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|  | <b>NATO</b> | NORTH ATLANTIC COUNCIL       |
|   | <b>OTAN</b> | CONSEIL DE L'ATLANTIQUE NORD |

**NATO UNCLASSIFIED**

3 February 2016

**DOCUMENT**  
C-M(2016)0009-AS1

**IBAN REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS  
OF THE NCIO FOR 2014**

**ACTION SHEET**

On 2 February 2016, under the silence procedure, the Council noted the IBAN report IBA-AR(2015)20 attached to C-M(2016)0009 and agreed the recommendations contained in the RPPB report.

(Signed) Alexander Vershbow  
Deputy Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2016)0009.

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28 January 2016

**DOCUMENT**  
C-M(2016)0009  
**Silence Procedure ends:**  
**2 Feb 2016 18:00**

**IBAN REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF  
THE NCIO FOR 2014**

**Note by the Deputy Secretary General**

1. I attach the International Board of Auditors for NATO (IBAN) report on the audit of the financial statements of the NATO Communications & Information Organisation (NCIO) for the year ended 31 December 2014.
2. The IBAN issued a qualified opinion on the NCIO financial statements for the year 2014 as well as a qualified opinion on compliance for the financial year 2014. The IBAN report, although showing improvements by NCIO in many areas, also illustrates that many of the weaknesses identified in previous audit reports have not yet been fully corrected. While some progress has been made, the positive impact expected with the adoption of the NATO Accounting Framework has not yet materialised.
3. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB), which has provided its own report with conclusions and recommendations to Council.
4. I consider that no further discussion regarding this report is required. Consequently, **unless I hear to the contrary by 18:00 hours on Tuesday, 2 February 2016**, I shall assume that the Council has noted the IBAN report IBA-AR(2015)20 and agreed the recommendations contained in the RPPB report.

(Signed) Alexander Vershbow

4 Annexes  
1 Enclosure

Original: English

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**IBAN REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF THE NATO  
COMMUNICATIONS & INFORMATION ORGANISATION (NCIO) FOR 2014**

**Report by the Resource Policy and Planning Board**

References:

- (a) IBA-A(2015)135 & IBA-AR(2015)20
- (b) BC-D(2015)0217-FINAL

**Background**

1. The present report by the Resource Policy and Planning Board (RPPB) contains the RPPB's observations and recommendations concerning the International Board of Auditors for NATO (IBAN) report (reference (a)).
2. The report takes full account of the review of the IBAN report provided by the Budget Committee (BC) (reference (b)).

**RPPB Conclusions**

3. The RPPB notes that the IBAN has issued a qualification on the 2014 NCIO financial statements as well as in respect of compliance. The qualification on the 2014 NCIO financial statements confirms and reinforces the need to settle Property, Plant & Equipment issues (PP&E – IPSAS 17<sup>1</sup>) which have been known since the Agency stood-up in July 2012. PP&E has featured prominently in the Board's reports to the Council. In addition, during 2014 the BC has regularly requested and received reports on the ongoing efforts to reconcile PP&E both for NCIO and ACO (where much of the PP&E resided prior to the Charter<sup>2</sup> decision that CIS PP&E responsibility was to rest with NCIO). The IBAN observations and recommendations have received significant attention and action during 2014 and 2015 from the Agency and the Resource Committees.<sup>3</sup>
4. The extent to which these actions will be sufficient to resolve the qualification and PP&E observations will only be confirmed with the IBAN audit report on the 2015 financial statements. The approval of an IPSAS adapted accounting framework<sup>4</sup>, including the provisions in respect of PP&E was expected to lead to fewer qualifications. This has not yet been the case and difficulties regarding inventories and PP&E continue to require attention and impact on audit opinions, despite the attention paid to the issue over the past three

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<sup>1</sup> International Public Sector Accounting Standards

<sup>2</sup> C-M(2012)0049

<sup>3</sup> BC-D(2014)0256, paragraph 3.3; BC-DS(2015)0010, IV; BC-DS(2015)0049, XI; OCB(2014)0006; OCB(2015)0009

<sup>4</sup> C-M(2013)0039

years. The current audit and NCIO ASB response points to the need for additional guidelines within the NATO Accounting Framework related to accounting for works in progress. Clearly the size of the problems with PP&E and time and effort needed to resolve them were underestimated throughout the NATO Reform decisions and implementation. PP&E will need to have continued specific management focus until the IBAN observations and resulting qualifications are fully resolved.

5. NCIO's qualified opinion and the expectation for improvements was set out as part of the RPPB report on the audit of the NCIO 2013 financial statements.<sup>5</sup> While some progress has been made this has not been materially sufficient, particularly in regard to PP&E, for the 2014 financial statements. The current IBAN report contains 4 observations and recommendations on the financial statements dealing with aspects of PP&E. Greater progress is expected to be reflected in the 2015 financial statements based on the 2014 NCIO responses and plan of action.

6. As was the case for ACO in 2014<sup>6</sup> needing to continue to work with the NCIO and NSPO, a concurrent effort needs to be made by NCIO to account for procurement and inventory management across multiple inventory systems. Difficulties exist in consolidation and centralisation, including those for financial accounting, inventory and reporting, which point to the need to better align the various different processes, systems and standards that have been adopted over many years. While the EBA system, now foreseen in 1 January 2017, will provide for a common NCIO platform, it is considered unacceptable to wait until then to mitigate and where possible resolve problems.

7. There is clearly further scope for additional work by NCIA assisted by the Head of Financial Reporting Policy and the IBAN to ensure the maximum benefits of the new Accounting Framework are realised, reviewed where necessary and rationalised if needed. This may need to involve the Board at some point if additional clarifications are required.

8. NCIO, in view of the ASB responses to the observations in the IBAN audit of the 2013 NCIO financial statements<sup>7</sup>, has made insufficient progress in settling observations from previous year's audits. Five observations remain to be satisfactorily resolved (one is partially settled, while four remain outstanding). The Board notes and agrees with the comments that the BC have provided to these outstanding observations where it was considered that value could be added, particularly where they deal with long outstanding matters or issues that were reported as resolved and have resurfaced in the IBAN report. Additionally, NCIO has been requested to provide a comprehensive update on the status of all outstanding observations at the end of the first quarter of 2016. This should allow for corrective actions to be in place, and reflected in the 2015 financial statements.

9. The NCIO Financial Controller has reviewed the financial statements in accordance with agreed policies and does not have any issues which she wishes to highlight for consideration by the Board before it concludes its recommendations to Council.<sup>8</sup>

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<sup>5</sup> IBA-A(2014)215 & IBA-AR(2014)22; AC/335-N(2015)0039-REV2

<sup>6</sup> IBA-A(2015)134 & IBA-AR(2015)19

<sup>7</sup> IBA-A(2014)215 & IBA-AR(2014)22

<sup>8</sup> NCIA/FC/2015/00603, dated 30 April 2015.

10. The RPPB concludes that the subject audit report does not contain information which, according to the NATO Policy on Public Disclosure of NATO Information, shall be withheld from public disclosure, and in line with the agreed policy in PO(2015)0052, recommends that Council agree to the public disclosure of the 2014 NCIO Financial Statements and of the associated IBAN report.

**RPPB recommendations**

11. The Resource Policy and Planning Board (RPPB) recommends that Council:
- (a) note the IBAN report IBA-AR(2015)20 along with the present report;
  - (b) endorse the conclusions outlined in paragraphs 3 through 10;
  - (c) invite NCIO to implement the IBAN recommendations;
  - (d) note that the Resource Committees will continue to monitor the status of outstanding audit observations;
  - (e) in line with the agreed policy in PO(2015)0052, agree to the public disclosure of the NCIO 2014 financial statements and the associated IBAN report (IBA-AR(2015)20).

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**Summary Note for Council**  
**by the International Board of Auditors for NATO (Board)**  
**on the audit of the Financial Statements of the**  
**NATO Communications and Information Organisation (NCIO)**  
**for the year ended 31 December 2014**

The 2014 NCIO Financial Statements audited by the Board have been prepared for the first time on the basis of a single entity and under the full “Interim Customer Funding Framework”. In 2014, the Organization moved from Administrative and Delegated Budgets to Service Level Agreements (SLA’s) using approved customer rates.

Part of the Board qualified opinion is related to that full implementation of the “Interim Customer Funding Framework”:

- Significant weaknesses in the method of calculating the “cost-to-complete” for an SLA as well as significant deficiencies in the implementation of the Time Accounting System.

The four other observations that have an impact on the Board opinion are related to Property, Plant & Equipment (PP&E):

- Lack of integrated systems to support the effective and efficient management and financial reporting of PP&E and intangible assets.
- Communication Information Systems (CIS) assets transferred from other NATO entities not all identified and therefore not fully recognized or disclosed.
- Capability Development Property, Plant and Equipment and intangible assets not all identified and therefore not fully recognized or disclosed.
- Scope limitation on the 2013 comparative PP&E and intangible asset information presented in the 2014 Financial Statements.

The Board made six additional observations and six recommendations that have no impact on the Board Opinion on the:

- Capability Development contract revenues.
- Disclosure of Contingent Liabilities.
- End-year assets and liabilities outstanding between NATO Bodies.
- Contracting activities for IT spare parts and supplies to NSPA.
- Reporting of Air Command & Control (AirC2) and NATO Ballistic Missile Defence (BMD).
- Disclosure of direct and indirect costs.

These findings are summarised in the Letter of Observations and Recommendations (Annex 3).

For NCIO’s Formal Comments, see the Appendix (Annex 3). NCIO general agrees with the Board’s observations. The detailed formal comments provide further information to the reader, but do not change the Board’s observations or recommendations.



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ANNEX 3  
C-M(2016)0009  
IBA-AR(2015)20

25 September 2015

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE  
THE NATO COMMUNICATIONS AND INFORMATION ORGANISATION  
(NCIO)**

**FOR THE YEAR ENDED 31 DECEMBER 2014**

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**REPORT OF THE INTERNATIONAL BOARD OF AUDITORS  
FOR NATO TO THE NORTH ATLANTIC COUNCIL**

**Report on the Financial Statements**

The International Board of Auditors for NATO (Board) audited the accompanying Financial Statements of the NATO Communications and Information Organisation (NCIO), which comprised the Statement of Financial Position as at 31 December 2014, the Statement of Financial Performance, the Statement of Change in Net Assets & Equity and the Cash Flow Statement for the year then ended, and Notes to the Financial Statements, including a Statement of Accounting Policies. The Board also audited the Budget Execution Statements for the year ended 31 December 2014.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with the NATO Accounting Framework and the requirements of the NATO Financial Regulations as authorized by the North Atlantic Council (NAC). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these Financial Statements based on our audit, which is conducted in accordance with our Charter and international standards on auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial Statements, due to fraud or error. In making those risk assessments, internal control relevant to the entity's preparation and presentation of Financial Statements is considered 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 internal control. An audit also includes evaluating the appropriateness of accounting policies used, the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Financial Statements.

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

*Basis for Qualified Opinion on the Financial Statements*

Property, Plant & Equipment (PP&E) and intangible assets under NCIO's control, including Communications Information Services (CIS) assets transferred from other NATO bodies as of 1 July 2012 and capability related assets, were not all physically identified or assessed for capitalization or disclosure by NCIO. This also includes the lack of disclosure, as required by the NATO Accounting Framework, of summary of PP&E and intangible assets purchased before 1 January 2013 but not capitalized. Therefore the Board did not obtain sufficient evidence that the balances of PP&E and intangible assets in the Statement of Financial Position and disclosed in the notes are complete. This also affects the acquisition and depreciation expenses in the Statement of Financial Performance as any possible misstatement will also be reflected there.

The Board is not able to provide audit assurance on the 2014 Financial Statements in respect to the 2013 comparative PP&E and intangible asset information presented in those statements. This occurs because the matters leading the Board to qualify its opinion on the 2013 NCIO Financial Statements were not resolved. As a result, our opinion on the current period's financial statements is also modified because of the potential effect of this matter on the comparability of the current period PP&E and intangible asset figures and the corresponding 2013 figures.

The Board is also not able to provide audit assurance on the 2014 Financial Statements in respect to the calculation of revenue related to CIS Service Level Agreements. This is related to significant weaknesses in the method of calculating the "cost-to-complete" for a contract as well as significant deficiencies in the implementation of the Time Accounting System. This also affects the level of provisions for future losses and eventually the surplus or deficit for the period.

*Qualified Opinion on Financial Statements*

In our opinion, except for the possible effects of the matters described in the *Basis for Qualified Opinion on the Financial Statements*, the financial statements present fairly, in all material respects, the financial position of NCIO as of 31 December 2014, and of its financial performance and its cash flows for the year then ended are in accordance with the NATO Accounting Framework.

**Report on Compliance***Management's Responsibility for Compliance*

In addition to the responsibility for the preparation and presentation of the Financial Statements described above, management is also responsible for ensuring that the financial transactions and information reflected in the financial statements are in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations as authorised by the North Atlantic Council (NAC).

*Auditor's Responsibility*

In addition to the responsibility to express an opinion on the Financial Statements described above, our responsibility includes expressing an opinion on whether the financial transactions and information reflected in the financial statements are, in all material respects, in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations. This responsibility includes performing procedures to obtain reasonable assurance about whether the funds have been used for the settlement of authorised expenditure and whether their operations have been carried out in compliance with the financial and personnel regulations in force. Such procedures include the assessment of the risks of material non-compliance.

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

*Basis for Qualified Opinion on Compliance*

We did not obtain enough evidence that comprehensive accounting records of all property acquired by NCIO have been established and maintained as required by Article 18 of the NATO Financial Regulations. NCIO's multiple accounting systems and logistics tools still do not support effective and efficient management processes and financial reporting of PP&E and intangible assets acquired or under development as required by NCIO's legal framework.

*Qualified Opinion on Compliance*

In our opinion, except for the possible effects of the matters described in the *Basis for Qualified Opinion on Compliance*, in all material respects the financial transactions and information reflected in the Financial Statements are in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Brussels, 25 September 2015

Lyn Sachs  
Chairman

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ANNEX 4  
C-M(2016)0009  
IBA-AR(2015)20

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**LETTER OF OBSERVATIONS AND RECOMMENDATIONS  
FOR THE NATO COMMUNICATIONS AND INFORMATION ORGANISATION  
(NCIO)**

**FOR THE YEAR ENDED 31 DECEMBER 2014**

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## **Introduction**

The International Board of Auditors for NATO (Board) audited the NATO Communications and Information Organisation (NCIO) Financial Statements for the year ended 31 December 2014, and issued a qualified opinion on the financial statements and on compliance. The reasons for the qualifications, as well as other observations and recommendations, are summarised in the Observations and Recommendations section below.

## **Observations and Recommendations**

During the audit, the Board identified eleven observations and provided eleven recommendations. Three observations are scope limitations that impact the audit opinion on the financial statements and on compliance:

1. Lack of integrated systems to support the effective and efficient management and financial reporting of Property, Plant and Equipment and intangible assets;
2. Communications Information Systems (CIS) assets transferred from other NATO entities as of 1 July 2012 were not all identified and therefore were not fully recognized or disclosed;
3. Capability Development Property, Plant and Equipment and intangible assets were not all identified and therefore were not fully recognized or disclosed;

Two observations are scope limitations that impact the audit opinion on the financial statements only:

4. Scope limitation on the 2013 Comparative Property, Plant & Equipment and intangible asset information included in the 2014 NCIO Financial Statements;
5. Significant weaknesses in determining Service Delivery contract revenue and surplus or deficit for the period;

The remaining six observations do not impact the audit opinion:

6. Lack of a consistent and robust process in determining Capability Development contract revenue and surplus or deficit for the period;
7. Lack of a formal and documented process to identify and disclose contingent liabilities;
8. Incomplete confirmation of year-end assets and liabilities outstanding between NATO bodies;

9. Continued outsourcing of contracting activities for IT spare parts and supplies to NSPA;
10. Lack of specific reporting of Air Command & Control (AirC2) and NATO Ballistic Missile Defence (BMD) in the financial statements;
11. Lack of disclosure of direct and indirect costs in the financial statements.

The Board also followed up on the status of observations from previous years' audits and noted that two have been settled, one has been partially settled, four have been superseded by a current year observation and four are still outstanding.

The Board also issued a separate Management Letter (reference IBA-AML(2015)08) to NCIA management.

For NCIO's Formal Comments, see the Appendix (Annex 3). NCIO general agrees with the Board's observations. The detailed formal comments provide further information to the reader, but do not change the Board's observations or recommendations.



## **OBSERVATIONS AND RECOMMENDATIONS**

### **1. LACK OF INTEGRATED SYSTEMS TO SUPPORT THE EFFECTIVE AND EFFICIENT MANAGEMENT AND FINANCIAL REPORTING OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS**

#### **Reasoning**

1.1 Accounting systems, supported by proper asset identification and physical inventory control procedures, should ensure that all assets of an entity are accurately and completely managed and recorded. Comprehensive accounting records of all property acquired shall be established and maintained per Article 18 of the NATO Financial Regulations (NFRs).

#### **Observation**

1.2 The Board found that, as in the prior year, NCIO's multiple accounting systems and separate logistic systems do not provide an effective and efficient control over NCIO's tangible and intangible assets. The accounting systems and collection of various asset registers and logistics tools in place do not adequately mitigate the risks of unrecorded assets transactions and/or erroneous asset transactions being recorded.

1.3 NCIO stated to the Board that some progress has been made. NCIO is now only using two accounting systems rather than three, and it has started implementing the necessary inventory and asset management modules within the Centralized NATO Automated Financial System (CNAFS).

#### **Recommendation**

1.4 The Board recommends that NCIO continue pursuing and implementing an integrated solution for the procurement, management and reporting of tangible and intangible assets in order to reduce the inefficiencies and risks involved with the use of many different accounting systems and logistic tools. This should be accomplished within timelines that have been established.

**2. COMMUNICATIONS INFORMATION SYSTEMS (CIS) ASSETS TRANSFERRED FROM OTHER NATO ENTITIES AS OF 1 JULY 2012 WERE NOT ALL IDENTIFIED AND THEREFORE WERE NOT FULLY RECOGNIZED OR DISCLOSED**

**Reasoning**

2.1 According to the NATO Accounting Framework, Property, Plant and Equipment (PP&E) and intangible assets under the control of a NATO entity should be reported in its financial statements, either as an asset in the Statement of Financial Position if purchased after 1 January 2013 and meeting certain threshold criteria, or disclosed in the notes (description, locations, type of items) if purchased before 1 January 2013. In addition, as per its Charter, NCIO was to assume ownership of Communications Information Systems (CIS) assets from the NATO commands with effect from 1 July 2012.

**Observation**

2.2 The Board reported in its prior year NCIO audit that a formal process to transfer CIS assets and infrastructure from the NATO commands to NCIO was not in place by 1 July 2012. In order to address this, a formal “ACO/NCIA – Hand-Over/Take-Over process of CIS Assets” was signed in 2013 by both NCIA and the NATO commands.

2.3 The Hand-Over/Take-Over process was completed by 31 December 2014 for the static locations. As a result, NCIA has accepted full responsibility for the control and management of these CIS assets. However, a write-off to regularize the updated records is still needed and this is expected to be completed in 2015.

2.4 Furthermore, the Hand-Over/Take-Over process for Resolute Support CIS assets is ongoing and it is anticipated that this will be completed by the end of September 2015. Consequently, Resolute Support CIS assets are not yet reflected in the 2014 NCIO Financial Statements.

2.5 Lastly, as required by the NATO Accounting Framework, NCIO’s Financial Statements do not disclose in a note a summary of assets purchased before 1 January 2013 and not capitalized. This is required for all tangible and intangible assets, not just CIS assets.

**Recommendation**

2.6 The Board recognizes the efforts made by NCIO and the NATO commands in completing the Hand-Over/Take-Over for static locations. The Board recommends NCIO to finalize the transfer of CIS assets from Resolute Support by the end of September 2015, and to also properly disclose a brief description of items purchased before 2013 but not capitalized.

**3. CAPABILITY DEVELOPMENT PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS WERE NOT ALL IDENTIFIED AND THEREFORE WERE NOT FULLY RECOGNIZED OR DISCLOSED**

**Reasoning**

3.1 In addition to the CIS assets transferred from other NATO entities and mentioned above, NCIO is to be NATO's principal Consultation, Command and Control (C3) capability provider and as such, should have assessed and determined whether any expenditures incurred by NCIO for capability development since 2013 should have been capitalized.

**Observation**

3.2 The Board found that a majority of the expenditures incurred by NCIO for capability development since 2013 have not been capitalized. The Board presents the following as examples of critical asset management issues that NCIO should resolve in order to prepare an accurate and comprehensive list of items to be recognized, valued and then properly capitalized as assets or disclosed in the financial statements.

**a. The NATO Security Investment Programme (NSIP)**

According to the Medium Term Resource Plan for 2014-2018, the overall NSIP investment expenditure approved by the Investment Committee over this period is approximately EUR 700 million per year. NCIO is acting as the host nation on a large percentage of NSIP projects. The part of the NSIP where NCIO is acting as host nation includes more than 560 projects, grouped into 38 Capability Packages (CP's). Many of the assets in this programme are CIS assets that are likely to be controlled by NCIO, and as a result, should be recognized in the NCIO Financial Statements. This also includes reporting the asset-in-progress before completion of the projects. Examples of such assets include the NATO Air Command and Control System (ACCS) (EUR 55 million of 2014 expenditures), Cyber Defence (EUR 10 million of 2014 expenditures), and NATO Ballistic Missile Defence (BMD) (EUR 69 million of 2014 expenditures).

**b. IT systems built in-house and the Functional Area Service (FAS)**

IT programs built in-house or specific Functional Area Services (FAS) as part of important operational capabilities provided since 2013 through contracts with industry for the implementation of Communications and Information capabilities have not been recorded as intangible assets. Examples of FAS include the Maritime Command and Central Information System (MCCIS), Logistic Command and Control (LOG FS), the Core Geographic Information System, and the NATO Common Operational Picture.

The multi-year projects of such large and complex systems have started before

the creation of NCIO in 2012 and are implemented, managed or updated in a de-centralized manner by capacity and/or by location.

With respect to the above systems, NCIO is far from being able to provide an accurate and comprehensive list of such critical intangible assets. This should be one of its next tasks within the overall exercise to get PPE, intangible assets and inventory management fully compliant.

**c. Management distinction between licenses purchased versus annual license renewals**

At 31 December 2014, approximately EUR 1 million of acquired software and licenses were recorded in the Statement of Financial Position. However, the cost of software and licenses estimated by the NCIA Acquisition division is approximately EUR 10 million.

That variance demonstrates that NCIO has not sufficiently evaluated the distinction between licenses purchased to technically run commercial applications with the legal right to use it, on one hand, and renewals of licenses on an annual basis in order to keep the legal right to use it, on the other hand.

Based on that distinction, license acquisition should be capitalized and recorded as intangible assets and license renewals should be treated as maintenance expenses. Any modernization of the software should be capitalized. The newly created cross Agency Software Asset Management Cell<sup>1</sup> should be involved in that effort.

**d. Crypto equipment**

Crypto equipment is considered as CIS assets. At April 2015, the cumulative total value of crypto equipment acquired by NCIA has been estimated as EUR 95 million. Since 1 January 2013, the total value of crypto equipment bought by NCIA and used by NATO (excluding Nations) has been estimated at EUR 3 million. Based on the NATO Accounting Framework and its Charter, NCIO could have capitalized these CIS assets in its Financial Statements. Nevertheless, no crypto equipment has been capitalized in the NCIO Financial Statements.

**Recommendation**

3.3 The Board recommends NCIO to ensure that all tangible and intangible assets acquired or developed in achieving its mission, including capability related assets, are identified and assessed for capitalization in compliance with the NATO Accounting Framework.

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<sup>1</sup> On the starting activities of the newly created Agency Software Asset Management Cell, refer to BC-D(2015)0081 dated 27 April 2015.

**4. SCOPE LIMITATION ON THE 2013 COMPARATIVE PROPERTY, PLANT & EQUIPMENT (PP&E) AND INTANGIBLE ASSET INFORMATION INCLUDED IN THE 2014 NCIO FINANCIAL STATEMENTS**

**Reasoning**

4.1 Financial statements prepared in accordance with the NATO Accounting Framework are required to disclose comparative information in respect of the previous period for all amounts reported in the financial statements. As a result, the Board's audit opinions covering current period financial statements includes the comparability of the current period figures to the corresponding prior period figures.

**Observation**

4.2 The Board issued a qualified audit opinion on the 2013 NCIO Financial Statements in respect to the completeness of PP&E and intangible assets. This matter remains unresolved. As a result, the Board is required to modify its audit opinion on the 2014 NCIO Financial Statements in respect to the corresponding 2013 PP&E and intangible asset balances.

4.3 The Board also found that some items from 2013 were not properly reported in the 2014 financial statements. For example, the 2013 'Trade Receivables' balance reported in the 2014 Statement of Financial Position was EUR 163 million. However, the 2013 financial statements were restated, and the restated 2013 'Trade Receivables' balance was actually only EUR 156 million. The 2014 financial statements reported the amount before restatement rather than the amount after restatement. There were a number of other reclassifications that weren't disclosed as such. Overall, these other errors and reclassifications are not material, and don't impact the 2014 audit opinion.

**Recommendation**

4.4 The Board recommends that, in the future, (i) reclassifications that are made are clearly identified along with the reasons for doing so and that (ii) if possible, the corresponding balances presented in the financial statements should be restated to present the corrected balances.

