

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

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Releasable to Montenegro

20 December 2016

**DOCUMENT**  
C-M(2016)0081-AS1 (INV)

**IBAN AUDIT ON THE 2015 FINANCIAL STATEMENTS OF THE NATO  
COMMUNICATIONS AND INFORMATION ORGANISATION (NCIO)**

**ACTION SHEET**

On 20 December 2016, under the silence procedure, the Council noted the IBAN report on the 2015 financial statements of NCIO attached to C-M(2016)0081 (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)0081 (INV).

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19 December 2016

**DOCUMENT**  
C-M(2016)0081 (INV)  
**Silence Procedure ends:**  
**20 Dec 2016 17:00**

**IBAN AUDIT ON THE 2015 FINANCIAL STATEMENTS OF THE NATO  
COMMUNICATIONS AND INFORMATION ORGANISATION (NCIO)**

**Note by the Deputy Secretary General**

1. I attach the International Board of Auditors for NATO (IBAN) report on the audit of the 2015 financial statements of the NATO Communications and Information Organisation (NCIO).
2. The IBAN report sets out a qualified opinion on the financial statements of NCIO and on compliance for the year 2015. The IBAN report, although showing improvements by NCIO in many areas, also illustrates that many of the weaknesses identified in previous audit reports have not yet been fully corrected. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB) (see Annexes) which has provided its own report with conclusions and recommendations to Council.
3. I do not believe that this matter requires discussion in the Council. Consequently, **unless I hear to the contrary by 17:00 hours on Tuesday 20 December 2016**, I shall assume that the Council has noted the IBAN report on the 2015 financial statements of NCIO and agreed the RPPB recommendation regarding public disclosure.

(Signed) Rose E. Gottemoeller

4 Annexes

1 Appendix

Original: English

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**IBAN AUDIT ON THE 2015 FINANCIAL STATEMENTS OF THE NATO  
COMMUNICATIONS AND INFORMATION ORGANISATION (NCIO)**

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

References:

- a) IBA-A(2016)83 (IBAN Report)
- b) C-M(2015)0025 (NATO Financial Regulations)
- c) C-M(2016)0023 (NATO Accounting Framework)
- d) NCIO/CH/2016/019 (letter from Chairman of the Agency Supervisory Board)

**BACKGROUND**

1. This report covers the audit of the financial statements of the NATO Communications and Information Organisation (NCIO) for 2015. It is based on the report by the Budget Committee (BC) which was approved on Wednesday 30 November 2016 (reference: BC-D(2016)0215-FINAL (INV)).

2. The International Board of Auditors for NATO (IBAN) has issued a qualified opinion on the financial statements of NCIO and a qualified opinion on compliance for 2015 (reference a).

3. The RPPB acknowledges that the issues highlighted in the IBAN audit report will be/have already been dealt with by the appropriate governing bodies of NCIO. That said, the Board is still mandated under Article 15 of the NFRs (reference b) to provide Council with comments and recommendations on the audit opinion.

**DISCUSSION**

4. The IBAN has issued twelve observations and made eleven recommendations. The lack of integrated systems to support the effective and efficient management and financial reporting of property, plant and equipment (PP&E) impacted the audit opinion on the financial statements and on compliance. The lack of a consistent and robust process in determining capability development project revenue impacted the audit opinion on the financial statements. The remaining ten observations did not impact the audit opinion.

5. The RPPB welcomes the increased attention and enhanced follow up procedures now in place in NCIA to deal with audit recommendations which means they are now dealt with continuously throughout the year instead of on an ad hoc basis. For all outstanding observations related to the Agency's financial statements a remedial action plan and a specific owner has been assigned and regular updates provided to the Agency Finance Committee for decisions as appropriate.

**Audit opinion on financial statements and on compliance**

6. The IBAN found that, as in the prior year, NCIO's multiple accounting systems and separate logistic systems do not provide an effective and efficient control over NCIO's tangible and intangible assets. The Agency has taken steps to address asset management issues by reducing the number of financial systems and asset accounts continue to be refined and updated. Unfortunately delays have pushed back the implementation of the Agency's EBA programme that will address the issues highlighted by the IBAN until 1 January 2018. The Agency is actively developing proposals with industry and is aiming at awarding a contract in January 2017; the PP&E requirement is included in initial work package which represents the minimum customer funding core capability. Further discussions and decisions are expected in the Investment Committee shortly but the initial Staff assessment is that the Agency's implementation strategy adds more risk to an already challenging project.

**Audit opinion on financial statements**

7. The lack of a consistent and robust process in determining capability development project revenue impacted the audit opinion on the financial statements. The IBAN has already found during the prior year audit that the cost to complete estimate which is central to how the Agency derives its revenues from the delivery of projects or services, is not fully reliable and as such the IBAN does not have sufficient audit evidence to provide audit assurance on the correct valuation of earned revenue in 2015.

8. The IBAN recommended that project milestones need to be defined in more detailed manner and standardised cost to complete estimation processes need to be put in place among project managers. The Agency Supervisory Board (ASB) had some formal and factual comments on the IBAN's findings in this regard but nevertheless acknowledged that the cost to complete process for capability development projects needs strengthening and improved discipline. A number of actions are in place that will address the IBAN findings. The automated cost to complete process is within the scope of the EBA implementation; ahead of this, the Agency is currently working with external consultants to improve the process through enhanced documentation, training material and additional interim solutions which should bring better project manager estimates and more discipline, pending EBA implementation.

9. The Investment Committee has also put in place/agreed a number of steps to improve how the Agency handles capability development projects such as definition of intermediate milestones linked to partial completion of Joint Formal Technical Inspection (JFAI) reports or operational evaluations and phased payment of Project Service Costs.

**IBAN observations**

10. The following paragraphs deal with the remaining IBAN observations and recommendations that did not affect the audit opinion.

11. Observation 3 – further steps needed to ensure compliance with the NFRs: The IBAN found that NCIO has made good progress but more steps are still needed to implement the articles in the NFRs (reference b) on internal control, internal audit and risk management. The Head of Financial Reporting Policy (HFRP) has already facilitated the exchange of best practice among Financial Controllers (FCs) in this area. FCs have also established a working group on internal control and risk management (similar to the arrangements they have for dealing with accounting issues of common interest) and a collaborative platform has been created to support this group. NCIO has made significant progress in developing an internal control framework (which is based on COSO<sup>1</sup>) and have already offered advice and guidance in this regard to the FC of the International Military Staff.

12. The main issue faced by NCIO (and other NATO entities) is the lack of additional resources to cope with the consequences resulting from some of the changes in the NFRs and associated Financial Rules and Procedures (FRPs). Building internal control frameworks and a risk management culture extends further than the FC and their staff and requires time and resources and is stretching beyond existing capabilities. The RPPB underlines the need for senior management (and not just the FC) to lead efforts to ensure adherence to the NFRs and FRPs on internal control and risk management across the whole Agency not just the finance domain. Although FCs will continue to do their best to adhere to the NFRs and FRPs in these areas, the RPPB acknowledges that lack of resources and dedicated personnel will adversely affect implementation and timelines.

13. Observation 4 – weaknesses in source selection planning process: The IBAN identified serious weaknesses in the source selection planning process with the main consequence of delays in project implementation. The Agency did not agree with the IBAN observations in this area as it felt that it was following agreed procedures and in some instances had to face issues that were not under the Agency's control and by nature difficult to predict.

14. Observation 5 – insufficient use of competed support service contracts in 2015 and 2016: The IBAN found that the Agency is compliant in terms of delegated powers but needs to ensure that justifications to deviate from competitive bidding procedures and go to sole source are relevant and for operational, efficiency, economic or technical reasons. The Agency accepts the IBAN finding, acknowledges that more progress is still needed but believes that its efforts are on the right track.

15. Observation 6 – improvements still needed for PP&E and intangible asset management: The IBAN found that some Communication and Information Systems (CIS) assets acquired after 2013 had still not been recorded and capitalised as assets in the NCIO financial statements. They also found weaknesses in stock management of CIS assets.

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<sup>1</sup> Committee of Sponsoring Organisations (COSO) provides leading advice and guidance on risk management and internal control to the public and private sectors

The Agency acknowledges that it needs to continue its efforts to improve the effective and efficient management and financial reporting of PP&E, despite the significant reductions in military personnel. The Agency has played an active part in the work to develop an accounting policy for PP&E under the auspices of the HFRP which is expected to be submitted to the RPPB by the end of 2016. The Agency has confirmed that EBA implementation will be a key enabler and that further modules within it are foreseen to complement the process such as a warehouse management module. The Agency is also finalising an asset management directive that will establish the primary principles and rules to ensure the full accountability through the lifecycle for assets owned or managed by the Agency.

16. Observation 7 & 8 – improvements needed for project closure activities: The IBAN found that NCIA does not have a complete, centralised list of active and completed projects nor is there a consolidated list of projects encompassing capability development and service delivery. The Agency agreed to comply with the recommendations made by the IBAN to develop a comprehensive and harmonised directive on closing activities and for conducting meetings and decisions on closed projects by the Service Lifecycle Management Board (SLMB) to be taken more regularly throughout the year. The IBAN issued a separate but related observation and recommendation on the need for greater transparency of decisions taken the SLMB which the Agency has also accepted.

17. Observation 9 – weaknesses in revenue recognition for service level agreements (SLAs): The IBAN recommended that the Agency, in liaison with its customers, adjust the open Purchase Orders on a more frequent basis during the year for funding for external CIS. The Agency accepts that further improvements are still needed but is pleased that this observation is no longer a reason for a qualified audit opinion as was the case last year.

18. Observation 10 – understatement of financial performance: Following the formal comments from the ASB, the IBAN adjusted the amount understated in the restated 2014 financial statements from €2.3million to €1.8million which was the result of an error noted in 2014 due to a technical issue with the accounting practice in place at the time which has since been changed. The ASB notes that there is no impact on the ending balances and as a result considers that no further action is to be taken.

19. Observation 11 – completeness of related party disclosures: The IBAN recommended that the Agency fully comply with the NATO Accounting Framework (reference c) by making inquiries of governing bodies to ensure the completeness of related party transactions. The Agency accepts this observation and will take action accordingly.

20. Observation 12 – placement of the role of the Competition Advocate: The IBAN found that the person assigned to be Competition Advocate (CA) in the Agency is also the Director of Acquisition and the dual hatted nature of this position jeopardizes its function. The IBAN also recommended that the CA issue an annual report on its activities to the Agency's senior management and to the ASB. While accepting the latter, the ASB notes that the role of the

Director of Acquisition as the CA was approved by Nations in the Agency's FRPs and in the Acquisition Directive.

### **Previous years' observations**

21. The IBAN followed up the status of observations and recommendations from previous years' audits noting that five had been settled, three had been partially settled, four had been superseded and four remained outstanding. The Agency is confident that steps are in place that should enable a number of outstanding observations and recommendations to be settled in 2016. Of note the IBAN has previously recommended that NCIO disclose separate segment information related to the BMD and Air C2 Steering Committees; NCIA has recently contracted an external study with results to be issued in 2016.

### **Public disclosure**

22. The NCIO has confirmed (reference d) that the financial statements can be publicly disclosed.

## **CONCLUSIONS**

23. The IBAN have submitted a qualified opinion on the NCIO financial statements for 2015 which follows on from the qualified opinions issued for 2013 and again in 2014. The RPPB acknowledges the efforts that the Agency is making to address the issues identified by the IBAN and recognises that the governing bodies of NCIO are best placed to deal with the overall response. However, the RPPB underlines the need for senior management at the Agency (and not just the FC) to lead efforts to ensure adherence to the NFRs and FRPs on internal control and risk management. The RPPB notes the efforts the Agency is making to implement its EBA programme by January 2018.

24. While noting that the appropriate governing bodies of NCIO will continue to oversee the Agency's response to all of the observations raised by the IBAN, the RPPB will pay particular attention to the action taken by the Agency to address the asset management issues and weaknesses in the cost to complete estimation processes which were the basis for the qualified audit opinion.

## **RECOMMENDATIONS**

25. The RPPB recommends that the Council:
- (a) note the IBAN report IBA-A(2016)83;
  - (b) endorse the conclusions in paragraphs 23 and 24; and,
  - (c) approve the public disclosure of this report, the IBAN audit (reference a)) and the associated 2015 financial statements of NCIO.



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**Summary Note for Council**  
**by the International Board of Auditors for NATO (Board)**  
**on the audit of the Financial Statements of the**  
**NATO Communications and Information Organisation (NCIO)**  
**for the year ended 31 December 2015**

The 2015 NCIO Financial Statements audited by the Board have been prepared on the basis of a single entity and under the last year of the “Interim Customer Funding Framework”.

Two observations that have an impact on the Board opinion are related to management of Property, Plant & Equipment (PP&E) and to revenue in the Statement of Financial Performance for Capability Development projects:

- Lack of integrated systems to support the effective and efficient management and financial reporting of property, plant and equipment and intangible assets,
- Lack of a consistent and robust process in determining capability development project revenue for the period.

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

- Further steps are required to achieve full compliance with the revised NATO Financial Regulations, particularly those Articles on Internal Control and Risk Management,
- Weaknesses in source selection planning process,
- Insufficient use of competed support service contracts in 2015 and 2016,
- Improvements still needed for property, plant and equipment and intangible assets management,
- Improvements needed for project closure activities,
- More transparency needed on SLMB decisions to return certain project surpluses to the customers rather than allowing them to flow to the Operating Fund,
- Weaknesses in revenue recognition for Service Level Agreements,
- Restated 2014 surplus understated by EUR 2.3 million in the Statement of Financial Performance,
- Completeness of related party disclosures,
- Placement of Role of the Competition Advocate.

These findings are summarised in the Letter of Observations and Recommendations (Annex 4).

For NCIO’s Formal Comments, see the Appendix (Annex 4). NCIO agrees with most, but not all, of the Board’s observations. The detailed formal comments provide further information to the reader. The Board has taken into consideration some of the comments in its observations or recommendations

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**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

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

**THE NATO COMMUNICATIONS AND INFORMATION ORGANISATION**

**(NCIO)**

**FOR THE YEAR ENDED 31 DECEMBER 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 NATO Communications and Information Organisation (NCIO), which comprised the Statement of Financial Position as at 31 December 2015, the Statement of Financial Performance, the Statement of Change in Net Assets & Equity and the Cash Flow Statement for the year then ended, and Notes to the Financial Statements, including a Statement of Accounting Policies. The Board also audited the Budget Execution Statement 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.

*Basis for Qualified Opinion on the Financial Statements*

The Board is not able to provide audit assurance in respect to revenue in the Statement of Financial Performance related to Capability Development projects. This is due to significant weaknesses in the method of calculating the “cost-to-complete” for a contract, which directly impacts the calculation of revenue recognised during the year under the “percentage-of-completion” method. This also affects the level of provisions for future losses and eventually the surplus or deficit for the period.

The Board is also not able to provide audit assurance on the Financial Statements in respect to the completeness of property, plant and equipment and intangible assets presented in the Statement of Financial Position. This is due to its multiple accounting systems and logistics tools that still do not support a proper financial reporting of property, plant and equipment and intangible assets.

*Qualified Opinion on Financial Statements*

In our opinion, except for the possible effects of the matters described in the *Basis for Qualified Opinion on the Financial Statements*, the financial statements present fairly, in all material respects, the financial position of NCIO as of 31 December 2015, and of its financial performance and its cash flows for the year then ended are in accordance with the NATO Accounting Framework.

**Report on Compliance**

*Management’s Responsibility for Compliance*

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

*Auditor’s Responsibility*

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

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

*Basis for Qualified Opinion on Compliance*

We did not obtain enough evidence that comprehensive accounting records of all property acquired by NCIO have been established and maintained as required by Article 12 of the NATO Financial Regulations. This is due to the fact that the multiple accounting systems and logistics tools in use still do not support effective and efficient management processes and financial reporting of property, plant and equipment and intangible assets acquired as required by NCIO's legal framework.

*Qualified Opinion on Compliance*

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

Brussels, 23 August 2016

Lyn Sachs  
Chairman

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**LETTER OF OBSERVATIONS AND RECOMMENDATIONS**

**FOR THE NATO COMMUNICATIONS AND INFORMATION ORGANISATION**

**(NCIO)**

**FOR THE YEAR ENDED 31 DECEMBER 2015**



## **Introduction**

The International Board of Auditors for NATO (Board) audited the NATO Communications and Information Organisation (NCIO) Financial Statements for the year ended 31 December 2015, and issued a qualified opinion on both the financial statements and on compliance. The reasons for the qualification, as well as other observations and recommendations, are summarised in the Observations and Recommendations section below.

## **Observations and Recommendations**

During the audit, the Board identified twelve observations and made eleven recommendations. One observation is a scope limitation that impacts the audit opinion on the financial statements and on compliance:

1. Lack of integrated systems to support the effective and efficient management and financial reporting of property, plant and equipment and intangible assets.

One observation is a scope limitation that impacts the audit opinion on the financial statements only:

2. Lack of a consistent and robust process in determining capability development project revenue for the period.

The remaining ten observations do not impact the audit opinion:

3. Further steps are required to achieve full compliance with the revised NATO Financial Regulations, particularly those Articles on Internal Control and Risk Management.
4. Weaknesses in source selection planning process.
5. Insufficient use of competed support service contracts in 2015 and 2016.
6. Improvements still needed for property, plant and equipment and intangible assets management.
7. Improvements needed for project closure activities.
8. More transparency needed on SLMB decisions to return certain project surpluses to the customers rather than allowing them to flow to the Operating Fund.
9. Weaknesses in revenue recognition for Service Level Agreements.

10. Restated 2014 surplus understated by EUR 2.3 million in the Statement of Financial Performance.
11. Completeness of related party disclosures.
12. Placement of Role of the Competition Advocate.

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

The Board also issued a separate Management Letter (reference IBA-AML(2016)06) to NCI Agency management with six observations.

This Letter of Observations and Recommendations was formally cleared with NCIO, and the formal comments are included, with the Board's position on those comments where necessary (Appendix, Annex 4).

## **OBSERVATIONS AND RECOMMENDATIONS**

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

#### **Reasoning**

1.1 Accounting systems, supported by proper asset identification and physical inventory control procedures, should ensure that all assets of an entity are accurately and completely managed and recorded. Comprehensive accounting records of all property acquired shall be established and maintained per Article 12 of the NATO Financial Regulations (NFRs).

#### **Observations**

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

1.3 NCIO stated to the Board that some progress has been made. Within the Centralized NATO Automated Financial System (CNAFS), the CIS Sustainment Support Centre (CSSC) now accounts for all CIS assets within the implemented Oracle Inventory module. See also observation 6 below for weaknesses identified in asset management at CSSC.

1.4 In addition, the Agency has also activated the fixed asset module since January 2015. Only CIS asset acquisitions implemented in accordance with pre-defined system criteria for capitalization (threshold/lifetime) will populate the fixed asset module. This Fixed Asset Module enables the Agency to produce the necessary property, plant and equipment data for acquisitions implemented in CNAFS.

#### **Recommendation**

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

## **2. LACK OF A CONSISTENT AND ROBUST PROCESS IN DETERMINING CAPABILITY DEVELOPMENT PROJECT REVENUE FOR THE PERIOD**

### **Reasoning**

2.1 NCIO revenue is derived from the delivery of projects or services. For the delivery of projects, NCIO is applying IPSAS 11, *Construction Contracts*, for the calculation of revenue recognition. Revenue is recognized based on the “percentage-of-completion” method. The Agency estimates the “percentage-of-completion” based on a percentage of total expenses incurred to total estimated “cost-at-completion”.

2.2 To arrive at the “cost-at-completion”, a reliable estimate of the “cost-to-complete” (CTC) must be made. This estimate is an essential part of the process: the greater the estimated CTC, the lower the amount of earned revenue recognized at the reporting date, which impacts the amount of surplus or deficit for the period.

### **Observations**

2.3 The Board had already found during the prior year audit that the CTC estimates were often simply based on the unspent amount of the authorized budget. Furthermore, the processes used in estimating completion were not documented, reducing both the visibility, and likely, the consistency of the process.

2.4 Following further testing of projects conducted in the current year with Project Managers, the Board found that the CTC estimates for Capability Development projects were again most of the time the unspent amount of the authorised budget. Furthermore, the Board reviewed one of the instructions sent by Office of Support Group (OSG) to Project Managers in December 2015 for “CTC – closing 2015 and starting 2016” end of year activities. Focus was given to funding status of the project, closure preparation of project, financial commitments or final time accounting system completion and approval. There was no reminder of the importance and the appropriate way to perform the CTC estimates, nor of the significant impact of such estimates on revenue recognition.

2.5 In addition to the testing with Project Managers, the Board made a comparison between estimated “cost-at-completion” at the end of 2014 with actual and final costs for projects closed in 2015. On average, the “cost-at-completion” estimates for projects at the end of 2014 was overestimated by 19% compare to the actual and final costs when the project was finally closed in 2015. This demonstrates that the process to estimate the total costs of a capability development project, a process which has such a significant impact on revenue recognition, is not fully reliable. As a result, the Board does not have sufficient audit evidence to provide audit assurance on the correct valuation of earned revenues in 2015.

2.6 Some of the Board's prior year's audit observations are in line with recent Investment Committee practice to issue, within the total scope authority, authorization for full payment of Project Service Costs (PSCs) conditional upon meeting specified project milestones.

2.7 The Board restates its recommendations made in its 2014 audit report.

### **Recommendations**

2.8 The Board recommends that:

- a) project milestones are defined in a more detailed manner, including activities or group of tasks.
- b) project Investment Costs be incorporated into an integrated system in order to consolidate into a single system the assessment of future costs of a project.
- c) standardized "cost-to-complete" estimation processes are put into place among the Project Managers, that thorough reviews by management and Finance are strengthened again, and that these and the results of the estimation process are documented.
- d) end of year instructions to Project Managers should be more descriptive on what and how "cost-to-complete" must be estimated.

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

#### **Reasoning**

3.1 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.*"

3.2 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.

3.3 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**

3.4 The Board found that the NCIO has made good progress, but more steps are still needed, to achieve full compliance with all of the revised NFRs.

3.5 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 Agency Supervisory Board until the end of March 2016.

3.6 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.

3.7 The Board reports the status of the following areas:

#### Article 11 Risk Management

3.8 The Board found that the Agency has developed a well-documented Risk Management framework and procedures. Within this Risk Management Framework, Finance has developed a risk register that identifies financial risks. Finance's Risk Management is properly updated, which is unfortunately not the case for many other Agency Directorates or Organizational Units. Also, it is not always clear from the Risk Register what are the controls in place and the risk tolerance limits.

Article 12 Internal Control

3.9 The Agency stated to the Board that while NCIO has not yet formally adopted an Internal Control Framework, the ASB has approved many elements of such a framework. The Agency is currently working to fully document these elements, how they fit into the COSO Enterprise Risk Management (ERM) framework and how the organization complies with the requirements of the framework.

**Recommendations**

3.10 The Board recommends that NCIO:

- a) formally adopt the internal control framework that it is currently in the process of assessing itself against internally (COSO ERM). In addition, this should be coordinated to ensure a consistent framework is adopted across NATO.
- b) update the Agency Risk Register with the controls in place and the risk tolerance limits or actions to be taken to mitigate identified risks and ensure that all Directorates and Organizational Units within the Agency have an updated Risk Register for year 2016.

**4. WEAKNESSES IN SOURCE SELECTION PLANNING PROCESS**

**Reasoning**

4.1 The Directive that provides the overall policy and structure for acquisition management within the Agency as a single entity, and that has been under preparation since 2014, has only been recently approved in 2016. Thus, Acquisition Directive 6.1, dated 12 April 2012, was applied for Agency contracts issued in 2015.

**Observations**

4.2 Following a review of five of the main contracts signed in 2015 following International Competitive Bidding, the Board found several instances of non-compliance with Acquisition Directive 6.1. There are serious weaknesses in the Source Selection Planning processes with the main consequence of delays in the implementation of the entire project:

- the estimated date of contract award provided in the Investment Committee-(IC) PP Document has not been achieved in any of the five cases sampled. Delays of two to 19 months (average of 8 months) were found in the sample.

- the Source Selection Plan (SSP) must be approved before the bid closing date. However, there were 3 cases out of the 5 cases sampled where the SSP was approved after the bid closing date. Despite this, the evaluation criteria submitted with the IFB cannot be changed thereafter<sup>2</sup>.
- the Agency should have ensured that resources were available before embarking on a special 5 step evaluation process for the Deployable Air Defence Radars (DADR) contract in order to comply with IC recommendations not to delay the technical evaluation of the remaining bids. The duration of the DADR evaluation process was 26 months.
- the Project Evaluation Board (PEB) Chairman should be appointed at least 6 weeks before issuance of the IFB. However, 4 PEB Chairman out of the 5 sampled projects were appointed less than 6 weeks before the IFB.

4.3 For the above sample of projects, the duration of the evaluation and awarding of contracts are the following:

- average duration of the full selection & evaluation process: 19 months (from the date of the Notification of Intent (NOI) to the contract award).
- average duration of the evaluation process: 9 months (from the PEB Chairman appointment to the contract award).

## **Recommendations**

4.4 The Board recommends that in order to avoid delays for the project during the evaluation phase, NCIO should ensure that:

- a) realistic dates of contract award are being provided to the budget holder.
- b) Source Selection Plan is approved and the Project Evaluation Board Chairman is appointed prior to the issuance of the solicitation document.
- c) adequate planning resources are being provided to the Project Evaluation Board.

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<sup>2</sup> Only in exceptional cases and implemented by a Clarification Request procedure, changes to the IFB can be released to all bidders with optional extension of the bidding period. Thus, dedicating more time to issue the SSP with better defined selection criteria, once approved by the General Manager and then sent to bidders, would require less Clarification Requests and less time consumed thereafter.



## **5. INSUFFICIENT USE OF COMPETED SUPPORT SERVICE CONTRACTS IN 2015 AND 2016**

### **Reasoning**

5.1 As per new NATO Financial Rules and Regulations, C-M(2015)0025, Section VII, Procurement and Contracting Article 32.2 *“The relevant finance committee/governing body will provide appropriate levels of delegated powers to deviate from the strict application of competitive bidding where justified for operational, efficiency, economic or technical reasons”*.

5.2 In addition, the recently approved Acquisition Directive 16.01 states, in paragraph 3.2.2.1.2, that *“Procuring without providing for full and open competition shall not be justified on the basis of a lack of advance planning by the requiring activity or concerns related to the amount of funds available to the Agency or activity for the acquisition of supplies or service”*.

5.3 The Agency is compliant in term of delegated powers, but the Agency must ensure that justifications to deviate and go to sole source or not using the Service Support Contract (SSC) signed for contractor support in the second half of 2015 are relevant and for operational, efficiency, economic or technical reasons.

### **Observations**

5.4 The Board found that some deviations (sole source) for contractors have been approved by the Agency in 2015 despite recent general framework contracts put in place mid-2015 for IT Service Support Contracts (SSC). Furthermore, in 2016 so far, a total of 20 deviations from SSC have been already approved.

5.5 Most of these deviations are at a higher price and place the Agency under a risky monopolistic type position vis-a-vis the contractor, but are justified by the unique and irreplaceable expertise gained over a number of years by the current contractor.

5.6 The qualifications of potential alternate candidates provided by the SSC companies when requests have been made to replace the incumbent are often rejected by lack of expertise of the proposed candidate. For these highly skilled positions needed over a long period of time, recruiting a permanent NATO staff member could be an option if the recruitment process (9 months in average in 2015) was not so long. Lastly, the multiple contract extensions of the same contractor are often based on the amount of budget available every year and not on the estimated lifecycle of the project. Furthermore, in case of the recruitment as contractors of former Agency staff members, the approval of the

General Manager is required<sup>3</sup>. In 2015, four former Agency staff members were recruited as consultants and two as contractors. However, the Agency was not able to provide evidence of the General Manager's approval for one of the two contractors.

## **Recommendations**

5.7 The Board recommends that NCIO:

- a) continue its efforts in awarding general IT Service Support Contracts and transition existing positions under these competed arrangements; and
- b) better ensure that deviations to sole source for IT contractors be only for operational, efficiency, economic or technical reasons; and
- c) ensure that the General Manager's approval is obtained for contractor's recruitment when required.

