

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

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Releasable to Montenegro

16 December 2016

**DOCUMENT**  
C-M(2016)0072-AS1 (INV)

## **IBAN AUDIT ON THE 2015 FINANCIAL STATEMENTS OF THE INTERNATIONAL MILITARY STAFF**

### **ACTION SHEET**

On 15 December 2016, under the silence procedure, the Council noted the IBAN report on the 2015 financial statements of the IMS attached to C-M(2016)0072 (INV) and agreed the RPPB recommendation regarding public disclosure.

(Signed) Rose E. Gottemoeller  
Deputy Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2016)0072 (INV).

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30 November 2016

**DOCUMENT**  
C-M(2016)0072 (INV)  
**Silence procedure ends:**  
**15 Dec 2016 18:00**

### **IBAN AUDIT ON THE 2015 FINANCIAL STATEMENTS OF THE INTERNATIONAL MILITARY STAFF**

1. I attach the International Board of Auditors for NATO (IBAN) report on the audit of the 2015 financial statements of the International Military Staff (IMS).
2. The IBAN report on the IMS sets out an unqualified opinion on the financial statements and an unqualified opinion on compliance.
3. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB) (see Annexes) which has concluded that the unqualified audit opinion on the 2015 financial statements of the IMS reflects the hard work to implement the range of measures approved by Council in recent years to improve financial and accounting regulations, governance, transparency and accountability.
4. I do not believe that this matter requires discussion in the Council. Consequently, **unless I hear to the contrary by 18:00 hours on Thursday, 15 December 2016**, I shall assume that the Council has noted the IBAN report on the 2015 financial statements of the IMS and agreed the RPPB recommendation regarding public disclosure.

(Signed) Rose E. Gottemoeller

4 Annexes  
1 Enclosure

Original: English

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C-M(2016)0072 (INV)

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**IBAN AUDIT ON THE 2015 FINANCIAL STATEMENTS OF THE INTERNATIONAL  
MILITARY STAFF**

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

References:

- a) IBA-A(2016)73 – IBAN report
- b) C-M(2015)0025 – NATO Financial Regulations (NFRs)
- c) IMSTAM(FC)-0048-2016
- d) PO(2015)0052 – Wales Summit tasker on transparency and accountability

**Introduction**

1. This report contains the RPPB's observations and recommendations on the IBAN audit of the 2015 financial statements of the IMS (reference a)).

**Discussion**

2. The Board is pleased to note that the IBAN have issued an unqualified opinion on the financial statements of the IMS and an unqualified opinion on compliance for the 2015 financial year.

3. The Board notes that the IBAN have observed some progress towards complying with the articles on internal control, risk management and internal audit contained in the revised NFRs (reference b)). The Board understands 2015 to be a transition year and recognises that more work needs to be done. While noting the formal comments raised by the IMS Financial Controller (FC), the Board tasks the IMS to make more progress towards full compliance with the NFRs specifically on risk management policy and on development of an internal control framework in the near future. The Board invites the Head of Financial Reporting Policy to encourage the sharing of best practice across NATO entities in this area.

4. The Board notes that the IMS have received support and assistance from NCIA on risk management and training has been provided to senior management by an outside consultant. The IMS acknowledge that more work needs to be done but given resource constraints, the IMS FC does not expect this work to be complete until 2018.

5. The Board notes the IBAN observations relating to representation allowance expenses and expects the IMS to tighten up the necessary processes to ensure proper compliance with the overarching Council approved rules and procedures for this allowance.

6. The Board notes the confirmation (reference c)) that there are no reasons why the 2015 financial statements of the IMS should be withheld from public disclosure.

## **Conclusions**

7. The Board is pleased with the unqualified audit opinion on the IMS financial statements which reflects the hard work by management and staff to implement the range of measures recommended by the Board and approved by Council in recent years to improve financial and accounting regulations, governance, transparency and accountability. The Board tasks the IMS to make more progress towards full compliance with the NFRs specifically on risk management policy and on development of an internal control framework, which should be completed by 2018.

8. The RPPB concludes that the subject IBAN report and the related financial statements by the IMS do not contain information which, according to the NATO Policy on Disclosure of NATO Information, should be withheld from public disclosure.

## **Recommendation**

9. The RPPB recommends that Council:

- a) note the IBAN report on the 2015 financial statements of the IMS together with this report by the Board;
- b) endorse the Board's conclusions at paragraphs 7-8;
- c) agree to the public disclosure of this report, the IBAN audit (reference a)) and the associated 2015 financial statements of the IMS, in line with the policy set out at reference d).

**Summary Note for the Council by the International Board of Auditors for NATO  
on the audit of the financial statements of the  
NATO International Military Staff (IMS),  
the NATO Standardisation Office (NSO),  
the IMS Budget Group – Partnership for Peace (PfP),  
the Mediterranean Dialogue (MD), the Istanbul Cooperation Initiative (ICI)  
and Other Military Cooperation (OMC)  
for the year ended 31 December 2015**

**Introduction**

The International Military Staff (IMS) is the executive body of the Military Committee (MC), NATO's senior military authority. The IMS is tasked with ensuring that the policies and decisions of the MC are implemented. The IMS also prepares plans, initiates studies and recommends policy on matters of a military nature.

The component parts of the IMS Financial Statements are:

- The NATO Standardisation Office (NSO): an independent NATO office composed of Military and Civilian staff headed by a Director. The mission of the NSO is to initiate, co-ordinate, and support and administer the standardisation activities conducted under the authority of the NATO Committee for Standardisation.
- The Partnership for Peace (PfP) Work Programme which operate under the framework of the NATO-wide Partnership for Peace program.
- The Mediterranean Dialogue (MD) which is intended to contribute to security and stability for the Alliance by developing a better mutual understanding and dispelling misconceptions.
- The Istanbul Cooperation Initiative (ICI) which was launched to offer cooperation in the broader Middle East region through practical cooperation and assistance in different areas, and specific activities.
- The Other Military Cooperation (OMC) activity reflects the evolving cooperation with Afghanistan, Pakistan and the African Union.

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

The total final authorisations of the IMS, NSO, PfP, MD, ICI and OMC for the year ended 31 December 2015 were EUR 24 million.

The Board issued an unqualified opinion of the 2015 financial statements and in compliance for the year ended 31 December 2015.

During the audit, the Board made 2 observations and provided recommendations. These findings are in the Letter of Observations and Recommendations (Annex 4).

The main findings are listed below:

1. Further steps are required towards full compliance with the revised NATO Financial Regulations on Internal Control, particularly those Articles on Internal Control, Risk Management and Internal Audit.
2. Some Representation allowance expenses were not supported by vouchers, and advance funding had been provided but repayment had not yet been sought.

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE**

**INTERNATIONAL MILITARY STAFF (IMS),  
THE NATO STANDARDISATION OFFICE (NSO),  
PARTNERSHIP FOR PEACE (PfP),  
THE MEDITERRANEAN DIALOGUE (MD),  
THE ISTANBUL COOPERATION INITIATIVE (ICI) AND  
OTHER MILITARY COOPERATION (OMC)**

**FOR THE YEAR ENDED 31 DECEMBER 2015**



**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 International Military Staff (IMS), incorporating the IMS, the NATO Standardisation Office (NSO), Partnership for Peace (PfP), the Mediterranean Dialogue (MD), the Istanbul Cooperation Initiative (ICI) and the Other Military Cooperation (OMC) which comprised the Statement of Financial Position as at 31 December 2015, and the Statement of Financial Performance, Statement of Changes in Net Assets and Cash Flow Statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies. The Board also audited the Statement of Budget Execution for the year ended 31 December 2015.

*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.

*Opinion on Financial Statements*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the International Military Staff (IMS), the NATO Standardisation Office (NSO), Partnership for Peace (PfP), the Mediterranean Dialogue (MD), the Istanbul Cooperation Initiative (ICI) and the Other Military Cooperation (OMC) as of 31 December 2015, and of its financial performance and its cash flows for the year then ended 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.

*Opinion on Compliance*

In our opinion, 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, 28 July 2016

Lyn Sachs  
Chairman

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**LETTER OF OBSERVATIONS AND RECOMMENDATIONS**

**FOR THE INTERNATIONAL MILITARY STAFF (IMS),  
THE NATO STANDARDISATION OFFICE (NSO),  
PARTNERSHIP FOR PEACE (PfP),  
THE MEDITERRANEAN DIALOGUE (MD),  
THE ISTANBUL COOPERATION INITIATIVE (ICI) AND  
OTHER MILITARY COOPERATION (OMC)**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

## **Introduction**

The International Board of Auditors for NATO (Board) audited the International Military Staff (IMS) Financial Statements (IMSTAM(FC)-0015-2016, dated 30 March 2016) for the year ended 31 December 2015, and issued an unqualified opinion on the financial statements and a unqualified opinion on compliance.

## **Observations and Recommendations**

During the audit, the Board identified two observations and provided recommendations.

They are summarised herein:

1. Further steps are required to achieve full compliance with the revised NATO Financial Regulations, particularly those Articles on Internal Control, Risk Management and Internal Audit.
2. Some Representation Allowance expenses were not supported by vouchers, and advance funding had been provided but repayment had not yet been sought.

There were no observations from the previous audit to follow up.

**1. FURTHER STEPS ARE REQUIRED TO ACHIEVE FULL COMPLIANCE WITH THE REVISED NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT**

**Reasoning**

1.1 The North Atlantic Council (Council) approved revised NATO Financial Regulations (NFRs) effective as from 4 May 2015. This was the first time in more than 30 years that the NFRs have been revised. While Article 36 of the revised NFRs states that *“the NFRs will take effect immediately (i.e. 4 May 2015)”*, Council also agreed that full implementation was only expected by the end of 2015. Furthermore, Article 4 of the revised NFRs states that *“the finance committee shall approve a set of Financial Rules and Procedures (FRPs) that provide additional guidance to ensure the effective implementation of the revised NFRs.”*

1.2 The revised NFRs are more explicit than the previous version in the areas of Risk Management (Article 11), Internal Control (Article 12), Internal Audit (Article 13) and the establishment of an Audit Advisory Panel (Article 16). They require the establishment of effective, efficient and economical risk management procedures, that there are necessary management functions in place to support effective internal control, and that NATO bodies have access to a permanent, adequately resourced, internal audit function that is compliant with internationally accepted Internal Auditing Standards. They also require the establishment of an Audit Advisory Panel. Furthermore, Article 3 requires, as a demonstration of responsibility and accountability, that both the annual Financial Statements and Statements of Internal Control be signed by both the NATO Head of Body and Financial Controller

1.3 These revised NFRs provide an opportunity for NATO bodies to solidify and codify their overall internal control framework, including risk management. They also provide internal audit functions, whether in-house or outsourced, with clear expectations that they must be in a position to fully evaluate the effectiveness and efficiency of operations and internal controls, including risk management. Finally, the Council will ensure that the detailed FRPs are consistent, to the maximum extent possible, across NATO.