## 5. SIGNIFICANT WEAKNESSES IN DETERMINING SERVICE DELIVERY CONTRACT REVENUE AND SURPLUS OR DEFICIT FOR THE PERIOD

### Reasoning

5.1 For the delivery of services, NCIO is applying IPSAS 9, *Revenue from Exchange Transactions*, for the calculation of the revenue recognition as follows:

*“When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognized by reference to the stage of completion of the transaction at the reporting date.”*

5.2 Service Level Agreements (SLA) are firm fixed price contracts. Therefore, revenue is calculated as a percentage of completion multiplied by the total authorized contract value. Out of EUR 669 million of 2014 total operating revenue, EUR 147.5 million for SLAs have been calculated based on the percentage of completion method.

5.3 The percentage of completion is calculated as total costs incurred to date divided by an estimate of the total cost-at-completion. The total cost-at-completion is calculated as total expenses incurred to date plus an estimate of the remaining ‘cost-to-complete’. The reliability of the amount estimated as ‘cost-to-complete’ is critical for the reliability of the booking of NCIO’s earned revenue, and can also impact the amount of surplus or deficit reported for the period.

### Observation

5.4 2014 was the first year for full customer funding for the Service Delivery area. As a result, it was also the first year for calculation contract revenue, expenses and surplus or deficit for the period using the percentage-of-completion methodology. This presented some significant challenges for NCIO. The total amount of ‘cost-to-complete’ for the SLAs is EUR 20 million at 31 December 2014. The Board performed testing on all SLAs in order to assess whether the calculation of the ‘cost-to-complete’, and thus earned revenue recognition and surplus or deficit for the period, is accurate, complete and consistent. The Board’s findings are as follows:

#### 1. Estimate of ‘cost-to-complete’

For SLAs, the estimate of ‘cost-to-complete’ is calculated based on the amount of NCIO’s commitments not spent at year-end for open purchase orders. The Board found that there was no business analysis from the service line management as to what would eventually be spent out of those committed funds. The estimates have been based only on the assumption that all commitments with the contractors will be spent. However, in practice, there are often variances between the amount of funds committed and amount eventually spent. This can create a disconnection between the actual financial and business status of a contract and the information provided by the financial statements.

## **2. SLA Time Accounting System (TAS)**

Labour costs are a significant portion of the costs related to the SLAs. As a result, it is important that such costs can be properly allocated to each of the contracts. If this is not performed correctly, it can impact not only the amount of revenue calculated (via the 'cost-to-complete' calculation) for a contract, but can also impact the overall calculation of surplus or deficit for the period.

The Board found the following weaknesses in the TAS for the SLAs:

### **A. Confusion between direct SLA delivery tasks and administrative tasks**

The Enterprise Project Management (EPM) system has initially been wrongly set up as it was designed to record all tasks for all service delivery staff (i.e. direct tasks related to the SLA delivery as well as the administrative tasks). An administrative task was requested to be charged not against an administrative line outside the system with no customer rates costs, but against SLA lines called "SLA Management" or "SLA Reporting" or "local service SLA".

As all EPM lines "SLA Management" or "SLA Reporting" labour costs were also charged with customer rates that include overhead costs, the system was calculating twice the overhead costs. First, by operation staff charging direct tasks against standard SLA lines, and then again by admin staff charging admin tasks against these "SLA Management" or "SLA Reporting" lines.

NCIO detected this error late in 2014 and tried to re-allocate the admin tasks outside the EPM system to exclude them from the SLA direct costs. This manual re-allocation effort may have mitigated the main risks of incorrect allocation of time to the direct delivery of SLA charged to the customer. However, since the method did not check the time charged by each individual, there is no way for the Board to know that there was not an incorrect time allocation for staff to perform both direct and indirect tasks.

### **B. Time related to direct CIS delivery not properly recorded**

As it was the first year of implementation, some service delivery staff did not know or could not record properly their time for direct SLA delivery on EPM via the TAS. As an example, the 2014 budget allocated for the agency's cost of delivery for the SLA with Allied Joint Force Command (JFC) Brunssum was EUR 4.7 million, whereas only about EUR 900 thousand was eventually recorded for labour costs. The 2014 budget allocated for the agency's cost of delivery for the SLA with Supreme Headquarters Allied Powers Europe (SHAPE) was EUR 2.2 million, whereas EUR 3.7 million was eventually recorded for labour costs.

Time recorded via the TAS impacts the total labour costs recorded per SLA. This impacts the percentage-of-completion of the SLA, thus impacting both the calculations of earned revenue and the deficit or surplus for the period a specific SLA. As a result, there is no way for the Board to know that such revenue and surplus or deficits for the period are accurately calculated.

**C. Service delivery activities costs not recorded as either internal activities or direct SLA delivery costs**

The Board also found fixed project lines that were not budgeted as part of the SLA budgets. The TAS labour costs for these project lines were EUR 3 million. These activities are very broad (general help desk support, general exercises support and Independent Verification and Visit) which apparently have not been translated into SLA service packages in 2014, but for which resources have been needed and eventually supported by the agency. In the future, these services will have to be part of the Services Catalogue and sold to the customers.

5.5 Based on the above observations the Board is not able to express an audit opinion on NCIO's process to calculate service delivery revenue based on the percentage-of-completion methodology and on the Time Accounting System implementation. This observation is related to both revenue and the net surplus for the period.

**Recommendation**

5.6 The Board recommends that (i) the method for SLA's cost to complete calculation be reviewed and that (ii) the TAS be improved so that the EPM projects reflect actual time dedicated to direct SLA service delivery.



## **6. LACK OF A CONSISTENT AND ROBUST PROCESS IN DETERMINING CAPABILITY DEVELOPMENT CONTRACT REVENUE AND SURPLUS OR DEFICIT FOR THE PERIOD**

### **Reasoning:**

6.1 NCIO revenue is derived from the delivery of projects or services. For the delivery of projects, NCIO is applying IPSAS 11, *Construction Contracts*, for the calculation of the revenue recognition as follows:

*“When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract shall be recognized as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date”.*

### **Observation:**

6.2 The Board performed testing on a sample of 28 NSIP projects<sup>2</sup>. The total amount of ‘cost-to-complete’ for the project service costs (PSCs) is EUR 81 million at 31 December 2014. The Air Command & Control (AirC2) and BMD programmes were introduced into the Interim Customer Funding Framework for the first time in 2014.

6.3 For PSCs, each project has a “Time at Completion” (TAC) which is translated into a “Budget at Completion” (BAC) that is then authorized by the customer Investment Committee. The TAC & BAC figures are based on various criteria specific for each project, but are related to the different milestones expected to be achieved during the overall project.

6.4 The ‘cost-to-complete’ for PSC is adjusted regularly by the Project Manager (PM) based on the amount of time still needed to achieve project completion. During the end of year activities, the PM’s estimates are reviewed by the Service Strategy management for further investigation if required, in particular if the ‘cost-to-complete’ estimate is above the authorized budget.

6.5 During its testing, the Board found that PSC ‘cost-to-complete’ estimates at 31 December 2014 were mainly based on the amount of unspent time left in the baseline with the assumption that all milestones will be implemented as planned. In case of expected overrun, contingencies and management reserve that are part of the authorized budget could also be used with the approval of the Service Lifecycle Management Board (SLMB). These contingencies and management reserves (usually 4% of authorized labour costs) are included in the estimated ‘cost-to-complete’.

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<sup>2</sup> 24 NSIP projects related to Project Service Costs (PSC) which are firm fixed price with a percentage of completion method for revenue calculation and 4 NSIP projects related to Internal Engineer Services (IES) which are reimbursable with revenue method calculated on the basis of actual costs.

6.6 Out of the 24 firm fixed price projects selected, 20 of them, or 83%, had 'cost-to-complete' estimates equal to the unspent amount of the authorized budget with a consequence of a zero estimated profit or loss<sup>3</sup>. Per discussions with PMs, the Board found that there is room for improvement in the estimation of 'cost-to-complete' for these projects. NCIA also stated to the Board that the extent of review on these estimates by management and Finance has weakened since 2013, due primarily to the challenges of the Agency Reform transition. Furthermore, the processes used in estimating completion are not documented, reducing both the visibility, and likely, the consistency, of the process.

6.7 The Board believes that the quality of the assessment for future PSC costs could be improved if labour costs are linked to more precisely defined milestones and correlated to the expected Investment Costs. The Board found, though, that the milestones defined for the implementation of a project are often standard milestones that are too general to adjust the time allocation.

6.8 The Board also found that the Investment Costs are monitored and reported outside the Enterprise Project Management (EPM) system. As a result, two separate systems are used in parallel by the PM to conduct an assessment of the future costs of the work package of the project.

6.9 NCIO is aware of these challenges and is in the first phase of developing a better tracking system with the "P3M<sup>4</sup> – Baseline Management and Milestones tracking" internal project.

## Recommendation

6.10 The Board recommends that NCIO continue in its recent efforts to improve its projects implementation tracking system. This will not only improve project implementation, but will also lead to improvements in the inputs into the percentage-of-completion revenue recognition calculations.

6.11 Among other options, the Board specifically recommends that:

- Project milestones be defined in a more detailed manner, including activities or group of tasks;
- Project Investment Costs be incorporated into the EPM in order to consolidate into a single system the assessment of future costs of a project; and
- Standardized 'cost-to-complete' estimation processes are put into place among the Project Managers, that thorough review by management and Finance are strengthened again, and that these and the results of the estimation process are documented.

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<sup>3</sup> Among these 20 projects, one project is with a recoverable amount and another project is with an advanced funding.

<sup>4</sup> Project, Portfolio and Program Management.

## **7. LACK OF A FORMAL AND DOCUMENTED PROCESS TO IDENTIFY AND DISCLOSE CONTINGENT LIABILITIES**

### **Reasoning**

7.1 As per IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, a contingent liability is a liability that is not recognized because its 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. These liabilities do not appear in the financial statements other than in the form of a note disclosure.

7.2 Contracting with large international corporate companies or Armament Departments of Ministries of Defence is one of the core businesses of NCIO via its Acquisition Division. As contract implementation can evolve into an unfavourable outcome specifically for the delivery of Crisis Urgent Requirement or for multi-year Capability Package, it is essential for NCIO to properly assess probable outflow of resources and disclose any contingent liabilities. Since these liabilities may evolve in a manner different from what was initially expected, they should be subject to constant reconsideration.

### **Observations**

7.3 As they are responsible for producing NCIO financial Statements, Finance Management took the lead by sending out a general request via the “Task-Tracker” tool to all organizational units requesting inputs on provision/contingent liabilities. However, this process was initiated very late in the financial statement preparation process. Furthermore, some units did not respond to this request.

7.4 In general, the Board found that there is no specific procedure within NCIO to channel information to the Finance Management not only on already negotiated settlements, but also on probable outcomes related to contingent liabilities.

### **Recommendation**

7.5 The Board recommends that NCIO improve the way that information on contingent liabilities is requested, collected and assessed. Such a process is necessary to ensure that contingent liability disclosures in the financial statements are accurate and complete. The process should be fully documented as well.

## **8. INCOMPLETE CONFIRMATION OF YEAR-END ASSETS AND LIABILITIES OUTSTANDING BETWEEN NATO BODIES**

### **Reasoning**

8.1 NCIO has significant transactions with other NATO bodies. For example, NCIO provides a significant amount of services to ACO, Allied Command Transformation (ACT) and others. As a result of these transactions, there will be assets (receivables, prepayments, etc.) and liabilities (payables, advances, loans, etc.) outstanding between these NATO bodies at year-end. These assets and liabilities are recorded in the respective NATO bodies' financial statements.

### **Observation**

8.2 On 2 March 2015, NCIO sent confirmation letters for their receivable balances to 34 NATO customers. However, only 12 confirmations were returned to NCIO. For these 12, most of the customers did not agree with the NCIO balances. More details have been requested by them and most of the cases are still pending.

8.3 NCIO did not send any other confirmation letters for other year-end balances or for Capability Development. This first year confirmation exercise was not a successful one. Without questioning the objectives of the confirmation letters, the way the full process has been implemented must be examined.

### **Recommendation**

8.4 The Board recommends that NCIO improve its process to prepare, send and receive confirmation of the outstanding asset and liability balances from other NATO bodies as part of the preparation of the financial statements.

## **9. CONTINUED OUTSOURCING OF CONTRACTING ACTIVITIES FOR IT SPARE PARTS AND SUPPLIES TO NSPA**

### **Reasoning**

9.1 As per the customer funding regime applied for CIS service delivery in 2014, a relationship as direct as possible should exist between the customer and NCIO as the provider of CIS spare parts, IT supplies and standard IT equipment.

### **Observation**

9.2 The Board found that NCIO is still outsourcing one of its core functions, the procurement of CIS spare parts, IT supplies and standard IT equipment, to the NATO Support and Procurement Agency (NSPA). For 2014, the total amount of outsourced NSPA services for such items totalled EUR 19,952,301, including admin costs of EUR

7,379,076 (37%) and EUR 711,058 for NATO Depot Support System (NDSS) maintenance costs.

## Recommendation

9.3 The Board recommends that NCIO review its outsourced contracting approach with NSPA for the procurement of CIS spare parts, supplies and IT standard equipment in order to determine whether this is the most efficient and effective approach for NATO.

## 10. LACK OF SPECIFIC REPORTING OF AIR COMMAND & CONTROL (AIRC2) AND NATO BALLISTIC MISSILE DEFENCE (BMD) IN THE FINANCIAL STATEMENTS

### Reasoning

10.1 As per IPSAS 18, *Segment Reporting*, a “segment is a distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of (a) evaluating the entity’s past performance in achieving its objectives, and (b) making decision about future allocation of resources.”

10.2 Determining the activities that should be grouped as separate segments and reported in the financial statements for accountability and decision-making purposes involves judgment. In making such judgments, the preparer will consider: “*whether a particular segment structure reflects the basis on which the Governing Body and Senior Manager require financial information to enable them to assess the past performance of the entity in achieving its objectives, and to make decision about the allocation of resources to achieve entity objectives in the future.*”

### Observation

10.3 In January 2015, the North Atlantic Council approved the establishment on a permanent basis of two Steering Committees: One for BMD which reports to the Conference of National Armaments Directors and one for AirC2 which reports to the Air and Missile Defense Committee. The BMD and AirC2 programme annexes to the NCIO Charter are still under review.

10.4 One of the values of reporting the entity’s activities by segment is to enable the Governing Bodies and Senior Managers to assess the past performance of the entity in achieving its objectives, and to make decision about the allocation of resources to achieve entity objectives in the future. These objectives are set up in the Terms of Reference (ToRs), of the two committees:

- The AirC2 Steering Committee is to “*provide advice to NATO Resource Committees and, if required, appropriate national resource authorities on the Agencies’ project-related funding requests which fall within the Air C2 capability,*

*with a view towards ensuring integrity and interoperability of the capability, identifying duplication, making suggestions for the acquisition approach, and identifying areas where savings could be made.”*

- The BMD Steering Committee is to “*provide technical and programmatic advice to Resource Committees on NCIA BMD project related funding requests, with a view to identifying duplication, making suggestions for the acquisition approach and identifying areas where savings could be made.*”

10.5 The Board found that the 2014 NCIO Financial Statements did not present any separate information in respect to their work on the AirC2 or BMD programmes.

### **Recommendation**

10.6 The Board recommends that NCIO disclose separate segment information related to the BMD and AirC2 programmes. This will help the BMD & AirC2 Steering Committees, as well as other NATO committees, to achieve their governing roles and responsibilities.

## **11. LACK OF DISCLOSURE OF DIRECT AND INDIRECT COSTS IN THE FINANCIAL STATEMENTS**

### **Reasoning**

11.1 One of the prevailing objectives to move NCIO into a full Customer Funding has been to improve transparency. More transparency allows NCIO's governance bodies and customers to better assess the true costs of services and its financial performance.

### **Observation**

11.2 NCIO's customer funding model has been built with a clear distinction between direct and indirect costs. The Agency Financial Plan for 2014 has been logically based on that distinction.

11.3 Planned at EUR 235.1 million for 2014, NCIO's operating costs include direct and shared direct costs charged to the customers and overheads which will be shared amongst customers. Distinction is made between direct and shared direct operating costs and specific indirect and corporate overhead costs. Based on the identification of overhead, the target of the 5% operating and recurring costs savings objectives are incorporated in the Financial Plan.

11.4 However, the Board found that the above level of distinctions do not appear in the 2014 NCIO Financial Statements. For example, personnel costs in the Statement of Financial Performance are no longer divided between administrative costs and operational costs.

**Recommendation**

11.5 The Board recommends that the NCIO Financial Statements present some information related to NCIO direct and indirect costs, preferably on the face of the Statement of Financial Performance.

**FOLLOW-UP ON PRIOR YEARS' OBSERVATIONS AND RECOMMENDATIONS**

The Board followed-up on the status of observations that were still open from prior years' audits. The following table summarises the current position.

**FOLLOW UP ON PRIOR YEARS' OBSERVATIONS/RECOMMENDATIONS**

| OBSERVATION/RECOMMENDATION   | ACTION   | STATUS  |
|--|--|---|
| <b>2013 NCIO Audit report: IBA-AR(2014)22</b>  |  |   |
| <b>Recommendation 1:</b><br><br>The Board recommends that NCIO should continue to pursue and implement an integrated solution for the procurement, management and reporting of fixed and intangible assets in order to reduce the inefficiencies and risks involved with the use of many different accounting systems and logistic tools.  | NCIO has started implementing the necessary inventory and asset management modules within the Centralized NATO Automated Financial System (CNAFS). However, the implementation is still in the early stages.   | Observation <b>Superseded by current year observation 1.</b>          |
| <b>Recommendation 2:</b><br><br>The Board recommends NCIO to ensure that all equipment and assets acquired or developed in achieving its mission, including capability related assets, are assessed for capitalization in compliance with the NATO Accounting Framework. The Board also recommends NCIO to complete, as soon as possible, the Hand-Over/Take-Over process for all CIS equipment transferred to it as of the 1 July 2012 and to properly disclose a brief description of such items in future financial statements. | The Hand-Over/Take-Over was completed by 31 December 2014 for static locations. However, a write-off to regularize the updated records is still needed.<br><br>Also, the Hand-Over/Take-Over of Resolute Support is ongoing and is anticipated to be completed by the end of September 2015. | Observation <b>Superseded by current year observations 2 &amp; 3.</b> |
| <b>Recommendation 3:</b><br><br>The Board recommends that, in the future, all comparative information presented in financial statement include the proper elimination of inter-entity transactions and that reclassifications that are made are clearly identified along with the reasons for doing so.<br><br>The presentation of full year comparative information when the entity only existed for a partial year is a transition issue. As such, there is no specific recommendation for this aspect of the observation.       | See current year observation 4.  | Observation <b>Superseded by current year observation 4.</b>          |
| <b>Recommendation 4:</b><br><br>The Board recommends NCIO to improve its financial reporting control procedures, including management reviews, in order to ensure that   | The Board found that there remains improvements to be made to the financial reporting  | Observation <b>Outstanding.</b>                                       |



| OBSERVATION/RECOMMENDATION   | ACTION  | STATUS  |
|--|---|---|
| they adequately mitigate the risk of errors in the financial statements.   | process to better mitigate the risks of errors in the financial statements.   |   |
| <b>Recommendation 5:</b><br><br>The Board recommends that NCIO should ensure that future financial statements clearly report the budget execution of its transition programme activities.  | Although there is a note in the financial statements on the transition programme, the Board found that the transition programme was again not very clearly presented. Also, some 2014 expenses related to the transition programme were not reported as such. | Observation<br><b>Outstanding.</b>                              |
| <b>Recommendation 6:</b><br><br>The Board recommends that, in the future, all financial statements that are presented should be cross-referenced to related information in the notes.  | The 2014 NCIO Financial Statements provide such references.   | Observation<br><b>Settled.</b>                                  |
| <b>Recommendation 7:</b><br><br>The Board recommends NCIO, as from 2014, to confirm the outstanding asset and liability balances it has with other NATO bodies as part of the preparation of the financial statements.   | See current year observation 8.   | Observation<br><b>Superseded by current year observation 8.</b> |
| <b>2012 NCIO Audit report: IBA-AR(2013)23</b>  |   |   |
| <b>Recommendation 5:</b><br><br>The Board recommends that the NCIA Temporary Staff should be managed in compliance with CPRs and local laws for NCIA Temporary Staff serving in the Netherlands.   | NCIA Internal Audit is conducting an audit on this issue and it is currently under review by the Human Resources and Legal Department. As soon as the report is finalised, appropriate actions will be taken to resolve the issue.                            | Observation<br><b>Partially settled.</b>                        |
| <b>Recommendation 6:</b><br><br>The Board recommends that now that an adapted IPSAS framework has been approved with different requirements for PP&E compared to IPSAS 17, NCIA should develop a detailed accounting policy on PP&E and ensure sufficient note disclosures on PP&E in future financial statements. | The Head of Financial Reporting Policy at NATO HQ is currently working on a NATO-wide accounting policy for PP&E.<br><br>NCIO has applied the NATO adapted IPSAS 17 in 2013, but did not provide complete note disclosures on PP&E or intangible              | Observation<br><b>Outstanding.</b>                              |

| OBSERVATION/RECOMMENDATION  | ACTION  | STATUS                             |
|---|---|------------------------------------|
|   | assets acquired before 1 January 2013.  |                                    |
| <b>2010 NCSA audit report: IBA-AR(2012)10</b>   |   |                                    |
| <p><b>No Consolidation of Moral and Welfare Activities (MWA)</b></p> <p>NCSA did not include MWA activities, revenue and expenses of EUR 1.4 million, in the 2010 NCSA Financial Statements and no information was disclosed about MWA.</p> <p>The Board's view is that the NCSA's MWA activities are controlled by NCSA and as such the financial statements of MWA activities should be consolidated into those of NCSA in accordance with IPSAS 6, Consolidated Financial Statements.</p>  | <p>NCIO applied the NATO adapted accounting framework for Morale and Welfare activities and/or Staff association activities, which do not have to be consolidated into the entity's financial statements.</p> <p>However, the Board didn't find any financial information in support of such activities by way of a disclosure note to the financial statements as required by the NATO Accounting Framework.</p> | Observation<br><b>Outstanding.</b> |
| <p><b>Risk of unauthorized transactions was not adequately and sufficiently mitigated</b></p> <p>A number of transactions tested by the Board were approved by Fiscal Assistants only and not, as required, by the Fiscal Officer. Additionally, the audit revealed that two System Administrators who are not permanent staff members had many users role in the accounting system. Lastly, the Fiscal Assistant at NCSA Headquarters in CNAFS had two generic system IDs in the accounting system.</p> <p>The Board recommends that NCSA strengthens its approval process and review the users' roles in the accounting system.</p> | Fiscal Assistants are no longer approving transactions.   | Observation<br><b>Settled.</b>     |

**NATO COMMUNICATIONS AND INFORMATION ORGANISATION (NCIO)  
AGENCY SUPERVISORY BOARD (ASB)  
FINANCE COMMITTEE  
FORMAL COMMENTS ON THE  
LETTER OF OBSERVATIONS AND RECOMMENDATIONS**

**OBSERVATION 1:**

**LACK OF INTEGRATED SYSTEMS TO SUPPORT THE EFFECTIVE AND  
EFFICIENT MANAGEMENT AND FINANCIAL REPORTING OF PROPERTY, PLANT  
AND EQUIPMENT AND INTANGIBLE ASSETS**

***NCIO ASB's Formal Comments***

*When established on 1 July 2012 the Agency inherited three financial systems from its legacy entities. As part of the Transition Programme a new integrated solution is included under the EBA programme which is to address and resolve this issue. This Programme was authorized in December 2013 by the IC and BC and also it has suffered a delay as the selected contractor for LOG FS was in arbitration although now resolved and the Agency is aiming at implementing EBA on 01 January 2017.*

*Nevertheless, to the extent possible, the Agency already took some mitigation actions as to address these issues:*

- In line with the NATO Accounting Framework, the Agency made an attempt to account for all Service Delivery assets acquired as of 1 January 2013 including those acquired under CIS Delegated Budgets. Hand Over/Take Over (HO/TO) of CIS Assets for NATO Command Structure static entities as well as the NATO Signal Battalions and KFOR was completed in 2014. HO/TO for Resolute Support will be completed in September 2015. As part of this work and newly implemented processes, asset accounts continue to be refined and updated.*
- As of 1 January 2014 the Agency has decreased the number of financial systems from three to two by migrating the former NACMA's ProAcc/ProCure to the former NC3A's PeopleSoft system (CFS - Core Financial System).*
- In 2015 the Agency has activated the necessary inventory and asset management tools within former NCSA's Oracle based application (CNAFS) which were already available in the NPC CNAFS. The migration is now completed at the CIS Service Support Center (CSSC) in Brunssum and is in process at NCI Agency CIS Support Units (CSUs) throughout NATO. These tools now capture newly acquired Service Delivery inventory and assets. In the upcoming months the Agency will also start to migrate inventory and assets from Planon/CFS so to finally have only one unique financial system (CNAFS).*
- Due to the delay in the EBA programme, the Agency EBA implementation is now foreseen on 1 January 2017. This one financial system is planned to build*

*on the initiative for inventory and asset management (including intangible assets) and will contain all inventory and assets for the Agency, thus addressing and satisfying the IBAN recommendation.*

*In summary, the Agency agrees to the needed integrated solution which will be provided by the EBA implementation funded through the Transition Programme. Because of the delays encountered in the implementation of the application, the Agency is trying to mitigate through a variety of actions, building towards the final EBA solution.*

