-Audit Committee.

#### External Audit

In 2021, the International Board of Auditors for NATO (IBAN) led an external audit activity into the 2020 NCI Organisation Financial Statements. IBAN issued a qualified opinion on the financial statements and compliance. Furthermore, IBAN also conducted a performance audit on Service Rates. The special report provided recommendations to address the findings concerning the NCIA Service Rates level of effort estimation.

The Agency, under the remit of its supervisory board, is undertaking the necessary actions to remediate all outstanding observations. For the first observation on the

Material incompleteness of PPE and intangible assets, the Agency is taking mitigation actions in an incremental way.

IBAN has already initiated the interim audit of the 2021 Financial Statements at the time of the publication of these statements. As per the NFR the NCIO Financial Statements are submitted to IBAN and ASB by 31 March. In accordance with the NCIO Charter, the ASB will approve the Financial Statements once IBAN audit results are published, taking in consideration the advice of the ASB Audit Committee.

#### Internal Audit

The Agency's internal audit activities are a significant part of its overall control structure, and directly impacted its performance in 2021.

Over the year, Internal Audit completed 5 advisory and 10 compliance engagements; it also provided consultancy services to management in various areas. The completed engagements spanned several thematic areas and covered reviews of project management activities, operational processes, corporate and administrative processes and information technology areas.

The Agency continues to improve its methods and processes used to monitor the implementation of audit recommendations and realized significant improvement throughout the year. Over 2021, management successfully closed 56 internal audit and 5 IBAN observations.

Internal Audit will continue performing follow up missions and will report on the status of the implementation of the recommended actions during 2022 to Agency management and the ASB Audit Committee. Finally, IA continued to support the implementation of the NATO Financial Regulations and the NCIO Financial Rules and Procedures and also contributed to the development and implementation of the NCIO Internal Control Framework as well as the NCIO Risk Appetite Framework. The Agency's internal audit activities are a significant part of its overall control structure, and directly impacted its performance in 2021.

## NCIO Statement of Financial Position

As of 31 December 2021  
(all figures are in Euro)

		NCIO		
	Note	2021	2020 Restated	2020
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and Cash Equivalents	1	186,715,840	171,712,449	171,712,449
Receivables	2	224,437,665	209,633,146	209,823,894
Prepayments and Miscellaneous Assets	3	9,531,413	6,482,729	6,482,729
Inventory	4	39,683,824	42,761,749	42,761,749
Work in Progress	5	2,444,034	5,757,711	5,757,711
Other Current Assets		-	-	-
<b>Total Current Assets</b>		<b>462,812,776</b>	<b>436,347,784</b>	<b>436,538,532</b>
<b>Non-Current Assets</b>				
Financial Assets		-	-	-
Non-current Receivables	6	547,885	1,201,631	1,201,631
Property, Plant and Equipment	7	1,771,289	1,798,467	1,798,467
Intangible Assets	7	-	-	-
<b>Total Non-Current Assets</b>		<b>2,319,174</b>	<b>3,000,098</b>	<b>3,000,098</b>
<b>TOTAL ASSETS</b>		<b>465,131,950</b>	<b>439,347,882</b>	<b>439,538,630</b>

## NCIO Statement of Financial Position

As of 31 December 2021  
(all figures are in Euro)

		NCIO		
	Note	2021	2020 Restated	2020
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Payables	8	104,945,774	115,120,471	115,120,471
Deferred Revenue and Advances	9	233,052,242	217,157,528	217,157,528
Other Current Liabilities	10	13,526,827	12,332,537	931,345
<b>Total Current Liabilities</b>		<b>351,524,843</b>	<b>344,610,536</b>	<b>333,209,344</b>
<b>Non-Current Liabilities</b>				
Non-Current Payables		-	-	-
Non-Current Deferred Revenue and Advances		-	-	-
Non-Current Borrowings		-	-	-
Provisions	11	12,982,657	19,635,737	31,227,677
<b>Total Non-Current Liabilities</b>		<b>12,982,657</b>	<b>19,635,737</b>	<b>31,227,677</b>
<b>TOTAL LIABILITIES</b>		<b>364,507,500</b>	<b>364,246,273</b>	<b>364,437,021</b>
<b>NET ASSETS/EQUITY</b>				
Retained Earnings	28	49,373,895	28,173,837	28,173,837
Reserved Earnings	27	51,250,555	46,927,772	46,927,772
<b>TOTAL NET ASSETS/EQUITY</b>		<b>100,624,450</b>	<b>75,101,609</b>	<b>75,101,609</b>
<b>TOTAL LIABILITIES AND NET ASSETS/EQUITY</b>		<b>465,131,950</b>	<b>439,347,882</b>	<b>439,538,630</b>

**NCIO Statement of Financial Performance***For the year ended 31 December 2021**(all figures are in Euro)*

		NCIO		
	Note	2021	2020 Restated	2020
<b>REVENUE</b>				
Project and Support Services Revenue	12	356,874,301	332,018,673	332,018,673
External Services Revenue	13	213,978,904	249,438,623	249,438,623
Acquisition Revenue	14	227,669,511	189,253,449	189,253,449
Other Revenue	15	14,421,931	2,871,511	871,511
Financial Revenue	24	3,605,970	1,586,824	1,586,824
<b>TOTAL REVENUE</b>		<b>816,550,617</b>	<b>775,169,080</b>	<b>773,169,081</b>
<b>EXPENSES</b>				
Cost of Acquisition	16	(225,463,767)	(188,569,294)	(188,569,294)
Personnel Costs	17	(314,713,795)	(281,115,365)	(282,755,618)
Contractual Supplies and Services	20	(241,294,065)	(282,152,759)	(282,152,759)
Depreciation and Amortisation	21	(1,491,773)	(1,160,776)	(1,160,776)
Provisions	22	(7,147,704)	(11,708,491)	(8,068,239)
Financial Expenses	24	(916,672)	(7,230,357)	(7,230,357)
Other Expenses		-	-	-
<b>TOTAL EXPENSES</b>		<b>(791,027,776)</b>	<b>(771,937,042)</b>	<b>(769,937,043)</b>
<b>SURPLUS/(DEFICIT) FOR THE PERIOD</b>		<b>25,522,841</b>	<b>3,232,038</b>	<b>3,232,038</b>
<i>Distributed(net) to Retained Earnings</i>	28	<i>21,200,056</i>	<i>2,359,981</i>	<i>2,359,981</i>
<i>Distributed(net) to Reserved Earnings</i>	28	<i>4,322,785</i>	<i>872,057</i>	<i>872,057</i>

**NCIO Statement of Cash Flows***For the year ended 31 December 2021**(all figures are in Euro)*

NCIO			
	2021	2020 Restated	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Surplus/(Deficit) for the Period	25,522,841	3,232,038	3,232,038
Depreciation and Amortisation	1,483,743	1,160,776	1,160,776
Revaluation of Assets	-	-	-
Decr./((Incr.) Receivables	(14,804,517)	162,614,917	162,424,168
Decr./((Incr.) Prepayments and Miscellaneous Assets	(3,048,684)	13,254,528	13,254,528
Decr./((Incr.) Inventory	3,077,925	3,982,159	3,982,159
Decr./((Incr.) Work in Progress	3,313,677	(3,761,837)	(3,761,837)
Decr./((Incr.) Other Current Assets	-	12,744	12,744
Incr./((Decr.) Payables	(10,174,697)	(84,808,637)	(84,808,637)
Incr./((Decr.) Deferred Revenue and Advances	15,894,714	8,501,958	8,501,958
Incr./((Decr.) Borrowings	-	-	-
Incr./((Decr.) Other Current Liabilities	1,194,291	10,198,656	(1,202,537)
Incr./((Decr.) Provisions	(6,653,081)	(3,523,701)	8,068,239
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>15,806,212</b>	<b>110,863,601</b>	<b>110,863,601</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Decr./((Incr.) Financial Assets	-	-	-
Decr./((Incr.) Non-current Receivables	653,745	(434,669)	(434,669)
Decr./((Incr.) PP&E and Intangible Assets	(1,456,566)	(2,157,183)	(2,157,183)
Decr./((Incr.) Other Non-Current Assets	-	-	-
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(802,821)</b>	<b>(2,591,852)</b>	<b>(2,591,852)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Incr./((Decr.) Non-Current Payables	-	-	-
Incr./((Decr.) Non-Current Deferred Revenue and Advances	-	-	-
Incr./((Decr.) Non-Current Borrowings	-	-	-
Incr./((Decr.) Other Non-Current Liabilities	-	-	-
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET INCR./((DECR.) CASH AND CASH EQUIVALENTS</b>	<b>15,003,391</b>	<b>108,271,749</b>	<b>108,271,749</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>171,712,449</b>	<b>63,440,700</b>	<b>63,440,700</b>
Incr./((Decr.) Cash and Cash Equivalents	15,003,391	108,271,749	108,271,749
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>186,715,840</b>	<b>171,712,449</b>	<b>171,712,449</b>

**NCIO Statement of Change in Net Assets/Equity***As of 31 December 2021**(all figures are in Euro)*

<b>BALANCE AT BEGINNING OF PERIOD</b>
Variations due to restatement
<b>Restated balance</b>
Net gains/(losses) not recognized in the Statement of Financial Performance
Net surplus/(deficit) for the period
<b>BALANCE AT END OF PERIOD</b>
<b>RESERVES AT BEGINNING OF PERIOD</b>
Net increase/(decrease) of book value of property, plant and equipment reserve
Net increase/(decrease) of Internal Investments reserves
Net increase/(decrease) of Transition reserves
Net increase/(decrease) of Inventory reserve
Net increase/(decrease) of currency translation differences
<b>RESERVES AT END OF PERIOD</b>
<b>SURPLUSES/(DEFICITS) CARRIED FORWARD</b>
<b>NET ASSETS/EQUITY AT END OF PERIOD</b>

NCIO		
2021	2020 Restated	2020
<b>75,101,609</b>	<b>71,869,571</b>	<b>71,869,571</b>
-	-	-
<b>75,101,609</b>	<b>71,869,571</b>	<b>71,869,571</b>
25,522,841	3,232,038	3,232,038
<b>100,624,450</b>	<b>75,101,609</b>	<b>75,101,609</b>
<b>46,927,772</b>	<b>46,055,715</b>	<b>46,055,715</b>
(1,324,818)	999,842	999,842
5,820,000	-	-
(172,399)	(127,785)	(127,785)
-	-	-
-	-	-
<b>51,250,555</b>	<b>46,927,772</b>	<b>46,927,772</b>
<b>49,373,895</b>	<b>28,173,837</b>	<b>28,173,837</b>
<b>100,624,450</b>	<b>75,101,609</b>	<b>75,101,609</b>

## NCIO Budget Execution Statement

For the year ended 31 December 2021  
(all figures are in Euro)

### BUDGET

Chapter 1 - Personnel
Chapter 2 – Contractual supplies and services
Chapter 3 - Investments
<b>Total current year</b>
Chapter 1 - Personnel
Chapter 2 – Contractual supplies and services
Chapter 3 - Investments
<b>Total prior year</b>
Chapter 1 - Personnel
Chapter 2 – Contractual supplies and services
Chapter 3 - Investments
<b>Total 2 years ago</b>
<b>TOTAL</b>

NCIO									
Initial Budget	Transfers	Budget Revision	Transfers	Final Budget	Net Commitment	Expenses	Total Spent	Carry Forward	Lapsed
925,161	0	35,0,00	0	960,161	167,787	758,639	926,426	167,787	33,735
135,983	0	0	0	135,983	0	105,424	105,424	0	30,559
0	0	0	0	0	0	0	0	0	0
<b>1,061,094</b>	<b>0</b>	<b>35,000</b>	<b>0</b>	<b>1,096,144</b>	<b>167,787</b>	<b>864,062</b>	<b>1,031,849</b>	<b>167,787</b>	<b>64,295</b>
0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0
<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0
<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>1,061,094</b>	<b>0</b>	<b>35,000</b>	<b>0</b>	<b>1,096,144</b>	<b>167,787</b>	<b>864,032</b>	<b>1,031,849</b>	<b>167,787</b>	<b>64,295</b>

## Accounting Policies

### Basis of preparation

These financial statements have been prepared in accordance with the NATO Accounting Framework (NAF) which is based upon International Public Sector Accounting Standards (IPSAS). IPSAS 6 – Consolidated financial statements and accounting for controlled entities, IPSAS 12 – Inventories, IPSAS 17 - Property, Plant and Equipment and IPSAS 31 - Intangible Assets were adapted by the Council in August 2013 and IPSAS 1 – Presentation of Financial Statements, was adapted by the Council in April 2016.