**Observations**

1.4 The Board found that the IMS has made some progress, but more steps are still needed, to achieve full compliance with all of the revised NFRs. The Board refers to the IMS Statement of Internal Control, which states that 2015 was a transition year, and in 2016, the IMS would implement enhanced Internal Control and Risk Management arrangements.

1.5 This result, though, is not unexpected considering that the revised NFRs were only approved by Council in May 2015 and that the more detailed FRPs, which were

required by Article 4 of the revised NFRs, were not approved by the Budget Committee until the end of February 2016.

1.6 Due to the lack of detailed regulations throughout 2015, the Board considers 2015 to be a transition year. It has chosen to report on the progress against certain of these revised Articles of the NFRs, and to make recommendations against that progress. The compliance audit opinion will not be impacted in 2015 as a result of these observations. This will begin as from 2016, though.

1.7 The Board reports the status of the following areas:

Article 3 Responsibility and Accountability

1.7.1 The Board found that only the IMS Head of Body signed the Statement of Internal Control, and that only the IMS Financial Controller signed the financial statements.

Article 11 Risk Management

1.7.2 The Board found that the IMS has not yet developed a documented Risk Management policy or framework, and procedures. Such a policy is essential in order to ensure and to clearly demonstrate to others that efficient, effective and economic risk management procedures are in place and that risk management is aligned with the IMS's overall operational and financial objectives.

1.7.3 The Office of the Financial Controller (OFC) developed, with the help of the NATO Communications and Information Agency (NCIA) Internal Audit, a risk register that identifies risks relevant to its department (OFC) only. The risk register developed, identifies risks relevant to the financial department, stating the controls in place without setting risk tolerance limits nor suggesting actions in case the risk is realised. In addition, the Board found in 2015 there were no risk registers developed for any of the other Divisions within the IMS, or for the IMS overall.

Article 12 Internal Control

1.7.4 The Board found that the IMS has not yet adopted and complied with a specific Internal Control Framework. Also, no common NATO-wide Internal Control Framework has been chosen. Such a framework, with the appropriate supporting documentation and procedures, is essential in order to ensure and to clearly demonstrate to others that a complete system of internal financial and budgetary controls is in place.

1.7.5 The Board's audit of the IMS's 2015 financial statements did not reveal significant weaknesses in internal control. However, until a specific Internal Control Framework is adopted and supported via a systematic documentation of internal control procedures, the Board will not be in a position to state that there is a full system of internal control in place that is in accordance with Article 12 of the revised NFRs.

Article 13 Internal Audit

1.7.6 As allowed under Article 13, the IMS engaged NCIA Internal Audit to assess the appropriateness of procedures in place for two specific areas: 1.) Budget process: efficiency and effectiveness of operations performed by the OFC, and 2.) The OFC Risk Assessment, including the development of an OFC risk register and OFC Internal Audit Plan for 2015 – 2017.

1.7.7 The above efforts relating to the OFC are a good start. However, the Board found that internal audit activities were performed only for the OFC. As a result, it cannot yet be stated that the IMS has undertaken internal audit activities to fully evaluate, throughout the organisation, the risk exposures and the effectiveness of internal controls in managing risk within the governance, operations and information systems as required by Article 13.

Article 16 Audit Advisory Panel

1.7.8 The Board found that the IMS has not yet established an Audit Advisory Panel as required by Article 16.

**Recommendations**

1.8 The Board recommends that:

- a) The IMS prepare an entity-wide risk management policy and that risk registers are developed and employed throughout all of the IMS departments and operations. In the Board's opinion, this should be coordinated to ensure consistent treatment across NATO Bodies.
- b) The IMS develop a specific, internationally accepted, Internal Control Framework, and that there be a systematic and detailed documentation of internal control procedures supporting the framework. In the Board's opinion, this should be coordinated to ensure consistent treatment across NATO Bodies.
- c) The IMS, through outsourcing if considered to be more cost effective, ensure internal audit activities are evaluating risk management and internal control throughout the IMS, not just the OFC.
- d) The IMS establishes an Audit Advisory Panel.
- e) The IMS comply with Article 3 of the NFRs in that both the IMS Head of Body and Financial Controller sign both the Statement on Internal Control and the financial statements.

***Comment of the Financial Controller, International Military Staff***

***Response to recommendation para. 1.8 (a) on Risk Management (Article 11)***

*Partly Agreed.*

*The IMS does not agree that “the IMS has not yet developed a documented Risk Management policy”. An example of IMS Risk Management can be found in document MC 002/15. In this strategic level document, the IMS is tasked by the Nations to maintain, develop and coordinate a ‘NATO Military Authority Risk Assessment’ for consideration by Defence Ministers.*

*Nonetheless, in response to the new NFRs, the IMS is committed to prepare an entity-wide risk management policy including risk registers across all IMS Divisions. However, full compliance with the concerned Article 11 is a complex challenge, requiring time and most likely additional financial and manpower resources. Moreover, there are also issues of timing.*

*As explained to the IBAN during fieldwork, the Chicago Summit NATO Reform Agenda, initiated a review of the IMS by an independent external Advisory Team. A new (leaner) structure, reflecting evolving requirements of the Alliance, was approved by Council with (PO(2015)0367) 23<sup>rd</sup> June 2015.*

*Full implementation of the new structure, PE, and operational responsibilities will not be completed until well into 2017. For example, the revised working arrangements include co-location and integration of certain IMS elements with the IS in the New NATO HQ.*

*The years 2016 and 2017 should therefore be seen as a transition period. Any Risk Management initiatives at this time, are likely to be overtaken by events. Risk Management will be adopted when the IMS operations have reached a steady state.*

**Board's Position**

Document MC 002/15 is as aforementioned by IMS, a strategic level document, that states that the IMS is tasked by the Nations to maintain, develop and coordinate a ‘NATO Military Authority Risk Assessment’ for consideration by Defence Ministers. This document sets up NATO Military Authority Risk Assessment as one of the IMS missions. It cannot be considered as a Risk Management Policy, which should be a detailed document, that establishes processes for the management of risks (analysis, evaluation, response, monitoring, communication of risks), the risk appetite of the organization, the responsibilities of those involved in risk management.



***Response to recommendation para. 1.8 (b) on Internal Control Framework (Article 12)***

*Not agreed.*

*The NFRs do not contain a requirement for NATO bodies to adopt “an internationally accepted” Internal Control Framework. The IBAN recommendation is therefore extrajudicial.*

*Moreover, we do not accept the assertion (para. 1.7.5) that the IMS is operating without a “specific and documented Internal Control Framework”. As explained to the IBAN during fieldwork, the IMS Internal Control Framework consists of a number of elements: For example there are ten IMS Standard Operating Procedures, providing almost 1,000 pages of detailed rules and procedures on matters ranging from Crisis Management to Information Technology. Further, the NFRs and Financial Rules and Procedures (FRPs) themselves are fundamental Internal Control documents. The work of our internal and external auditors (the IBAN) is a further well documented pillar of Internal Control.*

*Finally, any potential involvement of the Head of Financial Reporting Policy in ensuring “a consistent treatment across NATO Bodies” on Internal Control is a matter for the NATO Office of Resources (NOR). We are of the opinion that IBAN should directly address such a request to the Director of the NOR. However, if the NOR were to launch an initiative on this matter, the IMS would offer its full cooperation.*

**Board's Position**

The Board reiterates its recommendation that the IMS should develop a specific, internationally accepted, Internal Control Framework. The Board's recommendation is based on its mandate coming from its Charter.

***Response to recommendation para. 1.8 (c) Internal Audit (Article 13)***

*Agreed.*

*When the revised IMS Risk Management procedures are in place, our Internal Audit Service providers will be invited to make an assessment. In the meantime, our Internal Audit providers will be encouraged examine non-financial operational matters.*

***Response to recommendation para. 1.8 (d) Audit Advisory Panel (Article 16)***

*Agreed.*

*On the 27<sup>th</sup> May, the Director General authorised the establishment of an IMS Audit Advisory Panel in accordance with Terms of Reference document IMS(FC)-0024-2016 dated 28<sup>th</sup> April 2016.*

***Response to recommendation para. 1.8 (e) Financial Statement Signatories (Article 3)***

*Agreed.*

*For the FY 2016 Statements, the Director General and the Financial Controller will each sign separately the relevant components of the Financial Statements.*

**2. SOME REPRESENTATION ALLOWANCE EXPENSES WERE NOT SUPPORTED BY VOUCHERS, AND ADVANCE FUNDING HAD BEEN PROVIDED BUT REPAYMENT HAD NOT YET BEEN SOUGHT**

**Reasoning**

2.1 In 2013, the North Atlantic Council (Council) with the PO(2013)0154 approved updated rules and procedures relating to the receipt and use of the Representation Allowances. In paragraph 1 of this document, it states *“As from 1 June 2013, management of the Representation Allowance, applicable to all recipients of the allowance without exceptions, will move from a situation where all recipients receive the 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.”*

2.2 In January 2015, the IMS Financial Controller issued detailed guidelines on the receipt and use of the Representation Allowance. According to these guidelines, the equivalent of three months of Representation Allowance will be advanced in early January of each year. Subsequent reimbursements will be made following periodic controls of eligibility of the expenses by the IMS OFC.

**Observations**

2.3 The Board found that the guidelines issued by the IMS in 2015 are not in line with PO(2013)0154 because advances are being provided to the recipients.