**OBSERVATION 2:  
COMMUNICATIONS INFORMATION SYSTEMS (CIS) ASSETS TRANSFERRED  
FROM OTHER NATO ENTITIES AS OF 1 JULY 2012 WERE NOT ALL IDENTIFIED  
AND THEREFORE WERE NOT FULLY RECOGNIZED OR DISCLOSED**

***NCIO ASB's Formal Comments***

*The Agency confirms the completion of Hand-Over/Take-Over for NATO Command Structure static entities as well as the NATO Signal Battalions and KFOR. HO/TO for Resolute Support is expected to be completed in September 2015.*

*With respect to the disclosure requirements under the NATO Accounting Framework for assets acquired prior to 1 January 2013, the Agency chose to not produce such summary tables as to not overload the FS document but does have the listings available, as stated on page 16 of its Financial Statements;*

*“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. NCIO holds listings on those expensed, taken over assets, providing a brief description. Depending on the info provided during HO/TO process, these listings include data such as types, locations and approximate number of items held per asset category.”*

*Within the 2015 Financial Statements the Agency will provide a brief description of items purchased before 2013 but not capitalized. In doing so, the Agency will coordinate with the NATO Head of Financial Reporting to ensure that the appropriate level of detail is provided in light of Public Disclosure requirements (i.e. so that Statements are not unnecessarily cumbersome).*

**OBSERVATION 3:  
CAPABILITY DEVELOPMENT PROPERTY, PLANT AND EQUIPMENT AND  
INTANGIBLE ASSETS WERE NOT ALL IDENTIFIED AND THEREFORE WERE NOT  
FULLY RECOGNIZED OR DISCLOSED**

**NCIO ASB's Formal Comments**

*The NCI Agency agrees with the IBAN recommendation and is taking action to address/mitigate the situation. Capitalization of expenditures for capability development is a valid one but poses quite a challenge to the Agency and to NATO. Before its establishment on 1 July 2012, the legacy Agencies were not faced with this observation as each of them was not considered to be the owner (end user) of such assets under construction. With the Agency becoming the owner of CIS assets according to the NCIO Charter it is indeed now faced with this challenge which is well described in the IBAN observation under para 3.2 (a). The Agency will have to evaluate within its capability development expenditures what constitutes an asset, whether the Agency (or another entity) controls it per the NATO Accounting Framework, whether it can be defined as a CIS asset and what elements are to be taken into account for capitalisation.*

*It is important to note that per the NATO Accounting Framework approved by Council, ten criteria are established to determine whether an entity has control over an asset and thus should account for it or not (ownership title is only one of the criteria). If the entity responds positively to six of the ten criteria it should account for the asset. The NATO Accounting Framework also states that if there is a conflict between more than one NATO entity, then only the end-use entity shall report the asset in its financial statements. In applying these criteria against most of the assets under construction observed upon by IBAN, NCIO would not have control and thus should not account for the assets (e.g. ACCS).*

*Notwithstanding who controls and accounts for these assets, the Agency has requested clarity as to why the NATO Accounting Framework predicates that all assets acquired prior to 1 Jan 2013 can be expensed (because significant resources/cost are needed to go back in time and do the analysis), but that assets under construction (which are even more difficult to go back in time and do the analysis) are to be valued from inception.*

*Furthermore, the challenge of accounting for work in progress and intangible assets for multiyear large and complex systems that were implemented and managed or updated in a decentralized manner by capacity and/or by location well before NCI Agency was established has been acknowledged by the IBAN. This work will take significant effort and it is also important to note, that accounting for assets under construction requires changes to the setup of systems which will not be in place for NCI Agency until EBA is implemented in 2017.*

*In light of the above, and in order to obtain improved clarity and a coherent approach across NATO on the way forward, the Agency has provided inputs to the Accounting Working Group and to the NATO Head of Financial Reporting for consideration as part of the NATO Accounting Framework revision which is planned per the end of 2015.*

*For the observation related to critical asset management issues for things such as IT systems built in house, acquired licenses versus renewals and crypto equipment, most of the above points apply, but the Agency is nevertheless taking appropriate action to mitigate where possible, in anticipation EBA implementation and the results of the NATO Accounting Framework revision.*

*In summary based on the above, the Agency agrees to the IBAN observation and recommendation but recognizes it is also dependent on the establishment of a NATO wide accounting policy with possible adaptations/clarifications to the NATO Accounting Framework which is foreseen for the end of 2015. Full implementation of such change will require the necessary changes to systems for which the Agency is dependent on the implementation of the EBA, but in the interim the Agency is taking action to mitigate the situation.*

**OBSERVATION 4:  
SCOPE LIMITATION ON THE 2013 COMPARATIVE PROPERTY, PLANT &  
EQUIPMENT (PP&E) AND INTANGIBLE ASSET INFORMATION INCLUDED IN THE  
2014 NCIO FINANCIAL STATEMENTS**

***NCIO ASB's Formal Comments***

*The Agency will comply with the IBAN recommendation.*

**OBSERVATION 5:  
SIGNIFICANT WEAKNESSES IN DETERMINING SERVICE DELIVERY CONTRACT  
REVENUE AND SURPLUS OR DEFICIT FOR THE PERIOD**

***NCIO ASB's Formal Comments***

*The Agency accepts the IBAN observation which is directly related to the first year introduction of customer funding for the Service Level Agreements.*

*The Agency appreciates however IBAN's agreement to the principle applied for revenue recognition but fully agrees that it now has to focus its efforts in strengthening the process and the data quality.*



*With respect to more specific comments related to taking the open purchase orders as “cost to complete” the Agency points out that the accrual analysis during the closing process was based on the best information available at that point in time. The open commitments at 1 January 2015 were the best basis for this estimate at the moment of calculating the estimated cost to complete failing more mature timekeeping information and processes to evaluate the expected actuals against open purchase orders. The Agency will improve on this for its 2015 Financial Statements where any deviation between those two components will lead to a 2015 result in its Statement of Financial Performance.*

**OBSERVATION 6:  
LACK OF A CONSISTENT AND ROBUST PROCESS IN DETERMINING  
CAPABILITY DEVELOPMENT CONTRACT REVENUE AND SURPLUS OR DEFICIT  
FOR THE PERIOD**

***NCIO ASB’s Formal Comments***

*The Agency accepts the IBAN observation and agrees that it needs to strengthen again its revenue recognition process for capability development, as well as improve on the milestone and investments costs tracking. To this effect, initiatives are already in progress in terms of strengthened standardized processes, detailed definition of project milestones and the incorporation of milestones in EPM. In light of the IBAN’s comments, the Agency is also assessing the possibility of incorporating investment costs into EPM in advance of, but in coherence with EBA implementation.*

**OBSERVATION 7:  
LACK OF A FORMAL AND DOCUMENTED PROCESS TO IDENTIFY AND  
DISCLOSE CONTINGENT LIABILITIES**

***NCIO ASB’s Formal Comments***

*For the 2014 Financial Statements, the Agency took action collected inputs that demonstrate that there were no material contingent liabilities to disclose. The Agency’s historical track record also shows that major disputes with suppliers are very rare and are properly documented and reported to Finance via the presence of Finance Management in most of these discussions.*

*Notwithstanding the above, the Agency agrees and will comply with the IBAN recommendation and will implement a more regular and documented process to assess and report contingent liabilities.*

**OBSERVATION 8:  
INCOMPLETE CONFIRMATION OF YEAR-END ASSETS AND LIABILITIES  
OUTSTANDING BETWEEN NATO BODIES**

***NCIO ASB's Formal Comments***

*The Agency will comply with the IBAN recommendation.*

**OBSERVATION 9:  
CONTINUED OUTSOURCING OF CONTRACTING ACTIVITIES FOR IT SPARE  
PARTS AND SUPPLIES TO NSPA**

***NCIO ASB's Formal Comments***

*The Agency will comply with the IBAN recommendation and will review its outsourced contracting approach with NSPA for the procurement of CIS parts, supplies and equipment. It is important to note that the NCI Agency and NSPA initiated and have recently agreed the results of a joint CIS Logistics Study wherein the roles and responsibilities of each Agency are clarified in order to improve cooperation and provide better service to Nations. As part of this collaborative effort it has been confirmed that NCI Agency is accountable and responsible for CIS assets, CIS stocks and CIS order fulfilment. With regards to CIS stock management functions currently executed by NSPA, it has been agreed that NSPA will continue to support NCI Agency during a transition phase through 2018.*

**OBSERVATION 10:  
LACK OF SPECIFIC REPORTING OF AIR COMMAND & CONTROL (AIRC2) AND  
NATO BALLISTIC MISSILE DEFENCE (BMD) IN THE FINANCIAL STATEMENTS**

***NCIO ASB's Formal Comments***

*The Agency evaluated IPSAS 18 on Segment Reporting when preparing its 2014 Financial Statements and to this effect stated on pages 12-13 of its financial statements the following:*

*“NCIO applied segment reporting for its 2013 Financial Statements under the so called “Hybrid Model”, as 2013 was a transition year whereby its legacy entities were considered as distinguishable groups of activities, funded through their legacy models and governing committees, for their specific activities.*

*With the implementation in 2014 of a Service Line service-based organisation 1 built around an end-to-end life cycle approach and the introduction of customer*



*funding as of 1 January 14, the reasons for segment reporting no longer apply and thus to still produce segment reporting for “Capability Development” and “Service Delivery” is no longer relevant as not in line with the management and operational structure of the Agency.*

*Upon conclusion of the Customer Funding Framework and ensuing clarification of governance structure, the Agency will address, if still relevant at that time, the issue of segmented financial statements with the relevant stakeholders.”*

*In its Observation, the IBAN refers to decisions taken in early 2015 on the establishment of two steering committees for AirC2 and BMD, which resulted in an annex to the NCIO Charter. These decisions relate to events in 2015 and the Agency will analyse and consider the effect of these decision with regards to IPSAS 18 on Segment Reporting criteria in preparation of the 2015 NCIO Financial Statements.*

**OBSERVATION 11:  
LACK OF DISCLOSURE OF DIRECT AND INDIRECT COSTS IN THE FINANCIAL STATEMENTS**

***NCIO ASB’s Formal Comments***

*The Agency will comply with the IBAN observation. In light of the ongoing work lead by the NATO Head of Financial Reporting to develop a common lay-out for financial statements across NATO, the Agency will include information on direct and indirect costs within the notes to the financial statements.*

**FOLLOW-UP ON PRIOR YEARS’ OBSERVATIONS AND RECOMMENDATIONS**

***NCIO ASB’s Formal Comments to Recommendation 4 on NCIO 2013 Audit Report***

*As stated in the original observation, the Agency has put significant effort in producing its first consolidated financial statements for 2013 and now in producing its first 2014 financial statements under a full customer funding regime. Although the necessary internal reviews and controls were improved as compared to the 2013 Financial Statements (which required restatement), they were still too limited for the 2014 Financial Statements due to time constraints.*

*The Agency is committed however to improve on this and has also launched an action plan as to improve, based on its lessons learned from producing the 2014 Financial Statements.*

**NCIO ASB's Formal Comments to Recommendation 5 on NCIO 2013 Audit Report**

*As per the action noted in the previous audit report, the Agency produced a separate note on its transition expenses (pages 45-47 of the 2014 Financial Statements).*

*Based on the IBAN follow-up recommendation, the Agency will improve the presentation of transition programme budget execution in the future, and will ensure expenses related to prior year purchase orders are reported.*

**NCIO ASB's Formal Comments to Recommendation 5 on NCIO 2012 Audit Report**

*Per IBAN follow-up the item is considered partially settled as the Agency has taken action to resolve the issue regarding Temporary Staff. Final settlement of this point is expected during 2015.*

**NCIO ASB's Formal Comments to Recommendation 6 on NCIO 2012 Audit Report**

*The detailed Agency accounting policy on PP&E will be developed in light of ongoing work as outlined in the responses provided under Recommendation 3 of the Letter of Observations and Recommendations. The Agency will provide disclosure on PPE as outlined in Recommendation 2 of the Letter of Observations and Recommendations.*

**NCIO ASB's Formal Comments to Recommendation on 2010 NCIO Audit Report**

*The Agency included a note on page 40 stating that NCIO also has some Morale and Welfare Activities which are not consolidated into the financial statements as per the NATO Accounting Framework and that a report on these activities will be submitted separately to the ASB Finance Committee.*

*The Agency agrees that it still needs to work on presenting a separate report to the ASB Finance Committee and will do so each year beginning in the spring of 2016.*



**NATO communications and information agency**  
**Agence OTAN d'information et de communication**



NCIA/FC/2015/00596

## **Financial Statements 2014**

NATO UNCLASSIFIED

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

In 2014 the Agency took another important step in its transition towards becoming a fully-fledged service-oriented organization operating under customer funding as mandated by the Nations upon its establishment.

We have changed our organization with the introduction of Services Lines; developed costed CIS Service Level Agreements; made progress, albeit at a slower pace than desired, with key transition initiatives such IT Modernization and Enterprise Business Applications; and adapted our internal processes to better meet customers' demands and requirements.

An equally important aspect, if not more so, is that we managed to conduct these resource-demanding changes while maintaining a high level of professional service and support to Alliance operations and missions, as well as the delivery of critical NATO capabilities.

Last year, I wrote that it would be a race against time to get the Agency's Initial State Peacetime Establishment implemented. I re-iterate this message. The uncertainty over the future structure of the Agency is affecting the military manning levels, and increasingly our ability to operate. The support of Nations and NATO committees is pivotal in changing this situation.

We are actively working to become more transparent in the things we do and thereby a more trusted partner to our customer community. From the initial customer surveys, it seems that our customers respond positively to these changes and are satisfied with the services provided. But we can and will do better.

Achievements in the areas of Air Command and Control, Ballistic Missile Defence, Cyber Defence and Deployable Communications and Information Systems provide the foundation for NATO success. Similarly, critical CIS infrastructure projects like IT Modernization, NATO Communications Infrastructure and NATO Public Key Infrastructure are poised to launch Industry competitions with delivery to follow.

In the aftermath of the Wales Summit, immediate focus was given to progressing major Summit decisions such as the Readiness Action Plan, the NATO Industry Cyber Partnership or support to Ukraine. This includes support to national and multinational forces, as they prepare for the NATO Response Force, through the NATO First solution.

While we need to continue to work in evolving our internal processes and improve project execution and service delivery we also remain engaged in supporting Nations on their efforts in improving NATO regulatory and capability delivery framework.

Overall, I believe 2014 has been a successful year and that we as an Agency are doing what we need to do – we are adapting to the changing demands and customer requirements and will continue to do so, not least thanks to the ongoing effort from our dedicated staff and the support from our customers and stakeholders.



**Koen Gijsbers**  
**General Manager NCI Agency**

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

### NATO Communication and Information Agency Overview

A key achievement of 2014 was the initiation of transformation of the Agency from an asset based to a service oriented organization under the difficult conditions of scarce NATO financial resources, low manpower levels, and demands from nations for improved effectiveness, coupled with greater efficiencies and savings. In addition, implementation of an Agency-wide customer funding regime, initially in the form of a “Bridging Model”, continued, coupled with initiatives to increase the level of transparency and intimacy with our customers.

### Mission<sup>1</sup>

Covering the entire capability life cycle, the NCI Organisation Mission is to:

- Deliver C3 capabilities to its requirements holders, whilst ensuring their coherence and interoperability in compliance with agreed NATO architectures,
- Ensure provision of secure CIS services to its customers,
- Deliver capabilities and provide services “other than C3/CIS” to NATO and nations, as approved by the ASB,

in order to enable NATO’s Consultation, Command and Control (C3) and to facilitate, inter alia, the seamless integration of Intelligence, Surveillance, Reconnaissance, Target Acquisition functions and their associated information exchange, while continuously improving coherency, effectiveness, efficiency and delivering cost savings. It includes IT-support to the Alliances’ business processes (to include the provision of IT shared services) to the NATO HQ, the Command Structure and NATO Agencies (including itself).

### Operational Environment

The NCI Agency is the executive arm of NCIO and is chartered to execute its mission and in view of NATO’s level of ambition performs the following functions and tasks:

- Work with all relevant stakeholders in order to develop NATO C3’s architectures to support Senior Policy Committees’ capability coherence and implement NATO technical coherence;
- Perform central planning, technical planning, systems design and engineering, integration and configuration management, testing and technical support for assigned NATO systems or installations;
- Operate, control and support assigned in-service NATO CIS and installations, and any other assigned in-service systems, appropriate systems support including hardware and software maintenance and configuration management, and ensuring the commensurate training of personnel for operations and maintenance;
- Manage and execute Programmes and other projects assigned to it;
- Act as Host Nation for assigned NSIP projects as recommended by the Resources Policy and Planning Board (RPPB) and approved by the NAC, or as approved by the Investment Committee (IC);
- Exercise ownership of assigned infrastructures and assets in support of its mission;
- Provide Information Assurance and Cyber Defence for NATO’s Communications and Information Infrastructures consistent with NATO Cyber Defence Policy<sup>2</sup>
- Provide technical advice to nations participating in the NATO Force Structure when interfacing their C3 systems with those of NATO;
- Perform studies, provide advice and support NATO bodies and the other customers in the scientific, technical and operational analysis domains;
- Provide shared services other than IT if so directed.

### Military Manning

During 2014, to the increasing concern of the Agency, the military fill rate continued to reduce, despite the closure of locations due to the NATO Command Structure Reform (Adapted Peacetime Establishment). In total, the Agency lost a further 200 military staff members from 14 different Nations in 2014.

As Nations are not replacing their departing staff and continue to pull out their posted personnel earlier than expected, the military manning figures remain critical. Agency attempts to mitigate this situation have proven unsuccessful. NCI Agency urgently needs support from all stakeholders to change this situation to

<sup>1</sup> Annex 1 to C-M (2012)0049 the Charter of the NCI Organization.

<sup>2</sup> C-M(2011)0042

prevent further impact on Agency deliveries. Moreover, the Agency, with the support of Nations, will need to manage a lower level of military positions in future.

#### **Handover and Takeover (HO/TO) of CIS Assets**

As part of the establishment of the NCIO the North Atlantic Council (NAC) approved in C-M(2012)0049 a Transition Directive which states *“with effect from 1 July 2012 the ownership of all assets (including intellectual property rights) and infrastructure from the affected Organisations will be transferred to and assumed by the NCI Organisation as well as the IT assets and IT infrastructure from NATO Commands”*.

To effect this decision a HO/TO process for CIS assets in static locations, in phases and location by location, has been ongoing in coordination with Allied Command Operations (ACO), Allied Command Transformation (ACT) and the International Military Staff (IMS) with a target for completion by 31 December 2014. This process has continued the improvement of asset records through stock counts and reconciliation of physical holdings with records. The effort has included the validation of the continued requirement for holding items and the identification of any surplus and/or obsolete materiel i.e. no longer a business need for the retention, as well as unserviceable equipment.

The HO/TO was completed on time by 31 December 2014 and consequently the NCI Agency (as the executive arm of the NCI Organisation) accepts the full responsibility for the control and management of these CIS assets. In accordance with the NATO Financial Regulations (NFR) a write-off to regularise the updated records is needed and this is in the process of preparation during the first half of 2015.

Whilst the initial logistical work to achieve HO/TO is complete this is very much a dynamic process and considerable effort will be required to maintain and further improve the control of CIS assets. As part of this, CIS assets are being migrated from the legacy asset management tool to a new system which offers better functionality to integrate the procurement, issuing, tracking and financial accounting. That said, it is still a major challenge to achieve robust financial accounting and will take some time, particularly as the legacy tool was not strong in supporting this.

The foregoing addresses the static locations. With respect to the operational environment, the HO/TO of ISAF/Resolute Support is ongoing and is anticipated to be complete by the end of September 2015. Consequently, ISAF/Resolute Support CIS assets are not reflected in these Financial Statements.

## **Financial Statements Overview**

Key points to note in respect of the 2014 NCIO Financial Statements and which are different from the previous years are:

- first year of customer funding operating under the Interim Customer Funding Framework<sup>3</sup>
- the move from Administrative and Delegated Budgets to fee-for-service Service Level Agreements (SLAs) using Budget Committee (BC) approved customer rates based on standard labour rates and overhead recovery charge
- statements prepared on the basis of a single entity with no legacy segments

#### **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<sup>4</sup> 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 no later than 30 April of the year following the financial year in question”*

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”*.

Pending approval of the revised NATO Financial Regulations, expected in 2015, the Agency will continue to comply with the extant regulations and procedures.

#### **Customer Funding**

As mandated by the Nations, upon the decision to establish the NCI Agency and as per the terms of its Charter, the customer funded nature of the Agency means it must recover all of its costs from the work and services it provides to NATO and National customers with the aim of achieving financial break-even over time.

<sup>3</sup> PO(2013)0630, dated 20 December 2013

<sup>4</sup> C-M(2013)0039 dated 2 August 2013.

The NCI Agency cost of services is supported and sustained through a number of Service Level Agreements (SLAs) and Projects whereby the Agency charges for its labour and running costs as well as its externally contracted services and costs.

A critical enabler to the implementation of customer funding, detailed cost accounting and timekeeping was extended across the entire Agency during 2014 providing the necessary financial and operational insight into service and project execution. This however, still needs to further mature.

In line with the NATO Financial Regulations applicable to Agency Customer Funding regime and the Interim Customer Funding Framework, the Agency maintains an Operating Fund. This serves as a source of working capital and acts as buffer to absorb the surpluses or deficits that result from its operations.

#### **Efficiencies and Savings**

Completed in October 2013, the Agency's Benefits and Savings Plan provides the high-level blue print that establishes and describes the overall multi-year change programme to deliver a single, coherent, customer-funder, services-based organization. In this respect, the plan also describes and quantifies the benefits and savings associated with each of the components of the change programme. This includes the description as to how and in what sequence and timeframe they will be delivered, while stressing that realization of the key drivers for change is highly dependent upon the successful implementation of critical enablers such as the IT Modernization and the Enterprise Business Applications programmes.

#### **Transition Programme**

As per the terms of the RPPB decision on the funding eligibility and modalities of the Agency Transition Programme<sup>5</sup>, the Agency has been authorized to pursue its transition plan with a mix of common funds (from MB and NSIP) and available funds from its Operating Fund<sup>6</sup>. This is separate funding provided to the Agency (i.e. not included in the costs the Agency charges its customers).

<sup>5</sup> AC/335-N(2013)0044; Resource Requirements for the NATO Communications and Information Agency Transition Programme.

<sup>6</sup> In accordance with existing policies, surpluses in the Operating Fund above the levels agreed by Nations are to be returned to customers through reductions in the customer rates.

#### **Financial Performance Highlights**

Having successfully completed the conversion from budget to customer funded service level agreements for the provision of CIS services in 2014, the structure and breakdown of the 2014 Financial Statements differs from that of previous years.

Total revenues for the year amount to 685M Euros and include:

- 351M Euros of acquisition revenue earned as Host Nation for the NATO Security Investment Programme (NSIP), NATO Entities and Nations;
- 302M Euros of revenue contracted, using BC approved customer rates, for the provision and acquisition of CIS capabilities and services;
- 17M Euros of revenue earned in the provision of other support services provided to hosted entities, e.g. NAGSMA, also included in here is the anticipated acquisition revenue (NSIP) from a claim which is still under dispute and for which a provision has been recorded.; and,
- 12M Euros of contributed income related to the execution of previous years' budget credits carried forward, the funds allocated by the Budget Committee for the Agency Transition and the NCI Organisation Secretariat funded directly by the Nations.

Totalling 681M Euros the 2014 Agency costs and expenses include:

- 347M Euros of costs incurred in the procurement, on behalf of the Investment Committee (IC), other NATO entities and Nations, of CIS capabilities and services from industry;
- 180M Euros of costs related with the civilian personnel employed during the year (in compliance with NATO Personnel Regulations, NAC approved salary scales and allowances) and interim workforce (contractors, temporary staff and consultants;
- 137M Euros of operating and external CIS costs in direct support of the delivery of services and capabilities as well as the running costs of the Agency facilities and equipment; and,
- 12M Euros of provisions for legal disputes and for future potential losses as identified in the end of year cost at completion review made for all ongoing customer arrangements.

Net result for the year, including financial income/costs and depreciation expense is a surplus of 3.8M Euros, or 0.6% of total revenue.

At 31 December 2014, the Agency total net equity amounts, including reserves for transition and depreciation, amounts to 22M Euros.



## **External and Internal Audit**

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

### **External Audit**

IBAN has already initiated the audit of the 2014 Financial Statements. In accordance with the NCIO Charter, once IBAN audit results are published the Financial Statements will be forwarded to the ASB for approval taking in consideration the audit report and the advice of the ASB Finance Committee.

### **Internal Audit**

During the reporting period, Internal Audit completed 7 advisory, 10 compliance and 3 consulting engagements. The engagements completed spanned several thematic areas and covered reviews of project management activities, operational processes, corporate and administrative processes and information technology areas. Internal Audit will continue performing follow up missions and will report on the status of the implementation of the recommended actions during 2015 to management and the ASB Finance Committee.