In addition, where certain financial reporting requirements are required by the NATO Financial Regulations (NFR), these are also met.

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

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

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

### Changes in Accounting Policies/Standards

IPSAS 3 – Accounting Policies, changes in accounting estimates and errors requires that “A change in the accounting treatment, recognition, or measurement of a transaction, event, or condition within a basis of accounting is regarded as a change in accounting policy”.

The Agency has changed:

- the Provisions, how they are presented and accounted within the Face of the Financial Statements and Notes. The reversal of 'unused' provisions is presented on the revenue side of the Statement of Performance instead of aggregated within the provision on the expense side of the Statement of Performance.
- the impairment of Receivables is reflected as a reduction of receivables rather than an increase of a liability under Provision to align with NATO Accounting Framework and IPSAS.

- the Untaken Leave from Staff, which is reclassified from provisions under other liabilities within the Statement of Position and its fluctuation is costed within the Personnel Expenses within the Statement of Performance.

The purpose of the changes is to bring more transparency and to improve information to the reader of the financial statements.

### Restatements/Reclassification

The Agency has restated the comparative numbers of the 2020 Statement of Financial Position, Financial Performance and Cash Flow Statement and updated detailed notes (where applicable) as a result of the aforementioned changes in the accounting policy/standards.

Upcoming changes in accounting Standards;

- IPSAS 41 – Financial Instruments (effective 1 January 2023)

This standard will replace part of IPSAS 29, Financial Instruments: Recognition and Measurement. The Agency has not yet assessed whether this standard will have an impact on its financial reporting.

- IPSAS 42 – Social Benefits (effective 1 January 2023)

The Agency has not yet assessed whether this standard will have an impact on its financial reporting.

- IPSAS 43 – Leases (effective 1 January 2025)

This standard will replace IPSAS 13. The Agency has not yet assessed whether this standard will have an impact on its financial reporting.

### Revenues and Revenue Recognition

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

- Project and Support Services Revenue (e.g. Scientific Programme of Work (POW) and Infrastructure Committee project service costs, service support costs).
- External Services Revenue (e.g. Services Level Agreement External CIS)
- Acquisition revenue, for which NCIO considers it is the procurement principal on behalf of sponsors, NATO entities or Member Nations.
- Other revenue represents shared services associated with the hosting and support the Agency provides to other NATO entities such as NAGSMA and reversal of 'unused' provisions.

NCIO also still has some contributions income from budgets:

- NCIO's Independent Secretariat: revenue associated with the running of the Independent Executive Secretariat which is to support the ASB Chair. This budget



is common funded and the ASB approves the structure and its annual budget, which is based on the Budget committee cost share model.

#### Revenue recognition; measurement and timing

Provided the amount of revenue can be measured reliably and it is probable that NCIO will receive payment, revenue for goods and services delivered is recognised when NCIO has transferred the significant risks and rewards of ownership and it is probable that NCIO will receive payment for delivering goods and services. These criteria are considered to be met when the goods or services are delivered to the customers' satisfaction.

For all Customer Funded revenue, revenue is recognised by reference to the stage of completion or the cost burn rate, depending on the type of funding agreement; firm fixed price or cost reimbursable. For the budget revenue, income is recognised at the moment an expense is incurred as the revenue is guaranteed to be funded by member Nations.

#### **Expenses Recognition**

NCIO has the following main categories of costs:

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

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

#### **Financial Plan Execution**

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

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

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

#### **Cash Flow Statements**

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

#### **Foreign Currency**

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

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

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

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

**Financial Assets**

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

**Financial Liabilities**

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

**Receivables**

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

**Accounts Payable**

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

**Advances and/or Unearned Revenue**

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

**Prepayments**

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

**Retirement Benefits: Provident Fund and Defined Contribution Pension Scheme**

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

**Retirement Benefits: Defined Benefit Pension Scheme**

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

**Other Long-Term Service Benefits**

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

**Leased Assets**

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

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

**Externally Acquired Intangible Assets**

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

**Property, Plant and Equipment (PPE)**

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

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

The NAF clarifies that the NATO Communication and Information Organisation (NCIO) acts as a service provider for CIS and/or Automated Information Systems (AIS) assets (including the construction of these assets) for the NATO Military Commands (Allied Command Operations (ACO) and Allied Command Transformation (ACT)) as well as for the International Staff (IS) and the International Military Staff (IMS). NCIO has control over these assets because it uses them to provide goods and services to its customers and has to report them in its Financial Statements.

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

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

Property, Plant and Equipment (PPE)

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

Depreciation is provided on all items of PPE so as to reduce its carrying value over the expected useful economic lives. The expected lives of PPE have been revised upwards to align with the NATO Accounting Framework (NAF) and their associated capitalisation thresholds per item are:

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

The Agency re-aligned Property Plant and Equipment (PPE) and Intangible Asset capitalization thresholds with the NATO Accounting Framework upper ceilings as from Financial Year 2019.

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

Following cost Elements are eligible for capitalization towards the AuC ; Cost of Material, Site preparation costs, Installation and assembly costs, Project management costs, Project service costs, Internal engineering service costs, Professional fees (Architecture and Engineering fees), Direct Attributable labour cost and any other direct attributable cost. Deprecation on AuC is not applied<sup>7</sup>.

#### Land and Buildings

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

#### Depreciation and Amortisation

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

#### **Inventories**

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

Under the full Customer Funding regime as of 2014, and per its Charter, NCIO is now considered as procurement principal for the inventories and as a result, now accounts for all inventories.

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<sup>7</sup> The agency is currently not in a position to disclose assets under construction and is working towards compliance for FY2022 depending on the maturity/availability of the inventory/Project accounting modules within our ERP (EBA).

NCIO is applying the NATO Accounting Framework – adapted IPSAS 12 – except for the element of adjusting the inventory balances for all inventory acquired prior to 1 Jan 2013. NCIO CIS/AIS inventories are deemed strategic in nature and are required to assure the delivery of services by NCIO to our customers and is in line with Service Level Agreements, Service Support Projects and Operational Level Agreements. These items are often, due to their nature, slow moving. These items cannot be readily replaced by commercial off the shelf items or cannot be purchased due to market decisions to close production lines of key inventory items due to the advanced age of the strategic asset to which the stock relates.

The NATO Accounting Framework clarifies that the NATO Communication and Information Organisation (NCIO) acts as a service provider for inventory of CIS and/or Automated Information Systems (AIS) for the NATO Military Commands (Allied Command Operations (ACO) and Allied Command Transformation (ACT)) as well as for International Staff (IS) and International Military Staff (IMS). NCIO has control over these inventories because it uses them to provide goods and services to its customers and has to report them as inventories in its financial statements.

NCIO has no capitalisation thresholds for Inventory.

#### **Provisions**

NCIO recognises provisions for liabilities of uncertain timing or amount including those for legal disputes. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date. The reversal of the unused provision is recognized under 'Other Revenue' in the Statement of Financial Performance.

#### **Contingent Liabilities**

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

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

pay for the financial liability, or the amount of the financial liability cannot be measured with sufficient reliability.

### **Net Equity and Operating Fund**

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

Net Equity are subdivided into:

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

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

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

End of 2016, the Agency Supervisory Board (ASB) Finance Committee tasked the Agency to develop a paper on the Operating Fund for discussion. During its meeting on 12 and 13 October 2017, the Agency Supervisory Board (ASB) Finance Committee decided<sup>8</sup> as follows:

- The need for an Operating Fund as a risk management tool.
- The definition of Operating Fund as the accumulated surplus or deficit fund equalling the sum of retained earnings, but no longer comprising of depreciation reserve.
- The target level of the Operating Fund at 10M EUR, (excluding reserved earnings).
- Agreed on the pro rata distribution of potential surplus Operating Fund based upon the Military Budget and the NATO Security Investment Programme share in the Agency revenue via the call for contributions mechanism, with the

understanding that the adjustment mechanism be revised within a year (up until then any surplus was returned through a reduction in Customer Rates).

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

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<sup>8</sup> AC/337(FC)DS(2017)0004

## NOTES TO THE FINANCIAL STATEMENTS

### Critical Accounting Estimates and Judgements

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

### Legal proceedings both real and possible

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

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

## A. Notes to the NCIO Statement of Financial Position

### 1. Cash and Cash Equivalents

	2021	2020 Restated	2020
<b>Cash and Cash Equivalents</b>			
100 Cash in hand	9,051	12,953	12,953
102 Current bank accounts - Euro	89,497,631	116,814,163	116,814,163
104 Current bank accounts - Non-Euro	58,010,149	34,337,749	34,337,749
106 Current investments accounts - Euro	10,001,458	10,000,615	10,000,615
108 Current investments accounts - Non-Euro	29,197,551	10,546,969	10,546,969
	<b>186,715,840</b>	<b>171,712,449</b>	<b>171,712,449</b>

Cash available on demand is considered to be cash that can accessed at very short notice (e.g. 1 working day) while a short-term deposit is invested from typically one to three months. Cash and cash equivalents includes amounts advanced by Customers for future usage. Cash balances are restricted to the use for which Customers have provided the cash. Given the limitations on the size and use of the Operating Fund, the NCI Agency relies on the Customer provided funding via advance payments and timely payment of invoices to provide the cash flow for daily operations.

Cash and Cash equivalents are spread among a number of banks that have “A grade” credit ratings to optimise the bank charges and interest cost as well as to manage the counterparty risk. The only exception to A grade rated bank is an advance account in Turkey with a total value of 20 KEUR to facilitate local operations.

Cash in hand is mainly related to cash that is held by the approved Agency business credit card users. It represents the cash withdrawn from the ATMs for the procurement of low value, urgent items but not yet spent. Non-Euro bank accounts are held in USD, GBP and NOK currencies to pay Agency liabilities in these currencies.