2.4 In addition, the Board found that EUR 971 of representation allowance expenses in the beginning of 2015 were not supported by receipt or vouchers. The OFC endeavoured to resolve the situation, but ultimately, did not receive the required receipts

and invoices by the beneficiary, who had left the organization. Unfortunately, the OFC had already provided advances to the beneficiary, so they were not in a position to withhold reimbursement as foreseen in PO(2013)0154. The OFC did not ask for repayment of these unsupported expenses from the beneficiary.

## **Recommendations**

2.5 The Board recommends that:

- a.) The IMS ensure their internal guidelines on Representation Allowance be consistent with PO(2013)0154 in that there are no advances given and Representation Allowance expenditures are reimbursed only after the presentation of documentation supporting entitlement.
- b.) The IMS request repayment of the unsupported expenses from the beneficiary.

### ***Comment of the Financial Controller, International Military Staff***

#### ***Response to recommendation para. 2.5 (a): Representation Allowance***

*Partly Agreed.*

*No advance payments are provided to the beneficiaries as suggested by the IBAN in para. 2.3. However, the IMS does operate an imprest accounting system for the support staff of three senior officials qualifying for Representation Allowance. The IMS OFC will discuss the implications of revising this imprest system with the officials involved.*

## **Board's Position**

According to PO (2013)0154 issued by the Secretary General, 'All beneficiaries of the Representation Allowance submit requests for reimbursement of expenses based on invoices, receipts or certifications'.

IMSTAM (FC)-077-2014, IMSTAM(FC)-0078-2014, IMSTAM(FC)-0078(2014) issued by the IMS Financial Controller on the representation allowance state that 'Some twenty-five per cent of the yearly allowance will be provided in early January 2015'.

Furthermore, the fact that one of the beneficiaries has left the organisation having expensed EUR 971 of the representation allowance in the beginning of 2015 without providing supporting receipts or vouchers proves the fact that the representation allowance is not provided after submitting requests on a reimbursable basis based on invoices as stated in PO(2013)0154.

***Response to recommendation para. 2.5 (b): Representation Allowance***

*Agreed.*

*The IMS will issue a collection voucher to the relevant authority.*

# **INTERNATIONAL MILITARY STAFF (IMS) FINANCIAL STATEMENTS 2015**

**Incorporating  
IMS (301), NSO (302), PfP (504), MD (508), ICI (514) and  
OMC (524)**



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## **STATEMENT ON INTERNAL CONTROL**

As the Director General, International Military Staff (IMS) and Head of the NATO Standardization Office (NSO), I have responsibility under Section III of the NATO Financial Regulations (NFRs), for maintaining a sound system of Risk Management and Internal Control in support of the aims and objectives of the IMS, as set by the North Atlantic Council and the Military Committee, whilst safeguarding funds and assets in compliance with the responsibilities assigned to me.

The system of Risk Management and Internal Control is designed to manage and reduce- rather than entirely eliminate - the risks of non-compliance with authorities or the failure to achieve the IMS objectives. It can therefore provide only a reasonable, but not absolute, assurance of effectiveness.

The system of Risk Management and Internal Control is based on an on-going process designed to identify the principal risks to non-compliance and the achievement of the IMS aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 December 2015 and up to the date of issue of these annual Financial Statements.

The system of internal control includes the following risk reduction elements:

- a) Senior Managers and Finance Officials regularly scrutinise operational and financial performance;
- b) In accordance with NATO Financial Regulations (NFRs) Article 11 (FRP XI) the Financial Controller is responsible to the Head of NATO Body for the management of financial risk and for the maintenance of financial risk management standards. No significant financial issues arose in 2015;
- c) Staff working throughout the IMS are suitably qualified and trained. This includes having a sound understanding of their responsibilities in accordance with IMS Standard Operating Procedures and NATO Financial Regulations;
- d) Administrative tasks are 'outsourced' to the NATO International Staff (IS) where practical. This is also a measure of efficiency as it avoids the duplication of services. The tasks of guarding the premises, operating and maintaining the facilities, arranging for utilities, and administering entitlements and processing payrolls for civilian personnel are carried out by the relevant services of the IS and I am relying, in the first instance, on the internal review of these services as conducted by the IS Financial Controller;

- e) Three times a year, interim Budgetary Execution Reports are presented to, and reviewed by, the Budget Committee; and
- f) On a periodic basis, Internal Audit Service providers are asked to perform audits on behalf of the IMS Financial Controller. Transactions and vouchers are routinely re-examined on a sample basis by the Deputy Financial Controller.

I also have responsibility for reviewing the effectiveness the system of Risk Management and Internal Control. My review is informed by the work of the IMS Senior Managers and Internal and External Auditors.

Internal audits during 2015 for both NATO and non-appropriated funds did not raise any particular matters for attention. The IBAN External Audit of the FY 2014 Financial Statements- undertaken in 2015 - resulted in an unqualified opinion, and did not require particular actions or Management intervention. IMS Senior Managers and Finance Officials provided on-going assurance throughout the year.

As a result, I am satisfied that the Internal Control system in operation at the IMS during the year were adequate and effective.

The revised NATO Financial Regulations as endorsed by the Nations (C-M(2015)0025) became effective part way through the year in May 2015. Moreover, in February 2016, revised Financial Rules and Procedures (FRPs) were approved by the Budget Committee (BC-D(2015)0260- REV1). The revised NFRs and FRPs provide for a new framework of Internal Control and Risk Management. As such, 2015 was a transitional year, and in 2016 the IMS will implement enhanced Internal Control and Risk Management arrangements.

Sir Christopher Harper  
Air Marshal  
Director General  
International Military Staff



## **INTRODUCTION BY THE FINANCIAL CONTROLLER (FC)**

1. The International Military Staff (IMS) is an international organisation created by the Ottawa Agreement and operating under the authority of the North Atlantic Council (NAC), and is domiciled in Belgium. The principal functions of the IMS are to support the Military Committee in its decision making process and to coordinate the implementation of its decisions.
2. The Financial Statements 2015 have been produced in accordance with the NATO Accounting Framework. This Accounting Framework is based on International Public Sector Accounting Standards (IPSAS), as adapted by NATO under C-M(2013)0039. The NATO Financial Regulations (NFRs) were amended by the Nations in May 2015 (C-M(2015)0025), and the associated Financial Rules and Procedures (FRPs) were approved by the Budget Committee in February 2016 (BC-D(2015)0260-REV1). The Financial Statements are presented in the improved common layout applying the RPPB Notice AC/335-N(205)0088 dated 11 December 2015.
3. The expenses were charged over six budgets covering the: IMS (Budget Code 301); NATO Standardisation Office (NSO, BC 302); Partnership for Peace (PfP, BC 504); Mediterranean Dialogue (MD, BC 508); Istanbul Cooperation Initiative (ICI, BC 514); and Other Military Cooperation (OMC, BC 524). The Statements also cover the NATO Iraq Trust Fund.
4. The Financial Statements reflect the financial position, the financial performance, the budget execution, the cash flow and the change in net assets for year. Notes disclose the significant variations and changes, following the materiality principle. The statements also take into account comments made by the IBAN during their audits of prior years.
5. The IMS Financial Controller is also the Financial Controller of the Science and Technology Organisation (STO) and the NATO Defence College (NDC). The IMS, STO and NDC are therefore related parties under a common Financial Controller.
6. In order to efficiently and effectively execute its budget the IMS has instructed the NDC and the STO to undertake certain outreach activities which are accounted for as Reimbursable Activities. Subject to the provisions of the applicable IPSAS, the revenue and expenditure made through the reimbursable budgets are fully accounted for in the IMS financial statements with corresponding entries in the separate NDC and STO financial statements.
7. As the NATO Accounting Framework is continuously evolving, compliance is a dynamic process that requires staff to keep updating their knowledge. Also it requires that the accounting tools are suitably maintained and, when appropriate, upgraded. An on-

going challenge is that NATO entities undertake financial reporting in a consistent way. Therefore the OFC, maintains a dialogue with the other NATO entities and plays a full part in the NATO Accounting Working Group and the Working Group of Financial Controllers. The IMS OFC remains committed to developing its Financial Reporting expertise and producing Financial Statements fully compliant with the applicable standards and instructions as issued by Nations. The OFC will also continue to work openly and constructively with the IBAN.

A handwritten signature in black ink, appearing to read 'P. Bontinck', with a stylized flourish above the name.

P. BONTINCK  
BELCV  
Financial Controller, IMS

**IMS**  
**STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015**  
(in euro)

		<u>2015</u>	<u>2014</u>
<b>ASSETS</b>			
<b>Current Assets</b>	Notes		
Cash and Cash Equivalents	3	12,735,660	14,230,541
Receivables	4	1,465,480	128,006
Prepayments	5	825,216	1,019,025
		<u>15,026,356</u>	<u>15,377,572</u>
<b>Non-current Assets</b>			
Property Plant and Equipment	6	112,110	132,923
Intangible assets	6	291,177	-
		<u>403,287</u>	<u>132,923</u>
<b>TOTAL ASSETS</b>		<u><b>15,429,643</b></u>	<u><b>15,510,496</b></u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Payables	7	2,085,854	2,253,399
Deferred revenue	8	12,940,503	13,124,174
		<u>15,026,356</u>	<u>15,377,572</u>
<b>Non-current Liabilities</b>			
Provisions	9	403,287	132,923
<b>TOTAL LIABILITIES</b>		<u><b>15,429,643</b></u>	<u><b>15,510,496</b></u>

**IMS**  
**STATEMENT OF FINANCIAL PERFORMANCE AS AT 31 DECEMBER 2015**  
(in euro)

		<u>2015</u>	<u>2014</u>
	Notes		
<b>Revenue</b>			
Revenue	10a	23,523,540	23,624,378
Financial Revenue	10b	11,597	20,968
Other revenue	10c	76,104	42,538
<b>Total Revenue</b>		<u>23,611,241</u>	<u>23,687,884</u>
 <b>Expenses</b>			
Personnel	11a	(18,344,201)	(18,229,714)
Contractual supplies and services	11b	(5,179,340)	(5,394,663)
Capital and investments budgeting	11c	-	-
Depreciation and amortization	11d	(76,104)	(42,538)
Finance costs	11e	(11,597)	(20,968)
<b>Total Expenses</b>		<u>(23,611,241)</u>	<u>(23,687,884)</u>
 <b>Surplus/(Deficit) for the period</b>	12	<u>0</u>	<u>0</u>

**IMS**  
**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2015**

	31/12/2015 Euro	31/12/2014 Euro
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<i>Surplus/Deficit</i>	-	-
<b>Non-cash movements</b>		
Depreciation	76,104	42,538
Increase /(decrease) in payables	(167,545)	(983,382)
Increase/ (decrease) in other current liabilities	(183,671)	(781,885)
Decrease/ (Increase) in receivables	(1,337,474)	37,734
(Gains)/losses on sale of property, plant and equipment	-	(3,713)
(Gains)/losses on transfer of property, plant and equipment	-	1,259,991
Decrease/ (Increase) in other current assets	193,809	(3,345)
Increase/ (decrease) in Long-Term provisions	270,364	(1,246,000)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>(1,148,413)</u>	<u>(1,678,063)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property plant and equipment	(346,468)	(61,315)
Proceeds from sale of property plant and equipment		8,500
Cash Advances	-	-
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<u>(346,468)</u>	<u>(52,815)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowings	-	-
Repayment of borrowings	-	-
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<u>-</u>	<u>-</u>
	31/12/15 Euro	31/12/14 Euro
Year-end cash on hand and balances with banks	12,735,660	14,230,541
Short term investments	-	-

**Notes to the Cash Flow Statement**

*Cash and Cash Equivalents*

Year-end cash equivalents consist of cash on hand and balances with banks.