**NCIO Statement of Financial Position**

As of 31 December 2014

(all figures are in Euro)

|                                      |      | NCIO               |                    |
|--------------------------------------|------|--------------------|--------------------|
|                                      | Note | 2014               | 2013               |
| <b>ASSETS</b>                        |      |                    |                    |
| <b>Current Assets</b>                |      |                    |                    |
| Cash and Cash Equivalents            | 1    | 171,394,685        | 191,665,768        |
| Receivables                          | 2    | 135,138,856        | 182,602,985        |
| Prepayments and Miscellaneous Assets | 3    | 492,515            | 5,371,516          |
| Inventory                            | 4    | 4,170,455          | 203,904            |
| Work in Progress                     | 5    | 1,801,544          | 535,751            |
| Other Current Assets                 | 6    | (297,925)          | 157,084            |
| <b>Total Current Assets</b>          |      | <b>312,700,130</b> | <b>380,537,008</b> |
| <b>Non-Current Assets</b>            |      |                    |                    |
| Financial Assets                     |      | 0                  | 0                  |
| Long Term Receivables                | 7    | 14,500             | 419,028            |
| Property, Plant and Equipment        | 8    | 3,743,748          | 3,175,658          |
| Intangible Assets                    | 8    | 626,441            | 332,382            |
| Other Non-Current Assets             |      | 0                  | 0                  |
| <b>Total Non-Current Assets</b>      |      | <b>4,384,689</b>   | <b>3,927,069</b>   |
| <b>TOTAL ASSETS</b>                  |      | <b>317,084,819</b> | <b>384,464,077</b> |

|  |      | NCIO               |                    |
|--|------|--------------------|--------------------|
|  | Note | 2014               | 2013               |
| <b>LIABILITIES</b>                             |      |                    |                    |
| <b>Current Liabilities</b>                     |      |                    |                    |
| Payables                                       | 9    | 91,747,472         | 120,412,570        |
| Deferred Revenue and Advances                  | 10   | 169,556,874        | 225,821,538        |
| Borrowings                                     |      | 0                  | 0                  |
| Other Current Liabilities                      | 11   | 10,582,589         | 8,628,921          |
| <b>Total Current Liabilities</b>               |      | <b>271,886,935</b> | <b>354,863,028</b> |
| <b>Non-Current Liabilities</b>                 |      |                    |                    |
| Non-Current Payables                           |      | 0                  | 0                  |
| Non-Current Deferred Revenue and Advances      |      | 0                  | 0                  |
| Non-Current Borrowings                         |      | 0                  | 0                  |
| Provisions                                     | 12   | 20,741,102         | 8,667,541          |
| Other Non-Current Liabilities                  | 13   | 2,298,403          | 2,583,222          |
| <b>Total Non-Current Liabilities</b>           |      | <b>23,039,505</b>  | <b>11,250,764</b>  |
| <b>TOTAL LIABILITIES</b>                       |      | <b>294,926,440</b> | <b>366,113,792</b> |
| <b>NET ASSETS/EQUITY</b>                       |      |                    |                    |
| Retained Earnings                              | 14   | 12,850,947         | 8,963,560          |
| Reserved Earnings                              |      | 9,307,432          | 9,386,725          |
| <b>TOTAL NET ASSETS/EQUITY</b>                 |      | <b>22,158,379</b>  | <b>18,350,284</b>  |
| <b>TOTAL LIABILITIES AND NET ASSETS/EQUITY</b> |      | <b>317,084,819</b> | <b>384,464,077</b> |

**NCIO Statement of Financial Performance**

*For the year ended 31 December 2014*  
*(all figures are in Euro)*

|   |      | NCIO                 |                      |
|---|------|----------------------|----------------------|
|   | Note | 2014                 | 2013                 |
| <b>REVENUE</b>                          |      |                      |                      |
| Contributions Revenue                   | 15   | 12,127,783           | 124,701,639          |
| Services and Support Revenue            | 16   | 301,559,278          | 194,766,746          |
| Acquisitions Revenue                    | 17   | 350,736,793          | 386,837,240          |
| Other Operations Revenue                | 18   | 16,823,847           | 628,408              |
| Financial Revenue                       | 28   | 1,797,575            | 1,721,013            |
| Other Revenue                           | 19   | 2,242,839            | 120,250              |
| <b>TOTAL REVENUE</b>                    |      | <b>685,288,115</b>   | <b>708,775,296</b>   |
| <b>EXPENSES</b>                         |      |                      |                      |
| Cost of Acquisitions                    | 20   | (346,542,619)        | (385,469,362)        |
| Personnel Costs                         | 21   | (179,641,908)        | (170,091,124)        |
| Contractual Supplies and Services       | 24   | (137,265,651)        | (148,794,826)        |
| Depreciation and Amortisation           | 25   | (2,105,399)          | (1,425,752)          |
| Provisions                              | 26   | (12,483,665)         | 2,956,578            |
| Financial Expenses                      | 28   | (1,989,632)          | (2,396,114)          |
| Other Expenses                          | 30   | (1,451,145)          | (664,467)            |
| <b>TOTAL EXPENSES</b>                   |      | <b>(681,480,020)</b> | <b>(705,885,068)</b> |
| <b>SURPLUS/(DEFICIT)</b>                |      |                      |                      |
| Retainable Earnings                     |      | 3,808,095            | 2,579,422            |
| Refundable Earnings                     |      | 0                    | (310,806)            |
| <b>SURPLUS/(DEFICIT) FOR THE PERIOD</b> |      | <b>3,808,095</b>     | <b>2,890,228</b>     |
| Revaluation of Assets                   |      | 0                    | 0                    |

**NCIO Statement of Cash Flows***For the year ended 31 December 2014**(all figures are in Euro)***CASH FLOWS FROM OPERATING ACTIVITIES**

|   | NCIO                |                  |
|---|---------------------|------------------|
|   | 2014                | 2013             |
| Surplus/(Deficit) for the Period                    | 3,808,095           | 2,890,228        |
| Depreciation and Amortisation                       | 2,297,475           | 1,436,847        |
| Revaluation of Assets                               | 0                   | 0                |
| Decr./ (incr.) Receivables                          | 47,464,129          | (35,857,313)     |
| Decr./ (incr.) Prepayments and Miscellaneous Assets | 4,879,001           | (3,993,987)      |
| Decr./ (incr.) Inventory                            | (3,966,551)         | 72,300           |
| Decr./ (incr.) Work in Progress                     | (1,265,794)         | 82,710           |
| Decr./ (incr.) Other Current Assets                 | 455,009             | (121,964)        |
| (Incr.)/decr. Payables                              | (28,665,098)        | (25,965,874)     |
| (Incr.)/decr. Deferred Revenue and Advances         | (56,264,664)        | 68,081,416       |
| (Incr.)/decr. Borrowings                            | 0                   | 0                |
| (Incr.)/decr. Other Current Liabilities             | 1,953,668           | (199,432)        |
| <b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>     | <b>(29,304,729)</b> | <b>6,424,932</b> |

**CASH FLOWS FROM INVESTING ACTIVITIES**

|   |                    |                    |
|---|--------------------|--------------------|
| Decr./ (incr.) Financial Assets                 | 0                  | 0                  |
| Decr./ (incr.) Long Term Receivables            | 0                  | 0                  |
| Decr./ (incr.) PP&E and Intangible Assets       | (3,159,623)        | (4,901,519)        |
| Decr./ (incr.) Other Non-Current Assets         | 404,528            | (27,685)           |
| <b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b> | <b>(2,755,095)</b> | <b>(4,929,204)</b> |

**CASH FLOWS FROM FINANCING ACTIVITIES**

|   |                   |                  |
|---|-------------------|------------------|
| (Incr.)/decr. Non-Current Payables                      | 0                 | 0                |
| (Incr.)/decr. Non-Current Deferred Revenue and Advances | 0                 | (310,806)        |
| (Incr.)/decr. Non-Current Borrowings                    | 0                 | 0                |
| (Incr.)/decr. Provisions                                | 12,073,561        | (2,930,817)      |
| (Incr.)/decr. Other Non-Current Liabilities             | (284,820)         | 2,583,222        |
| <b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>         | <b>11,788,741</b> | <b>(658,401)</b> |

**NET DECR./ (INCR.) CASH AND CASH EQUIVALENTS****CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD**

|   |                    |                    |
|---|--------------------|--------------------|
| Decr./ (incr.) Cash and Cash Equivalents          | 191,665,768        | 190,828,442        |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b> | <b>171,394,685</b> | <b>191,665,768</b> |

**CONSOLIDATION ELIMINATIONS**

|  |   |   |
|--|---|---|
|  | 0 | 0 |
|--|---|---|

Note

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

For the year ended 31 December 2014

(all figures are in Euro)

|   |      | NCIO              |                   |
|---|------|-------------------|-------------------|
|   | Note | 2014              | 2013              |
| <b>BALANCE AT BEGINNING OF PERIOD</b>                                       |      | <b>18,350,284</b> | <b>15,770,862</b> |
| Variations due to changes in accounting policy                              |      | 0                 | 0                 |
| <b>Restated balance</b>   |      | <b>18,350,284</b> | <b>15,770,862</b> |
| Net gains/(losses) not recognized in the Statement of Financial Performance |      | 0                 | 0                 |
| Net surplus/(deficit) for the period  | 33   | 3,808,095         | 2,579,422         |
| <b>BALANCE AT END OF PERIOD</b>   |      | <b>22,158,379</b> | <b>18,350,284</b> |
| <b>RESERVES AT BEGINNING OF PERIOD</b>                                      |      | <b>9,386,725</b>  | <b>43,368</b>     |
| Net increase/(decrease) of bookvalue of property, plant and equipment       |      | 673,392           | 773,357           |
| Net increase/(decrease) of reserves   |      | (752,685)         | 8,570,000         |
| Net increase/(decrease) of currency translation differences                 |      | 0                 | 0                 |
| <b>RESERVES AT END OF PERIOD</b>  | 32   | <b>9,307,432</b>  | <b>9,386,725</b>  |
| <b>SURPLUSES/(DEFICITS) CARRIED FORWARD</b>                                 | 33   | <b>12,850,947</b> | <b>8,963,560</b>  |
| <b>NET ASSETS/EQUITY AT END OF PERIOD</b>                                   |      | <b>22,158,379</b> | <b>18,350,284</b> |

**NCIO Budget Execution Statement***For the year ended 31 December 2014**(all figures are in Euro)*

|                           | Note | Initial Budget    | BA2          | Transfers | Final Budget      | Net<br>Commitment | Expenses          | Total Spent       | Carry<br>Forward | Lapsed              |
|---------------------------|------|-------------------|--------------|-----------|-------------------|-------------------|-------------------|-------------------|------------------|---------------------|
| <b>Budget</b>             |      |                   |              |           |                   |                   |                   |                   |                  |                     |
| Chapter 1                 |      | 1,059,680         | 4,400        | 0         | 1,064,080         | 175,000           | 727,241           | 902,241           | 175,000          | 161,839             |
| Chapter 2                 |      | 138,125           | 0            | 0         | 138,125           | 182               | 137,943           | 138,125           | 182              | 0                   |
| Chapter 3                 |      | 0                 | 0            | 0         | 0                 | 0                 | 0                 | 0                 | 0                | 0                   |
| <b>Total current year</b> |      | <b>1,197,805</b>  | <b>4,400</b> | <b>0</b>  | <b>1,202,205</b>  | <b>175,182</b>    | <b>865,184</b>    | <b>1,040,366</b>  | <b>175,182</b>   | <b>161,839</b>      |
| Chapter 1                 |      | 3,175,941         | 0            | (2,444)   | 3,173,497         | 697,439           | 2,032,043         | 2,729,482         | 697,439          | 444,015             |
| Chapter 2                 |      | 8,747,498         | 0            | 2,444     | 8,749,942         | 800,783           | 6,803,140         | 7,603,923         | 800,783          | 1,146,019           |
| Chapter 3                 |      | 570,284           | 0            | 0         | 570,284           | 39,764            | 530,130           | 569,894           | 39,764           | 390                 |
| <b>Total prior year</b>   |      | <b>12,493,723</b> | <b>4,400</b> | <b>0</b>  | <b>12,498,123</b> | <b>1,713,168</b>  | <b>10,230,497</b> | <b>11,943,665</b> | <b>1,713,168</b> | <b>554,458</b>      |
| Chapter 1                 |      | 694,061           | 0            | 0         | 694,061           | 0                 | 17,745            | 17,745            | 0                | 676,316             |
| Chapter 2                 |      | 272,000           | 0            | 0         | 272,000           | 0                 | (355,095)         | (355,095)         | 0                | 627,095             |
| Chapter 3                 |      | 0                 | 0            | 0         | 0                 | 0                 | 0                 | 0                 | 0                | 0                   |
| <b>Total 2 years ago</b>  |      | <b>966,061</b>    | <b>4,400</b> | <b>0</b>  | <b>970,461</b>    | <b>1,713,168</b>  | <b>9,893,147</b>  | <b>11,606,315</b> | <b>1,713,168</b> | <b>(10,635,854)</b> |
| <b>TOTAL</b>              | D1-5 | <b>14,657,589</b> | <b>4,400</b> | <b>0</b>  | <b>14,661,989</b> | <b>1,713,168</b>  | <b>9,555,797</b>  | <b>11,268,966</b> | <b>1,713,168</b> | <b>3,393,023</b>    |

## Accounting Policies

### Basis of preparation

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

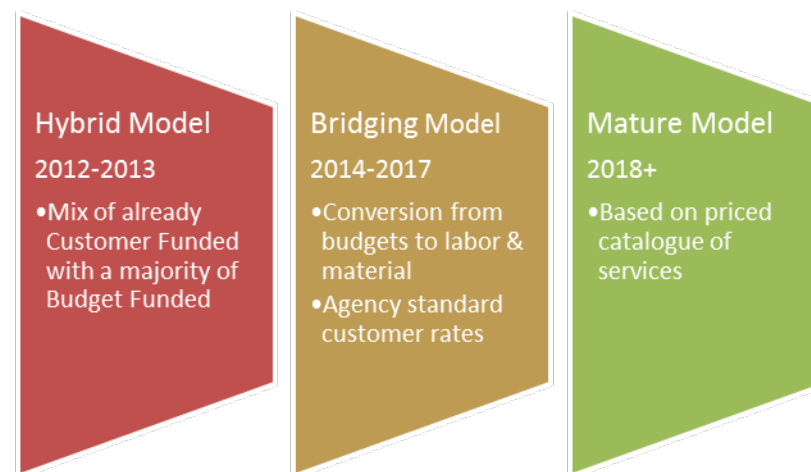
### Prior Year Comparative Numbers

As mandated by Nations in the NCIO charter and in line with the Agency Customer Funding Roadmap, 2014 was the first year that the Agency operated under Customer Funding<sup>7</sup> wherein for CIS Services the Agency moved away from direct budget allocations to fixed price, fee-for-service Service Level Agreements (SLAs).

In 2013, there were EUR 113 million of delegated CIS budgets (e.g. NATO Centralised CIS Budget – NCCB) that, as disclosed in the 2013 NCIO Financial Statements, were not included as NCIO's 2013 revenues and expenses. In 2014, given the change in funding regime, the Agency no longer received delegated authority over these budgets but rather acted as a principal for these CIS activities.

<sup>7</sup> NATO HQ ICTM and NATO Programming Centre (NPC), shift to customer funding using customer rates occurs in 2015; NATO CIS School (NCISS), shift will occur upon its move to Portugal

As a result of this change the Agency must now report the related revenues and costs for 2014. In order to enhance the comparability between periods and so the presentation of these financial statements remains relevant to users, NCIO has included in the 2013 figures presented in these financial statements the EUR 113 million of CIS activities delegated by other NATO entities (no impact on the net results).



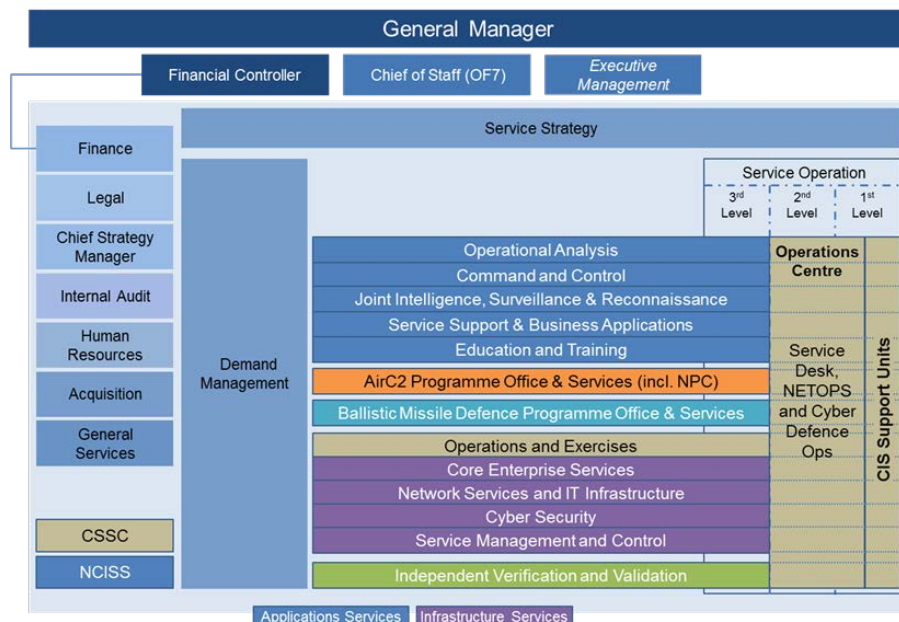
NCI Agency Customer Funding Roadmap

### Segment Reporting

NCIO applied segment reporting for its 2013 Financial Statements under the so called "Hybrid Model", as 2013 was a transition year whereby its legacy entities were considered as distinguishable groups of activities, funded through their legacy models and governing committees, for their specific activities.

With the implementation in 2014 of a Service Line service-based organisation<sup>8</sup> built around an end-to-end life cycle approach and the introduction of customer funding as of 1 January 14, the reasons for segment reporting no longer apply and thus to still produce segment reporting for "Capability Development" and "Service Delivery" is no longer relevant as not in line with the management and operational structure of the Agency.

<sup>8</sup> AC/337-DS(2013)004; item 4, NCIA Organisational Design



NCI Agency Organization Overview

Upon conclusion of the Customer Funding Framework and ensuing clarification of governance structure, the Agency will address, if still relevant at that time, the issue of segmented financial statements with the relevant stakeholders.

NCIO financial statement also includes the budget execution for the NCIO Secretariat. These reflect the running costs of the NCIO Executive Secretariat in support of the ASB Chairman and Nations. Although this could qualify as a separate segment under IPSAS 18, given the low value of this budget of about 350KEUR it has not been report as such..

### Changes in Accounting Standards

IPSAS 32 – Service Level Agreements: Grantor became effective on 1 January 2014; this standard does not impact NCIO.

The following IPSAS will become effective in future financial years:

- IPSAS 33 - First-time Adoption of Accrual Basis IPSASs
- IPSAS 34 - Separate Financial Statements
- IPSAS 35 - Consolidated Financial Statements
- IPSAS 36 - Investments in Associates and Joint Ventures

- IPSAS 37 - Joint Arrangements
- IPSAS 38 - Disclosure of Interests in Other Entities

NCIO has not yet made an assessment of whether these standards will impact NCIO Financial Reporting.

### Revenue Recognition

#### Revenue from exchange transactions

Under its first year of full customer funding the vast majority of NCIO's revenue is customer funded revenue which is subdivided into:

- Operations and service revenue (e.g. Scientific POW and IC project service costs, SLA External CIS and service support costs)
- Acquisition revenue for which NCIO considers to be 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 TACOMS.

NCIO also still has some contributions income from budgets:

- NCIO Secretariat: revenue associated with the running of the NCIO Executive Secretariat which is to support the ASB Chairman. This budget is core funded and the ASB approves the structure and its annual budget, which is based on the Military Budget cost share model
- Prior years budgetary credits carry forward: execution in 2014 against commitments carried forward from prior years (legacy) budgets and executed either under the IPSAS procurement principal principle.
- Transition: specific budgets, authorized by the Budget Committee, created in 2013 and onwards to cover for expenses related to the NATO Command Structure reform and Agency Transition Programme workforce adjustments.

Finally, under the customer funding bridging model, the costs for NPC, NCISS and ICTM/CSU Brussels were funded by customers through specific agreements although without the application of customer rates.

#### Revenue measurement and timing

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



customers' satisfaction. For all customer funded revenue, revenue is recognized 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 goods and services procured from industry either directly in support of the delivery of services and capabilities or required for the normal functioning of the Agency's facilities and equipment.
- Depreciation, amortisation and provisions: costs related to usage of Agency assets, spread on a straight-line over their economic life, and costs related to the variance of Agency reserves (e.g. reserve for future losses, reserve for untaken leave).
- Foreign currency exchange and financial gains/losses: payments by NATO Bodies and Host Nations may be made in a variety of currencies. Gains/losses on foreign currency exchanges occasionally occur between the time of assessment and the time of payment. These differences are assessed and either refunded or absorbed by 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 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 its first year of full customer funding, has no budget but an Annual Financial Plan which is authorised by the ASB under the NCIO Charter, and which

includes a statement of planned income and expenditure. NCIO is neither required to, nor elects to make their approved financial plans publicly available.

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

### **Cash Flow Statements**

IPSAS 2 – Cash Flow Statements allows the choice between presenting the cash flow based on the direct method or indirect method. 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 ruling 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 receivables 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 payables, 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 national 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. 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 make advance payments to vendors these are reflected as prepayments in the Statement of Financial Position.

**Retirement benefits: Provident Fund and Defined Contribution Pension Scheme (DCPS)**

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 represent information systems used by NCIO. They are recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives. The useful economic lives of information and communication systems are deemed to be 3 years and all assets are capitalised above €5,000.

**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 HO/TO process - see below.

Per the NATO Accounting Framework – 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.

**NCIO Charter and related Hand Over/Take Over (HO/TO) process**

Per the NCIO Charter, NCIO is to assume ownership of all IT assets and IT infrastructure from the NATO commands. To this end a formal HO/TO process with the NATO Commands for static locations has been undertaken and was completed by the end of 2014. The HO/TO of ISAF/Resolute Support CIS Assets is a separate activity due to complete in 2015 and therefore these assets are not reflected. See also the Overview Section at the start of the Financial Statements.

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. NCIO holds listings on those expensed, taken over assets, providing a brief description. Depending on the info provided during HO/TO process, these listings include data such as types, locations and approximate number of items held per asset category.

| ASSET CLASSES, CATEGORIES AND SUB-CATEGORIES |  | PP&E<br>Thresholds | Economic Life<br>Time | Annual<br>Deprec. % |
|--|--|--------------------|-----------------------|---------------------|
| <b>1.</b>                                    | <b>CLASS 1.: INFRASTRUCTURE, PLANT AND EQUIPMENT</b>                 |                    |                       |                     |
| 1.1.   | AUTOMATIC DATA PROCESSING EQUIPMENT                                  | 5,000              | 3.00                  | 33.33%              |
| 1.2.   | COMMUNICATION SYSTEMS  | 5,000              | 3.00                  | 33.33%              |
| 1.3.   | MACHINERY  | 5,000              | 4.00                  | 25.00%              |
| 1.4.   | INSTALLED EQUIPMENT  | 5,000              | 4.00                  | 25.00%              |
| 1.5.   | FURNITURE  | 500                | 4.00                  | 25.00%              |
| 1.6.   | TRANSPORT EQUIPMENT  | 10,000             | 4.00                  | 25.00%              |
| 1.7.   | MISSION EQUIPMENT  | 5,000              | 4.00                  | 25.00%              |
| <b>2.</b>                                    | <b>CLASS 2.: LAND AND BUILDINGS</b>                                  |                    |                       |                     |
| 2.1.   | LAND provided by Host Nations  |                    |                       |                     |
| 2.1.1.                                       | Bâtiment Z Main Building Brussels - Land                             | 0                  | NA                    | 0.00%               |
| 2.1.2.                                       | NC3A Main Building The Hague - Land                                  | 0                  | NA                    | 0.00%               |
| 2.2.   | BUILDINGS provided by Host Nations                                   |                    |                       |                     |
| 2.2.1.                                       | Bâtiment Z Main Building Brussels - Main structure                   | 0                  | NA                    | 0.00%               |
| 2.2.2.                                       | NC3A Main Building The Hague - Main structure                        | 0                  | NA                    | 0.00%               |
| 2.3.   | INFRASTRUCTURE   | 25,000             | 10.00                 | 10.00%              |
| 2.4.   | BUILDING ENHANCEMENTS  |                    |                       |                     |
| 2.4.1.                                       | Bâtiment Z Main Building Brussels - Leasehold improvements           | 25,000             | 10.00                 | 10.00%              |
| 2.4.2.                                       | NC3A Main Building The Hague - Leasehold improvements                | 25,000             | 10.00                 | 10.00%              |
| <b>3.</b>                                    | <b>CLASS 3.: INTANGIBLE ASSETS</b>                                   |                    |                       |                     |
| 3.1.   | SOFTWARE   | 5,000              | 3.00                  | 33.33%              |
| 3.2.   | RIGHTS OF WAY, INTELLECTUAL PROPERTY RIGHTS (IPR's), ADMINISTRATIVE  | 0                  | NA                    |                     |
| 3.3.   | INVESTMENTS IN RESEARCH AND DEVELOPMENT (R&D)                        | 0                  | NA                    |                     |
| <b>4.</b>                                    | <b>CLASS 4.: CAPEX PENDING CAPITALIZATION - ACCRUED EXPENDITURES</b> |                    |                       |                     |
| 4.1.   | Capital expenditures pending capitalization - Accrued expenditures   | 0                  | NA                    |                     |
| <b>5.</b>                                    | <b>CLASS 5.: ASSETS-UNDER-CONSTRUCTION - INTERNAL PROJECTS (WIP)</b> |                    |                       |                     |
| 5.1.   | Assets-under-construction - Internal projects (WIP)                  | 0                  | NA                    |                     |

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

NCIO controlled property, plant and equipment are 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 property, plant and equipment, however threshold values per item were defined, below which the item will be expensed rather than capitalized.