## **6. IMPROVEMENT STILL NEEDED FOR PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS MANAGEMENT**

### **6.1 Some CIS Assets acquired after 2013 not yet recorded and capitalized**

6.1.1 At 31 December 2015, approximately EUR 1.2 million of acquired software and licenses were recorded in the Statement of Financial Position. However, the cost of software and licenses estimated by the NCIA Acquisition division at end of 2014 was still approximately EUR 10 million.

6.1.2 Crypto equipment is considered as CIS assets. The total value of crypto equipment acquired since 2013 by NCIA and used by NATO entities as "Third Party" (excluding Nations) has been estimated at EUR 9.9 million. The Board found that this crypto equipment was not capitalized as assets in the financial statements.

6.1.3 As a result of process weaknesses, the Board is not able to provide assurance that all CIS assets acquired after 2013 for Third Parties and not under construction or development have been properly and completely recorded and capitalized.

### **6.2 Weaknesses in stock management of CIS assets by the CIS Sustainment & Support Centre (CSSC)**

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<sup>3</sup> If the contractor is recruited for less than two years after termination of a NIC contract.

## **Reasoning**

6.2.1 As per NCIA SOP 09.02 for the CSSC, one of the responsibilities of the CIS Property Accounting Officer (PAO) is maintaining property accounts for NCIA owned systems within his Area of Responsibility. Also, all CIS assets stocked in the CSSC warehouses shall be recorded in its Asset Register.

## **Observations**

6.2.2 The Board found discrepancies between the physical inventory and the CSSC asset register. Most of the discrepancies are related to warehouse management or physical movements, such as assets in transit to customers, returned to vendors, in repair, or placed in a temporary disposal area.

6.2.3 These discrepancies raise real concerns over the existence and completeness of CSSC inventory. The Board found that the warehouse management module, which is an option of the newly acquired Oracle Asset Management System, was not purchased.

6.2.4 In addition to the testing outlined above, the Board also found that physical stock takes had not been completed by the CSSC as of the date of this report.

## **Recommendations**

6.2.5 The Board recommends that NCIO:

- a) continues in its efforts to record and capitalize all CIS assets acquired since 2013,
- b) improve the quality of CSSC inventory with an up-to-date warehouse management system to better track tangible assets in transit; and
- c) carry out physical stock checks at financial year-end.

## **7. IMPROVEMENTS NEEDED FOR PROJECT CLOSURE ACTIVITIES**

### **Reasoning**

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

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

7.2 Then, it is important to know exactly when a project is fully completed and can be closed. For Firm Fixed Price contracts, any surplus revenue not already recognised at the closure of the project should be immediately recognized as such.

### **Observations**

7.3 The Board asked for a listing of active projects at 31 December 2015 and closed projects during 2015, but found that there was not a complete, centralised list of such projects. There is no consolidated master data list of projects encompassing both Capability Development and Service Delivery. Once the separate listings were provided, the Board found the following:

#### **Project Closure Activities in 2014 for Capability Development**

7.3.1 As a past NC3A practice, any surplus above 8% and EUR 10,000 after the closure of a project could be sent back to the customer or transferred to the Agency Operating Fund depending on the decision of the Service Lifecycle Management Board (SLMB).

7.3.2 For 2014, a list of 40 closed projects with total estimated surpluses of EUR 3.3 million were sent to the SLMB for decision. Decisions on what to do with these surpluses were not taken until September 2015, five months after the issuance of the financial statements. Therefore, the above projects were considered as still “Active” at year-end 2014, meaning that none of the surpluses on these projects were recorded in the financial statements.

#### **Project Closure Activities in 2015 for Capability Development.**

7.3.3 For projects closed in 2015, the Board found some improvement in the project closure activities with the issuance of a draft Directive. Yet, during the review of 20 closed projects in 2015, the Board experienced difficulty collecting the three main reports required for closing a project.

7.3.4 The SLMB managed to take decisions on all 36 projects closed in 2015 with surpluses above 8% or EUR 10,000 on time for the 2015 Financial Statements. They decided to return EUR 1.4 million to the customers and to keep EUR 1.6 million in the Operating Fund.

### **Project closure activities in 2015 for Service Level Agreements (SLAs)**

7.3.5 The contract period of local Service Level Agreements (SLA) and the SLA for the NATO Centralised CIS Services (CSLA) generally runs from 1 January until 31 December. The Parties may extend the duration of the SLA beyond 31 December by mutual consent.

7.3.6 Like other projects, SLAs are technically closed when all deliverables have been provided to the customer and financially closed when all pending financial transactions have been settled. As firm fixed price contracts, a surplus or a deficit may be generated.

7.3.7 A total of 14 local SLAs and one CSLA were implemented in 2014. The 4th and last quarter review with the customer, where all issues are discussed, is considered as the closure event of the SLA. However, due to open encumbrances or non-executed Purchase Orders for External CIS deliveries, only six SLAs were closed in 2015, with five SLAs having generated surpluses of EUR 895,000, mainly recognized already according to the stage of completion.

7.3.8 Currently, there is no standing Agency Directive with clear ownership of the closure process of SLAs.

### **Recommendations**

7.4 The Board recommends that the Agency continues to improve its project closure process:

- a) by issuing a comprehensive and harmonized Directive on closing activities including SLA.
- b) by clarifying the practice of the surplus above 8% and/or EUR 10,000.
- c) by planning more frequent SLMB decisions on closed projects, in part to avoid the perception that decisions are only taken after the year-end as a way for the Agency to manage the level of surplus or deficit presented in the financial statements.

**8. MORE TRANSPARENCY NEEDED ON SLMB DECISIONS TO RETURN CERTAIN PROJECT SURPLUSES TO THE CUSTOMERS RATHER THAN ALLOWING THEM TO FLOW TO THE OPERATING FUND**

**Reasoning**

8.1 The NCIA Charter is silent on a specific mention of the Operating Fund. However, the Charter places responsibility for approval of the Financial Plan with the Agency Supervisory Board (ASB), with the Budget Committee (BC) to be subsequently informed. The Operating Fund level is included in the Financial Plan.

8.2 The Customer Funding Regulatory Framework, as reflected in Articles 43 to 51 of the NCIO FRP XXVII, now governs the Operating Fund. The NATO Budget Committee will undertake assigned responsibilities for regulating the Agency's Operating Fund including using the Fund and increasing or decreasing its size for the Agency. The Agency following recommendation by the Agency Supervisory Board (ASB) and the approval of the NATO Budget Committee may expend accumulated surpluses up to an overall limit of EUR 500,000 during the financial year for initiatives supporting the effective and efficient operation of the Agency. Expenditures in excess of EUR 500,000 will require RPPB approval.

**Observations**

8.3 Following the practice mentioned above on the SLMB making decisions on whether to return certain surpluses for closed projects to customers, the SLMB decided over the past two years to send back to customers EUR 3.4 million.

8.4 Despite the direct impact of such decisions on the level of surpluses and the Operating Fund, there is no mention in the disclosure notes on "NCIO Statement of Change in Net Asset/Equity (Operating Fund)" of a summary of SLMB decisions on these surplus generated by closed projects.

**Recommendations**

8.5 The Board recommends that:

- a) the various NATO governing bodies with roles in approving the use of the Operating Fund agree to the current practice of the SLMB making decisions to return surpluses to customers rather than allowing them to go to the Operating Fund; and

- b) disclosure notes on the NCIO Statement of Change in Net Asset/Equity (Operating Fund) mention a summary of SLMB decisions related to surplus generated by closed projects.

## **9. WEAKNESSES IN REVENUE RECOGNITION FOR SERVICE LEVEL AGREEMENTS**

### **Reasoning**

9.1 As per IPSAS 9, *Revenue from Exchange Transactions*, “When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognized by reference to the stage of completion of the transaction at the reporting date”.

9.2 For Agency services provided via SLAs and CSLA, revenue should be recognized according to the stage of delivery.

### **Observations**

9.3 Following the 4th and last quarter review, all SLA delivery issues are discussed and, with the acceptance of the customer, the contract is considered as completed. The associated project in the project management system is closed.

9.4 However, the portion of the SLA related to external CIS deliveries is implemented through purchase orders (POs) outside of the system. The 4th quarter report mentions the status of non-executed POs and with the agreement of customers it is decided to carry forward these POs for execution in the following year. Then, the percentage of completion takes into account these non-executed POs and the earned revenues are deferred. A total amount of EUR 28.9 million of non-executed POs were carried forward from 2014 to 2015 while a total amount of EUR 22 million were carried forward from 2015 to 2016.

9.5 During the second half of 2015, following a comprehensive review between the Agency, the customers and the suppliers, a large number of POs were adjusted to take into account the estimated goods or services that will be eventually delivered. These adjustments resulted in total reductions to the POs, which reduced the estimated “cost-to-complete”, thus increasing the percentage of completion. Due to the volume of open encumbrances carried forward into 2016, the Board did not have the assurance that the estimate of ‘cost-to-complete’ was based on a case by case business analysis.

### **Recommendation**

9.6 The Board recommends that the Agency, in liaison with its customers, adjusts the open POs on a more frequent basis during the year for the funding for external CIS.

**10. RESTATED 2014 SURPLUS UNDERSTATED BY EUR 2.3 MILLION IN THE STATEMENT OF FINANCIAL PERFORMANCE**

**Reasoning**

10.1 The restatement of the Statement of Financial Position, Financial Performance and Cash Flow was due to an error noted in 2014, in booking the Provision for Untaken Leave and End of Labour contracts for Service Delivery.

10.2 The error is due to an accounting practice under the Budget Funded Framework where provision for untaken leave needed to be neutralized by revenue compensation. However, under the full Customer Funding Framework introduced in 2014, such revenues would not have to be booked, but charged against the Agency Operating Fund.

**Observations**

10.3 The amount of accumulated untaken leave at 31 December 2013 was EUR 2,383,410. A receivable/revenue was booked in the same amount to reflect that budget funding would be received to pay for this amount. However, this untaken leave carried forward into 2014 was paid for with customer funding in 2014, so a receivable/revenue should not have been recorded at 31 December 2013.

10.4 Since the expense related to it had already been recorded in 2013, the Agency properly reversed the provision from expenses recorded in 2014. However, the Agency also reversed the revenue/receivable booking which had been incorrectly booked in 2013. The reversal of this revenue was booked directly against 2014 expenses. This reversal of a 2013 incorrect revenue should not have been booked in the 2014 balances, and resulted in expenses being overstated, and surplus being understated, by EUR 2,383,410 in the 2014 comparative balances.

10.5 In theory, the booking of the receivable/revenue at the end of 2013 was not correct since NCIA wasn't to receive this funding from any budgets (rather, future revenue generated via customer funding would pay for it). Opening 2014 equity would also be reduced by EUR 2,383,410, so the ending 2014 equity would be the same as presented. Furthermore, there is no impact on the 2015 balances as a result of this. Consequently, there is no recommendation on that observation.



## **11. COMPLETENESS OF RELATED PARTY DISCLOSURES**

### **Reasoning**

11.1 The NATO Accounting Framework requires disclosure of related party transactions for key management personnel, which includes members of the governing bodies.

### **Observations**

11.2 Note 25 of the Financial Statements states that *“while those charged with governance may also have potential related party transactions with NCIO, this has not been validated”*.

### **Recommendation**

11.3 The Board recommends that NCIO fully complies with the requirements of the NATO Accounting Framework in respect to related party disclosures, including making inquiries of governing bodies to ensure the completeness of related party transactions.

## **12. PLACEMENT OF ROLE OF THE COMPETITION ADVOCATE**

### **Reasoning**

12.1 One of the Agency’s important roles is the procurement of goods and services for customers. A strong control environment with a focus on promoting competition and preventing and detecting conflicts of interest is of utmost importance to NCIO.

### **Observation**

12.2 The Board found that within the Agency there is the position of Competition Advocate. The functions of this position are to promote and protect fair competition in procurement activities within the Agency. However, the person assigned to be the Competition Advocate is also the Director of Acquisition. In the Board’s view, the dual-hatted nature of this position jeopardizes its function. First, there is a potential conflict simply based on the fact that the person is also dual-hatted as the Director of Acquisition. Secondly, the level of procurement activity within the Agency limits the time that this individual has to perform the function of Competition Advocate, limiting the ability to be a real advocate for competition.

### **Recommendations**

12.3 The Board recommends that:

- a) the position of the Competition Advocate is put outside the area of influence of procurement to ensure a real independence of the position and fairness in the procurement process.
- b) the Competition Advocate issues an annual report on its activities to the Agency's Senior Management and the Agency Supervisory Board.

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

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

<b>OBSERVATION/RECOMMENDATION</b>	<b>ACTION</b>	<b>STATUS</b>
<b>2014 NCIO Audit report: IBA-AR(2015)20</b>		
<b>Recommendation 1</b>  The Board recommends that NCIO continue pursuing and implementing an integrated solution for the procurement, management and reporting of tangible and intangible assets in order to reduce the inefficiencies and risks involved with the use of many different accounting systems and logistic tools. This should be accomplished within timelines that have been established.	The solution will be provided by the EBA implementation funded through the Transition Programme. Because of the delays encountered in the implementation of the application, the Agency is trying to mitigate through a variety of actions, building towards the final EBA solution.	Observation <b>Superseded by 2015 observation 1.</b>
<b>Recommendation 2</b>  The Board recognizes the efforts made by NCIO and the NATO commands in completing the Hand-Over/Take-Over for static locations. The Board recommends NCIO to finalize the transfer of CIS assets from Resolute Support by the end of September 2015, and to also properly disclose a brief description of items purchased before 2013 but not capitalized	The transfer of CIS assets from the Resolute Support Mission was completed.  Brief descriptions of items purchased before 2013 but not capitalized were disclosed in the notes to the 2015 financial statements, pages 71 & 72.	Observation <b>Settled.</b>
<b>Recommendation 3</b>  The Board recommends NCIO to ensure that all tangible and intangible assets acquired or developed in achieving its mission, including capability related assets, are identified and assessed for capitalization in compliance with the NATO Accounting Framework.	While the NATO Accounting Framework was further adapted to allow NCIO to not capitalize CIS assets under construction until 1 January 2018, the Board found instances indicating that weaknesses remain.	Observation <b>Superseded by 2015 observation 6.</b>
<b>Recommendation 4</b>  On scope limitation on the 2013 comparative PPE and intangible asset information included in the 2014 NCIO Financial Statements.	The Agency complies with the IBAN recommendation.	Observation <b>Settled.</b>

OBSERVATION/RECOMMENDATION	ACTION	STATUS
The Board recommends that, in the future, (i) reclassifications that are made are clearly identified along with the reasons for doing so and that (ii) if possible, the corresponding balances presented in the financial statements should be restated to present the corrected balances.		
<b>Recommendation 5</b>  The Board recommends that (i) the method for SLAs cost-to-complete calculation be reviewed and that (ii) the TAS be improved so that the EPM projects reflect actual time dedicated to direct SLA service delivery.	The Agency improved the estimated valuation of non-executed POs by reviewing during the last quarter of 2015 with vendors and customers the validity of such open encumbrances.	Observation <b>(i) Superseded by 2015 observation 9.</b> <b>(ii) Settled.</b>
<b>Recommendation 6</b>  On the lack of a consistent and robust process in determining capability development contract revenue and surplus or deficit for the period.  Among other options, the Board specifically recommends that:  e) Project milestones be defined in a more detailed manner, including activities or group of tasks; f) Project Investment Costs be incorporated into the EPM in order to consolidate into a single system the assessment of future costs of a project; and g) Standardized 'cost-to-complete' estimation processes are put into place among the Project Managers, that thorough review by management and Finance are strengthened again, and that these and the results of the estimation process are documented.	The Agency has stated that initiatives are already in progress in terms of strengthened standardized processes, detailed definition of project milestones and the incorporation of milestones in EPM. In light of the Board's comments, the Agency is also assessing the possibility of incorporating investment costs into EPM in advance of, but in coherence with, EBA implementation.  The Board, though, has not yet seen improvements in the process.	Observation <b>Superseded by 2015 observation 2.</b>
<b>Recommendation 7</b>  The Board recommends that NCIO improve the way that information on contingent liabilities is requested, collected and assessed. Such a process is necessary to ensure that contingent liability disclosures in the financial statements are accurate and complete. The process should be fully documented as well.	The Agency has put a one-time significant effort for the 2015 disclosure note on Contingent Assets & Liabilities.  A more regular improvement would exist after the approval in	Observation <b>Outstanding.</b>

OBSERVATION/RECOMMENDATION	ACTION	STATUS
	2016 of an Agency Instruction on Contingent Assets and Liabilities.	
<p><b>Recommendation 8</b></p> <p>The Board recommends that NCIO improve its process to prepare, send and receive confirmation of the outstanding asset and liability balances from other NATO bodies as part of the preparation of the financial statements</p>	<p>The Board asked to see confirmations of Receivables from other NATO bodies that were still outstanding at the time of the audit. The Board was provided with correspondence on confirmations with ACO but no other NATO bodies. However, the correspondence could not be reconciled with the outstanding receivables selected for audit. Therefore, the Board concludes that its recommendation that NCIA improves its process to send and receive confirmations to other NATO bodies in support of the financial statements still remains open.</p>	<p>Observation <b>Outstanding.</b></p>
<p><b>Recommendation 9</b></p> <p>The Board recommends that NCIO review its outsourced contracting approach with NSPA for the procurement of CIS spare parts, supplies and IT standard equipment in order to determine whether this is the most efficient and effective approach for NATO</p>	<p>It has been confirmed that the Agency is accountable and responsible for CIS assets, CIS stocks and CIS order fulfilment. With regards to CIS stock management functions currently executed by NSPA, it has been agreed that NSPA will continue to support NCI Agency during a transition phase through 2018.</p>	<p>Observation <b>Settled.</b></p>

OBSERVATION/RECOMMENDATION	ACTION	STATUS
<b>Recommendation 10</b>  The Board recommends that NCIO disclose separate segment information related to the BMD and AirC2 programmes. This will help the BMD & AirC2 Steering Committees, as well as other NATO committees, to achieve their governing roles and responsibilities	Upon conclusion of the Customer Funding Framework and ensuing clarification of governance structure, the Agency will address, if still relevant at that time, the issue of segmented financial statements with the relevant stakeholders. NCIA has recently contracted an external specific study with results to be issued in 2016.	Observation <b>Outstanding.</b>
<b>Recommendation 11</b>  The Board recommends that the NCIO Financial Statements present some information related to NCIO direct and indirect costs, preferably on the face of the Statement of Financial Performance.	The Agency has included information on direct and indirect costs within the notes to the financial statements 2015.	Observation <b>Settled.</b>
<b>2013 NCIO Audit report: IBA-AR(2014)22</b>		
<b>Recommendation 4</b>  The Board recommends NCIO to improve its financial reporting control procedures, including management reviews, in order to ensure that they adequately mitigate the risk of errors in the financial statements.	The Board found significant improvements for these third financial statements of the new Agency. Despite no material errors were found in 2014 (and corrected with a restatement), and in 2015, the Agency is still working with 2 different accounting systems and relying tremendously on spreadsheet files for its revenues recognition. NCIO should improve dramatically its financial reporting control procedures, including management reviews when using EBA.	Observation <b>Partially settled.</b>
<b>Recommendation 5</b>  The Board recommends that NCIO should ensure that future financial statements clearly report the budget execution of its transition program activities.	The Board found improvement in the clarity of the presentation of the transition program in the notes to the 2015 Financial Statements.	Observation <b>Settled.</b>

OBSERVATION/RECOMMENDATION	ACTION	STATUS
<b>2012 NCIO Audit report: IBA-AR(2013)23</b>		
<b>Recommendation 5</b>  The Board recommends that the NCIA Temporary Staff should be managed in compliance with CPRs and local laws for NCIA Temporary Staff serving in the Netherlands.	NCIA Internal Audit is conducting an audit on this issue and it is currently under review by the Human Resources and Legal Department. As soon as the report is finalised, appropriate actions will be taken to resolve the issue.	Observation <b>Partially settled.</b>
<b>Recommendation 6</b>  The Board recommends that now that an adapted IPSAS framework has been approved with different requirements for PP&E compared to IPSAS 17, NCIA should develop a detailed accounting policy on PP&E and ensure sufficient note disclosures on PP&E in future financial statements.	The Head of Financial Reporting Policy at NATO HQ is currently working on a NATO-wide accounting policy for PP&E.	Observation: <b>Partially settled.</b>
<b>2010 NCSA audit report: IBA-AR(2012)10</b>		
<b>No Consolidation of Morale and Welfare Activities (MWA)</b>  NCSA did not include MWA activities, revenue and expenses of EUR 1.4 million, in the 2010 NCSA Financial Statements and no information was disclosed about MWA.  The Board's view is that the NCSA's MWA activities are controlled by NCSA and as such the financial statements of MWA activities should be consolidated into those of NCSA in accordance with IPSAS 6, <i>Consolidated Financial Statements</i> .	NCIO applied the NATO adapted accounting framework for Morale and Welfare activities and/or staff association activities, which do not have to be consolidated into the entity's financial statements.  However, the Board did not find any financial information in support of such activities by way of a disclosure note to the financial statements as required by the NATO Accounting Framework.	Observation <b>Outstanding.</b>

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

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

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

*When established on 1 July 2012 the Agency inherited three financial systems from its legacy entities. As part of the Transition Programme a new integrated solution is included under the EBA programme which is to address and resolve this issue. Unfortunately this Programme was only authorized in December 2013 and in addition this programme has also suffered a delay as the selected contractor for LOG FS was in arbitration. The Agency has developed the requirements for EBA and at this point the Agency is in the process of going back to the IC to request for a fund increase further to the bid received from industry. Pending the outcome, the Agency is now aiming at implementing EBA on 01 January 2018.*

*Nevertheless, to the extent possible, the Agency has already taken some mitigation actions as to address asset management issues and to improve pending EBA implementation:*

- In line with the NATO Accounting Framework, the Agency has undertaken efforts to account for all Service Delivery assets acquired as of 1 January 2013 including those acquired under CIS Delegated Budgets. Hand Over/Take Over (HO/TO) of CIS Assets for Command Structure static entities was completed in 2014 and that for Resolute Support was completed per the end of 2015. As part of this work and newly implemented processes, asset accounts continue to be refined and updated.*
- As of 1 January 2014 the Agency has decreased the number of financial systems from three to two by migrating the former NACMA's ProAcc/ProCure to the former NC3A's PeopleSoft system (CFS - Core Financial System).*
- The Agency has activated the necessary inventory and asset management tools within former NCSA's Oracle based application (CNAFS) which were already available in the NPC CNAFS. The migration from NDSS has been completed at the CIS Service Support Center (CSSC) in Brunssum and at the NCI Agency CIS Support Units (CSUs) throughout NATO. These tools now capture newly acquired*



Service Delivery inventory and assets. *The Agency also intends to migrate inventory and assets from Planon/CFS to CNAFS.*

- *Due to delays and pending an additional fund approval, the Agency EBA implementation is now foreseen 1 January 2018. This one Agency transactional business system is planned to build on the initiative for inventory and asset management (including intangible assets) and will contain all inventory and assets for the Agency, thus addressing and satisfying the IBAN recommendation.*
- *In 2015, the Agency also played a key role in co-operating with the Head of Financial Reporting Policy, which lead to the adaptation of the NATO Accounting Framework approved by Council in late April 2016 where the ambiguity between control and ownership for CIS assets has been eliminated (defining now that NCIO also has control) and establishes a transition period for the NCI Agency up until 1 January 2018, as to bring Assets under Construction on its books. The EBA implementation will be a pre-requisite for the Agency to meet this deadline as well as some considerable work on relevant accounting policies for which it will continue to work closely with the HFRP.*

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

**OBSERVATION 2:**

**LACK OF A CONSISTENT AND ROBUST PROCESS IN DETERMINING CAPABILITY DEVELOPMENT PROJECT REVENUE FOR THE PERIOD**

**NCIO ASB's Formal Comments**

*Under item 2.3 the Board states that during prior year's audit the CTC estimates were very often based on the unspent amount. The Agency comments that the statement "very often" is factually incorrect as the sampling only represented 24 projects out of a total of 458 firm fixed price projects, thus representing only 5% which thus cannot be considered as representative nor sufficient enough, to state "very often".*

*The Agency cannot confirm the amounts and percentages quoted under note 2 to item 2.5. Based on the information provided by the IBAN the Agency worked out its calculation which reveal different amounts and percentages than presented in the IBAN Report; the amount quoted of 31.8 million of underestimated accumulated revenue at year-end 2013, based on an overestimated percentage of 4.21%, should rather read as 4.7 million on a calculated overestimated percentage of 1.95%.*

*As a result, the Agency requests for the Board to adjust its report accordingly.*

*The estimated Cost-to-Complete is based on the best effort from the PM to forecast future spending on his project, which tends to be more difficult if the closing date is further in the future. Even if during the execution the intermediate estimated CTC's are over (or under) estimated, the effect will be nullified at the end of the project where the CTC will be zero and the recognized revenue will be equal to the billed revenue.*

*During the last 10 years Capability Development Revenue has been stable in the order of magnitude of MEUR 95 and the number of projects ongoing has also been more or less equal (~ 600 of which about 75% are FFP and other are CR). Although the over- or underestimation of CTC may have an impact on the calculation of Earned Revenue for a particular project at a particular time, the sum of that effect levels out across the totality of projects which are at various stages of completion (new projects, active projects and closing/closed projects). Given the large number of projects (about 75% fixed price), statistically the effect tends to become completely neutralized over time.*

*Notwithstanding above (factual and formal) comments, the Agency acknowledges that the cost to complete process for the capability development projects needs strengthening and improved discipline. The automated CTC process is in scope within the EBA implementation and ahead of this implementation the Agency is currently conducting a MCR/Deloitte lead study as to improve the process through documentation, training material and interim tool optimisations which should provide better project manager estimates and bring more discipline, pending EBA. The Agency has also activated milestone tracking for NSIP projects in the beginning of 2016 and other projects will follow in late 2016. All these actions will address the specific recommendations by the Board.*

### **Board's position**

The Board maintains its position and will review the improvements that NCIA stated it plans to make in future audits. The Board believes that its sample provided it with sufficient and appropriate evidence to draw its conclusions, and NCIA did not provide any contradictory evidence during the audit.

### **OBSERVATION 3:**

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

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

*The Agency welcomes IBAN's comments in that it has already well progressed in this area given the very recent NFR changes and FRP approval only in 2016. It will*

*continue to work this subject taking in mind the recommendations made by the Board.*

**OBSERVATION 4:  
WEAKNESSES IN SOURCE SELECTION PLANNING PROCESS**

**NCIO ASB's Formal Comments**

*The durations for evaluation mentioned by IBAN on the 5 samples quoted in the report were lacking the detailed/additional information that NCI Agency asked (see remark) to be provided in order to give an informed and complete picture explaining the duration of the respective evaluations, i.e.:*

- *Specify the procurement methodology (which has an impact on evaluation timelines)*
- *Factor any instances that required the NCI Agency to refer back to the NOR/ IC during the evaluation process for subsequent screening/ approval*

*Remark: just before publication of this letter the IBAN provided the details requested but not in time for Acquisition to analyze them and to provide more detailed explanations*

*Regarding DADR project, the observation about the DADR evaluation process (26 months) is not acknowledging that NCI Agency had to go through a non-compliance issue followed by a dispute to be handled with a delegation which has significantly delayed the evaluation of the bids (process which is not under NCI Agency control). Also, the DADR evaluation process was an unusual and unique evaluation process (5 step process) approved by the Nations which is not representative of the standard NCI Agency evaluation process. In that respect, it should not be used to draw conclusions on the global NCI Agency evaluation process.*

- a) *Dates provided to the budget holder for contract award are based on scenario built on the standard time required to run the proposed procurement strategy factoring some contingencies to address potential issues. However, it is to be noted that as soon as the Agency depart from the standard scenario, this is very likely related to issues in the bidding process leading to engaging with Bidders and Delegations as per the procedures and therefore, entering a process which is not under NCI Agency control and by nature difficult to predict. NCI Agency will aim at refining its scenario when preparing the requests (TBCE) to go to the budget holders (IC) by increasing contingency in the time needed to address potential issues during the evaluation process (based on historical data).*
- b) *Recent Best Value procedure revision for IC procurements (AC/4-D(2008)0002-REV2 dated 15 July 2015) has introduced the fact that Source Selection Plan*

*(SSP) should be finalized before issuance of the solicitation documents and must be signed before the bid closing date. As per the NCIO Charter, the NCI Agency is obliged to follow these regulations. This change is reflected in the NCI Agency Procurement SOP being finalized and expected for approval during summer 2016, so it aligns with the approved regulations. Obviously, NCI Agency will aim at having SSP approved (and resources identified) as early as possible in the solicitation process in accordance with the regulation mandated by the Nations. NCI Agency acknowledges the IBAN findings related to the fact that in some cases, SSP was signed after bid closing date (but in any case, always prior to bid opening) and will ensure in the future that SSP are approved in due time. It is NCI Agency's opinion that IBAN recommendations should be amended as the Agency is following approved procedures.*

- c) Regarding resources to be secured to conduct bid evaluation in accordance with SSP, the recommendation is noted. Procurement SOP is already reflecting the priority which shall be given to such activity and NCI Agency will ensure that the SOPs are properly enforced.*

#### **Board's position**

The Board maintains its position. It is understood that different factors can lead to a longer source selection process. Such factors, though, need to be identified and mitigated to the maximum extent possible to ensure that unnecessary delays are not being introduced into a project from the very beginning.