*Property, Plant and Equipment*

During the period, payments of EUR 346,468 were made to purchase non current assets

**IMS**  
**STATEMENT OF CHANGES IN NET ASSETS/EQUITY FOR THE YEAR ENDED**  
**DECEMBER 31 2015**

	Capital assets	Reserves	Accumulated surplus/deficit	Total
<b>Balance at 31 December 2014</b>	-	-	-	-
Changes in accounting policy	-	-	-	-
<b>Restated balance</b>	-	-	-	-
Net gains/(losses) recognised directly in net assets/equity	-	-	-	-
Exchange difference on translating foreign operations	-	-	-	-
Gain on property revaluation	-	-	-	-
Surplus/(deficit) for the period	-	-	-	-
<b>Change in net assets/equity for the year ended 2015</b>	-	-	-	-
<b>Balance at 31 December 2015</b>	-	-	-	-

## NOTES

### Note 1: Significant Accounting Policies

#### *A. Basis of preparation*

The financial statements of the IMS have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS) and based on International Financial Reporting Standards (IFRS/IAS), as adopted by the North Atlantic Council (NAC) in 2002. In 2013, the NAC adopted an adaptation to IPSAS to better suit the specific requirements of the Alliance and an associated NATO accounting framework, applicable for financial reporting periods beginning on 1 January 2013.

The Financial Statements comply with the accounting requirements of the NATO Financial Regulations (NFRs) and the relevant entity directives and policies. In instances where there is a conflict between IPSAS and the NFRs this has been noted.

The Financial Statements have been prepared on a going-concern basis. An IMS Peacetime Establishment (PE) review is concluded and a revised structure MC0002/15(Final) together with the Initial Peacetime Establishment (ISPE) has been approved by the Council in June 2015 (PO(2015)0367-AS1). It is expected that the End State Peacetime Establishment (ESPE) will be approved by April 2016. The review did not change the core mission of the IMS – support to the Military Committee.

On 1 July 2014, as agreed by Defense Ministers, the functions and activities of the NATO Standardization Agency (NSO) were transferred, without change, into a single integrated NATO HQ staff element named the NATO Standardization Office (NSO). DG IMS is the Head of the NATO Body (HONB) and the Peacetime Establishment Authority (PEA). The NSO is financed from the Military budget under a distinct and separate budget (code 302). The NSO reports to the Military Committee (MC) and to the Committee for Standardization (CS). Organizational governance is exercised by the MC and domain governance exercised by the CS.

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

The Financial Statements cover the period from the 1st January to 31 December 2015.

#### *B. Accounting estimates and judgements*

In accordance with IPSAS and generally accepted accounting principles, the financial statements necessarily include amounts based on estimates and assumptions made by the management and based on historical experience as well as on the most reliable

information available. In exercising the judgements to make the estimates, a degree of caution was included in light of the principle of 'prudence' required by IPSAS in order not to overstate assets or revenue or understate liabilities or expenses.

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

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

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set in IPSAS 3. For the 2015 financial statements, the accounting policies have been applied consistently throughout the reporting period. The impacts of any other change to the entity accounting policy have been identified in the notes under the appropriate headings.

#### *D. Changes in pronouncements*

The following IPSAS are not relevant for the IMS Financial Statements 2015: IPSAS 26 - Impairment of Cash-Generating Assets, IPSAS 27 – Agriculture. The following IPSAS have no material effect on the financial statements: IPSAS 5, IPSAS 6, IPSAS 7, IPSAS 8, IPSAS 10, IPSAS 11, IPSAS 16, IPSAS 18, and IPSAS 32.

Five new IPSAS pronouncements were issued in 2015 covering: IPSAS 34 *Separate Financial Statements*; IPSAS 35 *Consolidated Financial Statements*; IPSAS 36 *Investments in Associates and Joint Ventures*; IPSAS 37 *Joint Arrangements*; and IPSAS 38 *Disclosure of Interests in Other Entities*.

The standards are effective for annual financial statements covering periods beginning on or after 1 January 2017. They have not been applied by the IMS in preparing the Financial Statements for 2015. The new standards are expected to have no material impact on the presentation of the Financial Statements.

#### *E. Foreign currency transactions*

The functional and reporting currency used throughout these Financial Statements is the Euro (€). Foreign currency transactions are accounted for at the NATO exchange rates prevailing on the date of the transactions. Monetary assets and liabilities at year-end which were denominated in foreign currencies were translated into Euro using the NATO rates of exchange that were applicable at 31 December 2015. Realised and unrealised gains and losses resulting from the settlement of such transactions and from the revaluation at the reporting dates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Financial Position and Performance. An assessment was made of all assets and liabilities in foreign currencies as of 31 December 2015. The amount of unrealised gains is negligible and deemed immaterial.

#### *F. Consolidation*



Consolidated financial statements include the financial results of the controlling entity and its controlled entities. When consolidation occurs inter-entity balances and transactions are eliminated. However, the IMS does not consolidate its financial statements. Although the bodies are linked by a common Financial Controller, the other IMS BG constituent bodies retain their operational independence.

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

#### *G. Services in Kind*

In these financial statements, services in kind are recognised neither as revenue nor as an asset.

#### *H. Financial instruments*

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

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

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

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

The maximum exposure as at 31 December 2015 is equal to the total amount of bank balances, short-term deposits, and receivables disclosed in the Statement of Financial Position. If receivables are considered uncollectible, they are adequately provided for. There is a very limited credit risk associated with the realization of these instruments.

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

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

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

*I. Leases*

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

All other leases are classified as operating leases.

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

*J. Assets – Current Asset*

The entity holds the following types of current assets.

*a. Cash and Cash Equivalents*

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

*b. Receivables*

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

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

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

*c. Inventories*

IPSAS 12 defines inventories, establishes measurement requirements under the historical costs system and establishes disclosure requirements. The IMS Budget Group assesses inventories under IPSAS 12 and the outcome of this assessment is that the value of the inventories is immaterial both in value and in terms of the nature of the items held. Consequently, all inventories are fully expensed on receipt. This is the same approach as FS2007 onwards but this policy is reviewed each year for changes in materiality.

*d. Prepayments*

This reflects prepayments given to suppliers and to other NATO entities.

*K. Non Current Assets*

In this category are included all assets invested for more than 12 months or receivable beyond 12 months from the closing date of the Financial Statements.

*a. Financial Assets*

Long term receivables from the nations for future payment of provisions are reported as a financial asset.

*b. Property, plant and equipment.*

Basic Principles:

- All property, plant and equipment is stated at historical cost less accumulated depreciation and any recognized impairment loss;
- No external evaluator to set values for assets;
- The capitalization threshold has been set at € 5,000 per item unless specifically stated otherwise;
- No grouping of assets;
- Depreciation is calculated on a straight-line basis; however the depreciable life of an asset is dependent on the particular category it is in.
- Full depreciation in the month of acquisition, and nil in the month of disposal.
- As an accounting principle, land cannot be depreciated.

For assets acquired on or after 1 January 2013 the NATO Accounting Framework as stated in C-M (2013)0039 is applied. For legacy assets the policy that was in force up to and including 31 December 2012 is applied.

The major differences are summarised in the following table:

	<b>Before 31<sup>st</sup> December 2012</b>	<b>After 1<sup>st</sup> of January 2013</b>
Recognition Criteria	IPSAS	IPSAS as adapted by C-M (2013)0039
Useful Life	As in C-M (2013)0039, except for vehicles (7 years), Communications and CIS (4 years), Networks (10 years)	As in C-M (2013)0039
Thresholds	€5,000 per item except for land and buildings (€100,000)	€5,000 per item except for land and buildings (€200,000)

*c. Impairment*

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

*d. Intangible Assets.*

No intangibles assets met the IPSAS 31 criteria for capitalisation prior to 31 December 2012. Since January 2013, the NATO Accounting Framework C-M (2013)0039 has been

applied, with the main difference being the recognition criteria. Based on the nature of the IMS business, the only intangible assets are in the software category. It has been determined that the useful life of such software is 4 years and that they are amortized on a straight line basis.

*L. Current liabilities*

*a. Payables*

Payables are amounts due to third parties based on goods received or services provided unpaid. This includes an estimate of accrued obligation to third parties for goods and services received but not yet invoiced.

*b. Deferred revenue and Advances.*

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

*c. Employee Benefits – Post Employment benefits*

IPSAS 25 prescribes the accounting treatment of the following employee benefits:

- Short-term benefits which fall due wholly within twelve months after the end of the accounting period in which employees render the related service;
- Post-employment benefits;
- Termination benefits.

Defined Contribution plans

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

Defined Benefit plan

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

Continued Medical Coverage

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

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

*M. Non-Current Liabilities*

a. Provisions – Long term Provisions for Non-Current Assets

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

They are derived from the recognition of the non-current assets' present net value to be spent in the form of depreciation/amortization which is not due for at least one fiscal year and perhaps will not be settled until many years in the future.

b. *Contingent Liabilities*

A contingent liability is 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 in the control of the entity. A contingent liability is not recognised as a liability because it is yet to be confirmed whether there is a present obligation that could lead to a possible outflow of resources or a sufficiently reliable estimate of the obligation cannot be made.