### 2. Accounts Receivable

	2021	2020 Restated	2020
<b>Receivables</b>			
11001 Customer receivables (A/R) - Common funded - NATO and NATO entities	165,018,381	136,016,062	136,016,062
11002 Customer receivables (A/R) - Not common funded	16,007,163	21,337,215	21,337,215
1107 Customer receivables - Bad debts	144,380	197,124	197,124
11000 Customer receivables (A/R) - Common funded - NSIP	(87,205,065)	(95,974,210)	(95,974,210)
113 Customer receivables - Recoverable expenses	17,540	93,234	93,234
114 Customer receivables – Impairments	(192,108)	(190,748)	-
115 Current receivables - Tax or personnel related	3,567,004	3,376,186	3,376,186
116 Current receivables - Accrued, unbilled revenue	127,080,182	144,762,388	144,762,388
119 Current receivables - Other	188	15,895	15,895
	<b>224,437,665</b>	<b>209,633,146</b>	<b>209,823,894</b>

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Accounts receivable are impacted by the NSIP Quarterly Accounting Financial Report (QAFR) bookings. The NCI Agency has adapted its accounting treatment in line with prior years IBAN observation, so that advances received from the NSIP Programme are netted against the amounts to be received from the same programme. This represents more clearly and accurately the position of the NCI Agency against the programme at year-end. Without the impact of QAFR advances (-152.3 MEUR) and the accrued, unbilled Receivables (127.1 MEUR); the account receivables would sum up to 249.7 MEUR which include billed but not yet received amounts from Customers.

The impairment of Receivables (114 account range) is reflected as a reduction of receivables rather than an increase of a liability under Provision.

		2021	2020 Restated	2020
<b>NOR (NSIP) Receivables</b>				
11000	Customer receivables (A/R) - NATO Nations and NOR	65,089,551	57,132,306	57,132,306
11000	Customer receivables (A/R) - NSIP - QFR Advances on approved forecast	(152,294,617)	(153,106,516)	(153,106,516)
116	Accrued, unbilled	69,454,317	63,921,126	63,921,126
		<b>(17,750,749)</b>	<b>(32,053,084)</b>	<b>(32,053,084)</b>

NSIP related trade receivables from nations are 65.1 MEUR and trade receivables from accrued revenue amounts to 69.5 MEUR, resulting in a total 134.5 MEUR, that is netted against the balance of advances through the QAFR pay sheets of 152.3 MEUR leading to a net position of liability towards the NSIP at 31/12/2021 of 17.8 MEUR as per the above table.

### 3. Prepayments and Miscellaneous Assets

		2021	2020 Restated	2020
<b>Prepayments and Miscellaneous Assets</b>				
130	Prepayments	9,531,413	6,482,729	6,482,729
		<b>9,531,413</b>	<b>6,482,729</b>	<b>6,482,729</b>

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

### 4. Inventories

		2021	2020 Restated	2020
<b>Inventory</b>				
14000	Inventory - Consumables	15,274,505	17,628,287	17,628,287
14001	Inventory - Spare parts and Minor Equipment	24,409,319	25,133,462	25,133,462
		<b>39,683,824</b>	<b>42,761,749</b>	<b>42,761,749</b>



The inventory ending balance amounts to 39.7 MEUR which is a decrease of 3.1 MEUR when compared to the prior balance of 42.8 MEUR.

As per the NATO Accounting Framework clarifies that the NATO Communication and Information Organisation (NCIO) acts as a service provider for inventory of CIS and/or Automated Information Systems (AIS) for the NATO Military Commands (Allied Command Operations (ACO) and Allied Command Transformation (ACT)) as well as for International Staff (IS) and International Military Staff (IMS). NCIO has control over these inventories because it uses them to provide goods and services to its customers and has to report them as inventories in its financial statements.

Since the NCI Agency became fully Customer Funded as of 1 Jan 2014 inventories are fully disclosed, as the NCI Agency is no longer acting as an agent on behalf of a third party but rather as a principal in rendering services to its Customers.

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

CSSC conducts annually a count of the inventories, and where necessary, CSSC updates the Items on stock that requires WAC price adjustments based at the best fair value.

The majority of the inventory balances consist of strategic stock as explained within the accounting policies on inventories.

## 5. Work In Progress

		2021	2020 Restated	2020
<b>Work in Progress</b>				
145	Work in progress	2,444,034	5,757,711	5,757,711

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

Pre-financed projects totalling 0.8 MEUR are governed by existing binding arrangements (overarching framework agreements such as Memorandum of Understanding – MOU) between the Agency and its main sponsors. All existing pre-finance authorisations are granted as per the terms and conditions prescribed in the FRPs specifically developed for the Agency operating under its Customer Funding Regime. The decision to pre-finance projects is assessed by the Chief Operating Officer (COO), Production Directors and the Financial Controller prior to being approved on a case-by-case basis by the Financial Controller. Accordingly this not considered as a technical contingent asset.

For projects sponsored by NSIP, APFs may be authorised to cover the initial cost for writing the full project price proposal (TBCE). In some cases the APFs are insufficient to cover this initial effort in which case the NCI Agency capitalises the shortfall pending approval of the Project Service Cost (PSC). Funds expended during this stage are capitalised as work in progress for a total amount of 0.1 MEUR.

In the course of executing projects, sometimes the Customer requests changes in specifications, scope, or duration that results in the costs exceeding the contracted revenue. Similarly to APF over-runs, for these recoverable exceptions, costs are capitalised until the exceptions are contractually regularised. The total capitalised amount of recoverable exceptions is 1.6 MEUR.

## 6. Non-current Receivables

		2021	2020 Restated	2020
<b>Non-current Receivables</b>				
160	Non-current financial assets	547,885	1,201,631	1,201,631

These are outstanding prepayments on long term (> 1 year) to suppliers.

## 7. Property, Plant and Equipment (PP&amp;E) and Intangible Assets

## NCIO Statement of Property, Plant and Equipment and Intangible Assets

As of 31 December 2021

(all figures are in Euro)

NCIO											
Note	ACQUISITION					DEPRECIATION					BOOK VALUE
	31-Dec-2020	Current Year	Disposals / Adjustm.	Transfers / Reversals	Revaluation	31-Dec-2021	31-Dec-2020	Current Year	Disposals / Adjustm.	31-Dec-2021	31-Dec-2021
<b>PLANT, PROPERTY AND EQUIPMENT</b>											
Automated Data Processing (ADP) Equipment	3,552,634	1,006,122	-	-	-	4,558,756	(2,267,504)	(1,006,913)	-	(3,274,417)	1,284,339
Communications Equipment	599,940	-	-	-	-	599,940	(492,591)	(62,488)	-	(555,079)	44,861
Mission Equipment	870,119	352,293	-	-	-	1,222,412	(568,039)	(379,270)	-	(947,309)	275,103
Machinery	140,000	31,150	-	-	-	171,150	(56,000)	(13,615)	-	(69,615)	101,535
Installed Equipment	357,705	-	-	-	-	357,705	(357,705)	-	-	(357,705)	-
Office Furniture	-	-	-	-	-	-	-	-	-	-	-
Passenger Vehicles	409,234	67,000	-	-	-	476,234	(389,326)	(21,457)	-	(410,783)	65,451
<b>Infrastructure, plant and equipment</b>	<b>5,929,632</b>	<b>1,456,565</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,386,197</b>	<b>(4,131,164)</b>	<b>(1,483,743)</b>	<b>-</b>	<b>(5,614,908)</b>	<b>1,771,289</b>
NCIA Main Building The Hague - Enhancements	-	-	-	-	-	-	-	-	-	-	-
<b>Land and buildings - Leasehold improvements</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Software Licences	-	-	-	-	-	-	-	-	-	-	-
<b>Intangible assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL PLANT, PROPERTY AND EQUIPMENT – CAPITALISED</b>	<b>5,929,632</b>	<b>1,456,565</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,386,197</b>	<b>(4,131,164)</b>	<b>(1,483,743)</b>	<b>-</b>	<b>(5,614,908)</b>	<b>1,771,289</b>
Capital expenditures pending capitalisation - Accrued	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL PLANT, PROPERTY AND EQUIPMENT</b>	<b>5,929,632</b>	<b>1,456,565</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,386,197</b>	<b>(4,131,164)</b>	<b>(1,483,743)</b>	<b>-</b>	<b>(5,614,908)</b>	<b>1,771,289</b>
<b>DEPRECIATION RESERVE</b>	<b>5,929,632</b>	<b>(2,874,383)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,055,248</b>	<b>(4,131,164)</b>	<b>1,549,567</b>	<b>-</b>	<b>(2,581,597)</b>	<b>473,651</b>
<b>INCREASE/(DECREASE) DEPRECIATION RESERVE</b>		<b>(2,874,383)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,874,383)</b>		<b>1,549,567</b>	<b>-</b>	<b>1,549,567</b>	<b>(1,324,816)</b>
<b>DEFERRED REVENUE</b>	<b>3,260,292</b>	<b>1,070,657</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,330,949</b>	<b>(1,865,388)</b>	<b>(1,167,923)</b>	<b>-</b>	<b>(3,033,311)</b>	<b>1,297,638</b>
<b>INCREASE/(DECREASE) DEFERRED REVENUE</b>		<b>1,070,657</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,070,657</b>		<b>(1,167,923)</b>	<b>-</b>	<b>(1,167,923)</b>	<b>(97,266)</b>

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

According to the NATO Accounting Framework, NCIO shall capitalise all CIS Assets under Construction for the NATO Command Structure as well as for IS and IMS as of 1

January 2018. This shall apply for all new CIS assets with construction starting on or after 1 January 2018 but also for existing assets partially under construction that continue after 1 January 2018. The cost of assets under construction prior to 1 January 2018 shall be expensed. The costs as of 1 January 2018 have to be capitalised. NCIO retains the accounting and reporting responsibilities for CIS assets used to provide goods and services to the NATO Command Structure as well as for IS and IMS. NCIO is working towards disclosing CIS Assets Under Construction within Financial Statements at 31 December 2022. Final decision will depend on the implementation/adaptation of the EBA inventory/fixed asset module/project module to accommodate Asset under construction/self-constructed assets.

## 8. Payables

		2021	2020 Restated	2020
<b>Payables</b>				
2000	Supplier payables - Accounts payable	25,661,777	35,175,546	35,175,546
2004	Supplier payables - Accrued supplier invoices	77,840,646	78,674,872	78,674,872
2006	Supplier payables - Warranties received	1,443,351	1,270,053	1,270,053
		<b>104,945,774</b>	<b>115,120,471</b>	<b>115,120,471</b>

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

## 9. Deferred Revenue and Advances

		2021	2020 Restated	2020
<b>Deferred Revenue and Advances</b>				
211	Current deferred revenue	191,043,998	163,288,633	163,288,633
215	Current advances and prepayments received	42,008,244	53,868,895	53,868,895
		<b>233,052,242</b>	<b>217,157,528</b>	<b>217,157,528</b>

The Deferred/Unearned Revenue and Advances are composed of:

- Revenue billed for ongoing projects and services, however revenue earned is determined through the stage of completion resulting in 191 MEUR of revenue billed but not yet recognised as earned.
- Advances and prepayments of 42 MEUR refer to deposits from customers and nations for projects and services that will be delivered by the agency.