#### **OBSERVATION 5: INSUFFICIENT USE OF COMPETED SUPPORT SERVICE CONTRACTS IN 2015 AND 2016**

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

*The Agency accepts the IBAN observation and is steadily progressing in this area; a new Service Support Contract was awarded in 2015 and 2016 and with the NFR and FRP changes, the Director of Acquisition is signing sole source deviations who also within his role of competition advocate is increasingly challenging and even refusing sole source deviations. The Agency acknowledges however that more progress is still needed but is confident that it is on the right track.*

**OBSERVATION 6:  
IMPROVEMENT STILL NEEDED FOR PROPERTY, PLANT AND EQUIPMENT AND  
INTANGIBLE ASSETS MANAGEMENT**

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

- a) The Agency acknowledges it needs to continue its efforts in this area and refers to its comments and actions taken and/or underway for observation 1 above. The Agency does wish to point out that with the adapted NATO Accounting Framework approved by Council in April 2016, it has accepted to assume control over all CIS assets but limited to the NATO Military Commands and respectively the International Staff and International Military Staff. The Agency thus does not necessarily control the referred estimated EUR 9.9 million of crypto equipment but agrees it does not yet have the necessary tools and processes in place to evaluate this correctly at all times. The EBA implementation will be a key enabler in mitigating this observation as well as the ongoing work in co-ordination with the HFRP on establishing accounting policies for PPE.*
- b) The Agency agrees to the recommendation and can confirm that within the EBA scope further modules are foreseen to complement the process, such as a Warehouse Management Module.*
- c) The Agency finalized per the end of 2015 the data migration of NATO CIS assets/inventory from NDSS to the Oracle database. This effort was carried out within 12 months and thus some data cleaning was postponed to 2016 where all discrepancies between physical inventory and the oracle asset register will be addressed and corrected. At the same time, the Agency is also looking into a scanning/bar coding solution to further improve asset management accounting.*

**OBSERVATION 7:  
IMPROVEMENTS NEEDED FOR PROJECT CLOSURE ACTIVITIES**

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

*The Agency will comply with the recommendations made. It is currently developing a Closure SOP which will address projects and SLA's and which is at the co-ordination stage. The Agency also concurs that although progress has been noted, further improvements are needed and SLMB decisions on closed projects need to be taken more regularly in year. The Agency will further formalize through the Governing Bodies the current practice of returning funds to the customer for surpluses above 8% and/or EUR 10,000 for firm fixed price projects.*

**OBSERVATION 8:  
MORE TRANSPARENCY NEEDED ON SLMB DECISIONS TO RETURN CERTAIN  
PROJECT SURPLUSES TO THE CUSTOMERS RATHER THAN ALLOWING THEM TO  
FLOW TO THE OPERATING FUND**

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

*The Agency will comply with the IBAN recommendations (see also above related comments on recommendation 7).*

**OBSERVATION 9:  
WEAKNESSES IN REVENUE RECOGNITION FOR SERVICE LEVEL AGREEMENTS**

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

*The Agency welcomes IBAN's noted improvements as this observation is no longer a reason for qualification (as was the case for the 2014 audit report) and accepts that further improvements are still needed and will take action accordingly.*

**OBSERVATION 10:  
RESTATED 2014 SURPLUS UNDERSTATED BY EUR 2.3 MILLION IN THE STATEMENT  
OF FINANCIAL PERFORMANCE**

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

- *The accumulated Provisions (Liabilities) and the neutralising Receivables at 31-Dec-2012 amounted to KEUR 329 (End of Labour Contract - EoL) and KEUR 2,552 (Untaken Leave - UL). In 2013, these amounts increased/decreased respectively by KEUR 4 and KEUR -169. Up to 31 Dec 2013 this part of the Agency (former NCSA) operated under the Common Funded Regime. As of 01 Jan 2014, the entire Agency (including former NCSA) started operating under the Customer Funded Regime (CFR). Under the CFR, a provision (non-cash expense) is not neutralised by a noncash revenue, but charged against the Operating Fund. The Agency disagrees with the statement from IBAN under 10.3 that the EoL and UL were paid for with customer funding in 2014, since these are provisions; the actual payment (if any) is decoupled from the provision bookings.*
- *In 2014 the Agency did not reverse the provisions, but booked the appropriate increments for 2014, i.e. KEUR -104 for EoL and KEUR -732 for UL. By mistake the neutralising entry (as if this part of the Agency was still operating under the Common Funding Regime) was also erroneously booked, which brought the respective Provisions/Receivables to KEUR 228 and KEUR 1,650 respectively. This resulted in an overstatement of Receivables/Revenue at 31 Dec 2014 of KEUR 1,878. This was only noted during the 2015 closing, and therefore*

*corrected via a 2014 Restatement. The amount (KEUR 2,383) mentioned under 10.4 is factually incorrect, because the amount is for UL only. The provision for EoL at that date was KEUR 333. The entries done in 2014 as stated above were not taken into account into the observation, although they are incorrect.*

- *The observation under para 10.5 of the report, that the booking at the end of 2013 was not correct, is debateable, because that part of the Agency (former NCSA) operated under the Common Funded Regime up to 31 Dec 2013. In theory, if the Agency would have ceased to exist at that date, the Nations would have been liable to pay for the EoL and UL commitments. The fact that as of 01 Jan 2014 NCIA became fully Customer Funded, lead to the correction of the Liability which was no longer valid (in fact NCIA booked a loss of KEUR 2.716, which was the result of liabilities originating from a period of activity under Common Funding). The amount stated under this para is factually incorrect, instead of KEUR 2,383 it should have been KEUR 2,716. The Agency restated for a total amount of 1,878, because the provisions decreased in 2014 and the (wrong) neutralising entry was still booked in 2014 (see above). The observation states correctly that the 2014 ending amount for equity is correct and that there is no impact on the 2015 balances.*
- *The amounts mentioned under para 10.6 are not correct. The correction was made against Revenue, not Expenses. Furthermore, the correction was for KEUR 1.878 rather than KEUR 2,716, given the fact that provisions for EoL and UL decreased in 2014.*

### **Board's position**

The Board accepts that the amount reported in the observation did not include the adjustments related to End of Labour Contract, and should have been EUR 1.878 million rather than EUR 2.383 million. The Board also removed its recommendation, initially reported at paragraph 10.6, that the financial statements be restated because the amount is not material and there is no impact on the ending 2014 Net Assets or the 2015 balances. The Board maintains the remainder of its observation.

## **OBSERVATION 11: COMPLETENESS OF RELATED PARTY DISCLOSURES**

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

*As per above factual comments, the Agency believes this observation is debatable but notes above all that there is no impact on the ending balances for 2014 and 2015 Net Assets, and as a result considers that no further action is to be taken.*



**OBSERVATION 12:  
PLACEMENT OF ROLE OF THE COMPETITION ADVOCATE**

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

*The role of the Director of Acquisition (DACQ) as the competition advocate was approved by the Nations in the NCI Agency's FRP and in the Acquisition Directive. Placing this role within the ACQ had the following reasoning:*

- *Ensure that the procurement regulations are followed and competition maximized for all the requirements fulfilment coming from the internal and external customers.*
- *Recognition of the fact that unlike in instances of other NATO Organizations where the Financial Controller also exercises the procurement function, within NCI Agency the DACQ is accountable for all the procurement related activities.*

*As the DACQ responsibilities are limited to the contracting with Industry, the competition advocate role is clearly focused on maximizing competition between the eligible industries.*

*The successful conduct of the execution of this role is already observed with the significant decrease of the Deviation Requests in comparison to 2015.*

*Placing this role outside of the ACQ office would be reverse of what FC and DACQ were trying to achieve through putting the FRP (approved in Mar 2016) and ACQ Directive in place (approved in Apr 2016). It is deemed by the Agency that clear accountability for Acquisition functions and responsibilities are to remain under one Director only, and thus DACQ.*

*As per recommendation (b) the DACQ will issue an annual report addressing activities as Competition Advocate.*

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

***NCIO ASB's Formal Comments to Recommendation 7 on NCIO 2014 Audit Report***

*The Agency did indeed put a one-time significant effort in 2015 to action this observation and an Agency instruction on the subject is in final co-ordination which will settle this observation.*



**NCIO ASB's Formal Comments to Recommendation 8 on NCIO 2014 Audit Report**

*The Agency already improved per the end of 2015 but agrees that further improvement is required and thus will comply with the Board's recommendation.*

**NCIO ASB's Formal Comments to Recommendation 10 on NCIO 2014 Audit Report**

*Upon conclusion of the Customer Funding Framework and ensuing clarification of governance structure, the Agency will address, if still relevant at that time, the issue of segmented financial statements with the relevant stakeholders. The Agency has contracted an external specific study on segmentation with results to be issued in the second half of 2016.*

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

*The Agency welcomes the improvements noted in the Audit report leading to a partial settlement of this observation. The Agency will however continue to monitor and improve within the limitations of its multiple financial systems and suboptimal interfaces with other legacy systems, pending the EBA implementation.*

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

*Per the 2014 audit report this observation was considered as partially settled so the Agency considers this should be corrected as it is not aware of any new developments.*

*Other than the above comment, the observation will be settled in 2016 as only two temporary staff members are still concerned and they will leave by the end of September 2016. The Agency has now also negotiated an additional support services category (known as area 5) that supplies contractors at the same level as those previously engaged as temporary staff (i.e. admin level staff). The Agency will use this to supplement the temporary staff and thus also to avoid further CPR non-compliance.*

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

*The Agency believes that this observation has been partially settled as it provided the required note disclosures on PPE per the NATO Accounting Framework which was accepted by the IBAN.*

*As to the PP&E accounting policy, the Agency confirms that it is co-operating very closely with the HFRP as to have a NATO wide accounting policy for PP&E which will form the basis for more detailed NCIA implementing instructions on the subject. The co-operation with the HFRP has so far already resulted in an adaptation of the*

*NATO Accounting Framework which has been approved by Council in April 2016 and which caters for specific adaptations with respect to CIS assets and Assets under Construction. Based on this adaptation the next steps are now under development and co-ordination.*

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

*The Agency included a note on page 47 stating that NCIO also has some Morale and Welfare Activities which are not consolidated into the financial statements as per the NATO Accounting Framework and that a report on these activities will be submitted separately to the ASB Finance Committee.*

*The Agency agrees however it has not made sufficient progress in this area wherein the Agency has several legacy MWA which are very different due to the many different locations across NATO. An Agency directive on MWA is however in final co-ordination and will be submitted to the ASB for approval shortly. Pending approval of the NCI Agency MWA Directive a more detailed SOP is also in preparation. The Agency is confident that it will be able to settle this observation in 2016.*



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



NCIA/FC/2016/00564

## **NCIO Financial Statements 2015**

NATO UNCLASSIFIED

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

One way of thinking of NATO's networks is: a typical ballistic missile defence engagement – with the data flowing over NATO's networks – will need to be resolved in six to eight minutes. Certainly shorter than what it will take you to read this document.

As an Introduction to our 2015 Financial Statements, I would like to emphasize a number of points.

2015 was an important year in terms of ensuring the Agency's delivery in support of NATO's critical priorities. I believe we have demonstrated our ability to meet urgent requirements. As part of the Readiness Action Plan, and in partnership with the NCISG, support to exercises in 2015 – within the existing resource envelope - was increased by 50%. Similarly – while the formal tasking for NFIU connectivity was only received in September 2015, Initial Operating Capability was achieved at the beginning of 2016. NATO's largest common-funded programme, ACCS, has entered into operations. Important work was progressed in order to support JISR IOC. The end of 2015 also saw the largest – to date – wave of targeted cyber-attacks against HQ. It is good that this is something you did not notice or know about as services, including NATO's Web site, continued without interruption. In sum, the Agency is supporting 9 of the 16 critical priorities that will be reviewed at the Warsaw Summit.

In achieving some of this work we have seen the benefit of NATO's journey towards a modern IT infrastructure; the use of modern cloud technology was critical in ensuring Trident Juncture as well as NFIU connectivity.

While delivering urgent operational priorities and as reported in the most recent update to the Benefits and Savings Plan we continue to make progress in the effective and efficient delivery of CIS services. We have taken significant steps towards the implementation of service rates and further consolidated the use of time accounting and performance management across the entire Agency. IBAN performed a review of the Transition Programme in 2015. Their insight was helpful and their recommendations, including stronger management of the change programme, are being implemented.

In August 2015 we gave early warning to the Board that the revenue target would be revised downward. In these statements we are reporting that we did not meet our original revenue target, due to capacity and programme delays.

Challenges remain, but important work has been achieved.

2015 marks the 'Consolidation' and 'Rationalisation' period as effectively complete, and the Agency is now optimising capacity in line with demand (although further rationalisation will continue from time to time). We are observing a steady, but clear maturing of the customer funding regime and the relationship with our customers and stakeholders. We have, I believe, significantly strengthened our partnership with the NCISG and NSPA in the spirit of 'One NATO'. We have increased the amount of work contracted to Industry, and supported progress in the NATO-Industry Cyber Partnership. These elements will be described in greater detail in our Annual Report.

NATO networks remain under persistent and ever more sophisticated attack. I am extremely proud of the Agency team that ensures they are operating 24/7. Every success is a joint success of the wider team – Nations, the resource community, ACO, ACT, partners and stakeholders.



**Koen Gijsbers**  
General Manager NCI Agency

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

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

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

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

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

### Operational Environment

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

- Work with all relevant stakeholders in order to develop NATO C3’s architectures to support Senior Policy Committees’ capability coherence and implement NATO technical coherence;
- Perform central planning, technical planning, systems design and engineering, integration and configuration management, testing and technical support for assigned NATO systems or installations;
- Operate, control and support assigned in-service NATO CIS and installations, and any other assigned in-service systems, appropriate systems support including hardware and software maintenance and configuration management, and ensuring the commensurate training of personnel for operations and maintenance;

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

- Manage and execute Programmes and other projects assigned to it;
- Act as Host Nation for assigned NATO Security Investment Programme (NSIP) projects as recommended by the NATO Resource Policy and Planning Board (RPPB) and approved by the North Atlantic Council (NAC), or as approved by the NATO Investment Committee (IC);
- Exercise ownership of assigned infrastructures and assets in support of its mission;
- Provide Information Assurance and Cyber Defence for NATO’s Communications and Information Infrastructures consistent with NATO Cyber Defence Policy<sup>2</sup>;
- Support External Customers by implementing the NATO 1<sup>st</sup> Solution or ensuring interoperability of their C3 systems with those of NATO
- Implement Strategic Partnership with key Customers
- Design, tailor and implement cooperation models, whether bilateral or multilateral such as MOU, SSF, MYPOW or C&I Partnerships to formalize and streamline cooperation with External Customers
- Perform studies, provide advice and support NATO bodies and the other customers in the scientific, technical and operational analysis domains;
- Provide shared services other than IT if so directed.

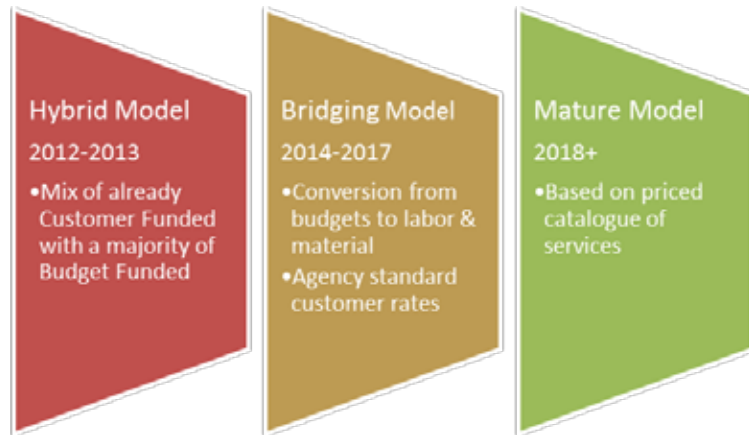
### Customer Funding

Upon establishment of NCI Agency in 2012, the existing funding model(s) were continued per Council Transition measures. Effective 2014 the Agency implemented customer funding under a Bridging Model. The Agency continues to evolve and anticipates that a mature Customer Funding Model will be achieved once the following are in place:

- Agreement of End State Peacetime Establishment (ESPE) and the resolution of the critical issue of the provision of military manpower to the Agency;
- Establishment of a mature Service Portfolio and associated Service Catalogue;
- Consolidation of the various legacy internal information systems under integrated Enterprise Business Applications (EBA) capability;
- Completion of the staff moves to the new facilities in Brussels, Mons and The Hague.

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



*NCI Agency Customer Funding Roadmap*

As per the terms of its Charter, the Customer Funded nature of the Agency means it must recover all of its costs from the work and services it provides to NATO and National Customers with the aim of achieving financial break-even over time.

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

Critical enablers to the implementation of Customer Funding are detailed cost accounting and timekeeping. Timekeeping was implemented across the entire Agency during late 2014 with first full year of use in 2015. Aimed at providing the necessary financial and operational insight into service and project execution, these processes and tools still need to mature further.

#### **Agency Manning**

During 2015, to the increasing concern of the Agency, the military fill rate continued to reduce. In total, the Agency lost a further 51 military staff members from 8 different Nations to reach a filling figure of 1169 staff members (62% fill rate) against the then applicable (old) Peacetime Establishment.

At the same time, and as an attempt to stabilise the military manning on critical and recognised requirements, the Agency successfully built its new End State Peacetime Establishment (ESPE) and this was approved by the NAC on 21 December 2015. With the strong support of Nations, the Agency can report that the manning conference ended up with an impressive bid rate of more than 96%.

However, as Nations will have to crosswalk their personnel into new posts, with a potential shift in required skills, the military manning figures will remain critical.

The Agency is confident that the Nations will continue to provide excellent support in this transition period but highlights the fact that, even if the Agency welcomes Legacy Transition Posts (staff not filling official posts), the main focus should be the manning of the official ESPE posts.

As the ESPE was defined to meet the minimum core requirement, any gap in the military workforce will have to be addressed swiftly and carefully.

In addition, the issue of the remaining 40 unbid posts will have to be solved in coordination with the Nations as well as the 183 posts validated but designated as net to be filled by military staff and the future non-filling by military personnel of many enabling/support posts

Regarding the NATO International Civilian (NIC) component, which is still being optimised for efficiency, the Agency is facing a challenging situation to build its full capacity due to the time needed for recruitment (9 months average to hire) and its contract policy which calls for staff turnover to refresh skills and knowledge. The Agency in 2015 also implemented external advertising of posts as a general policy in order to help build capacity. At the end of 2015, around 230 posts were still under recruitment. The Agency is actively working to reduce the time for recruitment.

The Agency has put in place a surge capacity through an Interim Workforce Capacity (IWC) strategy to mitigate the shortfall of NICs and to ensure that we can fulfil our delivery obligations to Customers.

In 2015, as a measure contributing to enhanced efficiency, the Agency put in place a revised Performance Management System, applicable to both NICs and military staff members across the Agency, to ensure the best alignment to Agency objectives and recognition of all our staff.

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

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

To effect this decision a HO/TO process for CIS assets in static locations and for operations, in phases and location by location, was carried out in coordination with Allied Command Operations (ACO), Allied Command Transformation (ACT) and the International Military Staff (IMS).

The HO/TO for static commands was completed by 31 December 2014 and that for operations was finalized in 2015. On completion of the HO/TO the NCI Agency (as

the executive arm of the NCIO) accepts the full responsibility for the control and management of these CIS assets.

This process has continued the improvement of asset records through stock counts and reconciliation of physical holdings with records. The effort has included the validation of the continued requirement for holding items and the identification of any surplus and/or obsolete materiel i.e. no longer a business need for the retention, as well as unserviceable equipment. During 2015, write-off in accordance with the NATO Financial Regulations (NFRs) and then applicable Financial Rules and Procedures, based on original purchase price, was authorized by the NATO Budget Committee (BC) or under delegation the responsible Financial Controller(s) to regularize the updated records. (Further information is disclosed later in these Financial Statements.)

Whilst the initial logistical work to achieve HO/TO is complete, this is very much a dynamic process and considerable effort will be required to maintain and further improve the control of CIS assets. As part of this, CIS assets were migrated in 2015 from the legacy asset management tool to an Oracle based asset and new inventory management system which offers better functionality to integrate the procurement, issuing, tracking and financial accounting. That said, as was also reported last year, it remains a significant challenge to achieve robust and complete financial accounting for CIS assets (to include intangible assets and work in progress), and this is an area where incremental progress will be made to achieve maturity by 2018.

It is important to note that, as in previous years, NCIO is still expensing CIS Assets under Construction under IPSAS 11. The Agency has submitted a proposal to clarify IPSAS application to NATO CIS assets under construction wherein NCI Agency assumes control and applies IPSAS 17 and 31 with a transition period until 1 January 2018. The proposal has been positively received by the RPPB. Pending approval, the Agency will continue to apply IPSAS 9 and 11.

## Financial Statements Overview

2015 constituted the second year of transformation of the Agency from an asset based to a service oriented organisation. Operating under difficult conditions of challenged NATO financial resources, the Agency faced in 2015 lower than increased planned manpower levels while at the same time demands from customers and Nations for improved effectiveness and efficiencies. In addition, implementation of an Agency-wide Customer Funding regime, initially in the form of a "Bridging Model", continued, coupled with initiatives to increase the level of transparency and confidence with our Customers.

Key points to note in respect to the preparation of the 2015 NCIO Financial Statements are:

- the extension of the NATO Communications & Information Agency Customer Funding Interim Regulatory Framework<sup>3</sup>, initially approved by the RPPB and the approval of the NATO Customer Funding Framework by the North Atlantic Council;
- the approval of the NATO Financial Regulations<sup>4</sup> by the North Atlantic Council (NAC) which changed the date of publication of the Financial Statements from 30 April to no later than the 31 March following the financial year in question;
- the further level of maturity and fidelity obtained with the first full year of use of time accounting across the Agency for CIS service delivery;
- statements prepared on the basis of a single entity using multiple legacy accounting and operating systems.

### Compliance with Financial Regulations

The NCIO Financial Statements are submitted to the Agency Supervisory Board (ASB) and the International Board for Auditors of NATO (IBAN) in accordance with NAC approved standards, including the International Public Accounting Standards (IPSAS) as adopted through the NATO Accounting Framework<sup>5</sup> and the NATO Financial Regulations (NFR). This is consistent with Article 53 of the Charter: *"The General Manager shall submit to the ASB and the International Board of Auditors for NATO annual financial statements in accordance with NAC approved standards, including the International Public Sector Accounting Standards (IPSAS) as adopted by NATO, and the provisions of the NATO Financial Regulations"*.

The Financial Regulations that are applicable to NCIO are described in the Charter under Article 50: *"The NCIO shall be governed by the provisions of the NATO Financial Regulations, subject to such derogations as may be approved by the NAC upon recommendation by the Resource Policy and Planning Board"*.

The NATO Financial Regulations were approved by the NAC on 4 May 2015 with immediate effect. Article 27 of these regulations specifically relates to the Agency as a Customer Funded entity: *"Customer-Funded bodies make agreements with customers to provide goods and services in accordance with Customer*

<sup>3</sup> PO(2013)0630, dated 20 December 2013; and PO(2014)0836, dated 19 December 2014

<sup>4</sup> C-M(2015)0025, dated 4 May 2015

<sup>5</sup> C-M(2013)0039 dated 2 August 2013.



*requirements. Customers' agreement will describe the requirements for how funds are to be made available to the Customer-Funded bodies and how the funds will be committed and carried forward; these requirements may be different from common-funded NATO bodies".*

On July 2015, the NAC approved the NATO Communications & Information Agency Customer Funding Regulatory Framework. This framework is a fundamental part of the governance of the Agency, along with the NCIO Charter provisions, is intended for full implementation on 1 January 2016 and replaces interim measures. The aim of the NCI Agency Customer Funding Regulatory Framework is that:

- NCI Agency works to meet only the defined requirements of Customers within its overall governance framework;
- requirements and costs will be both visible and validated with segregation of Customer accounts;
- Customers will receive services at the required quality level at costs comparable to the best governmental and international organisations; and
- clear accountability by the NCI Agency to its Customers and governance authorities and by entities in the Regulatory Framework for their responsibilities.

As per the terms of the NFRs, the NCIO ASB Finance Committee (FinCom) and the Agency have engaged in a revision of the NCIO Financial Rules and Procedures (FRPs). Pending approval, expected shortly, the Agency continues to comply with the extant rules and procedures.

#### Transition Programme

Since its formation in 2012, the Agency has embarked upon a managed phased approach to transformation under which it ensures the continued delivery of mission critical services while simultaneously implementing its radical transformation. The Transition Programme is planned and executed under three phases: Consolidation, Rationalisation, Optimisation, and the change initiatives that make up the Transition Programme are described in an eight-step model as the key drivers for achieving the Effectiveness, Efficiencies and mandated Savings.

In accordance with an RPPB decision on the funding eligibility and modalities of the Agency Transition Programme<sup>6</sup>, the Agency has been authorized to pursue its

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<sup>6</sup> AC/335-N(2013)0044; Resource Requirements for the NATO Communications and Information Agency Transition Programme.

transition plan with a mix of common funding (10MEUR from Military Budget and 17MEUR from NATO Security Investment Programme) supplemented through funds from its Operating Fund (7.2MEUR). This separate funding provided to the Agency is not included in the costs the Agency charges its customers.

In 2015, the International Board of Auditors of NATO (IBAN) submitted a special report to Council on whether the Agency adequately planned and implemented the Transition Programme. Following this report the Agency undertook the following actions aimed at ensuring the Programme improves Agency performance:

- reviewed and strengthened the Transition Programme governance;
- assigned the Director of Service Strategy with the role of directing Organisational Change Management;
- formed a dedicated Organisational Change Management team; and
- established a director-level Change Portfolio Board with overall responsibility to
  - oversee all activities in the coming years that require organisational change; and
  - provide more complete reporting to the Agency Supervisory Board and other stakeholders regarding Transition Programme progress and status.

#### Efficiencies and Savings

After four years of implementing NATO Agency Reform goals, NCI Agency has made important steps in a very ambitious reform process and although it has achieved several of its reform objectives it also still has quite some work to do.

Since 2012, the five original elements, NC3A, NCSA, ALTBMD, NACMA and parts of NATO HQ IT have been merged comprehensively into integrated NCI Agency. The Agency has fully implemented its consolidation and rationalization phases and considers it has now moved into gradual optimization, maturing its customer support and internal processes. This has been conducted along five areas:

- consolidate and rationalise the executive management functions;
- consolidate and rationalise supporting overhead functions of the new structure, with limited changes in locations;
- form, consolidate and rationalise the structure of the IT production organisation of the Agency into lifecycle capability and service organisations, with limited changes in locations;
- develop and now implement new Military ESPE;
- move staff to their final locations in Brussels, The Hague or Mons and into newly built infrastructure (underway).

When the end state is reached, the current NCI Agency staff and capabilities at Glons (BEL) and the NATO CIS School Latina (ITA), will be closed and moved to Mons (BEL)/The Hague (NLD) and Oeiras (POR) respectively.

Established with the aim to deliver greater efficiency, effectiveness and savings while preserving capability and service delivery levels, the target for savings on Agency's running and personnel costs, less programme execution costs, was 20%, with an initial 5% to be achieved by 2013. In order to measure NCI Agency's success in achieving its savings targets, the RPPB approved a baseline document<sup>7</sup> (based on 2010 actual costs) defining the quantified targets and the KPIs. Against this baseline the Agency has:

- reduced its military manpower by half (over 1000 filled posts);
- achieved the initial 5% overhead reduction target;
- reduced its overhead costs from 32% of total operating costs to 29%; and
- reduced the number of civilian and military staff performing support functions from 39% to just over 20%.