*N. Net Assets*

Net assets represent the residual interest in the assets of the entity after deducting its liabilities.

*O. Revenue and expense recognition*

a. *Revenue*

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. Contributions when called are booked as unearned revenue and subsequently recognized as revenue when it is earned.

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

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

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

Bank interests earned and accrued as of 31 December 2015, exchange rate revenue due to transactions in foreign currency and realized exchange rate revenue in accordance with the entity Policy IPSAS 4 - Effect of the foreign exchange rate - are recognized as financial revenue.

*b. Expenses*

Budgetary expenses are recognized when occurred. Accruing of expenses is based on the concept of accruing when goods and services are received. Bank charges, exchange rate losses due to transactions in foreign currency and realized exchange rate losses are recognized as financial expenses.

Bank charges, exchange rate losses due to transaction in foreign currency and realized exchange rate losses in accordance with IPSAS 4 – Effect of the foreign exchange rate are recognized as financial expenses.

*P. Surplus or Deficit for the Period*

In accordance with IMS Budget Group accounting policies revenue is recognized up to the amount of the matching expenses.

*Q. Trust Funds*

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

*R. Other Issues – Related Party Disclosures*

A formal process is followed to verify the existence or not of any related party relationships. All key personnel have to make a written declaration. Any such relationships have to be fully disclosed in the notes to the Financial Statements.

Note 2: Accounting Judgements and Estimates

In accordance with Generally Accepted Accounting Principles, the Financial Statements necessarily include amounts based on estimates and assumptions made by the management and based on historical experience as well as on the most reliable information available. In exercising the judgments to make the estimates, a degree of caution was included in light of the principle of 'prudence' required by IPSAS in order not to overstate assets or revenue or understate liabilities or expenses. The estimates and underlying assumptions are reviewed on an ongoing basis. These estimates and assumptions affect the amounts of assets, liabilities, revenues and expenses reported. By their nature, these estimates are subject to measurement uncertainty. The effect of

changes to such estimates and assumptions in future periods could be significant to the financial statements.

### **Notes to the Statement of Financial Position**

#### **Note 3 : Cash and Cash Equivalents**

	31-Dec-15	31-Dec-14
Petty Cash and Advances		
Petty Cash	1,200	1,200
Advances	25,000	25,000
<b>Total Petty Cash and Advances</b>	<b>26,200</b>	<b>26,200</b>
Current Bank Accounts IMS	3,544,935	10,264,864
Current Bank Accounts NATO Iraq Trust	1,707,536	2,004,282
Cash Equivalents	7,456,990	1,935,196
<b>Total Cash and Cash Equivalents</b>	<b>12,735,660</b>	<b>14,230,541</b>

a. Petty Cash holdings are small amounts of cash kept in the International Military Staff (IMS) - € 700 and the NATO Standardization Office (NSO) - € 500 to pay for small expenses. The IMS has delegated some expenses to the office in Moscow (MLM) - € 25,000. Regularly the advance account holders report on their use of funds.

b. Current Bank Accounts are held in euros. Deposits are partly held in interest-bearing current bank accounts in immediately available funds. The accounts reflect the situation on the bank statements.

c. Cash Equivalents are held in euros and is the money invested on a short term deposit or business account. For cash and cash equivalents, there are restrictions on their use. The increase is explained by routine allocation of funds between current bank accounts and interest bearing accounts based on the calls for contributions and the forecasted cash needs of the IMS.

d. The average cash holdings of the IMS were equivalent to 7 months expenditure in FY 2015. Average cash holdings are largely determined by the timing of the receipt of national contributions. Calls are issued simultaneously for the budgets of all NATO Bodies. Typically 25% of funds are received in advance of the year, with the remaining 75% in March or April of the current year. Given that IMS monthly payments tend to be consistent, the average level of cash holdings at the IMS will remain at similar levels each year, subject to the profile and timing of national contributions. For example in 2015 the first call was received relatively yearly in February, which resulted in an increase of the average cash holdings for the year.

Note 4 : Receivables

	31-Dec-15	31-Dec-14
Receivables Budget Increases		
Transfers from OMC	21,760	80,000
Transfer from MD	78,240	0
Transfer from OCS	40,000	0
<b>Total Receivables Budget Increases</b>	<b>140,000</b>	<b>80,000</b>
Receivables from Non-Consolidated NATO Entities		
Receivable from CSO	1,100,000	0
<b>Total Receivables from Non-Consolidated NATO Entities</b>	<b>1,100,000</b>	<b>0</b>
Other Receivables/Recoverables		
Receivables from Staff Members	158	815
VAT Receivable	0	933
Accrued Revenue	8,130	42,834
Receivables from Third Parties	217,192	3,424
<b>Total Other Receivables/Recoverables</b>	<b>225,480</b>	<b>48,006</b>
<b>Total Receivables</b>	<b>1,465,480</b>	<b>128,006</b>

a. Receivables Budget Increases

Due to the unpredictable political situation in some partner countries some funds became available in the outreach budgets. The OCS contribution to NATO IS HQ administrative and operating costs, and to maintenance and repairs, was lower than originally indicated. These amounts were used in support of unfunded IMS POW requirements.

b. Receivables from Non-Consolidated NATO Entities

The amount is a temporary cash loan to the CSO due to delays in the Second Call for Contributions.

c. Other Receivables

Receivables from Staff Members include the private use of telephones for several staff members.

VAT receivable relates to VAT refunds due from national tax offices. There were no such receipts in 2015.

Accrued revenue consists of bank interest that is earned in 2015, but for which the cash is received in 2016. The decrease is explained by the lower interest rates and the reduced amount of cash.



Most of the receivables from third parties are covered by an invoice on the NATO Iraq trust fund for container services reimbursed to the Fund. The remainder includes several small invoices for procurement and services on behalf of third parties.

Note 5 : Prepayments and Miscellaneous Assets

	31-Dec-15	31-Dec-14
Non-Assigned Expenditures	135,359	111,653
Advances and Prepayments to suppliers	689,857	907,372
<b>Total Prepayments and Miscellaneous Assets</b>	<b>825,216</b>	<b>1,019,025</b>

a. The account "Non-Assigned Expenditures" is used for temporary posting of expenditures, which cannot be assigned yet to the appropriate expenditure account because they belong to the next fiscal year. The most significant element is the instalments for education allowances that staff members have asked to cover the entire school year 2015-2016 (€ 126,853). The remainder includes airplane tickets for missions starting in 2016 as well as vehicle insurance for the same year.

b. Advances and Prepayments are mainly in respect of advance payments made to suppliers and other entities. The Advance Funds Request for NAMS/NSPA Software licenses (€ 230,110) has been repaid to the IMS in 2015 and hence the decrease. The account includes the contractually agreed Working capital deposit at the NCIA for the IMS POW (€ 663,000). These advances are yearly reviewed and adjusted according to the expected requirements for the year. The remainder is advances to MLM Moscow (€ 18,357) and advances for representation (€ 8,500).

Note 6: Non-Current Assets

As of 1<sup>st</sup> of January 2013 an IPSAS adaption is applicable according to C-M (2013)0039. This policy was applied for the Non-Current Assets acquired in 2015. The policy that was in place up to and including 31 December 2012 applies for property plant and equipment acquired prior to 2013.

Opening balances have been calculated as of 1 January 2015 and all subsequent changes to arrive at the closing balance are disclosed below:

	Furniture	Transport Equipment	Installed Equipment	Software	Totals
Opening Balance	-	128,308	4,615	-	132,923
Additions	-	22,518	-	323,950	346,468
Disposals	-	-	-	-	-
Depreciation	-	42,551	780	32,773	76,104
<b>Closing Balance</b>	<b>-</b>	<b>108,275</b>	<b>3,835</b>	<b>291,177</b>	<b>403,287</b>
Gross Carrying Amount	9,193	321,158	7,800	323,950	662,100
Accumulated Depreciation	9,193	212,883	3,965	32,773	258,813
<b>Net Carrying Amount</b>	<b>-</b>	<b>108,275</b>	<b>3,835</b>	<b>291,177</b>	<b>403,287</b>

- a. The assets included under the furniture category are used for storing servers and other similar items.
- b. Transport equipment includes the staff motor vehicles of the IMS and the NSO. One new vehicles was recognized in 2015.
- c. Installed equipment includes a machine that is used for binding in the IMS Registry Services.
- d. Software includes bespoke assets for the requirements of the NHQC3S. Three software packages were recognized in 2015.

More details are included in Annex 1.

#### Note 7: Payables

	31-Dec-15	31-Dec-14
Payables to Suppliers	58,243	159,068
Accruals	2,025,198	2,066,019
<b>Total Payable to Suppliers</b>	<b>2,083,440</b>	<b>2,225,086</b>
Payables to Staff Members	1,023	684
Other Payables	1,390	27,628
<b>Total Other Payables</b>	<b>2,413</b>	<b>28,312</b>
<b>Total Payables</b>	<b>2,085,854</b>	<b>2,253,399</b>

- a. Payables to suppliers includes routine invoices that due to year end operating procedures are paid in 2016. The accruals have been split over two accounts. Account 231900 (€1,990,559) is the default AP accrual account used in the accounting system. The main components of the accruals are the IMS POW, the NCIA SLA and outreach activities.

The assessed accruals have been charged to account 231950 (€34,634) in order to make the distinction at month end reconciliation between the sub ledger and general ledger. They include mostly education allowance and overtime for the IMS and NSO staff members.

- b. Other Payables

Payables to Staff Members include insurance for interns and temporary staff approved but not paid out due to close of the year.

Other payables includes 3 small training invoices.