## 10. Other Current Liabilities

		2021	2020 Restated	2020
<b>Other Current Liabilities</b>				
250	Current tax and personnel related liabilities	13,462,532	11,504,690	103,498
254	Current other liabilities	64,295	827,847	827,847
		<b>13,526,827</b>	<b>12,332,537</b>	<b>931,345</b>

Other current liabilities mainly include:

- The NCI Agency estimated liability for the untaken leave days outstanding at year end, in accordance with IPSAS 25 Employee benefits, constitutes a liability towards the future for 12.8 MEUR (2020: 11.3 MEUR). This liability is calculated on a rolling basis, i.e. the prior year liability is reversed at the beginning of the year and a new estimate calculated, thus charging the change for the year to the personnel costs in the Statement of Financial Performance. The costs of these untaken leaves days has been absorbed during the year through the monthly salaries whereas the loss of production of capacity when the leave to be taken is pushed forward to the next year. This constitutes an Agency liability towards the future which is recognized.
- The liability of 0.1 MEUR (2020: 0.1 MEUR) made for JFC Naples for "Trattamento di Fine Rapporto (TFR)" in application of the Italian Law and of IPSAS 19. TFR is a vested benefit payable to the employee for a part of his / her salary deferred in time to the moment when termination of the contract takes place. The calculation of the value of this liability takes place annually and includes interests for the loan forcedly made by the employee to the employer given the fact that payment is deferred to a later time. In view of the foregoing, TFR has to be considered as one extra monthly instalment of the annual pay.
- Refundable surpluses amount to 0.1 MEUR and results from lapses/financial/miscellaneous on the ASB budget.

The restatement is a result of a change in accounting policy with the effect of a reclassification of Untaken Leave from Provisions (statement of position) towards Current other liabilities.

## 11. Provisions

		2021	2020 Restated	2020
<b>Provisions</b>				
2901	Provisions - Major risks and costs	12,982,657	19,635,737	19,826,486
2902	Provisions - Personnel related risks and costs	0	0	11,401,191
		<b>12,982,657</b>	<b>19,635,737</b>	<b>31,227,677</b>

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

Provisions - Major risks and costs 2021	Beginning balance	Additions	Used	Reversal	Ending Balance
Provisions for future/expected loss on active Project/Service contracts	2,342,981	459,990	(515,279)	0	2,281,755
Provisions for litigations	17,292,756	6,401,209	(540,771)	(12,458,229)	12,488,901
<b>Total 2021</b>	<b>19,635,737</b>	<b>6,861,199</b>	<b>(1,056,050)</b>	<b>(12,458,229)</b>	<b>12,982,657</b>

Provisions - Major risks and costs 2020 Restated	Beginning balance	Additions	Used	Reversal	Ending Balance
Provisions for future/expected loss on active Project/Service contracts	5,770,982	842,491	(4,270,492)	0	2,342,981
Provisions for litigations	8,426,756	10,866,000	0	(2,000,000)	17,292,756
<b>Total 2020 Restated</b>	<b>14,197,738</b>	<b>11,708,491</b>	<b>(4,270,492)</b>	<b>(2,000,000)</b>	<b>19,635,737</b>

## Major risks and Costs:

- Projects are constantly monitored and deviations from the original cost estimates and authorised budgets are reported and analysed. At year-end closing a thorough cost-to-complete exercise is carried out to determine what the current status is in terms of costs and revenue to date, and to estimate what the cost-to-complete will be for multiple year projects. If, as a result of this process, the project management together with the NCI Agency Capability Development's financial management come to the conclusion that the project is likely to generate a loss at completion, then a provision will be made to cover that potential future loss. Analysis conducted at a later stage may result in a change of estimates which translates in an increase or decrease of the provision built up in prior years. The total provision for the Customer Funded projects amounts to 2.3 MEUR (2020: 2.4 MEUR) that results in a reduction of 0.1 MEUR.
- Provision related to litigations (contractual) and other major risks for an amount of 10.7 MEUR (2020: 17.2 MEUR) that results in a reduction of 6.5 MEUR.

The restatement is a result of a change in accounting policy related to the reversal of unused provisions and the reclassification of untaken leave from Provisions (statement of position) towards Current other liabilities.

## B. Notes to the NCIO Statement of Financial Performance

### 12. Projects and Service Support Revenue

		2021	2020 Restated	2020
<b>Project and Support Services Revenue</b>				
500	Project services revenue			106,236,350
5000	Project services revenue - Billed	124,910,463	114,703,566	
5005-5009	Project services revenue - Accrued/(Deferred)	(4,105,776)	(8,467,216)	
501	Support services revenue			225,782,323
5010	Support services revenue - Billed	237,720,967	221,237,798	
5015-5019	Support services revenue – Accrued/(Deferred)	(1,651,353)	4,544,525	
		<b>356,874,301</b>	<b>332,018,673</b>	<b>332,018,673</b>

With the introduction of full Customer Funding as of 1 Jan 2014, the 2021 operations revenue can be categorised as either Project Services Revenue for 120.8 MEUR and Services Revenue for 236.1 MEUR, coming from signed Service Level Agreements (Service Support Costs) and other Service Agreements, all agreed and calculated at approved Customer Rates.

For all Customer Funded revenue, revenue is recognised, in accordance with IPSAS 9 and 11, by reference to the stage of completion or the cost burn rate, depending on the type of funding agreement; firm fixed price or cost reimbursable. In applying this revenue recognition a “cost to complete” is calculated based on either inputs from the project manager as to the resources required to complete the project/deliverables or either based on information from the financial system as to the legal liabilities incurred per the end of 2021, but not yet accrued or expended, and which nevertheless form part of the 2021 services signed with the Customers through the Service Level Agreements.

The restatement is a result of a further granularity in the presentation of the note compared to prior year published Financial Statements which will harmonize the presentation of the different revenue streams and hence the amounts are reflected in the 2021 and the 2020 Restated column.

- The earned revenue 2021 is now broken down by billed and accrued/deferred revenue.
  - o The Project Services Revenue - Accrued/(Deferred) shows a net deferral of (4.1) MEUR and is composed by an accrued revenue of 38.9 MEUR and a deferred revenue of (43) MEUR .
  - o The Support Services Revenue – Accrued/(Deferred) shows a net deferral of (1.7) MEUR and is composed by an accrued revenue of 9.6 MEUR and a deferred revenue of (11.2) MEUR.
- The earned revenue 2020 Restated is now broken down by billed and accrued/deferred revenue.
  - o The Project Services Revenue - Accrued/(Deferred) shows a net deferral of (8.4) MEUR and is composed by an accrued revenue of 42.4 MEUR and a deferred revenue of (50.8) MEUR .
  - o The Support Services Revenue – Accrued/(Deferred) shows a net deferral of 4.5 MEUR and is composed by an accrued revenue of 12 MEUR and a deferred revenue of (7.5) MEUR.

### 13. External CIS Revenue

The total revenue per service as specified in the Service Level agreements have two revenue components. There is the Service Support Revenue element that is based on effort charged at approved customer rates and the External CIS Revenue of 214 MEUR in 2021 that represents the revenue charged to customers to cover the contractual supplies and services delivered by industry required by the NCI Agency to provide its CIS services. .

		2021	2020 Restated	2020
<b>External Services Revenue</b>				
5100	External CIS revenue – Billed	220,630,485	268,867,756	268,867,756
5105	External CIS revenue - Accrued, unbilled (CY)			(24,039,693)
5106	External CIS revenue - Deferred revenue reversal (CY)			(1,816,135)
5109	External CIS revenue - Deferred (CY) (-)			6,426,695
5105-5109	External CIS revenue – Accrued/(Deferred)	(6,651,581)	(19,429,133)	
		<b>213,978,904</b>	<b>249,438,623</b>	<b>249,438,623</b>

The restatement is a result of a change in presentation of the note compared to prior year published Financial Statements which will harmonize the presentation of the different revenue streams and hence the amounts are reflected in the 2021 and the 2020 Restated column.

The earned revenue 2021 and 2020 Restated are now broken down by billed and accrued/deferred revenue:

- For the fiscal year 2021, the External CIS Revenue - Accrued/(Deferred) shows a net deferral of (6.7) MEUR and is composed by an accrued revenue of 20.7 MEUR and a deferred revenue of (27.4) MEUR.
- For the fiscal year 2020 Restated, the External CIS Revenue - Accrued/(Deferred) shows a net deferral of (19.4) MEUR and is composed by an accrued revenue of 27.3 MEUR and a deferred revenue of (46.7) MEUR.

## 14. Acquisition Revenue

		2021	2020 Restated	2020
<b>Acquisition Revenue</b>				
5110	Acquisition revenue – Billed	262,426,643	294,095,747	294,095,747
5115	Acquisition revenue - Accrued, unbilled (CY)			69,803,374
5119	Acquisition revenue - Deferred (CY) (-)			(174,645,672)
5115-5119	Acquisition revenue – Accrued/(Deferred)	(34,757,132)	(104,842,298)	
		<b>227,669,511</b>	<b>189,253,449</b>	<b>189,253,449</b>

Acquisition Revenue is earned as Host Nation for the NSIP, and for other NATO entities and Nations.

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

The restatement is a result of a change in presentation of the note compared to prior year published Financial Statements which will harmonize the presentation of the different revenue streams and hence the amounts are reflected in the 2021 and the 2020 Restated column.

The earned revenue 2021 and 2020 Restated are now broken down by billed and accrued/deferred revenue:

- For the fiscal year 2021, the Acquisition - Accrued/(Deferred) shows a net deferral of (34.8) MEUR and is composed by an accrued revenue of 92.4 MEUR and a deferred revenue of (127.2) MEUR.
- For the fiscal year 2020 Restated, the Acquisition - Accrued/(Deferred) shows a net deferral of (104.8) MEUR and is composed by an accrued revenue of 69.8 MEUR and a deferred revenue of (174.6) MEUR.

## 15. Other Revenue

		2021	2020 Restated	2020
<b>Other Revenue</b>				
529	Other operations revenue	1,963,703	2,051,007	2,051,007
545	Other revenue	-	(1,179,496)	(1,179,496)
546	Reversal of unused Provisions	12,458,229	2,000,000	0
		<b>14,421,932</b>	<b>2,871,511</b>	<b>871,511</b>

Other Revenue consists of elements such as:

- Revenue from the support to and hosting of Agencies such as NAGSMA;
- Revenue from 2021 budget for the ASB Independent Secretariat for a total of 0.9 MEUR. Details and their Budget Execution Statement can be found under section D of the Notes to the Financial Statements.

- Positive outcome of contractual risks from the prior years, for a total of value of 13 MEUR for 2021 Fiscal Year. For 2020 restated, there is one reversal of provision for a total value of 2 MEUR.

The restatement is a result of a change in accounting policy related to the reversal of unused provisions which is moved from Provisions into Other Revenue.

## 16. Cost of Acquisitions

		2021	2020 Restated	2020
<b>Cost of Acquisition</b>				
727	Contractors, general services and supplies for NSIP	186,942,990	154,907,520	154,907,520
727	Contractors, general services and supplies for Third Parties	38,881,673	33,661,774	33,661,774
729	Capitalized costs- Acquisition costs	(360,896)	0	0
		<b>225,463,767</b>	<b>188,569,294</b>	<b>188,569,294</b>

The NCI Agency procures significant amounts of goods and services using funds provided by all its sponsors but principally the IC.