Completed in October 2013, the Agency's Benefits and Savings Plan provides the high-level blue print that establishes and describes the overall multi-year change programme to deliver a single, coherent, customer-funded, services-based organisation. In this respect, the plan also describes and quantifies the benefits and savings associated with each of the components of the change programme.

This includes the description as to how and in what sequence and timeframe they will be delivered, while stressing that realization of the key drivers for change is highly dependent upon the successful implementation of critical enablers such as the IT Modernization and the Enterprise Business Applications programmes.

An independent benchmarking study comparing the Agency structure and internal organization to other similar entities in respect to business type and volume has been completed and the report submitted to the ASB in October 2015. The "Benchmarking Study" provides trends and in general terms concluded that although some realignment/balancing of manpower levels within the structure could be made to further enhance its efficiency and effectiveness, the Agency personnel structure and functions performed is adequate vis-à-vis its peers.

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<sup>7</sup> AC/335-N(2013)0003, dated 14 January 2013

## Financial Performance Highlights

Having successfully completed the conversion from budget to customer funded in 2014, the structure and breakdown of the 2015 Financial Statements has remained the same as that of the previous year.

Total revenues for the year amount to 681MEUR and include:

- 342MEUR of services and support revenue contracted, using BC approved Customer Rates, for the provision and acquisition of CIS capabilities and services;
- 331MEUR of acquisition revenue earned as Host Nation for NSIP, NATO Entities and Nations;
- 3MEUR of other operating revenue earned in the provision of other support services provided to hosted entities, e.g. NAGSMA and TACOMS; and,
- 3MEUR earned from favourable foreign exchange rate variances and, to a minor extent, interest earned from short-term deposits, typically one to three months;
- 2MEUR of revenue recognized due to the application of the NATO Accounting Framework (NAF) and the usage of the net inventory identified as Agency property as from 1 January 2013; and
- 1MEUR of contribution revenue related to the execution of previous years' budget credits carried forward, the funds allocated by the BC for the Agency Transition, and also the NCIO's Independent Secretariat core funding directly from Nations.

Totalling 675MEUR the 2015 Agency costs and expenses include:

- 331MEUR of acquisition costs incurred in the procurement, on behalf of the Investment Committee (IC), other NATO entities and Nations, of CIS capabilities and services from industry;
- 193MEUR of costs related with the civilian personnel employed during the year (in compliance with NATO Personnel Regulations, NAC approved salary scales and allowances) and interim workforce (contractors, temporary staff and consultants);
- 141MEUR of operating and external CIS costs in direct support of the delivery of services and capabilities as well as the running costs of the Agency facilities and equipment;
- 4MEUR of depreciation expense for fixed assets capitalized in line with the accounting policies as adopted by NATO;

- 3MEUR of expenses from unfavourable foreign exchange rate variances, including bank transaction fees related to conversion of currencies; and,
- 3MEUR of provisions for untaken leave and future potential losses as identified in the end of year cost at completion review made for all ongoing customer arrangements.

Net result for the year, including financial income/costs and depreciation expense is a surplus of 5.9MEUR, or 0.9% of total revenue.

While overall the Agency was successful in balancing the lower than planned revenue and capacity due to timely and appropriate cost control measures, most of the net operating surplus recognized in 2015 pertains to the alignment of commitments with the period of performance of the customer agreements.

Total assets amount to 323MEUR, largely made up of Cash holdings and Receivables. Of special significance is the continued drop in the amount of cash held by the Agency. This fact derives from both the shift for CIS service delivery from budget funding, based on cash calls, to Customer Funding, based on service provision milestones, and more robust NSIP forecasting.

Total Liabilities amount to 297MEUR at the end of the 2015, mostly reflecting a decrease in the balances of Payables, Deferred Revenue and Advances but also the settlement of a previously provisioned industrial claim.

### Operating Fund

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

At 31 December 2015, the Agency total net equity amounts to 26MEUR broken-down as follows:

- 10MEUR net accumulated earnings from previous fiscal periods
- 6MEUR net operating surplus recognized in the 2015 Statement of Financial Performance
- 6MEUR reserved, as per RPPB decision, for purposes of funding transition activities of the Agency
- 4MEUR reserved for assets not yet fully depreciated

### Previous Year Restatement

For purposes of comparability it was necessary to proceed with a correction to the Provision for Untaken Leave and End of Labour Contracts booked in 2014 for Service Delivery.

With the introduction of full Customer Funding as of 2014, the cost provision no longer needs to be compensated by revenue from Nations as required in the budget funding model. As a result Revenue, Receivables and Net Assets/Equity were overstated by 2MEUR in the issued 2014 Financial Statements.

The correction and 2014 restated Statements of Financial Position, Statement of Financial Performance, Statement of Cash Flows, and Statement of Changes in Net Equity and respective notes can be found in a separate section further ahead in this document.

## External and Internal Audit

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

### External Audit

IBAN has already initiated the audit of the 2015 Financial Statements. As per the NFR the NCIO Financial Statements are submitted to IBAN and ASB by 31 March. In accordance with the NCIO Charter, the ASB will approve the Financial Statements once IBAN audit results are published, taking in consideration the advice of the ASB FinCom.

### Internal Audit

During the reporting period, Internal Audit completed 5 advisory, 11 compliance and 1 consulting engagements. The engagements completed spanned several thematic areas and covered reviews of project management activities, operational processes, corporate and administrative processes and information technology areas. Internal Audit will continue performing follow up missions and will report on the status of the implementation of the recommended actions during 2016 to Agency management and the ASB FinCom.

## NCIO Statement of Financial Position

As of 31 December 2015

(all figures are in Euro)

(Prior Year restated)

		NCIO	
	Note	2015	2014 - Restated
<b>ASSETS</b>			
<i>Current Assets</i>			
Cash and Cash Equivalents	1	106,553,798	171,394,685
Receivables	2	204,021,616	135,138,856
Prepayments and Miscellaneous Assets	3	1,770,386	492,515
Inventory	4	6,151,976	4,170,455
Work in Progress	5	610,437	1,801,544
Other Current Assets	6	238,036	(297,925)
<b>Total Current Assets</b>		<b>319,346,249</b>	<b>312,700,130</b>
<i>Non-Current Assets</i>			
Financial Assets		0	0
Long Term Receivables	7	0	14,500
Property, Plant and Equipment	8	3,469,106	3,743,748
Intangible Assets	8	274,872	626,441
Other Non-Current Assets		0	0
<b>Total Non-Current Assets</b>		<b>3,743,978</b>	<b>4,384,689</b>
<b>TOTAL ASSETS</b>		<b>323,090,226</b>	<b>317,084,819</b>

		NCIO	
	Note	2015	2014 - Restated
<b>LIABILITIES</b>			
<i>Current Liabilities</i>			
Payables	9	99,656,953	91,747,472
Deferred Revenue and Advances	10	175,411,085	169,556,874
Borrowings		0	0
Other Current Liabilities	11	13,048,344	10,582,589
<b>Total Current Liabilities</b>		<b>288,116,381</b>	<b>271,886,935</b>
<i>Non-Current Liabilities</i>			
Non-Current Payables		0	0
Non-Current Deferred Revenue and Advances		0	0
Non-Current Borrowings		0	0
Provisions	12	8,757,836	22,619,313
Other Non-Current Liabilities	13	93,919	2,298,403
<b>Total Non-Current Liabilities</b>		<b>8,851,754</b>	<b>24,917,716</b>
<b>TOTAL LIABILITIES</b>		<b>296,968,136</b>	<b>296,804,651</b>
<b>NET ASSETS/EQUITY</b>			
Retained Earnings	34	16,160,126	8,092,664
Reserved Earnings	33	9,961,965	12,187,505
<b>TOTAL NET ASSETS/EQUITY</b>		<b>26,122,091</b>	<b>20,280,169</b>
<b>TOTAL LIABILITIES AND NET ASSETS/EQUITY</b>		<b>323,090,226</b>	<b>317,084,819</b>

**NCIO Statement of Financial Performance***For the year ended 31 December 2015**(all figures are in Euro)**(Prior Year restated)*

		NCIO	
	Note	2015	2014 - Restated
<b>REVENUE</b>			
Contributions Revenue	15	1,073,790	12,127,783
Services and Support Revenue	16	341,837,733	301,559,278
Acquisitions Revenue	17	330,604,967	350,736,793
Other Operating Revenue	18	2,609,406	16,823,847
<b>TOTAL OPERATING REVENUE</b>		<b>676,125,896</b>	<b>681,247,701</b>
Financial Revenue	30	2,653,256	1,797,575
Other Revenue	19	2,095,873	2,242,839
<b>TOTAL REVENUE</b>	20	<b>680,875,025</b>	<b>685,288,115</b>
<b>EXPENSES</b>	21		
Cost of Acquisitions	22	(330,967,810)	(346,542,619)
Personnel Costs	23	(193,148,144)	(179,641,908)
Contractual Supplies and Services	26	(141,330,270)	(137,265,651)
Depreciation and Amortisation	27	(3,834,244)	(2,105,399)
Provisions	28	(2,773,738)	(14,361,876)
Financial Expenses	30	(2,959,060)	(1,989,632)
Other Expenses		(19,837)	(1,451,145)
<b>TOTAL EXPENSES</b>		<b>(675,033,103)</b>	<b>(683,358,230)</b>
<b>SURPLUS/(DEFICIT)</b>			
Retainable Earnings	34	5,841,922	1,929,885
Refundable Earnings		0	0
<b>SURPLUS/(DEFICIT) FOR THE PERIOD</b>		<b>5,841,922</b>	<b>1,929,885</b>

**NCIO Statement of Cash Flows***For the year ended 31 December 2015**(all figures are in Euro)**(Prior Year restated)***CASH FLOWS FROM OPERATING ACTIVITIES**

Surplus/(Deficit) for the Period
Depreciation and Amortisation
Revaluation of Assets

Decr./(Incr.) Receivables
Decr./(Incr.) Prepayments and Miscellaneous Assets
Decr./(Incr.) Inventory
Decr./(Incr.) Work in Progress
Decr./(Incr.) Other Current Assets
Incr./(Decr.) Payables
Incr./(Decr.) Deferred Revenue and Advances
Incr./(Decr.) Borrowings
Incr./(Decr.) Other Current Liabilities

**NET CASH FLOWS FROM OPERATING ACTIVITIES****CASH FLOWS FROM INVESTING ACTIVITIES**

Decr./(Incr.) Financial Assets
Decr./(Incr.) Long Term Receivables
Decr./(incr.) PP&E and Intangible Assets
Decr./(Incr.) Other Non-Current Assets

**NET CASH FLOWS FROM INVESTING ACTIVITIES****CASH FLOWS FROM FINANCING ACTIVITIES**

Incr./(Decr.) Non-Current Payables
Incr./(Decr.) Non-Current Deferred Revenue and Advances
Incr./(Decr.) Non-Current Borrowings
Incr./(Decr.) Provisions
Incr./(Decr.) Other Non-Current Liabilities

**NET CASH FLOWS FROM FINANCING ACTIVITIES****NET INCR./(DECR.) CASH AND CASH EQUIVALENTS****CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD**

Incr./(Decr.) Cash and Cash Equivalents

**CASH AND CASH EQUIVALENTS AT END OF PERIOD**

Note	NCIO	
	2015	2014 - Restated
	5,841,922	1,929,885
	3,554,565	2,467,021
	0	0
	(68,882,760)	47,464,129
	(1,277,871)	4,879,001
	(1,981,521)	(3,966,551)
	1,191,107	(1,265,794)
	(535,961)	455,009
	7,909,481	(28,650,794)
	5,854,211	(56,264,664)
	0	0
	2,465,755	1,939,752
	(45,861,072)	(31,013,005)
	0	0
	0	0
	(2,928,354)	(3,329,170)
	14,500	404,528
	(2,913,854)	(2,924,642)
	0	0
	0	0
	0	0
	(13,861,477)	13,951,772
	(2,204,484)	(284,820)
	(16,065,961)	13,666,952
	(64,840,887)	(20,270,695)
	171,394,685	191,665,380
	(64,840,887)	(20,270,695)
	106,553,798	171,394,685

**NCIO Statement of Change in Net Assets/Equity (Operating Fund)***For the year ended 31 December 2015**(all figures are in Euro)**(Prior Year restated)*

	Note	NCIO	
		2015	2014 - Restated
	33-34		
<b>BALANCE AT BEGINNING OF PERIOD</b>		20,280,169	18,350,284
Variations due to restatement		0	-1,878,211
<b>Restated balance</b>		20,280,169	16,472,073
Net gains/(losses) not recognized in the Statement of Financial Performance		0	0
Net surplus/(deficit) for the period		5,841,922	3,808,095
<b>BALANCE AT END OF PERIOD</b>		26,122,091	20,280,169
<b>RESERVES AT BEGINNING OF PERIOD</b>		12,187,505	9,386,725
Net increase/(decrease) of bookvalue of property, plant and equipment		(626,212)	3,553,465
Net increase/(decrease) of reserves		(1,599,329)	(752,685)
Net increase/(decrease) of currency translation differences		0	0
<b>RESERVES AT END OF PERIOD</b>		9,961,965	12,187,505
<b>SURPLUSES/(DEFICITS) CARRIED FORWARD</b>		16,160,126	8,092,664
<b>NET ASSETS/EQUITY AT END OF PERIOD</b>		26,122,091	20,280,169

## NCIO Budget Execution Statement

For the year ended 31 December 2015

(all figures are in Euro)

NCIO

Note	Initial Budget	BA2	Transfers	Final Budget	Net Commitment	Expenses	Total Spent	Carry Forward	Lapsed
<b>BUDGET</b>									
D1-6									
Chapter 1	919,750	0	0	919,750	0	907,530	907,530	0	12,220
Chapter 2	88,998	0	0	88,998	9,643	89,209	98,853	9,643	(9,855)
Chapter 3	0	0	0	0	0	0	0	0	0
<b>Total current year</b>	<b>1,008,748</b>	<b>0</b>	<b>0</b>	<b>1,008,748</b>	<b>9,643</b>	<b>996,740</b>	<b>1,006,383</b>	<b>9,643</b>	<b>2,365</b>
Chapter 1	175,000	0	0	175,000	0	175,000	175,000	0	0
Chapter 2	182	0	0	182	0	160	160	0	22
Chapter 3	0	0	0	0	0	0	0	0	0
<b>Total prior year</b>	<b>175,182</b>	<b>0</b>	<b>0</b>	<b>175,182</b>	<b>0</b>	<b>175,160</b>	<b>175,160</b>	<b>0</b>	<b>22</b>
Chapter 1	1,086,719	0	6,717	1,093,436	0	166,379	166,379	0	927,057
Chapter 2	7,582,957	0	(829,657)	6,753,301	0	2,440,733	2,440,733	0	4,312,568
Chapter 3	255,735	0	0	255,735	0	249,889	249,889	0	5,846
<b>Total 2 years ago</b>	<b>8,925,411</b>	<b>0</b>	<b>-822,940</b>	<b>8,102,471</b>	<b>0</b>	<b>2,857,001</b>	<b>2,857,001</b>	<b>0</b>	<b>5,245,471</b>
<b>TOTAL</b>	<b>10,109,341</b>	<b>0</b>	<b>-822,940</b>	<b>9,286,401</b>	<b>9,643</b>	<b>4,028,901</b>	<b>4,038,544</b>	<b>9,643</b>	<b>5,247,857</b>



## Accounting Policies

### Basis of preparation

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

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

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

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

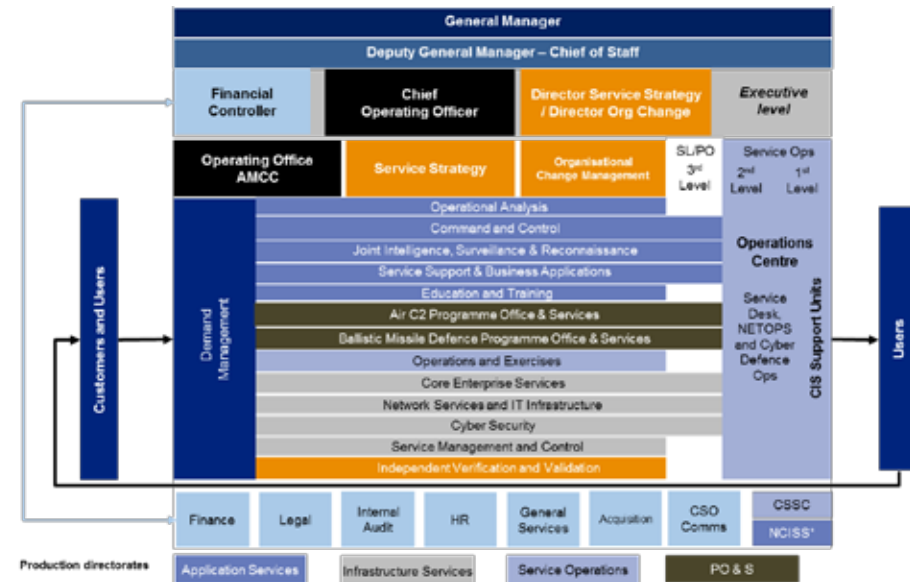
The amounts shown in these financial statements are expressed in Euro (EUR) and rounded to the Euro unit.

### Segment Reporting

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

With the implementation in 2014 of a Service Line service-based organisation<sup>8</sup> built around an end-to-end life cycle approach and the introduction of Customer Funding under a Bridging Model as of 1 January 2014, the reasons for segment reporting no longer apply and thus to still produce segment reporting for “Capability

Development” and “Service Delivery” is no longer relevant as not in line with the management and operational structure of the Agency.



NCI Agency Operating Model

With the approval of the Customer Funding Regulatory Framework in 2015 and pending ensuing clarification of governance structure, the Agency will address the issue of segmented financial statements with the relevant stakeholders in 2016, this also in light of EBA.

The NCIO Financial Statements also include the budget execution for the NCIO's Independent Secretariat. These reflect the running costs of the Independent Secretariat in support of the ASB Chairman and Nations. Although this could qualify as a separate segment under IPSAS 18, given the low value of this budget of about 300KEUR it has not been reported as such.

### Changes in Accounting Standards

No new standards have become effective on 1 January 2015.

The following IPSAS will become effective as of 1 January 2017:

- IPSAS 33 - First-time Adoption of Accrual Basis IPSASs
- IPSAS 34 - Separate Financial Statements
- IPSAS 35 - Consolidated Financial Statements

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

- IPSAS 36 - Investments in Associates and Joint Ventures
- IPSAS 37 - Joint Arrangements
- IPSAS 38 - Disclosure of Interests in Other Entities

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

### Revenue Recognition

#### Revenue from exchange transactions

Under its second year of Customer Funding under a Bridging Model the vast majority of NCIO's revenue is Customer Funded revenue which is subdivided into:

- Operations and service revenue (e.g. Scientific Programme of Work (POW)) and IC project service costs, SLA External CIS and service support costs).
- Acquisition revenue, for which NCIO considers it is the procurement principal on behalf of sponsors, NATO entities or Member Nations.
- Other revenue represents shared services associated with the hosting and support the Agency provides to other NATO entities such as NAGSMA and TACOMS.

NCIO also still has some contributions income from budgets:

- NCIO's Independent Secretariat: revenue associated with the running of the Independent Executive Secretariat which is to support the ASB Chairman. This budget is core funded and the ASB approves the structure and its annual budget, which is based on the Military Budget cost share model.
- Prior years' budgetary credits carry forward: execution in 2015 against commitments carried forward from prior years' (legacy) budgets and executed under the IPSAS procurement principal concept.
- Transition: specific budgets, authorized by the BC, created in 2013 and onwards to cover for expenses related to the NATO Command Structure reform and Agency Transition Programme workforce adjustments.

Finally, under the Customer Funding bridging model, the costs for NATO CIS School (NCISS) were funded by Customers through specific agreements although without the application of Customer Rates.

#### Revenue measurement and timing

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

criteria are considered to be met when the goods or services are delivered to the customers' satisfaction. For all Customer Funded revenue, revenue is recognized by reference to the stage of completion or the cost burn rate, depending on the type of funding agreement; firm fixed price or cost reimbursable. For the budget revenue, income is recognised at the moment an expense is incurred as the revenue is guaranteed to be funded by member Nations.

### Expenses Recognition

NCIO has the following main categories of costs:

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

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

### Financial Plan Execution

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

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

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

### **Cash Flow Statements**

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

### **Foreign Currency**

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

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

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

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

### **Financial Assets**

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

### **Financial Liabilities**

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

### **Receivables**

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

### **Accounts Payable**

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

### **Advances and/or Unearned Revenue**

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

### **Prepayments**

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

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

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

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

### **Other Long-Term Service Benefits**

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

### Leased Assets

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

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

### Externally Acquired Intangible Assets

Externally acquired intangible assets are recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives. The useful economic lives are deemed to be 3 years and all assets are capitalised above €5,000.

### Property, Plant and Equipment (PPE)

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

Per the NATO Accounting Framework (NAF) – adapted IPSAS 17, NCIO has adapted its accounting for 2012 and 2013 in considering all PPE acquired prior to 1 Jan 2013 as fully expensed. Per the NAF, a brief description of such PPE is presented as an Annex to this document with available information on the types, location and approximate number of items held per Asset category.

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

Per the NCIO Charter, NCIO is to assume ownership of all IT assets and IT infrastructure from the NATO commands. To this end a formal HO/TO process with the NATO Commands for static locations and operations has been undertaken. The HO/TO for static commands was completed by 31 December 2014 and that for operations was finalized in 2015. On completion of the HO/TO the NCI Agency (as the executive arm of the NCIO) accepts the full responsibility for the control and

management of these CIS assets. See also the Overview Section at the start of the Financial Statements.

For those assets taken over, NCIO has considered those acquired prior to 2013 as fully expensed per the NATO Accounting Framework - adapted IPSAS 17 standard.

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

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

Depreciation is provided on all items of PPE so as to reduce its carrying value over the expected useful economic lives. The expected lives of PPE and their associated capitalisation thresholds per item are:

	<i>Sub-categories</i>	<i>PP&amp;E Thresholds</i>	<i>Economic Life Time</i>	<i>Annual Deprec. %</i>
<b>1.</b>	<b>CLASS 1.: INFRASTRUCTURE, PLANT AND EQUIPMENT</b>			
1.1.	CATEGORY 1.1.: AUTOMATIC DATA PROCESSING EQUIPMENT	5,000	3	33.33%
1.2.	CATEGORY 1.2.: COMMUNICATION SYSTEMS	5,000	3	33.33%
1.3.	CATEGORY 1.3.: MACHINERY	5,000	4	25.00%
1.4.	CATEGORY 1.4.: INSTALLED EQUIPMENT	5,000	4	25.00%
1.5.	CATEGORY 1.5.: FURNITURE	5,000	10	10.00%
1.6.	CATEGORY 1.6.: TRANSPORT EQUIPMENT	10,000	4	25.00%
1.7.	CATEGORY 1.7.: MISSION EQUIPMENT	5,000	4	25.00%
<b>2.</b>	<b>CLASS 2.: LAND AND BUILDINGS</b>			
2.1.	CATEGORY 2.1.: LAND	0	NA	
2.2.	CATEGORY 2.2.: BUILDINGS	25,000	40	2.50%
2.3.	CATEGORY 2.3.: INFRASTRUCTURE	25,000	40	2.50%
2.4.	CATEGORY 2.4.: BUILDING ENHANCEMENTS	10,000	10	10.00%
<b>3.</b>	<b>CLASS 3.: INTANGIBLE ASSETS</b>			
3.1.	CATEGORY 3.1.: SOFTWARE	5,000	3	33.33%
3.2.	CATEGORY 3.2.: RIGHTS OF WAY, INTELLECTUAL PROPERTY RIGHTS (IPR's), ADMINISTRATIVE CONCESSION RIGHTS	0	NA	
3.3.	CATEGORY 3.3.: INVESTMENTS IN RESEARCH AND DEVELOPMENT (R&D)	0	NA	

Land and Buildings

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

Depreciation and Amortisation

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

**Inventories**

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

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

Under the full Customer Funding regime as of 2014, and per its Charter, NCIO is now considered as procurement principal for the inventories and as a result, now accounts for all inventories. Nevertheless and as already reported in its 2013 Financial Statements, NCIO is applying the NAF – adapted IPSAS 12 – by which it considers all inventory acquired prior to 1 Jan 2013 as expensed.

As per the NAF, based on the information available, the NCIO has produced an Annex to these Statements which provides a summary of such expensed inventory - types, locations and approximate number of items held per inventory category.

NCIO has no capitalisation thresholds for Inventory.

**Provisions**

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

**Contingent Liabilities**

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

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

**Net Assets/Equity/Operating Fund**

As of 2014 the entire NCI Agency works under a Customer Funding bridging model. The approved policies and procedures of this Customer Funding financial regime that authorise and regulate the use of the NCI Agency Operating Fund during this reporting period are the NFRs (C-M(2015)0025 dated 4 May 2015) and the FRPs (OCB(2004)0054-REV2 dated 17 May 2004), and the Customer Funding Regulatory Framework approved by the Council in 2015 (PO(2015)0394-AS1 dated 16 July 2015).

Oversight of the performance of the Operating Fund is the responsibility of the ASB. The BC will undertake assigned responsibilities for regulating the Agency's Operating Fund including its use and increasing or decreasing its size for NCI Agency.

The Financial Controller, in sufficient time, and through the FinCom, is to input annually to the NATO Budget Committee in advance of the subsequent financial planning cycle (next plus two years): factors in recommending the Operating Fund level for the aforementioned period; a risk assessment of the likely stability of revenue and costs so the upcoming proposed Customer Rates, which drive Financial Plan, are assessed for the probability to incur a surplus or deficit.

The Financial Controller, on behalf of the General Manager, is required to recommend changes to the Customer Rates that will increase or decrease the Operating Fund by the desired amount and when approved, to reflect such changes in the Financial Plan or alternatively propose uses to which the declared excess Operating Fund may be applied to increase the effective and efficient operations of the Agency. Such changes and proposals will be submitted to the FinCom for endorsement. Since 2013, the ASB has decided to keep the Operating Fund level at 10 MEUR (AC/337(FS)DS(2013)0004 dated June 2013).

The Financial Controller must, in a timely manner, provide an exceptional report should the actual execution of the Financial Plan indicate a significant deficit will occur in the financial year. The report will be addressed through the FinCom to the ASB, in the first instance, who will consider if it has to be brought to the attention of the BC. If so informed, the BC shall consider whether the RPPB needs to be informed.

At the end of the financial year the balance of the operating result (i.e. the difference between revenue and expenses, adjusted to reflect as appropriate the cost-to-complete of ongoing projects), together with any surplus or deficit and the financial result shall be transferred to the Agency's Operating Fund as surplus or deficit for the year.

The General Manager, with the concurrence of the Financial Controller, following recommendation by the ASB and the approval of the BC may expend accumulated surpluses up to an overall limit of 500 KEUR during the financial year for initiatives supporting the effective and efficient operation of the Agency. Expenditures in excess of 500 KEUR will require RPPB approval.

The NCI Agency retained earnings accumulated over the years represent its authorised Operating Fund. When implementing IPSAS 17, a portion of these earnings were partially encumbered for the value of fixed assets not yet fully depreciated, reported separately as a depreciation reserve. The categories of assets and the breakdown of the remaining book value per category is reported in the Statement of PPE.

## NOTES TO THE FINANCIAL STATEMENTS

### Critical Accounting Estimates and Judgements

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

### Legal proceedings both real and possible

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

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

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

### 1. Cash and Cash Equivalents

Cash available on demand is considered to be cash that can be accessed at very short notice (e.g. 1 working day) while a short-term deposit is invested from typically one to three months. Cash and cash equivalents includes amounts advanced by Customers for future usage. Cash balances are restricted to the use for which Customers have provided the cash. With reference to the IBAN Special Report to Council on the Thematic Audit of Cash Holdings in NATO (IBA-AR(2014)17) dated 28 November 2014, the cash holdings of NCIO are 16% compared to the annual expenditures or about three months of operations, which is well within the IBAN reported average and the NFR.

Given the limitations on the size and use of the Operating Fund, the NCI Agency relies on the Customer provided funding via advance payments and timely payment of invoices to provide the cash flow for daily operations.