Note 8: Deferred Revenue and Advance Contributions

	31-Dec-15	31-Dec-14
Deferred Revenue		
Deferred Revenue (See also Note 10)	4,243,780	4,238,530
Deferred Revenue Trust Funds	1,906,279	2,009,352
Advanced Contributions for next FY	6,100,000	6,000,000
<b>Total Deferred Revenue</b>	<b>12,250,059</b>	<b>12,247,882</b>
Liabilities from Lapses	<b>90,540</b>	<b>628,050</b>
Liabilities from Operational Results	<b>86,959</b>	<b>41,222</b>
Liabilities from Financial Results	<b>29,901</b>	<b>43,058</b>
Liabilities from Budget Decreases		
Transfers IMS to ACO	257,834	
Transfers PFP to ACO	22,582	
Transfers MD to ACO	44,080	
Transfers ICI to ACO	29,848	
Transfers OMC to ACO	28,701	
Transfer MD to IMS	78,240	
Transfers OMC to IMS	21,760	
<b>Total Liabilities from Budget Decreases</b>	<b>483,045</b>	<b>163,961</b>
<b>Total Deferred Revenue and Advance Contributions</b>	<b>12,940,503</b>	<b>13,124,174</b>

a. Deferred Revenue consists of contributions received or receivable, but for which corresponding expenses will be incurred after the reporting date. It is accounted for by type, budget and year in accordance with the IMS Budget Group policy. Deferred Revenue is equal to the carryforward and more detail can be found in the Budget Execution Statement.

The deferred revenue for trust funds is the corresponding liability for the cash received by nations to fund the NATO-Iraq Trust Fund. It also includes the accrued bank interest and a reimbursement for services rendered by the TF to Iraq. See also Annex 2.

The Advanced Contributions are called for FY 2016 and represent 25% of the provisional BA1 for 2016.

b. The Liabilities from Lapses are the unspent balances at year end. The detailed information can be found on the budget execution statement.

c. The Liabilities from Operational Results include the miscellaneous income (€ 56,144), which is mostly related to the reimbursement of the IS share of the NHQC3S costs.

Additionally the accrual write-off (€ 30,815) i.e. where the invoice turned out to be lower than the estimated accrual amount, has been posted here. In accordance with IMS Budget Group policy the amount is shown separately for reason of clarity. It is accounted for by type, cost share, budget and year. All listed accrual write-off are related to FY 2015.

d. The Liabilities from Financial Results are, after offsetting the expenses such as bank charges/realised losses, the net amount of bank interest received and realized gains generated during 2015. In accordance with IMS Budget Group policy the amount is shown separately for reason of clarity. The decrease in interest reflects lower market interest rates than in 2014. Details are provided in the following table.

Financial Revenue (1)	41,498
Financial Expenses (2)	11,597
<b>Total to be returned to Nations (1) – (2)</b>	<b><u>29,901</u></b>

e. The Liabilities from Budget Decreases are the transfers out of the budget authorizations and not taken into account in the 2<sup>nd</sup> Call for Contribution 2015, i.e. after BA3. It is explained by the postponement of O&M expenditures due to the move to the new NATO HQ and the variability of expense patterns on outreach activities and travel.

#### Note 9: Non – Current Liabilities

Represents the Net Carrying amount of PP&E and Intangible Assets as of 31st December 2015. Similarly to the Current Deferred revenue it is owed to Nations, because the corresponding expenses have not been incurred yet. The liability is decreased with the annual depreciation/amortization and increased with any new acquisitions. A summary is provided below.

	Furniture	Transport Equipment	Installed Equipment	Software	Totals
Gross Carrying Amount	9,193	321,158	7,800	323,950	662,100
Accumulated Depreciation	9,193	212,883	3,965	32,773	258,813
<b>Net Carrying Amount</b>	<b>-</b>	<b>108,275</b>	<b>3,835</b>	<b>291,177</b>	<b>403,287</b>

#### Notes to the Statement of Financial Performance

#### Note 10: Revenue

	31-Dec-15	31-Dec-14
Revenue from Contributions	23,523,540	23,624,378
Financial Revenue	11,597	20,968
Revenue for Depreciation	76,104	42,538
<b>Total Revenue (See also Note 10)</b>	<b>23,611,241</b>	<b>23,687,884</b>

a. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. Contributions when called are booked as an advance under deferred revenue and subsequently recognised as revenue when it is earned. All revenue is recognised as revenue from exchange transactions and is matched with the incurred expenses against the International Military Staff Budget (301), NATO Standardisation Office Budget (302), Partnership for Peace

Budget (504), Mediterranean Dialogue Budget (508), the Istanbul Cooperation Initiative Budget (514) and the Other Military Cooperation Budget (524).

b. Financial revenue is recognized only to the amount of finance costs. (See also Note 8d.)

c. Revenue for depreciation/amortization is matched with the depreciation/amortization expense for the year and accounted for as a reduction in Provisions for Non-Current Assets.

### Reconciliation between Budget Revenue and Deferred Revenue.

The table below explains to what extent the deferred revenue from previous years and the net calls made in 2015 for the annual budgets are recognized as budget operating revenue in the fiscal year. The remaining balance is deferred revenue for the funds that are carried forward to future years, payables for the annual budgets credits that are lapsed, payables for budget decreases and receivables for budget increases.

	31-Dec-15	31-Dec-14
<b>Deferred revenue opening balance</b>		<b>4,238,530</b>
Contributions called for 2015		
Call 1 FC(CC)(2015)0012(MB-01) - GERMANY	18,231,630	
Call 2 FC(CC)(2015)0012(MB-02) - GERMANY	6,077,212	
Total Contributions Called	<b>24,308,842</b>	
Budget expenses in 2015	<b>(23,870,008)</b>	
Lapses	<b>(90,540)</b>	
Budget increases	<b>140,000</b>	
Budget decreases	<b>(483,045)</b>	
<b>Deferred revenue Closing Balance</b>	<b>4,243,780</b>	

### Note 11: Expenses

	31-Dec-15	31-Dec-14
Personnel	18,344,201	18,229,714
Contractual Supplies and Services	5,179,340	5,394,663
Capital and Investments	0	0
Depreciation and Amortization	76,104	42,538
Finance Cost	11,597	20,968
<b>Total Expenses</b>	<b>23,611,241</b>	<b>23,687,884</b>

a. All civilian and military personnel expenses (Chapter 1) as well as other non-salary related expenses, in support of common funded activities. The expenses are further broken down in the following table:

	31-Dec-15	31-Dec-14
Employee Benefits	9,228,061	8,827,879
IMS POW	4,423,098	4,236,741
Admin Bill	3,824,921	3,831,602
Consultants and Contractors	164,518	549,838
MOUS	254,660	310,069
Outreach	278,055	251,983
Recruitment and Separation	32,118	95,878
Training	90,620	84,084
Other Costs	48,150	41,640
<b>Total Expenses</b>	<b>18,344,201</b>	<b>18,229,714</b>

The slight increase in personnel expenses is explained by an increase in salaries in 2015 as well as a higher than expected lapse factor, partially offset by decrease in the cost of consultants and contractors, which are of non-recurrent nature. Furthermore in 2015 € 323,950 on the IMS POW have been capitalized, compared to 2014 when no POW expenses met the capitalization criteria.

b. Contractual Supplies and Services (Chapter 2) are expenses required for administrative support to the Military Committee. Includes expenses for general administrative overheads, and the maintenance costs of buildings/grounds, communications and information systems, transportation, travel expenses, representation/hospitality and miscellaneous expenses. The expenses are further broken down in the following table:

	31-Dec-15	31-Dec-14
CIS	2,059,519	2,102,698
Outreach	1,502,055	1,493,373
Utilities,Maintenance and Furniture	798,767	917,209
Travel and Hospitality	614,394	553,530
Rent/Lease	62,867	158,156
Office Supplies and Reference		
Materials	87,964	112,812
Services	53,774	56,886
<b>Total Expenses</b>	<b>5,179,340</b>	<b>5,394,663</b>

The expenses have decreased due to postponement of O&M expenditures because of the move to the new NATO HQ. This has been partially compensated by Outreach activities and travel.

Contractual Supplies and Services (Chapter 2) include operating leases recognised as an expense on a straight-line basis over the lease term. The IMS has four contracts classified as operating leases as they do not transfer substantially all the risks and rewards incidental to ownership. The classification has been based on the fact that the ownership is not transferred by the end of the lease term, the lease term is not for the majority of the item's estimated economic life and the leases do not contain a bargain purchase option. This approach is reviewed every year.

The following rental/lease contracts are included in Chapter 2 expenses:

- Contracts IMS 2013-003/004/005 for copiers for a period of 3 years with a yearly cost of 60,265 EUR; and
- Contract IMS 2012-004 for an armored vehicle signed January 2013 for a period of 3 years, with a yearly cost of 54,000 EUR;

c. Capital and Investments expenditures on the statement of financial performance are items with a value above EUR 5,000 but which do not meet the control recognition criteria for assets as stated in C-M(2013)0039. There were no such items in 2015.

d. The depreciation/amortization for 2015 calculated on a straight line basis and summarized below:

	Furniture	Transport Equipment	Installed Equipment	Software	<b>Totals</b>
Depr/Amort 2015	-	42,551	780	32,773	<b>76,104</b>
Depr/Amort 2014	153	41,605	780	-	<b>42,538</b>

e. Finance costs include bank charges of and realized exchange rate losses of They are matched to financial revenue. (See also note 8d.)

#### Note 12: Surplus or deficit for the Period

In accordance with the IMS accounting policies revenue is recognized up to the amount of the matching expenses and therefore the result is zero, i.e. no surplus or deficit.

#### Note 13: Related Parties

The key management personnel includes: the DG IMS, Directors, and Heads of Independent Offices. They are all rotated, typically every three years, and with the exception of the Financial Controller, have only management oversight of routine operating and maintenance activities. The detailed work related to these tasks tends to be undertaken by staff officers. The IMS Financial Controller is also the Financial Controller of the Science and Technology Organisation (STO) and the NATO Defence College (NDC). The IMS, STO and NDC are therefore related parties under a common Financial Controller.

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

A specific statement on disclosure of Related Parties is signed by the key Management Personnel and retained for auditing purposes.

For areas such as recruitment and procurement any potential risks are mitigated as follows:

- the appropriate staffs, drawing on their professional competence, lead on carrying out the related day-to-day tasks rather than key personnel;
- there is segregation of duties eg. requirements definition is separate from the procurement and contracting function, and also a number internal actors are involved in staffing an issue for key personnel decision(s);
- maximum use is made of competition including advertising via the NATO website;
- documentation trails are maintained for all decisions and there are compliance checks against the relevant NATO regulations;
- On a periodic basis, Internal Audit Service providers are asked to perform audits on behalf of the IMS.