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

## 17. Personnel Costs

		2021	2020 Restated	2020
<b>Personnel Costs</b>				
710	Salaries, allowances and other remunerations	193,843,627	174,679,010	174,679,010
711	Interim Workforce Capacity (IWC)	75,809,715	78,420,660	78,420,661
712	Recruitment costs and installation and separation allowances	4,648,557	4,522,575	1,892,335
713	Clothing costs and allowances	96,018	93,045	93,045
715	Medical examinations and general personnel related insurances	19,065,816	17,055,188	17,055,188
716	Education and training	4,193,816	3,921,592	3,921,592
717	Employer contributions to pensions; loss of job and other personnel contracts related indemnities	295,697	290,697	290,697
718	NATO Pensions (Pension funds)	13,814,667	11,799,255	11,799,255
719	Capitalized cost	3,461,161	(5,396,165)	(5,396,165)
719	Usage of Provisions	(515,279)	(4,270,492)	0
		<b>314,713,795</b>	<b>285,115,365</b>	<b>282,755,618</b>



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

The restatement is a result of a change in accounting policy related to the change of usage of Untaken Leave provision.

## 18. Employee Disclosures

### Staff Numbers

At 31 December 2021 - 753 (2020: 777) military posts and 1917 (2020: 1750) NATO civilian posts were filled.

### Retirement benefits

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

The NCI Agency does not control or manage any of the schemes or scheme assets and is not exposed to the risks and rewards of the schemes and hence does not record any assets or liabilities of the schemes on its Statement of Financial Position. In 2021 the NCI Agency contributed 13.8 MEUR (2020: 11.8 MEUR) to the various NATO pension schemes, this is displayed within disclosure note 'Personnel Costs' – 718 NATO Pensions (Pension funds).

## 19. Related Party Transactions

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

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

### Related Party Transactions of Members of Boards and Committees

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

### Representative Allowance of the General Manager

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

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

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The total entitlement to representation allowance for the NCI Agency GM was 10,000 EUR. The actual expenses during 2021: 551 EUR (2020: 2,586 EUR) were as follows:

- Rental supplement: € 0.00
- Functions: € 551.10
- Total representation allowance: € 551.10

### Key Management Personnel

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

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

Euro (A7/A6)
Basic salaries
Allowances
Post-employment benefits
Employer's contribution to Insurance
Employer's contribution to Pension
<b>Total</b>

2021
922,629
235,816
0
106,565
68,396
<b>1,333,406</b>

2020
923,734
230,329
0
110,095
70,023
<b>1,334,181</b>

FTE
General Manager
Directors (A6/OF6/OF7)

2021
1
6.35

2020
1
6.08

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<i><b>Name</b></i>	<i><b>Nationality</b></i>	<i><b>Role</b></i>	<i><b>Loans received from NCIA</b></i>	<i><b>Family members receiving income from NCIA</b></i>	<i><b>Other revenue from NCIA or NATO</b></i>
<i>Kevin Scheid (left at 30 Jun 21)</i>	<i>USA</i>	<i>General Manager</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Ludwig Julien DECAMPS (arrived at 01 Jul 21)</i>	<i>BEL</i>	<i>General Manager</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>MGEN Göksel Sevindik</i>	<i>TUR</i>	<i>Chief of Staff</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Ludwig Decamps (left 30 Jun 21)</i>	<i>BEL</i>	<i>Chief Operating Officer</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Jennifer Upton</i>	<i>USA</i>	<i>Director Acquisition</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Antoine Pailhès</i>	<i>FRA</i>	<i>Financial Controller</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Garry Hargreaves</i>	<i>GBR</i>	<i>Director of the Academy</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Michael Stoltz</i>	<i>DEU</i>	<i>Director Air and Missile Defence Command &amp; Control</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Su Jin Chan (arrived 01 Jun 21)</i>	<i>USA</i>	<i>Legal Advisor</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Ralf HOFFMANN (arrived 01 Oct 21)</i>	<i>DEU</i>	<i>Director of Service Operations</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>BGEN Luis Filipe CAMELO DUARTE SANTOS (left 07 Jan 21)</i>	<i>PRT</i>	<i>NCI Academy Director</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>

All Key Management Personnel of the NCI Agency must sign a declaration statement that supports the disclosure requirements of IPSAS 20, none of them had family members who were employed as interns and/or in a temporary position with the Agency.

**20. Contractual Supplies and Services**

		2021	2020 Restated	2020
<b>Contractual Supplies and Services</b>				
720	Rent and operational leasing costs	70,158,718	47,229,965	47,229,965
721	Maintenance and repair (Services)	102,047,408	139,640,274	139,640,274
722	Consumables and spare parts (Supplies)	4,589,135	509,262	509,262
723	Minor equipment and Investment costs	11,223,397	25,424,970	25,424,970
724	Utilities, postal and courier services, travel and transportation	8,936,530	20,943,834	20,943,834
725	Facilities management, environment, safety and security	10,153,644	7,420,730	7,420,730
726	Public relations, representation, hospitality and moral and welfare	59,509	185,725	185,725
727	Contractors, general services and supplies	24,436,516	28,363,662	28,363,662
729	Capitalized costs	213,412	(361,545)	
730	Investment costs	9,475,796	12,795,882	12,434,337
		<b>241,294,065</b>	<b>282,152,759</b>	<b>282,152,759</b>

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

**21. Depreciation and Amortisation**

		2021	2020 Restated	2020
<b>Depreciation and Amortisation</b>				
740	Amortisation and depreciation	1,483,743	1,160,776	1,160,776
741	Write-offs- Receivables	8,030	0	0
		<b>1,491,773</b>	<b>1,160,776</b>	<b>1,160,776</b>

For Fixed Assets, the NCI Agency takes into account the current year depreciation as a cost which amounts to 1.5 MEUR.

Full detail on the 2021 annual depreciation and retirement by asset category can be found within note: Property, Plant and Equipment (PP&E) and Intangible Assets.

**22. Provisions**

		2021	2020 Restated	2020
<b>Provisions</b>				
7461	Provisions - Major risks and costs	7,147,704	11,708,491	5,437,999
7462	Provisions - Personnel related risks and costs	0	0	2,630,240

7,147,704

11,708,491

8,068,239

NCIO has made the following provisions:

Provisions – Major risks and costs

- Provisions were made for future losses for active projects/services. The expected loss was recognised as an expense immediately (IPSAS 9 and 11). For reasons of commercial confidentiality, details of which programmes/projects are not disclosed the net effect is an increase of 7.1 MEUR (2020: 11.7 MEUR).

Further details can also be found under note 11, Provisions. IPSAS defines a provision as “a liability of uncertain timing or amount”.

The restatement is a result of a change in accounting policy related to the reversal of unused provisions and reclassification of untaken leave provision (within Provisions – Personnel related risks and costs) into other liabilities.

### 23. Contingent Liabilities

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

There is one NSIP program is subject to a dispute. The dispute is ongoing between the Agency and the main contractor/vendor, and the current assessment is this is only a contingent liability. For confidentiality reasons, the Vendor names and Programs are not disclosed in this paragraph.

### 24. Financial Revenue and Expenses

		2021	2020 Restated	2020
<b>Financial Revenue and Expenses</b>				
550	Foreign exchange surpluses	3,509,970	1,598,062	1,598,062
555	Other financial surpluses	96,000	(11,238)	(11,238)
750	Foreign exchange deficits	(745,697)	(7,131,025)	(7,131,025)
7550	Financial costs - Current liabilities	(175,710)	(93,374)	(93,374)
7555	Financial costs – Other	4,735	(5,958)	(5,958)
		2,689,298	(5,643,533)	(5,643,533)

The total result from financial revenue and expenses is a gain of 2.7 MEUR. This amount is primarily composed of a net realised foreign exchange gain of 3.5 MEUR and foreign exchange deficits 0.7 MEUR. For IC acquisition activity the financial result is borne by NSIP and is thus not included here.

**25. Financial Instruments**

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

**Liquidity risk**

NCIO's financial requirements and capital expenditure are met by its Customers and are typically funded in advance. NCIO is therefore not exposed to material liquidity risks. Nevertheless, to ensure business continuity, Treasury holds around 3 months payroll costs equivalent of cash as a security buffer. Based on agreed procedures, Treasury may request additional advance payments to NATO bodies if the cash levels approach to the security buffer or cash forecasts indicate any potential liquidity problems.

**Credit risk**

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

**Foreign currency risk**

Agency aims to have natural hedge in its transactions to avoid foreign currency risk exposure. Agency operates mainly in EUR, USD, GBP and NOK currencies. Treasury may request calls for contributions in these currencies, in line with expected outflows, based on either cash projections or previous business experiences.

Treasury holds currency bank accounts in those currencies to pay and receive funds.

In addition to the main currencies, there are fewer transactions in other currencies; PLN, TRY, RON and CAD. Agency holds a TRY bank account in Turkey as an advance account to facilitate direct debit payments in Turkey. Aligned with NFR, Treasury does not take any speculative positions nor makes any speculative transactions. All foreign currency transactions are related to current or future business needs.

**26. Write-offs**

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

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

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

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

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

For the period between 01 January 2021 and 31 December 2021 the NCI Agency has written off:

- CIS assets with total net book value of 0 EUR.
- Accounts receivable with a total value of 56,282.49 EUR, only 8,030.19 EUR generated an impact on the Statement of Performance.
- Pre-Fin write off with total value of 92,925 EUR.

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

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

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

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

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

#### 27. Reserves at the End of the Period.

		2021	2020 Restated	2020
<b>Reserved Earnings</b>				
310	Reserves - Depreciation	473,651	1,798,467	1,798,467
311	Reserves – Internal investments	5,820,000	0	0
311	Reserves - Transition programmes	2,200,961	2,373,359	2,373,359
312	Reserves – Inventory	42,755,943	42,755,943	42,755,943
		<b>51,250,555</b>	<b>46,927,769</b>	<b>46,927,769</b>

- 0.5 MEUR of earnings remain reserved for the assets not yet fully depreciated, thus decreasing the depreciation reserve in 2021 with 1.3 MEUR.
- 6.4 MEUR of accumulated transition expenses are booked against the Transition Reserve thus decreasing from a total 8.6 MEUR at 31 December 2013 to 2,2 MEUR at 31 December 2021.
- 42.8 MEUR Inventory balances adjusted as per the NATO accounting Framework.

		2021	2020 Restated	2020
<b>Reserves Special programmes</b>				
311000	Special programmes reserves - Transition projects - Approved and authorised - Prior years	875,685	1,048,083	1,048,083
311001	Special programmes reserves - Transition projects - Approved, not authorised - Prior years	1,325,276	1,325,276	1,325,276
		<b>2,200,961</b>	<b>2,373,359</b>	<b>2,373,359</b>

**Transition Expenses**

	Authorised	Spent < 2021	Spent 2021	Total Spent	Remaining
<b>Transition OF funded</b>	7,244,724	6,196,640	172,398	6,369,039	875,685

In order to fund its transition activities between 2014 and 2018, the Agency requested 8.6 MEUR of the Operating Fund (OF) and 18.9 MEUR of common funding and 8.6 MEUR of the OF. The subsequent IC/BC decision sheet (AC/4 (PP) D/27275 – ADD1 and BC-D(2013)0214) authorised 17 MEUR of common funding and 7.2 MEUR from the Agency OF. The latter has been reserved to pay for backfill consultancy cost and travel of the NCI Agency personnel involved in activities related to the Transition Programme as per the decision sheet. The difference between the RPPB approved amount (8.6 MEUR) and the detailed amount approved by the IC/BC (7.2 MEUR), has also been reserved for future possible use.