Depreciation is provided on all items of property, plant and equipment so as to write off its carrying value over their expected useful economic lives. The expected lives of PPE and their associated capitalisation thresholds per item are:

#### Land and Buildings

The NCIO occupies buildings and facilities over a variety of locations NATO wide (and Afghanistan) and all provided for free by the Host Nation or Organisation. Even though some buildings were valued and recognized as assets, under the NATO Accounting Framework NCIO chose to consider all those as expenses as 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.

As per the 2013 NCIO Financial Statements (Annex B, items 90-92, page 42) NCIO legacy entities did not report inventories other than those held in NPC Glons and NCISS Latina School (minor value), as under the procurement agent principle all assets/inventories acquired for customers (mainly ACT and ACO) were excluded from the Statement of Financial Position.

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. Nevertheless and as already reported in its 2013 financial statements, NCIO is applying the NATO Accounting Framework – adapted IPSAS 12 – by which it considers all inventory acquired prior to 1 Jan 2013, as expensed.

As per the Framework and based on the information available, NCIO has listings on these expensed inventory that provide info such as types, locations and approximate number of items held per inventory category.

NCIO has no capitalisation thresholds for Inventory.

### **Provisions**

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

### **Contingent Liabilities**

NCIO discloses in the notes to the financial statements contingent liabilities where:

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

### **Net Assets/Equity/Operating Fund**

As of 2014 the entire NCI Agency works under a customer funding bridging model. The approved policies and procedures of this customer funding financial regime authorise and regulate the use of the NCI Agency Operating Fund. These policies and procedures are in the NFRs and FRPs applicable to the NCI Agency (C-M(2004)0038, 8 June 2004). The use of this Operating Fund is regulated by the customer funding interim regulatory framework approved by Council for 2014, awaiting the final customer funding framework expected for 2015. For 2014 existing policies and procedures were applied.

The Operating Fund fundamental purpose is to provide a buffer fund for deficits or surpluses on the execution of services and projects as well as to a small measure be an element of the Agency's working capital.

The Operating Fund increases or decreases depending upon the NCI Agency realised surpluses or deficits.

Should the Operating Fund move into a deficit position, it is the responsibility of the NCI Agency to take appropriate corrective actions to stabilise and then fix the situation. However, as a NATO body, ultimate liability for funding the NCI Agency rests with the Nations.

The Financial Controller is responsible to recommend the size of the Operating Fund and the planned annual action to increase or to reduce it. The ASB is the approval authority for the fund and decided to keep the level for 2013 and 2014 at 10 MEUR (AC/337(FS)DS(2013)0004 dated June 2013). Per the NFRs and FRPs applicable to

the NCI Agency and the Interim Customer Funding Framework, any surplus or deficit would be attributed to the OF and Nations decide on the use of the Operating Fund.

Changes could be made proactively by increasing or decreasing the overhead rate applied to NCI Agency projects/services and thus charged to its sponsors in subsequent years. Effective with the establishment of NCIO, the BC approves the customer rates on behalf of all customers.

The NCI Agency retained earnings accumulated over the years represent its authorised operating fund. 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 & Equipment.

## 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 advisers, experience on similar cases and any decision of the ASB to how it will respond to the litigation, claim or assessment.

**A. Notes to the NCIO Statement of Financial Position****1. Cash and Cash Equivalents**

Cash available on demand is considered to be cash that can accessed at very short notice (e.g. 1 working day) while a short-term deposit is invested from typically one to three months. Cash and cash equivalents includes amounts advanced by customers for future usage. Cash balances are restricted to the use for which customers have provided the cash. Reference to the IBAN Special Report to Council on the Thematic Audit of Cash Holdings in NATO (IBA-AR(2014)17) dated 28 November 2014, the cash holdings of NCIO are 25% compared to the annual expenditures or about three months of operations, which is well within the IBAN reported average and the NFR.

(All amounts in 1 Euro)

|                                  |                               | NCIO               |                    |
|----------------------------------|-------------------------------|--------------------|--------------------|
|                                  | Note                          | 2014               | 2013               |
|                                  | Unit                          |                    |                    |
| <b>Cash and Cash Equivalents</b> |                               |                    |                    |
| 53                               | Fixed term deposits           | 18,110,371         | 14,893,563         |
| 55                               | Banks and credit institutions | 153,214,645        | 176,722,397        |
| 57                               | Petty cash                    | 50,533             | 56,637             |
| 58                               | Internal transfers            | 19,137             | -6,829             |
|                                  |                               |                    |                    |
|                                  |                               | <b>171,394,685</b> | <b>191,665,768</b> |

**2. Accounts Receivable***(All amounts in 1 Euro)*

|                    |  | NCIO               |                    |
|--------------------|--|--------------------|--------------------|
|                    |  | Note               |                    |
|                    |  | Unit               |                    |
|                    |  | 2014               | 2013               |
| <b>Receivables</b> |  |                    |                    |
| 400                | Trade receivables                                    | -61,810,121        | 18,103,921         |
| 402                | Trade receivables - Consolidated entities            | 125,230            | 1,199,253          |
| 404                | Trade receivables - Accrued revenue/Accrued expenses | 192,810,916        | 144,381,817        |
| 412                | Other receivables - Tax related                      | 491,401            | 260,598            |
| 414                | Other receivables - Accrued income                   | 36,236             | 33,441             |
| 415                | Other receivables - Staff related                    | 49,991             | 20,428             |
| 416                | Other receivables - Cash advances to creditors       | 3,432,359          | 18,202,406         |
| 418                | Other receivables - Warranties paid                  | 1,876              | 399,282            |
| 439                | Financial debts - Other loans                        | 967                | 1,840              |
|                    |  |                    |                    |
|                    |  |                    |                    |
|                    |  |                    |                    |
|                    |  | <b>135,138,856</b> | <b>182,602,985</b> |

Trade receivables are in total negative because impacted by the NSIP QAFR bookings here, totalling -147.6 MEUR. The NCI Agency has adapted its accounting treatment per the IBAN observation in the past, so that advances received from the NSIP Programme are netted against the amounts to be received from the same programme. This more clearly and accurately represents the position of the NCI Agency against the programme at year-end. The net position towards the NSIP at 31/12/2014 is an advance of €32 million as per below table.

*(All amounts in 1 Euro)*

|        |  |           | NCIO         |              |
|--------|--|-----------|--------------|--------------|
|        |  |           | Note         |              |
|        |  |           | Unit         |              |
|        |  |           | 2014         | 2013         |
| 400010 | Trade receivables - Billed or called revenue - Receivable account 1        | CD - NSIP | 7,155,476    | 48,510,598   |
| 400900 | Trade receivables - Special reimbursement processes - Receivable account 1 | CD - NSIP | -26,097,766  | 42,642,335   |
| 400901 | Trade receivables - Special reimbursement processes - Receivable account 2 | CD - NSIP | -121,532,180 | -192,399,059 |
| 404000 | Trade receivables - Accrued revenue - Accrual account 1                    | CD - NSIP | 137,784,796  | 115,629,561  |
| 466010 | Cash advances from debtors - Advance account 1                             | CD - NSIP | -30,002,697  | 241,632      |
|        |  |           | -32,692,371  | 14,625,066   |

Without the impacted QAFR bookings, Trade receivables total 85.8 MEUR which include billed but not yet received amounts from customers. As of 2014 this includes the receivables on SLA's for a total of 38MEUR.

Trade receivables from accrued revenue/expenses correction amounts to 192.8 MEUR from which 137.8 MEUR relates to accrued revenue. The remainder is resulting from the revenue recognition by stage of completion by which income is considered earned but not yet billed to the customer.

The cash advances to creditors represent the advances to the US for Foreign Military Sales.

### 3. Prepayments and Miscellaneous Assets

*(All amounts in 1 Euro)*

|   |                   |  | NCIO    |           |
|---|-------------------|--|---------|-----------|
|   |                   |  | Note    |           |
|   |                   |  | Unit    |           |
|   |                   |  | 2014    | 2013      |
| <b>Prepayments and Miscellaneous Assets</b> |                   |  |         |           |
| 41  | Other receivables |  | 492,515 | 5,371,516 |
|   |                   |  | 492,515 | 5,371,516 |

This amount represents advances and prepayments done to suppliers.



**4. Inventories***(All amounts in 1 Euro)*

|           |  | NCIO      |         |
|-----------|--|-----------|---------|
|           |  | Note      |         |
|           |  | Unit      |         |
| Inventory |  | 2014      | 2013    |
| 310       | Consumables - Pinned materials and office supplies | 572,855   | 68,299  |
| 312       | Consumables - Spare parts and small equipment      | 3,597,816 | 135,605 |
| 330       | Ammunition   | -216      | 0       |
|           |  | 4,170,455 | 203,904 |

The inventory ending balance is for a total of 4.2 MEUR, the increase of about 4 MEUR is a result of the first time recognition of the inventory. As of 2014 NCIO is considered the principal and therefore incurring the primary responsibility and risk for inventory items. Inventories reported are those inventories held at NCIO's depots such as CSSC Brunssum, NPC Glons and NCISS Latina; they are valued with the weighted average cost method.

Prior 2014 inventories other than NPC and NCISS, were not reported. the service provision to the NATO Command Structure (NCS), NCIO operated under delegated budget agreements as a procurement agent for the NCS. When NCIO became fully customer funded as of 1 Jan 2014, these inventories are now fully disclosed as NCIO is no longer acting as an agent on behalf of a third party but is now acting as a principal for its rendering of services to the customers.

However, the first time recognition of inventory was impacted by the introduction of the NATO Accounting Framework applicable as of 1 January 2013 that allows for the adoption of IPSAS 12, inventory items acquired prior to 1 January 2013 can be considered as fully expensed.

For the first time recognition of the CSSC Brunssum, the initial amount of 32.8 MEUR was booked as a beginning balance. As a result of the application of the NATO Accounting Framework, a correction to the balance for the prior 2013 acquired items of 30 MEUR was made for all NCIO inventories.

An amount of 5.7 MEUR was identified as the 2013 net inventory. NCIO was still acting in an agent relationship for the provision of the services and was budget funded for these activities. Therefore this amount is booked as "Unearned Revenue from the Nations" and will be recognised as revenue over a period of three years starting 1<sup>st</sup> Jan 2014, in line with the average turnover period of the inventory. This resulted in an amount of 3.9 MEUR recognised as 'Unearned Revenue from the Nations for inventories'.

**5. Work In Progress***(All amounts in 1 Euro)*

|                         |   | NCIO             |                |
|-------------------------|---|------------------|----------------|
|                         |   | Note             |                |
|                         |   | Unit             |                |
|                         |   | 2014             | 2013           |
| <b>Work in Progress</b> |   |                  |                |
| 370000                  | Work in progress - APF (overrun) projects - Capitalized costs | 91,841           | 312,503        |
| 370100                  | Work in progress - Pre-financed projects - Capitalized costs  | 918,094          | 121,617        |
| 370001                  | Work in progress - Recoverable exceptions - Capitalized costs | 791,608          | 101,630        |
|                         |   |                  |                |
|                         |   | <b>1,801,544</b> | <b>535,751</b> |

The work in progress consists of capitalized expenses for Pre-financed projects, for cost overruns on Advance Planning Funds and for recoverable exceptions.

Pre-finance projects totalling €918,094 are governed by existing bidding arrangements (overarching framework agreements such as Memorandum of Understanding – MOU) between the Agency and its main sponsors. All existing pre-finance authorizations are granted as per the terms and conditions prescribed in the financial rules and procedures specifically developed to for the agency operating under its Customer Funding Regime. The decision to pre-finance projects is assessed by the production Directors, Demand Management and the Financial Controller prior to being approved internally. Accordingly we do not view this as technical contingent asset.

For projects sponsored by NSIP, APFs (Advanced Planning Funds) may be authorized 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 capitalizes the shortfall pending approval of the Project Service Cost (PSC). Funds expended during this stage are capitalized as work in progress for a total amount of €91,841.

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 capitalized until exception is contractually regularized. The total capitalized amount of capitalized recoverable exceptions is €791,608.

**6. Other Current Assets***(All amounts in 1 Euro)*

|                             |  | NCIO            |                |
|-----------------------------|--|-----------------|----------------|
|                             |  | Note            |                |
|                             |  | Unit            |                |
|                             |  | 2014            | 2013           |
| <b>Other Current Assets</b> |  |                 |                |
| 490                         | Regularisation accounts - Prepaid expenses - To be carried forward | 5,520           | 20,235         |
| 493                         | Regularisation accounts - Revenue - To be carried forward          | -141,110        | 143,023        |
| 499                         | Suspense accounts  | -162,335        | -6,174         |
|                             |  |                 |                |
|                             |  | <b>-297,925</b> | <b>157,084</b> |

These amounts concern different transactions that are pending a resolution/final booking in 2015.

**7. Long Term Receivables***(All amounts in 1 Euro)*

|                              |                                    | NCIO          |                |
|------------------------------|------------------------------------|---------------|----------------|
|                              |                                    | Note          |                |
|                              |                                    | Unit          |                |
|                              |                                    | 2014          | 2013           |
| <b>Long Term Receivables</b> |                                    |               |                |
| 291                          | Other receivables - After > 1 year | 14,500        | 419,028        |
|                              |                                    |               |                |
|                              |                                    | <b>14,500</b> | <b>419,028</b> |

Amounts concern loans given to 2 Staff Members under the NATO Civilian Personnel Regulations. Staff members repay the loans.

**8. Property, Plant and Equipment (PPE) and Intangible Assets**

NCIO capitalises all PPE which it controls. NCIO has applied the NATO Accounting Framework, adapting IPSAS 17 on PPE in that all PPE acquired prior to 1 Jan 2013 are considered expensed. To this end, and based on the information provided through the Handover Takeover process, NCIO keeps listings on those PPE expensed.

**NCIO Statement of Property, Plant and Equipment**

As of 31 December 2014

(all figures are in Euro)

| Note   | ACQUISITION      |                  |                         |                          |             | DEPRECIATION     |                   |                   |                         | BOOK VALUE         |                  |
|--|------------------|------------------|-------------------------|--------------------------|-------------|------------------|-------------------|-------------------|-------------------------|--------------------|------------------|
|  | 31-Dec-2013      | Current Year     | Disposals /<br>Adjustm. | Transfers /<br>Reversals | Revaluation | 31-Dec-2014      | 31-Dec-2013       | Current Year      | Disposals /<br>Adjustm. | 31-Dec-2014        | 31-Dec-2014      |
|  |                  |                  |                         |                          |             |                  |                   |                   |                         |                    |                  |
| <b>PLANT, PROPERTY AND EQUIPMENT</b>                     |                  |                  |                         |                          |             |                  |                   |                   |                         |                    |                  |
| ADP Equipment  | 1,255,839        | 806,569          | -50,890                 | 0                        | 0           | 2,011,519        | -414,372          | -687,470          | 12,723                  | (1,089,119)        | 922,399          |
| Comms Equipment  | 2,160,070        | 688,582          | 0                       | 0                        | 0           | 2,848,652        | -720,023          | -949,551          | 0                       | (1,669,574)        | 1,179,078        |
| Mission Equipment  | 49,774           | 9,987            | 0                       | 0                        | 0           | 59,761           | -12,444           | -14,940           | 0                       | (27,384)           | 32,377           |
| Machinery  | 27,251           | 67,414           | 0                       | 0                        | 0           | 94,666           | -6,813            | -23,666           | 0                       | (30,479)           | 64,186           |
| Installed Equipment                                      | 483,864          | 602,697          | 0                       | 0                        | 0           | 1,086,560        | -120,966          | -271,640          | 0                       | (392,606)          | 693,954          |
| Office Furniture   | 60,110           | 60,667           | -24,502                 | 0                        | 0           | 96,275           | -12,337           | -29,920           | 4,803                   | (37,455)           | 58,820           |
| Passenger Vehicles                                       | 137,233          | 113,451          | 0                       | 0                        | 0           | 250,684          | -34,308           | -62,671           | 0                       | (96,979)           | 153,705          |
| <b>Infrastructure, plant and equipment</b>               | <b>4,174,142</b> | <b>2,349,367</b> | <b>-75,392</b>          | <b>0</b>                 | <b>0</b>    | <b>6,448,117</b> | <b>-1,321,264</b> | <b>-2,039,859</b> | <b>17,526</b>           | <b>(3,343,597)</b> | <b>3,104,521</b> |
| Bâtiment Z Brussels - Enhancements                       | 0                | 15,436           | 0                       | 0                        | 0           | 15,436           | 0                 | -1,544            | 0                       | (1,544)            | 13,893           |
| NCIA Main Building The Hague - Enhancements              | 142,950          | 0                | 0                       | 0                        | 0           | 142,950          | -14,295           | -14,295           | 0                       | (28,590)           | 114,360          |
| Leasehold Improvements                                   | 0                | 102,966          | 0                       | 0                        | 0           | 102,966          | 0                 | -10,297           | 0                       | (10,297)           | 92,669           |
| <b>Land and buildings - Leasehold improvements</b>       | <b>142,950</b>   | <b>118,402</b>   | <b>0</b>                | <b>0</b>                 | <b>0</b>    | <b>261,352</b>   | <b>-14,295</b>    | <b>-26,135</b>    | <b>0</b>                | <b>(40,430)</b>    | <b>220,922</b>   |
| Software Licences  | 489,608          | 802,426          | -143,425                | 0                        | 0           | 1,148,610        | -157,227          | -426,694          | 61,753                  | (522,169)          | 626,441          |
| <b>Intangible assets</b>                                 | <b>489,608</b>   | <b>802,426</b>   | <b>-143,425</b>         | <b>0</b>                 | <b>0</b>    | <b>1,148,610</b> | <b>-157,227</b>   | <b>-426,694</b>   | <b>61,753</b>           | <b>(522,169)</b>   | <b>626,441</b>   |
| <b>TOTAL PLANT, PROPERTY AND EQUIPMENT - CAPITALIZED</b> | <b>4,806,700</b> | <b>3,270,195</b> | <b>-218,817</b>         | <b>0</b>                 | <b>0</b>    | <b>7,858,079</b> | <b>-1,492,786</b> | <b>-2,492,688</b> | <b>79,278</b>           | <b>(3,906,195)</b> | <b>3,951,884</b> |
| Capital expenditures pending capitalization - Accrued    | 194,125          | 418,306          | 0                       | -194,125                 | 0           | 418,306          | 0                 | 0                 | 0                       | 0                  | 418,306          |
| <b>TOTAL PLANT, PROPERTY AND EQUIPMENT</b>               | <b>5,000,825</b> | <b>3,688,501</b> | <b>-218,817</b>         | <b>-194,125</b>          | <b>0</b>    | <b>8,276,385</b> | <b>-1,492,786</b> | <b>-2,492,688</b> | <b>79,278</b>           | <b>(3,906,195)</b> | <b>4,370,190</b> |
| <b>INCREASE/(DECREASE) DEPRECIATION RESERVE</b>          |                  | 1,469,842        | -78,280                 | -194,125                 | 0           | 1,197,438        | 0                 | -570,880          | 46,834                  | (524,046)          | 673,392          |
| <b>DEFERRED REVENUE</b>                                  | 3,989,678        | 1,634,855        | 0                       | 0                        | 0           | 5,624,533        | -1,289,072        | -1,815,183        | 0                       | (3,104,254)        | 2,520,278        |

**9. Payables***(All amounts in 1 Euro)*

|                 |   | NCIO              |                    |
|-----------------|---|-------------------|--------------------|
|                 |   | 2014              | 2013               |
|                 | Note<br>Unit  |                   |                    |
| <b>Payables</b> |   |                   |                    |
| 440             | Trade debts   | 6,206,310         | 40,631,577         |
| 442             | Trade debts - Consolidated entities                       | 1,087,707         | -589,466           |
| 444             | Trade debts - Accrued expenses/Accrued revenue correction | 84,198,945        | 80,370,459         |
| 499             | Suspense accounts   | 254,510           | 0                  |
|                 |   |                   |                    |
|                 |   | <b>91,747,472</b> | <b>120,412,570</b> |

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

**10. Deferred Revenue and Advances***(All amounts in 1 Euro)*

|                                      |                                | NCIO               |                    |
|--------------------------------------|--------------------------------|--------------------|--------------------|
|                                      |                                | 2014               | 2013               |
|                                      | Note<br>Unit                   |                    |                    |
| <b>Deferred Revenue and Advances</b> |                                |                    |                    |
| 445                                  | Trade debts - Unearned revenue | 31,749,223         | 116,611,190        |
| 464                                  | Revenue billed in advance      | 82,539,923         | 94,499,115         |
| 466                                  | Cash advances from debtors     | 55,267,727         | 14,711,233         |
|                                      |                                |                    |                    |
|                                      |                                | <b>169,556,874</b> | <b>225,821,538</b> |

The Trade debts - unearned revenue of 31.7 MEUR is composed of:

- 3.8 MEUR the remaining balance of unearned revenue from the Nations for inventory that was acquired in 2013 under the procurement agent relationship for the procurement of inventory items on behalf of the NCS and third parties. Since the agency is now acting as a principal, the first time recognition of inventory for the prior 2014 period resulted in a recognition of 5.7 MEUR of Unearned revenue from nations for inventory. This amount will be recognised as revenue over a period of

three years starting 1<sup>st</sup> Jan 2014; as a result 1/3 or 1.9 MEUR was recognised as revenue in 2014, resulting in an ending balance of Unearned revenue from nations for Inventory of 3.8 MEUR;

- 1.7 MEUR represents unearned revenue from the Nations for commitments carried forward from prior year BC budgets;
- 26.3 MEUR represent advances received from other NATO entities.

Revenue billed in advance for 82.5MEUR is resulting from the revenue recognition through stage of completion for projects whereby revenue has been billed but not yet earned.

Advances received from customers and booked accordingly amount to 55.3MEUR.

#### 11. Other Current Liabilities

(All amounts in 1 Euro)

|                           |  | NCIO       |           |
|---------------------------|--|------------|-----------|
|                           |  | Note       |           |
|                           |  | Unit       |           |
| Other Current Liabilities |  | 2014       | 2013      |
| 455                       | Social and fiscal liabilities - Salary and allowances related        | 14,760     | 642,752   |
| 456                       | Social and fiscal liabilities - Pension related                      | 0          | 37,422    |
| 459                       | Social and fiscal liabilities - Other                                | 4,531      | 13,283    |
| 471                       | Refundable surpluses - Financial and operational surpluses           | 9,940,666  | 7,494,376 |
| 488                       | Other liabilities - Warranties received                              | 622,633    | 410,085   |
| 489                       | Other liabilities - Miscellaneous                                    | 0          | 30,616    |
| 586                       | Credit cards and cash advances to divisions - Bank clearing accounts | 0          | 388       |
|                           |  |            |           |
|                           |  | 10,582,589 | 8,628,921 |

Refundable surpluses amount to €9.9 million and represent mostly funds to be returned to the IC from acquisition projects and to the BC for results (lapses/financial/miscellaneous) on budgets, mostly prior year budgets since the Agency is customer funded as of 2014.

Warranties concern Bid and Performance bonds received.

**12. Provisions***(All amounts in 1 Euro)*

|                           |  | NCIO              |                  |
|---------------------------|--|-------------------|------------------|
|                           |  | Note              |                  |
|                           |  | Unit              |                  |
| Other Current Liabilities |  | 2014              | 2013             |
| Provisions                |  |                   |                  |
| 166                       | Provisions - Major risks and costs - Execution of orders received or | 698,375           | 780,779          |
| 169                       | Provisions - Other risks and costs                                   | 20,042,727        | 7,886,762        |
|                           |  |                   |                  |
|                           |  | <b>20,741,102</b> | <b>8,667,541</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.

Projects are constantly monitored and deviations from the original cost estimates and authorized 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, 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 in prior years. The provision for the customer funded projects amounts to €0.7 million.

The NCI Agency provisions for the untaken leave days outstanding at year end in accordance with IPSAS 25 Employee benefits constitutes a liability towards the future for €2.6 million. This provision is calculated on a rolling basis, i.e. the prior year provision is reversed at the beginning of the year and a new provision calculated, thus charging the change for the year to the Statement of Financial Performance.

Provision made for 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.

A provision of €17.3 million has been booked in 2014 for the NSIP acquisition activity for a claim which is expected to be settled in 2015 but for which the final amounts has yet to be agreed.

**13. Other Non-Current Liabilities***(All amounts in 1 Euro)*

|                               |                             | NCIO             |                  |
|-------------------------------|-----------------------------|------------------|------------------|
|                               |                             | Note             |                  |
|                               |                             | Unit             |                  |
| Other Non-Current Liabilities |                             | 2014             | 2013             |
| 179                           | Other long term liabilities | 2,298,403        | 2,583,222        |
|                               |                             |                  |                  |
|                               |                             | <b>2,298,403</b> | <b>2,583,222</b> |

The amount of €2.3 million represents the deferred revenue from Nations used under the budget funding prior 2014 for acquisition of Property Plant and Equipment. It will be recognised as revenue at the same pace as depreciation is recognised as an expense for the same assets. The amount shown equals the initial value of PPE posted minus the accumulated depreciation.

**14. Net Assets/Equity**

Under its Charter and its customer funding model, NCIO is allowed to have an Operating Fund which represents its retained earnings accumulated over the years. The use of this OF is regulated by the customer funding Interim Regulatory Framework approved by Council for 2014 (final one expected in 2015). Further information is presented under the later note related to the Statement of Change/Equity (Operating Fund).