The continued drop in the amount of cash held by the Agency derives from both the shift for CIS service delivery from budget funding, based on cash calls, to Customer Funding, based on service provision milestones, and more robust NSIP forecasting.

(All amounts in 1 Euro)

		NCIO	
		Note	
		Unit	
Cash and Cash Equivalents		2015	2014 Restated
100	Current bank clearing accounts and internal transi	-11,344	19,137
101	Cash in hand	59,564	50,533
102	Current bank accounts - Euro	75,607,502	73,816,249
104	Current bank accounts - Non-Euro	23,787,865	79,398,396
106	Current investments accounts - Euro	4,770	0
108	Current investments accounts - Non-Euro	7,105,442	18,110,371
		106,553,798	171,394,685



## 2. Receivables

*(All amounts in 1 Euro)*

			NCIO	
			Note	
			Unit	
Receivables			2015	2014 - Restated
110	Current trade receivables - Non-consolidated enti		193,240,751	131,364,348
111	Current trade receivables - Consolidated entities		133,008	125,230
114	Current trade receivables - Other		8,353,098	3,443,217
115	Other current receivables - Tax or personnel relate		2,231,193	166,982
116	Other current receivables - Accrued income		2,146	36,236
119	Other current receivables - Other		1,967	1,876
150	Other current assets		59,453	967
			204,021,616	135,138,856

Trade receivables are impacted by the NSIP Quarterly Accounting Financial Report (QAFR) bookings. The NCI Agency has adapted its accounting treatment per the IBAN observation in the past, so that advances received from the NSIP Programme are netted against the amounts to be received from the same programme. This more clearly and accurately represents the position of the NCI Agency against the programme at year-end. The net position towards the NSIP at 31/12/2015 is a receivable of €68 million as per the below table.

*(All amounts in 1 Euro)*

			NCIO	
			Note	
			Unit	
			2015	2014 - Restated
110030	A/R - Services revenue (SLA) - Billed	CD - NSIP	73,572,863	7,355,476
110040	A/R - Acquisition revenue - Billed (Paysheets)	CD - NSIP	0	-26,097,766
110049	A/R - Acquisition revenue (-) - Billed (Advances on	CD - NSIP	-169,652,500	-121,532,180
110440	Accrued revenue - Acquisition revenue	CD - NSIP	168,674,908	155,120,011
215001	Cash advances received - Government bodies and	CD - NSIP	-4,170,292	-30,002,697
			68,424,979	-15,157,156

Without the impacted QAFR bookings, Trade receivables total €120 million which include billed but not yet received amounts from Customers. As of 2014 this includes the receivables on SLAs and service agreements for a total of €53 million.

Trade receivables from accrued revenue/expenses correction amounts to €189 million from which €168.4 million relates to accrued revenue. The remainder is resulting from the revenue recognition by stage of completion by which income is considered earned but not yet billed to the customer.

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

### 3. Prepayments and Miscellaneous Assets

(All amounts in 1 Euro)

		NCIO	
	Note	2015	2014 Restated
	Unit		
<b>Prepayments and Miscellaneous Assets</b>			
130	Prepayments - Non-consolidated entities	1,770,386	492,515
		1,770,386	492,515

This amount represents advances and prepayments made to vendors.

### 4. Inventory

(All amounts in 1 Euro)

		NCIO	
	Note	2015	2014 Restated
	Unit		
<b>Inventory</b>			
140	Inventory - Consumables	1,351,413	572,855
141	Inventory - Spare parts	4,800,563	3,597,600
		6,151,976	4,170,455

The inventory ending balance is for a total of 6.2MEUR which is an increase of 2MEUR when compared to 2014, as per NAF the first recognition of inventory.

Since 2014 NCI Agency is considered the principal for procurement and is therefore taking the primary responsibility and risk for inventory items. Inventories reported are those inventories held at NCI Agency's depots such as CSSC Brunssum, NPC Glons and NCISS Latina; they are valued with the weighted average cost method.

Prior to 2014 inventories, other than NPC and NCISS, were not reported as being the service provider to the NATO Command Structure (NCS), the NCI Agency operated under delegated budget agreements as a procurement agent for the NCS. Since the NCI Agency became fully Customer Funded as of 1 Jan 2014 inventories are fully disclosed, as the NCI Agency is no longer acting as an agent on behalf of a third party but rather as a principal in rendering services to its Customers.

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

For the first time recognition of the CSSC Brunssum, the initial amount of 32.8MEUR was booked as a beginning balance. As a result of the application of the NAF, a correction to the balance for the prior 2013 acquired items of 30 MEUR was made for all NCI Agency inventories. In 2015, inventory was also taken on from CSUs as a beginning balance and amounting to €2.2 million. This beginning balance has also been considered as acquired prior to 1 January 2013 resulting in a total amount of 32.3 million expensed per the NAF. In accordance with the stipulations of the NAF, a brief description on these inventories held prior to 1 JAN 2013, is provided later into this document.

## 5. Work In Progress

(All amounts in 1 Euro)

		NCIO	
		Note	
		Unit	
Work in Progress		2015	2014 Restated
145	Work in progress	610,437	1,801,544
		610,437	1,801,544

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

Pre-financed projects totalling €19,221 are governed by existing bidding arrangements (overarching framework agreements such as Memorandum of Understanding – MOU) between the Agency and its main sponsors. All existing pre-finance authorizations are granted as per the terms and conditions prescribed in the extant FRPs specifically developed for the Agency (former NC3A) operating under its Customer Funding Regime. The decision to pre-finance projects is assessed by the production Directors, Demand Management and the Financial Controller prior to being approved internally. Accordingly we do not view this as a technical contingent asset.

For projects sponsored by NSIP, APFs may be authorized to cover the initial cost for writing the full project price proposal (TBCE). In some cases the APFs are insufficient to cover this initial effort in which case the NCI Agency capitalizes the shortfall pending approval of the Project Service Cost (PSC). Funds expended during this stage are capitalized as work in progress for a total amount of €59,178.

In the course of executing projects sometimes the Customer requests changes in specifications, scope or duration that results in the costs exceeding the contracted revenue. Similarly to APF over-runs, for these recoverable exceptions, costs are capitalized until exception is contractually regularized. The total capitalized amount of capitalized recoverable exceptions is €531,746.

## 6. Other Current Assets

*(All amounts in 1 Euro)*

		NCIO	
		Note	
		Unit	
		2015	2014 Restated
Other Current Assets			
1550	Transitory liability accounts - Deferred revenue	216,484	-82,914
1559	Transitory liability accounts - Clearing accounts	21,552	-215,011
		238,036	-297,925

These amounts concern different transactions that are pending a resolution/final booking in 2016.

## 7. Long Term Receivables

*(All amounts in 1 Euro)*

		NCIO	
		Note	
		Unit	
		2015	2014 Restated
Long Term Receivables			
165	Non-current receivables	0	14,500
		0	14,500

Amounts concerned loans given to two Staff Members under the NATO Civilian Personnel Regulations which have been repaid.

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

The NCI Agency capitalises all PPE which it controls. The NCI Agency has applied the NAF, adapting IPSAS 17 on PPE, in that all PPE acquired prior to 1 Jan 2013 are considered expensed. As per the stipulations of the NAF, a brief description of these PPE held prior to 1 JAN 2013, can be found further in this document.

### NCIO Statement of Property, Plant and Equipment

As of 31 December 2015

(all figures are in Euro)

Note	ACQUISITION						DEPRECIATION				BOOK VALUE	
	31-Dec-2014	Current Year	Disposals / Adjustm.	Transfers / Reversals	Revaluation	31-Dec-2015	31-Dec-2014	Current Year	Disposals / Adjustm.	31-Dec-2015	31-Dec-2015	
<b>PLANT, PROPERTY AND EQUIPMENT</b>												
ADP Equipment	2,011,519	2,266,255	0	0	0	4,277,774	-1,089,119	-1,505,534	0	(2,594,653)	1,683,121	
Comms Equipment	2,848,652	568,995	0	0	0	3,417,647	-1,669,574	-1,189,953	0	(2,859,528)	558,120	
Mission Equipment	59,761	104,011	0	0	0	163,772	-27,384	-40,943	0	(68,327)	95,445	
Machinery	94,666	61,651	0	0	0	156,317	-30,479	-39,079	0	(69,558)	86,758	
Installed Equipment	1,086,560	86,550	0	0	0	1,173,110	-392,606	-293,278	0	(685,884)	487,226	
Office Furniture	96,275	-48,995	-34,680	0	0	12,600	-37,455	13,161	14,844	(9,450)	3,150	
Passenger Vehicles	250,684	46,451	0	0	0	297,135	-96,979	-74,284	0	(171,263)	125,872	
<b>Infrastructure, plant and equipment</b>	<b>6,448,117</b>	<b>3,084,918</b>	<b>-34,680</b>	<b>0</b>	<b>0</b>	<b>9,498,355</b>	<b>-3,343,597</b>	<b>-3,129,910</b>	<b>14,844</b>	<b>(6,458,663)</b>	<b>3,039,692</b>	
Bâtiment Z Brussels - Enhancements	15,436	0	0	0	0	15,436	-1,544	-1,544	0	(3,087)	12,349	
NCIA Main Building The Hague - Enhancements	142,950	0	0	0	0	142,950	-28,590	-14,295	0	(42,885)	100,065	
Leasehold Improvements	102,966	0	0	0	0	102,966	-10,297	-10,297	0	(20,593)	82,373	
<b>Land and buildings - Leasehold improvements</b>	<b>261,352</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>261,352</b>	<b>-40,430</b>	<b>-26,135</b>	<b>0</b>	<b>(66,565)</b>	<b>194,787</b>	
Software Licences	1,148,610	46,951	0	0	0	1,195,560	-522,169	-398,520	0	(920,689)	274,872	
<b>Intangible assets</b>	<b>1,148,610</b>	<b>46,951</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,195,560</b>	<b>-522,169</b>	<b>-398,520</b>	<b>0</b>	<b>(920,689)</b>	<b>274,872</b>	
<b>TOTAL PLANT, PROPERTY AND EQUIPMENT - CAPITALIZED</b>	<b>7,858,079</b>	<b>3,131,869</b>	<b>-34,680</b>	<b>0</b>	<b>0</b>	<b>10,955,267</b>	<b>-3,906,195</b>	<b>-3,554,566</b>	<b>14,844</b>	<b>(7,445,917)</b>	<b>3,509,350</b>	
Capital expenditures pending capitalization - Accrued	418,306	234,628	0	-418,306	0	234,628	0	0	0	0	234,628	
<b>TOTAL PLANT, PROPERTY AND EQUIPMENT</b>	<b>8,276,385</b>	<b>3,366,497</b>	<b>-34,680</b>	<b>-418,306</b>	<b>0</b>	<b>11,189,895</b>	<b>-3,906,195</b>	<b>-3,554,566</b>	<b>14,844</b>	<b>(7,445,917)</b>	<b>3,743,978</b>	
<b>DEPRECIATION RESERVE</b>	<b>8,276,385</b>	<b>3,366,497</b>	<b>-34,680</b>	<b>-418,306</b>	<b>0</b>	<b>11,189,895</b>	<b>-3,906,195</b>	<b>-3,554,566</b>	<b>14,844</b>	<b>(7,445,917)</b>	<b>3,743,978</b>	
<b>INCREASE/(DECREASE) DEPRECIATION RESERVE</b>		<b>3,366,497</b>	<b>-34,680</b>	<b>-418,306</b>	<b>0</b>	<b>2,913,510</b>		<b>-3,554,566</b>	<b>14,844</b>	<b>(3,539,722)</b>	<b>(626,212)</b>	
<b>DEFERRED REVENUE</b>	<b>5,624,533</b>	<b>2,270,962</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7,895,495</b>	<b>-3,104,255</b>	<b>-2,564,700</b>	<b>0</b>	<b>(5,668,955)</b>	<b>2,226,540</b>	
<b>INCREASE/(DECREASE) DEFERRED REVENUE</b>		<b>2,270,962</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,270,962</b>		<b>-2,564,700</b>	<b>0</b>	<b>(2,564,700)</b>	<b>(293,738)</b>	

## 9. Payables

*(All amounts in 1 Euro)*

		NCIO	
		Note	
		Unit	
		2015	2014 - Restated
Payables			
2000	Current trade payables - Invoiced expenses	7,128,528	7,294,017
2004	Current trade payables - Accrued expenses	92,437,651	84,467,351
2010	Current trade payables - Consolidated entities - Ir	8,388	0
2014	Current trade payables - Consolidated entities - A	82,386	-13,896
		99,656,953	91,747,472

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

## 10. Deferred Revenue and Advances

*(All amounts in 1 Euro)*

		NCIO	
		Note	
		Unit	
		2015	2014 - Restated
Deferred Revenue and Advances			
210	Deferred Revenue	153,058,791	111,766,234
215	Current advances and prepayments received	22,352,294	57,409,338
219	Deferred revenue and advances - Carry forward coi	0	381,301
		175,411,085	169,556,874

The Deferred/Unearned Revenue of 153 MEUR is composed of:

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

years starting 1<sup>st</sup> Jan 2014; as a result 1/3 or 1.9 MEUR was recognised as revenue in 2014 and 2015, resulting in an ending balance of Unearned Revenue from Nations for Inventory of 1.9 MEUR;

- Revenue billed in advance for €151.1 million is resulting from the revenue recognition through stage of completion for projects whereby revenue has been billed but not yet earned.

## 11. Other Current Liabilities

(All amounts in 1 Euro)

		NCIO	
	Note	2015	2014 Restated
	Unit		
<b>Other Current Liabilities</b>			
250	Current tax and personnel related liabilities	21,531	19,291
251	Current retirement and pensions related liabilities	0	0
254	Other current liabilities	13,026,813	10,563,298
		<b>13,048,344</b>	<b>10,582,589</b>

Other current liabilities include:

- Refundable surpluses amount to €12 million and represent mostly funds to be returned to the IC from acquisition projects and to the BC for results (lapses/financial/miscellaneous) on budgets - mostly prior year budgets - since the Agency is Customer Funded as of 2014.
- Warranties, concerning bid and performance bonds received, amount to €1 million
- Other liabilities of €14 thousand

## 12. Provisions

*(All amounts in 1 Euro)*

		NCIO	
		Note	
		Unit	
Provisions		2015	2014 Restated
2901	Provisions - Major risks and costs	2,024,100	18,790,830
2902	Provisions - Personnel related	6,733,736	3,828,483
		8,757,836	22,619,313

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

- Projects are constantly monitored and deviations from the original cost estimates and authorized budgets are reported and analysed. At year-end closing a thorough cost-to-complete exercise is carried out to determine what the current status is in terms of costs and revenue to date, and to estimate what the cost-to-complete will be for multiple year projects. If, as a result of this process, the project management together with the NCI Agency Capability Development's financial management come to the conclusion that the project is likely to generate a loss at completion, then a provision will be made to cover that potential future loss. Analysis conducted at a later stage may result in a change of estimates which translates in an increase or decrease of the provision built up in prior years. The provision for the Customer Funded projects amounts to €1.78 million.
- Provision of €245K is booked for a company claim deposited in January 2016 but for which the conditions already existed in 2015. This provision does not have an impact on the Statement of Financial Performance as it is related to the NSIP acquisition activity and thus corresponding anticipated revenue is booked offsetting the cost provision.
- The NCI Agency provision for the untaken leave days outstanding at year end, in accordance with IPSAS 25 Employee benefits, constitutes a liability towards the future for €5.2 million. This provision is calculated on a rolling basis, i.e. the prior year provision is reversed at the beginning of the year and a new provision calculated, thus charging the change for the year to the Statement of Financial Performance.
- Provision made for €326K for JFC Naples for "Trattamento di Fine Rapporto (TFR)" in application of the Italian Law and of IPSAS 19. TFR is a vested benefit payable to the employee for a part of his / her salary deferred in time to the moment when termination of the contract takes place. The calculation of the value of this liability takes place annually and includes interests for the loan forcedly made by the employee to the employer given the fact that payment is deferred to a later time. In view of the foregoing, TFR has to be considered as one extra monthly instalment of the annual pay.
- A provision has been booked for €1.2 million for Loss of Job Indemnity which will be paid in 2016 but for people that have been formally notified in 2015.

The provision of €17.3 million for the NSIP acquisition activity per the end of 2014 has been settled at the end of 2015 for GBP 9.3 million and is thus no longer on the Statement of Financial Position. The settlement has/had no effect on the performance as it was reimbursed by the NSIP.



## 13. Other Non-Current Liabilities

*(All amounts in 1 Euro)*

		NCIO	
		Note	
		Unit	
Other Non-Current Liabilities		2015	2014 Restated
295	Other non-current liabilities	93,919	2,298,403
		93,919	2,298,403

The amount of €94 thousand represents the remaining deferred revenue from Nations used under the budget funding prior 2014 for acquisition of Property Plant and Equipment (PPE). It will be recognised as revenue at the same pace as depreciation is recognised as an expense for the same assets. The amount shown equals the initial value of PPE posted minus the accumulated depreciation.

## 14. Net Assets/Equity

Under its Customer Funding model, the NCI Agency is allowed to have an Operating Fund (OF) which represents its retained earnings accumulated over the years. The use of this OF is regulated, as detailed earlier in this report, by the Customer Funding Regulatory Framework approved by Council in 2015. Further information is presented under the later note related to the Statement of Change/Equity (OF).

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

(All amounts in 1 Euro)

			NCIO		
			Note	2015	2014 Restated
			Unit		
Contributions Revenue					
50	Budget and cost contributions revenue	CD - Ops	296,900	1,892,581	
500	Budget contributions revenue	CD - BMD	0	2,307,811	
500	Budget contributions revenue	C2 - Adm	0	0	
500	Budget contributions revenue	SD	776,890	7,927,391	
			1,073,790	12,127,783	

With the introduction of full Customer Funding as of 2014, the contributions revenues from budget funding has decreased considerably. Nevertheless, NCIO still has some revenues from either 2015 budgets (i.e. ASB Independent Secretariat and the BC877 NCI Agency Implementation Budget) or prior year budget funding. Details and their Budget Execution Statements can be found under section D of the Notes to the Financial Statements.

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

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

(All amounts in 1 Euro)

			NCIO		
			Note	2015	2014 - Restated
			Unit		
Services and Support Revenue					
510	Project support revenue (PoW)	CD - Ops		93,332,762	99,492,032
510	Project support revenue (PoW)	CD - TP		0	887,155
510	Project support revenue (PoW)	CD - BMD		0	-1,958,269
515	Services revenue (SLA)	SD		248,081,504	201,561,480
525	Reimbursable cost revenue	SD		423,467	1,576,880
				341,837,733	301,559,278

With the introduction of full Customer Funding as of 1 Jan 2014, most 2015 revenue represents Services and Support Revenue. Primarily this revenue can be categorized as either Project Support Revenue stemming from Capability Development (Project Services Costs) or Services Revenue, coming from signed Service Level Agreements (Service Support Costs), all agreed and calculated at approved Customer Rates. The Services revenue also includes External CIS Services (revenue related to externally procured CIS services and products).

For all these activities, NCI Agency is the procurement principal, which is in line with the IPSAS guidance.

For all Customer Funded revenue, revenue is recognized, in accordance with IPSAS 9 and 11, by reference to the stage of completion or the cost burn rate, depending on the type of funding agreement; firm fixed price or cost reimbursable. This revenue recognition was already in place in 2013 for that part of the NCI Agency's business Customer Funded at that time but has now been expanded to nearly all its revenues. In applying this revenue recognition a "cost to complete" is calculated based on either inputs from the project manager as to the resources required to complete the project/deliverables or either based on information from the financial system as to the legal liabilities incurred per the end of 2015, but not yet accrued or expended, and which nevertheless form part of the 2015 services signed with the Customers through the Service Level Agreements.

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

### NCIO Operations and Services Performance Details by Sponsor Account

For the year ended 31 December 2015

(all figures are in Euro)

		2015										
		BUDGET		EXPENSES		REVENUE		WIP		SURPLUS/(DEFICIT)		
Note		Contract Value	Expenses to Date	Cost to Complete	Billed to Date	Earned to Date	Deferred (-)	Accrued (+)	Earned CY	Incr./(Decr.) CY	Retained to Date	Provision to Date
	NATO HQ & Agencies	76,693,207	85,742,012	16,971,632	73,882,403	70,421,410	(5,195,631)	1,734,637	21,766,332	218,596	(12,198,787)	(559,431)
	Allied Command Operations (ACO)	430,714,636	397,093,744	24,409,794	418,964,128	400,327,675	(19,771,855)	1,135,401	216,119,152	(337,890)	3,952,843	(328,406)
	Allied Command Transformation (ACT)	93,524,868	89,207,486	7,687,338	85,973,158	85,117,141	(3,226,565)	2,370,548	30,867,451	0	(3,725,300)	(126,377)
	TOTAL INTERNAL CUSTOMERS - SENIOR	600,932,711	572,043,243	49,068,763	578,819,689	555,866,226	(28,194,050)	5,240,587	268,752,935	(119,294)	(11,971,244)	(1,014,214)
	Investment Committee (IC)	331,959,572	241,944,219	89,307,275	251,459,404	238,198,067	(24,442,059)	11,180,723	41,347,032	(269,397)	(2,896,582)	(443,415)
	TOTAL INTERNAL CUSTOMERS - NSIP	331,959,572	241,944,219	89,307,275	251,459,404	238,198,067	(24,442,059)	11,180,723	41,347,032	(269,397)	(2,896,582)	(443,415)
	TOTAL INTERNAL CUSTOMERS	932,892,284	813,987,462	138,376,038	830,279,093	794,064,293	(52,636,109)	16,421,310	310,099,967	(388,691)	(14,867,827)	(1,457,629)
	Agencies	5,009,520	3,260,113	1,314,384	3,647,090	3,629,889	(208,109)	190,908	1,734,273	89,163	461,789	(963)
	NATO Force Structure (NFS)	6,073,198	4,189,477	1,645,246	5,527,334	4,319,972	(1,224,122)	16,760	1,664,283	0	186,720	0
	NATO Nations	44,484,111	27,564,187	15,031,183	33,666,104	27,354,230	(6,670,929)	359,055	5,975,283	(172,636)	308,773	(200,792)
	NATO Partners	4,018,435	3,037,206	785,385	3,509,877	2,987,655	(533,822)	11,600	487,265	0	40,849	0
	Multinational Programs & Organizations (MN&O)	78,568,471	69,259,080	7,521,669	73,685,870	68,779,434	(5,937,547)	1,031,111	16,117,640	0	243,783	(119,716)
	TOTAL EXTERNAL CUSTOMERS	138,153,735	107,310,064	26,297,867	120,036,274	107,071,180	(14,574,529)	1,609,435	25,978,744	(83,473)	1,241,914	(321,471)
	Various/Others	3,525,801	1,869,746	34,715	523,646	523,649	0	3	5,219	0	(1,346,097)	0
	TOTAL VARIOUS/OTHERS	3,525,801	1,869,746	34,715	523,646	523,649	0	3	5,219	0	(1,346,097)	0
	TOTAL BY SPONSOR ACCOUNT	1,074,571,819	923,167,272	164,708,620	950,839,013	901,659,122	(67,210,638)	18,030,748	336,083,930	(472,164)	(14,972,010)	(1,779,100)
									335,611,766			

# NCIO Operations and Services Performance Details by Service Line

For the year ended 31 December 2015

(all figures are in Euro)

NCIO

Note	2015										
	BUDGET	EXPENSES			REVENUE			WIP		SURPLUS/(DEFICIT)	
	Contract Value	Expenses to Date	Cost to Complete	Billed to Date	Earned to Date	Deferred (-)	Accrued (+)	Earned CY	Incr./(Decr.) CY	Retained to Date	Provision to Date
AirC2 Program Office & Services	124,302,627	74,670,523	49,606,953	73,559,598	73,824,875	(4,095,305)	4,360,583	39,871,442	(22,900)	(713,628)	(80,933)
<b>TOTAL AIRC2 PO&amp;S</b>	<b>124,302,627</b>	<b>74,670,523</b>	<b>49,606,953</b>	<b>73,559,598</b>	<b>73,824,875</b>	<b>(4,095,305)</b>	<b>4,360,583</b>	<b>39,871,442</b>	<b>(22,900)</b>	<b>(713,628)</b>	<b>(80,933)</b>
BMD Program Office & Services	33,501,997	28,575,882	3,396,365	29,398,646	28,776,932	(1,826,266)	1,204,551	6,855,070	0	236,166	(125,764)
<b>TOTAL BMD PO&amp;S</b>	<b>33,501,997</b>	<b>28,575,882</b>	<b>3,396,365</b>	<b>29,398,646</b>	<b>28,776,932</b>	<b>(1,826,266)</b>	<b>1,204,551</b>	<b>6,855,070</b>	<b>0</b>	<b>236,166</b>	<b>(125,764)</b>
C2 - Joint Command and Control Services	125,257,673	104,670,156	18,255,370	110,688,426	103,499,171	(8,758,008)	1,568,754	29,788,326	(51,548)	(295,255)	(57,337)
JISR - Joint Intelligence, Surveillance and Reconnaissance Services	105,884,237	87,165,429	15,328,987	91,676,746	87,380,810	(5,422,386)	1,126,450	20,448,301	(77,372)	1,102,265	(444)
SSBA - Service Support & Business Applications	40,865,848	35,932,540	9,208,715	38,216,772	35,797,997	(2,751,693)	332,918	15,088,395	(14,341)	343,963	(45,825)
OA - Operational Analysis	18,606,445	15,492,519	2,840,744	15,935,382	15,586,736	(925,018)	576,372	6,416,213	0	238,322	0
ET - Education & Training Services	25,468,686	24,577,864	1,137,769	24,093,657	24,019,380	(443,876)	369,599	9,364,593	(172,636)	(425,035)	(2,156)
DAS IO - Architecture Services Implementation Office	13,628,312	7,817,559	5,606,271	8,289,982	7,781,915	(917,991)	409,924	1,253,818	0	(0)	0
<b>TOTAL DAS - ARCHITECTURE SERVICES</b>	<b>329,711,201</b>	<b>275,656,066</b>	<b>52,377,855</b>	<b>288,900,965</b>	<b>274,066,010</b>	<b>(19,218,973)</b>	<b>4,384,018</b>	<b>82,359,646</b>	<b>(315,898)</b>	<b>964,260</b>	<b>(105,762)</b>
NSII - Network Services & IT Infrastructure	184,202,345	145,916,934	27,208,916	176,804,578	155,614,277	(22,968,179)	1,777,878	58,155,576	(181,367)	9,807,026	(260,954)
CES - Core Enterprise Services	98,410,207	78,407,115	14,982,884	87,204,248	82,884,133	(6,688,481)	2,368,365	32,170,132	0	4,759,512	(524,845)
CS - Cyber Security Services	84,944,161	75,140,017	5,912,980	78,881,963	78,153,324	(2,416,530)	1,687,892	32,875,539	(281,027)	3,562,286	(59,070)
SMC - Service Management & Control	6,035,668	4,284,081	452,236	5,540,411	5,573,101	(112,907)	145,596	4,657,603	0	1,289,904	(3)
<b>TOTAL DIS - INFRASTRUCTURE SERVICES</b>	<b>373,592,380</b>	<b>303,748,146</b>	<b>48,557,016</b>	<b>348,431,199</b>	<b>322,224,834</b>	<b>(32,186,097)</b>	<b>5,979,732</b>	<b>127,858,850</b>	<b>(462,394)</b>	<b>19,418,728</b>	<b>(844,872)</b>
CSU - Customer Support Units	110,109,205	118,897,524	5,150,398	114,904,524	111,279,434	(5,206,562)	1,581,472	58,835,333	0	(7,618,091)	(434,282)
CSSC - CIS Sustainment Support Centre	1,870,045	1,195,636	623	1,870,045	1,869,216	(829)	0	1,869,216	0	673,580	0
O&E - Operations & Exercises	3,985,872	5,255,136	87,030	3,937,823	3,690,324	(247,499)	0	3,453,321	0	(1,564,812)	0
OC - Operations Centre	21,688,500	22,283,707	629,967	21,204,466	20,703,415	(569,783)	68,731	7,499,651	0	(1,577,073)	(963)
<b>TOTAL DSO - OPERATIONS AND EXERCISES MANAGEMENT</b>	<b>137,653,622</b>	<b>147,632,003</b>	<b>5,868,018</b>	<b>141,916,859</b>	<b>137,542,388</b>	<b>(6,024,674)</b>	<b>1,650,203</b>	<b>71,657,521</b>	<b>0</b>	<b>(10,086,396)</b>	<b>(435,245)</b>
IV&V - Independent Validation & Verification Services	16,771,560	14,642,605	3,451,250	14,157,416	13,091,060	(1,172,676)	106,321	4,768,393	(725)	(1,163,989)	(172,386)
Other Service Strategy Services	1,510,637	6,242,742	558,056	1,249,302	1,268,834	(85,641)	105,172	391,699	0	(4,315,811)	0
<b>TOTAL SSTRAT - SERVICE STRATEGY</b>	<b>18,282,197</b>	<b>20,885,347</b>	<b>4,009,306</b>	<b>15,406,718</b>	<b>14,359,894</b>	<b>(1,258,317)</b>	<b>211,493</b>	<b>5,160,092</b>	<b>(725)</b>	<b>(5,479,801)</b>	<b>(172,386)</b>
ACQ - Acquisition Services	0	10,006,664	0	0	0	0	0	0	0	(10,006,664)	0
DM - Demand Management Services	8,552,294	8,926,388	349,725	8,313,928	7,855,077	(511,073)	52,222	2,307,103	89,163	(635,429)	(12,849)
Transition Services	0	0	0	0	0	0	0	0	0	0	0
Various/Others	48,975,501	53,066,252	543,382	44,911,100	43,009,114	(2,089,933)	187,947	14,205	240,590	(8,669,247)	(1,289)
<b>TOTAL MISCELLANEOUS</b>	<b>57,527,795</b>	<b>71,999,304</b>	<b>893,107</b>	<b>53,225,028</b>	<b>50,864,190</b>	<b>(2,601,006)</b>	<b>240,169</b>	<b>2,321,308</b>	<b>329,753</b>	<b>(19,311,340)</b>	<b>(14,138)</b>
<b>TOTAL BY SERVICE LINE</b>	<b>1,074,571,819</b>	<b>923,167,272</b>	<b>164,708,620</b>	<b>950,839,013</b>	<b>901,659,122</b>	<b>(67,210,638)</b>	<b>18,030,748</b>	<b>336,083,930</b>	<b>(472,164)</b>	<b>(14,972,010)</b>	<b>(1,779,100)</b>
								<b>335,611,766</b>			

## 17. Acquisition Revenue

*(All amounts in 1 Euro)*

			NCIO	
			2015	2014 Restated
			Note	
			Unit	
<b>Acquisitions Revenue</b>				
520	Acquisition revenue	CD - Ops	0	6,909,617
520	Acquisition revenue	CD - NSIP	224,003,675	222,374,433
520	Acquisition revenue	CD - TP	106,601,292	120,681,416
520	Acquisition revenue	CD - BMD	0	771,327
520	Acquisition revenue	C2 - Acq	0	0
			<b>330,604,967</b>	<b>350,736,793</b>

Acquisition Revenue is earned as Host Nation for the NSIP, other NATO entities and Nations. Included here are the Acquisition Revenues for the AirC2 and BMD programmes but also NATO led operations' related CIS support contracts.