		2021	2020 Restated	2020
<b>Reserves Internal Investments</b>				
311131	Special programmes reserves - A2I - EBA R4	3,723,000	0	0
311132	Special programmes reserves - A2I - Interim Facility (IF)/Braine L'Alleud (BLL)	2,097,000	0	0
		<b>5,820,000</b>	<b>0</b>	<b>0</b>

The Internal Investments reserves is composed of the Enterprise Business Application Release 4 (EBA R4) and of the Interim Facility in Brain L'Alleud.

**EBA R4**

The RPPB approved 4 MEUR from the Operating Fund (AC/335-D(2021)0036 dated 21 May 2021) to fund for the EBA release 4 program. The Operating Fund evolution is elaborated in detail at section 2.6 of Financial Plan 2022-2024 (AC/337-D(2021)0050 dated 10 December 2021). The remaining funds at the year-end of FY2021 are 3.7 MEUR.

**Interim Facility (IF)/Braine L'Alleud (BLL)**

The 2.1 MEUR of unspent investment funding have been carried over into 2022 as part of internal investment reserve in line with Nations decision to reallocate the estimated 4.2 MEUR included in CR 2021 for interim facility O&M to the funding of the interim facility investment and to transfer to a specific ring fenced investment reserve any unspent investment at end of year 2021, to cover for the remaining investments to be executed in 2022.



**28. Retained Earnings**

		2021	2020 Restated	2020
<b>Retained Earnings</b>				
5	Revenue	816,550,617	775,169,080	773,169,081
7	Expenses	(791,027,776)	(771,937,042)	(769,937,043)
	Surplus (Deficits) Current Year	25,522,841	3,232,038	3,232,038
	Surplus (Deficits) Current Year distributed to Retained Earnings	21,200,056	2,359,981	2,359,981
	Surplus (Deficits) Current Year distributed to Reserved Earnings	4,322,785	872,057	0
300	Surplus (Deficits) carried forward - Prior Years	28,173,839	25,813,858	25,813,858
<b>Retained Earnings (Operating Fund - OF)</b>		<b>49,373,895</b>	<b>28,173,839</b>	<b>28,173,839</b>

The disclosure note restated presents further breakdown of the surplus distribution that reconciles to the total surplus of the year.

The Surplus of the Current Year distributed to Retained earnings is 21.2 MEUR (2020: 2.4 MEUR) and 4,3 MEUR (2020: 0.8 MEUR) which is distributed to the Reserved Earnings that reconcile to the total Surplus of the Year.

## NCIO Reconciliation of Net Assets/Equity

For the year ended 31 December 2021

(all figures are in Euro) (OF=Operating Fund)

	Property, Plant and Equipment (PP&E) & Intangible Assets		Reserves - Special Purpose	Reserves - Special Progr.	Reserves- Internal Investments	Reserves - Inventory	RESERVED EARNINGS	RETAINED EARNINGS OF	NET ASSETS/EQUITY	
	Acq. Value	Depreciation	Book Value						Surpl./ (Def.) Yr	Yr-end Balance
2018 as Published	16,174,964	(12,974,730)	3,200,234	2,873,854			6,074,088	18,482,932	(476,473)	(476,473)
<b>31-Dec-18</b>	<b>16,174,964</b>	<b>(12,974,730)</b>	<b>3,200,234</b>	<b>2,873,854</b>			<b>6,074,088</b>	<b>18,482,932</b>		<b>24,557,020</b>
2018 as Published Restated	16,174,964	(12,974,730)	3,200,234	2,873,854		42,755,943	48,830,031	18,482,932	(476,473)	(476,473)
<b>31-Dec-18</b>	<b>16,174,964</b>	<b>(12,974,730)</b>	<b>3,200,234</b>	<b>2,873,854</b>		<b>42,755,943</b>	<b>48,830,031</b>	<b>18,482,932</b>		<b>67,312,963</b>
2019 as Published	21,056,598	(16,777,873)	4,278,724	2,501,144		42,755,943	49,535,811	21,057,428	3,280,277	3,280,277
<b>31-Dec-19</b>	<b>21,056,598</b>	<b>(16,777,873)</b>	<b>4,278,724</b>	<b>2,501,144</b>		<b>42,755,943</b>	<b>49,535,811</b>	<b>21,057,428</b>		<b>70,593,240</b>
2019 Restated	3,769,013	(2,970,388)	798,625	2,501,144		42,755,943	46,055,712	25,813,856	4,556,607	4,556,607
<b>31-Dec-19</b>	<b>3,769,013</b>	<b>(2,970,388)</b>	<b>798,625</b>	<b>2,501,144</b>		<b>42,755,943</b>	<b>46,055,712</b>	<b>25,813,856</b>		<b>71,869,571</b>
2020 as Published	5,929,631	(4,131,164)	1,798,467	2,373,359		42,755,943	46,055,712	28,173,839	3,232,038	3,232,038
<b>31-Dec-20</b>	<b>5,929,631</b>	<b>(4,131,164)</b>	<b>1,798,467</b>	<b>2,373,359</b>		<b>42,755,943</b>	<b>46,927,772</b>	<b>28,173,839</b>		<b>75,101,611</b>
2020 as Published Restated (Unaudited)	5,929,631	(4,131,164)	1,798,467	2,373,359		42,755,943	46,927,772	28,173,839	3,232,038	3,232,038
<b>31-Dec-20</b>	<b>5,929,631</b>	<b>(4,131,164)</b>	<b>1,798,467</b>	<b>2,373,359</b>		<b>42,755,943</b>	<b>46,927,772</b>	<b>28,173,839</b>		<b>75,101,611</b>
2021 Published (Unaudited)	2,874,383	(1,549,567)	473,651	2,200,961	5,820,000	42,755,943	51,250,555	49,373,895	25,522,841	25,522,841
<b>31-Dec-21</b>	<b>3,055,248</b>	<b>(2,581,597)</b>	<b>473,651</b>	<b>2,200,961</b>	<b>5,820,000</b>	<b>42,755,943</b>	<b>51,250,555</b>	<b>49,373,895</b>		<b>100,624,450</b>

NATO UNCLASSIFIED

YEAR-END BALANCES		Destination								
	Year-end Balance	Property, Plant and Equipment (PP&E) & Intangible Assets		Reserves - Special Purpose	Reserves - Special Progr.	Reserves – Internal Investments	Reserves - Inventory	RESERVED EARNINGS	RETAINED EARNINGS OF	NET ASSETS/EQUITY
		Acq. Value	Acc. Deprec.	Book Value						Yr-end Balance
31-Dec-05	5,064,289	6,352,418	(1,746,915)	4,605,503				4,605,503	458,786	5,064,289
31-Dec-06	6,780,419	11,440,622	(3,721,092)	7,719,530				7,719,530	(939,111)	6,780,419
31-Dec-07	15,448,855	13,272,399	(6,289,891)	6,982,508				6,982,508	8,466,347	15,448,855
31-Dec-08	16,813,862	16,337,520	(9,760,847)	6,576,673				6,576,673	10,237,189	16,813,862
31-Dec-09	11,869,058	20,011,958	(13,481,609)	6,530,349				6,530,349	5,338,709	11,869,058
31-Dec-10	4,183,086	23,524,061	(18,064,656)	5,459,406				5,459,406	(1,276,320)	4,183,086
31-Dec-11	9,913,025	24,356,808	(20,925,008)	3,431,799				3,431,799	6,481,225	9,913,025
31-Dec-12	15,770,863	43,368	0	43,368				43,368	15,727,495	15,770,863
31-Dec-13	18,350,285	1,043,893	(227,169)	816,725	8,570,000			9,386,725	8,963,561	18,350,285
31-Dec-14	20,280,170	8,276,385	(3,906,195)	4,370,190	7,817,315			12,187,505	8,092,665	20,280,170
31-Dec-15	26,122,091	11,373,573	(7,445,917)	3,927,656	6,217,986			10,145,642	15,976,449	26,122,091
31-Dec-16	23,945,958	9,493,472	(5,229,501)	4,263,972	5,532,909			9,796,881	14,149,077	23,945,958
31-Dec-17	25,033,493	12,869,784	(9,340,075)	3,529,709	4,187,407			7,717,116	17,316,377	25,033,493
31-Dec-18	24,557,020	16,174,964	(12,974,730)	3,200,234	2,873,854			6,074,088	18,482,932	24,557,020
31-Dec-18 Restated	67,312,963	16,174,964	(12,974,730)	3,200,234	2,873,854		42,755,943	48,830,031	18,482,932	67,312,963
31-Dec-19	70,593,240	21,056,598	(16,777,873)	4,278,724	2,501,144		42,755,943	49,535,811	21,057,428	70,593,239
31-Dec-19 Restated	71,869,571	3,769,013	(2,970,388)	798,625	2,501,144		42,755,943	46,055,712	25,813,856	71,869,568
31-Dec-20	75,101,609	5,929,631	(4,131,164)	1,798,467	2,373,359		42,755,943	46,927,772	28,173,839	75,101,611
31-Dec-20 Restated	75,101,607	5,929,631	(4,131,164)	1,798,467	2,373,359		42,755,943	46,927,772	28,173,839	75,101,611
31-Dec-21	100,624,450	3,055,248	(2,581,597)	473,651	2,200,961	5,820,000	42,755,943	51,250,555	49,373,895	100,624,450

INCR./((DECR.) FOR THE YEAR		Destination								
Surplus/((Def.) for the Year		Property, Plant and Equipment (PP&E) & Intangible Assets		Reserves - Special Purpose	Reserves - Special Progr.	Reserves - Internal Investments	Reserves - Inventory	RESERVED EARNINGS	RETAINED EARNINGS OF	NET ASSETS/EQUITY
		Acq. Value Yr	Deprec. Yr	Δ Book Value						Surpl./((Def.) Yr
31-Dec-05 (*)	5,064,289	6,352,418	(1,746,915)	4,605,503				4,605,503	458,786	5,064,289
31-Dec-06	1,716,130	5,088,204	(1,974,177)	3,114,027				3,114,027	(1,397,897)	1,716,130
31-Dec-07	8,668,436	1,831,777	(2,568,799)	(737,022)				(737,022)	9,405,457	8,668,436
31-Dec-08	1,365,007	3,065,121	(3,470,956)	(405,835)				(405,835)	1,770,842	1,365,007
31-Dec-09	(4,944,804)	3,674,438	(3,720,762)	(46,324)				(46,324)	(4,898,480)	(4,944,804)
31-Dec-10	(7,685,972)	3,512,104	(4,583,047)	(1,070,943)				(1,070,943)	(6,615,029)	(7,685,972)
31-Dec-11	5,729,939	832,746	(2,860,353)	(2,027,606)				(2,027,606)	7,757,545	5,729,939
31-Dec-12	5,857,838	(24,313,440)	20,925,008	(3,388,431)				(3,388,431)	9,246,270	5,857,838
31-Dec-13	2,579,422	1,000,525	(227,169)	773,357	8,570,000			9,343,357	(6,763,934)	2,579,422
31-Dec-14	1,929,885	7,232,492	(3,679,027)	3,553,465	(752,685)			2,800,780	(870,895)	1,929,885
31-Dec-15	5,841,921	3,097,188	(3,539,722)	(442,534)	(1,599,329)			(2,041,863)	7,883,783	5,841,921
31-Dec-16	(2,176,133)	(1,880,101)	2,216,417	336,316	(685,077)			(348,762)	(1,827,371)	(2,176,133)
31-Dec-17	1,087,535	3,376,312	(4,110,574)	(734,262)	(1,345,502)			(2,079,764)	3,167,299	1,087,535
31-Dec-18	(476,473)	3,305,179	(3,635,230)	(329,475)	(1,313,553)			(1,643,028)	1,166,555	(476,473)
31-Dec-18 Restated	42,279,470	3,305,179	(3,635,230)	(329,475)	(1,313,553)		42,279,470	41,112,915	1,166,555	42,279,470
31-Dec-19	3,280,277	4,881,634	(3,803,143)	1,078,490	(372,710)			705,780	2,574,497	3,280,277
31-Dec-19 Restated	4,556,608	(12,405,951)	10,004,342	(2,401,609)	(372,710)			(2,774,319)	7,330,924	4,556,605
31-Dec-20	3,232,038	2,160,618	(1,160,776)	999,842	(127,785)			872,057	2,359,981	3,232,038
31-Dec-20 Restated	3,232,038	2,160,618	(1,160,776)	999,842	(127,785)			872,057	2,359,981	3,232,038
31-Dec-21	25,522,841	(2,874,383)	1,549,567	(1,324,816)	(172,398)	5,820,000		4,322,785	21,200,056	25,522,841