**B. Notes to the NCIO Statement of Financial Performance****15. Contributions Revenues***(All amounts in 1 Euro)*

|                              |                      | NCIO              |                    |
|------------------------------|----------------------|-------------------|--------------------|
|                              | Note                 | 2014              | 2013               |
|                              | Unit                 |                   |                    |
| <b>Contributions Revenue</b> |                      |                   |                    |
| 706                          | Common funded income | 12,127,783        | 124,701,639        |
|                              |                      |                   |                    |
|                              |                      | <b>12,127,783</b> | <b>124,701,639</b> |

With the introduction of full customer funding as of 2014, the contributions revenues from budget funding has decreased considerably. Nevertheless, NCI Agency still has some revenues from either 2014 budgets or prior year budget funding. Details and their budget execution statements can be found under note 26.

Contributions income is recognised (earned) at the moment an expense is incurred as the revenue is guaranteed to be funded by member nations.

**16. Services and Support Revenue***(All amounts in 1 Euro)*

|                                     |   | NCIO               |                    |
|-------------------------------------|---|--------------------|--------------------|
|                                     | Note                                    | 2014               | 2013               |
|                                     | Unit                                    |                    |                    |
| <b>Services and Support Revenue</b> |   |                    |                    |
| 701                                 | Customer funded income - Project income | 98,420,918         | 81,744,249         |
| 706                                 | Customer funded income - Service income | 198,975,529        | 108,612,781        |
| 743                                 | Other customer funded income            | 3,136,767          | 4,409,716          |
| 764                                 | Other income                            | 1,026,065          | 0                  |
|                                     |   |                    |                    |
|                                     |   | <b>301,559,278</b> | <b>194,766,746</b> |

With the introduction of full customer funding as of 1 Jan 2014, most 2013 budget funding has been converted into customer funding and has been categorized under Services and Support Revenue. Already in 2013, the capability development element of the Agency was customer funded and thus there are similar elements for the project services income, noting even an increase in revenue. The former BC/IC budgets funding the Service Delivery/AirC2/BMD elements of the Agency have been converted into customer funding through signed Service Level Agreements/Project Service Costs with the respective customers and include the Service and Project Support Cost (which were calculated at approved customer rates) and the External CIS/Acquisition costs. Some elements of this revenue was not disclosed in the 2013 Financial Statement as under its budget funding model the CIS delegated budgets were not considered under IPSAS 9 as the NCI Agency considered itself procurement agent for these activities. With the introduction

of customer funding as of 2014, the NCI Agency is procurement principal for these activities. This change was already reported in the 2013 Financial Statements and is in line with the IPSAS guidance. The NCI Agency has nevertheless for comparison purposes adjusted its numbers by inserting the 2013 revenue (108MEUR) from the then CIS Delegated budgets into the 2013 comparable numbers, and thus these differ from the published Financial Statements.

For all customer funded revenue, revenue is recognized, in accordance with IPSAS 9 and 11, by reference to the stage of completion or the cost burn rate, depending on the type of funding agreement; firm fixed price or cost reimbursable. This revenue recognition was already in place in 2013 for NCI Agency's customer funded parts of the Agency, but has now been expanded to nearly all its revenues. In applying this revenue recognition, a "cost to complete" is calculated based on either inputs from the project manager as to the resources required to complete the project/deliverables, or either based on information from the financial system as to the legal liabilities incurred per the end of 2014, but not yet accrued or expended, but which nevertheless form part of the 2014 services signed with the customers through the Service Level Agreements.

Details as to the revenue recognition for these revenues through the stage of completion can be found hereunder

### NCIO Operations and Services Performance Details

For the year ended 31 December 2014

(all figures are in Euro)

| NCIO Operations and Services Performance Details |   | NCIO           |                  |                  |                |                |              |             |             |                   |                  |                   |
|--|---|----------------|------------------|------------------|----------------|----------------|--------------|-------------|-------------|-------------------|------------------|-------------------|
| For the year ended 31 December 2014              |   |                |                  |                  |                |                |              |             |             |                   |                  |                   |
| (all figures are in Euro)                        |   |                |                  |                  |                |                |              |             |             |                   |                  |                   |
| Note   |   | BUDGET         | EXPENSES         |                  | REVENUE        |                |              |             | WIP         | SURPLUS/(DEFICIT) |                  |                   |
|  |   | Contract Value | Expenses to Date | Cost at Complete | Billed to Date | Earned to Date | Deferred (-) | Accrued (+) | Earned CY   | Increase CY       | Retained to Date | Provision to Date |
| Performance by Support Unit/Service Line         |   |                |                  |                  |                |                |              |             |             |                   |                  |                   |
| DM   | Demand Management                       | 5,021,632      | 3,600,415        | 5,396,077        | 4,766,352      | 3,236,250      | -1,686,680   | 156,578     | 1,192,591   | 293               | -363,872         | -1,673            |
| Total DM   |   | 5,021,632      | 3,600,415        | 5,396,077        | 4,766,352      | 3,236,250      | -1,686,680   | 156,578     | 1,192,591   | 293               | -363,872         | -1,673            |
| SSTRAT   | Service Strategy                        | 11,026,786     | 10,662,842       | 13,948,051       | 9,950,750      | 8,883,792      | -1,362,365   | 295,407     | 5,314,007   | 189,610           | -1,545,382       | -126,420          |
| Total SSTRAT                                     |   | 11,026,786     | 10,662,842       | 13,948,051       | 9,950,750      | 8,883,792      | -1,362,365   | 295,407     | 5,314,007   | 189,610           | -1,545,382       | -126,420          |
| AIRC2  | AIRC2                                   | 31,821,621     | 19,122,185       | 31,888,461       | 19,074,647     | 19,055,386     | -1,828,560   | 1,809,299   | 19,055,386  | 22,900            | -43,900          | -41               |
| BMD  | BMD                                     | 30,627,782     | 22,070,991       | 29,796,273       | 24,581,406     | 21,921,861     | -4,748,522   | 2,088,977   | 6,150,957   | 0                 | -149,129         | -329,656          |
| Total PO   |   | 62,449,403     | 41,193,176       | 61,684,735       | 43,656,053     | 40,977,247     | -6,577,082   | 3,898,277   | 25,206,343  | 22,900            | -193,029         | -329,697          |
| DAS  | Application Services                    | 8,663,198      | 6,571,295        | 8,515,762        | 6,871,699      | 6,528,097      | -717,007     | 373,406     | 1,109,769   | 0                 | -43,197          | -6,546            |
| C2   | Joint C2                                | 78,657,344     | 63,390,071       | 78,307,821       | 70,323,822     | 62,877,768     | -9,427,528   | 1,981,474   | 17,863,771  | 433,307           | 63,185           | -71,040           |
| JISR   | Joint ISR                               | 88,631,146     | 66,290,667       | 87,516,429       | 73,748,788     | 66,998,876     | -8,072,714   | 1,322,802   | 17,706,668  | 54,178            | 785,581          | -3,927            |
| SSBA   | Service Support & Business Applications | 26,682,301     | 18,079,292       | 26,623,979       | 23,496,539     | 18,249,687     | -5,462,734   | 215,882     | 10,697,318  | 14,341            | 184,736          | -41,069           |
| OA   | Operational Analysis                    | 11,499,771     | 9,619,272        | 11,444,354       | 9,228,124      | 9,686,863      | -239,896     | 698,636     | 6,780,418   | 0                 | 67,591           | -63,281           |
| ET   | Education & Training Services           | 15,411,620     | 14,244,394       | 16,459,880       | 14,379,506     | 13,507,830     | -1,351,677   | 480,001     | 10,686,786  | 172,636           | -563,928         | -76,969           |
| Total DAS  |   | 229,545,380    | 178,194,992      | 228,868,226      | 198,048,478    | 177,849,121    | -25,271,557  | 5,072,201   | 64,844,730  | 674,463           | 493,967          | -262,834          |
| NSII   | Network Services & IT Infrastructure    | 132,211,764    | 85,559,195       | 121,326,355      | 117,128,600    | 95,718,169     | -23,268,774  | 1,858,343   | 50,379,712  | 141,931           | 10,385,191       | -188,821          |
| CES  | Core Enterprise Services                | 89,662,386     | 58,721,075       | 86,303,663       | 78,258,339     | 71,139,765     | -10,737,895  | 3,619,321   | 53,472,055  | 2,059             | 12,422,953       | -393,347          |
| SMC  | Service Management & Control            | 2,086,079      | 750,317          | 1,708,085        | 1,725,905      | 915,498        | -811,205     | 798         | 793,749     | 0                 | 165,181          | 0                 |
| CSEC   | Syber Security                          | 49,293,141     | 39,097,390       | 45,668,549       | 44,900,880     | 41,195,191     | -4,603,973   | 898,285     | 28,061,085  | 167,025           | 2,435,050        | -91,011           |
| Total DIS  |   | 273,253,370    | 184,127,977      | 255,006,652      | 242,013,723    | 208,968,623    | -39,421,847  | 6,376,747   | 132,706,602 | 311,015           | 25,408,373       | -673,179          |
| DSO  | Operations & Exercises                  | 14,903,263     | 26,776,808       | 16,442,809       | 13,576,084     | 13,809,040     | -245,660     | 478,616     | 13,744,357  | 0                 | -12,967,767      | -40,358           |
| Total DSO  |   | 14,903,263     | 26,776,808       | 16,442,809       | 13,576,084     | 13,809,040     | -245,660     | 478,616     | 13,744,357  | 0                 | -12,967,767      | -40,358           |
| Non_SL   | Other                                   | 129,312,862    | 143,455,613      | 153,619,324      | 119,428,395    | 116,115,949    | -3,575,089   | 262,643     | 49,530,720  | 67,513            | -26,190,281      | -21,455           |
| Total Non_SL                                     |   | 129,312,862    | 143,455,613      | 153,619,324      | 119,428,395    | 116,115,949    | -3,575,089   | 262,643     | 49,530,720  | 67,513            | -26,190,281      | -21,455           |
| TOTAL  |   | 725,512,697    | 588,011,822      | 734,965,874      | 631,439,835    | 569,840,023    | -78,140,281  | 16,540,469  | 292,539,350 | 1,265,794         | -15,357,990      | -1,455,615        |
|  |   |                |                  |                  |                |                |              |             | 293,805,144 |                   |                  |                   |

**NCIO Operations and Services Performance Details**

For the year ended 31 December 2014

(all figures are in Euro)

| Note                               | BUDGET         | EXPENSES         |                  |                | REVENUE        |              |             | WIP         | SURPLUS/(DEFICIT) |                  |                   |
|------------------------------------|----------------|------------------|------------------|----------------|----------------|--------------|-------------|-------------|-------------------|------------------|-------------------|
|                                    | Contract Value | Expenses to Date | Cost at Complete | Billed to Date | Earned to Date | Deferred (-) | Accrued (+) | Earned CY   | Increase CY       | Retained to Date | Provision to Date |
| Performance by Account - Portfolio |                |                  |                  |                |                |              |             |             |                   |                  |                   |
| ACO CRO                            | 3,515,113      | 3,085,925        | 3,558,665        | 3,351,408      | 3,089,719      | -261,689     | 0           | 1,788,338   | 7,653             | 11,447           | 0                 |
| ACO Non-CRO                        | 9,777,193      | 8,246,709        | 11,193,400       | 7,007,549      | 6,946,223      | -668,128     | 606,801     | 5,262,669   | 552,145           | -710,485         | -63,281           |
| EUFOR POW                          | 733,839        | 635,599          | 726,071          | 676,781        | 640,688        | -41,918      | 5,825       | 381,464     | 0                 | 5,089            | 0                 |
| ISAF POW                           | 28,793,192     | 23,351,143       | 28,305,723       | 23,352,744     | 23,358,345     | -33,442      | 39,043      | 21,532,632  | 0                 | 7,202            | 0                 |
| KFOR POW                           | 2,367,745      | 2,256,438        | 2,321,121        | 2,123,793      | 2,247,229      | -2,531       | 125,968     | 718,585     | 0                 | -9,208           | 0                 |
| ACO Other                          | 105,025,221    | 98,922,393       | 107,351,788      | 99,317,016     | 94,688,986     | -5,276,246   | 648,217     | 45,700,845  | 0                 | -4,131,776       | -492,323          |
| SLA Corporate                      | 118,130,264    | 99,125,425       | 116,180,698      | 118,130,264    | 97,161,994     | -20,968,270  | 0           | 97,161,994  | 0                 | -1,963,431       | -191,219          |
| NCIA INTERNAL                      | 10,963,509     | 10,941,051       | 13,428,506       | 9,528,568      | 8,523,814      | -1,171,035   | 166,280     | 3,984,735   | (12,033)          | -1,449,031       | -21,724           |
| Total ACO                          | 279,306,077    | 246,564,682      | 283,065,972      | 263,488,124    | 236,656,999    | -28,423,259  | 1,592,134   | 176,531,263 | 547,764           | -8,240,193       | -768,548          |
| Centres of Excellence              | 237,552        | 119,007          | 237,552          | 237,552        | 119,007        | -118,545     | 0           | 69,167      | 0                 | 0                | 0                 |
| ACT EPOW                           | 1,346,133      | 966,660          | 1,276,684        | 1,282,056      | 1,028,427      | -310,026     | 56,396      | 242,192     | 0                 | 61,767           | 0                 |
| ACT JFTC POW                       | 9,142,618      | 6,960,576        | 9,004,019        | 7,803,847      | 6,985,033      | -910,839     | 92,025      | 3,153,975   | 0                 | 24,456           | 0                 |
| ACT OTHER                          | 16,821,811     | 16,957,015       | 20,463,122       | 13,655,584     | 13,346,084     | -1,341,284   | 1,031,784   | 12,166,037  | 0                 | -3,600,027       | -46,215           |
| ACT RD POW                         | 30,929,957     | 24,885,275       | 30,720,268       | 26,787,190     | 25,010,847     | -2,650,267   | 873,924     | 12,701,178  | 2,352             | 231,083          | -9,266            |
| Total ACT                          | 58,478,071     | 49,888,533       | 61,701,645       | 49,766,229     | 46,489,397     | -5,330,961   | 2,054,129   | 28,332,549  | 2,352             | -3,282,721       | -55,481           |
| BMD PO                             | 14,242,661     | 9,681,684        | 13,461,449       | 11,601,062     | 9,626,758      | -2,054,627   | 80,323      | 706,789     | 0                 | -54,926          | -30,552           |
| AirC2 PO                           | 28,672,975     | 23,034,458       | 28,251,903       | 21,911,514     | 23,008,505     | -1,181,746   | 2,278,737   | 19,986,967  | 0                 | -25,953          | -41               |
| NSIP CP                            | 131,322,833    | 107,202,368      | 132,861,443      | 104,946,172    | 103,545,908    | -6,621,224   | 5,220,960   | 18,027,999  | 585,557           | -1,894,560       | -269,072          |
| NATIONS                            | 649,103        | 563,631          | 718,291          | 649,103        | 488,796        | -160,307     | 0           | 488,796     | 0                 | -74,836          | 0                 |
| NSIP CUR                           | 58,741,721     | 42,408,118       | 58,944,021       | 51,611,625     | 43,328,654     | -11,066,658  | 2,783,687   | 5,075,564   | (104,688)         | -122,044         | -77,638           |
| Total NSIP                         | 233,629,293    | 182,890,261      | 234,237,106      | 190,719,476    | 179,998,621    | -21,084,563  | 10,363,707  | 44,286,115  | 480,868           | -2,172,319       | -377,302          |
| North Eastern Region               | 48,859,617     | 38,566,338       | 48,898,181       | 43,747,466     | 38,521,438     | -5,373,967   | 147,939     | 7,074,439   | 0                 | -44,900          | -3,251            |
| South Eastern Region               | 11,029,931     | 9,435,393        | 10,047,582       | 9,545,744      | 9,367,181      | -507,387     | 328,825     | 1,906,419   | 0                 | -68,212          | 0                 |
| Western Region                     | 8,028,755      | 5,842,479        | 8,690,784        | 6,914,788      | 5,596,318      | -1,453,590   | 135,121     | 1,529,983   | 243,662           | 6,021            | 0                 |
| Multinational Projects             | 12,618,372     | 6,971,309        | 12,516,433       | 10,226,829     | 6,956,574      | -3,275,995   | 5,739       | 2,072,988   | 0                 | -14,735          | -36,248           |
| NATO Force Structure               | 4,126,960      | 2,252,499        | 4,137,153        | 2,990,722      | 2,242,388      | -925,322     | 176,988     | 1,917,994   | 0                 | -10,110          | -83               |
| Smart C4ISR Support                | 12,188,457     | 4,933,106        | 11,944,106       | 6,288,108      | 4,930,029      | -1,870,275   | 512,196     | 2,179,024   | (23,194)          | -3,077           | 0                 |
| BMD                                | 8,027,449      | 3,472,271        | 8,342,439        | 7,019,962      | 3,314,460      | -3,806,365   | 100,864     | 3,314,460   | 0                 | -157,811         | -157,179          |
| Total NATIONS                      | 104,879,541    | 71,473,394       | 104,576,678      | 86,733,619     | 70,928,388     | -17,212,903  | 1,407,672   | 19,995,308  | 220,468           | -292,824         | -196,761          |
| NNHQ                               | 954,965        | 755,966          | 954,965          | 879,985        | 755,966        | -125,633     | 1,614       | 26,635      | 0                 | 0                | 0                 |
| NATO HQ                            | 16,271,279     | 10,787,632       | 16,105,176       | 12,898,539     | 10,977,062     | -2,114,375   | 192,899     | 8,946,585   | 0                 | 189,430          | -24,322           |
| IS General                         | 1,274,335      | 885,657          | 1,268,296        | 1,162,402      | 891,696        | -270,706     | 0           | 263,684     | 0                 | 6,039            | 0                 |
| IS ICTM                            | 387,058        | 331,726          | 387,058          | 387,058        | 331,726        | -55,332      | 0           | 129,513     | 0                 | 0                | 0                 |
| IMS General                        | 375,000        | 115,629          | 375,000          | 240,000        | 115,629        | -124,371     | 0           | 77,490      | 0                 | 0                | 0                 |
| ESCD DAT POW                       | 1,544,623      | 1,459,402        | 1,701,279        | 1,544,623      | 1,309,033      | -235,590     | 0           | 311,876     | 0                 | -150,370         | -6,287            |
| NHQC3S POW                         | 8,835,758      | 6,158,875        | 10,668,678       | 6,210,785      | 5,023,232      | -1,647,664   | 460,111     | 3,017,776   | 14,341            | -1,077,245       | -15,405           |
| STO                                | 3,601,342      | 3,483,942        | 3,600,501        | 3,514,621      | 3,491,418      | -82,105      | 58,902      | 445,818     | 0                 | 7,476            | -6,635            |
| Agencies                           | 3,067,711      | 2,736,910        | 3,066,292        | 3,067,711      | 2,738,329      | -329,382     | 0           | 333,764     | 0                 | 1,419            | 0                 |
| Total NATO HQ and Agencies         | 36,312,071     | 26,715,740       | 38,127,245       | 29,905,723     | 25,634,091     | -4,985,158   | 713,526     | 13,553,142  | 14,341            | -1,023,250       | -52,649           |
| Other                              | 12,907,645     | 10,479,212       | 13,257,227       | 10,826,664     | 10,132,528     | -1,103,437   | 409,301     | 9,840,974   | 0                 | -346,683         | -4,875            |
| Total other                        | 12,907,645     | 10,479,212       | 13,257,227       | 10,826,664     | 10,132,528     | -1,103,437   | 409,301     | 9,840,974   | 0                 | -346,683         | -4,875            |
| TOTAL                              | 725,512,697    | 588,011,822      | 734,965,874      | 631,439,835    | 569,840,023    | -78,140,281  | 16,540,469  | 292,539,350 | 1,265,794         | -15,357,990      | -1,455,615        |
|                                    |                |                  |                  |                |                |              |             | 293,805,144 |                   |                  |                   |

**17. Acquisition Revenue***(All amounts in 1 Euro)*

|                      |  |           | NCIO               |                    |
|----------------------|--|-----------|--------------------|--------------------|
|                      |  |           | Note               |                    |
|                      |  |           | Unit               |                    |
| Acquisitions Revenue |  |           | 2014               | 2013               |
| 700                  | Customer funded income - Acquisitions on behalf of third parties | CD - Ops  | 6,909,617          | 0                  |
| 700                  | Customer funded income - Acquisitions on behalf of third parties | CD - NSIP | 222,374,433        | 138,577,301        |
| 700                  | Customer funded income - Acquisitions on behalf of third parties | CD - TP   | 120,681,416        | 131,397,522        |
| 700                  | Customer funded income - Acquisitions on behalf of third parties | CD - BMD  | 771,327            | 4,799,886          |
| 700                  | Customer funded income - Acquisitions on behalf of third parties | C2 - Acq  | 0                  | 112,062,532        |
|                      |  |           |                    |                    |
|                      |  |           | <b>350,736,793</b> | <b>386,837,240</b> |

Acquisition revenue is earned as Host Nation for the NATO Security Investment Programme (NSIP), other NATO entities and Nations. Included here are the acquisition revenues for the AirC2 and BMD programmes but also important ISAF contracts.

Revenue is recognized 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.

**18. Other Operating Revenue***(All amounts in 1 Euro)*

|                          |                               |          | NCIO              |                |                   |
|--------------------------|-------------------------------|----------|-------------------|----------------|-------------------|
|                          |                               |          | Note              |                |                   |
|                          |                               |          | Unit              | 2014           | 2013              |
| Other Operations Revenue |                               |          |                   | 2012           |                   |
| 717                      | Work in progress - Variations | CD - Ops | 1,073,718         | -94,648        | -206,013          |
| 743                      | Other operating income        |          | 15,750,129        | 723,056        | 11,014,859        |
|                          |                               |          |                   |                |                   |
|                          |                               |          | <b>16,823,847</b> | <b>628,408</b> | <b>10,808,846</b> |

The biggest element is for €11 million which represents the revenue from NSIP to cover the increase in the provisions for a claim.

Other operating consists of elements such as:

- the WIP variations for pre-financings, APF overrun and recoverable exceptions
- revenue from the hosting of Agencies such as NAGSMA and TACOMS
- conferences and miscellaneous revenues

## 19. Other Revenue

(All amounts in 1 Euro)

|               |                                      | NCIO      |         |
|---------------|--------------------------------------|-----------|---------|
|               |                                      | Note      |         |
|               |                                      | Unit      |         |
| Other Revenue |                                      | 2014      | 2013    |
| 763           | Gains on disposition of fixed assets | 101,546   | 0       |
| 764           | Other extraordinary income           | 2,141,294 | 120,250 |
|               |                                      |           |         |
|               |                                      | 2,242,839 | 120,250 |

As per note 5 on inventories, an amount of €1.9 million is recognized as revenue over a period of three years starting 1<sup>st</sup> Jan 2014, (average turnover period of the inventory) on the total value of inventory purchased under budget funding in 2013 (€5.8M).

## 20. Cost of Acquisitions

(All amounts in 1 Euro)

| (All amounts in 1 Euro) |                           |           | NCIO        |             |
|-------------------------|---------------------------|-----------|-------------|-------------|
|                         |                           |           |             |             |
|                         |                           |           | Note        |             |
|                         |                           |           | Unit        |             |
| Cost of Acquisitions    |                           |           | 2014        | 2013        |
| 600                     | Commissioned acquisitions | CD - NSIP | 221,859,978 | 139,344,115 |
| 600                     | Commissioned acquisitions | CD - TP   | 124,682,641 | 135,780,811 |
| 600                     | Commissioned acquisitions | C2 - Acq  | 0           | 110,344,436 |
|                         |                           |           |             |             |
|                         |                           |           | 346,542,619 | 385,469,362 |

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

As for the revenue, the cost of acquisitions does not include the professional service costs of the NCI Agency to enact the procurements on behalf of sponsors. These professional fees are accounted for through the service and 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 project service cost with the specific acquisition payments and costs associated with major acquisitions. This is due to the fact that project services costs are recognizable when the service is provided and not when the actual acquisition transactions occur, particularly as the subsequent receipt of goods and payment to suppliers occurs over many years when downstream activity is minimal.

## 21. Personnel Costs

(All amounts in 1 Euro)

|                 |   | NCIO        |             |
|-----------------|---|-------------|-------------|
|                 |   | Note        |             |
|                 |   | Unit        |             |
| Personnel Costs |   | 2014        | 2013        |
| 620             | Employment of personnel   | 168,021,446 | 158,662,199 |
| 621             | Recruitment costs and installation and separation allowances        | 1,707,290   | 1,645,326   |
| 622             | Clothing costs and allowances                                       | 34,855      | 45,824      |
| 623             | Salary related national reimbursements                              | 0           | -69,278     |
| 624             | Medical examinations and general personnel related insurances       | 279,601     | 315,008     |
| 625             | Learning and development  | 2,677,289   | 2,650,628   |
| 626             | Employer contributions to pensions and personnel related insurances | 6,415,565   | 5,830,910   |
| 627             | Loss of job and other personnel contracts related indemnities       | 505,862     | 1,010,507   |
| 629             | Other personnel costs   | 0           | 0           |
|                 |   | 179,641,908 | 170,091,124 |

Personnel costs in this category are for staff members hired under the NATO Civilian Personnel Regulations and contractors. The figures represent the costs of personnel working on activities required to operate the NCI Agency. This category also includes cost incurred with recruitment activity, learning and development, and loss of job indemnity paid out the BC 877 Budget.

## 22. Employee Disclosures

### Staff Numbers

At 31 December 2014 military posts and NATO civilians were filled. In additions to this some NIC vacant positions were filled either by temporary staff, consultants or contractors.