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

## 18. Other Operating Revenue

*(All amounts in 1 Euro)*

		NCIO		
		Note	2015	2014 Restated
		Unit		
<b>Other Operating Revenue</b>				
535	Other operating income	CD - Ops	2,365,067	4,175,512
535	Other operating income	CD - NSIP	245,000	11,224,554
535	Other operating income	CD - TP	-661	0
535	Other operating income	C2 - Adm	0	0
531	Inventory and work in progress - (Increase) Decrease	SD	0	0
535	Other operating income	SD	0	1,423,781
			<b>2,609,406</b>	<b>16,823,847</b>

Other Operating Revenue consists of elements such as:

- The work in progress variations for pre-financings, APF overrun and recoverable exceptions (€-472K)
- Revenue from the support to and hosting of Agencies such as NAGSMA, TACOMS and BGX (€1143K)
- Recovery of overheads from contractors working under acquisition funding (€1M)
- Conferences and miscellaneous revenues (€650K)
- Anticipated IC revenue for the provision booked under note 12

## 19. Other Revenue

*(All amounts in 1 Euro)*

		NCIO		
		Note	2015	2014 Restated
		Unit		
<b>Other Revenue</b>				
560	Extraordinary gains on sales of fixed assets		36,504	101,546
565	Other extraordinary gains		2,059,369	2,141,294
			<b>2,095,873</b>	<b>2,242,839</b>

In 2014, when the NCI Agency became procurement principal for inventory and recognized the inventory for the first time in its Financial Statements, an amount of 5.7 MEUR was identified as the 2013 net inventory. For this 2013 inventory, the NCI Agency was still acting in a procurement agent capacity for the provision of the services and was budget funded for these activities. Therefore this amount was booked as “Unearned Revenue from the Nations” and was recognised as revenue over a period of three years starting 1<sup>st</sup> Jan 2014, in line with the average turnover period of the inventory. This results in an equal revenue amount of 1.9 MEUR recognised as ‘Unearned Revenue from the Nations for inventories” per year (for three years) here.

## 20. Revenue Details

In summary the NCI Agency total revenue for the period ending 31 December 2015 was 681 MEUR broken-down as:

- 331 MEUR Acquisition Revenue earned in the execution of procurements for NSIP and Third Parties;
- 128 MEUR External CIS Revenue earned in the execution of CIS Service Level Agreements for goods and services procured from industry; and
- 222 MEUR Operating Revenue earned through the rendering of capability development and delivery of CIS services by Agency resources.

Per below tables Total Revenue is summarized by Sponsor Account and Service Line, both for 2015 and prior year 2014.

P3:	Project, Programme and Portfolio (P3) delivery
SLA:	Service Level Agreement
SA:	Service Agreement
CIS:	Communication and Information Systems
NSIP:	NATO Security Investment Programme
TP:	Third Parties (i.e. Non-NSIP)

## NCIO Revenue Summary by Sponsor Account

For the year ended 31 December 2015

(all figures are in Euro)

NCIO

Note	2015							
	Operating Revenue				External CIS Revenue	Acquisition Revenue		TOTAL
	P3	SLA	SA	Total		NSIP	TP	
NATO HQ & Agencies	12,680,194	9,002,700	0	21,682,894	302,034	0	13,330,492	35,315,420
Allied Command Operations (ACO)	6,257,901	77,974,174	21,263,730	105,495,805	110,285,458	0	63,663,873	279,445,136
Allied Command Transformation (ACT)	15,491,374	8,556,893	433,917	24,482,185	6,385,266	0	0	30,867,451
<b>TOTAL INTERNAL CUSTOMERS - SENIOR</b>	<b>34,429,469</b>	<b>95,533,768</b>	<b>21,697,647</b>	<b>151,660,884</b>	<b>116,972,758</b>	<b>0</b>	<b>76,994,366</b>	<b>345,628,007</b>
Investment Committee (IC)	41,077,635	0	0	41,077,635	0	224,248,675	0	265,326,310
<b>TOTAL INTERNAL CUSTOMERS - NSIP</b>	<b>41,077,635</b>	<b>0</b>	<b>0</b>	<b>41,077,635</b>	<b>0</b>	<b>224,248,675</b>	<b>0</b>	<b>265,326,310</b>
<b>TOTAL INTERNAL CUSTOMERS</b>	<b>75,507,104</b>	<b>95,533,768</b>	<b>21,697,647</b>	<b>192,738,518</b>	<b>116,972,758</b>	<b>224,248,675</b>	<b>76,994,366</b>	<b>610,954,317</b>
Agencies	1,345,277	0	0	1,345,277	478,160	0	569,415	2,392,851
NATO Force Structure (NFS)	1,517,573	0	92,309	1,609,881	54,402	0	1,041,563	2,705,846
NATO Nations	5,137,759	0	245,296	5,383,055	419,591	0	27,025,739	32,828,386
NATO Partners	487,265	0	0	487,265	0	0	103,269	590,534
Multinational Programs & Organizations (MN&O)	10,398,548	1,138,227	2,997,384	14,534,160	1,583,480	0	1,578,174	17,695,814
<b>TOTAL EXTERNAL CUSTOMERS</b>	<b>18,886,421</b>	<b>1,138,227</b>	<b>3,334,990</b>	<b>23,359,637</b>	<b>2,535,633</b>	<b>0</b>	<b>30,318,160</b>	<b>56,213,430</b>
Various/Others	0	0	0	0	5,219	0	0	5,219
<b>TOTAL VARIOUS/OTHERS</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5,219</b>	<b>0</b>	<b>0</b>	<b>5,219</b>
<b>TOTAL BY SPONSOR ACCOUNT</b>	<b>94,393,525</b>	<b>96,671,994</b>	<b>25,032,637</b>	<b>216,098,156</b>	<b>119,513,610</b>	<b>224,248,675</b>	<b>107,312,525</b>	<b>667,172,966</b>
<b>OTHER OPERATING REVENUE</b>								
Common Funded and Delegated Budgets	0				5,744,420			5,744,420
Cost Contributions	2,187,177				0			2,187,177
PP&E and Inventory Related Revenue	299,397				1,916,719			2,216,117
Other Operating Revenue	306,310				490,583		(661)	796,232
Internal and Intra-company Revenue	(1,191,679)				(88,102)		(711,234)	(1,991,015)
<b>TOTAL OPERATING REVENUE</b>	<b>95,994,730</b>	<b>96,671,994</b>	<b>25,032,637</b>		<b>127,577,230</b>	<b>224,248,675</b>	<b>106,600,631</b>	<b>676,125,896</b>
Financial Revenue								2,653,256
Other Revenue								2,095,873
<b>TOTAL REVENUE</b>	<b>95,994,730</b>	<b>96,671,994</b>	<b>25,032,637</b>		<b>127,577,230</b>	<b>224,248,675</b>	<b>106,600,631</b>	<b>680,875,025</b>
				<b>249,281,861</b>				



## NCIO Revenue Summary by Sponsor Account

For the year ended 31 December 2015

(all figures are in Euro)

NCIO

Note	2014							
	Operating Revenue				External CIS Revenue	Acquisition Revenue		TOTAL
	P3	SLA	SA	Total		NSIP	TP	
NATO HQ & Agencies	14,921,911	6,909,617	0	21,831,529	(0)	0	11,152,329	32,983,858
Allied Command Operations (ACO)	8,030,314	72,020,321	11,463,399	91,514,033	78,097,608	0	76,601,071	246,212,712
Allied Command Transformation (ACT)	18,351,712	8,287,574	0	26,639,286	1,903,213	0	0	28,542,498
<b>TOTAL INTERNAL CUSTOMERS - SENIOR</b>	<b>41,303,937</b>	<b>87,217,511</b>	<b>11,463,399</b>	<b>139,984,847</b>	<b>80,000,821</b>	<b>0</b>	<b>87,753,400</b>	<b>307,739,068</b>
Investment Committee (IC)	46,349,937	0	0	46,349,937	0	233,598,987	0	279,948,924
<b>TOTAL INTERNAL CUSTOMERS - NSIP</b>	<b>46,349,937</b>	<b>0</b>	<b>0</b>	<b>46,349,937</b>	<b>0</b>	<b>233,598,987</b>	<b>0</b>	<b>279,948,924</b>
<b>TOTAL INTERNAL CUSTOMERS</b>	<b>87,653,874</b>	<b>87,217,511</b>	<b>11,463,399</b>	<b>186,334,784</b>	<b>80,000,821</b>	<b>233,598,987</b>	<b>87,753,400</b>	<b>587,687,992</b>
Agencies	991,280	0	0	991,280	0	0	1,207,679	2,198,959
NATO Force Structure (NFS)	1,937,208	0	0	1,937,208	0	0	954,354	2,891,561
NATO Nations	4,983,738	0	0	4,983,738	0	0	27,132,839	32,116,577
NATO Partners	840,694	0	0	840,694	0	0	150,031	990,725
Multinational Programs & Organizations (MN&O)	10,957,325	1,378,835	2,591,783	14,927,943	3,444,707	0	7,304,764	25,677,414
<b>TOTAL EXTERNAL CUSTOMERS</b>	<b>19,710,244</b>	<b>1,378,835</b>	<b>2,591,783</b>	<b>23,680,862</b>	<b>3,444,707</b>	<b>0</b>	<b>36,749,667</b>	<b>63,875,236</b>
Various/Others	0	0	0	0	518,430	0	0	518,430
<b>TOTAL VARIOUS/OTHERS</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>518,430</b>	<b>0</b>	<b>0</b>	<b>518,430</b>
<b>TOTAL BY SPONSOR ACCOUNT</b>	<b>107,364,118</b>	<b>88,596,346</b>	<b>14,055,182</b>	<b>210,015,646</b>	<b>83,963,958</b>	<b>233,598,987</b>	<b>124,503,067</b>	<b>652,081,658</b>
<b>OTHER OPERATING REVENUE</b>								
Common Funded and Delegated Budgets	2,307,811				28,834,649			31,142,460
Cost Contributions	0				0			0
PP&E and Inventory Related Revenue	225,937				948,353			1,174,290
Other Operating Revenue	(87,820)				3,000,661			2,912,841
Internal and Intra-company Revenue	3,780,566				(6,909,617)		(2,934,497)	(6,063,547)
<b>TOTAL OPERATING REVENUE</b>	<b>113,590,612</b>	<b>88,596,346</b>	<b>14,055,182</b>		<b>109,838,004</b>	<b>233,598,987</b>	<b>121,568,570</b>	<b>681,247,701</b>
Financial Revenue								1,797,575
Other Revenue								2,242,839
<b>TOTAL REVENUE</b>	<b>113,590,612</b>	<b>88,596,346</b>	<b>14,055,182</b>		<b>109,838,004</b>	<b>233,598,987</b>	<b>121,568,570</b>	<b>685,288,115</b>
								212,489,532

## NCIO Revenue Summary by Service Line

For the year ended 31 December 2015

(all figures are in Euro)

Note	2015							
	Operating Revenue				External CIS Revenue	Acquisition Revenue		TOTAL
	P3	SLA	SA	Total		NSIP	TP	
AirC2 Program Office & Services	18,728,420	0	20,780,627	39,509,046	339,496	116,972,271	9,388,298	166,209,111
<b>TOTAL AIRC2 PO&amp;S</b>	<b>18,728,420</b>	<b>0</b>	<b>20,780,627</b>	<b>39,509,046</b>	<b>339,496</b>	<b>116,972,271</b>	<b>9,388,298</b>	<b>166,209,111</b>
BMD Program Office & Services	6,855,070	0	0	6,855,070	0	12,159,209	(0)	19,014,279
<b>TOTAL BMD PO&amp;S</b>	<b>6,855,070</b>	<b>0</b>	<b>0</b>	<b>6,855,070</b>	<b>0</b>	<b>12,159,209</b>	<b>(0)</b>	<b>19,014,279</b>
C2 - Joint Command and Control Services	9,305,765	3,652,529	639,742	13,598,036	16,138,742	0	401,343	30,138,121
JISR - Joint Intelligence, Surveillance and Reconnaissance Services	13,556,075	3,697,067	86,991	17,340,132	3,030,797	0	7,093,389	27,464,318
SSBA - Service Support & Business Applications	4,204,413	2,391,169	35,012	6,630,593	8,443,461	0	396,237	15,470,291
OA - Operational Analysis	6,416,213	0	0	6,416,213	0	0	0	6,416,213
ET - Education & Training Services	2,177,484	6,955,229	0	9,132,713	59,244	0	0	9,191,957
DAS IO - Architecture Services Implementation Office	1,253,818	0	0	1,253,818	0	0	0	1,253,818
<b>TOTAL DAS - ARCHITECTURE SERVICES</b>	<b>36,913,766</b>	<b>16,695,994</b>	<b>761,744</b>	<b>54,371,505</b>	<b>27,672,244</b>	<b>0</b>	<b>7,890,969</b>	<b>89,934,717</b>
NSII - Network Services & IT Infrastructure	8,634,515	11,860,557	1,032,252	21,527,324	36,446,885	0	70,900,863	128,875,071
CES - Core Enterprise Services	8,290,770	7,722,902	0	16,013,672	16,156,460	0	13,541,576	45,711,709
CS - Cyber Security Services	4,969,126	10,319,770	0	15,288,896	17,305,616	0	395,773	32,990,285
SMC - Service Management & Control	395,245	3,297,550	0	3,692,796	964,807	0	0	4,657,603
<b>TOTAL DIS - INFRASTRUCTURE SERVICES</b>	<b>22,289,656</b>	<b>33,200,780</b>	<b>1,032,252</b>	<b>56,522,687</b>	<b>70,873,768</b>	<b>0</b>	<b>84,838,212</b>	<b>212,234,668</b>
CSU - Customer Support Units	0	39,624,070	907,832	40,531,902	18,303,432	0	0	58,835,333
CSSC - CIS Sustainment Support Centre	0	1,605,045	0	1,605,045	264,171	0	0	1,869,216
O&E - Operations & Exercises	0	1,026,582	433,917	1,460,499	1,992,822	0	0	3,453,321
OC - Operations Centre	1,258,674	4,384,407	0	5,643,081	1,856,570	0	0	7,499,651
<b>TOTAL DSO - OPERATIONS AND EXERCISES MANAGEMENT</b>	<b>1,258,674</b>	<b>46,640,104</b>	<b>1,341,749</b>	<b>49,240,527</b>	<b>22,416,994</b>	<b>0</b>	<b>0</b>	<b>71,657,521</b>
IV&V - Independent Validation & Verification Services	4,509,105	135,117	0	4,644,222	123,445	0	0	4,767,668
Other Service Strategy Services	391,699	0	0	391,699	0	0	0	391,699
<b>TOTAL SSTRAT - SERVICE STRATEGY</b>	<b>4,900,805</b>	<b>135,117</b>	<b>0</b>	<b>5,035,922</b>	<b>123,445</b>	<b>0</b>	<b>0</b>	<b>5,159,367</b>
ACQ - Acquisition Services	0	0	0	0	0	95,117,195	4,921,624	100,038,820
DM - Demand Management Services	2,396,266	0	0	2,396,266	0	0	273,423	2,669,689
Transition Services	0	0	0	0	0	0	0	0
Various/Others	1,050,868	0	1,116,265	2,167,132	(1,912,337)	0	0	254,795
<b>TOTAL MISCELLANEOUS</b>	<b>3,447,134</b>	<b>0</b>	<b>1,116,265</b>	<b>4,563,399</b>	<b>(1,912,337)</b>	<b>95,117,195</b>	<b>5,195,047</b>	<b>102,963,304</b>
<b>TOTAL BY SERVICE LINE</b>	<b>94,393,525</b>	<b>96,671,994</b>	<b>25,032,637</b>	<b>216,098,156</b>	<b>119,513,610</b>	<b>224,248,675</b>	<b>107,312,525</b>	<b>667,172,966</b>

Excluding Other Operating Revenue

## NCIO Revenue Summary by Service Line

For the year ended 31 December 2014

(all figures are in Euro)

	Note	2014						
		Operating Revenue				Acquisition Revenue		TOTAL
		P3	SLA	SA	Total	External CIS Revenue	NSIP	
AirC2 Program Office & Services		19,078,285	0	13,874,915	32,953,200	1,023,132	38,818,237	9,522,097
<b>TOTAL AIRC2 PO&amp;S</b>		<b>19,078,285</b>	<b>0</b>	<b>13,874,915</b>	<b>32,953,200</b>	<b>1,023,132</b>	<b>38,818,237</b>	<b>9,522,097</b>
BMD Program Office & Services		6,150,957	0	0	6,150,957	0	4,667,643	871,327
<b>TOTAL BMD PO&amp;S</b>		<b>6,150,957</b>	<b>0</b>	<b>0</b>	<b>6,150,957</b>	<b>0</b>	<b>4,667,643</b>	<b>871,327</b>
C2 - Joint Command and Control Services		13,134,098	3,011,460	0	16,145,558	8,246,542	0	716,825
JISR - Joint Intelligence, Surveillance and Reconnaissance Services		14,476,832	2,432,556	0	16,909,388	774,174	0	9,399,502
SSBA - Service Support & Business Applications		4,198,554	3,153,736	0	7,352,290	5,819,284	0	1,978,995
OA - Operational Analysis		6,514,654	0	0	6,514,654	0	0	0
ET - Education & Training Services		4,755,304	5,749,110	0	10,504,414	(0)	0	33,968
DAS IO - Architecture Services Implementation Office		1,109,769	0	0	1,109,769	0	0	0
<b>TOTAL DAS - ARCHITECTURE SERVICES</b>		<b>44,189,210</b>	<b>14,346,862</b>	<b>0</b>	<b>58,536,072</b>	<b>14,840,000</b>	<b>0</b>	<b>12,129,289</b>
NSII - Network Services & IT Infrastructure		10,925,254	14,075,026	0	25,000,280	14,619,723	0	83,386,339
CES - Core Enterprise Services		11,402,686	7,722,306	0	19,124,992	10,601,337	0	8,887,215
CS - Cyber Security Services		6,893,233	12,763,467	0	19,656,700	7,274,088	0	1,904,833
SMC - Service Management & Control		238,962	646,089	0	885,050	(91,301)	0	0
<b>TOTAL DIS - INFRASTRUCTURE SERVICES</b>		<b>29,460,134</b>	<b>35,206,888</b>	<b>0</b>	<b>64,667,022</b>	<b>32,403,846</b>	<b>0</b>	<b>94,178,386</b>
CSU - Customer Support Units		0	39,137,150	180,267	39,317,417	13,126,683	0	0
CSSC - CIS Sustainment Support Centre		0	0	0	0	0	0	0
O&E - Operations & Exercises		0	0	0	0	237,003	0	0
OC - Operations Centre		0	(236,322)	0	(236,322)	13,375,402	0	0
<b>TOTAL DSO - OPERATIONS AND EXERCISES MANAGEMENT</b>		<b>0</b>	<b>38,900,829</b>	<b>180,267</b>	<b>39,081,096</b>	<b>26,739,088</b>	<b>0</b>	<b>0</b>
IV&V - Independent Validation & Verification Services		4,656,359	53,673	0	4,710,032	190,467	0	0
Other Service Strategy Services		462,064	0	0	462,064	0	0	0
<b>TOTAL SSTRAT - SERVICE STRATEGY</b>		<b>5,118,423</b>	<b>53,673</b>	<b>0</b>	<b>5,172,096</b>	<b>190,467</b>	<b>0</b>	<b>0</b>
ACQ - Acquisition Services		0	0	0	0	0	190,113,107	7,714,338
DM - Demand Management Services		1,348,088	0	0	1,348,088	0	0	87,630
Transition Services		0	0	0	0	0	0	0
Various/Others		2,019,020	88,094	0	2,107,115	8,767,425	0	0
<b>TOTAL MISCELLANEOUS</b>		<b>3,367,108</b>	<b>88,094</b>	<b>0</b>	<b>3,455,203</b>	<b>8,767,425</b>	<b>190,113,107</b>	<b>7,801,967</b>
<b>TOTAL BY SERVICE LINE</b>		<b>107,364,118</b>	<b>88,596,346</b>	<b>14,055,182</b>	<b>210,015,646</b>	<b>83,963,958</b>	<b>233,598,987</b>	<b>124,503,067</b>

Excluding Other Operating Revenue

## 21. Expenses

**NCIO Statement of Financial Performance - Direct/Indirect***For the year ended 31 December 2015**(all figures are in Euro)**(Prior Year restated)*

	Note	2015	2014 - Restated
<b>REVENUE</b>			
Contributions Revenue		1,073,790	12,127,783
Services and Support Revenue		341,837,733	301,559,278
Acquisitions Revenue		330,604,967	350,736,793
Other Operating Revenue		2,609,406	16,823,847
<b>TOTAL REVENUE</b>		<b>676,125,896</b>	<b>681,247,701</b>
<b>DIRECT EXPENSES</b>			
Cost of Acquisitions		(330,967,810)	(346,542,619)
Personnel Costs		(136,133,840)	(125,732,103)
Contractual Supplies and Services		(131,074,901)	(127,469,625)
Depreciation and Amortisation		(2,202,216)	(459,901)
Provisions		(2,057,852)	(11,958,170)
<b>TOTAL DIRECT EXPENSES</b>		<b>(602,436,620)</b>	<b>(612,162,418)</b>
<b>OPERATING SURPLUS/(DEFICIT) FOR THE PERIOD</b>		<b>73,689,277</b>	<b>69,085,282</b>
<b>INDIRECT EXPENSES</b>			
Personnel Costs		(55,758,346)	(53,909,806)
Contractual Supplies and Services		(9,979,958)	(7,680,590)
Depreciation and Amortisation		(1,632,028)	(1,645,498)
Other Expenses		(19,837)	(1,451,145)
<b>TOTAL INDIRECT EXPENSES</b>		<b>(67,390,168)</b>	<b>(64,687,038)</b>
<b>OTHER REVENUE</b>			
Financial Revenue		2,653,256	1,797,575
Other Revenue		2,095,873	2,242,839
<b>TOTAL OTHER REVENUE</b>		<b>4,749,129</b>	<b>4,040,414</b>
<b>OTHER EXPENSES</b>			
Provisions		(715,885)	(2,403,705)
Financial Expenses		(2,959,060)	(1,989,632)
Restructuring Costs		(1,531,370)	(2,115,436)
<b>TOTAL OTHER EXPENSES</b>		<b>(5,206,315)</b>	<b>(6,508,773)</b>
<b>INDIRECT SURPLUS/(DEFICIT) FOR THE PERIOD</b>		<b>(67,847,354)</b>	<b>(67,155,398)</b>
<b>NET SURPLUS/(DEFICIT) FOR THE PERIOD</b>		<b>5,841,922</b>	<b>1,929,885</b>

Not presented within the main table of Statement of Financial Performance, the table presented herewith provides an overview of the split between direct and indirect costs. This is in accordance with the common layout for financial statements that was agreed with the Head of Financial Reporting Policy, submitted to the RPPB in December 2015.

This break-down is based on the nature and use of the funds and aims at providing an insight on the NCI Agency cost structure, in particular its overhead (or indirect) costs.

In summary the NCI Agency total expenses for the period ending 31 December 2015 were 675 MEUR broken-down as:

- 331 MEUR Acquisition Costs incurred in the execution of procurements for NSIP and Third Parties;
- 131 MEUR of External CIS (118 MEUR) and Other Direct Costs (13 MEUR) incurred in the execution of CIS Service Level Agreements and Capability Development Projects for goods and services procured from industry; and
- 213 MEUR Operating Costs incurred while rendering of capability development and delivery of CIS services by Agency resources (146 MEUR) as well as overhead costs incurred in the running, enabling and supporting of the Agency infrastructure and activities (67 MEUR).

## 22. Cost of Acquisitions

*(All amounts in 1 Euro)*

			NCIO	
			Note	2015
			Unit	2014 Restated
<b>Cost of Acquisitions</b>				
700	Cost of acquisitions	CD - NSIP	223,993,859	221,859,978
700	Cost of acquisitions	CD - TP	106,973,951	124,682,641
700	Cost of acquisitions	C2 - Adm	0	0
700	Cost of acquisitions	C2 - Acq	0	0
			<b>330,967,810</b>	<b>346,542,619</b>

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

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

## 23. Personnel Costs

*(All amounts in 1 Euro)*

		NCIO	
		Note	
		Unit	
Personnel Costs		2015	2014 Restated
710	Personnel costs - Salaries, allowances and other i	135,129,143	132,806,568
711	Personnel costs - Recruitment costs and installati	1,539,432	1,707,290
712	Personnel costs - Clothing costs and allowances	79,307	34,855
713	Personnel costs - Salary related reimbursements ;	0	0
714	Personnel costs - Medical examinations and gene	348,620	7,783,901
715	Personnel costs - Education and training	2,727,798	2,899,289
716	Personnel costs - Employer contributions to pensi	19,926,773	11,591,389
717	Personnel costs - Loss of job and other personnel	1,251,935	505,862
727	Contractual supplies and services - Contractors an	32,145,137	22,312,752
		193,148,144	179,641,908

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

## 24. Employee Disclosures

**Staff Numbers**

At 31 December 2015 1169 military posts and 1379 NATO civilians were filled. In addition to this some 86 NIC vacant positions were filled either by temporary staff, consultants or contractors.

**Retirement benefits**

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

The NCI Agency does not control or manage any of the schemes or scheme assets and is not exposed to the risks and rewards of the schemes and hence does not record any assets or liabilities of the schemes on its Statement of Financial Position. In 2015 the NCI Agency contributed €6.8 million (2014: €6.4M) to the various NATO pension schemes.