**29. Events after the financial reporting date of 31 December 2021**

NCIO is required to disclose events, both favourable and unfavourable, that occurred between the reporting date of 31 December 2021 and the date when these Financial Statements were authorised for issue by the General Manager. IPSAS requires two types of events which should be identified:

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

Following non-adjusting events after reporting date:

Russian invasion of Ukraine;

- In February 2022, Russia invaded Ukraine and resulted in an increased military spend by a number of NATO Allies. This does not affect NCIO 2021 Financial Position, Financial Performance, Cash Flow, Net Assets or Budget Execution and it is not yet known whether, or how, this will have a significant impact on future business of NCIO.

Increased military spend by a number of NATO Allies following the Russian Invasion of Ukraine in February 2022;

- Following the Russia invasion of the Ukraine a number of Allies agreed substantial increases in their military spend. While this does not affect NCIO's 2021 Financial Position, Financial Performance, Cash Flow, Net Assets or Budget Execution, it may lead to a significant impact on business activity in 2022 and beyond.

**30. MWA disclosure**

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

Total expenses for the MWA activities related to 2021 amounted 760 EUR (2020: 120,940 EUR). The Agency MWA Fund has not received income over the last year due to pandemic restriction, therefore it wasn't able to grant any welfare events.

Main assets of the MWA consists of cash balance in the bank of 51,237 EUR and receivables of 75,719 EUR. Provision was accounted for these receivables in FY2020 because there would be a risk that settlement of these receivables would not happen.

The remaining MWA funds will be used for the Agency 10th Anniversary in 2022. Agency will reconsider the funding model to generate standing and reliable income or Agency may decide to cease MWA activities by end of FY2022.

**D. Notes on the NCIO Budget Execution Statement**

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

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

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

## NATO Accounting Framework (NAF) additional disclosures

### NAF Impact prior 1 January 2013 Expensed PPE/Inventory and prior 1 January 2018 Assets under Construction

NATO assets are composed of Property Plant and Equipment and Intangible Elements. The classification of the different assets is done in accordance with the requirements set forth by the NAF. If multiple categories were applicable the assignment was done on the intended use of the asset involved. The NCIA was established July 1st 2012, following the merger of three legacy NATO Agencies (NACMA, NC3A and NCSA).

#### 1. Property Plant and Equipment and Intangible Assets

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

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

#### Infrastructure Assets put in Service prior to 01 January 2013

Location of Project <sup>(1)</sup>	Type of Project	Number <sup>(2)</sup>
ACO and former ACE area	Networking and Command and Control Capabilities for Military Commands.	48
ACT and former Aclant area	Networking and Command and Control Capabilities for Military Commands.	33
Former Yugoslavia	Communication networks and installations in theatre.	98
ISAF <sup>(3)</sup>	Communications and Information Systems support for the NATO mission in Afghanistan.	0
Peace Support Operations	CIS support for Peace Support Operations in Afghanistan and Former Yugoslavia.	32
SATCOM	Military Satellite Communications projects.	23
Various Networking Projects	NATO-wide networking infrastructure.	186
<b>TOTAL</b>		<b>420</b>

<sup>(1)</sup> Project defined as Infrastructure Committee slice serials.

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

<sup>(3)</sup> All assets located in ISAF are considered written off due to the termination of the mission.

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

#### 2. Inventory

For the reporting year 2021 Inventory balances have been fully disclosed in the Statement of Position and within the notes hence special disclosure as stipulated in the NATO Accounting Framework for inventory is not applicable.

### 3. Assets under Construction/Development

In accordance with the NATO Accounting Framework (C-M(2017)0022 APPENDIX 1 ANNEX 1) the NCIO shall for the NCIO controlled CIS Assets under construction/development before 1 January 2018 provide a brief description on the types and locations of CIS assets that were under construction prior to 1 January 2018 for the NATO Command Structure as well as for IS and IMS. At the time of the publication of the unaudited 2021 NCIO Financial Statements, the below assets were still under construction/development.

The assets are grouped by geographical region, if multiple locations are involved no specific region was assigned but kept general. (e.g. ACCS, NATO wide location was assigned as this asset is located in the different NATO member countries)

Asset Location <sup>(2)</sup>	NATO Asset Category	Asset Type	Number of Assets <sup>(1)</sup>
Eastern Europe	Automated Information Systems	Various Networking Projects	3
NATO-WIDE	Automated Information Systems	Networking and Command and Control Capabilities for Military Commands	8
	Automated Information Systems	Various Networking Projects	80
	Communications	SATCOM	9
	Vehicles	Peace Support Operations	2
	Mission Equipment	Peace Support Operations	5
North America	Automated Information Systems	Networking and Command and Control Capabilities for Military Commands	1
Northern Europe	Automated Information Systems	VARIOUS Networking Projects	1
Southern Europe	Automated Information Systems	Networking and Command and Control Capabilities for Military Commands	4
	Automated Information Systems	VARIOUS Networking Projects	2
Theatre	Automated Information Systems	VARIOUS Networking Projects	3
Western Europe	Automated Information Systems	VARIOUS Networking Projects	3
	Automated Information Systems	Networking and Command and Control Capabilities for Military Commands	2
	Communications	SATCOM	1
<b>TOTAL</b>			<b>124</b>

<sup>(1)</sup> Asset defined as Infrastructure Committee slice serials.

<sup>(2)</sup> Countries by Geographic Locations:

Eastern Europe: Czech Republic, Lithuania, Montenegro, Poland

NATO-Wide: Albania, Belgium, Bulgaria, Canada, Croatia, Czech Republic, Denmark, Estonia, France, Germany, Greece, Hungary, Iceland, Italy, Latvia, Lithuania, Luxembourg, Montenegro, Netherlands, North Macedonia, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Turkey, United Kingdom, United States

North America: United States

Southern Europe: Italy, Portugal, Turkey

Theatre: Balkans

Western Europe: Belgium, France, Germany, Netherlands





NATO UNCLASSIFIED

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NCIA/FC/2022/03395

31 March 2022

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

1. This Statement of Internal Control applies to the NCIO Financial Statements for the year ended 31 December 2021. Internal control is driven by the requirement of the NATO Financial Regulations, the NCIO Financial Rules and Procedures, the NATO Accounting Framework, the NCIO Internal Control Framework and good business practices. Internal control is to ensure that NATO assets are utilized for the purposes intended and that the transactions relating to their usage reflect the highest standards of integrity to justify continued confidence of the NATO Member Nations.
2. The NCIO system of internal control is based on an ongoing process effected by the Board, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance. As part of the process, identified risks to the achievement of NCI Organisation goals and objectives, are managed efficiently, effectively and economically. In detail:
  - a. The ASB has the responsibility to: (1) ensure that effective risk management measures are in place and monitor performance execution on that basis; (2) exercise management control by comparison of the NCIA activities with applicable ASB directives; (3) oversee the delivery of results against targets; (4) evaluate the performance against objectives of the NCIA; (5) benchmark the NCIA against comparable organisations;

- b. The ASB has established an Audit Committee (AC) comprising 30 members of NATO nations. The AC assists the Board in fulfilling its oversight responsibilities in the areas of internal controls, risk management, internal and external audits, financial reporting, and regulatory compliance. In 2021, the AC carried out four meetings in plenary session.
- c. The Chair of the ASB is responsible to maintain a sound system of internal control that supports the ASB Secretariat and ensures it delivers on its mandate;
- d. The General Manager (GM) is responsible to maintain a sound system of internal control that supports the NCI Agency and ensures it delivers on its Chartered mandate;
- e. The Chief Operating Officer (COO) is responsible to maintain a sound system of internal control for business planning together with the related business intake and capacity management, as well as monitoring programme/project exceptions;
- f. The Director Acquisition is responsible to maintain a sound system of internal control that ensures the integrity of the procurement process;
- g. The Head of Human Resources is responsible to maintain a sound system of internal control relating to the recruitment and departure of staff and associated payment of salaries and allowances;
- h. The Financial Controller is responsible for maintaining a sound system of internal financial controls, for the correct use and accounting of funds made available to the NCI Agency and the ASB Independent Secretariat and.

The control environment continues to be strengthened in the Agency with the ongoing stabilisation and roll out of Agency's ERP (EBA). Reporting tools and their standardisation across the Agency is improving. Significant efforts are being done to improve alignment of business and financial corporate planning processes. An Asset Management Program (AM) is ongoing and is already delivering significant progress to reinforce control and robustness of core AM processes.

Considering the statements above, senior management and the Financial Controller can provide confirmation that, except for the aspects related to assets management, the system of internal control of the Agency is effective.

3. The main aspects of the NCIO's system of internal control for 2021 are as follows:
- a. All funds received are recorded, accounted and managed through a set of information systems, which include: enterprise-wide project management; a time accounting system and the Oracle R 12 based tool Enterprise Business Applications (EBA)<sup>1</sup>. Controls are in place at transactional level to control use and disbursement of funds.
  - b. The Independent Secretariat has its budget approved and funded by ASB Member Nations.
  - c. The NCI Agency annually updates its Customer Rates based on the ASB approved Customer Rates Principles and Methodology<sup>2</sup>. These are endorsed by the ASB, and approved by the NATO Budget Committee on behalf of all Customers.
  - d. The NCI Agency also annually updates its Services Rates (based on Customer Rates for the Agency's professional services element) and these are validated by the ASB and NATO Budget Committee.
  - e. The NCI Agency has an integrated planning process comprising the Strategic Plan; Business Plan; the Multi-Year Investment Plan; and Financial Plan. It prepares annually a Financial Plan (three years planning horizon) covering revenue and expenses related to Customer Funding, which is signed-off by the Executive Management Board, chaired by the GM. The Financial Plan is approved by the ASB.
  - f. Agreements with Customers are in writing and are usually concluded on a Firm Fixed Price and/or Cost Reimbursable basis.
  - g. Procurement activities are under the responsibility of the Director of Acquisition with the specific involvement of the GM. For some deviations from normal competition the Agency has a designated

Competition Advocate – Chief Independent Verification and Validation who advises the GM.