### Retirement benefits

NCI Agency personnel, past and present, are enrolled in various NATO pension schemes. NCI Agency contributes to the schemes for existing employees at amounts laid out in the NATO Civilian Personnel Regulations.

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 statements of financial position. In 2014 NCI Agency contributed nearly €6.4 million (2013: €5.8M) to the various NATO pension schemes.

## 23. Related Party Transactions

NCIO has no related party relationships where significant influence or control of the related party exists from a financial reporting perspective. NCIO is an organisation 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 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.

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

NCIO reports to a number of Boards and Committees which form part of its governance. While 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, 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 NATO Budget Committee guidance, from a situation where recipients receive the representation allowance as an advance and return the unspent amount to the NATO body, to a situation where all recipients are reimbursed permitted expenses within the limits of their individual representation allowance allocation.

The total entitlement to representation allowance for the NCI Agency GM was 10,691.76 EUR. The actual expenses during 2014 (2013: Euro 6,331) were as follows:

- Rental supplement expenses: €2,673.00
- Hospitality Expenses: €3,717.03
- Total representation allowance: €6,390.03

### 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 such as the Code of Conduct (applicable to all staff) and disclosures about:

- 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 (grades A7/A6)                  | 2014             | 2013             |
|--------------------------------------|------------------|------------------|
| Basic salaries                       | 1,145,572        | 1,125,906        |
| Allowances                           | 309,947          | 410,178          |
| Post-employment benefits             | 0                | 336160           |
| Employer's contribution to Insurance | 144,604          | 140,220          |
| Employer's contribution to Pension   | 74,209           | 71,668           |
| <b>Total</b>                         | <b>1,674,332</b> | <b>2,084,132</b> |

| FTE                    | 2014 | 2013 |
|------------------------|------|------|
| General Manager        | 1    | 1    |
| Directors (A6/OF6/OF7) | 10   | 9.6  |



| Name                              | Nationality | Role   | Grade and step at year-end | Loans received from NCIA | Family members receiving income from NCIA | Other revenue from NCIA or NATO |
|-----------------------------------|-------------|--|----------------------------|--------------------------|---|---------------------------------|
| Koenraad Gijsbers                 | NLD         | General Manager                              | A7 step 3                  | Nil                      | Nil                                       | Nil                             |
| MGEN Luis Andrey                  | SPA         | Chief of Staff                               | OF7                        | Nil                      | Nil                                       | Nil                             |
| BGEN Luigi Tomaiuolo              | ITA         | Director Service Operations                  | OF6                        | Nil                      | Nil                                       | Nil                             |
| Guy Feat                          | FRA         | Director Application Services                | A6 step 2                  | Nil                      | Nil                                       | Nil                             |
| Charles Shawcross                 | CAN         | Director Service Strategy                    | A6 step 4                  | Nil                      | Nil                                       | Nil                             |
| Velizar Shalamanov                | BGR         | Director Demand Management                   | A6 step 5                  | Nil                      | Nil                                       | Nil                             |
| Peter Scaruppe                    | DEU         | Director Acquisition                         | A6 step 5                  | Nil                      | Nil                                       | Nil                             |
| Alessandro Pera (left early 2015) | ITA         | Director BMD Programme Office and Services   | A6 step 5                  | Nil                      | Nil                                       | Nil                             |
| Anne-Marie Pick                   | USA         | Financial Controller                         | A6 step 7                  | Nil                      | Nil                                       | Nil                             |
| Gregory Edwards                   | USA         | Director Infrastructure Services             | A6 step 1                  | Nil                      | Nil                                       | Nil                             |
| Dag Wilhelmsen (left end of 2014) | NOR         | Director Transition                          | A6 step 8                  | Nil                      | Nil                                       | Nil                             |
| Enzo Montalti                     | ITA         | Director AirC2 Programme Office and Services | A6 step 4                  | Nil                      | Nil                                       | Nil                             |

All key management personnel of the NCI Agency must sign a declaration statement that supports the disclosure requirements of IPSAS 20.

**24. Contractual Supplies and Services***(All amounts in 1 Euro)*

|                                   |   | NCIO               |                    |
|-----------------------------------|---|--------------------|--------------------|
|                                   |   | Note               |                    |
|                                   |   | Unit               |                    |
| Contractual Supplies and Services |   | 2014               | 2013               |
| 601                               | Project services costs  | 13,106,560         | 12,478,085         |
| 609                               | Stock variations  | 1,728,706          | 128,239            |
| 610                               | Investments not capitalized   | 980,239            | 595,575            |
| 611                               | Rent, leasing cost  | 25,384,320         | 21,230,114         |
| 612                               | Maintenance and repair  | 70,700,381         | 80,092,613         |
| 613                               | Minor investments, spare parts                                      | 5,672,269          | 13,100,188         |
| 614                               | Supplies, consumables   | 7,538,998          | 7,653,512          |
| 615                               | Utilities, postal and courier services, travel and transportation   | 8,987,024          | 11,375,789         |
| 616                               | Facilities management, environment, security and safety             | 74,509             | 73,872             |
| 617                               | General services, grants and subsidies                              | 1,087,294          | 698,507            |
| 618                               | Public relations, representation, hospitality and moral and welfare | 218,419            | 250,094            |
| 619                               | General supplies  | 1,336,385          | 1,117,109          |
| 643                               | Other operating costs   | 450,547            | 1,129              |
|                                   |   |                    |                    |
|                                   |   | <b>137,265,651</b> | <b>148,794,826</b> |

Contractual supplies and services contain both direct and indirect costs:

- project service costs are the direct travel, offsite contractors and specific investments against projects
- stock variation is the movement booked between 1/1/14 and 31/12/14, taking into account the specific notes under items 5,11 and 19 with respect to the first time entry of stock with the Agency which were previously not disclosed
- investments not capitalized concern acquisition which do not exceed the PPE thresholds per NCI Agency's accounting policy
- Rent and leasing costs only concern either rental costs or operating leases per IPSAS 13; NCI Agency does not have any finance leases
- Execution on CIS delegated budgets, disclosed within the performance numbers as of 2014, with the introduction of customer funding, are nearly all included within contractual supplies and services. For comparability they have also been added to the 2013 numbers.
- Under account 615, an amount of €4.5 million is included for travel costs (indirect travel costs including SLA travel)

NCIO also has some Morale and Welfare Activities which are not consolidated into the Financial Statements as per the NATO Accounting Framework adapted IPSAS 6. A report on these Activities will be submitted separately to the ASB Finance Committee.

## 25. Depreciation and Amortisation

(All amounts in 1 Euro)

|                               |   | NCIO      |           |
|-------------------------------|---|-----------|-----------|
|                               |   | Note      |           |
|                               |   | Unit      |           |
| Depreciation and Amortisation |   | 2014      | 2013      |
| 609                           | Stock variations                                | -169,546  | -55,939   |
| 630                           | Depreciation - Fixed assets                     | 2,467,021 | 1,492,786 |
| 632                           | Work in progress - Write-off                    | -192,075  | -11,938   |
| 633                           | Impairment - Trade receivables - After > 1 year | 0         | 843       |
| 663                           | Impairment - Realisation fixed assets           | 0         | 0         |
|                               |   |           |           |
|                               |   | 2,105,399 | 1,425,752 |

For Fixed Assets purchased, the NCI Agency Capability Development takes into account the current year depreciation as a cost which amounts to €2.5 million. Full detail on the 2014 annual depreciation by asset category can be found in the Table under note 8.

## 26. Provisions

(All amounts in 1 Euro)

|            |   | NCIO       |            |
|------------|---|------------|------------|
|            |   | Note       |            |
|            |   | Unit       |            |
| Provisions |   | 2014       | 2013       |
| 6356       | Provisions - Major risks and costs - Execution of orders received or placed | 674,836    | -227,694   |
| 6366       | Provisions - Other risks and costs - Loss of job indemnities                | 0          | -331,193   |
| 6369       | Provisions - Other risks and costs - Other                                  | 11,808,829 | -2,397,691 |
|            |   |            |            |
|            |   | 12,483,665 | -2,956,578 |

Details can also be found under note 12. IPSAS defines a provision as “a liability of uncertain timing or amount”

NCIO has following provisions:

- Provision for future losses for active projects/services for €674,836: when it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately (IPSAS 9 and 11).
- Provision for untaken leave of own personnel of €-182,526: personnel leave days untaken at the end of the year can be transferred to the next year and taken before the end of the first quarter. This constitutes a liability towards the next year since staff will not be available for service during this period of time. The provision is calculated on a rolling basis based on actual days of untaken leave outstanding and the average cost of a day of untaken leave per grade level.
- Provision for a claim from a company in the acquisition activity for which settlement is expected in 2015. This provision is however cost neutral for the Agency as the IC will reimburse the Agency for the final outcome.

## 27. 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 recognized 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”.

NCIO has no known obligations that will only be confirmed by the occurrence of future events that are not wholly within the control of the NCI Agency.

## 28. Financial Revenue and Expenses

(All amounts in 1 Euro)

|                    |  | NCIO             |                  |
|--------------------|--|------------------|------------------|
|                    |  | Note             |                  |
|                    |  | Unit             |                  |
| Financial Revenue  |  | 2014             | 2013             |
| 75                 | Financial income                           | 1,797,575        | 1,721,013        |
| Financial Expenses |  |                  |                  |
| 650                | Costs related to liabilities               | 94,159           | 503              |
| 654                | Financial costs - Exchange results         | 1,542,156        | 1,047,455        |
| 655                | Financial costs - Conversion of currencies | 190,846          | 1,146,356        |
| 657                | Other financial costs                      | 162,471          | 201,801          |
|                    |  | <b>1,989,632</b> | <b>2,396,114</b> |

There is a deficit of €192,057. To be noted that for IC acquisition activity the financial result is borne by NSIP.

**29. Financial Instruments**

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

**Liquidity risk**

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

**Credit risk**

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

**Foreign currency risk**

NCIO has limited exposure to foreign currency because some of its work is denominated in currencies other than the Euro. However, most risk of foreign currency is ultimately born by NCIO's customers who are members or partners of NATO.

**30. Other Expenses**

(All amounts in 1 Euro)

|                |                                       | NCIO      |         |
|----------------|---------------------------------------|-----------|---------|
|                |                                       | Note      |         |
|                |                                       | Unit      |         |
| Other Expenses |                                       | 2014      | 2013    |
| 643            | Other operating costs                 | 1,423,754 | 0       |
| 663            | Impairment - Realisation fixed assets | 27,392    | 0       |
| 664            | Other extraordinary costs             | 0         | 286,222 |
| 668            | Other extraordinary costs             | 0         | 378,245 |
|                |                                       |           |         |
|                |                                       | 1,451,145 | 664,467 |

1.4 MEUR represents the expense resulting from the surplus that NCIO has to pay to nations resulting from miscellaneous expenses and receipts that were related to the prior 2014 budgetary funding.

**31. Write-offs**

The NATO Financial Regulations require NATO entities to disclose any amounts written-off in the year. In 2014 NCI Agency disposed assets with a value of Euro 65.6 MEUR which are predominantly assets that belonged to our customers as part of the Handover Takeover (ACO and ACT).

**NCIO Statement of Property, Plant and Equipment Disposals  
for the year ended 31 December 2014**

|              | Entity                  | PPE Class                | Total                |
|--------------|-------------------------|--------------------------|----------------------|
|              |                         |                          | (Euro)               |
| (a)          | (b)                     | (c)                      | (d)                  |
| 1            | CIS Log Depot, Brunssum | Communications Equipment | 37,746,699.92        |
| 2            | CIS Log Depot Naples    | Communications Equipment | 6,298,022.20         |
| 3            | CIS Log Depot Norfolk   | Communications Equipment | 15,038,264.76        |
| 4            | Sector Izmir            | ADP Equipment            | 1,529,057.23         |
| 5            | Sector Northwood        | ADP Equipment            | 1,144,042.65         |
| 6            | Sector Lisbon           | ADP Equipment            | 7,001.00             |
| 7            | NCST Norway             | ADP Equipment            | 195,682.44           |
| 8            | NC Det Finderup         | ADP Equipment            | 3,036.17             |
| 9            | NCIA HQ                 | ADP Equipment            | 3,317,325.69         |
| 10           | NCIA HQ                 | Communications equipment | 140,683.18           |
| 11           | NCIA HQ                 | Transport equipment      | 54,869.75            |
| 12           | NCIA HQ                 | Machinery                | 47,395.36            |
| 13           | NCIA HQ                 | Communications Equipment | 47,189.37            |
| 14           | NCIA HQ                 | Machinery                | 35,947.74            |
| 15           | NCIA HQ                 | Machinery                | 28,197.73            |
| 16           | NCIA HQ                 | Machinery                | 1,200.00             |
| <b>Total</b> |                         |                          | <b>65,634,615.19</b> |

**C. Notes to the NCIO Statement of Change in Net Assets/Equity (Operating Fund)**

Under its Charter and its customer funding model, NCIO is allowed to have an Operating Fund which represents its retained earnings accumulated over the years. The use of this OF is regulated by the customer funding Interim Regulatory Framework approved by Council for 2014 (final one expected in 2015).

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

The Financial Controller is responsible to recommend the size of the OF and the planned annual action to increase or to reduce it. Any surplus or deficit for 2014 is to be attributed to the Operating Fund with Nations to decide on its use.

In order to fund its transition activities between 2014 and 2018, the Agency requested K€18,980 of common funding and K€8,570 of its Operating Fund. The subsequent Investment Committee/Budget Committee decision sheet (AC/4 (PP) D/27275 – ADD1 and BC-D(2013)0214) authorized K€17,009 of common funding and K€7,245 from the Agency Operating Fund. 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 (€8.6M) and the detailed amount approved by the IC/BC (€7.2M), has also been reserved for future possible use.

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

The operating surplus for 2014, before adjustment to reserves is €3,887,388 and is distributed as follows:

**32. Reserves at the End of the Period; Reserved Earnings - decrease: €-79,293**

(All amounts in 1 Euro)

|                          |   | NCIO             |                  |
|--------------------------|---|------------------|------------------|
|                          |   | 2014             | 2013             |
| Note                     | Unit  |                  |                  |
| <b>Reserved Earnings</b> |   |                  |                  |
| 1330                     | Depreciation reserves                       | 1,490,117        | 816,725          |
| 1336                     | Reserves - Special programmes - Accumulated | 7,817,315        | 8,570,000        |
|                          |   | <b>9,307,432</b> | <b>9,386,725</b> |

- €673,392 of earnings are reserved for the assets not yet fully depreciated, thus increasing the depreciation reserve from a total of €816,725 at 31 Dec 2013 to €1,490,117
- €-752,685 of transition expenses are booked against the Special Transition Reserve thus decreasing from a total €8,570,000 at 31 Dec 2013 to €7,817,315 at 31 Dec 2014

### Transition Expenses

As per the terms of the RPPB decision on the funding eligibility and modalities of the Agency Transition Programme , the Agency has been authorized to pursue its transition plan with a mix of common funds (from MB and NSIP) and surplus funds from its Operating Fund . This is separate funding provided to the Agency (i.e. not part of the customer rates). The table below summarised the transition programme spent (excluding workforce adjustments).

|                           | Authorised    | Spent        | Remaining     |
|---------------------------|---------------|--------------|---------------|
| Transition IC funded      | 17,008,908.00 | 1,011,922.07 | 15,996,985.93 |
| Transition BC funded (OF) | 7,244,724.00  | 752,684.91   | 6,492,039.09  |
|                           | 24,253,632.00 | 1,764,606.98 | 22,489,025.02 |

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

In addition, the largest and most critical project of the approved Transition Programme, the EBA, is facing some significant delays due partially to objections to the proposed LOG FS source selection. These delays are effectively delaying the implementation schedule for all EBA-related activities as authorised by the IC, which has serious operational implications for the Agency and implications for the benefit and savings realisation for the Agency due to the inter-dependencies for a number of planned business and operational efficiencies with EBA.

Overall, the Transition Programme projects have all been initiated and the rate of expenditure has picked up from Q2 2014. However, due to the scale of the EBA project, the main efforts of the funded Transition Programme are now expected to take place in 2015 and 2016. The table on the next pages provide the detailed spending for the NCI Agency Transition Programme in 2014 by activity cluster.



## 2014 Transition Expenditures against IC approved baselines

| Group   | Project Description                          | Approved      | Net Labor  | Consultancy (1) | Other Expenses | Travel    | Acquisition | Total spent  | Available     |
|---|--|---------------|------------|-----------------|----------------|-----------|-------------|--------------|---------------|
| Group A - Enabling Services and Enterprise Business Applications    | Enterprise Business Application (EBA)        | 1,085,836.00  | 265,473.96 | 26,206.52       | 740.00         | 5,646.87  |             | 298,067.35   | 787,768.65    |
|   | ENABLING SERVICES                            | 1,760,620.00  |            |                 |                |           | 286,306.29  | 286,306.29   | 1,474,313.71  |
|   | EBA - WORK PACKAGE 1                         | 5,987,500.00  |            |                 |                |           |             | -            | 5,987,500.00  |
|   | EBA - WORK PACKAGE 2                         | 1,758,732.00  |            |                 |                |           |             | -            | 1,758,732.00  |
|   | EBA - SOFTWARE PACKAGE                       | 1,800,000.00  |            |                 |                |           |             | -            | 1,800,000.00  |
|   | Enabling Services (ES)                       | 1,180,852.00  | 18,035.88  |                 |                | 4,592.51  |             | 22,628.39    | 1,158,223.61  |
|   | Enterprise Business Application (EBA)        | 3,339,706.00  | 25,246.04  |                 |                |           |             | 25,246.04    | 3,314,459.96  |
|   |  | 16,913,246.00 | 308,755.88 | 26,206.52       | 740.00         | 10,239.38 | 286,306.29  | 632,248.07   | 16,280,997.93 |
| Group B - Demand Management, Account Management and Demand Planning |  |               |            |                 |                |           |             |              |               |
|   | DEMAND MANAGEMENT (DM)                       | 160,000.00    | 41,858.34  |                 | 14,362.00      |           |             | 56,220.34    | 103,779.66    |
|   | DEMAND MANAGEMENT (DM)                       | 762,558.00    |            |                 |                |           | 95,980.00   | 95,980.00    | 666,578.00    |
|   | DEMAND MANAGEMENT (DM)                       | 666,728.00    |            | 300,633.68      |                | 6,883.32  |             | 307,517.00   | 359,211.00    |
|   |  | 1,589,286.00  | 41,858.34  | 300,633.68      | 14,362.00      | 6,883.32  | 95,980.00   | 459,717.34   | 1,129,568.66  |
| Group C - Service Strategy  |  |               |            |                 |                |           |             |              |               |
|   | Agency Transition SStrat Cluster             | 536,000.00    | 123,280.34 |                 | 233.55         | 2,114.31  |             | 125,628.20   | 410,371.80    |
|   | COO / SERVICE STRATEGY                       | 2,548,862.00  |            |                 |                |           | 99,386.92   | 99,386.92    | 2,449,475.08  |
|   | Service Strategy                             | 1,828,790.00  | 112,543.93 | 248,584.02      | 401.02         | 20,558.27 |             | 382,087.24   | 1,446,702.76  |
|   |  | 4,913,652.00  | 235,824.27 | 248,584.02      | 634.57         | 22,672.58 | 99,386.92   | 607,102.36   | 4,306,549.64  |
| Group D - Transition / Education and Training                       |  |               |            |                 |                |           |             |              |               |
|   | Transition Cultural Amalgamation             | 44,000.00     |            | 17,941.98       |                |           |             | 17,941.98    | 26,058.02     |
|   | TRANSITION (TIP12-000.1)                     | 215,000.00    |            |                 |                |           |             | -            | 215,000.00    |
|   | Transition Management (TIP12-000.2)          | 228,648.00    |            |                 | 15,206.24      |           |             | 15,206.24    | 213,441.76    |
|   |  | 487,648.00    | -          | 17,941.98       | 15,206.24      | -         | -           | 33,148.22    | 454,499.78    |
| Group D - Transition / Education and Training                       |  |               |            |                 |                |           |             |              |               |
|   | Transition Education and Training            | 60,000.00     | 10,129.79  | 14,121.44       |                | 698.46    |             | 24,949.69    | 35,050.31     |
|   | NATO IT EDUCATION AND TRAINING (TIP12-005.1) | 289,800.00    |            |                 |                |           | 7,441.30    | 7,441.30     | 282,358.70    |
|   |  | 349,800.00    | 10,129.79  | 14,121.44       | -              | 698.46    | 7,441.30    | 32,390.99    | 317,409.01    |
|   |  | 24,253,632.00 | 596,568.28 | 607,487.64      | 30,942.81      | 40,493.74 | 489,114.51  | 1,764,606.98 | 22,489,025.02 |

## 2014 Transition Expenditures against NCIO Operating Fund Reserve for transition

| Group  |   | Approved     | Net Labor  | Consultancy (1) | Other Expenses | Travel    | Investments | Total spent | Available    |
|--|---|--------------|------------|-----------------|----------------|-----------|-------------|-------------|--------------|
| Group A - Enabling Services and Enterprise Business Applications | Group A - Enabling Services (ES)              | 1,180,852.00 | 18,035.88  | -               |                | 4,592.51  | -           | 22,628.39   | 1,158,223.61 |
|  | Group A Enterprise Business Application (EBA) | 3,339,706.00 | 25,246.04  | -               | -              |           | -           | 25,246.04   | 3,314,459.96 |
|  |   | 4,520,558.00 | 43,281.92  | -               | -              | 4,592.51  | -           | 47,874.43   | 4,472,683.57 |
| Group B - Demand Management, Account Management and Demand       |   |              |            |                 |                |           |             |             |              |
|  | DEMAND MANAGEMENT (DM)                        | 666,728.00   | -          | 300,633.68      | -              | 6,883.32  | -           | 307,517.00  | 359,211.00   |
|  |   | 666,728.00   | -          | 300,633.68      | -              | 6,883.32  | -           | 307,517.00  | 359,211.00   |
| Group C - Service Strategy                                       |   |              |            |                 |                |           |             |             |              |
|  | Service Strategy (SS)                         | 1,828,790.00 | 112,543.93 | 248,584.02      | 401.02         | 20,558.27 | -           | 382,087.24  | 1,446,702.76 |
|  |   | 1,828,790.00 | 112,543.93 | 248,584.02      | 401.02         | 20,558.27 | -           | 382,087.24  | 1,446,702.76 |
| Group D - Transition / Education and Training                    |   |              |            |                 |                |           |             |             |              |
|  | Transition Management (TIP12-000.2)           | 228,648.00   | -          | -               | 15,206.24      | -         | -           | 15,206.24   | 213,441.76   |
|  |   | 228,648.00   | -          | -               | 15,206.24      | -         | -           | 15,206.24   | 213,441.76   |
|  |   | 7,244,724.00 | 155,825.85 | 549,217.70      | 15,607.26      | 32,034.10 | -           | 752,684.91  | 6,492,039.09 |

## 33. Retained Earnings: €3,808,095

(All amounts in 1 Euro)

|                          |  | NCIO         |              |
|--------------------------|--|--------------|--------------|
|                          |  | Note         |              |
|                          |  | Unit         |              |
|                          |  | 2014         | 2013         |
| <b>Retained Earnings</b> |  |              |              |
| 14                       | Surplusses (or Deficits) - Carried forward | 9,042,852    | 6,384,138    |
|                          |  | 9,042,852    | 6,384,138    |
| 6                        | Total Costs                                | -681,480,020 | -706,195,874 |
| 7                        | Total Revenues                             | 685,288,115  | 708,775,296  |
|                          |  | 3,808,095    | 2,579,422    |
|                          | <b>Net result</b>                          | 12,850,947   |              |

The final operating surplus of €3,808,095 after reserve adjustment of €79,293 (see above), when added to the retained earnings, results in a total of €12,850,947.

**34. Events after the financial reporting date of 31 December 2014**

NCIO is required to disclose events, both favourable and unfavourable, that occurred between the reporting date of 31 December 2014 and the date when these financial statements were authorized 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).

NCI Agency Management considers there are no material events that occurred which could be categorised as either (a) or (b).