## 25. Related Party Transactions

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

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

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

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

### Representative Allowance of the General Manager

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

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

The total entitlement to representation allowance for the NCI Agency GM was 10,691.76 EUR. The actual expenses during 2015 (2014: Euro 6,390.03) were as follows:

- |                                   |                   |
|-----------------------------------|-------------------|
| • Rental supplement expenses:     | € 2,673.00        |
| • <u>Hospitality Expenses:</u>    | <u>€ 7,682.79</u> |
| • Total representation allowance: | € 10,355.79       |

### Key Management Personnel

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

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

Euro (grades A7/A6)	2015	2014
Basic salaries	1,188,563	1,145,572
Allowances	313,792	309,947
Post-employment benefits	0	0
Employer's contribution to Insurance	150,003	144,604
Employer's contribution to Pension	108,004	74,209
<b>Total</b>	<b>1,760,362</b>	<b>1,674,332</b>

FTE	2015	2014
General Manager (A7)	1	1
Directors (OF7/OF6/OF7)	10	10



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<i>Name</i>	<i>Nationality</i>	<i>Role</i>	<i>Grade and step at year-end</i>	<i>Loans received from NCIA</i>	<i>Family members receiving income from NCIA</i>	<i>Other revenue from NCIA or NATO</i>
<i>Koenraad Gijsbers</i>	<i>NLD</i>	<i>General Manager</i>	<i>A7 step 4</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>MGEN Luis Andrey (left 1 Jan 2016)</i>	<i>SPA</i>	<i>Chief of Staff</i>	<i>OF7</i>	<i>Nil</i>	<i>See below</i>	<i>Nil</i>
<i>RADM Dr Thomas Daum (arr 3 Nov 2015)</i>		<i>Chief Operating Officer (Chief of Staff and Deputy General Manager as of 1 Jan 2016)</i>	<i>OF7</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>BGEN Luigi Tomaiuolo</i>	<i>ITA</i>	<i>Director Service Operations</i>	<i>OF6</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Guy Feat</i>	<i>FRA</i>	<i>Director Application Services</i>	<i>A6 step 3</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Charles Shawcross</i>	<i>CAN</i>	<i>Director Service Strategy</i>	<i>A6 step 5</i>	<i>Nil</i>	<i>See below</i>	<i>Nil</i>
<i>Velizar Shalamanov</i>	<i>BGR</i>	<i>Director Demand Management</i>	<i>A6 step 6</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Peter Scaruppe</i>	<i>DEU</i>	<i>Director Acquisition</i>	<i>A6 step 5</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Alessandro Pera (left 1 Feb 2015)</i>	<i>ITA</i>	<i>Director BMD Programme Office and Services</i>	<i>A6 step 5</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Darrell Midgley (arr 1 Feb 2015)</i>	<i>GBR</i>	<i>Director BMD Programme Office and Services</i>	<i>A6 step 1</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Anne-Marie Pick</i>	<i>USA</i>	<i>Financial Controller</i>	<i>A6 step 7</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Gregory Edwards</i>	<i>USA</i>	<i>Director Infrastructure Services</i>	<i>A6 step 2</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Enzo Montalti</i>	<i>ITA</i>	<i>Director AirC2 Programme Office and Services</i>	<i>A6 step 5</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>

All Key Management Personnel of the NCI Agency must sign a declaration statement that supports the disclosure requirements of IPSAS 20.

Out of the Key Management, two members had a family member who have been employed as interns and/or in a temporary position with the standard Agency emoluments applicable to the position.

## 26. Contractual Supplies and Services

(All amounts in 1 Euro)

		NCIO	
		Note	2015 2014 - Restated
		Unit	
<b>Contractual Supplies and Services</b>			
720	Contractual supplies and services - Rent and leasing costs	21,583,751	25,459,764
721	Contractual supplies and services - Maintenance and repair (Services)	80,949,873	68,979,326
722	Contractual supplies and services - Spare parts and consumables (Supplies)	7,224,025	7,628,699
723	Contractual supplies and services - Utilities, postal and courier services, travel and transportation	14,871,761	13,937,885
724	Contractual supplies and services - Facilities management, environment, safety and security	1,812,642	2,528,867
725	Contractual supplies and services - Public relations, representation, hospitality and moral and welfare	240,687	218,419
726	Contractual supplies and services - General services and supplies, grants and subsidies	7,153,086	11,551,995
727	Contractual supplies and services - Contractors and consultants	0	0
728	Investments pending capitalisation	338,002	-726,287
729	Non-capitalised investments	7,156,443	7,686,983
		141,330,270	137,265,651

Contractual supplies and services contain both direct and indirect costs:

- Rent and leasing costs only concern either rental costs or operating leases per IPSAS 13; the NCI Agency does not have any finance leases
- Execution on externally contracted CIS is included throughout the above items (mainly 720-722)
- Stock variation is the movement booked between 1/1/15 and 31/12/15, taking into account the specific notes under items 4 and 18 with respect to the first time entry of stock by the Agency which were previously not disclosed
- Under account 723, an amount of €10.3 million is included for travel costs (indirect travel costs including SLA travel but also project direct travel costs)
- Under account 723 is also included the offsite contractors and specific investments against PSCs.
- investments not capitalized concern acquisitions which do not exceed the PPE thresholds (above 5K EUR per item) per NCI Agency's accounting policy

NCIO also has some Morale and Welfare Activities (MWA) which are not consolidated into the Financial Statements as per the NAF adapted IPSAS 6. A report on the MWA will be submitted separately to the FinCom consistent with the Agency Directive which is under preparation.

## 27. Depreciation and Amortisation

*(All amounts in 1 Euro)*

		NCIO	
		Note	
		Unit	
		2015	2014 Restated
Depreciation and Amortisation			
730	Depreciation	3,554,565	2,467,021
731	Write-offs	279,679	-361,622
		3,834,244	2,105,399

For Fixed Assets, the NCI Agency takes into account the current year depreciation as a cost which amounts to €3.8 million. Full detail on the 2015 annual depreciation by asset category can be found in the Table under note 8.

## 28. Provisions

*(All amounts in 1 Euro)*

		NCIO	
		Note	
		Unit	
		2015	2014 Restated
Provisions			
7401	Provisions - Major risks and costs	568,484	12,666,191
7402	Provisions - Personnel related	2,205,253	1,695,685
		2,773,738	14,361,876

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

NCIO has following provisions:

- Provision for future losses for active projects/services for €323,484: when it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately (IPSAS 9 and 11).

- Provision for a claim from a company related to an acquisition activity for which settlement is expected in 2016. This provision is however cost neutral for the Agency as the IC will reimburse the Agency for the final outcome.
- Provision for untaken leave of own personnel of €1.6 million: personnel leave days untaken at the end of the year can be transferred to the next year and taken before the end of the first quarter. This constitutes a liability towards the next year since staff will not be available for service during this period of time. The provision is calculated on a rolling basis based on actual days of untaken leave outstanding and the average cost of a day of untaken leave per grade level.
- Provision for LOJI for staff which will only be paid in 2016 but for which staff were already formally notified in 2015 (€1.2million of which €0.5 million is taken into expense and €0.7 million will be taken from the 2016 Restructuring budget)
- Provision for €100K for JFC Naples for “Trattamento di Fine Rapporto (TFR)” in application of the Italian Law and of IPSAS 19 (see note 12).

## 29. Contingent Liabilities

IPSAS defines a contingent liability as “A possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or, a present obligation that arises from past events, but is not recognized because: 1) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or 2) The amount of the obligation cannot be measured with sufficient reliability”.

NCIO has identified the following elements which qualify as contingent liabilities:

- Two appeals raised by Agency personnel in 2015 and for which an outcome is expected in 2016; possible amount estimated at €130K.
- Number of staff member grievances which are at various levels of the administrative review process.

As per an IBAN observation on the NCIO's 2014 Financial Statements, the Agency is in the process of developing an instruction which will be published and implemented mid-2016 and that will strengthen the capturing of provisions and contingent liabilities throughout the year and the Organisation. Pending this instruction, the Agency already undertook during 2015 considerable actions and efforts to capture such items across the Agency, consulting with all organisational elements.

## 30. Financial Revenue and Expenses

(All amounts in 1 Euro)

		NCIO	
	Note	2015	2014 Restated
	Unit		
550	Foreign exchange gains	2,618,565	1,677,800
555	Other financial income	34,690	119,775
750	Foreign exchange losses	-2,697,348	-1,733,003
7550	Financial costs - Current liabilities	-203,454	-94,159
7555	Financial costs - Other	-58,258	-162,471
		-305,804	-192,058

There is a deficit of €305,804. To be noted that for IC acquisition activity the financial result is borne by NSIP and is thus not included here.

### **31. Financial Instruments**

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

#### **Liquidity risk**

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

#### **Credit risk**

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

#### **Foreign currency risk**

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

## 32. Write-offs

The NFR require NATO entities to disclose any amounts subject to write-off in the year. In 2015, the NCI Agency disposed of assets with a value of Euro 52.5 MEUR which are predominantly assets that previously belonged to our Customers (ACO and ACT) and were identified through HO/TO.

**NCIO Statement of Property, Plant and Equipment Disposals  
for the year ended 31 December 2015**

	Entity	PPE Class	Total
			(Euro)
(a)	(b)	(c)	(d)
1	Sector Stavanger	CIS Equipment	6,667,657.26
2	Sector Naples	CIS Equipment	4,585,285.78
3	Sector Uedem	CIS Equipment	69,541.56
4	Sector Norfolk	CIS Equipment	1,511,325.26
5	Sector Izmir	CIS Equipment	99,021.28
6	Sector Mons	CIS Equipment	840,925.88
7	Sector Northwood	CIS Equipment	8,199,237.54
8	Sector Ramstein	CIS Equipment	718,686.43
9	EUROFOR (Sarajevo)	CIS Equipment	537,727.91
10	Sector Lisbon	CIS Equipment	1,522,428.10
11	NCISS	CIS Equipment	231,533.79
12	CIS Log Depot, Brunssum	CIS Equipment	25,177,727.97
13	NCIA HQ	ADP equipment	1,641,882.29
14	NCIA HQ	Audio/Visual equipment	28,611.63
15	NCIA HQ	Transport equipment	21,897.00
16	NCIA HQ	Tools and machinery	40,425.69
17	NCIA HQ	Telephone equipment	11,462.61
18	NCIA HQ	Radio equipment	344,444.53
19	NCIA HQ	Electrical equipment	13,895.90
20	NCIA HQ	Furniture	223,653.83
Total			52,487,372.24

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

Under its Charter and its Customer Funding model, the NCIO is allowed to have an Operating Fund (OF) which represents its retained earnings accumulated over the years. The use of this OF is regulated by the Customer Funding Interim Regulatory Framework approved by Council for 2014 (final framework approved in 2015 will be fully implemented as from 1 January 2016).

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

The Financial Controller is responsible to recommend the size of the OF and the planned annual action to increase or to reduce it. Any surplus or deficit for 2015 is to be attributed to the OF with Nations to decide on its use.

In order to fund its transition activities between 2014 and 2018, the Agency requested €18,980K of common funding and €8,570K of its OF. The subsequent IC/BC decision sheet (AC/4 (PP) D/27275 – ADD1 and BC-D(2013)0214) authorized €17,009K of common funding and €7,245K from the Agency OF. The latter has been reserved to pay for backfill consultancy cost and travel of the NCI Agency personnel involved in activities related to the Transition Programme as per the decision sheet. The difference between the RPPB approved amount (€8.6M) and the detailed amount approved by the IC/BC (€7.2M), has been reserved for future possible use.

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

The operating surplus for 2015, before adjustment to reserves, is distributed as follows:

#### 33. Reserves at the End of the Period; Reserved Earnings decrease of €2,225,540

(All amounts in 1 Euro)

		NCIO	
		Note	
		Unit	
Reserved Earnings		2015	2014 Restated
310	Reserves - General purpose	3,743,978	4,370,190
311	Reserves - Special programmes	6,217,986	7,817,315
		9,961,965	12,187,505

- €2,253,861 of earnings are reserved for the assets not yet fully depreciated, thus increasing the depreciation reserve from a total of €1,490,117 at 31 Dec 2014 to €3,743,978
- €-1,599,329 of transition expenses are booked against the Special Transition Reserve thus decreasing from a total €8,570,000 at 31 Dec 2013 to €7,817,315 at 31 Dec 2014 to €6,217,986.

### Transition Expenses

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

	Authorised	Spent < 2015	Spent 2015	Total Spent	Remaining
Transition IC funded	17,008,908.00	1,011,922.07	4,632,421.54	5,644,343.61	11,364,564.39
Transition BC funded (OF)	7,244,724.00	752,684.91	1,599,328.65	2,352,013.56	4,892,710.44
	24,253,632.00	1,764,606.98	6,231,750.19	7,996,357.17	16,257,274.83

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

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

Overall, the Transition Programme projects have all been initiated and the rate of expenditure has picked up in 2015 from the initial delay. The table on the next pages provide the detailed spending for the NCI Agency Transition Programme in 2014-2015 by activity cluster.

Prior to the Transition Programme being approved in December 2013, the Agency, with full transparency to its ASB, already undertook some transition activities related to the consolidation and rationalisation phases of the Agency reform process. They constituted a set of pre-Transition Programme activities geared to prepare the non-customer funded elements of the agency for the implementation of customer funding and thus ensure the business continuity and the ability of these same elements to deliver within the context of a larger integrated agency. The Transition Programme as approved by nations in December 2013 did not conflict with these activities but rather complemented it by focusing on the next phases of agency reform; rationalisation and optimization. The amounts spent on these pre-transition activities have been reported in the respective 2012-2014 Financial Statements and are fully accounted for through projects with the required time accounting bookings associated to them.

The amounts associated with transition activities before approval of the Agency transition programme, equate to €7.25 million (this number is however at gross rates, thus including overheads, contrary to the IC/BC Transition Expenses).



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It is also important to note that most of this work was done on a best effort basis with long hours by existing agency staff (many of which were indirect staff) operating under hybrid funding models (admin budgets and Customer Funding). Accordingly the only part of this figure was charged to Agency customers or legacy budgets and serves as a representation of the level of effort undertaken for these activities.

Total Transition Expenditures against IC approved baselines									
Group	Project Description	External baseline Lifecycle	Net Labor	Consultancy (1)	Other Expenses	Travel	Acquisition	Total spent	Available (A-G)
Group A - Enabling Services and Enterprise Business Applications	Enterprise Business Application (EBA)	1,085,836.00	428,368.17	112,207.77	740.00	6,300.94		547,616.88	538,219.12
	ENABLING SERVICES	1,760,620.00	-	-	-	-	950,801.99	950,801.99	809,818.01
	EBA - WORK PACKAGE 1	5,987,500.00	-	-	-	-	380,795.83	380,795.83	5,606,704.17
	EBA - WORK PACKAGE 2	1,758,732.00	-	-	-	-		-	1,758,732.00
	EBA - SOFTWARE PACKAGE	1,800,000.00	-	-	-	-		-	1,800,000.00
	Enabling Services (ES)	1,180,852.00	21,786.06	255,629.57	-	7,684.34		285,099.97	895,752.03
	Enterprise Business Application (EBA)	3,339,706.00	231,404.20	614.46	-	23,780.55	-	255,799.21	3,083,906.79
		16,913,246.00	681,558.43	368,451.80	740.00	37,765.83	1,331,597.82	2,420,113.88	14,493,132.12
Group B - Demand Management, Account Management and Demand Planning									
	DEMAND MANAGEMENT (DM)	160,000.00	87,006.84	-	14,362.00	-	-	101,368.84	58,631.16
	DEMAND MANAGEMENT (DM)	762,558.00					746,478.28	746,478.28	16,079.72
	DEMAND MANAGEMENT (DM)	666,728.00	-	438,311.48	2,083.95	31,506.47	-	471,901.90	194,826.10
		1,589,286.00	87,006.84	438,311.48	16,445.95	31,506.47	746,478.28	1,319,749.02	269,536.98
Group C - Service Strategy									
	Agency Transition SStrat Cluster	536,000.00	267,049.20	17,135.28	471.55	10,263.65	-	294,919.68	241,080.32
	COO / SERVICE STRATEGY	2,548,862.00					2,319,460.83	2,319,460.83	229,401.17
	Service Strategy	1,828,790.00	152,094.20	1,133,887.41	401.02	28,310.14	-	1,314,692.77	514,097.23
		4,913,652.00	419,143.40	1,151,022.69	872.57	38,573.79	2,319,460.83	3,929,073.28	984,578.72
Group D - Transition / Education and Training									
	Transition Cultural Amalgamation	44,000.00	-	17,941.98	400.00	-	-	18,341.98	25,658.02
	TRANSITION (TIP12-000.1)	215,000.00					-	-	215,000.00
	Transition Management (TIP12-000.2)	228,648.00	8,370.17	-	16,149.54	-	-	24,519.71	204,128.29
		487,648.00	8,370.17	17,941.98	16,549.54	-	-	42,861.69	444,786.31
Group D - Transition / Education and Training									
	Transition Education and Training	60,000.00	20,951.99	14,121.44	-	1,937.95	-	37,011.38	22,988.62
	NATO IT EDUCATION AND TRAINING (TIP12-005.1)	289,800.00					247,547.92	247,547.92	42,252.08
		349,800.00	20,951.99	14,121.44	-	1,937.95	247,547.92	284,559.30	65,240.70
		24,253,632.00	1,217,030.83	1,989,849.39	34,608.06	109,784.04	4,645,084.85	7,996,357.17	16,257,274.83

## Total Expenditures against NCI Agency OF Reserve for Transition

Group	Project Description	Internal baseline Lifecycle	Net Labor	Consultancy (1)	Other Expenses	Travel	Investments	Total spent	Available (A-G)
Group A - Enabling Services and Enterprise Business Applications	Group A - Enabling Services (ES)	1,180,852.00	21,786.06	255,629.57	-	7,684.34	-	285,099.97	895,752.03
	Group A Enterprise Business Application (EBA)	3,339,706.00	231,404.20	614.46	-	23,780.55	-	255,799.21	3,083,906.79
		4,520,558.00	253,190.26	256,244.03	0.00	31,464.89	0.00	540,899.18	3,979,658.82
Group B - Demand Management, Account Management and Demand									
	DEMAND MANAGEMENT (DM)	666,728.00	-	438,311.48	2,083.95	31,506.47	-	471,901.90	194,826.10
		666,728.00	0.00	438,311.48	2,083.95	31,506.47	0.00	471,901.90	194,826.10
Group C - Service Strategy									
	Service Strategy (SS)	1,828,790.00	152,094.20	1,133,887.41	401.02	28,310.14	-	1,314,692.77	514,097.23
		1,828,790.00	152,094.20	1,133,887.41	401.02	28,310.14	0.00	1,314,692.77	514,097.23
Group D - Transition / Education and Training									
	Transition Management (TIP12-000.2)	228,648.00	8,370.17	-	16,149.54	-	-	24,519.71	204,128.29
		228,648.00	8,370.17	0.00	16,149.54	0.00	0.00	24,519.71	204,128.29
		7,244,724.00	413,654.63	1,828,442.92	18,634.51	91,281.50	0.00	2,352,013.56	4,892,710.44

## 34. Retained Earnings:

(All amounts in 1 Euro)

		NCIO	
		Note	2014 Restated
		Unit	
30	Retained earnings	10,318,204	6,162,779
5	REVENUE	680,874,989	685,288,115
7	EXPENSES	-675,033,103	-683,358,230
		16,160,090	8,092,664

The final operating surplus of €5,841,922 after reserve adjustment of €2,225,540 (see above), when added to the retained earnings, results in a total of €16,160,127. Upon the approval of the 2016 NCI Agency Customer Rates by the Budget Committee, Nations agreed on reducing the level of the OF as known at 31 December 2014 by 4.3 MEUR. The effect of this decision will take place in the financial performance of 2016.

Below table reconciles Net Assets/Equity for 2014-2015

### NCIO Reconciliation of Net Assets/Equity (Operating Fund)

For the year ended 31 December 2015

(all figures are in Euro)

(Prior Year restated)

	Property, Plant and Equipment (PP&E)		Reserves - Special Purpose	Reserves - Special Programmes	RESERVED EARNINGS	RETAINED EARNINGS	NET ASSETS/EQUITY	
	Acquisition Value	Depreciation	Bookvalue				Surplus/(Deficit) for the Year	Year-end Balance
31-Dec-13								18,350,284
2014 - Restated as Published							3,808,095	3,808,095
2014 - Restatement in FS2015							-1,878,211	-1,878,211
31-Dec-14	8,276,385	-3,906,195	4,370,190	7,817,315	12,187,505	8,092,664	1,929,885	20,280,169
2015 as Published (Unaudited)	2,913,510	-3,539,722	-626,212	-1,599,329	-2,225,540	8,067,462	5,841,922	5,841,922
31-Dec-15	11,189,895	-7,445,917	3,743,978	6,217,986	9,961,964	16,160,127	5,841,922	26,122,091

Below tables shows the evolution since the Net Assets/Equity since 2005.

YEAR-END BALANCES	OF		Destination			
	Year-end Balance	Deprec. Reserve	Carried Forward	Sub-total	Trans. Reserve	TOTAL
31-Dec-05	5,064,289	4,605,503	458,786	5,064,289		5,064,289
31-Dec-06	6,780,419	7,719,530	-939,111	6,780,419		6,780,419
31-Dec-07	15,448,855	6,982,508	8,466,347	15,448,855		15,448,855
31-Dec-08	16,813,862	6,576,673	10,237,189	16,813,862		16,813,862
31-Dec-09	11,869,058	6,530,349	5,338,709	11,869,058		11,869,058
31-Dec-10	4,183,086	5,459,406	-1,276,320	4,183,086		4,183,086
31-Dec-11	9,913,025	3,431,799	6,481,225	9,913,025		9,913,025
31-Dec-12	15,770,863	43,368	15,727,495	15,770,863	0	15,770,863
31-Dec-13	18,350,285	816,725	8,963,561	9,780,285	8,570,000	18,350,285
31-Dec-14	20,280,170	4,370,190	8,092,665	12,462,855	7,817,315	20,280,170
31-Dec-15	26,122,091	3,743,978	16,160,127	19,904,105	6,217,986	26,122,091

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INCREASE/(DECREASE) FOR THE YEAR	OF		Destination			
	Surplus/(Def.) for the Year	Deprec. Reserve	Carried Forward	Sub-total	Trans. Reserve	TOTAL
31-Dec-05 (*)	5,064,289	4,605,503	458,786	5,064,289	0	5,064,289
31-Dec-06	1,716,130	3,114,027	-1,397,897	1,716,130	0	1,716,130
31-Dec-07	8,668,436	-737,022	9,405,457	8,668,436	0	8,668,436
31-Dec-08	1,365,007	-405,835	1,770,842	1,365,007	0	1,365,007
31-Dec-09	-4,944,804	-46,324	-4,898,480	-4,944,804	0	-4,944,804
31-Dec-10	-7,685,972	-1,070,943	-6,615,029	-7,685,972	0	-7,685,972
31-Dec-11	5,729,939	-2,027,606	7,757,545	5,729,939	0	5,729,939
31-Dec-12	5,857,838	-3,388,431	9,246,270	5,857,838	0	5,857,838
31-Dec-13	2,579,422	773,357	-6,763,934	-5,990,578	8,570,000	2,579,422
31-Dec-14	1,929,885	3,553,465	-870,895	2,682,570	-752,685	1,929,885
31-Dec-15	5,841,922	-626,212	8,067,462	7,441,250	-1,599,329	5,841,922

(\*) Year-end Balance 31-Dec-05

### 35. Events after the financial reporting date of 31 December 2015

NCIO is required to disclose events, both favourable and unfavourable, that occurred between the reporting date of 31 December 2015 and the date when these Financial Statements were authorized for issue by the General Manager. IPSAS requires two types of events which should be identified:

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

In January 2016 a claim was deposited by a company for which the conditions already existed in 2015 and since the amount can be reliably estimated at €245K it has been considered as an adjusting event for which a provision has been booked accordingly (neutral however to the Statement of Financial Performance as related to the NSIP acquisition activity). Other than this one no other material events occurred which could be categorised as adjusting event under (a).

The Agency did receive two claims in respectively January and February 2016 for a total amount of about €1.9 million which are being worked but which are considered as non-adjusting events after the reporting date.

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

Although NCIO is fully Customer Funded as of 2014, it still has two components that are budget funded in 2015 and for which it thus produces a Budget Execution Statement:

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

In addition, NCIO has still been executing in 2015 against budgets approved prior to them becoming customer funded on 1 Jan 2014. Therefore Budget Execution Statements are produced against the credits and commitments carried forward from following budgets:

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

## D1. Notes on the NCIO Secretariat Budget Execution Statements

### NCIO Secretariat Budget Execution Statement

For the year ended 31 December 2015

(all figures are in Euro)

Note	NCIO Secretariat								
	Initial Budget	BA2	Transfers	Final Budget	Net Commitment	Expenses	Total Spent	Carry Forward	Lapsed
<b>BUDGET</b>									
Chapter 1	219,750	0	0	219,750	0	207,530	207,530	0	12,220
Chapter 2	88,998	0	0	88,998	9,643	89,209	98,853	9,643	(9,855)
Chapter 3	0	0	0	0	0	0	0	0	0
<b>Total current year</b>	<b>308,748</b>	<b>0</b>	<b>0</b>	<b>308,748</b>	<b>9,643</b>	<b>296,740</b>	<b>306,383</b>	<b>9,643</b>	<b>2,365</b>
Chapter 1	0	0	0	0	0	0	0	0	0
Chapter 2	182	0	0	182	0	160	160	0	22
Chapter 3	0	0	0	0	0	0	0	0	0
<b>Total prior year</b>	<b>182</b>	<b>0</b>	<b>0</b>	<b>182</b>	<b>0</b>	<b>160</b>	<b>160</b>	<b>0</b>	<b>22</b>
Chapter 1	0	0	0	0	0	0	0	0	0
Chapter 2	0	0	0	0	0	0	0	0	0
Chapter 3	0	0	0	0	0	0	0	0	0
<b>Total 2 years ago</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTAL</b>	<b>308,930</b>	<b>0</b>	<b>0</b>	<b>308,930</b>	<b>9,643</b>	<b>296,900</b>	<b>306,543</b>	<b>9,643</b>	<b>2,387</b>

As per the Charter of the NCIO, approved by Council on 19 June 2012 under C-M(2012)0049, the NCIO is composed of an ASB and an executive body composed of a General Manager and his/her staff (the NCI Agency).

Per Article 26 (e) of the Charter, the chairperson of the ASB is supported by an Independent Secretariat that is only responsible to the chairperson. Per Article 50 (c) and per AC/337-D(2014)0007-AS1 dd 9 May 2014, the ASB approved core funding (distinct and separate from NATO common funding) for the NCIO Independent Secretariat.

The ASB approved the structure (A3 and B5 staff member and one intern) and an annual budget based on the Military Budget cost share model. As a result it approved the 2015 budget for €308,748.

The 2015 budget is based on the direct cost of the A3, B5 NIC and one intern, the direct travel cost of its staff, the Learning & Development costs and the representation/hospitality cost for the Chairman, totalling €234,750 euro. The ASB Secretariat is supported logistically (HR, Finance, IT services, Legal and Acquisition), by the NCI Agency Capability Development which also executes the budget within its financial system. For this support the Independent Secretariat is charged with a support cost amounting to €70,682 for 2015. Finally, the Independent Secretariat moved physically to the NATO HQ for which €3,315 costs were foreseen in the 2015 Budget.

Total costs for 2015 amount to €306,543:

- actual 2015 expenses against the 2014 and 2015 budgets amount to €296,900 which correspond to the accrued expenses reported in the Statement of Financial Performance; budget and the financial statement are thus presented on a comparable basis and in compliance with IPSAS24;
- credits that are carried forward amount to €9,643.