Note 14: Employee disclosure

### Peacetime Establishment (PE)

	Total Approved PE - IMS	Filled Positions - IMS	Total Approved PE - NSO	Filled Positions - NSO
Civilians (MBC)	85	78	18	16
Military	328	286	27	23
Voluntary National Contribution (VNC)	20	20	0	0
National Manpower Overage (NMO)	28	28	0	0
Host Nation	67	56	0	0
PFP	7	5	2	1
Local Wage Rate (LWR)	1	1	0	0

The Total Approved PE figures are based on document MC 0500/2 Final. Filled Positions are extracted from the relevant IMS and NSO HR records.

### Employee Benefits

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

The compensation consists of basic salary, various allowances, health insurance, pension plan and other benefits as agreed with each Host Nation and the Protocols of NATO. Cash compensations are exempt from income tax in accordance with NATO Nations agreement.

Certain employees participate in the Provident Fund or the Defined Contribution Pension Scheme (DCPS) administered by NATO. Contributions to these Plans are limited to matching the employees' contributions for current service. Other employees participate in NATO's Defined Pension Scheme; a portion of their salaries is deducted and contributed to the annual financing of this Plan. These contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the entity. The assets and liabilities for the NATO's Defined Benefit Pension Scheme and the RMCF are accounted for centrally at NATO Headquarters by the International Staff and therefore



are not recognised in these financial statements. Employee Benefits are summarised in the following table.

	31-Dec-15	31-Dec-14
Employee Benefits	8,898,749.62	8,530,753.76
Providend Fund	2,975.35	8,776.80
DCPS	326,335.88	288,348.83
<b>Total Expenses</b>	<b>9,228,061</b>	<b>8,827,879</b>

### Untaken Leave

The Balance of untaken leave at 31.12.2015 is 10 days for NSO and 200 days for IMS. There are management procedures in place in the IMS and NSO, ensuring that all leave is taken before 30<sup>th</sup> April the following year. Only in exceptional circumstances the outstanding balance is allowed to be carried forward; however it is forfeited if not taken by 31<sup>st</sup> of October. Normally at final departure there is no compensation for leave not taken, unless it has not been possible to take the leave entitlement due to supporting a Council approved operation/mission, or an extended period of sick leave. However that compensation does not exceed 15 days for the first 5 years of service, increased by one additional day for each year of service thereafter up to a maximum of 30 days. Measures are also taken to ensure that all staff takes their leave before their date of departure. The efficiency of these measures was proven in 2015, when no leave was paid at final departure.

Untaken leave is not recognized as a liability or expense for several reasons. The amount is immaterial. The probability that employees may leave before they use an accumulated leave entitlement is considered to be very low. Because of that the normal expectation is that untaken leave will not be paid and therefore it is not possible to reliably measure the expected cost.

### Note 15 Representation Allowance

Representation Allowance is available to certain designated NATO high officials whose position entails responsibility for maintaining relationships of value to NATO. Representation Allowance can be used to complement national funds and is made available to support social events and catering. In 2015 three senior IMS officials received Representation Allowances totalling EUR 26,785.

### Note 16 Write Off

In accordance with the NATO Financial Regulations (Art. 17), a statement of write-offs performed in 2015 is presented in the following table.

Quantity	Description	Year of purchase	NBV, EUR	Reason for write-off	Disposition
29	Workstations	2008-2011	-	Non repairable	Destroyed
22	Monitors	2008-2011	-	Non repairable	Destroyed
2	Servers	2008-2011	-	Non repairable	Destroyed
257	Furniture and Office Equipment	1990-2012	2,531	Non repairable	Destroyed

All property write-off transactions were within the authority of the IMS Financial Controller.

#### Note 17: MWA Activities

The regulation of MWAs is governed by PO(97)98 and MBC-DS(97)0023. In accordance with the NATO Accounting Framework (C-M(2013)0039), MWAs will not be consolidated into NATO entity Financial Statements.

MWA within the IMS Budget Group consists mainly of the provision of rationed items and fuel, and language training services. Total expenditures on MWA in 2015 amounted to approximately 680 KEUR. Each year a detailed financial report covering MWA transactions is submitted to the Budget Committee.

ANNEX 1  
Budget execution statement

	Initial Budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total Spent	Carry Forward	Lapsed
EURO												
<b>BUDGET 301 (IMS)2015</b>												
Chapter 1	15,528,086	-	15,528,086	647,000	16,175,086	267,761	16,442,847	3,436,160	13,006,687	16,442,847	3,436,160	-
Chapter 2	4,370,905	-	4,370,905	(309,705)	4,061,200	(385,595)	3,675,605	1,364	3,627,714	3,629,078	1,364	46,527
Chapter 3	30,000	-	30,000	(30,000)	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>19,928,991</b>	<b>-</b>	<b>19,928,991</b>	<b>307,295</b>	<b>20,236,286</b>	<b>(117,834)</b>	<b>20,118,452</b>	<b>3,437,524</b>	<b>16,634,401</b>	<b>20,071,925</b>	<b>3,437,524</b>	<b>46,527</b>
<b>BUDGET 302 (NSO)2015</b>												
Chapter 1	2,327,798	-	2,327,798	(160,000)	2,167,798	35,774	2,203,572	112,470	2,091,101	2,203,572	112,470	-
Chapter 2	360,463	-	360,463	(147,295)	213,168	(35,774)	177,394	-	177,394	177,394	-	-
<b>TOTAL</b>	<b>2,688,261</b>	<b>-</b>	<b>2,688,261</b>	<b>(307,295)</b>	<b>2,380,966</b>	<b>(0)</b>	<b>2,380,966</b>	<b>112,470</b>	<b>2,268,496</b>	<b>2,380,966</b>	<b>112,470</b>	<b>-</b>
<b>BUDGET 504 (PFP)2015</b>												
Chapter 1	105,560	-	105,560	-	105,560	(45,103)	60,457	3,000	57,457	60,457	3,000	-
Chapter 2	593,626	-	593,626	-	593,626	22,521	616,147	27,713	588,434	616,147	27,713	-
<b>TOTAL</b>	<b>699,186</b>	<b>-</b>	<b>699,186</b>	<b>-</b>	<b>699,186</b>	<b>(22,582)</b>	<b>676,604</b>	<b>30,713</b>	<b>645,891</b>	<b>676,604</b>	<b>30,713</b>	<b>-</b>
<b>BUDGET 508 (MD)2015</b>												
Chapter 1	67,696	-	67,696	-	67,696	(50,382)	17,314	9,450	7,864	17,314	9,450	-
Chapter 2	400,168	-	400,168	-	400,168	(71,938)	328,230	12,556	315,675	328,230	12,556	-
<b>TOTAL</b>	<b>467,864</b>	<b>-</b>	<b>467,864</b>	<b>-</b>	<b>467,864</b>	<b>(122,320)</b>	<b>345,544</b>	<b>22,006</b>	<b>323,538</b>	<b>345,544</b>	<b>22,006</b>	<b>-</b>
<b>BUDGET 514 (ICI)2015</b>												
Chapter 1	29,810	-	29,810	-	29,810	(15,374)	14,436	-	14,436	14,436	-	-
Chapter 2	139,150	-	139,150	-	139,150	(14,474)	124,676	-	124,676	124,676	-	-
<b>TOTAL</b>	<b>168,960</b>	<b>-</b>	<b>168,960</b>	<b>-</b>	<b>168,960</b>	<b>(29,848)</b>	<b>139,112</b>	<b>-</b>	<b>139,112</b>	<b>139,112</b>	<b>-</b>	<b>-</b>
<b>BUDGET 524 (OMC)2015</b>												
Chapter 1	59,880	-	59,880	-	59,880	(40,998)	18,882	5,663	13,218	18,882	5,663	-
Chapter 2	295,700	-	295,700	-	295,700	(9,462)	286,238	8,419	277,818	286,238	8,419	-
<b>TOTAL</b>	<b>355,580</b>	<b>-</b>	<b>355,580</b>	<b>-</b>	<b>355,580</b>	<b>(50,461)</b>	<b>305,119</b>	<b>14,083</b>	<b>291,037</b>	<b>305,119</b>	<b>14,083</b>	<b>-</b>
<b>TOTAL FY2015</b>	<b>24,308,842</b>	<b>-</b>	<b>24,308,842</b>	<b>-</b>	<b>24,308,842</b>	<b>(343,045)</b>	<b>23,965,797</b>	<b>3,616,796</b>	<b>20,302,475</b>	<b>23,919,270</b>	<b>3,616,796</b>	<b>46,527</b>