- h. Through its Service Lifecycle Management Board (SLMB) chaired by the COO, the Agency oversees the operational environment with a focus on early identification and quantification of risks which affect services and projects to allow for timely management oversight and/or assistance to mitigate.
- i. The Agency has Enterprise-wide Risk Management Policy and Framework which sets out the risk management processes in place and details the roles and responsibilities of staff in relation to risk. This policy has been issued to all staff who are expected to work within the Agency's risk management policies, to alert management on emerging risks and control weaknesses and assume responsibility for risks and controls within their own area of work. There are regular reviews by senior management of key risks and related controls.
- j. The Agency has an Internal Audit Function reporting to the ASB Audit Committee with an approved risk-based three years audit plan which reviews, amongst other areas, internal control and risk mitigation. Internal Audit reports to the GM and provides regular updates to the ASB-Audit Committee.
- k. The Agency has a Fraud Prevention and Detection function. It reports to the GM and provides regular updates on lessons learned at the Internal Control Panel. The Agency has established procedures for managing risks of fraud, including fraud prevention, detection and response. In 2021, the Agency was not exposed to material fraudulent activities, except for one case related to misuse of data roaming by a customer's staff member. The associated internal control shortcomings are being addressed to prevent similar occurrences in the future.
- l. In order to support the NCI Agency Management and the ASB in undertaking internal control responsibilities, an Internal Control Questionnaire and Assessment (ICQA) is used to serve as a management self-assessment and evaluation tool. This questionnaire is in line with the

<sup>1</sup> Go-Live' was in Q1 2019 for EBA Release 1

<sup>2</sup> AC/337(FC)D(2018)0003-REV1

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provisions of the NCIO Internal Control Framework which was developed based on the guidance issued by the Committee of Sponsoring Organizations of the Tread way Commission (COSO) and approved by ASBS in November 2016. Management has continued work on developing the internal control framework within the Finance Directorate by employing a risk based methodology to design process controls in line with the COSO guidance.

- m. With this Internal Control Statement, GM and FC certify that no work was done that was not specifically requested and paid for by a customer, beyond what could be absorbed as part of a reasonable overhead envelope as approved by the ASB. This certification is based on internal reassurance mechanism whereby each manager entrusted with business responsibility has to provide in writing reinsurance to the GM and FC. As part of this reassurance process, Agency is willing to make transparent that the PMO of Polaris ITM remained funded from Agency overheads in 2021.
  - n. Currently new joiners to the Agency participate in an Induction Programme that includes education about Agency procedures and behaviour standards. Moreover, the Agency has a Code of Conduct for all staff, as well as an Anti-Fraud Directive, and staff must undergo training in ethical behaviour and appropriate use of resources.
4. During its last Financial Statements audit, the International Board of Auditors for NATO (IBAN) made five observations and recommendations related to the 2020 NCIO Financial Statements. These findings are listed in the Letter of Observations and Recommendations. One observation and recommendation impacts the audit opinion on both the Financial Statements and on compliance: (1) Material incompleteness of Property, Plant and Equipment (PP&E) and Intangible Assets. The other four observations and recommendations do not impact the audit opinion on the Financial Statements and compliance: (2) Estimated financial impact of Resolute Support (RS) withdrawal not yet available, (3) Miscellaneous income owned by NCIA to NSIP, (4) Improvement needed in internal control process for the preparation of financial statements and the quality of financial information disclosed and (5) Improvement needed in the NCIO Cost to Complete (CTC) model for revenue recognition. IBAN followed up on the status of observations and recommendations from the previous years' audits and found that five were closed, one is open and two remain in progress.

The NCIO remains focused and committed to resolving all IBAN observations and recommendations.

Ludwig Decamps  
General Manager

Antoine Pailhès  
Financial Controller

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Chair NCIO Agency Supervisory Board

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NCIA/FC/2022/03398  
31 March 2022

Subject: **Financial Controller's Certification -  
NATO Communications and Information Organisation (NCIO)  
Financial Statements for the year ended 31 December 2021**

1. The 2021 Financial Statements for the NCIO are submitted to the International Board of Auditors for NATO (IBAN) and the Agency Supervisory Board (ASB) as required by the NATO Financial Regulations and the NCIO Charter.
2. The Financial Statements were prepared in accordance with the following Reference documents:
  - a. C-M(2012)0049, Charter of the NATO Communications and Information Organisation, approved by Council, dated 14 June 2012.
  - b. C-M(2015)0025), NATO Financial Regulations, approved by Council, dated 4 May 2015;
  - c. PO(2015)0394, NATO Communications & Information Agency Customer Funding Regulatory Framework, approved by Council, dated 16 July 2015;
  - d. C-M(2016)0023, revised NATO Accounting Framework (IPSAS adaptation), approved by Council, dated 29 April 2016;
  - e. C-M(2017)0022(INV), NATO Accounting policy for Property Plant and Equipment<sup>1</sup>, approved by Council, dated 31 May 2017;

- f. C-M(2017)0044, NATO Accounting Policy for Intangible Assets, approved by Council, dated 08 September 2017
- g. C-M(2017)0043, NATO Accounting Policy for Inventory, approved by Council, dated 08 September 2017;
- h. AC/337-D(2016)0014-REV1, NCIO Financial Rules and Procedures, approved by the ASB, dated 20 November 2018;

I certify that the NCIO 2021 Financial Statements present fairly the NCIO's financial position, financial performance, cash flows and changes in net assets/equity during the period.

At the Wales Summit of 2014, the nations tasked NATO bodies to increase their financial transparency. While I am content for all the information in the financial statements to be publically disclosed, the decision on what to make publically available rests with the North Atlantic Council.

Antoine Pailhès  
Financial Controller

<sup>1</sup> Assets under Construction are not disclosed within the NCIO financial statements

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## List of Acronyms

AAS	ADVISORY AND ASSISTANCE SERVICES
ACCS	NATO AIR COMMAND AND CONTROL SYSTEM
ACO	ALLIED COMMAND OPERATIONS
ACPV	ASSET, CONFIGURATION, PATCH AND VULNERABILITY
ACT	ALLIED COMMAND TRANSFORMATION
AIR C2	AIR COMMAND AND CONTROL
AIS	AUTOMATED INFORMATION SYSTEM
APF	ADVANCE PLANNING FUNDS
ASB	AGENCY SUPERVISORY BOARD
AuC	ASSET UNDER CONSTRUCTION/DEVELOPMENT
FinCom	AGENCY SUPERVISORY BOARD FINANCE COMMITTEE
BC	NATO BUDGET COMMITTEE
BMD	BALLISTIC MISSILE DEFENCE
C4ISR	CONSULTATION, COMMAND, CONTROL, COMMUNICATIONS, INTELLIGENCE, SURVEILLANCE AND RECONNAISSANCE
C3	CONSULTATION, COMMAND AND CONTROL
CCSC	AGENCY'S COSTED CUSTOMER SERVICE CATALOGUE
CFRF	CUSTOMER FUNDING REGULATORY FRAMEWORK
CIS	COMMUNICATION INFORMATION SYSTEMS
CMBC	THE CRISIS MANAGEMENT AND BUSINESS CONTINUITY OFFICE
COO	CHIEF OPERATING OFFICER
CP	CAPABILITY PACKAGE
CPR	NATO CIVILIAN PERSONNEL REGULATIONS
CRF	CUSTOMER REQUEST FORM
CSSC	CIS SUSTAINMENT SUPPORT CENTRE
EBA	ENTERPRISE BUSINESS APPLICATIONS
EPM	ENTERPRISE PROJECT MANAGEMENT
ERM	ENTERPRISE RISK MANAGEMENT
ESPE	END STATE PEACETIME ESTABLISHMENT
FFP	FIRM FIXED PRICE
FRP	FINANCIAL RULES AND PROCEDURES
FS	FINANCIAL STATEMENTS
GM	GENERAL MANAGER
HN	HOST NATION
HO/TO	HANDOVER/TAKEOVER

IA	INTERNAL AUDIT
IBAN	INTERNATIONAL BOARD OF AUDIT FOR NATO
IC	NATO INVESTMENT COMMITTEE
ICF	INTERNAL CONTROL FRAMEWORK
ICP	INTERNAL CONTROL POLICY
ICTM	INFORMATION COMMUNICATIONS TECHNOLOGY MANAGEMENT
IMS	INTERNATIONAL MILITARY STAFF
IS	INTERNATIONAL STAFF
ISAF	INTERNATIONAL SECURITY ASSISTANCE FORCE
ISMERLO	THE INTERNATIONAL SUBMARINE ESCAPE AND RESCUE LIAISON OFFICE
ISPAS	INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS
ITM	IT MODERNIZATION (PROGRAM)
KEUR	THOUSAND EURO
KFOR	KOSOVO FORCES
LC2IS	LAND COMMAND AND INFORMATION SYSTEM
MC	MILITARY COMMITTEE
MEUR	MILLION EURO
MWA	MORALE AND WELFARE ACTIVITIES
IWC	INTERIM WORKFORCE CAPACITY
NAC	NORTH ATLANTIC COUNCIL
NAF	NATO ACCOUNTING FRAMEWORK
NAGSMA	NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT AGENCY
NATO	NORTH ATLANTIC TREATY ORGANISATION
NCI Agency	NATO COMMUNICATIONS AND INFORMATION AGENCY
NCIO	NATO COMMUNICATIONS AND INFORMATION ORGANISATION
NCS	NATO COMMAND STRUCTURE
NDEC	NCIA DIGITAL ENTERPRISE CENTRE
NFR	NATO FINANCIAL REGULATIONS
NIC	NATO INTERNATIONAL CIVILIAN
NITEC	NATO INDUSTRY CONFERENCE AND TECHNET INTERNATIONAL
NS LAN	NATO SECRET LOCAL AREA NETWORK
NSIP	NATO SECURITY INVESTMENT PROGRAMME

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OF	OPERATING FUND
PE	PEACETIME ESTABLISHMENT/PERSONNEL ESTABLISHMENT
PP&E	PROPERTY PLANT and EQUIPMENT
PSC	PROJECT SERVICE COSTS
QAFR	QUARTERLY ACCOUNTING FINANCIAL REPORT
RPPB	NATO RESOURCE POLICY AND PLANNING BOARD
RS	RESOLUTE SUPPORT
SATCOM	SATELLITE COMMUNICATION
SATCOM MOU	SATELLITE COMMUNICATION MEMORANDUM OF UNDERSTANDING
SLA	SERVICE LEVEL AGREEMENT
SLMB	SERVICE LIFECYCLE MANAGEMENT BOARD

SSC	SERVICE SUPPORT COST
SSP	SERVICE SUPPORT PACKAGES
SST	SERVICE SUPPORT TRAINING PACKAGES
TFR	'TRATTAMENTI DI FINE RAPPORTO'
TNO	TOEGEPAST NATUURWETENSCHAPPELIJK ONDERZOEK
TO	TASK ORDER
TOPFAS	TOOLS FOR OPERATIONS PLANNING FUNCTIONAL AREA SERVICE
WAC	WEIGHTED AVERAGE COST
WGNT	WORKING GROUP OF NATIONAL TECHNICAL EXPERTS