An amount of €2,387 represents the lapsed credits against the 2014 carry forward budget (€22) and 2015 budget (€2,365)

## D2. Notes on the NCI Agency Implementation and Transition Budget Execution Statements

### SD Transition Budget Execution Statement

For the year ended 31 December 2015

(all figures are in Euro)

Note	SD Transition								
	Initial Budget	BA2	Transfers	Final Budget	Net Commitment	Expenses	Total Spent	Carry Forward	Lapsed
<b>BUDGET</b>									
Chapter 1	700,000	0	0	700,000	0	700,000	700,000	0	0
Chapter 2	0	0	0	0	0	0	0	0	0
Chapter 3	0	0	0	0	0	0	0	0	0
<b>Total current year</b>	<b>700,000</b>	<b>0</b>	<b>0</b>	<b>700,000</b>	<b>0</b>	<b>700,000</b>	<b>700,000</b>	<b>0</b>	<b>0</b>
Chapter 1	175,000	0	0	175,000	0	175,000	175,000	0	0
Chapter 2	0	0	0	0	0	0	0	0	0
Chapter 3	0	0	0	0	0	0	0	0	0
<b>Total prior year</b>	<b>175,000</b>	<b>0</b>	<b>0</b>	<b>175,000</b>	<b>0</b>	<b>175,000</b>	<b>175,000</b>	<b>0</b>	<b>0</b>
Chapter 1	52,529	0	0	52,529	0	13,024	13,024	0	39,505
Chapter 2	327,044	0	0	327,044	0	275,411	275,411	0	51,633
Chapter 3	0	0	0	0	0	0	0	0	0
<b>Total 2 years ago</b>	<b>379,573</b>	<b>0</b>	<b>0</b>	<b>379,573</b>	<b>0</b>	<b>288,435</b>	<b>288,435</b>	<b>0</b>	<b>91,138</b>
<b>TOTAL</b>	<b>1,254,573</b>	<b>0</b>	<b>0</b>	<b>1,254,573</b>	<b>0</b>	<b>1,163,435</b>	<b>1,163,435</b>	<b>0</b>	<b>91,138</b>

This 2015 BC 877 Budget was approved for NCI Agency workforce adjustments as a result of the Restructuring of NCI Agency over the period 2013 until 2018. In 2015 NCIO had an authorisation of 700 KEUR for Loss of Job Indemnity and Removal Expenses, which was fully expensed.

The 2013 BC 876 Budget was approved for transition/reorganisation and included support for the restructuring and the HO/TO of CIS assets from Customers to the NCIO. Final 2015 expenses against the 2015 carry forward, amount to 275K resulting in a lapse of 92 KEUR.



**D3. Notes on the AirC2 Budget Execution Statements****CapDev - AirC2 Budget Execution Statement***For the year ended 31 December 2015**(all figures are in Euro)*

		AirC2							
Note	Initial Budget	BA2	Transfers	Final Budget	Net Commitment	Expenses	Total Spent	Carry Forward	Lapsed
<b>BUDGET</b>									
Chapter 1	0	0	0	0	0	0	0	0	0
Chapter 2	0	0	0	0	0	0	0	0	0
Chapter 3	0	0	0	0	0	0	0	0	0
<b>Total current year</b>	0	0	0	0	0	0	0	0	0
Chapter 1	0	0	0	0	0	0	0	0	0
Chapter 2	0	0	0	0	0	0	0	0	0
Chapter 3	0	0	0	0	0	0	0	0	0
<b>Total prior year</b>	0	0	0	0	0	0	0	0	0
Chapter 1	245,370	0	0	245,370	0	179,000	179,000	0	66,370
Chapter 2	135,931	0	0	135,931	0	43,262	43,262	0	92,670
Chapter 3	0	0	0	0	0	0	0	0	0
<b>Total 2 years ago</b>	381,301	0	0	381,301	0	222,262	222,262	0	159,039
<b>TOTAL</b>	381,301	0	0	381,301	0	222,262	222,262	0	159,039

This is the 2015 (final) execution against the Carry Forward Commitments from the 2013 AirC2 Budget which as a programme is Customer Funded as of 2014.

#### D4. Notes on the Service Delivery Budget Execution Statements

##### SD Budget Execution Statement

For the year ended 31 December 2015

(all figures are in Euro)

		SD							
Note	Initial Budget	BA2	Transfers	Final Budget	Net Commitment	Expenses	Total Spent	Carry Forward	Lapsed
<b>BUDGET</b>									
Chapter 1	0	0	0	0	0	0	0	0	0
Chapter 2	0	0	0	0	0	0	0	0	0
Chapter 3	0	0	0	0	0	0	0	0	0
<b>Total current year</b>	0	0	0	0	0	0	0	0	0
Chapter 1	0	0	0	0	0	0	0	0	0
Chapter 2	0	0	0	0	0	0	0	0	0
Chapter 3	0	0	0	0	0	0	0	0	0
<b>Total prior year</b>	0	0	0	0	0	0	0	0	0
Chapter 1	399,540	0	0	399,540	0	(25,157)	(25,157)	0	424,697
Chapter 2	337,808	0	0	337,808	0	(399,288)	(399,288)	0	737,096
Chapter 3	39,764	0	0	39,764	0	37,900	37,900	0	1,864
<b>Total 2 years ago</b>	777,112	0	0	777,112	0	-386,545	(386,545)	0	1,163,657
<b>TOTAL</b>	777,112	0	0	777,112	0	-386,545	(386,545)	0	1,163,657

This is the (final) 2015 execution statement for the Carry Forward Commitments from the 2013 Service Delivery, NATO CIS School and NATO Programming Centre budgets funded from the BC.

**D5. Notes on the CIS Delegated Budget Execution Statements****CIS Delegated Budgets Budget Execution Statement***For the year ended 31 December 2015**(all figures are in Euro)*

Note	CIS Delegated Budgets Budgets 101/102/103/104/105/108/111/117/118/122/166/177/178/183/185/189/201/259/M01								
	Initial Budget	BA2	Transfers	Final Budget	Net Commitment	Expenses	Total Spent	Carry Forward	Lapsed
<b>BUDGET</b>									
Chapter 1	0	0	0	0	0	0	0	0	0
Chapter 2	0	0	0	0	0	0	0	0	0
Chapter 3	0	0	0	0	0	0	0	0	0
<b>Total current year</b>	0	0	0	0	0	0	0	0	0
Chapter 1	0	0	0	0	0	0	0	0	0
Chapter 2	0	0	0	0	0	0	0	0	0
Chapter 3	0	0	0	0	0	0	0	0	0
<b>Total prior year</b>	0	0	0	0	0	0	0	0	0
Chapter 1	395,997	0	0	395,997	0	(488)	(488)	0	396,485
Chapter 2	5,935,468	0	0	5,935,468	0	2,521,349	2,521,349	0	3,414,119
Chapter 3	215,971	0	0	215,971	0	211,988	211,988	0	3,983
<b>Total 2 years ago</b>	6,547,436	0	0	6,547,436	0	2,732,849	2,732,849	0	3,814,587
<b>TOTAL</b>	6,547,436	0	0	6,547,436	0	2,732,849	2,732,849	0	3,814,587

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

**D6. Notes on the Reimbursables Budget Execution Statements****Reimbursables Budget Execution Statement***For the year ended 31 December 2015**(all figures are in Euro)***Reimbursables**

Note	Initial Budget	BA2	Transfers	Final Budget	Net Commitment	Expenses	Total Spent	Carry Forward	Lapsed
<b>BUDGET</b>									
Chapter 1	0	0	0	0	0	0	0	0	0
Chapter 2	0	0	0	0	0	0	0	0	0
Chapter 3	0	0	0	0	0	0	0	0	0
<b>Total current year</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Chapter 1	0	0	0	0	0	0	0	0	0
Chapter 2	0	0	0	0	0	0	0	0	0
Chapter 3	0	0	0	0	0	0	0	0	0
<b>Total prior year</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Chapter 1	-6,717	0	6,717	0	0	0	0	0	0
Chapter 2	846,706	0	(829,657)	17,049	0	0	0	0	17,049
Chapter 3	0	0	0	0	0	0	0	0	0
<b>Total 2 years ago</b>	<b>839,989</b>	<b>0</b>	<b>-822,940</b>	<b>17,049</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>17,049</b>
<b>TOTAL</b>	<b>839,989</b>	<b>0</b>	<b>-822,940</b>	<b>17,049</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>17,049</b>

The Reimbursable Budget Execution Statement is the 2015 execution against the Carry Forward Commitments from the prior to 2014 agreements on a cost reimbursable basis for which NCIO was acting as a procurement agent for Third Parties. The 'Agent' relationship of NCIO regarding those prior 2014 procurement agent Third party activities has not changed with the introduction of Customer Funding. There is a no carry forward anymore into 2015 and the lapse of €17K are no actual funds to be returned to the customers as they were billed based on actuals (simply a budget which will not be executed anymore).

## 2014 RESTATED STATEMENT OF FINANCIAL POSITION AND PERFORMANCE

The restatement of the Statement of Financial Position, Financial Performance and Cash Flow Statement has been undertaken because of an error noted in 2014 in booking the Provision for Untaken Leave and End of Labour contracts for Service Delivery.

Up until 2013 (before the implementation of Customer Funding for Service Delivery), such Cost Provision bookings were compensated by Revenue postings as to neutralize the budgetary impact under the budget funding model for Service Delivery.

With the introduction of full Customer Funding as of 2014, such bookings need to be different in that the Cost provision no longer needs to be neutralised by a Revenue compensation. However, in preparing the 2015 Financial Statements, it was noted that for 2014 such revenue compensation was still booked for Service Delivery in the amount of €1,878,210.62 (using budget funding model vs customer funding model for booking provisions).

As a result, in the issued 2014 Financial Statements, Revenue, Receivables and Net Assets/Equity were overstated by €1.9 million and have now been corrected through a 2014 Restated Statement of Financial Position (pages 67-68), a 2014 Restated Statement of Financial Performance (page 69) and a 2014 Restated Cash Flow Statement (page 70). The 2014 Restated Statement of Change in Net Assets/Equity is reflected under the main tables and the relevant notes.

Throughout the 2015 Financial Statements, the 2014 column reflects the 2014 Restated amounts.

**NCIO Statement of Financial Position***As of 31 December 2014**(all figures are in Euro)**(Prior Year restated)***ASSETS*****Current Assets***

	NCIO - RESTATED				
	2014				
	Prior Year - As published	Re- classifications	IBAN Observations	Accounting Policies	Prior Year - Restated
Cash and Cash Equivalents	171,394,685	0	0	0	171,394,685
Receivables	135,138,856	0	0	0	135,138,856
Prepayments and Miscellaneous Assets	492,515	0	0	0	492,515
Inventory	4,170,455	0	0	0	4,170,455
Work in Progress	1,801,544	0	0	0	1,801,544
Other Current Assets	(297,925)	0	0	0	(297,925)
<b>Total Current Assets</b>	<b>312,700,130</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>312,700,130</b>
<b><i>Non-Current Assets</i></b>					
Financial Assets	0	0	0	0	0
Long Term Receivables	14,500	0	0	0	14,500
Property, Plant and Equipment	3,743,748	0	0	0	3,743,748
Intangible Assets	626,441	0	0	0	626,441
Other Non-Current Assets	0	0	0	0	0
<b>Total Non-Current Assets</b>	<b>4,384,689</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,384,689</b>
<b>TOTAL ASSETS</b>	<b>317,084,819</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>317,084,819</b>

Note

**NCIO Statement of Financial Position***As of 31 December 2014**(all figures are in Euro)**(Prior Year restated)*

Note	NCIO - RESTATED				
	2014				
	Prior Year - As published	Re- classifications	IBAN Observations	Accounting Policies	Prior Year - Restated
<b>LIABILITIES</b>					
<i>Current Liabilities</i>					
Payables	91,747,472	0	0	0	91,747,472
Deferred Revenue and Advances	169,556,874	0	0	0	169,556,874
Borrowings	0	0	0	0	0
Other Current Liabilities	10,582,589	0	0	0	10,582,589
<b>Total Current Liabilities</b>	<b>271,886,935</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>271,886,935</b>
<i>Non-Current Liabilities</i>					
Non-Current Payables	0	0	0	0	0
Non-Current Deferred Revenue and Advances	0	0	0	0	0
Non-Current Borrowings	0	0	0	0	0
Provisions	20,741,102	0	0	1,878,211	22,619,313
Other Non-Current Liabilities	2,298,403	0	0	0	2,298,403
<b>Total Non-Current Liabilities</b>	<b>23,039,505</b>	<b>0</b>	<b>0</b>	<b>1,878,211</b>	<b>24,917,716</b>
<b>TOTAL LIABILITIES</b>	<b>294,926,440</b>	<b>0</b>	<b>0</b>	<b>1,878,211</b>	<b>296,804,651</b>
<b>NET ASSETS/EQUITY</b>					
Retained Earnings	12,850,947	0	0	(1,878,211)	10,972,737
Reserved Earnings	9,307,432	0	0	0	9,307,432
<b>TOTAL NET ASSETS/EQUITY</b>	<b>22,158,379</b>	<b>0</b>	<b>0</b>	<b>(1,878,211)</b>	<b>20,280,169</b>
<b>TOTAL LIABILITIES AND NET ASSETS/EQUITY</b>	<b>317,084,819</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>317,084,819</b>

## NCIO Statement of Financial Performance

For the year ended 31 December 204

(all figures are in Euro)

(Prior Year restated)

	Note	2014				
		Prior Year - As published	Re-classifications	IBAN Observations	Accounting Policies	Prior Year - Restated
REVENUE						
Contributions Revenue		12,127,783	0	0	0	12,127,783
Services and Support Revenue		301,559,278	0	0	0	301,559,278
Acquisitions Revenue		350,736,793	0	0	0	350,736,793
Other Operating Revenue		16,823,847	0	0	0	16,823,847
TOTAL OPERATING REVENUE		681,247,701	0	0	0	681,247,701
Financial Revenue		1,797,575	0	0	0	1,797,575
Other Revenue		2,242,839	0	0	0	2,242,839
TOTAL REVENUE		685,288,115	0	0	0	685,288,115
EXPENSES						
Cost of Acquisitions		(346,542,619)	0	0	0	(346,542,619)
Personnel Costs		(179,641,908)	0	0	0	(179,641,908)
Contractual Supplies and Services		(137,265,651)	0	0	0	(137,265,651)
Depreciation and Amortisation		(2,105,399)	0	0	0	(2,105,399)
Provisions		(12,483,665)	0	0	(1,878,211)	(14,361,876)
Financial Expenses		(1,989,632)	0	0	0	(1,989,632)
Other Expenses		(1,451,145)	0	0	0	(1,451,145)
TOTAL EXPENSES		(681,480,020)	0	0	(1,878,211)	(683,358,230)
SURPLUS/(DEFICIT)						
Retainable Earnings		3,808,095	0	0	(1,878,211)	1,929,885
Refundable Earnings		0	0	0	0	0
SURPLUS/(DEFICIT) FOR THE PERIOD		3,808,095	0	0	(1,878,211)	1,929,885
Revaluation of Assets						
		0	0	0	0	0



**NCIO Statement of Cash Flows - Restated**

For the year ended 31 December 2014

(all figures are in Euro)

**CASH FLOWS FROM OPERATING ACTIVITIES**

Surplus/(Deficit) for the Period
Depreciation and Amortisation
Revaluation of Assets

Decr./(Incr.) Receivables
Decr./(Incr.) Prepayments and Miscellaneous Assets
Decr./(Incr.) Inventory
Decr./(Incr.) Work in Progress
Decr./(Incr.) Other Current Assets
Incr./(Decr.) Payables
Incr./(Decr.) Deferred Revenue and Advances
Incr./(Decr.) Borrowings
Incr./(Decr.) Other Current Liabilities

**NET CASH FLOWS FROM OPERATING ACTIVITIES****CASH FLOWS FROM INVESTING ACTIVITIES**

Decr./(Incr.) Financial Assets
Decr./(Incr.) Long Term Receivables
Decr./(incr.) PP&E and Intangible Assets
Decr./(Incr.) Other Non-Current Assets

**NET CASH FLOWS FROM INVESTING ACTIVITIES****CASH FLOWS FROM FINANCING ACTIVITIES**

Incr./(Decr.) Non-Current Payables
Incr./(Decr.) Non-Current Deferred Revenue and Advances
Incr./(Decr.) Non-Current Borrowings
Incr./(Decr.) Provisions
Incr./(Decr.) Other Non-Current Liabilities

**NET CASH FLOWS FROM FINANCING ACTIVITIES****NET INCR./(DECR.) CASH AND CASH EQUIVALENTS****CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD**

Incr./(Decr.) Cash and Cash Equivalents
---

**CASH AND CASH EQUIVALENTS AT END OF PERIOD****NCIO - RESTATED**

Note

2014 - Restated				
Prior Year - As published	Re- classifications	IBAN Observations	Accounting Policies	Prior Year - Restated
3,808,095	0	0	(1,878,211)	1,929,885
2,297,475	169,546	0	0	2,467,021
0	0	0	0	0
47,464,129	(0)	0	0	47,464,129
4,879,001	0	0	0	4,879,001
(3,966,551)	0	0	0	(3,966,551)
(1,265,794)	0	0	0	(1,265,794)
455,009	0	0	0	455,009
(28,665,098)	14,304	0	0	(28,650,794)
(56,264,664)	0	0	0	(56,264,664)
0	0	0	0	0
1,953,668	(13,916)	0	0	1,939,752
(29,304,729)	169,934	0	(1,878,211)	(31,013,005)
0	0	0	0	0
0	0	0	0	0
(3,159,623)	(169,546)	0	0	(3,329,170)
404,528	0	0	0	404,528
(2,755,095)	(169,546)	0	0	(2,924,642)
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
12,073,561	0	0	1,878,211	13,951,772
(284,820)	0	0	0	(284,820)
11,788,741	0	0	1,878,211	13,666,952
(20,271,083)	388	0	0	(20,270,695)
191,665,768	(388)	0	0	191,665,380
(20,271,083)	388	0	0	(20,270,695)
171,394,685	0	0	0	171,394,685

## NAF IMPACT PRIOR 1 JANUARY 2013 EXPENSED PPE AND INVENTORY

As per the NATO Accounting Framework, NCIO has chosen per the adapted IPSAS 12 "Inventories", 17 "Plant, Property and Equipment" and 31 "Intangible Assets", to consider all inventories, PPE and Intangible Assets acquired prior to 1 January 2013, as fully expensed. This was already disclosed in the 2013 and 2014 Financial Statements but IBAN issued a qualified opinion on them as NCIO did not provide a brief description of those items fully expensed, as is stipulated in the NAF. Although NCIO did report in the 2014 Financial Statements that it holds listings on those expensed items with the required information per the NAF, IBAN's position was nevertheless that a brief description should be presented as part of the Financial Statements. As a result, NCIO is producing the below tables, respectively on PPE (including Intangible Assets) and on Inventory, representing a summary on all items acquired prior to 1 January 2013. Full details on below tables are available.

### NCIO Statement of Property, Plant and Equipment - Expensed Items

As of 31 December 2015

(all values are in Euro)

As of 31 December 2015 (all values are in Euro)		NCIO			
		Below Threshold		Above Threshold	
		Quantity	Acquisition Value	Quantity	Acquisition Value
PLANT, PROPERTY AND EQUIPMENT					
ADP Equipment		7,381	4,882,533	1,104	9,298,056
Comms Equipment		11,682	4,001,849	1,082	20,449,126
Mission Equipment		3,953	1,738,503	835	20,775,637
Machinery		379	84,860	33	369,514
Installed Equipment		3,333	1,374,343	310	6,710,362
Office Furniture		57	3,980	98	466,088
Passenger Vehicles		30	2,581	10	250,664
Infrastructure, plant and equipment		26,815	12,088,648	3,472	58,319,447
Software Licences		0	0	166	1,880,376
Intangible assets		0	0	166	1,880,376
TOTAL PLANT, PROPERTY AND EQUIPMENT - EXPENSED		26,815	12,088,648	3,638	60,199,823

**NCIO Inventory - Expensed Items***As of 31 December 2015**(all values are in Euro)*

		NCIO	
		Total	
		Quantity	Value (WAC)
<b>INVENTORY BY ITEM TYPE</b>			
151001 Consumables		611,671	6,156,359
152001 Production Supplies		0	0
153001 Maintenance Materials		0	0
154001 Spare Parts		140,787	19,710,688
155001 Finished Goods		0	0
157001 Goods for Transport		0	0
158001 Ammunition		129	5,413
<b>TOTAL INVENTORY BY ITEM TYPE</b>		<b>752,587</b>	<b>25,872,460</b>
<b>INVENTORY BY INVENTORY UNIT</b>			
CSSC		734,686	23,709,459
BST_FSP		2,216	224,059
BST_KFO		10,200	1,477,666
CSU Latina		3,489	260,525
CSU Naples		1,607	146,381
CSU Northwood		11	11,907
DCEP_POOL		50	4,822
RECEIPT		328	37,642
<b>TOTAL INVENTORY BY INVENTORY UNIT</b>		<b>752,587</b>	<b>25,872,460</b>

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NCIA/FC/2016/00558  
31 March 2016

To: Distribution

Subject: **Statement of Internal Control -  
NATO Communications and Information Organisation Financial  
Statements for the period 01 January to 31 December 2015**

1. This statement of internal control applies to the NCI Organisation Financial Statements for the year ended 31 December 2015. The internal control is to ensure that NATO assets are utilized for the purposes intended and that the transactions relating to their usage reflect the highest standards of integrity to justify continued confidence of the NATO Nations.
2. The NCI Agency system of internal control is based on an ongoing process designed to identify the principle risks to the achievement of NCI Organisation goals and objectives, to evaluate the nature and extent of those risks and to manage them efficiently and effectively. Common elements to the Agency's system of internal control are:
  - a. The General Manager acknowledges responsibility to maintain a sound system of internal control that supports the NCI Agency to ensure it achieves its mandate under its NATO Charter;
  - b. The Financial Controller acknowledges responsibility for the correct use of funds made available to the NCI Agency and for maintaining a sound system of internal controls;
  - c. The Head of Internal Audit submits to the Agency Supervisory Board Finance Committee regular reports on the adequacy and effectiveness of the agency's system of internal control together with recommendations for improvement.
3. Albeit largely customer funded as of 1 January 2014, the Agency's system of internal control for 2015 is still somewhat influenced by the persistence of different funding models and legacy financial systems:
  - a. All funds received are recorded, accounted and managed through a set of information systems, which include: enterprise-wide project management; a time accounting system; and two legacy financial systems based on the accounting software from Oracle; the Centralized NATO Automated Financial System (CNAFS); and the Core Financial System (CFS), formerly PeopleSoft;

- d. Annual Income is planned during the development of Agency Financial Plan involving all senior and middle management. The planned income is discussed with potential sponsors and reported to the Agency Supervisory Board (ASB);
  - e. Through its Service Life Management Board (SLMB), the Agency oversees the operational environment with a focus on early identification and quantification of risks which affect services and projects to allow for timely management oversight and/or assistance to mitigate.
4. During 2015, including your audit report of the first NCIO Financial Statements for the year ended 31 December 2014, no material instances of failure of the internal control system were reported that should be brought to your attention. Weaknesses on compliance have been identified regarding assets acquired and/or controlled, which are being addressed in 2015-2018 (in co-ordination with the Head of Financial Reporting Policy), and ultimately through the EBA implementation in 2017-2018. A number of actions are being taken, including but not limited to the process of Handover-Takeover of CIS assets from common funded customers and the review of the Asset Management function and tools.
  5. To mitigate relevant risks and to ensure continuous improvement of our internal control system the Agency Internal Audit, under the direct authority of the General Manager, perform internal reviews of control and compliance.



Koen Gilsbers  
General Manager



Anne-Marie Pick  
Financial Controller

Distribution:

External

Chairman Board of Auditors for NATO  
Chairman NCIO Agency Supervisory Board

Internal

Members Executive Management Board

NATO UNCLASSIFIED



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NCIA/FC/2016/00556

31 March 2016

Subject: **Financial Controller's Certification -  
NATO Communications and Information Organisation Financial  
Statements for the period 01 January to 31 December 2015**

1. The 2015 Financial Statements for the NCI Organisation are submitted to the International Board of Auditors for NATO and the Agency Supervisory Board as required by the NATO Financial Regulations and the NCIO Charter.
  2. The Financial Statements will be audited in accordance with the following reference documents:
    - a. NATO Financial Regulations (C-M(2015)0025), dated 4 May 2015, approved by Council;
    - b. NATO Financial Regulations and C-M(2004)0038 8 JUN 2004: the document approving the modified set of NATO Financial Regulations applicable to the NATO C3 Agency operating under an approved customer funding regime;
    - c. OCB(2004)0054-REV2 120 17 MAY 2004: the approval document for the Financial Rules and Procedures approved by the Military Budget Committee;
    - d. PO(2002)109, dated 23 July 2002: the document from the North Atlantic Council (NAC) adopting International Public Sector Accounting Standards (IPSAS), including the accrual and going concern assumptions, as the applicable accounting standards for all NATO entities effective for the fiscal year of 2006;
    - e. C-M(2013)0039, dated 2 August 2013, approving the NATO Accounting Framework, adapting a number of IPSAS standards specifically to NATO;
    - f. C-M(98)28 and Corrigendum 18 May 1998 noting the NAC approval 10 May 1998 of a report titled The Application of a Customer Funding Regime to the NATO C3 Agency;
    - g. C-M(2012)0049 Charter of the NATO Communications and Information Organisation (NCIO) dated 14 June 2012;
  - h. C-M(2012)0057-AS1 Financial Continuity Measures under the NATO Agencies Reform dated 9 July 2012;
  - i. PO(2015)0394, 15 July 2015; NATO Communications & Information Agency Customer Funding Regulatory Framework;
  - j. PO(2014)0836, 19 December 2014; NATO Communications & Information Agency Customer Funding Extended Interim Regulatory Framework;
  - k. AC/337-D(2014)0010-AS1, 24 November 2014; Approval of 2015-2017 NCI Agency Financial Plan (by the Agency Supervisory Board);
  - l. BC-DS(2014)0036, 2 July 2014; Approval of 2015 NCI Agency Customer Rates (by the Budget Committee).
3. The NCI Organisation Financial Statements are certified to present fairly NCI Organisation financial position, financial performance, cash flows and changes in net assets/equity.

  
Anne-Marie M Pick  
Financial Controller

## ACRONYMS

ACO	ALLIED COMMAND OPERATIONS
ACT	ALLIED COMMAND TRANSFORMATION
AIR C2	AIR COMMAND AND CONTROL
APF	ADVANCE PLANNING FUNDS
ASB	AGENCY SUPERVISORY BOARD
FinCom	AGENCY SUPERVISORY BOARD FINANCE COMMITTEE
BC	NATO BUDGET COMMITTEE
BMD	BALLISTIC MISSILE DEFENCE
CIS	COMMUNICATION INFORMATION SYSTEMS
CPR	NATO CIVILIAN PERSONNEL REGULATIONS
EBA	ENTERPRISE BUSINESS APPLICATIONS
ESPE	END STATE PEACETIME ESTABLISHMENT
FRP	FINANCIAL RULES AND PROCEDURES
GM	GENERAL MANAGER
HO/TO	HANDOVER/TAKEOVER
IBAN	INTERNATIONAL BOARD OF AUDIT FOR NATO
IC	NATO INVESTMENT COMMITTEE
ICTM	INFORMATION COMMUNICATIONS TECHNOLOGY MANAGEMENT
IMS	INTERNATIONAL MILITARY STAFF
IS	INTERNATIONAL STAFF
ISAF	INTERNATIONAL SECURITY ASSISTANCE FORCE
ISPAS	INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

MC	MILITARY COMMITTEE
MWA	MORALE AND WELFARE ACTIVITIES
IWC	INTERIM WORKFORCE CAPACITY
NAC	NORTH ATLANTIC COUNCIL
NAF	NATO ACCOUNTING FRAMEWORK
NATO	NORTH ATLANTIC TREATY ORGANISATION
NCI Agency	NATO COMMUNICATIONS AND INFORMATION AGENCY
NCIO	NATO COMMUNICATIONS AND INFORMATION ORGANISATION
NCS	NATO COMMAND STRUCTURE
NFR	NATO FINANCIAL REGULATIONS
NIC	NATO INTERNATIONAL CIVILIAN
NSIP	NATO SECURITY INVESTMENT PROGRAMME
OF	OPERATING FUND
PE	PEACETIME ESTABLISHMENT/PERSONNEL ESTABLISHMENT
PPE	PLANT PROPERTY EQUIPMENT
PSC	PROJECT SERVICE COSTS
QAFR	QUARTERLY ACCOUNTING FINANCIAL REPORT
RPPB	NATO RESOURCE POLICY AND PLANNING BOARD
RS	RESOLUTE SUPPORT
SLA	SERVICE LEVEL AGREEMENT
SSC	SERVICE SUPPORT COST