EURO	Initial Budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total Spent	Carry Forward	Lapsed
<b>BUDGET 301 (IMS)2014</b>												
Chapter 1	3,091,122	-	3,091,122	-	3,091,122	-	3,091,122	626,984	2,452,366	3,079,350	626,984	11,772
Chapter 2	4,449	-	4,449	-	4,449	-	4,449	-	4,309	4,309	-	140
Chapter 3	22,518	-	22,518	-	22,518	-	22,518	-	22,518	22,518	-	-
<b>TOTAL</b>	<b>3,118,089</b>	<b>-</b>	<b>3,118,089</b>	<b>-</b>	<b>3,118,089</b>	<b>-</b>	<b>3,118,089</b>	<b>626,984</b>	<b>2,479,193</b>	<b>3,106,177</b>	<b>626,984</b>	<b>11,912</b>
<b>BUDGET 302 (NSO)2014</b>												
Chapter 2	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>7,197</b>	<b>-</b>	<b>7,197</b>	<b>-</b>	<b>7,197</b>	<b>-</b>	<b>7,197</b>	<b>-</b>	<b>7,197</b>	<b>7,197</b>	<b>-</b>	<b>-</b>
<b>BUDGET 504 (PFP)2014</b>												
Chapter 1	8,000	-	8,000	-	8,000	-	8,000	-	5,149	5,149	-	2,851
Chapter 2	47,687	-	47,687	-	47,687	-	47,687	-	30,841	30,841	-	16,846
<b>TOTAL</b>	<b>55,687</b>	<b>-</b>	<b>55,687</b>	<b>-</b>	<b>55,687</b>	<b>-</b>	<b>55,687</b>	<b>-</b>	<b>35,990</b>	<b>35,990</b>	<b>-</b>	<b>19,697</b>
<b>BUDGET 508 (MD)2014</b>												
Chapter 1	7,000	-	7,000	-	7,000	-	7,000	-	4,193	4,193	-	2,807
Chapter 2	20,486	-	20,486	-	20,486	-	20,486	-	18,908	18,908	-	1,578
<b>TOTAL</b>	<b>27,486</b>	<b>-</b>	<b>27,486</b>	<b>-</b>	<b>27,486</b>	<b>-</b>	<b>27,486</b>	<b>-</b>	<b>23,102</b>	<b>23,102</b>	<b>-</b>	<b>4,384</b>
<b>BUDGET 514 (ICI)2014</b>												
Chapter 2	5,000	-	5,000	-	5,000	-	5,000	-	5,000	5,000	-	-
<b>TOTAL</b>	<b>25,000</b>	<b>-</b>	<b>25,000</b>	<b>-</b>	<b>25,000</b>	<b>-</b>	<b>25,000</b>	<b>-</b>	<b>25,000</b>	<b>25,000</b>	<b>-</b>	<b>-</b>
<b>BUDGET 524 (OMC)2014</b>												
Chapter 1	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 2	9,412	-	9,412	-	9,412	-	9,412	-	8,570	8,570	-	842
<b>TOTAL</b>	<b>9,412</b>	<b>-</b>	<b>9,412</b>	<b>-</b>	<b>9,412</b>	<b>-</b>	<b>9,412</b>	<b>-</b>	<b>8,570</b>	<b>8,570</b>	<b>-</b>	<b>842</b>
<b>TOTAL FY2014</b>	<b>3,242,871</b>	<b>-</b>	<b>3,242,871</b>	<b>-</b>	<b>3,242,871</b>	<b>-</b>	<b>3,242,871</b>	<b>626,984</b>	<b>2,579,051</b>	<b>3,206,035</b>	<b>626,984</b>	<b>36,836</b>
<b>BUDGET 301 (IMS)2013</b>												
Chapter 1	995,659	-	995,659	-	995,659	-	995,659	-	988,483	988,483	-	7,177
<b>TOTAL</b>	<b>995,659</b>	<b>-</b>	<b>995,659</b>	<b>-</b>	<b>995,659</b>	<b>-</b>	<b>995,659</b>	<b>-</b>	<b>988,483</b>	<b>988,483</b>	<b>-</b>	<b>7,177</b>
<b>BUDGET 302 (NSO)2013</b>												
Chapter 1	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>BUDGET 524 (OMC)2013</b>												
Chapter 2	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL FY2013</b>	<b>995,659</b>	<b>-</b>	<b>995,659</b>	<b>-</b>	<b>995,659</b>	<b>-</b>	<b>995,659</b>	<b>-</b>	<b>988,483</b>	<b>988,483</b>	<b>-</b>	<b>7,177</b>
<b>TOTAL ALL BUDGETS</b>	<b>28,547,372</b>	<b>-</b>	<b>28,547,372</b>	<b>-</b>	<b>28,547,372</b>	<b>(343,045)</b>	<b>28,204,327</b>	<b>4,243,780</b>	<b>23,870,008</b>	<b>28,113,788</b>	<b>4,243,780</b>	<b>90,540</b>

The budget covers the financial year from 1 January 2015 to 31 December 2015 and includes the following budgets: 301 (IMS), 302 (NSO), 504 (PFP), 508 (MD), 514 (ICI), 524 (OMC).

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

Commitments carried forward are presented in the Budget Execution Statement. They represent the unexpended balances at year end for which there is a legal liability. They are equal to the closing Unearned Revenue (see also Note 7).

The initial 2015 budget was reviewed by the Budget Committee and issued in BC-BA(2015)0001 on the 19<sup>th</sup> of December 2014. Similarly the 2015 revised authorizations BA 2 and BA3 were issued in BC-BA(2015)0002 and BC-BA(2015)0003 on the 25<sup>th</sup> of June and 19<sup>th</sup> of October respectively.

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

	Financial Performance	Budget	Difference
Total Expenses	23,611,241	23,870,008	258,767
Personnel	18,344,201	18,668,151	(323,950)
Contractual Supplies and Services	5,179,340	5,179,340	-
Capital and Investments	-	22,518	(22,518)
Depreciation Expense	76,104	-	76,104
Finance Cost	11,597	-	11,597
Difference			<b>0</b>

ANNEX 2  
IMS Non Current Asset Register

Asset Category	AssetDescription	Date Placed In Service	Retirement Date	Beginning Balance	Additions	Cost Retired	Net Cost	Accum Depr/Amort	Current Depr/Amort	Total Depr/Amort	Retired Depr/Amort	Net Depr/Amort	Net Book Value
Furniture	RAYONNAGE	4-Mar-04		9,193	-	-	9,193	9,193	-	9,193	-	9,193	-
<b>Total - Furniture</b>				<b>9,193</b>	<b>-</b>	<b>-</b>	<b>9,193</b>	<b>9,193</b>	<b>-</b>	<b>9,193</b>	<b>-</b>	<b>9,193</b>	<b>-</b>
Transport Equipment	AUDI A6	20-Apr-07		22,876	-	-	22,876	22,876	-	22,876	-	22,876	-
Transport Equipment	VW PASSAT COMFORTLINE	30-Dec-07		19,639	-	-	19,639	19,639	-	19,639	-	19,639	-
Transport Equipment	VW PASSAT COMFORTLINE	30-Jun-08		20,043	-	-	20,043	18,850	1,193	20,043	-	20,043	-
Transport Equipment	VOLSWAGEN TRANSPORTER MLM	30-Mar-09		17,858	-	-	17,858	14,882	2,551	17,433	-	17,433	425
Transport Equipment	SKODA SUPERB	26-Jun-09		22,954	-	-	22,954	18,308	3,279	21,587	-	21,587	1,366
Transport Equipment	SKODA SUPERB	26-Jun-09		22,954	-	-	22,954	18,308	3,279	21,587	-	21,587	1,366
Transport Equipment	BMW 520D	16-May-11		29,758	-	-	29,758	15,588	4,251	19,839	-	19,839	9,919
Transport Equipment	FORD MINIVAN	19-Sep-11		19,995	-	-	19,995	9,521	2,856	12,378	-	12,378	7,617
Transport Equipment	Mercedes 200 CDI	24-Apr-12		30,624	-	-	30,624	12,031	4,375	16,406	-	16,406	14,218
Transport Equipment	Mercedes 200 CDI	24-Apr-12		30,624	-	-	30,624	12,031	4,375	16,406	-	16,406	14,218
Transport Equipment	DUTY CAR FOR NATO MLM	6-Mar-14		32,496	-	-	32,496	5,416	6,499	11,915	-	11,915	20,581
Transport Equipment	NLO KYIV DUTY CAR	29-Jul-14		28,819	-	-	28,819	2,882	5,764	8,646	-	8,646	20,174
Transport Equipment	FORD TOURNEO CUSTOM TREND	6-Feb-15		-	22,518	-	22,518	-	4,128	4,128	-	4,128	18,389
<b>Total - Transport Equipment</b>				<b>298,640</b>	<b>22,518</b>	<b>-</b>	<b>321,158</b>	<b>170,332</b>	<b>42,551</b>	<b>212,883</b>	<b>-</b>	<b>212,883</b>	<b>108,275</b>
Installed Equipment	BINDING MACHINE	31-Dec-10		7,800	-	-	7,800	3,185	780	3,965	-	3,965	3,835
<b>Total - Installed Equipment</b>				<b>7,800</b>	<b>-</b>	<b>-</b>	<b>7,800</b>	<b>3,185</b>	<b>780</b>	<b>3,965</b>	<b>-</b>	<b>3,965</b>	<b>3,835</b>
Software	ADat-P 3	10-Jul-15		-	210,000	-	210,000	-	26,250	26,250	-	26,250	183,750
Software	SMIR Online	13-Nov-15		-	28,750	-	28,750	-	1,198	1,198	-	1,198	27,552
Software	TDL CaT	22-Oct-15		-	85,200	-	85,200	-	5,325	5,325	-	5,325	79,875
<b>Total - Software</b>				<b>-</b>	<b>323,950</b>	<b>-</b>	<b>323,950</b>	<b>-</b>	<b>32,773</b>	<b>32,773</b>	<b>-</b>	<b>32,773</b>	<b>291,177</b>
<b>TOTALS</b>				<b>315,633</b>	<b>346,468</b>	<b>-</b>	<b>662,100</b>	<b>182,709</b>	<b>76,104</b>	<b>258,813</b>	<b>-</b>	<b>258,813</b>	<b>403,287</b>

ANNEX 3  
NATO-Iraq Trust Fund Status as of 31<sup>st</sup> December 2015

FISCAL YEAR	IN COUNTRY COURSES	OUT OF COUNTRY COURSES			TOTAL
	EXPENSES	EXPENSES	SLOTS OFFERED	SLOTS TAKEN	
2005	€133,235	€1,494,235	123	200	€1,627,470
2006	€966,684	€1,355,890	444	253	€2,322,574
2007	€745,024	€1,230,390	223	197	€1,975,414
2008	€2,900,068	€1,105,880	230	208	€4,005,948
2009	€200,557	€1,263,332	220	208	€1,463,889
2010	€218,647	€1,737,842	412	336	€1,956,489
2011	€44,135	€1,733,875	468	420	€1,778,010
2012	€0	23,366	23	15	€23,366
2013	€0	176,359	42	42	€176,359
2014	€0	10,340			€10,340
2015		301,817	62	62	€301,817
<b>TOTAL</b>	<b>€5,208,350</b>	<b>€10,131,509</b>			<b>€15,641,676</b>
<b>NATO-IRAQ TRUST FUND STATUS AS OF 31 DEC 2015</b>					
<b>FUND DONATED</b>					<b>€17,176,421</b>
<b>INTEREST EARNED (net of bank charges)</b>					<b>€371,534</b>
<b>FUND USED</b>					<b>€15,641,676</b>
<b>FUND AVAILABLE</b>					<b>€1,906,279</b>

**NOTE:** The expenses in 2015 were for 2 Iraq tailored operational and key leader courses in the NATO School in Oberammergau and one NRCC course in the NATO Defence College in Rome.