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

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

1. The NCIO Secretariat Budget
2. The NCI Agency Budget for workforce adjustments as a result of the Transition Programme - BC 876/877 Budget

In addition, NCIO has still been executing in 2014 against budgets approved prior to them becoming customer funded on 1 Jan 2014. Therefore budget execution statements are produced against the credits and commitments carried forward from following budgets:

3. 2012 and 2013 Carry Forward Budgets from AirC2 Budgets
4. 2012 and 2013 Carry Forward Budgets from BMD Budgets
5. 2012 and 2013 Carry Forward Budgets from Service Delivery Budgets
6. 2012 and 2013 Carry Forward Budgets from CIS Delegated Budgets
7. 2012 and 2013 Carry Forward Budgets from Reimbursable Activities

**D1. Notes on the NCIO Secretariat Budget Execution Statements***For the year ended 31 December 2014**(all figures are in Euro)*

|                           | Note | Initial Budget | BA2          | Transfers | Final Budget   | Net Commitment | Expenses       | Total Spent    | Carry Forward | Lapsed       |
|---------------------------|------|----------------|--------------|-----------|----------------|----------------|----------------|----------------|---------------|--------------|
| <b>Budget</b>             |      |                |              |           |                |                |                |                |               |              |
| Chapter 1                 |      | 206,096        | 4,400        |           | 210,496        |                | 208,811        | 208,811        | 0             | 1,685        |
| Chapter 2                 |      | 138,125        |              |           | 138,125        | 182            | 137,943        | 138,125        | 182           | 0            |
| Chapter 3                 |      |                |              |           | 0              |                |                | 0              | 0             | 0            |
| <b>Total current year</b> |      | <b>344,221</b> | <b>4,400</b> | <b>0</b>  | <b>348,621</b> | <b>182</b>     | <b>346,754</b> | <b>346,936</b> | <b>182</b>    | <b>1,685</b> |
| Chapter 1                 |      |                |              |           | 0              |                |                | 0              | 0             | 0            |
| Chapter 2                 |      | 642            |              |           | 642            |                | 251            | 251            | 0             | 391          |
| Chapter 3                 |      |                |              |           | 0              |                |                | 0              | 0             | 0            |
| <b>Total prior year</b>   |      | <b>642</b>     | <b>0</b>     | <b>0</b>  | <b>642</b>     | <b>0</b>       | <b>251</b>     | <b>251</b>     | <b>0</b>      | <b>391</b>   |
| Chapter 1                 |      |                |              |           | 0              |                |                | 0              | 0             | 0            |
| Chapter 2                 |      |                |              |           | 0              |                |                | 0              | 0             | 0            |
| Chapter 3                 |      |                |              |           | 0              |                |                | 0              | 0             | 0            |
| <b>Total 2 years ago</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>TOTAL</b>              |      | <b>344,863</b> | <b>4,400</b> | <b>0</b>  | <b>349,263</b> | <b>182</b>     | <b>347,005</b> | <b>347,187</b> | <b>182</b>    | <b>2,076</b> |

As per the Charter of the NATO CI Organisation, 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 ASB Executive Secretariat that is only responsible to the chairperson. Per Article 50 (c) and per AC/337-D(2014)0007-AS1 dd 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 (A3 and B5 staff member and one intern) and an annual budget based on the Military Budget cost share model. As a result it approved the 2014 budget for €348,621.

The 2014 budget is based on the direct cost of the A3, B5 NIC and one intern, the direct travel cost of its staff, the Learning & Development costs and the representation/hospitality cost for the Chairman, totalling €225,496 euro. The ASB Secretariat is supported logistically (HR, Accounting & Finance, IT services, Office

administration, Building and facilities), by the NCI Agency Capability Development which also executes the budget within its financial system. For this support the ASB Secretariat is charged with a support cost amounting to €123,125 for 2014.

Total costs for 2014 amount to €347,187:

- actual 2014 expenses against the 2013 and 2014 budgets amount to €347,005 which correspond to the accrued expenses reported in the Statement of Performance; budget and the financial statement are thus presented on a comparable basis and in compliance with IPSAS24;
- credits that are carried forward amount to €182.

An amount of €2,076 represents the lapsed credits against the 2013 carry forward budget (€391) and 2014 budget (€1,685)

**D2. Notes on the Re-organisation Budget Execution Statements***For the year ended 31 December 2014**(all figures are in Euro)*

|                           | Note | Initial Budget   | BA2      | Transfers | Final Budget     | Net<br>Commitment | Expenses         | Total Spent      | Carry Forward  | Lapsed         |
|---------------------------|------|------------------|----------|-----------|------------------|-------------------|------------------|------------------|----------------|----------------|
| <b>Budget 876/877</b>     |      |                  |          |           |                  |                   |                  |                  |                |                |
| Chapter 1                 |      | 853,584          |          |           | 853,584          | 175,000           | 518,430          | 693,430          | 175,000        | 160,154        |
| Chapter 2                 |      |                  |          |           | 0                |                   |                  | 0                | 0              | 0              |
| Chapter 3                 |      |                  |          |           | 0                |                   |                  | 0                | 0              | 0              |
| <b>Total current year</b> |      | <b>853,584</b>   | <b>0</b> | <b>0</b>  | <b>853,584</b>   | <b>175,000</b>    | <b>518,430</b>   | <b>693,430</b>   | <b>175,000</b> | <b>160,154</b> |
| Chapter 1                 |      | 87,740           |          |           | 87,740           | 52,529            | 32,429           | 84,958           | 52,529         | 2,782          |
| Chapter 2                 |      | 2,654,749        |          |           | 2,654,749        | 327,044           | 2,104,446        | 2,431,490        | 327,044        | 223,259        |
| Chapter 3                 |      | 10,990           |          |           | 10,990           |                   | 10,990           | 10,990           | 0              | 0              |
| <b>Total prior year</b>   |      | <b>2,753,479</b> | <b>0</b> | <b>0</b>  | <b>2,753,479</b> | <b>379,573</b>    | <b>2,147,865</b> | <b>2,527,438</b> | <b>379,573</b> | <b>226,041</b> |
| Chapter 1                 |      |                  |          |           | 0                |                   |                  | 0                | 0              | 0              |
| Chapter 2                 |      |                  |          |           | 0                |                   |                  | 0                | 0              | 0              |
| Chapter 3                 |      |                  |          |           | 0                |                   |                  | 0                | 0              | 0              |
| <b>Total 2 years ago</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>TOTAL</b>              |      | <b>3,607,063</b> | <b>0</b> | <b>0</b>  | <b>3,607,063</b> | <b>554,573</b>    | <b>2,666,295</b> | <b>3,220,868</b> | <b>554,573</b> | <b>386,195</b> |

This 2014 BC 877 Budget was approved for NCI Agency workforce adjustments as a result of the Restructuring of NCIO over the period 2013 until 2018 for the implementation of the IT Modernisation project. In 2014 NCIO had an authorisation of 854 KEUR for Loss of Job Indemnity and Removal Expenses, 693 KEUR were spent and 175 EUR approved as a special carry forward.

The 2013 BC 876 Budget was approved for transition/reorganisation. Within the 2.7 MEUR carry forward into 2014, 2.2 MEUR was an BC authorised special carry forward to support the restructuring and the Handover/Turnover (HO/TO) of CIS assets from customers to the NCIO.

**D3. Notes on the AirC2 Budget Execution Statements***For the year ended 31 December 2014**(all figures are in Euro)*

|                           | Note | Initial Budget   | BA2      | Transfers | Final Budget     | Net<br>Commitment | Expenses       | Total Spent      | Carry<br>Forward | Lapsed         |
|---------------------------|------|------------------|----------|-----------|------------------|-------------------|----------------|------------------|------------------|----------------|
| <b>Budget</b>             |      |                  |          |           |                  |                   |                |                  |                  |                |
| Chapter 1                 |      |                  |          |           | 0                |                   |                | 0                | 0                | 0              |
| Chapter 2                 |      |                  |          |           | 0                |                   |                | 0                | 0                | 0              |
| Chapter 3                 |      |                  |          |           | 0                |                   |                | 0                | 0                | 0              |
| <b>Total current year</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>       |
| Chapter 1                 |      | 1,052,469        |          | (2,444)   | 1,050,025        | 245,370           | 560,528        | 805,898          | 245,370          | 244,127        |
| Chapter 2                 |      | 315,091          |          | 2,444     | 317,535          | 135,931           | 74,655         | 210,586          | 135,931          | 106,949        |
| Chapter 3                 |      | 113,563          |          |           | 113,563          | 0                 | 113,563        | 113,563          | 0                | (0)            |
| <b>Total prior year</b>   |      | <b>1,481,123</b> | <b>0</b> | <b>0</b>  | <b>1,481,123</b> | <b>381,301</b>    | <b>748,746</b> | <b>1,130,047</b> | <b>381,301</b>   | <b>351,076</b> |
| Chapter 1                 |      | 546,748          |          |           | 546,748          |                   | 53,584         | 53,584           | 0                | 493,164        |
| Chapter 2                 |      | 96,488           |          |           | 96,488           |                   | 45,092         | 45,092           | 0                | 51,397         |
| Chapter 3                 |      |                  |          |           | 0                |                   |                | 0                | 0                | 0              |
| <b>Total 2 years ago</b>  |      | <b>643,236</b>   | <b>0</b> | <b>0</b>  | <b>643,236</b>   | <b>0</b>          | <b>98,675</b>  | <b>98,675</b>    | <b>0</b>         | <b>544,561</b> |
| <b>TOTAL</b>              |      | <b>2,124,359</b> | <b>0</b> | <b>0</b>  | <b>2,124,359</b> | <b>381,301</b>    | <b>847,421</b> | <b>1,228,722</b> | <b>381,301</b>   | <b>895,637</b> |

This is the 2014 execution against the Carry Forward Commitments from the 2012 and 2013 AirC2 Budgets which as a programme is customer funded as of 2014. As per the statement, there are still 381KEUR worth of commitments which will be carried forward for execution one more year in 2015.



**D4. Notes on the BMD Budget Execution Statements***For the year ended 31 December 2014**(all figures are in Euro)*

|                           | Note | Initial Budget | BA2 | Transfers | Final Budget | Net<br>Commitment | Expenses | Total Spent | Carry<br>Forward | Lapsed |
|---------------------------|------|----------------|-----|-----------|--------------|-------------------|----------|-------------|------------------|--------|
| <b>Budget</b>             |      |                |     |           |              |                   |          |             |                  |        |
| Chapter 1                 |      |                |     |           | 0            |                   |          | 0           | 0                | 0      |
| Chapter 2                 |      |                |     |           | 0            |                   |          | 0           | 0                | 0      |
| Chapter 3                 |      |                |     |           | 0            |                   |          | 0           | 0                | 0      |
| <b>Total current year</b> |      | 0              | 0   | 0         | 0            | 0                 | 0        | 0           | 0                | 0      |
| Chapter 1                 |      |                |     |           | 0            |                   |          | 0           | 0                | 0      |
| Chapter 2                 |      | 771,327        |     |           | 771,327      |                   | 771,327  | 771,327     | 0                | 0      |
| Chapter 3                 |      |                |     |           | 0            |                   |          | 0           | 0                | 0      |
| <b>Total prior year</b>   |      | 771,327        | 0   | 0         | 771,327      | 0                 | 771,327  | 771,327     | 0                | 0      |
| Chapter 1                 |      |                |     |           | 0            |                   |          | 0           | 0                | 0      |
| Chapter 2                 |      |                |     |           | 0            |                   |          | 0           | 0                | 0      |
| Chapter 3                 |      |                |     |           | 0            |                   |          | 0           | 0                | 0      |
| <b>Total 2 years ago</b>  |      | 0              | 0   | 0         | 0            | 0                 | 0        | 0           | 0                | 0      |
| <b>TOTAL</b>              |      | 771,327        | 0   | 0         | 771,327      | 0                 | 771,327  | 771,327     | 0                | 0      |

This is the 2014 execution against the Carry Forward Commitments from the 2012 and 2013 BMD Budgets funded by the BC for the ITB O&M contract. As per statement all funds are expended and no new budgets will be approved anymore as BMD programme is also now customer funded as of 2014.

**D5. Notes on the Service Delivery Budget Execution Statements***For the year ended 31 December 2014**(all figures are in Euro)*

|                            | Note | Initial Budget | BA2 | Transfers | Final Budget | Net<br>Commitment | Expenses  | Total Spent | Carry<br>Forward | Lapsed    |
|----------------------------|------|----------------|-----|-----------|--------------|-------------------|-----------|-------------|------------------|-----------|
| <b>Budgets 872/874/875</b> |      |                |     |           |              |                   |           |             |                  |           |
| Chapter 1                  |      |                |     |           | 0            |                   |           | 0           | 0                | 0         |
| Chapter 2                  |      |                |     |           | 0            |                   |           | 0           | 0                | 0         |
| Chapter 3                  |      |                |     |           | 0            |                   |           | 0           | 0                | 0         |
| <b>Total current year</b>  |      | 0              | 0   | 0         | 0            | 0                 | 0         | 0           | 0                | 0         |
| Chapter 1                  |      | 2,035,732      |     |           | 2,035,732    | 399,540           | 1,439,086 | 1,838,626   | 399,540          | 197,106   |
| Chapter 2                  |      | 5,005,689      |     |           | 5,005,689    | 337,808           | 3,852,461 | 4,190,269   | 337,808          | 815,420   |
| Chapter 3                  |      | 445,731        |     |           | 445,731      | 39,764            | 405,577   | 445,341     | 39,764           | 390       |
| <b>Total prior year</b>    |      | 7,487,152      | 0   | 0         | 7,487,152    | 777,112           | 5,697,124 | 6,474,236   | 777,112          | 1,012,916 |
| Chapter 1                  |      | 147,313        |     |           | 147,313      |                   | (35,839)  | (35,839)    | 0                | 183,152   |
| Chapter 2                  |      | 175,512        |     |           | 175,512      |                   | (400,186) | (400,186)   | 0                | 575,698   |
| Chapter 3                  |      |                |     |           | 0            |                   |           | 0           | 0                | 0         |
| <b>Total 2 years ago</b>   |      | 322,825        | 0   | 0         | 322,825      | 0                 | (436,025) | (436,025)   | 0                | 758,850   |
| <b>TOTAL</b>               |      | 7,809,977      | 0   | 0         | 7,809,977    | 777,112           | 5,261,099 | 6,038,211   | 777,112          | 1,771,766 |

This is the 2014 execution statement for the Carry Forward Commitments from the 2012 and 2013 Service Delivery, NATO CIS School and NATO Programming Centre budgets funded from the BC. There will be a final carry forward into 2015.

**D6. Notes on the CIS Delegated Budget Execution Statements****Budgets 101/102/103/104/105/108/111/117/118/122/166/177/178/183/185/189/201/259/M01***For the year ended 31 December 2014**(all figures are in Euro)*

|                           | Note | Initial Budget | BA2 | Transfers | Final Budget | Net<br>Commitment | Expenses   | Total Spent | Carry<br>Forward | Lapsed  |
|---------------------------|------|----------------|-----|-----------|--------------|-------------------|------------|-------------|------------------|---------|
| <b>Budgets</b>            |      |                |     |           |              |                   |            |             |                  |         |
| Chapter 1                 |      |                |     |           | 0            |                   |            | 0           | 0                | 0       |
| Chapter 2                 |      |                |     |           | 0            |                   |            | 0           | 0                | 0       |
| Chapter 3                 |      |                |     |           | 0            |                   |            | 0           | 0                | 0       |
| <b>Total current year</b> |      | 0              | 0   | 0         | 0            | 0                 | 0          | 0           | 0                | 0       |
| Chapter 1                 |      | 968,994        |     |           | 968,994      | 395,997           | 571,356    | 967,353     | 395,997          | 1,641   |
| Chapter 2                 |      | 27,069,174     |     |           | 27,069,174   | 5,935,468         | 20,684,321 | 26,619,789  | 5,935,468        | 449,385 |
| Chapter 3                 |      | 459,311        |     |           | 459,311      | 215,971           | 240,194    | 456,165     | 215,971          | 3,146   |
| <b>Total prior year</b>   |      | 28,497,479     | 0   | 0         | 28,497,479   | 6,547,436         | 21,495,871 | 28,043,307  | 6,547,436        | 454,172 |
| Chapter 1                 |      | 107,793        |     |           | 107,793      | 1,905             | 25,844     | 27,749      | 1,905            | 80,044  |
| Chapter 2                 |      | 2,510,921      |     |           | 2,510,921    | 1,393             | 2,076,322  | 2,077,715   | 1,393            | 433,206 |
| Chapter 3                 |      |                |     |           | 0            |                   |            | 0           | 0                | 0       |
| <b>Total 2 years ago</b>  |      | 2,618,714      | 0   | 0         | 2,618,714    | 3,298             | 2,102,166  | 2,105,464   | 3,298            | 513,250 |
| <b>TOTAL</b>              |      | 31,116,193     | 0   | 0         | 31,116,193   | 6,550,734         | 23,598,037 | 30,148,771  | 6,550,734        | 967,422 |

The CIS Delegated Budget Execution Statement is the 2014 execution against the Carry Forward Commitments from the 2012 and 2013 Delegated CIS Budgets funded from the BC and for which NCIO was procurement agent in 2013. Prior to the implementation of customer funded SLA agreements the NATO Commands delegated part of their CIS budgets to NCIO. NCIO was procuring CIS goods and services on behalf and under direct authority of the budget holders in order to operate and maintain the NATO C3 Capabilities to sustain the required readiness standard. The 'Agent' relationship of NCIO regarding those prior 2014 'delegated Budget' agreements has not changed with the introduction of customer funding. There is a final carry forward into 2015.

**D7. Notes on the Reimbursables Budget Execution Statements***For the year ended 31 December 2014**(all figures are in Euro)*

|                           | Note | Initial Budget | BA2 | Transfers | Final Budget | Net<br>Commitment | Expenses | Total Spent | Carry<br>Forward |
|---------------------------|------|----------------|-----|-----------|--------------|-------------------|----------|-------------|------------------|
| <b>Budget</b>             |      |                |     |           |              |                   |          |             |                  |
| Chapter 1                 |      |                |     |           | 0            |                   |          | 0           | 0                |
| Chapter 2                 |      |                |     |           | 0            |                   |          | 0           | 0                |
| Chapter 3                 |      |                |     |           | 0            |                   |          | 0           | 0                |
| <b>Total current year</b> |      | 0              | 0   | 0         | 0            | 0                 | 0        | 0           | 0                |
| Chapter 1                 |      | 316,080        |     |           | 316,080      | 2,965             | 309,869  | 312,834     | 2,965            |
| Chapter 2                 |      | 695,426        |     |           | 695,426      | 46,328            | 166,378  | 212,706     | 46,328           |
| Chapter 3                 |      | 33,631         |     |           | 33,631       |                   | 33,631   | 33,631      | 0                |
| <b>Total prior year</b>   |      | 1,045,137      | 0   | 0         | 1,045,137    | 49,293            | 509,878  | 559,171     | 49,293           |
| Chapter 1                 |      | 47,017         |     |           | 47,017       | (9,682)           | 973      | (8,709)     | (9,682)          |
| Chapter 2                 |      | 1,455,226      |     |           | 1,455,226    | 800,378           | 19,668   | 820,046     | 800,378          |
| Chapter 3                 |      | 113,439        |     |           | 113,439      |                   | 11,400   | 11,400      | 0                |
| <b>Total 2 years ago</b>  |      | 1,615,682      | 0   | 0         | 1,615,682    | 790,696           | 32,041   | 822,737     | 790,696          |
| <b>TOTAL</b>              |      | 2,660,819      | 0   | 0         | 2,660,819    | 839,989           | 541,919  | 1,381,908   | 839,989          |

The Reimbursable Budget Execution Statement is the 2014 execution against the Carry Forward Commitments from the 2012 and 2013 agreements on a cost reimbursable basis for which NCIO was acting as a procurement agent for Third Parties. The 'Agent' relationship of NCIO regarding those prior 2014 procurement agent Third party activities has not changed with the introduction of customer funding. There is a final carry forward into 2015.



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NCIA/FC/2015/00598

27 April 2015

To: Mr. Jens Stoltenberg, Secretary General

Subject: **Statement of Internal Control - NATO Communications and Information Organisation Financial Statements for the period 1 January to 31 December 2014**

1. This statement of internal control applies to the NCI Organisation Financial Statements for the year ended 31 December 2014. The 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 Nations.
2. The NCI Agency system of internal control is based on an ongoing process designed to identify the principle risks to the achievement of NCI Organisation goals and objectives, to evaluate the nature and extent of those risks and to manage them efficiently and effectively. Common elements to the Agency's system of internal control are:
  - a. The General Manager acknowledges responsibility to maintain a sound system of internal control that supports the NCI Agency to ensure it achieves its mandate under its NATO Charter.
  - b. The Financial Controller acknowledges responsibility for the correct use of funds made available to the NCI Agency and for maintaining a sound system of internal controls.
  - c. The Head of Internal Audit submits to the Agency Supervisory Board Finance Committee regular reports on the adequacy and effectiveness of the agency's system of internal control together with recommendations for improvement.
3. Albeit largely customer funded as of 1 January 2014, the Agency's system of internal control for 2014 is still somewhat influenced by the persistence of different funding models and legacy financial systems:
  - 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 two legacy financial systems based on the accounting software from Oracle; the Centralized NATO Automated Financial System (CNAFS); and the Core Financial System (CFS), formerly PeopleSoft.

- b. Annual Income is planned during the development of Agency Financial Plan involving all senior and middle management. The planned income is discussed with potential sponsors and reported to the Agency Supervisory Board.
  - c. Through its Service Life Cycle Management Board, 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.
4. During 2014, including your audit report of the first consolidated NCI Organisation Financial Statements for the year ended 31 December 2013, no material instances of failure of the internal control system were reported that should be brought to your attention. Weaknesses on compliance have been identified regarding assets acquired which are being addressed in 2014-2015 and ultimately through the Enterprise Business Applications implementation in 2017. A number of actions are being taken, including but not limited to the process of Handover-Takeover of Communications and Information System assets from common funded customers and the review of the Asset Management functions and tools.
  5. To mitigate relevant risks and to ensure continuous improvement of or internal control system the Agency Internal Audit, under the direct authority of the General Manager, perform internal reviews of control and compliance.

  
Koen Gijsbers  
General Manager

Distribution:

External

Chairman Board of Auditors for NATO  
Chairman NCIO Agency Supervisory Board

Internal

Members Executive Management Board

NATO UNCLASSIFIED




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NCIA/FC/2015/00597  
30 April 2015

Subject: **Financial Controller's Certification -  
NATO Communications and Information Organisation Financial  
Statements for the period 01 January to 31 December 2014**

1. The 2014 Financial Statements for the NCI Organisation are submitted to the International Board of Auditors for NATO and the Agency Supervisory Board as required by the NATO Financial Regulations.
  2. The Financial Statements will be audited in accordance with the following reference documents:
    - a. NATO Financial Regulations and C-M(2004)0038 8 JUN 2004: the document approving the modified set of NATO Financial Regulations applicable to the NATO C3 Agency operating under an approved customer funding regime.
    - b. OCB(2004)0054-REV2 120 17 MAY 2004: the approval document for the Financial Rules and Procedures approved by the Military Budget Committee.
    - c. PO(2002)109, dated 23 July 2002: the document from the North Atlantic Council (NAC) adopting International Public Sector Accounting Standards (IPSAS), including the accrual and going concern assumptions, as the applicable accounting standards for all NATO entities effective for the fiscal year of 2006.
    - d. C-M(2013)0039, dated 2 August 2013, approving the NATO Accounting Framework, adapting a number of IPSAS standards specifically to NATO.
    - e. C-M(98)28 and Corrigendum 18 May 1998 noting the NAC approval 10 May 1998 of a report titled The Application of a Customer Funding Regime to the NATO C3 Agency.
    - f. C-M(2012)0049 Charter of the NATO Communications and Information Organisation (NCIO) dated 14 June 2012
  - g. C-M(2012)0057-AS1 Financial Continuity Measures under the NATO Agencies Reform dated 9 July 2012.
  - h. PO(2014)0836, 19 December 2014; NATO Communications & Information Agency Customer Funding Extended Interim Regulatory Framework;
  - i. PO(2013)0630, 20 December 2013; NATO Communications & Information Agency Customer Funding Interim Regulatory Framework;
  - j. AC/337-D(2013)0003-AS1, 25 November 2013; Approval of 2014 NCI Agency Financial Plan (by the Agency Supervisory Board);
  - k. OCB(2013)0027, 4 July 2013; Approval of 2014 NCI Agency Customer Rates (by the Budget Committee).
3. The NCI Organisation Financial Statements are certified to present fairly NCI Organisation financial position, financial performance, cash flows and changes in net assets/equity.

  
Anne-Marie M Pick  
Financial Controller

# ACRONYMS

|            |  |
|------------|--|
| ACO        | ALLIED COMMAND OPERATIONS                        |
| ACT        | ALLIED COMMAND TRANSFORMATION                    |
| AIR C2     | AIR COMMAND AND CONTROL                          |
| ASB        | AGENCY SUPERVISORY BOARD                         |
| ASB FC     | AGENCY SUPERVISORY BOARD FINANCE COMMITTEE       |
| BC         | BUDGET COMMITTEE                                 |
| BMD        | BALLISTIC MISSILE DEFENCE                        |
| CIS        | COMMUNICATION INFORMATION SYSTEMS                |
| CPR        | CIVILIAN PERSONNEL REGULATIONS                   |
| FRP        | FINANCIAL RULES AND PROCEDURES                   |
| GM         | GENERAL MANAGER                                  |
| HO/TO      | HANDOVER/TAKEOVER                                |
| IBAN       | INTERNATIONAL BOARD OF AUDIT FOR NATO            |
| IC         | INVESTMENT COMMITTEE                             |
| ICTM       | INFORMATION COMMUNICATIONS TECHNOLOGY MANAGEMENT |
| IMS        | INTERNATIONAL MILITARY STAFF                     |
| IS         | INTERNATIONAL STAFF                              |
| ISAF       | INTERNATIONAL SECURITY ASSISTANCE FORCE          |
| ISPAS      | INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS |
| MC         | MILITARY COMMITTEE                               |
| NAC        | NORTH ATLANTIC COUNCIL                           |
| NATO       | NORTH ATLANTIC TREATY ORGANISATION               |
| NCI Agency | NATO COMMUNICATIONS AND INFORMATION AGENCY       |
| NCIO       | NATO COMMUNICATIONS AND INFORMATION ORGANISATION |
| NFR        | NATO FINANCIAL REGULATIONS                       |
| NSIP       | NATO SECURITY INVESTMENT PROGRAMME               |
| PE         | PEACETIME ESTABLISHMENT/PERSONNEL ESTABLISHMENT  |
| QAFR       | QUARTERLY ACCOUNTING FINANCIAL REPORT            |
| RPPB       | RESOURCE POLICY AND PLANNING BOARD               |
| RS         | RESOLUTE SUPPORT                                 |
| SLA        | SERVICE LEVEL AGREEMENT                          |